



Below is the letter that was sent to shareholders with respect to the reporting of the dividend as a result of the separation of Baudax Bio, Inc from Recro Pharma, Inc.

January 15, 2020

Dear Recro Pharma Shareholder,

The purpose of this notice is to provide information with respect to the U.S. federal income taxation of the distribution of the shares of Baudax Bio, Inc., or Baudax Bio, to the shareholders of Recro Pharma, Inc., or Recro, which occurred on November 21, 2019. Recro shareholders are urged to consult their own tax advisors regarding the application of United States federal income, state and local tax consequences of the receipt of the Baudax Bio shares. This letter assumes that the Recro shareholder (you), is a U.S. citizen or tax resident, and holds the Recro common stock as a capital asset.

Baudax Bio was a wholly owned subsidiary of Recro. Under the terms of the separation of the two companies, every shareholder received one share of Baudax Bio common stock for every two and one half shares of Recro common stock held on record on November 15, 2019, the record date of the distribution.

Because the distribution is also referred to as a “spin-out” of Baudax Bio, some shareholders have questioned whether the distribution was tax free. It is Recro’s expectation that the distribution is not a tax free distribution as the requirements for Section 355 of the Code were not met, although, as described below, based on your investment in Recro common stock, you may not have any taxable income from the distribution.

Recro is reporting the distribution to you in the amount equal to the value of the Baudax Bio shares distributed to you. There are no bright line rules for how to determine the value of the Baudax Bio shares for tax purposes. Recro has determined that it is reasonable to use the volume-weighted average of the trading price of the Baudax Bio common stock on the day after the distribution, November 22, 2019. That amount was \$4.5158 per share. Recro’s decision on the proper valuation is not binding on you or the IRS.

Because you were entitled to receive one share of Baudax Bio common stock for every two and one half shares of Recro common stock you owned, the distribution was equal to \$1.8063 per share of Recro common stock owned ($\$4.5158/2.5$).

For example: if you owned 1,000 shares of Recro common stock as of the record date, the distribution of Baudax Bio common stock had a value of \$1,806 to you. That is the amount that is reported in Box 3 on the 1099-DIV you received.

The amount is being reported in Box 3 because Recro did not have current or accumulated earnings and profits as of the close of 2019. Because it did not have any earnings and profits, the distribution is, for U.S. federal income tax purposes, first a return of the tax basis you had in your Recro common stock. To the extent the value exceeds your basis in the Recro common stock it is treated



as a capital gain. Assuming you held the Recro common stock for more than a year as of November 21, 2019, that amount would be long-term capital gain.

You had an initial tax basis in the Baudax Bio common stock equal to the value you received (the amount in Box 3). If you received cash for fractional shares, the amount of the cash received reduced your tax basis in the Baudax Bio shares.

For example:

Assume you owned 1,000 shares of Recro common stock on the record date, with a tax basis of \$5.00 per share. You received a distribution of Baudax Bio common stock worth \$1,806. Because Recro did not have current or accumulated earnings and profits as of the close of 2019, the full \$1,806 is a non-taxable return of basis in the Recro common stock. As a result:

2019 taxable income to shareholder:	\$0
Basis in Recro shares after the distribution:	\$3,194
Basis in Baudax shares:	\$1,806 (less cash received)

If your basis in the Recro shares was \$1.00 per share, the distribution exceeded your basis in the Recro shares. As a result:

Capital gain:	\$806
Basis in Recro shares after the distribution:	\$0
Basis in Baudax shares:	\$1,806 (less cash received)

You are urged to consult your own tax advisor regarding the application of United States federal income, state and local tax consequences of the receipt of the Baudax Bio shares.

For more information on the distribution, please see:

<https://www.sec.gov/Archives/edgar/data/1780097/000119312519288447/d699555dex991.htm>