

KemPharm Agreement Covering Certain Opioid Prodrugs

In October 2016, we and KemPharm Inc. ("KemPharm") entered into a worldwide License Agreement (the "KemPharm Agreement") pursuant to which we licensed our Aversion® Technology to KemPharm for its use in the development and commercialization of three products using 2 of KemPharm's prodrug candidates. KemPharm has also been granted an option to extend the KemPharm Agreement to cover two additional prodrug candidates. KemPharm is responsible for all development, manufacturing and commercialization activities.

Upon execution of the KemPharm Agreement, KemPharm paid us an upfront payment of \$3.5 million. If KemPharm exercises its option to use our Aversion Technology with more than the two licensed prodrugs, then KemPharm will pay us up to \$1.0 million for each additional prodrug license. In addition, we will receive from KemPharm a low single digit royalty on commercial sales by KemPharm of products developed using our Aversion Technology under the KemPharm Agreement. KemPharm's royalty payment obligations commence on the first commercial sale of a product using our Aversion Technology and expire, on a country-by-country basis, upon the expiration of the last to expire patent claim of the Aversion Technology covering a product in such country, at which time the license for the particular product and country becomes fully paid and royalty free.

The KemPharm Agreement expires upon the expiration of KemPharm's royalty payment obligations in all countries. Either party may terminate the KemPharm Agreement in its entirety if the other party materially breaches the KemPharm Agreement, subject to applicable cure periods. Acura or KemPharm may terminate the KemPharm Agreement with respect to the U.S. and other countries if the other party challenges the patents covering the licensed products. KemPharm may terminate the KemPharm Agreement for convenience on ninety (90) days prior written notice. Termination does not affect a party's rights accrued prior thereto, but there are no stated payments in connection with termination other than payments of obligations previously accrued. For all terminations (but not expiration), the KemPharm Agreement provides for termination of our license grant to KemPharm.

NOTE 4 – REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue is recognized when, or as, performance obligations under terms of a contract are satisfied, which occurs when control of the promised service is transferred to a customer. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring services to a customer ("transaction price"). The Company will then recognize as revenue the amount of the transaction price that is allocated to the respective performance obligation when, or as, the performance obligation is satisfied. When determining the transaction price of the contract, an adjustment is made if payment from a customer occurs either significantly before or significantly after performance, resulting in a significant financing component. None of the Company's licenses and collaboration agreements contained a significant financing component at either December 31, 2019 or 2018.

The Company's existing license and collaboration agreements may contain a single performance obligation or may contain multiple performance obligations. Those which contain multiple performance obligations will require an allocation of the transaction price based on the estimated relative standalone selling prices of the promised services underlying each performance obligation.

The Company's existing license and collaboration agreements contain customer options for the license of additional products and territories. We determined the option's standalone selling prices based on the option product's potential market size in the option territory as compared to the currently licensed product and U.S. territory. Some of our existing license and collaboration agreements contain a license to the technology as well as licenses to tradenames or trademarks. The Company determined that the licenses to the tradenames or trademarks were immaterial in context of the contract.

Sales-based Milestones and Royalty Revenues

The commercial sales-based milestones and sales royalties earned under the license and collaboration for Oxaydo and sales royalties earned under the license for the Nexafed products, are recorded in the period of the related sales by Zyla and MainPointe. Payments of sales-based milestones are generally due within 30 days after the end of a calendar year. Payments of royalties are generally due within 45 days after the end of a calendar quarter.

License and Collaboration Agreement Revenues

The achievement of milestones under the Company's license and collaboration agreements will be recorded as revenue during the period the milestone's achievement becomes probable, which may result in earlier recognition as compared to the previous accounting standards. The license fee of an option product or option territory under the Company's license and collaboration agreements will be recorded as revenue when the option is exercised and any obligations on behalf of the Company, such as to transfer know-how, has been fulfilled. The monthly license fee under the Company's LTX-03 license and collaboration agreement will be recorded as revenue upon the fulfillment of the monthly development activities. The out-of-pocket development expenses under the license and collaboration agreements will be recorded as revenue upon the performance of the service or delivery of the material during the month.

On June 28, 2019 we entered into an agreement with AD Pharma for the development and license of LTX-03 (hydrocodone bitartrate with acetaminophen) immediate-release tablets utilizing Acura's patented LIMITx™ having a monthly license payment of \$350 thousand from AD Pharma to us for a period of up to 18 months until November 2020. AD Pharma will pay directly for or reimburse Acura to the extent Acura pay's for, all out-of-pocket development expenses. The first license payment was received July 2, 2019.

Disaggregation of Total Revenues

The Company has two license agreements for currently marketed products containing its technologies; the Oxaydo product containing the Aversion Technology has been licensed to Zyla and the Nexafed products containing the Impede Technology which have been licensed to MainPointe. On January 1, 2020, MainPointe assigned to AD Pharma, with Acura's consent, all of its right, title and interest in the MainPointe Agreement between MainPointe and Acura. All of the Company's royalty revenues are earned from these two license agreements by the licensee's sale of products in the United States.

Royalty revenues by licensee are summarized below:

	For the Year Ended	
	December 31,	
	2019	2018
	(in thousands)	
Zyla (Oxaydo)	\$ 351	\$ 386
MainPointe (Nexafed)	21	24
Royalty revenues	<u>\$ 372</u>	<u>\$ 410</u>

Contract Balance and Performance Obligations

The Company had no contract assets and contract liability balances under the license and collaboration agreements at either December 31, 2019 or 2018. Contract assets may be reported in future periods under prepaid expenses or other current assets on the consolidated balance sheet. Contract liabilities may be reported in future periods consisting of deferred revenue as presented on the consolidated balance sheet.

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is summarized as follows (in thousands):

	December 31,	
	2019	2018
Building and improvements	\$ 1,273	\$ 1,273
Scientific equipment	597	598
Computer hardware and software	106	107
Machinery and equipment	274	275
Land and improvements	162	162
Other personal property	70	70
Office equipment	27	27
	<u>2,509</u>	<u>2,512</u>
Less: accumulated depreciation	<u>(1,969)</u>	<u>(1,906)</u>
Total property, plant and equipment, net	<u>\$ 540</u>	<u>\$ 606</u>