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: September 30, 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 November 2, 2020, there were 23,644,631 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)	September 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 21,487	$ 19,148
Accounts receivable	13,634	14,389
Contract asset	9,728	8,851
Inventory	11,580	15,072
Prepaid expenses and other current assets	2,492	2,700
Total current assets	58,921	60,160
Property, plant and equipment, net	43,480	42,212
Intangible assets, net	1,345	3,283
Goodwill	4,319	4,319
Other assets	503	485
Total assets	$ 108,568	$ 110,459
Liabilities and stockholders' deficit		
Current liabilities:		
Accounts payable	$ 657	$ 989
Accrued expenses and other current liabilities	4,802	4,324
Current portion of debt	9,458	—
Liabilities of discontinued operation	—	1,172
Total current liabilities	14,917	6,485
Debt, net	108,399	110,319
Other liabilities	385	367
Total liabilities	123,701	117,171
Commitments and contingencies (note 10)		
Stockholders' deficit:		
Preferred stock, $0.01 par value. 10,000,000 shares authorized, none issued or outstanding	—	—
Common stock, $0.01 par value. 50,000,000 shares authorized, 23,644,631 issued and outstanding at September 30, 2020 and 23,312,928 shares issued and outstanding at December 31, 2019	236	233
Additional paid-in capital	207,345	199,938
Accumulated deficit	(222,714)	(206,883)
Total stockholders' deficit	(15,133)	(6,712)
Total liabilities and stockholders' deficit	$ 108,568	$ 110,459

See accompanying notes to consolidated financial statements.

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

(amounts in thousands, except share and per share data)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Revenue	$ 19,287	$ 25,255	$ 56,586	$ 81,576
Operating expenses:				
Cost of sales (excluding amortization of intangible assets)	11,741	11,027	41,629	39,518
Selling, general and administrative	4,418	3,990	14,123	16,028
Amortization of intangible assets	646	646	1,938	1,938
Change in warrant valuation	—	160	—	938
Total operating expenses	16,805	15,823	57,690	58,422
Operating income (loss) from continuing operations	2,482	9,432	(1,104)	23,154
Interest expense	(4,609)	(5,057)	(14,727)	(13,823)
(Loss) income from continuing operations	(2,127)	4,375	(15,831)	9,331
Loss on discontinued operations	—	(8,680)	—	(18,450)
Net loss	$ (2,127)	$ (4,305)	$ (15,831)	$ (9,119)
(Loss) income per share information:				
Basic:				
Continuing operations	$ (0.09)	$ 0.19	$ (0.67)	$ 0.42
Discontinued operations	—	(0.38)	—	(0.83)
Total	$ (0.09)	$ (0.19)	$ (0.67)	$ (0.41)
Weighted average shares outstanding	23,641,973	22,505,723	23,538,378	22,231,990
Diluted:				
Continuing operations	$ (0.09)	$ 0.18	$ (0.67)	$ 0.40
Discontinued operations	—	(0.36)	—	(0.79)
Total	$ (0.09)	$ (0.18)	$ (0.67)	$ (0.39)
Weighted average shares outstanding	23,641,973	23,650,113	23,538,378	23,102,158

See accompanying notes to consolidated financial statements.

RECRO PHARMA, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Deficit
(Unaudited)

(amounts in thousands, except share data)	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated deficit	Total
Balance, December 31, 2019	23,312,928	$ 233	$ 199,938	$ (206,883)	$ (6,712)
Stock-based compensation expense	—	—	3,231	—	3,231
Exercise of stock options, net	37,063	—	(105)	—	(105)
Vesting of restricted stock units, net	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)
Stock-based compensation expense	—	—	2,446	—	2,446
Exercise of stock options, net	105,606	1	378	—	379
Vesting of restricted stock units, net	78,067	1	(31)	—	(30)
Net loss	—	—	—	(6,012)	(6,012)
Balance, June 30, 2020	23,638,906	236	204,940	(220,587)	(15,411)
Stock-based compensation expense	—	—	2,409	—	2,409
Vesting of restricted stock units, net	5,725	—	(4)	—	(4)
Net loss	—	—	—	(2,127)	(2,127)
Balance, September 30, 2020	23,644,631	$ 236	$ 207,345	$ (222,714)	$ (15,133)

(amounts in thousands, except share data)	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated deficit	Total
Balance, December 31, 2018	21,799,961	$ 218	$ 168,535	$ (188,253)	$ (19,500)
Stock-based compensation expense	—	—	2,826	—	2,826
Exercise of stock options, net	29,750	—	185	—	185
Vesting of restricted stock units, net	268,915	3	(865)	—	(862)
Issuance of common stock for equity facility	34,762	—	301	—	301
Net loss	—	—	—	(1,978)	(1,978)
Balance, March 31, 2019	22,133,388	221	170,982	(190,231)	(19,028)
Stock-based compensation expense	—	—	2,359	—	2,359
Exercise of stock options, net	206,625	2	907	—	909
Vesting of restricted stock units, net	74,594	1	(114)	—	(113)
Net loss	—	—	—	(2,836)	(2,836)
Balance, June 30, 2019	22,414,607	224	174,134	(193,067)	(18,709)
Stock-based compensation expense	—	—	1,741	—	1,741
Exercise of stock options, net	186,947	2	1,463	—	1,465
Vesting of restricted stock units, net	12,559	—	(57)	—	(57)
Net loss	—	—	—	(4,305)	(4,305)
Balance, September 30, 2019	22,614,113	$ 226	$ 177,281	$ (197,372)	$ (19,865)

See accompanying notes to consolidated financial statements.

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

(amounts in thousands)	Nine months ended September 30, 2020	2019
Cash flows from operating activities, continuing operations:		
Net loss	$ (15,831)	$ (9,119)
Loss on discontinued operations	—	18,450
Adjustments to reconcile income or loss from continuing operations to net cash provided by operating activities, continuing operations:		
Stock-based compensation expense	8,086	4,635
Non-cash interest expense	4,222	3,872
Depreciation expense	4,581	4,290
Amortization of intangible assets	1,938	1,938
Change in warrant valuation	—	938
Changes in operating assets and liabilities:		
Accounts receivable	755	(3,351)
Contract asset	(877)	(5,442)
Inventory	3,492	(2,223)
Prepaid expenses and other assets	268	(1,033)
Accounts payable, accrued expenses and other liabilities	(234)	1,287
Net cash provided by operating activities, continuing operations	6,400	14,242
Cash flows from investing activities, continuing operations:		
Purchases of property and equipment	(5,451)	(7,997)
Purchases of short-term investments	—	(12,020)
Proceeds from maturity of investments	—	12,100
Net cash used in investing activities, continuing operations	(5,451)	(7,917)
Cash flows from financing activities, continuing operations:		
Proceeds from issuance of debt, net of original issue discount of $11,400 for the nine months ended September 30, 2019	4,416	43,600
Repayments of debt	(1,100)	—
Payment of deferred financing costs	(78)	(2,936)
Net payments related to vesting and exercise of stock-based awards	(1,185)	(1,029)
Net proceeds related to exercise of stock options	509	2,552
Net cash provided by financing activities, continuing operations	2,562	42,187
Net increase in cash and cash equivalents from continuing operations	3,511	48,512
Discontinued operations:		
Cash flows used in operating activities	(1,172)	(37,271)
Cash flows used in investing activities	—	(1,811)
Cash flows used in financing activities	—	(10,000)
Net decrease in cash and cash equivalents from discontinued operations	(1,172)	(49,082)
Cash and cash equivalents, beginning of period	19,148	38,514
Cash and cash equivalents, end of period	$ 21,487	$ 37,944
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 10,662	$ 10,601
Purchases of property, plant and equipment included in accrued expenses and accounts payable	686	21
Common stock issued under equity facility	—	301

See accompanying notes to consolidated financial statements.

(1) Background

Recro Pharma, Inc. (the "Company") was incorporated in Pennsylvania onNovember 15, 2007. The Company is a leading contract development and manufacturing organization ("CDMO") with integrated solutions for formulation, analytical services, regulatory support, manufacturing, and packaging of both commercial and development stage 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. The Company operates in one segment.

In November 2019, the Company's former Acute Care business, which developed products for hospital and other acute care settings, was spun-out through its former wholly-owned subsidiary, Baudax Bio, Inc. ("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 about the spin-off of Baudax Bio.

The Company has incurred net losses since inception and has an accumulated deficit of $222,714 as of September 30, 2020, which is mostly related to activities that are presented as discontinued operations as a result of the spin-off of 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 ("U.S. GAAP") for interim financial information. In accordance with SEC rules for interim financial statements, certain information required by U.S. GAAP may be condensed or omitted. 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 interim periods are not necessarily indicative of the results that may be expected for the full year.

The accompanying unaudited interim consolidated financial statements should be read in conjunction with the annual audited financial statements and related notes 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, office and computer equipment; six to ten years for manufacturing equipment; 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) 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.

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 last annual impairment test as of November 30, 2019.

Since the last annual test, the Company has identified the ongoing novel strain of coronavirus ("COVID-19") pandemic as a potential indicator of impairment. The Company has performed periodic interim impairment testing that has resulted in no impairment of goodwill or other assets. The Company continues to monitor the impact of the COVID-19 pandemic.

(f) 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 Revenue

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.

Royalty Revenue

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.

Research and Development

Research and development revenue includes services associated with formulation, process development, clinical trials materials services, as well as custom development of manufacturing processes and analytical methods for a customer's non-clinical, clinical and commercial products. Such revenues are recognized at a point in time or over time depending on the nature and particular facts and circumstances associated with the contract terms.

In contracts that 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 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 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.

In contracts that require revenue recognition over time, the Company utilizes input or output methods, depending on the specifics of the contract, that compare the cumulative work-in-process to date to the most current estimates for the entire performance obligation. Under these contracts, the customer typically owns the product details and process, which have no alternative use. These projects are customized to each customer to meet its specifications and typically only one performance obligation is included. Each project represents a distinct service that is sold separately and has stand-alone value to the customer. The customer also retains control of its product as the product is being created or enhanced by the Company's services and can make changes to its process or specifications upon request.

(g) 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 among four customers. 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 90% or more of its revenues for the periods presented. A portion of the Company's revenues are dependent on U.S. based customers selling to end-users outside the United States.

(h) Stock-based Compensation Expense

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,"as the Company has limited historical information to develop reasonable expectations about future stock option exercise patterns, 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.

Upon exercise of stock options or vesting of restricted stock units, the holder may elect to cover tax withholdings by forfeiting shares of an equivalent value. In such cases, the Company issues net new shares to the holder, pays the tax withholding on behalf of the participant and presents the payment similar to a capital distribution as both a reduction to additional paid-in-capital and a financing cash outflow in the consolidated financial statements.

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.

(i) 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 September 30, 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.

(j) Income or Loss Per Share

Basic income or loss per common share is determined by dividing net income or loss (the numerator) by the weighted average common shares outstanding during the period (the denominator).

To calculate diluted income or loss per common share, the numerator and denominator are adjusted to eliminate the income or loss and the dilutive effects on shares, respectively, caused by outstanding common stock options, warrants and unvested restricted stock units, using the treasury stock method, if the inclusion of such instruments would be dilutive.

For the periods presented, only the denominators of the 2019 basic per share results were adjusted for the dilutive effects described above. The following table presents those effects:

	Three months ended September 30, 2019	Nine months ended September 30, 2019
Weighted average shares outstanding, basic	22,505,723	22,231,990
Dilutive impact of:		
Restricted stock units	372,338	326,330
Stock options	642,255	453,470
Warrants	129,797	90,368
Weighted average shares outstanding, diluted	23,650,113	23,102,158

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Restricted stock units	895,573	1,875	640,300	3,425
Stock options	3,577,118	1,897,356	2,472,898	2,955,520
Warrants	348,664	350,000	348,664	350,000

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

(k) Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

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 one 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, retained significant net operating loss carryforwards and was released from significant milestone and royalty payment obligations.

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 table presents the expenses of the Acute Care business that are included within loss on discontinued operations:

	Three months ended September 30, 2019	Nine months ended September 30, 2019
Operating expenses:		
Research and development	$ 1,845	$ 18,579
Selling, general and administrative	2,889	15,027
Change in contingent consideration valuation	3,909	(15,242)
Total operating expenses	8,643	18,364
Other expense, net	(37)	(86)
Loss on discontinued operations	$ (8,680)	$ (18,450)

(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 certain 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.

Items measured at fair value on a recurring basis

Cash equivalents of $15,248 and $11,609 at September 30, 2020 and December 31, 2019, respectively, consisted entirely of money market mutual funds whose fair value were determined using Level 1 measurements.

Fair value disclosures

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 September 30, 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 its debt, a level 2 measurement, approximated fair value at September 30, 2020 as (i) the terms of borrowings under the Credit Agreement are equivalent to the terms of other borrowings currently available to the Company; and (ii) the fair value of the PPP Note, which carries a fixed interest rate below market, is not materially different from its carrying value.

(5) 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. Items are issued out of inventory using the first-in, first-out method.

Inventory was as follows:

	September 30, 2020	December 31, 2019
Raw materials	$ 3,372	$ 3,240
Work in process	5,790	6,430
Finished goods	2,906	5,892
Inventory, prior to provision	12,068	15,562
Provision for inventory obsolescence	(488)	(490)
Inventory	$ 11,580	$ 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.

(6) Property, Plant and Equipment

Property, plant and equipment consists of the following:

	September 30, 2020	December 31, 2019
Land	$ 3,263	$ 3,263
Building and improvements	20,900	20,900
Furniture, office and computer equipment	5,869	5,847
Manufacturing equipment	38,635	35,699
Construction in progress	3,620	729
Property, plant and equipment, gross	72,287	66,438
Less: accumulated depreciation	(28,807)	(24,226)
Property, plant and equipment, net	$ 43,480	$ 42,212

Depreciation expense for the three months ended September 30, 2020 and 2019 was $1,573 and $1,506, respectively. Depreciation expense for the nine months ended September 30, 2020 and 2019 was $4,581 and $4,290, respectively.

(7) Intangible Assets

The following table presents the components of our royalties and contract manufacturing relationships asset, which was the only class of intangible asset for the periods presented:

	September 30, 2020	December 31, 2019
Cost	$ 15,500	$ 15,500
Accumulated amortization	(14,155)	(12,217)
Net intangible assets	$ 1,345	$ 3,283

Amortization expense was $646 for the three months ended September 30, 2020 and 2019 and $1,938 for the nine months ended September 30, 2020 and 2019.

At September 30, 2020, future amortization expense was as follows:

	Amortization
Remainder of 2020	$ 645
2021	700
Total	$ 1,345

(8) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	September 30, 2020	December 31, 2019
Payroll and related costs	$ 1,409	$ 2,958
Contract liabilities (see note 13)	1,342	337
Property, plant and equipment	618	88
Professional and consulting fees	594	370
Other	839	571
Total	$ 4,802	$ 4,324

(9) Debt

The carrying value of debt consists of the following as of September 30, 2020:

	Term loans under Credit Agreement	PPP Note	Total
Principal balance outstanding	$ 125,000	$ 3,316	$ 128,316
Unamortized deferred issuance costs	(11,098)	—	(11,098)
Exit fee accretion	639	—	639
Total debt	114,541	3,316	117,857
Current portion of debt	(9,090)	(368)	(9,458)
Debt, net	$ 105,451	$ 2,948	$ 108,399

The following table presents the maturity of debt principal (including exit fee):

	Term loans under Credit Agreement	PPP Note	Total
2021	$ 12,120	$ 1,474	$ 13,594
2022	12,120	1,842	13,962
2023	102,010	—	102,010
Total debt	$ 126,250	$ 3,316	$ 129,566

Term Loans under Credit Agreement

The Company is currently party to a $125,000 credit agreement (the "Credit Agreement") with Athyrium Opportunities III Acquisition LP ("Athyrium"), which has been fully drawn. The Credit Agreement requires the Company to repay the outstanding principal amount in quarterly installments of $3,030 (including the exit fee discussed below) beginning on March 31, 2021 with the outstanding principal balance plus the exit fee due on March 31, 2023. See note 16 for subsequent event disclosure.

The term loans under the Credit Agreement bear interest at a rate equal to the three-month LIBOR rate, with a 1% floor plus 9.75% per annum. The Company will have to pay a 1% exit fee on all repayments, which is, in the aggregate, $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 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, including maintaining a permitted leverage ratio (which is the Company's indebtedness under the Credit Agreement divided by EBITDA, each as defined in the Credit Agreement) of 5.00:1.00. As of September 30, 2020, the Company was in compliance with the leverage ratio covenant under the Credit Agreement, as amended (see note 16).

In connection with the Credit Agreement, the Company issued warrants to each of Athyrium and its affiliate, Athyrium Opportunities II Acquisition LP ("Athyrium II"), to purchase an aggregate of 348,664 shares of the Company's common stock with an exercise price of $6.84 per share at September 30, 2020. See note 11(d) for additional information. The warrants are exercisable through November 17, 2024. The initial fair value of the warrant and revaluation adjustment in 2018 from the repricing of the warrants of $2,232 was recorded as a debt issuance cost.

In addition, the Company has recorded deferred issuance costs totaling $19,275, which along with the fair value of warrants, are being amortized using the effective interest method over the term of the Credit Agreement. Debt issuance cost amortization is included in interest expense within the Consolidated Statements of Operations. As of September 30, 2020, the effective interest rate was 14.83%, which takes into consideration the non-cash accretion of the exit fee and the amortization of the deferred issuance costs.

The Company recorded debt issuance cost amortization related to the Credit Agreement of $1,235 and $1,384 for the three months ended September 30, 2020 and 2019, respectively, and $4,002 and $3,746 for the nine months ended September 30, 2020 and 2019, respectively.

Paycheck Protection Program ("PPP") Note

On May 12, 2020, the Company entered into a $4,416 promissory note with PNC Bank under the Small Business Administration ("SBA") Paycheck Protection Program of the Coronavirus Aid, Relief and Economic Security Act of 2020 (the "CARES Act," collectively the "PPP Note"). The PPP Note was subsequently amended by PNC Bank on August 20, 2020 because of changes to the laws governing the Paycheck Protection Program.

The note has a two-year term, matures on May 12, 2022 and bears interest at a stated rate of 1.0% per annum. However, principal and interest due under the note may be forgiven in part or in whole if the Company meets certain requirements described below. To the extent not forgiven, monthly principal and interest payments would commence on the earlier of September 15, 2021 or the date on which a forgiveness decision is received from PNC Bank. The note requires no collateral or guarantees, nor did the Company pay any fees to acquire the note. The note provides for customary events of default, including, among others, failure to make payment, bankruptcy, breaches of representations and material adverse effects. The Company may prepay principal at any time without incurring any prepayment charges. On May 18, 2020, which fell within a safe-harbor period established by the SBA, the Company prepaid $1,100 of the note in order to comply with the SBA's limitations on the amount that could be borrowed at that time. Certifications made with respect to loan amounts repaid during this safe harbor period are deemed to have been made in good faith.

The PPP Note may be partially or fully forgiven if the Company complies with the provisions of the CARES Act, including the use of note proceeds for payroll costs, rent, utilities and other expenses, and at least 60% of the note proceeds must be used for payroll costs as defined by the CARES Act. Any forgiveness of the note will be subject to approval by both the SBA and PNC Bank of an application for forgiveness, which the Company submitted on October 6, 2020. SBA and PNC Bank must provide the Company the forgiveness decision no later than March 5, 2021. Should the Company meet the requirements for forgiveness, it would extinguish the note upon receiving legal release from PNC Bank and record a gain on extinguishment in that period.

(10) Commitments and Contingencies

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 (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 New Drug Application ("NDA") for IV meloxicam. The complaint seeks unspecified damages, interest, attorneys' fees and other costs. On December 10, 2018, the 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 Company filed a motion to dismiss the second amended complaint on June 18, 2020. Theplaintiff filed an opposition to the Company's motion to dismiss on August 17, 2020. On September 16, 2020, the Company filed a reply in support of its motion to dismiss. 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 it for all liabilities related to the Securities Litigation. The Company and Baudax Bio believe that the lawsuit is without merit and intend to vigorously defend against it.

Purchase Commitments

As of September 30, 2020, the Company had outstanding non-cancelable purchase commitments in the aggregate amount of $5,801 related to inventory, capital expenditures, the transition services agreement (see note 14) and other goods and services.

(11) 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 ("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 (the "Sales Agreement") with Cowen and Company, LLC ("Cowen") pursuant to which the Company could 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. The Company sold no shares of common stock under the Sales Agreement, which terminated on August 11, 2020.

(b) Aspire Common Stock Purchase Agreements

On March 2, 2018, the Company entered into a Common Stock Purchase Agreement (the "2018 Purchase Agreement") with Aspire Capital Fund LLC ("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. 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. The 2019 Purchase Agreement, as defined below, replaces the 2018 Purchase Agreement.

On February 19, 2019, the Company entered into a common stock purchase agreement (the "2019 Purchase Agreement") with 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. On August 7, 2020, the Company entered into a First Amendment to the 2019 Purchase Agreement with Aspire Capital (the "Amended Purchase Agreement") which amended the 2019 Purchase Agreement to, among other things, increase the aggregate amount of shares of common stock Aspire is committed to purchase to $30,000 and extend the term of the 2019 Purchase Agreement to March 20, 2022. As of September 30, 2020, the Company did not have any sales of common stock under the Amended 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 September 30, 2020, no preferred stock was issued or outstanding.

(d) Warrants

At September 30, 2020, 348,664 warrants were outstanding to purchase shares of the Company's common stock. The warrants are held by Athyrium, equity-classified, exercisable at $6.84 per share and expire in November 2024. In connection with an amendment to the Credit Agreement in November 2020 (see note 16), the exercise price of the warrants was reduced to $1.73.

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 plc, which was liability classified as it contained a contingent net cash settlement feature, was exercised on a cashless basis, with Alkermes plc 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.

(12) Stock-Based Compensation

In October 2013, the Company established the 2013 Equity Incentive Plan (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 (the "2015 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 (the "A&R Plan"), which amended and restated the 2015 A&R Plan to increase the aggregate amount of shares available for issuance to 8,119,709. At September 30, 2020, the total number of shares authorized under the A&R Plan was 9,281,402, of which 3,446,933 shares were available for future grants. 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.

Stock options

Stock options are exercisable generally for a period of 10 years from the date of grant and generally vest over four years.

The following table presents information about the fair value of stock options granted:

	Nine months ended September 30,	
	2020	2019
Weighted average grant date fair value	$ 8.24	$ 8.14
Assumptions used to determine fair value:		
Range of expected option life	5.5 - 6 years	5.5 - 6 years
Expected volatility	75 - 81%	79 - 82%
Risk-free interest rate	0.3 - 1.4%	1.6 - 2.7%
Expected dividend yield	—	—

The intrinsic value of options exercised during the nine months ended September 30, 2020 and 2019 was $1,058 and $1,710, respectively.

The following table presents information about stock option balances and activity:

	Number of shares	Weighted average exercise price	Aggregate intrinsic value	Weighted average remaining contractual life
Balance, December 31, 2019	3,695,649	$ 7.97		
Granted	347,750	12.34		
Exercised	(178,747)	4.52		
Forfeited or expired	(166,530)	8.52		
Balance, September 30, 2020	3,698,122	8.52	$ —	6.6 years
Exercisable	2,545,003	8.14	—	5.8 years

Included in the table above are 438,000 options outstanding as of September 30, 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).

Restricted stock units

Restricted stock units ("RSUs") generally vest over four years. The fair value of RSUs on the date of grant is measured as the closing price of our common stock on that date. The weighted average grant-date fair value of RSUs awarded to employees during the nine months ended September 30, 2020 and 2019 was $15.11 and $8.12, respectively. The fair value of RSUs vested during the nine months ended September 30, 2020 and 2019 was $3,246 and $4,142, respectively.

The following table summarizes RSU activity during the nine months ended September 30, 2020:

	Number of shares	Weighted average grant date fair value
Balance, December 31, 2019	1,197,502	$ 10.92
Granted	274,775	15.11
Vested	(249,057)	9.18
Forfeited	(318,466)	8.96
Balance, September 30, 2020	904,754	13.36

Included in the table above are 9,625 time-based RSUs outstanding as of September 30, 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).

Other information

Stock-based compensation expense from continuing operations for the nine months ended September 30, 2020 and 2019 was $8,086 and $4,635, respectively. Of these amounts, $2,293 and $933, respectively, were classified as cost of sales and $5,793 and $3,702, respectively, were classified as selling, general and administrative expenses.

For the nine months ended September 30, 2020, stock-based compensation expense includes awards issued to 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 nine months ended September 30, 2019, additional stock-based compensation expense of $2,291 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. 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 continue to vest based on their employment service at Baudax but no longer provide services to the Company is not reflected in the Company's financial statements.

As of September 30, 2020, there was $8,312 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 2.2 years. As of September 30, 2020, there was $2,632 of unrecognized compensation expense related to unvested performance-based RSUs. The performance-based RSUs will be expensed if the performance criteria are achieved or become probable of being achieved.

(13) 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. 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.

The following table presents changes in contract assets and liabilities:

	Contract assets	Contract liabilities
Balance at beginning of period	$ 8,851	$ 337
Changes to the beginning balance of contract assets arising from:		
Reclassification to receivables as a result of rights to consideration becoming unconditional	(13,193)	—
Changes in estimate	4,540	—
Contract assets recognized since beginning of period, net of reclassification to receivables and changes in estimates	9,530	—
Changes to contract liabilities:		
Cash received in advance of contract performance	—	3,606
Revenue recognized	—	(2,601)
Balance at end of period	$ 9,728	$ 1,342

The following table disaggregates revenue by timing of revenue recognition:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Point in time	$ 17,827	$ 24,200	$ 53,247	$ 79,581
Over time	1,460	1,055	3,339	1,995
Total	$ 19,287	$ 25,255	$ 56,586	$ 81,576

The Company's payment terms for manufacturing revenue and development services are typically 30 to 45 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.

(14) Leases

The Company determines if an arrangement is a lease at inception. The arrangement is a lease if it conveys the right to the Company to control the use of identified property, plant, or equipment for a period of time in exchange for consideration. Options to extend the lease are included in the lease term if the options are reasonably certain to be exercised. Operating lease expense is recognized on a straight-line basis over the lease term. Operating lease assets, current liabilities and noncurrent liabilities are classified as other assets, other current liabilities and other liabilities, respectively, on the balance sheet.

The Company is a party to a seven-year operating lease for a development facility in Georgia that ends in2025 and immaterial operating leases for a storage area and office equipment. The development facility lease includes options to extend the lease for up to 15 additional years, none of which are included in the lease term.Short-term and variable lease costs were not material for the periods presented. The development facility lease does not provide an implicit rate, so the Company uses its incremental borrowing rate to discount the lease liability.

Undiscounted future lease payments for the development lease, which was the only material noncancelable lease at September 30, 2020, were as follows:

	September 30, 2020
Remainder of 2020	$ 39
2021	156
2022	156
2023	156
2024	156
2025 and thereafter	91
Total lease payments	754
Less imputed interest	(224)
Total operating lease liabilities	$ 530

At September 30, 2020, the weighted average remaining lease term was4.7 years, and the weighted average discount rate was16%.

Operating lease cost for the three months ended September 30, 2020 and 2019 was $76 and $80, respectively. Operating lease cost for the nine months ended September 30, 2020 and 2019 was $234 and $240, respectively.

(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. Our continuing involvement with Baudax Bio as a result of the transition services agreement is expected to end by late 2020, unless extended. During the three and nine months ended September 30, 2020, the Company recorded expense of $516 and $1,548, respectively, related to its transition services 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 receivable of $39 and a net payable of $273 for such activities and other activity with Baudax Bio as of September 30, 2020 and December 31, 2019, respectively.

(16) Subsequent Events

In November 2020, the Company amended the Credit Agreement (see note 9). Pursuant to the amendment: (i) required quarterly repayments of $3,030 were deferred by one year, with such repayments beginning on March 31, 2022; (ii) effective September 30, 2020, the calculation of the leverage ratio was amended to exclude qualifying cash balances from indebtedness and to include certain additional adjustments to earnings; (iii) effective September 30, 2020, the permitted leverage ratio was increased to 5.60:1.00 through and including the fourth quarter of 2021, after which time the leverage ratio returns to 5.00:1.00; (iv) the permitted minimum liquidity amount was decreased to $10,000 through March 31, 2021, after which the minimum liquidity amount returns to $12,000 until maturity; and (v) the exercise price of the Athyrium warrants was reduced from $6.84 to $1.73. In connection with the amendment, the Company paid an amendment fee of $260 and prepaid $9,090 of principal and exit fee without penalty.

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 or expand our relationships, profitability and contracts with our key commercial partners, including the impact of changes in consumer demand for the products we manufacture for 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;
- the extent to which the ongoing COVID-19 pandemic continues to disrupt our business operations and financial condition and the business operations and financial condition of our customers;
- 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 industry market forces that may impact our commercial customers' success and continued demand for the products we produce;
- our ability to recruit or retain key scientific, technical, business development, and management personnel and our executive officers; and
- 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 applicable to our business.

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, 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, Part II, Item 1A of our Quarterly Report on Form 10-Q for the three months ended March 31, 2020 filed with the SEC on May 11, 2020, or the Q1 Quarterly Report, and Part II, Item 1A of our Quarterly Report on Form 10-Q for the three months ended June 30, 2020 filed with the SEC on August 10, 2020, or the Q2 Quarterly 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 formulation, analytical services, regulatory support, manufacturing and packaging of both commercial and development stage 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, which developed products for hospital and other acute care settings, on November 21, 2019.

We leverage our formulation expertise to develop and manufacture pharmaceutical products using our proprietary delivery technologies and other manufacturing services for commercial and development-stage partners who commercialize or plan to commercialize these products. These collaborations can result in revenue streams including manufacturing, royalties, profit sharing, and development. 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. 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 provide CDMO services for 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, retained significant net operating loss carryforwards, and were released from significant milestone and royalty payment obligations. 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.

In the second quarter of 2020, we launched a new clinical trials materials , or CTM, and logistics business. Our capabilities include on-demand services for innovative trial design and direct-to-patient supply logistics such as (i) clinical trial drug manufacturing, double-blind packaging and distribution services and (ii) specialized services related to the development and GMP manufacturing of high potency products. We also can provide non-clinical formulations, Active Pharmaceutical Ingredient (API) characterization, over-encapsulation and other commercial manufacturing and packaging services. We also made additional capital improvements to support a new tech transfer project for a commercial product and believe the equipment will be useful for other future commercial projects.

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.

COVID-19

We continue to closely monitor developments related to the COVID-19 pandemic, which continues to have adverse effects on the U.S. and world economies, including the commercial activities of our customers and their peers. While we are committed to continue providing essential pharmaceutical products to our customers, we are also taking all necessary measures to protect the health and safety of our employees. These developments include:

Operations. We have instituted protocols to have appropriate personnel work remotely and have implemented strict social distancing and other protective measures for those employees continuing to support essential operations at our work locations in order to ensure the health of our employees while continuing to provide critical products. Our sales, manufacturing and development efforts have continued since the outbreak of the pandemic. Our cost of sales has increased as a percentage of revenues in part due to lower commercial manufacturing volumes, and the related impact on fixed costs expensed through cost of sales, despite making reductions in the work force and implementing cost saving measures. There are also some incremental expenses associated with safe practices for our organization due to COVID-19

Business Development. We successfully launched our new CTM offering in the second quarter. We have seen greater interest in this service from multiple current and prospective clients, and early work has resulted in expanded proposal scope. In other sectors, we have experienced lower than expected new development business growth, which we believe is primarily attributable to COVID-19. Concerns surrounding COVID-19 have resulted in our adoption of new methods for meeting and contacting customers, have slowed customer access, and have caused delays in plans for development services by some customers and prospects for a variety of reasons, such as concerns about the timing of clinical trials.

Manufacturing Demand. We believe that there has been lower end-user demand for some of the commercial products we manufacture for our customers due to the effects of COVID-19. Third party national data demonstrates that there has been a meaningful impact of COVID-19 on the reduction of total prescriptions filled by patients across most therapeutic areas, including chronic cardiovascular and pediatric medications.

Our sales and manufacturing operations have been disrupted as a result of the pandemic because of production slowdowns, stoppages, or decreased demand for the products we manufacture, and we expect such disruptions to continue through the remainder of the year. Given the uncertain scope and duration of the pandemic, the extent to which the pandemic will continue to impact our financial results remains uncertain in terms of manufacturing volumes and certain profit sharing results, even when our partners have not experienced loss of market share, in part due to reduced total prescription (TRx) rates for many chronic therapeutics. However, we will continue to monitor the situation closely, we have taken steps to reduce costs and drive more new business, and we are actively evaluating various ways to further conserve operational resources.

Financial Overview

Recent Developments

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

- Third party data has shown a decrease in prescriptions filled during COVID-19 for the first nine months of 2020 for a number of the commercial products we manufacture for our customers. We continue to see the COVID-19 pandemic resulting in lower end-user demand for our manufacturing services and inventory rebalancing by our commercial partners with respect to these products, especially since the duration of the COVID-19 pandemic and its impacts are not predictable at this time.

- With regard to the previously reported return to the market of a competitor to one of our key customers for certain product strengths that had previously been out of the market, this product has recovered to an observed percentage of approximately 50% market share. While total unit volumes have declined during COVID-19, relative market share has remained steady for both parties. This has negatively impacted both anticipated manufacturing volumes and profit sharing for this key customer.

- We received notification reported in the first quarter of 2020 from two of our key customers of discontinuations for two commercial product lines. As we announced in May in connection with our first quarter earnings results, we anticipate that these discontinuances will decrease revenues by approximately $4 million for 2020 and approximately $7 to $8 million for 2021.

- We have experienced slower than expected new project starts, which we believe is primarily attributable to the COVID-19 pandemic. Concerns surrounding COVID-19 have resulted in delays in plans for development services by some customers and prospects for a variety of reasons, such as concerns about timing of clinical trials, etc.

As a result of these recent events, we implemented operating improvement initiatives including two separate reduction in force actions during the first half of 2020 as well as other initiatives. We estimate that these initiatives will provide an annual savings of approximately $3.4 million in fiscal year 2021. Additional cost saving measures continue to be assessed.

Revenues

During the periods presented, we recognized revenues from three revenue streams: manufacturing revenue, royalty revenue 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 includes services associated with formulation, process development, CTM services, as well as custom development of manufacturing processes and analytical methods for a customer's non-clinical, clinical and commercial products. Such revenues are recognized at a point in time or over time depending on the nature and particular facts and circumstances associated with the contract terms.

In contracts 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. 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 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.

In contracts that require revenue recognition over time, we utilize input or output methods, depending on the specifics of the contract, that compare the cumulative work-in-process to date to the most current estimates for the entire performance obligation. Under these contracts, the customer typically owns the product details and process, which have no alternative use. These projects are customized to each customer to meet its specifications and typically only one performance obligation is included. Each project represents a distinct service that is sold separately and has stand-alone value to the customer. The customer also retains control of its product as the product is being created or enhanced by our services and can make changes to its process or specifications upon request.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of salaries and related costs for corporate administrative, public company costs, and business development personnel as well as legal, patent-related 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 business development team in various geographies in support of our new offerings, in anticipation of business growth from new formulation, development and CTM 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. There are 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

Interest expense for the periods presented primarily includes interest expense incurred on our Athyrium senior secured term loans, the amortization of related financing costs and interest expense on a promissory note with PNC Bank under the Small Business Administration, or "SBA, Paycheck Protection Program of the Coronavirus Aid, Relief and Economic Security Act of 2020, or the CARES Act, and collectively the PPP note.

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 September 30, 2020 and 2019

(in millions)	Three months ended September 30, 2020	2019
Revenue	$ 19.3	$ 25.3
Operating expenses:		
Cost of sales (excluding amortization of intangible assets)	11.7	11.0
Selling, general and administrative	4.5	4.1
Amortization of intangible assets	0.6	0.6
Change in warrant valuation	—	0.2
Total operating expenses	16.8	15.9
Operating income from continuing operations	2.5	9.4
Interest expense	(4.6)	(5.0)
(Loss) income from continuing operations	(2.1)	4.4
Loss on discontinued operations	—	(8.7)
Net loss	$ (2.1)	$ (4.3)

Revenue. The decrease of $6.0 million was primarily the result of customer ordering patterns in the prior year and the loss of Verapamil SR market share by a commercial partner in the first quarter of 2020 due to the re-entry of a competitor (Mylan). Our commercial partner has sustained its market position for Verapamil SR capsules since the end of the first quarter of 2020. The COVID-19 pandemic has resulted in decreased end-user demand, inventory rebalancing by our commercial partners and slower than expected new business starts. Higher revenues from our new business growth activities has partially offset the decrease, including a significant new commercial product tech transfer project.

Cost of sales. The increase of $0.7 million was not proportionate to the decrease in revenue primarily due to lower commercial manufacturing volumes and the related impact on fixed costs expensed through cost of sales, despite making reductions in the work force and implementing cost saving measures.

Selling, general and administrative. The increase of $0.4 million was primarily related to our new business efforts and the launch of the CTM business

Amortization of intangible assets. Amortization expense was $0.6 million for both periods which was related to the amortization of the CDMO royalties and contract manufacturing relationships intangible asset over its estimated useful life.

Change in warrant valuation. Previously, certain warrants were outstanding whose fair value was remeasured each period with changes in fair value recognized in earnings. The last of those warrants were exercised in November 2019.

Interest expense. The decrease of $0.4 million was primarily due to a decrease in the LIBOR base rate of interest on our term loans under the Credit Agreement with Athyrium.

Discontinued operations. In November 2019, our former Acute Care business was spun-out from us through our former wholly-owned subsidiary, Baudax Bio. As a result, that business's results are included in the 2019 period but not the 2020 period.

Comparison of the nine months ended September 30, 2020 and 2019

(in millions)	Nine months ended September 30, 2020	2019
Revenue	$ 56.6	$ 81.6
Operating expenses:		
Cost of sales (excluding amortization of intangible assets)	41.6	39.5
Selling, general and administrative	14.2	16.1
Amortization of intangible assets	1.9	1.9
Change in warrant valuation	—	0.9
Total operating expenses	57.7	58.4
Operating (loss) income from continuing operations	(1.1)	23.2
Interest expense	(14.7)	(13.9)
(Loss) income from continuing operations	(15.8)	9.3
Loss on discontinued operations	—	(18.4)
Net loss	$ (15.8)	$ (9.1)

Revenue. The decrease of $25.0 million was primarily the result of customer ordering patterns in the prior year and the loss of Verapamil SR market share by a commercial partner in the first quarter of 2020 due to the re-entry of a competitor. Our commercial partner has sustained its market position for Verapamil SR capsules since the end of the first quarter of 2020. The COVID-19 pandemic has resulted in decreased end-user demand, inventory rebalancing by our commercial partners and slower than expected new business starts. Higher revenues from our new business growth activities has partially offset the decrease, including a significant new commercial product tech transfer project.

Cost of sales. The increase of $2.1 million was not proportionate to the decrease in revenue primarily due to lower commercial manufacturing volumes and the related impact on fixed costs expensed through cost of sales, despite making reductions in the work force and implementing cost saving measures, as well as increased cost of development sales on higher revenues. Cost savings generated from these activities are expected to continue into 2021.

Selling, general and administrative. The decrease of $1.9 million was primarily related to lower public company costs, which were partially offset by our new business efforts and the launch of the CTM business.

Amortization of intangible assets. Amortization expense was $1.9 million for both periods, which was related to the amortization of the CDMO royalties and contract manufacturing relationships intangible asset over its estimated useful life.

Change in warrant valuation. Previously, certain warrants were outstanding whose fair value was remeasured each period with changes in fair value recognized in earnings. The last of those warrants were exercised in November 2019.

Interest expense. The increase of $0.8 million was primarily due to additional term loan borrowings under the Credit Agreement with Athyrium in the first quarter of 2019.

Discontinued operations. In November 2019, our former Acute Care business was spun-out from us through our former wholly-owned subsidiary, Baudax Bio. As a result, that business's results are included in the 2019 period but not the 2020 period.

Liquidity and Capital Resources

At September 30, 2020, we had $21.5 million in cash and cash equivalents.

Since our inception through September 30, 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 nine months ended September 30, 2020, our capital expenditures were $5.2 million and primarily related to equipment and facility modifications to support a new customer.

We are currently party to a $125,000 credit agreement with Athyrium Opportunities III Acquisition LP, or the Credit Agreement, which has been fully drawn. The Credit Agreement requires us to repay the outstanding principal amount in quarterly installments of $3.0 million (including exit fee) beginning on March 31, 2021 with the remaining outstanding principal balance due on March 31, 2023. Additional details about the Credit Agreement are provided in note 9 to the consolidated financial statements included in Part I, Item 1 in this Form 10-Q.

In November 2020, we entered into an amendment to the Credit Agreement, or the Fourth Amendment. Pursuant to the Fourth Amendment: (i) required quarterly repayments of $3.0 million were deferred by one year, with such repayments beginning on March 31, 2022; (ii) effective September 30, 2020, the calculation of the leverage ratio was amended to exclude qualifying cash balances and to include certain additional adjustments to earnings; (iii) effective September 30, 2020, the permitted leverage ratio was increased to 5.60:1.00 through and including the fourth quarter of 2021, after which time the leverage ratio returns to 5.00:1.00; (iv) the permitted minimum liquidity amount was decreased to $10.0 through March 31, 2021, after which the minimum liquidity amount returns to $12.0 until maturity; and (v) the exercise price of the Athyrium warrants was reduced from $6.84 to $1.73. In connection with the Fourth Amendment, we paid an amendment fee of $0.3 million and prepaid $9.1 million of principal and exit fee without penalty.

We are also party to a $3.3 million PPP Note which has a two-year term and matures on May 12, 2022. On October 6, 2020, we applied for forgiveness of the PPP Note. We expect that the full $3.3 million balance of the PPP Note will be forgiven, which would result in a $3.3 million gain on extinguishment of debt being recognized in earnings as early as the fourth quarter of 2020. However, no assurance can be given that the balance of the PPP Note will be forgiven, in part or in whole. Additional details about the PPP Note are provided in note 9 to the consolidated financial statements included in Part I, Item 1 in this Form 10-Q.

On February 19, 2019, we entered into a common stock purchase agreement, or the 2019 Purchase Agreement, with 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 our sole election, up to an aggregate of $20 million of our shares of common stock over the approximately 30-month term of the 2019 Purchase Agreement. In August 2020, we entered into a First Amendment to the 2019 Purchase Agreement with Aspire Capital, or the Amended Purchase Agreement, which amended the 2019 Purchase Agreement to, among other things, increase the aggregate amount of shares of common stock Aspire is committed to purchase to $30 million and extend the term of the 2019 Purchase Agreement to March 20, 2022. As of September 30, 2020, we did not have any sales of common stock under the Amended Purchase Agreement. Additional details about the Amended Purchase Agreement are provided in note 11 to the consolidated financial statements included in Part I, Item 1 in this Form 10-Q.

We may require additional financing and if we do, we may raise such additional funds through debt refinancing, bank or other loans, through strategic 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.

Sources and Uses of Cash

(amounts in millions)	Nine months ended September 30, 2020	2019
Net cash provided by (used in) continuing operations:		
Operating activities	$ 6.4	$ 14.2
Investing activities	(5.5)	(7.9)
Financing activities	2.6	42.2
Net cash provided by continuing operations	$ 3.5	$ 48.5
Net cash used in discontinued operations	$ (1.2)	$ (49.1)

Continuing operations

Cash flows from operating activities represents our income or loss from continuing operations as adjusted for 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.

Net cash used in investing activities for the current period related to capital expenditures to scale and support our expansion of capabilities and for the prior period reflected cash used for net purchases of short-term investments and for the purchases of property and equipment.

Net cash provided by financing activities for the current period included $4.4 of proceeds from a PPP Note offset by a $1.1 million repayment, which was within the safe harbor time period for repayment established by the Small Business Administration. Certifications made with respect to loan amounts repaid during this safe harbor period are deemed to have been made in good faith. Additionally, in the current period we used net cash of $0.7 million to settle stock-based awards. Net cash provided by financing activities for the prior period included proceeds from debt of $43.6 million partially offset by deferred financing costs of $2.9 million

Discontinued operations

Net cash used in discontinued operations for the current period was used to settle outstanding liabilities related to our Acute Care business and for the prior period was used primarily to fund the research activities of our Acute Care business.

Forward-looking factors

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 or expand 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 regain 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;
- 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 extent to which health epidemics and other outbreaks of communicable diseases, including the ongoing COVID-19 pandemic, could disrupt our operations or materially and adversely affect our business and financial conditions.

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 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 September 30, 2020:

	Payments due by period				
(in millions)	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Debt obligations (1):					
Principal	$ 129.6	$ 9.5	$ 120.1	$ —	$ —
Interest	30.8	13.3	17.5	—	—
Purchase obligations (2):	5.8	5.8	—	—	—
Operating leases (3)	0.8	0.2	0.3	0.3	—
Total	$ 167.0	$ 28.8	$ 137.9	$ 0.3	$ —

(1) Debt obligations consist of principal, an exit fee of 1% of that principal, and interest on $125.0 million of outstanding term loans under our credit facility with Athyrium in addition to principal and interest on $3.3 of outstanding borrowings under the PPP Note. Because the Athyrium term loans bear interest at a variable rate based on LIBOR, we estimated future interest commitments utilizing the LIBOR rate as of September 30, 2020. In accordance with U.S. GAAP, the future interest obligations are not recorded on our Consolidated Balance Sheet. See note 9 to the consolidated financial statements included in Part I, Item 1 in this Form 10-Q.

(2) Purchase obligations consist of cancelable and non-cancelable purchase commitments related to inventory, capital expenditures, the 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 10 to the Consolidated Financial Statements included in Part I, Item 1 in this Form 10-Q.

(3) We are party to certain operating leases, including a seven-year operating lease for a development facility in Georgia that ends in 2025. See note 14 to the consolidated financial statements included in Part I, Item 1 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. There have been no significant changes to those critical accounting policies and estimates.

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 September 30, 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 September 30, 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 the us concerning the NDA for IV meloxicam. The complaint seeks unspecified damages, interest, attorneys' fees and other costs. On December 10, 2018, the 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. We filed a motion to dismiss the second amended complaint on June 18, 2020. The plaintiff filed an opposition to our motion to dismiss on August 17, 2020. On September 16, 2020, we filed a reply in support of its motion to dismiss. 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. Baudax Bio and we believe that the lawsuit is without merit and intend to vigorously defend against it.

Item 1A. Risk Factors.

You should carefully consider the risk factors described in our 2019 Annual Report, our Q1 Quarterly Report and our Q2 Quarterly 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, our Q1 Quarterly Report and our Q2 Quarterly Report.

We have incurred significant indebtedness, which could adversely affect our business.

As of September 30, 2020, we had an outstanding balance under our credit agreement with Athyrium, which was amended on November 5, 2020, of $125 million. Our indebtedness could have important consequences to our shareholders. For example, it:

- increases our vulnerability to adverse general economic or industry conditions;
- limits our flexibility in planning for, or reacting to, changes in our business or the industries in which we operate;
- reduces proceeds we may receive as a result of any sale;
- makes us more vulnerable to increases in interest rates, as borrowings under our credit agreement with Athyrium are at variable rates;
- limits our ability to obtain additional financing or refinancing in the future for working capital or other purposes; and
- places us at a competitive disadvantage compared to our competitors that have less indebtedness.

Any of the above-listed factors could materially adversely affect our business, financial condition, results of operations and cash flows. Our credit agreement with Athyrium also contains certain financial and other covenants, including a minimum liquidity requirement and maximum leverage ratios and includes limitations on, among other things, additional indebtedness, paying dividends in certain circumstances, acquisitions and certain investments. The credit agreement provides for certain mandatory prepayment events, including with respect to the proceeds of asset sales, extraordinary receipts, debt issuances and other specified events, based on the terms of the credit agreement with Athyrium.

In November 2020, we entered into the Fourth Amendment (as defined in Part II, Item 5 of this Quarterly Report). Pursuant to the Fourth Amendment: (i) required quarterly repayments of $3.0 million were deferred by one year, with such repayments beginning on March 31, 2022; (ii) effective September 30, 2020, the calculation of the leverage ratio was amended to exclude qualifying cash balances and to include certain additional adjustments to earnings; (iii) effective September 30, 2020, the permitted leverage ratio was increased to 5.60:1.00 through and including the fourth quarter of 2021, after which time the leverage ratio returns to 5.00:1.00; (iv) the permitted minimum liquidity amount was decreased to $10.0 million through March 31, 2021, after which the minimum liquidity amount returns to $12.0 million until maturity; and (v) the exercise price of the Athyrium warrants was reduced from $6.84 to $1.73. In connection with the Fourth Amendment, we paid an amendment fee of $0.3 million and prepaid $9.1 million of principal and exit fee without penalty.

If we and Athyrium had not amended the credit agreement, we would not have been in compliance with the permitted leverage ratio covenant under the credit agreement as measured for September 30, 2020. Any failure to comply with the terms, covenants and conditions of the Fourth Amendment may result in an event of default under such agreement, which could have a material adverse effect on our business, financial condition and results of operation. In addition, in the event of a future covenant non-compliance event with respect to the credit agreement with Athyrium, we cannot provide assurance that we would be able to obtain a covenant waiver or credit agreement amendment, which may result in an event of default under the credit agreement and have a material adverse effect on our business, financial condition and results of operations.

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.

Athyrium Credit Agreement Amendment

On November 5, 2020, we entered into a Fourth Amendment to Credit Agreement and Investment Documents by and among us, the subsidiaries named as guarantors therein, the lenders named therein and Athyrium, in its capacity as the administrative agent (the "Fourth Amendment"). The Fourth Amendment modified the Credit Agreement.

Pursuant to the Fourth Amendment: (i) required quarterly repayments of $3.0 million were deferred by one year, with such repayments beginning on March 31, 2022; (ii) effective September 30, 2020, the calculation of the leverage ratio was amended to exclude qualifying cash balances and to include certain additional adjustments to earnings; (iii) the permitted leverage ratio was increased to 5.60:1.00 through and including the fourth quarter of 2021, after which the leverage ratio returns to 5.00:1.00; (iv) the permitted minimum liquidity amount was decreased to $10.0 million through March 31, 2021, after which the minimum liquidity amount returns to $12.0 million until maturity; and (v) the exercise price of the 348,664 warrants issued to Athyrium on November 17, 2017 was reduced from $6.84 to $1.73.

The Fourth Amendment also modified the Credit Amendment's definition of "Consolidated CDMO EBITDA" to add-back the following to "Consolidated CDMO Net Income": (i) to the extent permanently and irrevocably forgiven, an amount not to exceed $3.32 million consisting of the principal amount of the loan the Company obtained under the federal Paycheck Protection Program provided in Section 7(a) of the Small Business Act of 1953, as amended by the Coronavirus Aid, Relief, and Economic Security Act; and (ii) fees, costs and expenses incurred in connection with the Investment Documents in an amount not to exceed $0.5 million in any consecutive four fiscal quarter period.

In connection with the execution of the Fourth Amendment, we made the following payments to Athyrium: (i) an amendment fee of $0.3 million, (ii) a prepayment of $9.1 million of the principal and exit fee without penalty and (iii) certain other fees and expenses, including the fees and expenses of Athyrium's legal counsel.

The foregoing description of the Fourth Amendment does not purport to be complete and is qualified in its entirety by the terms and conditions of the Fourth Amendment, which is filed as Exhibit 10.2 to this Quarterly Report and incorporated herein by reference.

Amendment to Lannett License and Supply Agreement

On November 5, 2020, Recro Gainesville LLC ("Recro Gainesville"), our wholly-owned subsidiary and successor to Alkermes Pharma Ireland Limited ("Alkermes") entered into Amendment No. 2 to License and Supply Agreement by and among Recro Gainesville, Lannett Company, Inc. ("Lannett") and Kremers Urban Pharmaceuticals, Inc. ("Kremers Urban"), a wholly-owned subsidiary of Lannett (the "Lannett Amendment"). The Lannett Amendment amends the License and Supply Agreement by and between Alkermes and Kremers Urban, dated January 1, 2014, as amended (the "Original Lannett License," and together with the Lannett Amendment, the "Lannett License"). Pursuant to the Lannett Amendment, Lannett assumed all of the rights and obligations of Kremers Urban under the Lannett License.

Pursuant to the Lannett Amendment (i) within 30 days of November 5, 2020, Lannett is required to make a one-time $1.86 million payment to Recro Gainesville; (ii) beginning on January 1, 2022 and continuing yearly for the duration of the Lannett License, Lannett will pay Recro Gainesville an annual license fee of $0.5 million; and (iii) Lannett will be required to reimburse Recro for 50% of its Drug User Fee Act program fees for eligible products under the Lannett License beginning in 2021.

The Lannett License terminates on December 31, 2024, unless earlier terminated pursuant to the terms thereof, or renewed by the mutual agreement of the parties to thereto.

The Lannett Amendment also modified the Lannett License's termination provisions to eliminate the right by either party to terminate the Lannett License if net sales failed to meet a certain threshold for a 12-month period.

The foregoing description of the Lannett Amendment does not purport to be complete and is qualified in its entirety by the terms and conditions of the Lannett Amendment, which is filed as Exhibit 10.3 to this Quarterly Report and incorporated herein by reference.

Item 6. Exhibits.

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

EXHIBIT INDEX

Exhibit No.	Description	Method of Filing
10.1	First Amendment to Common Stock Purchase Agreement, by and between Aspire Capital Fund, LLC and Recro Pharma, Inc., dated August 7, 2020.	Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 10, 2020.
10.2	Fourth Amendment to Credit Agreement and Investment Documents, dated as of November 5, 2020, by and between Recro Pharma, Inc. and Athyrium Opportunities III Acquisition LP.	Filed herewith
10.3	Amendment No. 2 to License and Supply Agreement, dated as of November 5, 2020 by and among Recro Gainesville LLC, Kremers Urban Pharmaceuticals, Inc. and Lannett Company, Inc.	Filed herewith
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 SCH	Inline XBRL Taxonomy Extension Schema	Filed herewith.
101 CAL	Inline XBRL Taxonomy Extension Calculation Linkbase	Filed herewith.
101 DEF	Inline XBRL Taxonomy Extension Definition Linkbase	Filed herewith.
101 LAB	Inline XBRL Taxonomy Extension Label Linkbase	Filed herewith.
101 PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)	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: November 9, 2020

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

Date: November 9, 2020

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

Exhibit 10.2

FOURTH AMENDMENT TO CREDIT AGREEMENT AND INVESTMENT DOCUMENTS

THIS FOURTH AMENDMENT TO CREDIT AGREEMENT AND INVESTMENT DOCUMENTS (this "Agreement"), dated as of November 5, 2020 (the "Fourth Amendment Effective Date"), is entered into among RECRO PHARMA, INC., a Pennsylvania corporation (the "Borrower"), the Guarantors party hereto, the Lenders party hereto (including in their capacity as holders of the Warrants) and ATHYRIUM OPPORTUNITIES III ACQUISITION LP, as Administrative Agent (the " Administrative Agent"). All capitalized terms used herein and not otherwise defined herein shall have the meanings given to such terms in the Credit Agreement (as defined below).

RECITALS

WHEREAS, the Borrower, the Guarantors party thereto, the Lenders from time to time party thereto and the Administrative Agent have entered into that certain Credit Agreement, dated as of November 17, 2017 (as amended, restated, supplemented or modified from time to time prior to the date hereof, the "Credit Agreement");

WHEREAS, the Borrower has requested that the Lenders amend the Credit Agreement and certain other Investment Documents to provide for certain modifications of the terms as set forth below; and

WHEREAS, the Lenders and the Administrative Agent are willing to amend the Credit Agreement and other Investment Documents referred to herein, in each case, subject to the terms and conditions hereof.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Amendments to Credit Agreement.

a. The following definitions are added to Section 1.01 of the Credit Agreement in the appropriate alphabetical order to read as follows:

"Fourth Amendment" means that certain Fourth Amendment to Credit Agreement and Investment Documents, dated as of the Fourth Amendment Effective Date, by and among the Loan Parties, the Lenders and the Administrative Agent.

"Fourth Amendment Effective Date" means November 5, 2020.

"Fourth Amendment Fee Letter" means that certain letter agreement, dated as of the Fourth Amendment Effective Date, by and among the Borrower and the Administrative Agent.

"PPP Loan" means the "Small Business Loan" obtained by the Borrower under the federal Paycheck Protection Program provided in Section 7(a) of the Small Business Act of 1953, as amended by the Coronavirus Aid, Relief, and Economic Security Act, in an original aggregate principal amount of $4,415,500 from PNC Bank, National Association pursuant to the terms of that certain Paycheck Protection Program Term Note, dated as of May 12, 2020, issued by the Borrower in favor of the PNC Bank, National Association.

b. The definition of "Agreement" in Section 1.01 of the Credit Agreement is amended and restatedin its entirety to read as follows:

"Agreement" means this Credit Agreement, as amended or otherwise modified from time to time (including as amended by the First Amendment, the Second Amendment, the Third Amendment and the Fourth Amendment).

c. The definition of "Consolidated CDMO EBITDA" in Section 1.01 of the Credit Agreement is amended and restated in its entirety to read as follows:

"Consolidated CDMO EBITDA" means, for any period, for the CDMO Loan Parties on a consolidated basis, an amount equal to the total of: (a) Consolidated CDMO Net Income for such period plus (b) the following (without duplication), in each case (other than with respect to clause (b)(x)), to the extent deducted in calculating such Consolidated CDMO Net Income, all as determined in accordance with GAAP, (i) gross interest expense for such period in connection with borrowed money (including capitalized interest) or in connection with the deferred purchase price of assets, (ii) the provision for current and deferred federal, state, local and foreign income taxes paid or accrued for such period, (iii) depreciation and amortization expense for such period, (iv) unusual, infrequent or non-recurring losses, charges or expenses for such period (including without limitation any such losses, charges or expenses for such period resulting from the impact of the adoption by the CDMO Loan Parties of ASU 2014-09 for revenue recognition and similar timing impacts for the adoption of new accounting standards); provided, that, the aggregate amount added back to Consolidated CDMO EBITDA pursuant to this clause (b)(iv) for such period shall not exceed ten percent (10%) of Consolidated CDMO EBITDA (calculated prior to giving effect to the add backs permitted pursuant to this clause (b)(iv)) for such period, (v) non-cash charges (including, without limitation, stock-based compensation expense, contingent consideration expense and warrant mark-to-market adjustment expense (but excluding non-cash charges related to receivables)) for such period which do not represent a cash item in such period or any future period, (vi) any losses in such period resulting from any Disposition outside of the ordinary course of business, including any net loss from discontinued operations (and including, without limitation, any discontinued operations to the extent discontinued in connection with the Reorganization), (vii) all losses in such period with respect to foreign exchange transactions, (viii) solely with respect to the fiscal quarter ending on December 31, 2019, costs and expenses to the extent related to the Reorganization; provided, that, the aggregate amount added back to Consolidated CDMO EBITDA pursuant to this clause (b)(viii) for such quarter shall not exceed $5,000,000 and shall be supported by evidence of such costs and expenses reasonably satisfactory to the Administrative Agent and certified as true and correct by a Responsible Financial Officer of the Borrower , (ix) fees, costs and expenses of the CDMO Loan Parties incurred directly in connection with the Investment Documents (excluding, for the avoidance of doubt, any fees, costs and expenses incurred in connection with the Equity Interests of the Borrower (other than the Warrants) and any transactions with respect thereto) ; provided, that, the aggregate amount added back to Consolidated CDMO EBITDA pursuant to this clause (b)(ix) for any consecutive four fiscal quarter period of the Borrower shall not exceed $500,000; provided, further, that, the Borrower shall deliver a certificate executed by a Responsible Financial Officer of the Borrower providing evidence reasonably satisfactory to the Administrative Agent that all amounts added back pursuant to this clause (b)(ix) represent bona fide fees, costs and

expenses of the CDMO Loan Parties that were actually incurred by the CDMO Loan Parties during such period, and (x) solely to the extent not already included in Consolidated CDMO Net Income, the principal amount of the PPP Loan that is permanently and irrevocably forgiven in such period in accordance with the terms of the PPP Loan and applicable Law; provided, that, without duplication in any other period, any such amount so forgiven after the end of such period but prior to the date on which the financial statements of the Borrower and its Subsidiaries are required to be delivered to the Administrative Agent for such period pursuant to Section 7.01(a) or (b), as applicable, shall be deemed to have been so forgiven during the period most recently ended (and not, for the avoidance of doubt, during the period in which such forgiveness actually occurred) for purposes of calculating the amount to be added back to Consolidated CDMO EBITDA pursuant to this clause (b)(x); provided, further, that, the aggregate amount added back to Consolidated CDMO EBITDA pursuant to this clause (b)(x) for all periods shall not exceed $3,316,000, and minus (c) the following (without duplication), in each case, to the extent included in calculating such Consolidated CDMO Net Income, all as determined in accordance with GAAP, (i) federal, state, local and foreign income tax credits for such period, (ii) all non-cash income or gains for such period, (iii) all gains for such period in connection with any Disposition outside of the ordinary course of business, including any gains from discontinued operations and (iv) all gains in such period with respect to foreign exchange transactions. Notwithstanding the foregoing, for all purposes herein, Consolidated CDMO EBITDA for the fiscal quarter ending March 31, 2019 shall be deemed to be $11,610,000, and Consolidated CDMO EBITDA for the fiscal quarter ending June 30, 2019 shall be deemed to be $15,008,000.

d. Effective as of September 30, 2020, the definition of Consolidated Leverage Ratio in Section 1.01 of the Credit Agreement is amended and restated in its entirety to read as follows:

"Consolidated Leverage Ratio " means, as of any date of determination, the ratio of (a) Consolidated Funded Indebtedness as of such date minus Unrestricted Cash of the Borrower and its Subsidiaries held in Deposit Accounts for which the Administrative Agent shall have received a Deposit Account Control Agreement as of such date to (b) Consolidated CDMO EBITDA for the period of the four fiscal quarters of the Borrower most recently ended.

e. The definition of "Funded Indebtedness" in Section 1.01 of the Credit Agreement is amended by adding the following sentence to the end of such definition:

For the avoidance of doubt, the outstanding principal amount of the PPP Loan shall not constitute "Funded Indebtedness" prior to January 1, 2022, after which such amount shall constitute "Funded Indebtedness" to the extent that it is not permanently and irrevocably forgiven prior to such date.

f. The definition of "Loan Documents" in Section 1.01 of the Credit Agreement is amended and restated in its entirety to read as follows:

"Loan Documents" means this Agreement, the First Amendment, the Second Amendment, the Third Amendment, the Fourth Amendment, each Note, the Fee Letter, the First Amendment Fee Letter, the Fourth Amendment Fee Letter, the Disclosure Letter, the Second Amendment Disclosure Letter, the Third Amendment Disclosure Letter, each Joinder Agreement, each Collateral Document and any other agreement,

instrument or document designated by its terms as a "Loan Document", excluding, for the avoidance of doubt, the Warrants.

g. The table in Section 2.05 of the Credit Agreement is amended and restated in its entirety to read as follows:

Payment Dates	Principal Amortization Payment
Fourth Amendment Effective Date	$9,000,000
March 31, 2022	$3,000,000
June 30, 2022	$3,000,000
September 30, 2022	$3,000,000
December 31, 2022	$3,000,000
Maturity Date	Outstanding Principal Balance of Loans

h. Section 2.07(a) of the Credit Agreement is amended and restated in its entirety to read as follows:

(a) Closing Fees and Amendment Fees. The Borrower shall pay to the Administrative Agent and the Lenders the fees and original issue discount in the Fee Letter, the First Amendment Fee Letter and the Fourth Amendment Fee Letter, in the amounts and at the times specified in the Fee Letter, the First Amendment Fee Letter and the Fourth Amendment Fee Letter. Such fees and original issue discount shall be fully earned when paid and shall be non-refundable for any reason whatsoever. It is understood and agreed that the Administrative Agent and each Lender reserves the right to allocate, in whole or in part, to its Affiliates, the fees and original issue discount payable thereunder in such manner as the Administrative Agent, such Lenders and such Affiliates shall agree in their sole discretion.

i. Section 7.03(a) of the Credit Agreement is amended and restated in its entirety to read as follows:

(a) Promptly (and in any event, within three (3) Business Days after a Responsible Officer of any Loan Party obtains knowledge thereof) notify the Administrative Agent of the occurrence of any Default (including, for the avoidance of doubt, any Default that occurs as a result of a Responsible Officer of any Loan Party obtaining knowledge that, even if the full amount permitted to be added back pursuant to clause (b)(x) of the definition of "Consolidated CDMO EBITDA" were to be added back pursuant to such definition with respect to a particular period, the Loan Parties would not be in compliance with the financial covenant set forth in Section 8.16(b) for such period).

j. Section 8.16(a) of the Credit Agreement is amended and restated in its entirety to read as follows:

(a) Liquidity. Permit Unrestricted Cash of the Loan Parties held in Deposit Accounts for which the Administrative Agent shall have received a Deposit Account Control Agreement on a consolidated basis to be less than: (i) during the period

commencing on the Closing Date and continuing through and including the fiscal month ended September 30, 2020, $12,000,000 as of the end of any fiscal month of the Borrower, (ii) during the period commencing on October 1, 2020 and continuing through and including the fiscal month ended March 31, 2021, $10,000,000 as of the end of any fiscal month of the Borrower, and (iii) at all times thereafter, $12,000,000 as of the end of any fiscal month of the Borrower.

k. Effective as of September 30, 2020, Section 8.16(b) of the Credit Agreement is amended and restated in its entirety to read as follows:

(b) Consolidated Leverage Ratio . Permit the Consolidated Leverage Ratio as of the end of any fiscal quarter of the Borrower to be greater than: (i) with respect to any fiscal quarter of the Borrower ending prior to September 30, 2020, 5.00:1.00, (ii) with respect to any fiscal quarter of the Borrower ending during the period commencing on September 30, 2020 and continuing through and including December 31, 2021, 5.60:1.00, and (iii) with respect to any fiscal quarter of the Borrower ending thereafter, 5.00:1.00.

l. Exhibit E to the Credit Agreement is amended and restated in its entirety to read as provided on Annex 1 hereto.

2. Amendment to Warrants. Each of the Warrants is amended by amending and restating the definition of "Exercise Price" appearing therein in its entirety to read as follows:

"Exercise Price" means $1.73, as adjusted from time to time pursuant to Section 5.

3. Conditions Precedent to Effectiveness. This Agreement shall be effective upon satisfaction of the following conditions precedent:

(a) receipt by the Administrative Agent of counterparts of (i) this Agreement duly executed by the Borrower, the Guarantors, the Lenders and the Administrative Agent, and (ii) the Fourth Amendment Fee Letter duly executed by the Borrower and the Administrative Agent;

(b) receipt by the Administrative Agent of satisfactory evidence that (i) the repayment of the Loans to be made on the Fourth Amendment Effective Date pursuant to Section 2.05 of the Credit Agreement shall have been made, together with all accrued and unpaid interest thereon, and (ii) the exit fee required by Section 2.07 of the Credit Agreement in connection with such repayment to be made on the Fourth Amendment Effective Date pursuant to Section 2.05 of the Credit Agreement shall have been paid to the Lenders, for their respective ratable accounts;

(c) receipt by the Administrative Agent and the Lenders of any and all other fees required to be paid on or prior to the Fourth Amendment Effective Date (including, for the avoidance of doubt, the fee set forth in the Fourth Amendment Fee Letter); and

(d) receipt by the Administrative Agent of all reasonable and documented out-of-pocket fees, charges and disbursements of counsel to the Administrative Agent and all reasonable and documented out-of-pocket due diligence expenses of the Administrative Agent and the Lenders, in each case, incurred in connection with this Agreement and the transactions contemplated hereby and for which invoices have been issued (provided, that, the issuance of such invoices shall not thereafter preclude a final settling of accounts between the Borrower and the Administrative Agent).

4. Reaffirmation. Each of the Loan Parties acknowledges and reaffirms (a) that it is bound by all of the terms of the Investment Documents to which it is a party and (b) that it is responsible for the observance and full performance of all Obligations, including without limitation, the repayment of the Loans. Furthermore, the Loan Parties acknowledge and confirm (i) that the Lenders have performed fully all of their obligations under the Credit Agreement and the other Investment Documents arising on or before the date hereof other than their respective obligations specifically set forth in this Agreement and (ii) that by entering into this Agreement, the Lenders do not, except as expressly set forth herein, waive or release any term or condition of the Credit Agreement or any of the other Investment Documents or any of their rights or remedies under such Investment Documents or any applicable law or any of the Obligations of the Loan Parties thereunder.

5. Release. As a material part of the consideration for the Administrative Agent and the Lenders entering into this Agreement, the Loan Parties agree as follows (the "Release Provision"):

(a) The Administrative Agent, the Lenders, each of their respective Affiliates and each of the foregoing Persons' respective officers, managers, members, directors, advisors, sub-advisors, partners, agents and employees, and their respective successors and assigns (hereinafter all of the above collectively referred to as the "Lender Group"), are irrevocably and unconditionally released, discharged and acquitted from any and all actions, causes of action, claims, demands, damages and liabilities of whatever kind or nature, in law or in equity, now known or unknown, suspected or unsuspected to the extent that any of the foregoing arises from any action or failure to act under or otherwise arising in connection with the Investment Documents, in each case arising on or prior to the Fourth Amendment Effective Date, except to the extent such actions, causes of action, claims, demands, damages and liabilities result from the gross negligence or willful misconduct of any of the Lender Group as determined by a court of competent jurisdiction in a final and nonappealable judgment; provided, however, that, the Loan Parties do not release, discharge or acquit the Lender Group from their respective obligations specifically set forth in this Agreement.

(b) Each Loan Party hereby acknowledges, represents and warrants to the Lender Group that:

(i) it has read and understands the effect of the Release Provision. Each Loan Party has had the assistance of independent counsel of its own choice, or has had the opportunity to retain such independent counsel, in reviewing, discussing, and considering all the terms of the Release Provision; and if counsel was retained, counsel for such Loan Party has read and considered the Release Provision and advised such Loan Party with respect to the same. Before execution of this Agreement, such Loan Party has had adequate opportunity to make whatever investigation or inquiry it may deem necessary or desirable in connection with the subject matter of the Release Provision.

(ii) no Loan Party is acting in reliance on any representation, understanding, or agreement not expressly set forth hereinor in the Credit Agreement or other Investment Documents. Each Loan Party acknowledges that the Lender Group has not made any representation with respect to the Release Provision except as expressly set forth herein.

(iii) each Loan Party has executed this Agreement and the Release Provision thereof as its free and voluntary act, without any duress, coercion, or undue influence exerted by or on behalf of any person.

(iv) the Loan Parties are the sole owners of the claims released by the Release Provision, and no Loan Party has heretofore conveyed or assigned any interest in any such claims to any other Person.

(c) Each Loan Party understands that the Release Provision was a material consideration in the agreement of the Administrative Agent and the Lenders to enter into this Agreement. The Release Provision shall be in addition to any rights, privileges and immunities granted to the Administrative Agent and the Lenders under the Investment Documents.

6. Miscellaneous.

(a) The Credit Agreement and the Obligations of the Loan Parties thereunder and under the other Investment Documents, are hereby ratified and confirmed and shall remain in full force and effect according to their terms, as amended by this Agreement. This Agreement is a Loan Document.

(b) Each Guarantor (i) acknowledges and consents to all of the terms and conditions of this Agreement, (ii) affirms all of its Obligations under the Investment Documents, and (iii) agrees that this Agreement and all documents executed in connection herewith do not operate to reduce or discharge its Obligations under the Credit Agreement or the other Investment Documents.

(c) The Loan Parties represent and warrant to the Administrative Agent and the Lenders that:

(i) each Loan Party has taken all necessary corporate, limited liability company or other organizational action to authorize the execution, delivery and performance of this Agreement.

(ii) this Agreement has been duly executed and delivered by each Loan Party and constitutes a legal, valid and binding obligation of each Loan Party, enforceable against each such Loan Party in accordance with its terms, subject to bankruptcy, insolvency and similar laws affecting enforceability of creditors' rights generally and to general principles of equity.

(iii) no approval, consent, exemption, authorization or other action by, or notice to, or filing with, any Governmental Authority or any other Person is necessary or required in connection with the execution, delivery or performance by, or enforcement against, any Loan Party of this Agreement other than (A) those that have already been obtained and are in full force and effect and (B) those that may be required under any applicable notices under securities laws.

(iv) (A) the representations and warranties of the Borrower and each other Loan Party contained in Article VI of the Credit Agreement or any other Investment Document, or which are contained in any document furnished at any time under or in connection therewith, are true and correct in all material respects (and in all respects if any such representation and warranty is already qualified by materiality or reference to Material Adverse Effect) on and as of the date hereof, except to the extent that such

representations and warranties specifically refer to an earlier date, in which case they are true and correct in all material respects (and in all respects if any such representation and warranty is already qualified by materiality or reference to Material Adverse Effect) as of such earlier date and (B) no event has occurred and is continuing which constitutes a Default or an Event of Default.

(d)Each of the Loan Parties hereby affirms the Liens created and granted in the Loan Documents in favor of the Administrative Agent, for the benefit of the Secured Parties, and agrees that this Agreement does not adversely affect or impair such Liens and security interests in any manner.

(e) This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page of this Agreement by facsimile or other electronic imaging means (e.g. "pdf" or "tif") shall be effective as delivery of a manually executed counterpart of this Agreement.

(f) If any provision of this Agreement is held to be illegal, invalid or unenforceable, (i) the legality, validity and enforceability of the remaining provisions of this Agreement shall not be affected or impaired thereby and (ii) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

(g) **THIS AGREEMENT AND ANY CLAIM, CONTROVERSY, DISPUTE OR CAUSE OF ACTION (WHETHER IN CONTRACT OR TORT OR OTHERWISE) BASED UPON, ARISING OUT OF OR RELATING TO THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.**

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

BORROWER:

RECRO PHARMA, INC.,
a Pennsylvania corporation

By: /s/ Ryan D. Lake
Name: Ryan D. Lake
Title: Chief Financial Officer

GUARANTORS:

RECRO GAINESVILLE LLC,
a Massachusetts limited liability company

By: /s/ Ryan D. Lake
Name: Ryan D. Lake
Title: Treasurer

RECRO GAINESVILLE DEVELOPMENT LLC,
A Delaware limited liability company

By: /s/ Ryan D. Lake
Name: Ryan D. Lake
Title: Secretary and Treasurer

ADMINISTRATIVE AGENT:

ATHYRIUM OPPORTUNITIES III ACQUISITION LP,
a Delaware limited partnership

By: Athyrium Opportunities Associates III LP, its General Partner

By: Athyrium Opportunities Associates III GP LLC, the General Partner of Athyrium Opportunities Associates III LP

By: /s/ Andrew C. Hyman
Name: Andrew C. Hyman
Title: Authorized Signatory

LENDERS:

ATHYRIUM OPPORTUNITIES III ACQUISITION LP,
a Delaware limited partnership

By: Athyrium Opportunities Associates III LP, its General Partner

By: Athyrium Opportunities Associates III GP LLC, the General Partner of Athyrium Opportunities Associates III LP

By: /s/ Andrew C. Hyman
Name: Andrew C. Hyman
Title: Authorized Signatory

ATHYRIUM OPPORTUNITIES II ACQUISITION LP,
a Delaware limited partnership

By: Athyrium Opportunities Associates II LP, its General Partner

By: Athyrium GP Holdings LLC, the General Partner of Athyrium Opportunities Associates II LP

By: /s/ Andrew C. Hyman
Name: Andrew C. Hyman
Title: Authorized Signatory

Annex 1

Exhibit E to Credit Agreement

(See attached)

EXHIBIT E

FORM OF COMPLIANCE CERTIFICATE

Financial Statement Date: _____, 20___ (the "Financial Statement Date")

To: Athyrium Opportunities III Acquisition LP, as Administrative Agent

Re: Credit Agreement dated as of November 17, 2017 (as amended, modified, restated, supplemented or extended from time to time, the "Credit Agreement") among Recro Pharma, Inc., a Pennsylvania corporation (the "Borrower"), the Guarantors party thereto, the Lenders from time to time party thereto and Athyrium Opportunities III Acquisition LP, as Administrative Agent. Capitalized terms used but not otherwise defined herein have the meanings provided in the Credit Agreement.

Date: _____, 20___

Ladies and Gentlemen:

The undersigned Responsible Financial Officer hereby certifies as of the date hereof that [he][she] is the _____[1] of the Borrower, and that, in [his][her] capacity as such, [he][she] is authorized to execute and deliver this Compliance Certificate to the Administrative Agent on the behalf of the Borrower, and that:

[Use following paragraph 1 for fiscal year-end financial statements:]

[1. Attached hereto as Schedule 1 are the year-end consolidated audited and consolidating financial statements required by Section 7.01(a) of the Credit Agreement for the fiscal year of the Borrower ended as of the Financial Statement Date, together with the report and opinion of an independent certified public accountant with respect to the consolidated financial statements, as required by such Section. Such consolidating statements are fairly stated in all material respects when considered in relation to such consolidated financial statements.]

[Use following paragraph 1 for fiscal quarter-end financial statements:]

[1. Attached hereto as Schedule 1 are the unaudited financial statements required by Section 7.01(b) of the Credit Agreement for the fiscal quarter of the Borrower ended as of the Financial Statement Date. Such financial statements fairly present in all material respects the financial condition, results of operations, shareholders' equity and cash flows of the Borrower and its Subsidiaries in accordance with GAAP, subject only to normal year-end audit adjustments and the absence of footnotes.]

2. The undersigned has reviewed and is familiar with the terms of the Credit Agreement and has made, or has caused to be made, a reasonably detailed review of the transactions and condition (financial or otherwise) of the Borrower during the accounting period covered by the attached financial statements.

3. A review of the activities of the Borrower during such fiscal period has been made under the supervision of the undersigned with a view to determining whether during such fiscal period the Borrower performed and observed all of its Obligations, and

[1] Must be signed by chief executive officer, chief financial officer, chief accounting officer, treasurer or controller.

[select one:]

[to the knowledge of the undersigned during such fiscal period, the Borrower performed and observed each covenant and condition of the Loan Documents applicable to it, and no Default has occurred and is continuing.]

[or:]

[the following covenants or conditions have not been performed or observed and the following is a list of each such Default and its nature and status:]

4. The analysis of the financial covenants set forth in Section 8.16 of the Credit Agreement and calculation of Consolidated Leverage Ratio, in each case, for the four fiscal quarter period ending as of the Financial Statement Date, set forth on Schedule 2 attached hereto are true and accurate on and as of the date of this Compliance Certificate.

5. Set forth below is information regarding the amount of all Dispositions and Involuntary Dispositions, in each case, the Net Cash Proceeds of which, when taken together with the Net Cash Proceeds of all other Dispositions and Involuntary Dispositions in the applicable fiscal year, exceed $1,000,000, all Debt Issuances, all Extraordinary Receipts, the Net Cash Proceeds of which, when taken together with the Net Cash Proceeds of all other Extraordinary Receipts in the applicable fiscal year, exceed $1,000,000, and Acquisitions that occurred during the period covered by the financial statements attached hereto as Schedule 1: [__].

6. Attached hereto as Schedule 3 is (i) a list of (A) all applications with the United States Copyright Office or the United States Patent and Trademark Office by any Loan Party, if any, for Copyrights, Patents or Trademarks made since [the Closing Date] [the date of the prior Compliance Certificate], (B) all issuances of registrations or letters patent by the United States Copyright Office or the United States Patent and Trademark Office on existing applications by any Loan Party for Copyrights, Patents and Trademarks received since [the Closing Date] [the date of the prior Compliance Certificate], and (C) any license of Material Intellectual Property entered into by any Loan Party since [the Closing Date] [the date of the prior Compliance Certificate] and (ii) with respect to any insurance coverage of any Loan Party or any Subsidiary that was renewed, replaced or modified during the period covered by the financial statements, such information with respect to such insurance coverage as is required to be included on Schedule 6.10 to the Credit Agreement.

7. Attached hereto as Schedule 4 is a written summary of material changes in GAAP and in the consistent application thereof, in each case made during the accounting period covered by the attached financial statements.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned has executed this Compliance Certificate as of the date set forth above.

RECRO PHARMA, INC.,
a Pennsylvania corporation

By:
Name:
Title:

Schedule 1

Schedule 2

1.Consolidated Leverage Ratio:	$_____
A.Consolidated Funded Indebtedness as of the Financial Statement Date[2]:	
i. all obligations, whether current or long-term, for borrowed money (including the Obligations) and all obligations evidenced by bonds, debentures, notes, loan agreements or other similar instruments:	$_____
ii. all purchase money Indebtedness:	$_____
iii.the principal portion of all obligations under conditional sale or other title retention agreements relating to property purchased by the Borrower or any of its Subsidiaries (other than customary reservations or retentions of title under agreements with suppliers entered into in the ordinary course of business):	$_____
iv.all obligations arising under letters of credit (including standby and commercial), bankers' acceptances, bank guaranties, surety bonds and similar instruments:	$_____
v.all obligations in respect of the deferred purchase price of property or services (other than trade accounts payable in the ordinary course of business and any Earn Out Obligations unless such Earn Out Obligations have not been paid after becoming due and payable):	$_____
vi.the Attributable Indebtedness of Capital Leases, Securitization Transactions and Synthetic Leases:	$_____
vii.all obligations of the Borrower and its Subsidiaries to purchase, redeem, retire, defease or otherwise make any payment in respect of any Disqualified Capital Stock in such Person or any other Person, valued, in the case of a redeemable preferred interest, at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends:	$_____
viii. all Funded Indebtedness of others secured by (or for which the holder of such Funded Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on, or payable out of the proceeds of production from, property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed:	$_____
ix.all Guarantees with respect to Funded Indebtedness of the	$_____

[2] For the avoidance of doubt, the outstanding principal amount of the PPP Loan shall not constitute "Funded Indebtedness" prior to January 1, 2022, after which such amount shall constitute "Funded Indebtedness" to the extent that it is not permanently and irrevocably forgiven prior to such date.

types specified in lines (i) through (viii) above of another Person:	
x.all Funded Indebtedness of the types referred to in lines (i) through (ix) above of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which such Person is a general partner or joint venture, except to the extent that Funded Indebtedness is expressly made non-recourse to such Person:	$_____
xi. Consolidated Funded Indebtedness as of the Financial Statement Date: [1.A.i + 1.A.ii +1.a.iii + 1.A.iv + 1.A.v + 1.A.vi + 1.A.vii + 1.A.viii + 1.A.ix + 1.A.x]	$_____
B. Unrestricted Cash of the Borrower and its Subsidiaries held in Deposit Accounts for which the Administrative Agent shall have received a Deposit Account Control Agreement as of such date	$_____
C.Consolidated CDMO EBITDA for the period of the four fiscal quarters most recently ended on the Financial Statement Date:	
i. Consolidated CDMO Net Income for such period:	$_____
ii. gross interest expense for such period in connection with borrowed money (including capitalized interest) or in connection with the deferred purchase price of assets (to the extent deducted in calculating Consolidated CDMO Net Income):	$_____
iii. the provision for current and deferred federal, state, local and foreign income taxes paid or accrued for such period (to the extent deducted in calculating Consolidated CDMO Net Income):	$_____
iv. depreciation and amortization expense for such period:	$_____
v. unusual, infrequent or non-recurring losses, charges or expenses for such period (including without limitation any such losses, charges or expenses for such period resulting from the impact of the adoption by the CDMO Loan Parties of ASU 2014-09 for revenue recognition and similar timing impacts for the adoption of new accounting standards) (to the extent deducted in calculating Consolidated CDMO Net Income):[3]	$_____
vi. non-cash charges (including, without limitation, stock-based	$_____

[3] The aggregate amount added back to Consolidated CDMO EBITDA pursuant to Line C.v. for such period shall not exceed ten percent (10%) of Consolidated CDMO EBITDA (calculated prior to giving effect to the add backs permitted pursuant to this Line C.v. for such period).

compensation expense, contingent consideration expense and warrant mark-to-market adjustment expense (but excluding non-cash charges related to receivables)) for such period which do not represent a cash item in such period or any future period (to the extent deducted in calculating Consolidated CDMO Net Income):	$_____
vii. any losses in such period resulting from any Disposition outside of the ordinary course of business, including any net loss from discontinued operations (and including, without limitation, any discontinued operations to the extent discontinued in connection with the Reorganization) (to the extent deducted in calculating Consolidated CDMO Net Income):	$_____
viii. all losses in such period with respect to foreign exchange transactions (to the extent deducted in calculating Consolidated CDMO Net Income):	$_____
ix. solely with respect to the fiscal quarter ending on December 31, 2019, costs and expenses to the extent related to the Reorganization[4]:	$0
x. fees, costs and expenses of the CDMO Loan Parties incurred directly in connection with the Investment Documents (excluding, for the avoidance of doubt, any fees, costs and expenses incurred in connection with the Equity Interests of the Borrower (other than the Warrants) and any transactions with respect thereto); provided, that, the aggregate amount added back to Consolidated CDMO EBITDA pursuant to this Line 1.C.x for any consecutive four fiscal quarter period of the Borrower shall not exceed $500,000[5]:	$_____
xi. solely to the extent not already included in Consolidated CDMO Net Income, the principal amount of the PPP Loan that is permanently and irrevocably forgiven in such period in accordance with the terms of the PPP Loan and applicable Law; provided, that, without duplication in any other period, any such amount so forgiven after the end of such period but prior to the date on which the financial statements of the Borrower and its Subsidiaries are required to be delivered to the Administrative Agent for such period pursuant to Section 7.01(a) or (b) of the Credit Agreement, as applicable, shall be deemed to have been so forgiven during	$_____

[4] The aggregate amount added back to Consolidated CDMO EBITDA pursuant to this Line 1.C.ix for such quarter shall not exceed $5,000,000 and shall be supported by evidence of such costs and expenses reasonably satisfactory to the Administrative Agent and certified as true and correct by a Responsible Financial Officer of the Borrower.

[5] The Borrower shall deliver a certificate executed by a Responsible Financial Officer of the Borrower providing evidence reasonably satisfactory to the Administrative Agent that all amounts added back pursuant to this Line 1.C.x represent bona fide fees, costs and expenses of the CDMO Loan Parties that were actually incurred by the CDMO Loan Parties during such period.

the period most recently ended (and not, for the avoidance of doubt, during the period in which such forgiveness actually occurred) for purposes of calculating the amount to be added back to Consolidated CDMO EBITDA pursuant to this Line 1.C.xi; provided, further, that, the aggregate amount added back to Consolidated CDMO EBITDA pursuant to this Line 1.C.xi for all periods shall not exceed $3,316,000:	
xii. federal, state, local and foreign income tax credits for such period (to the extent included in calculating Consolidated CDMO Net Income):	$_____
xiii. all non-cash income or gains for such period (to the extent included in calculating Consolidated CDMO Net Income):	$_____
xiv. all gains for such period in connection with any Disposition outside of the ordinary course of business, including any gains from discontinued operations (to the extent included in calculating Consolidated CDMO Net Income):	$_____
xv. all gains in such period with respect to foreign exchange transactions (to the extent included in calculating Consolidated CDMO Net Income):	$_____
xvi. Consolidated CDMO EBITDA for such period: [1.C.i + 1.C.ii +1.C.iii + 1.C.iv + 1.C.v + 1.C.vi + 1.C.vii + 1.C.viii + 1.C.ix + 1.C.x - 1.C.xi - 1.C.xii – 1.C.xiii – 1.C.xiv – 1.C.xv]	$_____
D. Consolidated Leverage Ratio [(1.A.xi – B) / 1.C.xvi]:	_____:1.00
E. maximum Consolidated Leverage Ratio permitted by Section 8.16(b) of the Credit Agreement for such period:	[5.00:1:00][6] [5.60:1.00][7]
Compliance?	[Yes] [No]

[6] With respect to any fiscal quarter of the Borrower ending prior to September 30, 2020 and any fiscal quarter of the Borrower ending after December 31, 2021.

[7] With respect to any fiscal quarter of the Borrower ending during the period commencing on September 30, 2020 and continuing through and including December 31, 2021.

2.Liquidity:	
A.Unrestricted Cash of the Loan Parties held in Deposit Accounts for which the Administrative Agent has received a Deposit Account Control Agreement:	$
B.amount required by Section 8.16(a) of the Credit Agreement:	[$12,000,000][8] [$10,000,000][9]
Compliance?	[Yes] [No]

[8] During the period commencing on the Closing Date and continuing through and including the fiscal month ended September 30, 2020 and at all times after March 31, 2021.
[9] During the period commencing on October 1, 2020 and continuing through and including the fiscal month ended March 31, 2021.

Schedule 3

Schedule 4

Exhibit 10.3

AMENDMENT NO. 2 TO LICENSE AND SUPPLY AGREEMENT

THIS AMENDMENT NO. 2 TO LICENSE AND SUPPLY AGREEMENT (this "Amendment") is made as of November 5, 2020 by and between Recro Gainesville LLC (as successor to Alkermes Pharma Ireland Limited) ("Recro"), Kremers Urban Pharmaceuticals, Inc. ("Kremers Urban") and Lannett Company, Inc. ("Lannett").

Background

WHEREAS, Recro and Kremers Urban are parties to that certain License and Supply Agreement, effective as of January 1, 2014 as amended in September 2018, as amended by Amendment No.1 to License and Supply Agreement, effective as of September 6, 2018 (as amended, the "Agreement");

WHEREAS, on or about November 25, 2015, Lannett acquired Kremers Urban and, as a result of that acquisition, Kremers Urban is a wholly-owned subsidiary of Lannett; and

WHEREAS, the parties now desire to enter into this Amendment to set forth certain changes to and modifications of the terms and conditions contained in the Agreement.

Agreement

NOW, THEREFORE, in consideration of the mutual agreement of the parties contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged and agreed, and intending to be legally bound hereby, the parties agree as follows:

1. Incorporation of Background; Capitalized Terms. The "Background" provision set forth above, together with the defined terms therein, are incorporated herein by reference. Capitalized terms not otherwise defined herein shall have the meanings given to such terms in the Agreement.

2. Assignment and Assumption. Pursuant to Section 11.1(a) of the Agreement, Kremers Urban hereby assigns, and Lannett hereby assumes, all rights and obligations of Kremers Urban under the Agreement. All references to Kremers Urban in the Agreement shall be references to Lannett.

3. One-Time Payment. Within thirty (30) days of execution of this Amendment, Lannett shall pay Recro a one-time payment in the amount of One Million Eight Hundred and Sixty Thousand Dollars ($1,860,000).

4. SECTION 3.1 CONSIDERATION. The following language is inserted at the end of Section 3.1 of the Agreement:

> "Beginning on January 1, 2022 and on every subsequent January 1 for the Term of the Agreement, Lannett shall pay Recro an annual license fee of Five Hundred Thousand Dollars ($500,000)."

5. SECTION 8.2 RESPONSIBILITY FOR NDAs. The following new subsection (d) is inserted at the end of Section 8.2 of the Agreement:

> "(d) ANNUAL PDUFA PROGRAM FEES. PDUFA program fees are assessed annually for eligible products. The program fees are assessed for each prescription drug product that is identified in such a human drug application approved as of October 1st of such fiscal year. PDUFA fees for the Products supplied hereunder are the responsibility of Recro. Lannett shall reimburse Recro fifty percent (50%) of PDUFA program fees associated with the Products within sixty (60) days of receipt

of an invoice from Recro accompanied by a copy of the original program fee invoice starting in2021.

6. SECTION 10 TERMINATION. Section 10.1 of the Agreement is deleted in its entirety and replaced with the following language:

"10.1 Termination. The term of this Agreement shall begin upon the Effective Date and, unless sooner terminated as hereinafter provided, shall end on December 31, 2024. This Agreement may be renewed for successive two (2)-year terms by mutual agreement of the parties in writing. Notwithstanding the foregoing, this Agreement may be terminated as follows:

(a) Termination for Insolvency. If either Lannett or Recro (i) makes a general assignment for the benefit of creditors or becomes insolvent; (ii) files an insolvency petition in bankruptcy; (iii) petitions for or acquiesces in the appointment of any receiver, trustee or similar officer to liquidate or conserve its business or any substantial part of its assets; (iv) commences under the laws of any jurisdiction any proceeding involving its insolvency, bankruptcy, reorganization, adjustment of debt, dissolution, liquidation or any other similar proceeding for the release of financially distressed debtors; or (v) becomes a party to any proceeding or action of the type described above in (iii) or (iv) and such proceeding or action remains undismissed or unstayed for a period of more than 60 days, then the other party may by written notice terminate this Agreement in its entirety with immediate effect.

(b) Termination for Default.

(i) Lannett and Recro each shall have the right to terminate this Agreement for default upon the other's failure to comply in any material respect with the terms and conditions of this Agreement. At least thirty (30) days prior to any such termination for default, the party seeking to so terminate shall give the other written notice of its intention to terminate this Agreement in accordance with the provisions of this Section 10.1(b), which notice shall set forth the default(s) which form the basis for such termination. If the defaulting party fails to correct such default(s) within thirty (30) days after receipt of notification, or if the same cannot reasonably be corrected or remedied within thirty (30) days, then if the defaulting party has not commenced curing said default(s) within said thirty (30) days and be diligently pursuing completion of same, then such party immediately may terminate this Agreement.

(ii) This Section 10.1(b) shall not be exclusive and shall not be in lieu of any other remedies available to a party hereto for any default hereunder on the part of the other party.

(c) Continuing Obligations. Termination of this Agreement for any reason shall not relieve the parties of any obligation accruing prior thereto with respect to the Products and any ongoing obligations hereunder with respect to the remaining Products and shall be without prejudice to the rights and remedies of either party with respect to any antecedent breach of the provisions of this Agreement. Without limiting the generality of the foregoing, no termination of this Agreement, whether by lapse of time or otherwise, shall serve to terminate the obligations of the parties hereto under Sections 8.4, 8.5, 8.6, 8.8, 8.15, SECTION 9, Section 10.1(b) and SECTION 11 hereof, and such obligations shall survive any such termination.

(d) Net Sales Allowances after the Termination Date. In reference to returns or other Net Sales allowances which arise after the termination of this Agreement in respect of any Product supplied and sold under this Agreement prior to such termination, the parties agree that Lannett shall not be entitled to seek any reimbursement, Net Sales deductions or other form of compensation from Recro."

4. SECTION 11.2 NOTICES. All notices or other communications required or permitted to be given pursuant to the Agreement if to Lannett, as follows:

Lannett Company, Inc.
11500 Northbrook Drive, Suite 155
Trevose, PA 19053
Attention: Legal Department

5. Inconsistencies; Disputes. To the extent of any inconsistency between the Agreement and this Amendment, the terms and conditions of this Amendment shall prevail.

6. No Other Amendments. All provisions of the Agreement not expressly amended by this Amendment shall remain in full force and effect, and are ratified and confirmed.

7. Counterparts. This Amendment may be executed in counterparts, each of which shall be deemed an original and all of which, taken together, shall constitute one and the same instrument. An electronic or faxed signed copy of this Amendment shall have the same force and effect as an original signed copy.

[signature page follows]

IN WITNESS WHEREOF, Recro, Lannett and Kremers Urban have duly executed this Amendmentas of the date first written above.

RECRO GAINESVILLE LLC
By: /s/ Scott Rizzo
Name: Scott Rizzo
Title: Executive Vice President and General Manager

LANNETT COMPANY, INC.
By: /s/ Timothy Crew
Name: Timothy Crew
Title: CEO

KREMERS URBAN PHARMACEUTICALS, INC.
By: /s/ Timothy Crew
Name: Timothy Crew
Title: Chairman of the Board

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: November 9, 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: November 9, 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 September 30, 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: November 9, 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)