UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended: March 31, 2020

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number: 001-36329

Recro Pharma, Inc.
(Exact name of registrant as specified in its charter)

Pennsylvania	**26-1523233**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
490 Lapp Road, Malvern, Pennsylvania	**19355**
(Address of principal executive offices)	**(Zip Code)**

(484) 395-2470
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Exchange on Which Registered
Common Stock, par value $0.01	**REPH**	**Nasdaq Capital Market**

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes☐ No ☒

As of May 7, 2020, there were 23,565,735 shares of common stock, par value $0.01 per share, outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

RECRO PHARMA, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(Unaudited)

(amounts in thousands, except share and per share data)	March 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 19,873	$ 19,148
Accounts receivable	14,486	14,389
Contract asset	9,752	8,851
Inventory	12,044	15,072
Prepaid expenses and other current assets	1,622	2,700
Total current assets	57,777	60,160
Property, plant and equipment, net	41,746	42,212
Right-of-use asset	438	485
Intangible assets, net	2,637	3,283
Goodwill	4,319	4,319
Total assets	$ 106,917	$ 110,459
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 1,136	$ 989
Accrued expenses and other current liabilities	5,140	4,176
Current portion of long-term debt	3,000	—
Current portion of operating lease liability	132	148
Current liabilities of discontinued operation	—	1,172
Total current liabilities	9,408	6,485
Long-term debt, net	108,779	110,319
Long-term portion of operating lease liability and other	924	367
Total liabilities	119,111	117,171
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred stock, $0.01 par value. Authorized, 10,000,000 shares; none issued and outstanding	—	—
Common stock, $0.01 par value. Authorized, 50,000,000 shares; issued and outstanding, 23,455,233 shares at March 31, 2020 and 23,312,928 shares at December 31, 2019	234	233
Additional paid-in capital	202,147	199,938
Accumulated deficit	(214,575)	(206,883)
Total shareholders' equity	(12,194)	(6,712)
Total liabilities and shareholders' equity	$ 106,917	$ 110,459

See accompanying notes to consolidated financial statements.

RECRO PHARMA, INC. AND SUBSIDIARIES
Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

(amounts in thousands, except share and per share data)	For the Three Months Ended March 31, 2020	2019
Revenue	$ 21,777	$ 25,065
Operating expenses:		
Cost of sales (excluding amortization of intangible assets)	18,254	14,391
Selling, general and administrative	5,446	6,505
Amortization of intangible assets	646	646
Change in warrant valuation	—	(263)
Total operating expenses	24,346	21,279
Operating income (loss) from continuing operations	(2,569)	3,786
Other income (expense):		
Interest income	30	175
Interest expense	(5,153)	(3,765)
Net income (loss) from continuing operations	(7,692)	196
Loss on discontinued operations	—	(2,173)
Net loss	$ (7,692)	$ (1,977)
Per share information:		
Net income (loss) per share from continuing operations, basic	$ (0.33)	$ 0.01
Net loss per share from discontinued operations, basic	—	(0.10)
Net loss per share, basic	$ (0.33)	$ (0.09)
Weighted average common shares outstanding, basic	23,394,767	21,918,175
Net income (loss) per share from continuing operations, diluted	$ (0.33)	$ (0.00)
Net loss per share from discontinued operations, diluted	—	(0.10)
Net loss per share, diluted	$ (0.33)	$ (0.10)
Weighted average common shares outstanding, diluted	23,394,767	21,978,606
Net loss	$ (7,692)	$ (1,977)
Other comprehensive loss:		
Unrealized gain/(loss) on available-for-sale securities	—	(1)
Comprehensive loss	$ (7,692)	$ (1,978)

See accompanying notes to consolidated financial statements.

RECRO PHARMA, INC. AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
(Unaudited)

For the Three Months Ended March 31, 2020

(amounts in thousands, except share data)	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Accumulated Deficit	Accumulated other comprehensive loss	Total
Balance, December 31, 2019	23,312,928	$ 233	$ 199,938	$ (206,883)	$ —	$ (6,712)
Stock-based compensation expense	—	—	3,231	—	—	3,231
Stock option exercise	21,141	—	130	—	—	130
Exercise of stock options, net of 36,078 shares withheld for exercise price and income taxes	15,922	—	(235)	—	—	(235)
Issuance of restricted stock units, net of shares withheld for income taxes	105,242	1	(917)	—	—	(916)
Net loss	—	—	—	(7,692)	—	(7,692)
Balance, March 31, 2020	23,455,233	$ 234	$ 202,147	$ (214,575)	$ —	$ (12,194)

For the Three Months Ended March 31, 2019

(amounts in thousands, except share data)	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Accumulated Deficit	Accumulated other comprehensive loss	Total
Balance, December 31, 2018	21,799,961	$ 218	$ 168,535	$ (188,253)	$ —	$ (19,500)
Stock-based compensation expense	—	—	2,826	—	—	2,826
Stock option exercise	29,750	—	185	—	—	185
Issuance of restricted stock units, net of shares withheld for income taxes	268,915	3	(865)	—	—	(862)
Issuance of common stock for equity facility	34,762	—	301	—	—	301
Other comprehensive loss	—	—	—	—	(1)	(1)
Net loss	—	—	—	(1,977)	—	(1,977)
Balance, March 31, 2019	22,133,388	$ 221	$ 170,982	$ (190,230)	$ (1)	$ (19,028)

See accompanying notes to consolidated financial statements.

RECRO PHARMA, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

(amounts in thousands)	For the Three Months Ended March 31, 2020	2019
Cash flows from operating activities, continuing operations:		
Net loss	$ (7,692)	$ (1,977)
Loss on discontinued operations	—	2,173
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by operating activities from continuing operations:		
Stock-based compensation	3,231	1,814
Non-cash interest expense	1,460	1,017
Depreciation expense	1,500	1,317
Amortization of intangible assets	646	646
Change in warrant valuation	—	(263)
Changes in operating assets and liabilities:		
Inventory	3,028	531
Contract asset	(901)	93
Prepaid expenses and other current assets	1,078	(692)
Right-of-use asset	47	55
Accounts receivable	(97)	(3,352)
Accounts payable, accrued expenses and other liabilities	1,286	401
Operating lease liability	(48)	(56)
Net cash provided by operating activities, continuing operations	3,538	1,707
Cash flows from investing activities, continuing operations:		
Purchases of property and equipment	(620)	(2,649)
Purchases of short-term investments	—	(12,021)
Net cash used in investing activities, continuing operations	(620)	(14,670)
Cash flows from financing activities, continuing operations:		
Proceeds from issuance of long-term debt, net of original issue discount of $11,400	—	43,600
Payment of deferred financing costs	—	(2,936)
Payments of withholdings on shares withheld for income taxes	(1,151)	(864)
Proceeds from option exercises	130	186
Net cash provided by/(used in) financing activities, continuing operations	(1,021)	39,986
Net increase in cash and cash equivalents from continuing operations	1,897	27,023
Discontinued Operations:		
Cash flows used in operating activities	(1,172)	(14,197)
Cash flows used in investing activities	—	(359)
Cash flows used in financing activities	—	(5,000)
Net decrease in cash and cash equivalents from discontinued operations	(1,172)	(19,556)
Cash and cash equivalents, beginning of period	19,148	38,514
Cash and cash equivalents, end of period	$ 19,873	$ 45,981
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 3,693	$ 2,734
Purchase of property, plant and equipment included in accrued expenses and accounts payable	$ 702	$ 1,138
Common stock issued in connection with equity facility	$ —	$ 301

See accompanying notes to consolidated financial statements.

(1) Background

Recro Pharma, Inc., or the Company, was incorporated in Pennsylvania on November 15, 2007. The Company is a leading contract development and manufacturing organization, or CDMO, with integrated solutions for the development, formulation, regulatory support, manufacturing, and packaging of oral solid dose drug products. It leverages its formulation and development expertise to develop and manufacture pharmaceutical products using proprietary delivery technologies and know-how for commercial partners who commercialize or plan to commercialize these products.

In November 2019, the Company's former Acute Care business was spun-out through its former wholly-owned subsidiary, Baudax Bio, Inc., or Baudax Bio, when the Company completed a special dividend distribution of all the outstanding shares of common stock of Baudax Bio to its shareholders. See Note 3 to the consolidated financial statements for additional information on the spin-off of Baudax Bio.

The Company has incurred losses from operations since inception and has an accumulated deficit of $214,575 as of March 31, 2020, which is mostly related to activities that are presented as discontinued operations upon completion of the spin-off as Baudax Bio. The Company's future operations are highly dependent on the continued profitability of its manufacturing operations. Management believes that it is probable that the Company will be able to meet its obligations as they become due within one year after the date the financial statements are issued.

(2) Summary of Significant Accounting Principles

(a) Basis of Presentation and Principles of Consolidation

The accompanying unaudited consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP, for interim financial information and with the instructions of Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and notes required by U.S. GAAP for complete annual financial statements. The Company's consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated. In the opinion of management, the accompanying consolidated financial statements include all normal and recurring adjustments (which consist primarily of accruals, estimates and assumptions that impact the financial statements) considered necessary to present fairly the Company's results for the interim periods. Operating results for the three months ended March 31, 2020 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2020.

The accompanying unaudited interim consolidated financial statements should be read in conjunction with the annual audited financial statements and related notes as of and for the year ended December 31, 2019 included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

(b) Use of Estimates

The preparation of financial statements and the notes to the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from such estimates.

(c) Cash and Cash Equivalents

Cash and cash equivalents represent cash in banks and highly liquid short-term investments that have maturities of three months or less when acquired. These highly liquid short-term investments are both readily convertible to known amounts of cash and so near to their maturity that they present insignificant risk of changes in value because of the changes in interest rates.

(d) Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which are as follows: three to ten

years for furniture and office equipment; six to ten years for manufacturing equipment; two to five years for vehicles; 35 to 40 years for buildings; and the shorter of the lease term or useful life for leasehold improvements. Repairs and maintenance costs are expensed as incurred.

(e) Business Combinations

In accordance with Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 805, "*Business Combinations*," or ASC 805, the Company allocates the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. Valuations are performed to assist in determining the fair values of assets acquired and liabilities assumed, which requires management to make significant estimates and assumptions, in particular with respect to intangible assets. Management makes estimates of fair value based upon assumptions believed to be reasonable. These estimates are based in part on historical experience and information obtained from management of the acquired companies and expectations of future cash flows. Transaction costs and restructuring costs associated with the transaction are expensed as incurred.

(f) Goodwill and Intangible Assets

Goodwill represents the excess of purchase price over the fair value of net assets acquired by the Company. Goodwill is not amortized but assessed for impairment on an annual basis or more frequently if impairment indicators exist. The impairment model prescribes a one-step method for determining impairment.

The one-step quantitative test calculates the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit.

Intangible assets include the Company's royalties and contract manufacturing relationships assets. The royalties and contract manufacturing relationships intangible asset is considered a definite-lived intangible asset and is amortized on a straight-line basis over a useful life of six years. The Company is required to review the carrying value of definite-lived intangible assets for recoverability whenever events occur or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. There were no triggering events as of March 31, 2020.

The Company performs its annual goodwill impairment test as of November 30th, or whenever an event or change in circumstances occurs that would require reassessment of the recoverability of goodwill. In performing the evaluation, the Company assesses qualitative factors such as overall financial performance, anticipated changes in industry and market conditions, and competitive environments. The Company performed its impairment test as of November 30, 2019 and noted there have been no triggering events or indicators of impairment for goodwill as of December 31, 2019. Due to the COVID-19 pandemic that has evolved in 2020 being a potential indicator of impairment, the Company performed an impairment test which indicated there was no impairment to goodwill as of March 31, 2020. The Company continues to monitor the COVID-19 pandemic's impact. The Company will perform its annual test as of November 30, 2020.

(g) Revenue Recognition

The Company generates revenues from manufacturing, packaging, research and development, and related services for multiple pharmaceutical companies. The agreements that the Company has with its commercial partners provide for manufacturing revenues, sales-based royalties and/or profit-sharing components.

Manufacturing and other related services revenue is recognized upon transfer of control of a product to a customer, generally upon shipment, based on a transaction price that reflects the consideration the Company expects to be entitled to as specified in the agreement with the commercial partner, which could include pricing and volume-based adjustments.

In addition to manufacturing and packaging revenue, certain customer agreements may have intellectual property sales-based royalties and/or profit-sharing consideration, collectively referred to as royalties, computed on the net product sales of the commercial partner. Royalty revenues are generally recognized under the terms of the applicable license, development and/or supply agreement. For arrangements that include sales-based royalties where the license for intellectual property is deemed to be the predominant item to which the royalties relate, the Company recognizes revenue when the related sales occur by the commercial partner. For arrangements that include sales-based royalties where the license for intellectual property is not deemed to be the predominant item to which the royalties relate, the Company recognizes revenue upon transfer of control of the manufactured product. In these cases, significant judgment is required to calculate this estimated variable consideration using the most-likely amount method based on historical customer pricing and deductions and is partially constrained due to items that are outside of the Company's control including the uncertainty of the timing of future commercial partner sales, mix of volume, customer stocking and ordering patterns, as well as unforeseen price adjustments made by the Company's commercial partners.

Revenues related to research and development are generally recognized over-time as the related services or activities are performed using the output method and in accordance with the contract terms. In agreements which specify milestones, the Company evaluates whether the milestones are considered probable of being achieved and estimates the amount to be included in the transaction price using the most likely amount method. Milestone payments related to arrangements under which the Company has continuing performance obligations would be deferred and recognized over the period of performance. Milestone payments that are not within the control of the Company, such as submission for approval to regulators by a commercial partner or approvals from regulators, are not considered probable of being achieved until those submissions are submitted by the customer or approvals are received.

(h) Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentration of credit risk consist primarily of cash, cash equivalents and accounts receivable. The Company manages its cash and cash equivalents based on established guidelines relative to diversification and maturities to maintain safety and liquidity.

The Company's accounts receivable balances are primarily concentrated amongst four customers and if any of these customers' receivable balances should be deemed uncollectible, it could have a material adverse effect on the Company's results of operations and financial condition.

The Company is dependent on its relationships with a small number of commercial partners, with its four largest customers having generated 97% and 98% of its revenues in the three months ended March 31, 2020 and 2019, respectively. A portion of the Company's revenues are dependent on U.S. based customers selling to end-users outside the United States.

(i) Stock-Based Awards

The Company measures employee stock-based awards at grant-date fair value and recognizes employee compensation expense on a straight-line basis over the vesting period of the award. The Company accounts for forfeitures as they occur.

Determining the appropriate fair value of stock options requires the input of subjective assumptions, including the expected life of the option and expected stock price volatility. The Company uses the Black-Scholes option pricing model to value its stock option awards. The assumptions used in calculating the fair value of stock-based awards represent management's best estimates and involve inherent uncertainties and the application of management's judgment. As a result, if factors change and/or management uses different assumptions, stock-based compensation expense could be materially different for future awards.

The expected life of stock options was estimated using the "simplified method," which is based on the average of the vesting tranches and the contractual life of each grant. For stock price volatility, the Company uses the historical volatility of its publicly traded stock in order to estimate future stock price trends. The risk-free interest rate is based on U.S. Treasury notes with a term approximating the expected life of the option.

For non-employee stock-based awards, the Company recognizes compensation expense on a straight-line basis over the vesting period of each separated vesting tranche of the award, which is known as the accelerated attribution method. The estimation of the number of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from the Company's current estimates, such amounts are recognized as an adjustment in the period in which estimates are revised.

(j) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date. A valuation allowance is recorded to the extent it is more likely than not that some portion or all of the deferred tax assets will not be realized. A full valuation allowance was recorded as of March 31, 2020 and December 31, 2019.

Unrecognized income tax benefits represent income tax positions taken on income tax returns that have not been recognized in the consolidated financial statements. The Company recognizes the benefit of an income tax position only if it is more likely than not (greater than 50%) that the tax position will be sustained upon tax examination, based solely on the technical merits of the tax position. Otherwise, no benefit is recognized. The tax benefits recognized are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company does not anticipate significant changes in the amount of unrecognized income tax benefits over the next year.

(k) Net Income (Loss) Per Common Share

Basic net income (loss) per common share is determined by dividing net income (loss) applicable to common shareholders by the weighted average common shares outstanding during the period.

For purposes of calculating diluted net income (loss) per common share, the denominator includes both the weighted average common shares outstanding and the dilutive effect of outstanding common stock options, warrants and unvested restricted stock units, using the treasury stock method, if the inclusion of such instruments would be dilutive.

The following table sets forth the computation of basic and diluted income (loss) per share:

	Three Months Ended March 31,	
	2020	2019
Basic Income (Loss) Per Share		
Net income (loss) from continuing operations	$ (7,692)	$ 196
Net loss on discontinued operations	—	(2,173)
Net loss	$ (7,692)	$ (1,977)
Net income (loss) per share from continuing operations	$ (0.33)	$ 0.01
Net loss per share from discontinued operations	—	(0.10)
Net loss per share of common stock, basic	$ (0.33)	$ (0.09)
Weighted average common shares outstanding, basic	23,394,767	21,918,175
Diluted Income (Loss) Per Share		
Net income (loss) from continuing operations	$ (7,692)	$ 196
Change in warrant valuation	—	(263)
Diluted net loss from continuing operations	$ (7,692)	$ (67)
Net loss from discontinued operations	—	(2,173)
Net loss, diluted	$ (7,692)	$ (2,240)
Net loss per share from continuing operations	$ (0.33)	$ (0.00)
Net loss per share from discontinued operations	—	(0.10)
Net loss per share of common stock, diluted	$ (0.33)	$ (0.10)
Weighted average common shares outstanding, basic	23,394,767	21,918,175
Dilutive securities - warrants	—	60,431
Weighted average common shares outstanding, diluted	23,394,767	21,978,606

The following potentially dilutive securities have been excluded from the computations of diluted weighted average shares outstanding as of March 31, 2020 and 2019, as they would be anti-dilutive:

	March 31,	
	2020	2019
Options and restricted stock units outstanding	4,759,956	6,249,662
Warrants	—	350,000

Amounts in the table above reflect the common stock equivalents of the noted instruments.

(l) Segment Information

The Company determined it operates in a single segment

(m) Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, "*Leases (Topic 842)*," or ASU 2016-02. ASU 2016-02 establishes a wholesale change to lease accounting and introduces a lease model that brings most leases on the balance sheet. It also eliminates the required use of bright-line tests in current U.S. GAAP for determining lease classification. In July 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842), *Targeted Improvements*, which provides an alternative transition method permitting the recognition of a cumulative-effect adjustment on the date of adoption rather than restating comparative periods in transition as originally prescribed by Topic 842. The new guidance is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. The Company adopted this guidance as of January 1, 2019. The Company elected the optional transition method to account for the impact of the adoption with a cumulative-effect adjustment in the period of adoption and did not restate prior periods. The Company opted to elect the package of practical expedients to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs, and certain other practical expedients, including the use of hindsight to determine the lease term for existing leases and in assessing impairment of the right-of-use asset, and the exception for short-term leases. For its current classes of underlying assets, the Company did not elect the practical expedient under which the lease components would not be separated from the nonlease components. At January 1, 2019, the Company recorded a right-of-use asset of $692 and an operating lease liability of $728. For additional information regarding how the Company is accounting for leases under the new guidance, refer to Note 11(b).

In August 2018, the FASB issued ASU 2018-13, "*Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement,*" or ASU 2018-13. ASU 2018-13 removes, modifies and adds certain disclosure requirements in Topic 820 "*Fair Value Measurement*". ASU 2018-13 eliminates certain disclosures related to transfers and the valuations process, clarifies the measurement uncertainty disclosure, and requires additional disclosures for Level 3 fair value measurements, including the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. ASU 2018-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. On January 1, 2020, the Company adopted this standard which did not have any impact on the Company's consolidated financial statements or disclosures.

Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,"* or ASU 2016-13. ASU 2016-13 requires companies to measure credit losses utilizing a methodology that reflects expected credit losses and requires consideration of a range of reasonable information to estimate credit losses on certain types of financial instruments, including trade receivables and available-for-sale debt securities. ASU 2016-13 is effective for fiscal years beginning after December 15, 2022, including those interim periods within those fiscal years. The Company is currently assessing the impact of adopting this standard, but based on a preliminary assessment, does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

(3) Discontinued Operations

On November 21, 2019 (the "Distribution Date"), the Company completed the separation (the "Separation") of its former Acute Care business by distributing to the Company's shareholders on a pro rata basis all of the issued and outstanding common stock of Baudax Bio, the entity the Company incorporated to hold such businesses. To effect the Separation, the Company distributed to its shareholders 1 share of Baudax Bio common stock for every 2.5 shares of the Company's common stock outstanding as of November 15, 2019, the record date for the distribution. Fractional shares of Baudax Bio common stock that otherwise would have been distributed were aggregated and sold into the public market and the proceeds distributed to the Company's shareholders. Additionally, in connection with the Separation, the Company contributed $19,000 of cash to Baudax Bio.

The accounting requirements for reporting the Separation of Baudax Bio as a discontinued operation were met when the Separation was completed. Accordingly, the accompanying consolidated financial statements for all periods presented reflect this business as a discontinued operation.

In connection with the Separation, the Company and Baudax Bio entered into various agreements to effect the Separation and provide a framework for their relationship after the Separation, including a transition services agreement, an employee matters agreement, a tax matters agreement and an intellectual property matters agreement. These agreements provide for the allocation between the Company and Baudax Bio of assets, employees, liabilities and obligations (including investments, property and employee benefits and tax-related assets and liabilities) attributable to periods prior to, at, and after Baudax Bio's separation from the Company and govern certain relationships between the Company and Baudax Bio after the Separation.

The historical consolidated balance sheet and statements of operations of the Company and the related notes to the consolidated financial statements have been presented as discontinued operations in the consolidated financial statements and prior periods have

been recast. Discontinued operations include results of the Company's Acute Care business except for certain corporate overhead costs and certain costs associated with transition services provided by Baudax Bio to the Company, following the Separation, which are included in continuing operations.

The Separation and Distribution Agreement with Baudax Bio sets forth, among other things, the assets that were transferred, the liabilities assumed, and the contracts that were assigned to each of Baudax Bio and the Company as part of the Separation of the Company into two companies, and provided for when and how these transfers, assumptions and assignments were to occur.

The tax matters agreement governs the respective rights, responsibilities and obligations of Baudax Bio and the Company with respect to taxes (including taxes arising in the ordinary course of business and taxes, if any, incurred as a result of any failure of the Distribution and certain related transactions to qualify as tax-free for U.S. federal income tax purposes), tax attributes, uncertain tax positions, tax returns, tax proceedings and certain other tax matters.

The employee matters agreement governs certain compensation and employee benefit obligations and allocates liabilities and responsibilities relating to employment matters, employee compensation and benefit plans and programs and other related matters, including the transfer or assignment of employees from the Company to Baudax Bio.

As of December 31, 2019, certain current liabilities of discontinued operations remained on the Company's consolidated balance sheet due to timing of payment, which consisted of $22 of accounts payable and $1,150 of accrued expenses, which were paid in the quarter ended March 31, 2020.

The following is a summary of the Acute Care business expenses for the three months ended March 31, 2019:

Operating expenses:		
Research and development	$	9,554
Selling, general and administrative		7,674
Change in contingent consideration valuation		(15,092)
Total operating expenses		2,136
Other income (expense), net		(37)
Loss on discontinued operations	$	(2,173)

(4) Fair Value of Financial Instruments

The Company follows the provisions of FASB ASC Topic 820, "*Fair Value Measurements and Disclosures*," for fair value measurement recognition and disclosure purposes for its financial assets and financial liabilities that are remeasured and reported at fair value each reporting period. The Company measures certain financial assets and liabilities at fair value on a recurring basis, including cash equivalents, short-term investments and warrants. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of financial assets and financial liabilities and their placement within the fair value hierarchy. Categorization is based on a three-tier valuation hierarchy, which prioritizes the inputs used in measuring fair value, as follows:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs that are other than quoted prices in active markets for identical assets and liabilities, inputs that are quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are either directly or indirectly observable; and
- Level 3: Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Company has classified assets and liabilities measured at fair value on a recurring basis as follows:

	Fair value measurements at reporting date using		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
At March 31, 2020:			
Assets:			
Cash equivalents (See Note 5)			
Money market mutual funds	$ 9,842	$ —	$ —
Total cash equivalents	$ 9,842	$ —	$ —
At December 31, 2019:			
Assets:			
Cash equivalents (See Note 5)			
Money market mutual funds	$ 11,609	$ —	$ —
Total cash equivalents	$ 11,609	$ —	$ —

The Company follows the disclosure provisions of FASB ASC Topic 825, "*Financial Instruments*" (ASC 825), for disclosure purposes for financial assets and financial liabilities that are not measured at fair value. As of March 31, 2020, the financial assets and liabilities recorded on the Consolidated Balance Sheets that are not measured at fair value on a recurring basis include accounts receivable, accounts payable and accrued expenses and approximate fair value due to the short-term nature of these instruments. The fair value of long-term debt, where a quoted market price is not available, is evaluated based on, among other factors, interest rates currently available to the Company for debt with similar terms, remaining payments and considerations of the Company's creditworthiness. The Company determined that the recorded book value of long-term debt approximated fair value at March 31, 2020 due to the comparison of the terms of the debt to the terms that management believes are available as of March 31, 2020.

(5) Cash Equivalents

The following is a summary of the Company's cash equivalents:

	March 31, 2020			
	Amortized	Gross Unrealized		Estimated
Description	Cost	Gain	Loss	Fair Value
Money market mutual funds	$ 9,842	$ —	$ —	$ 9,842
Total investments	$ 9,842	$ —	$ —	$ 9,842

	December 31, 2019			
	Amortized	Gross Unrealized		Estimated
Description	Cost	Gain	Loss	Fair Value
Money market mutual funds	$ 11,609	$ —	$ —	$ 11,609
Total investments	$ 11,609	$ —	$ —	$ 11,609

(6) Inventory

Inventory is stated at the lower of cost and net realizable value. Included in inventory are raw materials and work-in-process used in the production of commercial products. Cost is determined using the first-in, first-out method.

Inventory was as follows:

	March 31, 2020	December 31, 2019
Raw materials	$ 3,804	$ 3,240
Work in process	6,657	6,430
Finished goods	2,289	5,892
	12,750	15,562
Provision for inventory obsolescence	(706)	(490)
	$ 12,044	$ 15,072

Adjustments to inventory are determined at the raw materials, work-in-process, and finished good levels to reflect obsolescence or impaired balances. Inventory is primarily ordered to meet specific customer orders and largely reflects demand. Factors influencing inventory obsolescence include changes in demand, product life cycle, product pricing, physical deterioration and quality concerns.

(7) Property, Plant and Equipment

Property, plant and equipment consists of the following:

	March 31, 2020	December 31, 2019
Land	$ 3,263	$ 3,263
Building and improvements	20,900	20,900
Furniture, office and computer equipment	5,847	5,847
Manufacturing equipment	36,459	35,699
Construction in progress	1,003	729
	67,472	66,438
Less: accumulated depreciation and amortization	25,726	24,226
Property, plant and equipment, net	$ 41,746	$ 42,212

Depreciation expense for the three months ended March 31, 2020 and 2019 was $1,500 and $1,317, respectively.

(8) Intangible Assets

The following represents the balance of the intangible assets at March 31, 2020:

	Cost	Accumulated Amortization	Net Intangible Assets
Royalties and contract manufacturing relationships	$ 15,500	$ 12,863	$ 2,637
Total	$ 15,500	$ 12,863	$ 2,637

The following represents the balance of intangible assets at December 31, 2019:

	Cost	Accumulated Amortization	Net Intangible Assets
Royalties and contract manufacturing relationships	$ 15,500	$ 12,217	$ 3,283
Total	$ 15,500	$ 12,217	$ 3,283

Amortization expense for both of the three month periods ended March 31, 2020 and 2019 was $646.

As of March 31, 2020, future amortization expense is as follows:

	Amortization
Remainder of 2020	$ 1,937
2021	700
Total	$ 2,637

(9) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	March 31, 2020	December 31, 2019
Payroll and related costs	$ 2,090	$ 2,593
Professional and consulting fees	269	370
Accrued restructuring costs	989	365
Deferred revenue	786	337
Property, plant and equipment	702	88
Other	304	423
	$ 5,140	$ 4,176

(10) Long-Term Debt

On November 17, 2017, the Company entered into a $100,000 Credit Agreement, or the Credit Agreement, with Athyrium Opportunities III Acquisition LP, or Athyrium. The Credit Agreement provided for a term loan in the original principal amount of $60,000 funded at closing. In December 2018, the Company amended the Credit Agreement, (as amended, the "Amended Credit Agreement"). Pursuant to the Amended Credit Agreement, the $20,000 term B loan and $20,000 term C loan provided for under the Credit Agreement, which were contingent on the Company receiving approval of IV meloxicam by December 31, 2018, were restructured into (i) a $10,000 term B-1 loan, funded on December 28, 2018; (ii) a $15,000 term B-2 loan; and (iii) a $15,000 term C loan.

On February 28, 2019, the Company entered into a Second Amendment to Credit Agreement (the "Second Amendment") with Athyrium. Pursuant to the Second Amendment, (i) the total commitments of the term loan credit facility governed by the Amended Credit Agreement was increased from $100,000 to $125,000, (ii) the $15,000 term B-2 loan and $15,000 term C loan provided for under the Amended Credit Agreement were restructured into a $55,000 term B-2 loan, which was funded on the date of execution of the Second Amendment and (iii) the maturity date was extended to March 31, 2023 (the "Maturity Date"). Beginning on March 31, 2021, the Company must repay the outstanding principal amount in quarterly installments of $3,000 with the outstanding principal balance due on the Maturity Date.

On October 22, 2019, the Company entered into a Third Amendment to Credit Agreement (the "Third Amendment") with Athyrium. The Third Amendment authorizes the release of two of the Company's subsidiaries, Baudax Bio and Baudax Bio N.A. LLC (formerly known as Recro N.A. LLC) ("Baudax Bio N.A."), from their respective obligations as guarantors and the release of any liens granted to or held by Athyrium on collateral provided by or equity interests in Baudax Bio and Baudax Bio N.A., including the security interest in Baudax Bio Limited (formerly Recro Ireland Limited) (the "Release") under the Credit Agreement, as amended. The Release was applicable only to Baudax Bio and Baudax Bio N.A. and did not affect or modify any obligations of the Company or the Guarantors (other than Baudax Bio and Baudax Bio N.A.) under the Existing Credit Agreement.

The term loans bear interest at a rate equal to the three-month LIBOR rate, with a 1% floor plus 9.75% per annumIn addition, in accordance with the Credit Agreement the Company will have to pay a 1% exit fee, which is $1,250 at the current outstanding loan balance and is being accreted to the carrying amount of the debt using the effective interest method over the term of the loan. In addition, if there is an early repayment, there is a sliding scale of prepayment penalties beginning with a 10% penalty and including a make-whole interest payment. No prepayment penalties are assessed for payments made after March 31, 2022.

The Amended Credit Agreement contains certain usual and customary affirmative and negative covenants, as well as financial covenants that the Company will need to satisfy on a monthly and quarterly basis. As of March 31, 2020, the Company was in compliance with the covenants and expects to remain in compliance through at least May 11, 2021.

As of March 31, 2020, the remaining payments due under the Amended Credit Agreement include a principal payment of $125,000 and an exit fee of $1,250 due at the Maturity Date.

In connection with the Credit Agreement, the Company issued warrants to each of Athyrium and its affiliate, Athyrium Opportunities II Acquisition LP, or Athyrium II, to purchase an aggregate of 348,664 shares of the Company's common stock with an exercise price of $8.6043 per share. In connection with the Amended Credit Agreement, the warrants were amended to decrease the exercise price to $6.84 per share. See Note 12(d) for additional information. The warrants are exercisable through November 17, 2024. The initial fair value of the warrant and revaluation adjustment from the repricing of the warrants of $2,232 was recorded as a debt issuance cost.

In addition, the Company recorded debt issuance costs for the Amended Credit Agreement of $4,439 at original signing, an amendment fee of $500 as well as certain other fees and expenses in December 2018, and recorded debt issuance costs for the Second Amendment consisting of a $2,500 amendment fee, $436 closing fee and $11,400 original issue discount which, along with the fair value of warrants, are being amortized using the effective interest method over the term of the Second Amendment. Debt issuance cost amortization is included in interest expense within the Consolidated Statements of Operations and Comprehensive Loss. As of March 31, 2020, the effective interest rate was 15.84%, which takes into consideration the non-cash accretion of the exit fee, the amortization of the debt issuance cost and the original issue discount.

The components of the carrying value of the debt as of March 31, 2020, are detailed below:

Principal balance outstanding	$	125,000
Unamortized deferred issuance costs		(13,716)
Exit fee accretion		495
Total	$	111,779
Current portion of Long-term debt		(3,000)
Long-term debt, net	$	108,779

The Company recorded debt issuance cost amortization related to the credit agreement of $1,384 and $978 for the three months ended March 31, 2020 and 2019, respectively.

(11) Commitments and Contingencies

(a) Litigation

The Company is involved, from time to time, in various claims and legal proceedings arising in the ordinary course of its business. Except as disclosed below, the Company is not currently a party to any such claims or proceedings that, if decided adversely to it, would either individually or in the aggregate have a material adverse effect on its business, financial condition or results of operations.

On May 31, 2018, a securities class action lawsuit, or the Securities Litigation, was filed against the Company and certain of its officers and directors in the U.S. District Court for the Eastern District of Pennsylvania (Case No. 2:18-cv-02279-MMB) that purported to state a claim for alleged violations of Section 10(b) and 20(a) of the Exchange Act and Rule 10(b)(5) promulgated thereunder, based on statements made by the Company concerning the NDA for IV meloxicam. The complaint seeks unspecified damages, interest, attorneys' fees and other costs. On December 10, 2018, lead plaintiff filed an amended complaint that asserted the same claims and sought the same relief but included new allegations and named additional officers as defendants. On February 8, 2019, the Company filed a motion to dismiss the amended complaint in its entirety, which the lead plaintiff opposed on April 9, 2019. On May 9, 2019, the Company filed its response and briefing was completed on the motion to dismiss. In response to questions from the Judge, the parties submitted supplemental briefs with regard to the motion to dismiss the amended complaint during the fall of 2019. On February 18, 2020, the motion to dismiss was granted without prejudice. On April 25, 2020, the plaintiff filed a second amended complaint. The defendants intend to file a motion to dismiss as to this complaint. In connection with the separation of Baudax Bio, Baudax Bio accepted assignment by the Company of all of its obligations in connection with the Securities Litigation and agreed to indemnify the Company for all liabilities related to the Securities Litigation. The Company and Baudax Bio believe that the lawsuit is without merit and intends to vigorously defend against it if the plaintiffs file a new complaint.

(b) Leases

The Company is a party to various operating leases in Georgia for office, manufacturing, chemistry, and manufacturing and controls development space. The Company is also a party to leases for office equipment and storage.

The Company determines if an arrangement is a lease at inception. The arrangement is a lease if it conveysthe right to the Company to control the use of identified property, plant, or equipment for a period of time in exchange for consideration. Lease terms vary based on the nature of operations, however, all leased facilities are classified as operating lease s with remaining lease terms between less than one yearand 5 years. Most leases contain specific renewal options where notice to renew must be provided in advance of lease expiration or automatic renewals where no advance notice is required. Periods covered by an option to extend the lease were included in the non-cancellable lease term when exercise of the option was determined to be reasonably certain. Costs determined to be variable and not based on an index or rate were not included in the measurement of operating lease liabilities. As most leases do not provide an implicit rate, the Company's incremental borrowing rate was used to discount its lease liabilities.

The Company's leases with an initial term of 12 months or less that do not have a purchase option or extension that is reasonably certain to be exercised are not included in the right-of-use asset or lease liability on the Consolidated Balance Sheets. Lease expense is recognized on a straight-line basis over the lease term.

As of March 31, 2020, undiscounted future lease payments for non-cancellable operating leases are as follows:

	Lease payments
Remainder of 2020	$ 145
2021	165
2022	156
2023	156
2024	155
2025 and thereafter	91
Total lease payments	868
Less imputed interest	(401)
Total operating liabilities	$ 467

For the three months ended March 31, 2020, the weighted average remaining lease term was 5 years and the weighted average discount rate was 16%.

The components of the Company's lease cost were as follows:

	Three Months Ended March 31,	
	2020	2019
Operating lease cost	$ 57	$ 63
Short-term lease cost	15	8
Variable lease cost	6	8
Total lease cost	$ 78	$ 79

(c) Purchase Commitments

As of March 31, 2020, the Company had outstanding non-cancelable and cancelable purchase commitments in the aggregate amount of $7,861 related to inventory, capital expenditures, transition services agreement and other goods and services.

(12) Capital Structure

(a) Common Stock

The Company is authorized to issue up to 50,000,000 shares of common stock, with a par value of $0.01 per share.

Reflected below are the Company's capital raises since its initial public offering, or IPO:

On March 12, 2014, the Company completed an IPO in which the Company sold 4,312,500 shares of common stock at $8.00 per share, resulting in gross proceeds of $34,500. In connection with the IPO, the Company paid $4,244 in underwriting discounts, commissions and offering expenses, resulting in net proceeds of $30,256. Also, in connection with the IPO, all of the outstanding shares of the Company's Series A Redeemable Convertible Preferred Stock, including accreted dividends, and certain bridge notes, including accrued interest, were converted into common stock.

On July 7, 2015, the Company closed a private placement with certain accredited investors in which the Company sold 1,379,311 shares of common stock at a price of $11.60 per share, for net proceeds of $14,812. The Company paid the placement agents a fee equal to 6.0% of the aggregate gross proceeds from the private placement, plus reimbursement of certain expenses.

On August 19, 2016, the Company closed an underwritten public offering in which the company sold 1,986,666 shares of common stock at a price per share of $7.50, for net proceeds of $13,367 after deducting underwriting discounts, commissions and offering expenses.

On December 16, 2016, the Company closed an underwritten public offering in which the company sold 6,670,000 shares of common stock at a price per share of $6.00, for net proceeds of $36,888 after deducting underwriting discounts, commissions and offering expenses.

On December 29, 2017, the Company entered into a sales agreement, or the Sales Agreement, with Cowen and Company, LLC, or Cowen, pursuant to which the Company may sell from time to time, at its option, shares of its common stock, $0.01 par value per share, having an aggregate offering price of up to $40,000 through Cowen, as the placement agent. As of March 31, 2020, the Company did not have any sales of common stock under the Sales Agreement.

(b) Common Stock Purchase Agreement

On March 2, 2018, the Company entered into a Common Stock Purchase Agreement, or the 2018 Purchase Agreement, with Aspire Capital, which provides that, upon the terms and subject to the conditions and limitations set forth in the 2018 Purchase Agreement, Aspire Capital is committed to purchase, at the Company's sole election, up to an aggregate of $20,000 of shares of the Company's common stock over the approximately 30-month term of the 2018 Purchase Agreement. On the execution of the 2018 Purchase Agreement, the Company agreed to issue 33,040 shares of common stock to Aspire Capital as consideration for entering into the 2018 Purchase Agreement. As of March 31, 2020, the Company sold 1,950,000 shares of common stock under the 2018 Purchase Agreement for proceeds of $16,999, at an average per share price of $8.72, all of which transactions occurred during 2018.

On February 19, 2019, the Company entered into a common stock purchase agreement, or the 2019 Purchase Agreement, with Aspire Capital Fund, LLC, or Aspire Capital, which provides that, upon the terms and subject to the conditions and limitations set forth in the 2019 Purchase Agreement, Aspire Capital is committed to purchase, at the Company's sole election, up to an aggregate of $20,000 of its shares of common stock over the approximately 30-month term of the 2019 Purchase Agreement. On the execution of the 2019 Purchase Agreement, the Company agreed to issue 34,762 shares of common stock to Aspire Capital as consideration for entering into the 2019 Purchase Agreement. As of March 31, 2020, the Company did not have any sales of common stock under the 2019 Purchase Agreement.

(c) Preferred Stock

The Company is authorized to issue 10,000,000 shares of preferred stock, with a par value of $0.01 per share. As of March 31, 2020, no preferred stock was issued or outstanding.

(d) Warrants

As of March 31, 2020, the Company had the following warrants outstanding to purchase shares of the Company's common stock:

Number of Shares	Exercise Price per Share	Expiration Date
348,664	$ 6.84	November 2024

The warrant to purchase 348,664 shares related to Athyrium is equity classified. During March 2019, the warrant to purchase 140,000 shares originally issued to Aegis Capital Corporation, which was equity classified, was forfeited upon expiration.

In November 2019, the warrant to purchase 350,000 shares issued to Alkermes, which was liability classified as it contained a contingent net cash settlement feature, was exercised on a cashless basis, with Alkermes surrendering 165,673 shares to cover the aggregate exercise price, resulting in the issuance of 184,327 shares of common stock based on the closing bid price of the Company's common stock on November 8, 2019 of $17.45.

(13) Stock-Based Compensation

In October 2013, the Company established the 2013 Equity Incentive Plan, or the 2013 Plan, which allows for the grant of stock options, stock appreciation rights and stock awards for a total of 600,000 shares of common stock. In June 2015, the Company's shareholders approved the Amended and Restated Equity Incentive Plan, or the A&R Plan, which amended and restated the 2013

Plan and increased the aggregate amount of shares available for issuance to 2,000,000.In May 2018, the Company's shareholders approved the 2018 Amended and Restated Equity Incentive Plan, which amended and restated the A&R Plan to increase the aggregate amount of shares available for issuance to 8,119,709. On December 1st of each year, pursuant to the "Evergreen" provision of the A&R Plan, the number of shares available under the plan may be increased by the board of directors by an amount equal to 5% of the outstanding common stock on December 1st of that year. The total number of shares authorized for issuance under the A&R Plan as of March 31, 2020 is 9,281,402.

Stock options are exercisable generally for a period of 10 years from the date of grant and generally vest over four years. As of March 31, 2020, 3,466,153 shares are available for future grants under the A&R Plan.

The weighted average grant-date fair value of the options awarded to employees during the three months ended March 31, 2020 and 2019 was $10.71 and $5.51, respectively. The fair value of the options was estimated on the date of grant using a Black-Scholes option pricing model with the following assumptions:

	March 31,	
	2020	2019
Range of expected option life	6 years	6 years
Expected volatility	77.76% - 79.23%	79.11% - 81.54%
Risk-free interest rate	0.46% - 1.40%	2.27% - 2.66%
Expected dividend yield	—	—

The following table summarizes stock option activity during the three months ended March 31, 2020:

	Number of shares		Weighted average exercise price	Weighted average remaining contractual life
Balance, December 31, 2019	3,695,649	$	7.97	7.2 years
Granted	213,720	$	15.89	
Exercised	(73,141)	$	5.86	
Expired/forfeited/cancelled	(37,088)	$	8.72	
Balance, March 31, 2020	3,799,140	$	8.45	7.0 years
Vested	2,327,799	$	7.84	6.0 years
Vested and expected to vest	3,799,140	$	8.45	7.0 years

Included in the table above are 438,000 options outstanding as of March 31, 2020 that were granted outside the plan. The grants were made pursuant to the NASDAQ inducement grant exception in accordance with NASDAQ Listing Rule 5635(c)(4).

The following table summarizes restricted stock units, or RSUs, activity during the three months ended March 31, 2020.

	Number of shares
Balance, December 31, 2019	1,197,502
Granted	224,597
Vested and settled	(183,243)
Expired/forfeited/cancelled	(278,040)
Balance, March 31, 2020	960,816
Expected to vest	797,917

Included in the table above are 18,625 time-based RSUs outstanding as of March 31, 2020 that were granted outside the plan. The grants were made pursuant to the NASDAQ inducement grant exception in accordance with NASDAQ Listing Rule 5635(c)(4).

Stock-based compensation expense from continuing operations for the three months ended March 31, 2020 and 2019 was $3,231 and $1,814, respectively. For the three months ended March 31, 2020, this represents stock-based compensation expense for the Company's employees as well as Baudax Bio employees that continue to provide services to the Company through the Transition Services Agreement (See Note 3). For the three months ended March 31, 2019, additional stock-based compensation expense of $1,012 is included in amounts presented in the line item "Loss from discontinued operations" on the Company's Consolidated Statements of Operations.

In conjunction with the Separation, the employment of certain of the Company's employees was transferred to Baudax Bio pursuant to the Employee Matters Agreement dated November 20, 2019 by and between the Company and Baudax Bio (the "Employee Matters Agreement"). In accordance with the terms of the Employee Matters Agreement, the Recro equity grants held by such former employees continue to vest in accordance with their respective vesting schedules. Any stock-based compensation expense with respect to former employees who no longer provide services to the Company is reflected in Baudax Bio's financial statements.

As of March 31, 2020, there was $12,958 of unrecognized compensation expense related to unvested options and time-based RSUs that are expected to vest and will be expensed over a weighted average period of 1.8 years. As of March 31, 2020, there was $2,707 of unrecognized compensation expense related to unvested performance-based RSUs and will be expensed if the performance criteria are met.

The aggregate intrinsic value represents the total amount by which the fair value of the common stock subject to options exceeds the exercise price of the related options. As of March 31, 2020, the aggregate intrinsic value of the vested and unvested options was $2,171 and $391, respectively.

(14) Revenue Recognition

Contract assets represent revenue recognized for performance obligations completed before an unconditional right to payment exists, and therefore invoicing or associated reporting from the customer regarding the computation of the net product sales has not yet occurred. Contract assets were $9,752 and $8,851 at March 31, 2020 and December 31, 2019, respectively. Generally, the contract assets balance is impacted by the recognition of additional contract assets, offset by amounts invoiced to customers or actual net product sale amounts reported by the commercial partner for the period. For the three months ended March 31, 2020, actual net product sale amounts reported by the Company's commercial partner exceeded estimates of royalty amounts attributed to manufactured product shipped as of December 31, 2019 for the related arrangements by approximately $2,397.

The following table presents changes in the Company's contract assets for the three months ended March 31, 2020:

Contract asset, beginning of year	$	8,851
Change in estimate arising from changes in transaction price		2,397
Reclassification of contract asset to receivables, as the result of rights to consideration becoming unconditional		(5,963)
Contract assets recognized, net		4,467
Contract asset, end of period	$	9,752

The following table disaggregates revenue by timing of revenue recognition:

	Three Months Ended March 31, 2020		
	Point in time	Over time	Total
Revenue	$ 21,055	$ 722	$ 21,777

	Three Months Ended March 31, 2019		
	Point in time	Over time	Total
Revenue	$ 24,444	$ 621	$ 25,065

The Company's payment terms for manufacturing revenue and research and development services is 30 days. Royalty revenue is recorded to accounts receivable in the quarter that the product is sold by the commercial partner upon reporting from the commercial partner and payment terms are generally 45 days after quarter end.

(15) Related Party Transactions

Baudax Bio is a related party to the Company. As part of the Separation, the Company entered into a transition services agreement with Baudax Bio. Under the transition services agreement, Baudax Bio provides certain services to the Company, each related to corporate functions which are charged to the Company. Additionally, the Company may incur expenses that are directly related to Baudax Bio after the Separation, which are billed to Baudax Bio. During the three months ended March 31, 2020, the Company recorded expense of $516 related to its transition service agreement with Baudax Bio. These expenses are included in selling, general and administrative expenses on the Company's Consolidated Statements of Operations. The Company recorded a net payable of $63 for such activities and other activity with Baudax Bio as of March 31, 2020.

(16) Retirement Plan

The Company has a voluntary 401(k) Savings Plan (the 401(k) Plan) in which all employees are eligible to participate. The Company's policy is to match 100% of the employee contributions up to a maximum of 5% of employee compensation. Total Company contributions to the 401(k) plan for the three months ended March 31, 2020 and 2019 were $316 and $274, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the interim unaudited financial statements contained in Part I, Item 1 of this Quarterly Report, and the audited financial statements and notes thereto for the year ended December 31, 2019 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on March 4, 2020. As used in this report, unless the context suggests otherwise, "we," "us," "our," "the Company" or "Recro" refer to Recro Pharma, Inc. and its consolidated subsidiaries.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, or Quarterly Report, contains forward-looking statements. We may, in some cases, use terms such as "may," "will," "should," "expect," "plan," "anticipate," "could," "intend," "target," "project," "contemplates," "believes," "estimates," "predicts," "potential," or "continue," the negatives thereof and other words that convey uncertainty of future events or outcomes to identify these forward-looking statements.

These forward-looking statements in this Quarterly Report include, among other things, statements about:

- our estimates regarding expenses, future revenue, cash flow, capital requirements and timing and availability of and the need for additional financing;
- our ability to maintain our relationships, profitability and contracts with our key commercial partners;
- our ability to grow and diversify our business with new customers, including our ability to meet desired project outcomes with development customers;
- our ability to comply with the regulatory schemes applicable to our business and other regulatory developments in the United States and foreign countries;
- our ability to operate under increased leverage and associated lending covenants; to pay existing required interest and principal amortization payments when due; and/or to obtain acceptable refinancing alternatives;
- the performance of third-party suppliers upon which we depend for Active Pharmaceutical Ingredients, or APIs, excipients, capsules, reagents, etc., and other third-parties involved with maintenance of our facilities and equipment;
- our ability to obtain and maintain patent protection for applicable products and defend our intellectual property rights against third-parties;
- pharmaceutical market forces that may impact our commercial customers success for products we produce;
- our ability to recruit or retain key scientific, technical, business development, and management personnel and to retain our executive officers;
- our ability to comply with stringent U.S. and foreign government regulation in the manufacture of pharmaceutical products, including Good Manufacturing Practice, or cGMP, compliance and U.S. Drug Enforcement Agency, or DEA, compliance and other relevant regulatory authorities; and
- the extent to which health epidemics and other outbreaks of communicable diseases, including the recent outbreak of a novel strain of coronavirus, or COVID-19, could disrupt our operations or materially and adversely affect our business and financial conditions.

Any forward-looking statements that we make in this Quarterly Report speak only as of the date of such statement, and we undertake no obligation to update such statements to reflect events or circumstances after the date of this Quarterly Report or to reflect the occurrence of unanticipated events. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

You should also read carefully the factors described in the "Risk Factors" included in Part II, Item 1A of this Quarterly Report and Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 filed with the SEC on March 4, 2020, or the 2019 Annual Report, to better understand significant risks and uncertainties inherent in our business and underlying any forward-looking statements. As a result of these factors, actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements in this report and you should not place undue reliance on any forward-looking statements.

Overview

We are a leading contract development and manufacturing organization, or CDMO, with integrated solutions for the development, formulation, regulatory support, manufacturing, and packaging of oral solid dose drug products. We have operated through a single CDMO business segment since the completion of the spin-off of our historical Acute Care business segment on November 21, 2019.

We leverage our formulation and development expertise to develop and manufacture pharmaceutical products using proprietary delivery technologies and know-how for commercial partners who develop, commercialize or plan to commercialize these products. These collaborations result in revenue streams including manufacturing, royalties, profit sharing, and research and development, which support our continued operations. We operate a 97,000 square foot, DEA-licensed manufacturing facility in Gainesville, Georgia, as well as a 24,000 square foot development and high potency product facility in Gainesville, Georgia that we opened in October 2018. We currently develop and/or manufacture the following key products with our key commercial partners: Ritalin LA®, Focalin XR®, Verelan PM®, Verelan SR®, Verapamil PM, Verapamil SR and Zohydro ER®, as well as supporting development stage products.

We have used cash flow generated by our business primarily to fund operations at our Gainesville, Georgia manufacturing facilities, to fund our historical Acute Care business and to make payments under our credit facility. We believe our business will continue to contribute cash for future operations at our Gainesville facilities and other general corporate purposes.

In November 2019, our former Acute Care business was spun-out from us through our former wholly-owned subsidiary, Baudax Bio, Inc., or Baudax Bio, when we completed a special dividend distribution of all the outstanding shares of common stock of Baudax Bio to our shareholders. On November 21, 2019, the distribution date, each of our shareholders received one share of Baudax Bio's common stock, or the Distribution, for every two and one-half shares of our common stock held of record at the close of business on November 15, 2019, the record date for the Distribution. Additionally, we contributed $19 million of cash to Baudax Bio in connection with the separation. As a result of the Distribution, Baudax Bio is now an independent public company whose shares of common stock are trading under the symbol "BXRX" on The Nasdaq Capital Market, or Nasdaq.

The COVID-19 pandemic has had unforeseen adverse effects on both the world economy and the general commercial activity. As a result, our business and results of operations have been adversely affected. Given the uncertain scope and duration of the pandemic, the extent to which the pandemic will continue to impact our financial results remains uncertain. However, we will continue to monitor the situation closely and is actively evaluating various ways to reduce costs and conserve operational resources.

Our consolidated results of operations and financial position included in this Quarterly Report reflect the financial results of Baudax Bio as a discontinued operation for all periods presented. For additional information on the spin-off of Baudax Bio please read Note 4, Discontinued Operations, to our consolidated financial statements included in the Company's 2019 Annual Report.

Financial Overview

General

Some recent developments have occurred that have impacted and are expected to continue to impact full year expected results, including:

- Increased competition from one of our key customer's competitors for certain product strengths that had previously been out of the market, was trending at an approximate 30% of market share level, but recently has recovered to a greater sustained percentage of approximately 50% market share. This has impacted both anticipated future manufacturing volumes and profit sharing,
- Slower than expected new business growth which we believe is primarily attributable to COVID-19. COVID-19, has required different ways of meeting and contacting customers, and has slowed customer access, and caused reassessment of plans for development services by some customers and prospects for a variety of reasons, such as concerns about availability of development funding, timing of clinical trials, etc., and
- Notifications by two of our customers of discontinuations for two commercial product lines, that resulted in a decrease of approximately $4 million on previous 2020 revenue guidance and is estimated to have an annual impact to 2021 revenue of approximately $7 to 8 million.

As a result of these recent events, operating improvement initiatives that have been executed as a result of lower anticipated manufacturing volumes for 2020, including a 10% reduction in force during the first quarter, is estimated to provide an annual savings of approximately $2 million in fiscal year 2021. Additional cost saving measures are planned and continue to be assessed.

Revenues

During the three months ended March 31, 2020 and 2019 we recognized revenues from three revenue streams: manufacturing revenue, royalty revenue and research and development revenue.

Manufacturing revenue

We recognize manufacturing revenue from the sale of products we manufacture for our commercial partners. Manufacturing revenues are recognized upon transfer of control of a product to a customer, generally upon shipment, based on a transaction price that

reflects the consideration we expect to be entitled to as specified in the agreement with the commercial partner, which could include pricing and volume-based adjustments.

Royalty revenue

We recognize royalty or profit-sharing revenue, collectively referred to as royalty revenue, related to the sale of products by our commercial partners that incorporate our technologies. Royalty revenues are generally recognized under the terms of the applicable license, development and/or supply agreement. For arrangements that include sales-based royalties and the license is deemed to be the predominant item to which the royalties relate, we recognize revenue when the related sales occur by the commercial partner. For arrangements that include sales-based royalties and the license is not deemed to be the predominant item to which the royalties relate, we recognize revenue when the performance obligation to which the royalty has been allocated has been satisfied, which is upon transfer of control of a product to a customer. In this case, significant judgment is used in the estimation of these royalties based on historical customer pricing and deductions and is partially constrained due to items that are outside of our control including the uncertainty of the timing of future commercial partner sales, mix of volume, customer stocking and ordering patterns, as well as unforeseen price adjustments made by our commercial partners.

Research and development revenue

Research and development revenue consists of revenue that compensates us for services performed, such as formulation, process development, and preparation of pre-clinical and clinical drug product materials under research and development arrangements with partners. Revenues related to research and development are generally recognized as the related services or activities are performed using the output method and in accordance with the contract terms. To the extent that the agreements specify services are to be performed on a fixed basis, revenues are recognized consistent with the pattern of the work performed. In agreements that specify milestones, we evaluate whether the milestones are considered probable of being achieved and estimate the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the value of the associated milestone is recognized at a point in time. Non-refundable milestone payments related to arrangements under which we have continuing performance obligations would be deferred and recognized over the period of performance. Milestone payments that are not within our control, such as submission for approval to regulators by a partner or approvals from regulators, are not considered probable of being achieved until those submissions are submitted by the customer or approvals are received.

Selling, General and Administrative Expenses

Selling, General and Administrative expenses consists of salaries and related costs for corporate administrative, public company costs, business development personnel as well as legal, patent-related expenses and consulting fees. Public company costs include compliance, auditing services, tax services, insurance and investor relations. We expect our business development expenses to increase in 2020, compared to prior year, as we continue to expand our sales team in various geographies, in anticipation of business growth from new formulation and development capabilities.

Amortization of Intangible Assets

We recognize amortization expense related to the intangible asset for our contract manufacturing relationships on a straight-line basis over an estimated useful life of six years.

Change in Fair Value of Warrants

We had previously classified as liabilities certain warrants then outstanding that contained a contingent net cash settlement feature, upon a change in control. The fair value of these warrants was remeasured through settlement or expiration with changes in fair value recognized as a period charge within the Consolidated Statements of Operations and Comprehensive Loss. There is no remaining liability classified warrants as the last of these warrants were exercised in November 2019. A fair value determination at the time of the exercise occurred and was included in the change in warrant valuation for the year ended December 31, 2019.

Interest Expense, Net

Interest expense, net for the three months ended March 31, 2020 and 2019 was a result of interest expense incurred on our Athyrium senior secured term loans and the amortization of the related financing costs, net of interest income on cash equivalents and short-term investments.

Net Operating Losses and Tax Carryforwards

As of December 31, 2019, we had approximately $121.6 million of federal net operating loss carryforwards. We also had federal and state research and development tax credit carryforwards of $4.4 million available to offset future taxable income. U.S. tax laws limit the time during which these carryforwards may be utilized against future taxes. With the exception of the 2019 and 2018 federal net operating losses, which have an indefinite carry forward period, these federal and state net operating loss and federal and state tax credit carryforwards will begin to expire at various dates beginning in 2028, if not utilized. We believe that it is more likely than not that the deferred income tax assets associated with our U.S. operations will not be realized, and as such, there is a full valuation allowance against our deferred tax assets.

Results of Operations

Comparison of the Three Months Ended March 31, 2020 and 2019

	Three Months Ended March 31,	
	2020	2019
	(amounts in thousands)	
Revenue	$ 21,777	$ 25,065
Operating expenses:		
Cost of sales (excluding amortization of intangible assets)	18,254	14,391
Selling, general and administrative	5,446	6,505
Amortization of intangible assets	646	646
Change in warrant valuation	—	(263)
Total operating expenses	24,346	21,279
Operating income (loss) from continuing operations	(2,569)	3,786
Other income (expense):		
Interest expense, net	(5,123)	(3,590)
Net income (loss) from continuing operations	(7,692)	196
Loss on discontinued operations (see Note 3)	—	(2,173)
Net loss	$ (7,692)	$ (1,977)

Revenue and costs of sales. Revenues and cost of sales (excluding amortization of intangible assets) were $21.8 million and $18.3 million, respectively, for the three months ended March 31, 2020, compared to $25.1 million and $14.4 million for the three months ended March 31, 2019. The decrease of $3.3 million in revenue was primarily due to decreased product sales and royalties recognized from two of our commercial partners driven by the re-entry of a competitor to the market that resulted in reduced sales by one of our commercial partners and slowed purchases to both customers due to their prior year inventory remaining on hand. Cost of sales increased $3.9 million primarily due to commercial product mix and manufacturing variances resulting from lower production volumes (including $0.8 million related to a reduction in force associated with revised commercial volume), changes in inventory and expansion of our formulation and development capabilities. Annual savings from this reduction in force are estimated to be $2.0 million in fiscal year 2021.

We expect the increased competition experienced by of one of our commercial partners, slower than expected new business growth and potential delays in customers programs will continue to impact our revenue in 2020. In addition, we have received notifications from two of our commercial partners of discontinuations for two commercial product lines, which we also anticipate will negatively impact our revenue in 2020. We will continue to monitor the impact of these events and the COVID-19 pandemic on our business and revenues.

Selling, general and administrative. Our selling, general and administrative expenses were $5.4 million and $6.5 million for the three months ended March 31, 2020 and 2019, respectively. The decrease of $1.1 million was primarily related to lower public company costs which were partially offset by higher business development costs related to an increase in new development contract sales.

Amortization of Intangible Assets. Amortization expense was $0.6 million for both of the three month periods ended March 31, 2020 and 2019, respectively, which was related to the amortization of our CDMO royalties and contract manufacturing relationships intangible asset over its estimated useful life.

Interest Expense, net. Interest expense, net was $5.1 million and $3.6 million during the three months ended March 31, 2020 and 2019, respectively. The increase of $1.5 million was primarily due to the higher principal balance on our Athyrium senior secured term loan and amortization of the related financing costs.

Liquidity and Capital Resources

As of March 31, 2020, we had $19.9 million in cash and cash equivalents.

Since our inception through March 31, 2020, we have financed our product development, operations and capital expenditures primarily from sales of equity and debt securities, and term loans made under our previous and existing credit facilities. During the three months ended March 31, 2020, our capital expenditures were $0.6 million and primarily related to a commercial project expansion.

We may require additional financing and may raise such additional funds through debt refinancing, bank or other loans, through strategic research and development, licensing, including out-licensing activities, sale of assets and/or marketing arrangements or through public or private sales of equity or debt securities from time to time. Financing may not be available on acceptable terms, or at all, and our failure to raise capital when needed could materially adversely impact our growth plans and our financial condition or results of operations. Further, our ability to access capital market or otherwise raise capital may be adversely impacted by potential worsening global economic conditions and the recent disruptions to, and volatility in, financial markets in the United States and worldwide resulting from the ongoing COVID-19 pandemic. Additional debt or equity financing, if available, may be dilutive to the holders of our common stock and may involve significant cash payment obligations and covenants that restrict our ability to operate our business or access to capital.

On November 17, 2017, we entered into our credit agreement with Athyrium, pursuant to which we drew upon an initial $60.0 million term loan. We used the proceeds from the initial term loan to (i) repay in full all outstanding indebtedness under our credit facility with OrbiMed of approximately $31.7 million, which included the remaining debt principal balance of $27.3 million and early termination charges of $4.4 million and (ii) pay transaction fees associated with the credit facility with Athyrium of approximately $4.2 million. In December 2018 we amended the credit agreement with Athyrium and drew upon a $10.0 million term B-1 loan. In February 2019, we entered into a second amendment to the credit agreement with Athyrium pursuant to which the credit facility was (i) expanded from $100.0 million to $125.0 million and (ii) the two additional $15.0 million tranches were restructured into a $55.0 million term B-2 loan, which was funded on the date of execution of the Second Amendment, net of the original issue discount of $11.4 million. Beginning on March 31, 2021, we must repay the outstanding principal amount in quarterly installments of $3.0 million with the outstanding principal balance due on March 31, 2023. As of March 31, 2020 , we had $125.0 million outstanding principal under our c redit agreement with Athyrium.

Sources and Uses of Cash

Cash provided by operations from continuing operations was $3.5 million and $1.7 million for the three months ended March 31, 2020 and 2019, respectively, which represents our operating income or losses from continuing operations less our stock-based compensation, depreciation, non-cash interest expense, changes in fair value of warrants and amortization of intangibles, as well as changes in operating assets and liabilities.

Cash used in investing activities from continuing operations was $0.6 million for the three months ended March 31, 2020, which related to capital expenditures to scale and support our anticipated growth. Cash used in investing activities from continuing operations was $14.7 million for the three months ended March 31, 2019. The 2019 amount reflected cash used for the purchases of short-term investments and for the purchases of property and equipment.

There was $1.0 million of cash used in financing activities from continuing operations in the three months ended March 31, 2020 related to $1.2 million of payments of withholdings on shares withheld for income taxes which was partially offset by $0.2 million of proceeds from stock option exercises. For the three months ended March 31, 2019, net cash provided by financing activities from continuing operations of $40.0 million primarily related to net proceeds from the issuance of long-term debt of $43.6 million and $0.2 million of proceeds from stock option exercises, which was partially offset by payments of deferred financing costs of $2.9 million from the Athyrium transaction, and $0.9 million of payments of withholdings on shares withheld for income taxes.

Our future use of operating cash and capital requirements will depend on many forward-looking factors, including the following:

- the extent to which we in-license, acquire or invest in products, businesses and technologies;
- the timing and extent of our manufacturing and capital expenditures;
- our ability to maintain our relationships and contracts with our commercial partners;
- our ability to grow and diversify our business with new customers, including our ability to meet desired project outcomes with development customers;
- our ability to continue profitability;
- our ability to comply with stringent U.S. & foreign government regulation in the manufacture of pharmaceutical products, including cGMP and U.S. DEA requirements;
- the extent to which we choose to establish collaboration, co-promotion, distribution or other similar agreements for product candidates;

- our ability to raise additional funds through equity or debt financings or sale of certain assets;

- the costs of preparing, submitting and prosecuting patent applications and maintaining, enforcing and defending intellectual property claims; and

- the effect of any changes in our effective tax rate due to changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities and changes in tax laws.

We might use existing cash and cash equivalents on hand, additional debt, equity financing, sale of assets or out-licensing revenue or a combination thereof to fund our operations or product acquisitions. If we increase our debt levels, we might be restricted in our ability to raise additional capital and might be subject to financial and restrictive covenants. Our shareholders may experience dilution as a result of the issuance of additional equity or debt securities. This dilution may be significant depending upon the amount of equity or debt securities that we issue and the prices at which we issue any securities.

Contractual Commitments

The table below reflects our contractual commitments as of March 31, 2020:

	Payments Due by Period (in 000s)				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-Term Debt Obligations (1):					
Athyrium Debt	$ 126,250	$ 3,000	$ 123,250	$ —	$ —
Interest on Debt	35,197	14,179	21,018	—	—
Purchase Obligations (2):	7,861	6,965	896	—	—
Operating Leases (3)	868	187	317	312	52
Total Contractual Obligations	$ 170,176	$ 24,331	$ 145,481	$ 312	$ 52

(1) The long-term debt obligations consist of principal, an exit fee of 1% of the principal, and interest on the $125.0 million outstanding principal under our $125.0 million credit facility with Athyrium as of March 31, 2020. The debt bears interest at a rate of LIBOR plus 9.75% per annum. Due to fluctuations of the future LIBOR interest rate, it has been set at the rate as of March 30, 2020 to calculate the obligation. In accordance with U.S. GAAP, the future interest obligations are not recorded on our Consolidated Balance Sheet. See Note 10 to the Consolidated Financial Statements included in this Form 10-Q.

(2) These obligations consist of cancelable and non-cancelable purchase commitments related to inventory, capital expenditures, transition services agreement costs, and other goods or services. In accordance with U.S. GAAP, these obligations are not recorded on our Consolidated Balance Sheets. See Note 11 to the Consolidated Financial Statements included in this Form 10-Q.

(3) We have become party to certain operating leases for the leased space in Gainesville, Georgia, as well as for office equipment, for which the minimum lease payments are presented. See Note 11 (b) to the Consolidated Financial Statements included in this Form 10-Q.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

Critical Accounting Policies and Estimates

Our critical accounting policies and estimates are disclosed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of our 2019 Annual Report. In the three months ended March 31, 2020, there were no significant changes to the application of critical accounting policies previously disclosed in our 2019 Annual Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in our assessment of its sensitivity to market risk described in the "Quantitative and Qualitative Disclosures About Market Risk" section of our 2019 Annual Report.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of

1934, as amended, or the Exchange Act) as of March 31, 2020. We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow for timely decisions regarding required disclosure.

A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. However, our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. Based on the evaluation of our disclosure controls and procedures as of March 31, 2020, our principal executive officer and principal financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved, from time to time, in various claims and legal proceedings arising in the ordinary course of its business. Except as disclosed below, we are not currently a party to any such claims or proceedings that, if decided adversely to it, would either individually or in the aggregate have a material adverse effect on its business, financial condition or results of operations.

On May 31, 2018, a securities class action lawsuit, or the Securities Litigation, was filed against us and certain of our officers and directors in the U.S. District Court for the Eastern District of Pennsylvania (Case No. 2:18-cv-02279-MMB) that purported to state a claim for alleged violations of Section 10(b) and 20(a) of the Exchange Act and Rule 10(b)(5) promulgated thereunder, based on statements made by us concerning the NDA for IV meloxicam. The complaint seeks unspecified damages, interest, attorneys' fees and other costs. On December 10, 2018, lead plaintiff filed an amended complaint that asserted the same claims and sought the same relief but included new allegations and named additional officers as defendants. On February 8, 2019, we filed a motion to dismiss the amended complaint in its entirety, which the lead plaintiff opposed on April 9, 2019. On May 9, 2019, we filed our response and briefing was completed on the motion to dismiss. In response to questions from the Judge, the parties submitted supplemental briefs with regard to the motion to dismiss the amended complaint during the fall of 2019. On February 18, 2020, the motion to dismiss was granted without prejudice. On April 25, 2020, the plaintiff filed a second amended complaint. The defendants intend to file a motion to dismiss as to this complaint. In connection with the separation of Baudax Bio, Baudax Bio accepted assignment by us of all of our obligations in connection with the Securities Litigation and agreed to indemnify us for all liabilities related to the Securities Litigation. We and Baudax Bio believe that the lawsuit is without merit and intend to vigorously defend against it if the plaintiffs file a new complaint.

Item 1A. Risk Factors.

You should carefully consider the risk factors described in our 2019 Annual Report, under the caption "Item 1A. Risk Factors." Except as set forth below, there have been no material changes in our risk factors disclosed in our 2019 Annual Report.

The COVID-19 pandemic may negatively impact our business operations and materially impact our financial results.

In December 2019, COVID-19 was reported to have surfaced in Wuhan, China. As of March 2020, COVID-19 spread to other countries, including the United States, and was declared to be a pandemic by the World Health Organization on March 11, 2020. Efforts to contain the spread of COVID-19 have intensified, and many countries throughout the world, including the United States, have implemented travel restrictions, social distancing guidelines and quarantine requirements. A number of states, including Georgia, where our Gainesville manufacturing facilities are located, have enacted mandatory shut-downs for certain businesses and strict quarantine measures for individuals displaying symptoms of the virus.

While the COVID-19 pandemic has not had a significant impact on our ability to conduct our business due to our designation as an essential business and our facilities remain open at this time, we are unable to host site visits by potential customers or engage in other in-person marketing activities, which may result in decreased demand for our products and could materially and adversely affect our business.

The continued spread of COVID-19 has led to severe disruption and volatility in the global capital markets, which could increase our cost of capital and adversely affect our ability to access the capital markets in the future. The continued spread of COVID-19 may continue to cause economic disruptions of indeterminable duration and intensity or cause other unpredictable events, each of which could materially and adversely affect our business. We may need to reduce our workforce or implement additional cost-mitigating strategies, which could materially affect our ability to manufacture and deliver our products.

The impact of the COVID-19 pandemic remains unknown, and the extent to which the pandemic ultimately impacts our financial results will depend on uncertain and unpredictable future developments, including the emergence of new information concerning the severity of the pandemic and additional government or private actions to contain the virus or treat its impact, among others. Moreover, the COVID-19 pandemic has had indeterminable adverse effects on general commercial activity and the world economy, and our business and results of operations could be adversely affected to the extent that COVID-19 or any other pandemic harms the global economy generally. Therefore, at this time we cannot predict the extent to which our results of operations, financial condition or liquidity will ultimately be impacted, and we will continue to monitor the situation closely.

Failure to obtain manufacturing components, supplies and related materials from third-parties due to implications stemming from the COVID-19 pandemic, could adversely affect our ability to manufacture and deliver our products.

We rely on third-party manufacturers to supply many of our manufacturing components, supplies and related materials, which in some instances are supplied from a single source. Disruptions in the supply of any of our key manufacturing components, supplies and related materials due to the sweeping effects the COVID-19 pandemic has had on commercial activity throughout the world could have a material adverse effect on our operating results, financial condition or cash flows. Several of our manufacturers and suppliers conduct business internationally. Travel bans and "stay-at-home" orders may affect the ability of these companies to conduct commercial activity, which could disrupt our supply chain and negatively impact our operations. If our suppliers are unable to provide the products and manufacturing components necessary to conduct our business, we may experience inventory shortages, and could be required to use an

alternative supplier on short notice and enter into agreements on less favorable terms than we have with our regular suppliers. We also rely on third parties for the maintenance of our facilities and equipment. The COVID-19 pandemic poses the risk that any of the third parties on which we rely may be prevented from conducting normal business activities for an indefinite period of time, including due to shutdowns that may be requested or mandated by governmental authorities.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Submission of Matters to a Vote of Security Holders

On May 7, 2020, we held our Annual Meeting of Shareholders, or the Annual Meeting. The following is a brief description of the final voting results for each of the proposals submitted to a vote of the shareholders at the Annual Meeting.

(a) *Proposal 1 — Election of Class III Directors.* Each of William Ashton and Dr. Michael Berelowitz were elected to the Board of Directors as Class III directors to serve until the Company's 2023 Annual Meeting of Shareholders and until their successors, if any, are elected or appointed, or their earlier death, resignation, retirement, disqualification or removal, as follows:

Name	For	Withheld	Broker Non-Votes
William Ashton	13,638,205	1,220,742	3,207,336
Dr. Michael Berelowitz	14,311,068	547,879	3,207,336

(b) *Proposal 2 — Approval, on an Advisory Basis, of the Compensation of the Company's Named Executive Officers.* The compensation of the Company's named executive officers, on an advisory basis, was approved, as follows:

Votes For	Votes Against	Abstentions	Broker Non-Votes
12,373,288	2,472,623	13,036	3,207,336

(c) *Proposal 3 — Indication, on an Advisory Basis, on the Preferred Frequency of Future Shareholder Advisory Votes on the Compensation of the Company's Named Executive Officers.* The preferred frequency of future shareholder advisory votes on compensation of the Company's named executive officers, on an advisory basis, was indicated, as follows:

1 Year	2 Years	3 Years	Abstentions	Broker Non-Votes
14,831,521	4,887	19,299	3,240	3,207,336

(d) *Proposal 4 — Ratification of Independent Registered Public Accountants.* The appointment of KPMG LLP as the Company's independent registered public accounting firm for the 2020 fiscal year was ratified, as follows:

Votes For	Votes Against	Abstentions	Broker Non-Votes
17,571,406	492,458	2,419	0

Disclosure Regarding Frequency of Shareholder Advisory Vote on Executive Compensation

A majority of the votes cast by shareholders voted, on an advisory basis, to hold an advisory vote to approve executive compensation every year. In line with this recommendation by our shareholders, the Board has decided that it will include an advisory shareholder vote on executive compensation in its proxy materials every year until the next advisory vote on the frequency of shareholder votes on executive compensation, which will occur no later than our Annual Meeting of Shareholders in 2026.

Item 6. Exhibits.

(a) The following exhibits are filed herewith or incorporated by reference herein:

EXHIBIT INDEX

Exhibit No.	Description	Method of Filing
31.1	Rule 13a-14(a)/15d-14(a) certification of Principal Executive Officer.	Filed herewith.
31.2	Rule 13a-14(a)/15d-14(a) certification of Principal Financial and Accounting Officer.	Filed herewith.
32.1	Section 1350 certification, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
101 INS	XBRL Instance Document	Filed herewith.
101 SCH	XBRL Taxonomy Extension Schema	Filed herewith.
101 CAL	XBRL Taxonomy Extension Calculation Linkbase	Filed herewith.
101 DEF	XBRL Taxonomy Extension Definition Linkbase	Filed herewith.
101 LAB	XBRL Taxonomy Extension Label Linkbase	Filed herewith.
101 PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

RECRO PHARMA, INC.

Date: May 11, 2020

By: /s/ Gerri A. Henwood
Gerri A. Henwood
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 11, 2020

By: /s/ Ryan D. Lake
Ryan D. Lake
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION

I, Gerri A. Henwood, certify that:

1. I have reviewed this Quarterly Report of Recro Pharma, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2020

/s/ Gerri A. Henwood
Gerri A. Henwood
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Ryan D. Lake, certify that:

1. I have reviewed this Quarterly Report of Recro Pharma, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2020

/s/ Ryan D. Lake
Ryan D. Lake
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Recro Pharma, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to such officer's knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 11, 2020

/s/ Gerri A. Henwood
Gerri A. Henwood
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Ryan D. Lake
Ryan D. Lake
Chief Financial Officer
(Principal Financial and Accounting Officer)