REPLIGEN CORP
Form 10-Q
May 05, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2016

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number 000-14656

REPLIGEN CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**04-2729386**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
41 Seyon Street, Bldg. 1, Suite 100	
Waltham, MA	**02453**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (781) 250-0111

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No ¨

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of April 29, 2016.

Class	Number of Shares
Common Stock, par value $.01 per share	**33,638,643**

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REPLIGEN CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except share data)	**March 31, 2016**	**December 31, 2015**
Assets		
Current assets:		
Cash and cash equivalents	$ 53,213	$ 54,092
Marketable securities	16,482	17,682
Accounts receivable, less reserve for doubtful accounts of $19 and $31, respectively	12,574	11,300
Other receivables	331	82
Inventories	21,318	17,998
Prepaid expenses and other current assets	1,327	2,098
Total current assets	105,245	103,252
Property, plant and equipment, net	13,611	13,801
Long-term marketable securities	1,217	1,633
Intangible assets, net	12,455	12,755
Goodwill	14,346	14,346
Restricted cash	450	450
Total assets	$ 147,324	$ 146,237
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 5,144	$ 6,724
Accrued liabilities	10,677	12,057
Total current liabilities	15,821	18,781
Other long-term liabilities	2,617	4,708
Commitments and contingencies (Note 11)		
Stockholders equity:		
Preferred stock, $.01 par value, 5,000,000 shares authorized, no shares issued or outstanding		
Common stock, $.01 par value, 80,000,000 shares authorized, 33,097,903 shares at March 31, 2016 and 32,949,353 shares at December 31, 2015 issued and outstanding	331	329
Additional paid-in capital	205,142	202,527
Accumulated other comprehensive loss	(6,670)	(8,566)
Accumulated deficit	(69,917)	(71,542)

Total stockholders equity		128,886		122,748
Total liabilities and stockholders equity	$	147,324	$	146,237

The accompanying notes are an integral part of these condensed consolidated financial statements.

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REPLIGEN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(in thousands, except share and per share data)	Three months ended March 31, 2016	2015
Product revenue	$ 25,094	$ 20,816
Operating expenses:		
Cost of product revenue	11,069	8,073
Research and development	1,539	1,568
Selling, general and administrative	7,018	6,026
Contingent consideration fair value adjustments	2,005	1,111
Total operating expenses	21,631	16,778
Income from operations	3,463	4,038
Investment income	61	37
Interest expense	(5)	(9)
Other income (expense)	(979)	132
Income before income taxes	2,540	4,198
Income tax provision	915	1,268
Net income	$ 1,625	$ 2,930
Earnings per share:		
Basic	$ 0.05	$ 0.09
Diluted	$ 0.05	$ 0.09
Weighted average shares outstanding:		
Basic	33,024,681	32,754,862
Diluted	33,493,575	33,450,611
Other comprehensive income:		
Unrealized gain (loss) on investments	15	(17)
Foreign currency translation gain (loss)	1,881	(3,849)
Comprehensive income (loss)	$ 3,521	$ (936)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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REPLIGEN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	**Three months ended March 31, 2016**	**2015**
Cash flows from operating activities:		
Net income	$ 1,625	$ 2,930
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,150	1,150
Stock-based compensation expense	922	702
Deferred tax expense		87
Loss on revaluation of contingent consideration	2,005	1,111
Loss on disposal of assets	3	
Changes in assets and liabilities:		
Accounts receivable	(1,149)	(7,237)
Other receivables	(249)	(155)
Inventories	(3,092)	(514)
Prepaid expenses and other current assets	781	314
Accounts payable	(1,600)	435
Accrued liabilities	(4,277)	1,380
Long-term liabilities	70	(2,508)
Net cash used in operating activities	(3,811)	(2,305)
Cash flows from investing activities:		
Purchases of marketable securities	(3,969)	(3,287)
Redemptions of marketable securities	5,600	4,838
Purchases of property, plant and equipment	(431)	(1,272)
Net cash provided by investing activities	1,200	279
Cash flows from financing activities:		
Exercise of stock options	821	402
Payment of contingent considerations	(498)	(99)
Net cash provided by financing activities	323	303
Effect of exchange rate changes on cash and cash equivalents	1,409	(2,430)
Net increase (decrease) in cash and cash equivalents	(879)	(4,153)
Cash and cash equivalents, beginning of period	54,092	35,363
Cash and cash equivalents, end of period	$ 53,213	$ 31,210

Supplemental disclosure of non-cash activities:				
Income taxes paid	$	1,039	$	1,100
Payment of contingent consideration in common stock	$	875	$	

The accompanying notes are an integral part of these condensed consolidated financial statements.

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REPLIGEN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The consolidated financial statements included herein have been prepared by Repligen Corporation (the Company, Repligen or we) in accordance with generally accepted accounting principles in the United States (U.S. GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC), for Quarterly Reports on Form 10-Q and Article 10 of Regulation S-X and do not include all of the information and footnote disclosures required by U.S. GAAP. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

The preparation of 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 those estimates.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Repligen Sweden AB and Repligen Singapore Pte. Ltd. All significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments, consisting of only normal, recurring adjustments necessary for a fair presentation of the financial position, results of operations and cash flows. The results of operations for the interim periods presented are not necessarily indicative of results to be expected for the entire year.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification Topic 605, *Revenue Recognition*, and creates a new Topic 606, *Revenue from Contracts with Customers*. Two adoption methods are permitted: retrospectively to all prior reporting periods presented, with certain practical expedients permitted; or retrospectively with the cumulative effect of initially adopting the ASU recognized at the date of initial application. The FASB has issued several updates to this ASU. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which deferred the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017. Early adoption is permitted as of annual reporting periods beginning after December 15, 2016. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations. Additionally, in April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarifies the implementation guidance on identifying performance obligations in a contract and determining whether an entity s promise to grant a license provides a customer with either a right to use the entity s intellectual property (which is satisfied at a point in time) or a right to access the entity s intellectual property (which is satisfied over time). The

Company has not yet determined which adoption method it will utilize or the effect that the adoption of this guidance will have on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. (ASU 2015-11) ASU 2015-11 requires inventory be measured at the lower of cost and net realizable value, and options that currently exist for market value be eliminated. ASU 2015-11 defines net realizable value as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The guidance is effective prospectively for reporting periods beginning after December 15, 2016 and interim periods within those fiscal years with early adoption permitted. The Company does not expect the adoption of ASU 2015-11 to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). (ASU 2016-02) ASU 2016-02 requires lessees to recognize a right-of-use asset and a lease liability for most leases. Extensive quantitative and qualitative disclosures, including significant judgments made by management, will be required to provide greater insight into the extent of revenue and expense recognized and expected to be recognized from existing contracts. The accounting applied by a lessor is largely unchanged from that applied under the current standard. The standard must be adopted using a modified retrospective transition approach and provides for certain practical expedients. The ASU is effective for public entities for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company has not yet completed its assessment of the impact of the new standard on its consolidated financial statements.

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In March 2016, the FASB issued ASU No. 2016-09, Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting , which aims to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, classification of certain items on the statement of cash flows and accounting for forfeitures. The ASU is effective for public entities for fiscal years beginning after December 15, 2016, with early adoption permitted. The Company has not yet completed its assessment of the impact of the new standard on its consolidated financial statements.

2. Revenue Recognition

Product Sales

The Company s revenue recognition policy is to recognize revenues from product sales and services in accordance with ASC 605, *Revenue Recognition*. These standards require that revenues are recognized when persuasive evidence of an arrangement exists, product delivery, including customer acceptance when required, has occurred or services have been rendered, the price is fixed or determinable and collectability is reasonably assured. Determination of whether these criteria have been met are based on management s judgments primarily regarding the fixed nature of the fee charged for the product delivered and the collectability of those fees. The Company has a few longstanding customers who comprise the majority of revenue and have excellent payment histories and therefore the Company does not require collateral. The Company has had no significant write-offs of uncollectible invoices in the periods presented. When more than one element such as equipment, consumables, and services are contained in a single arrangement, the Company allocates revenue between the elements based on each element s relative selling price, provided that each element meets the criteria for treatment as a separate unit of accounting. An item is considered a separate unit of accounting if it has value to the customer on a stand-alone basis. The selling price of the undelivered elements is determined by the price charged when the element is sold separately, or in cases when the item is not sold separately, by third-party evidence of selling price or management s best estimate of selling price.

The Company s product revenues are from the sale of bioprocessing products, equipment devices, and related consumables used with these equipment devices to customers in the life science and biopharmaceutical industries. On product sales to end customers, revenue is recognized, net of discounts, when both the title and risk of loss have transferred to the customer, as determined by the shipping terms provided there are no uncertainties regarding acceptance, and all obligations have been completed. Generally, our product arrangements for equipment sales are multiple element arrangements, and may include services, such as installation and training, and multiple products, such as consumables and spare parts. In accordance with ASC 605-25, based on terms and conditions of the product arrangements, the Company believes that these services and undelivered products can be accounted for separately from the delivered product element, as the delivered products have value to our customers on a standalone basis. Accordingly, revenue for services not yet performed at the time of product shipment are deferred and recognized as such services are performed. The relative selling price of any undelivered products is also deferred at the time of shipment and recognized as revenue when these products are delivered. For product sales to distributors, the Company recognizes revenue for both equipment and consumables upon delivery to the distributor unless direct shipment to the end user is requested. In this case, revenue is recognized upon delivery to the end user s location. In general, distributors are responsible for shipment to the end customer along with installation, training and acceptance of the equipment by the end customer. Sales to distributors are not contingent upon resale of the product.

At the time of sale, the Company also evaluates the need to accrue for warranty and sales returns. The supply agreements the Company has with its customers and the related purchase orders identify the terms and conditions of each sale and the price of the goods ordered. Due to the nature of the sales arrangements, inventory produced for sale is tested for quality specifications prior to shipment. Since the product is manufactured to order and in compliance with required specifications prior to shipment, the likelihood of sales return, warranty or other issues is largely diminished. Furthermore, there is no customer right of return in our sales agreements. Sales returns and warranty issues are infrequent and have not had a material impact on the Company s financial statements historically.

Shipping and handling fees are recorded as a component of product revenue, with the associated costs recorded as a component of cost of product revenue.

Therapeutics Licensing Agreements

Activities under licensing agreements are evaluated in accordance with ASC 605-25 to determine if they represent a multiple element revenue arrangement. The Company identifies the deliverables included within the agreement and evaluates which deliverables represent separate units of accounting. The Company accounts for those components as separate units of accounting if the following two criteria are met:

The delivered item or items have value to the customer on a stand-alone basis.

If there is a general right of return relative to the delivered items, delivery or performance of the undelivered items is considered probable and within the Company s control.

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Factors considered in this determination include, among other things, whether any other vendors sell the items separately and if the licensee could use the delivered item for its intended purpose without the receipt of the remaining deliverables. If multiple deliverables included in an arrangement are separable into different units of accounting, the Company allocates the arrangement consideration to those units of accounting. The amount of allocable arrangement consideration is limited to amounts that are fixed or determinable. Arrangement consideration is allocated at the inception of the arrangement to the identified units of accounting based on their relative selling price. Revenue is recognized for each unit of accounting when the appropriate revenue recognition criteria are met.

Future milestone payments, if any, under a license agreement will be recognized under the provisions of ASC 605-28, which the Company adopted on January 1, 2011. The Company has elected to recognize a payment that is contingent upon the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. A milestone is substantive if:

- It can only be achieved based in whole or in part on either the Company s performance or the occurrence of a specific outcome resulting from the Company s performance;

- There is substantive uncertainty at the date an arrangement is entered into that the event will be achieved; and

- It would result in additional payments being due to the entity.

The commercial milestone payments and royalty payments received under license agreements, if any, will be recognized as revenue when they are earned.

Sale of Intellectual Property to BioMarin

In January 2014, the Company entered into an asset purchase agreement (the BioMarin Asset Purchase Agreement) with BioMarin Pharmaceutical Inc. (BioMarin) to sell Repligen s histone deacetylase inhibitor (HDACi) portfolio. Pursuant to the terms of the BioMarin Asset Purchase Agreement, the Company received $2 million from BioMarin as an upfront payment on January 30, 2014 and a $125,675 payment on September 3, 2014 upon completion of the Technology Transfer. The Company is entitled to receive up to $160 million in potential future milestone payments for the development, regulatory approval and commercial sale of portfolio compounds included in the agreement. These potential milestone payments are approximately 37% related to clinical development and 63% related to initial commercial sales in specific geographies. In addition, Repligen is eligible to receive royalties on sales of therapeutic products originating from the HDACi portfolio. The royalty rates are tiered and begin in the mid-single-digits for the first HDACi portfolio product and for the first non-HDACi portfolio product with lesser amounts for any backup products developed under the BioMarin Asset Purchase Agreement. Repligen s receipt of these royalties is subject to customary offsets and deductions. There are no refund provisions in this agreement. Any milestones earned upon specified clinical development or commercial sales events or future royalty payments, under the BioMarin Asset Purchase Agreement will be recognized as revenue when they are earned.

Activities under this agreement were evaluated in accordance with ASC 605-25 to determine if they represented a multiple element revenue arrangement. The Company identified the following deliverables in the BioMarin agreement:

The assignment by Repligen to BioMarin of the Repligen Technology (Repligen Know-How and Repligen Patents) and the Scripps Agreement (the Transferred Assets);

The transfer of certain notebooks, data, documents, biological materials (if any) and other such documents in our possession that might be useful to further development of the program (the Technology Transfer).

Two criteria must be met in order for a deliverable to be considered a separate unit of accounting. The first criterion requires that the delivered item or items have value to the customer on a stand-alone basis. The second criterion, which relates to evaluating a general right of return, is not applicable because such a provision does not exist in the BioMarin Asset Purchase Agreement. The deliverables outlined above were deemed to have stand-alone value and to meet the criteria to be accounted for as separate units of accounting. Factors considered in this determination included, among other things, BioMarin s right under the agreement to assign the Transferred Assets, whether any other vendors sell the items separately and if BioMarin could use the delivered item for its intended purpose without the receipt of the remaining deliverables. If multiple deliverables included in an arrangement are separable into different units of accounting, the multiple-element arrangements guidance addresses how to allocate the arrangement consideration to those units of accounting. The amount of allocable arrangement consideration is limited to amounts that are fixed or determinable. Arrangement consideration is allocated at the inception of the arrangement to the identified units of accounting based on their relative selling price.

The Company identified the arrangement consideration to allocate among the units of accounting as the $2.0 million non-refundable up-front payment and the $125,675 payment to be received upon completion of the Technology Transfer. The Company excluded the potential milestone payments provided for in the BioMarin Asset Purchase Agreement from the arrangement consideration as they were not considered fixed or determinable at the time the BioMarin Asset Purchase Agreement was signed. Because Repligen had not

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sold these items on a standalone basis previously, Repligen had no vendor-specific objective evidence of selling price. Furthermore, Repligen did not have detailed third-party evidence of selling price, and as a result we used our best estimate of selling price for each item. In determining these prices, Repligen considered what Repligen would be willing to sell the items for on a standalone basis, what the market would bear for such items and what another party might charge for these items.

The up-front arrangement consideration allocated to the Transferred Assets was recognized upon execution of the BioMarin Asset Purchase Agreement as the risks and rewards associated with the Transferred Assets transferred at that time. The Company used a discounted cash flow analysis to determine the value of the Transferred Assets. Key assumptions in the analysis included: the estimated market size for a compound targeted at Friedreich s Ataxia, the estimated remaining costs of development and time to commercialization, and the probability of successfully developing and commercializing the program. Based on this analysis, the Company allocated $2,115,000 to the value of the Transferred Assets. However, as the recognized revenue is limited to the non-contingent consideration received, the Company recognized $2,000,000, the amount of the up-front payment, as revenue in the three months ended March 31, 2014.

In addition to the $2.1 million up-front payment, the Company is also eligible to receive up to $160 million in potential milestone payments from BioMarin comprised of:

- Up to $60 million related to the achievement of specified clinical and regulatory milestone events; and

- Up to $100 million related to the achievement of specified commercial sales events, specifically the first commercial sale in specific territories.

The Company evaluated the potential milestones in accordance with ASC 605-28, which allows an entity to make an accounting policy election to recognize a payment that is contingent upon the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. This evaluation included an assessment of the risks that must be overcome to achieve the respective milestone as well as whether the achievement of the milestone was due in part to our initial clinical work, the level of effort and investment required to achieve the respective milestone and whether the milestone consideration is reasonable relative to all deliverables and payment terms in the arrangement. There is considerable judgment involved in determining whether a milestone satisfies all of the criteria required to conclude that a milestone is substantive. Milestones that are not considered substantive are recognized as earned if there are no remaining performance obligations or over the remaining period of performance, assuming all other revenue recognition criteria are met.

The Company believes that the $60 million of specified clinical and regulatory milestone payments are substantive. Therefore, any such milestones achieved will be recognized as revenue when earned.

Any milestones achieved upon specified commercial sales events or future royalty payments are considered contingent revenue under the BioMarin Asset Purchase Agreement, and will be recognized as revenue when they are earned as there are no undelivered elements remaining and no continuing performance obligations under the arrangement.

3. Accumulated Other Comprehensive Income

The following table summarizes the changes in accumulated other comprehensive income by component (in thousands):

(In thousands)	Unrealized gain (loss) on investments	Foreign currency translation gain (loss)	Total
Balance at December 31, 2015	$ (11)	$ (8,555)	$ (8,566)
Other comprehensive income	15	1,881	1,896
Balance at March 31, 2016	$ 4	$ (6,674)	$ (6,670)

4. Earnings Per Share

The Company reports earnings per share in accordance with Accounting Standards Codification Topic 260, Earnings Per Share, which establishes standards for computing and presenting earnings per share. Basic earnings per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares and dilutive common share equivalents then outstanding. Potential common share equivalents consist of restricted stock awards and the incremental common shares issuable upon the exercise of stock options. Under the treasury stock method,

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unexercised in-the-money stock options and warrants are assumed to be exercised at the beginning of the period or at issuance, if later. The assumed proceeds are then used to purchase common shares at the average market price during the period. Share-based payment awards that entitle their holders to receive non-forfeitable dividends before vesting are considered participating securities and are considered in the calculation of basic and diluted earnings per share. There were no such participating securities outstanding during the three-month periods ended March 31, 2016 and 2015.

Basic and diluted weighted average shares outstanding were as follows:

	Three Months Ended March 31,	
	2016	**2015**
Weighted average common shares	33,024,681	32,754,862
Dilutive common stock options and restricted stock units	468,894	695,749
Weighted average common shares, assuming dilution	33,493,575	33,450,611

At March 31, 2016, there were outstanding options to purchase 1,312,508 shares of the Company s common stock at a weighted average exercise price of $11.50 per share. For the three-month period ended March 31, 2016, 520,030 options to purchase shares of the Company s common stock were excluded from the calculation of diluted earnings per share because the exercise prices of the stock options were greater than or equal to the average price of the common shares, and were therefore anti-dilutive.

At March 31, 2015, there were outstanding options to purchase 1,295,312 shares of the Company s common stock at a weighted average exercise price of $9.44 per share. For the three-month period ended March 31, 2015, 199,580 options to purchase shares of the Company s common stock were excluded from the calculation of diluted earnings per share because the exercise prices of the stock options were greater than or equal to the average price of the common shares, and were therefore anti-dilutive.

5. Cash, Cash Equivalents and Marketable Securities

At March 31, 2016 and December 31, 2015, the Company s investments included money market funds as well as short-term and long-term marketable securities. These marketable securities are classified as available-for-sale. Marketable securities are investments with original maturities of greater than 90 days. Long-term marketable securities are securities with maturities of greater than one year. The average remaining contractual maturity of marketable securities at March 31, 2016 is approximately 4.12 months.

Management reviewed the Company s investments as of March 31, 2016 and December 31, 2015 and concluded that there are no securities with other than temporary impairments in the investment portfolio. The Company does not intend to sell any investments in an unrealized loss position, and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases.

Investments in marketable securities consisted of the following at March 31, 2016 (in thousands):

	March 31, 2016			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Marketable securities:				
U.S. Government and agency securities	$ 5,778	$	$	$ 5,778
Corporate and other debt securities	10,700	7	(3)	10,704
	16,478	7	(3)	16,482
Long-term marketable securities:				
U.S. Government and agency securities	417			417
Corporate and other debt securities	800			800
	1,217			1,217
Total	$ 17,695	$ 7	$ (3)	$ 17,699

At March 31, 2016, the Company s investments included sixteen securities in unrealized loss positions with a total unrealized loss of approximately $3,000 and a total fair market value of approximately $6,122,000. All investments with gross unrealized losses have been in unrealized loss positions for less than 12 months. The unrealized losses were caused primarily by current economic and market conditions. There was no change in the credit risk of the securities. There were no realized gains or losses on the investments for the three months ended March 31, 2016 or the three months ended March 31, 2015.

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Investments in marketable securities consisted of the following at December 31, 2015 (in thousands):

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Marketable securities:				
U.S. Government and agency securities	$ 7,029	$	$ (6)	$ 7,023
Corporate and other debt securities	10,659	7	(7)	10,659
	17,688	7	(13)	17,682
Long-term marketable securities:				
U.S. Government and agency securities	838		(2)	836
Corporate and other debt securities	800		(3)	797
	1,638		(5)	1,633
Total	$ 19,326	$ 7	$ (18)	$ 19,315

The contractual maturities of money market funds and marketable securities at March 31, 2016 were as follows:

	Amortized Cost	Fair Value
Due in 1 year or less	$ 16,478	$ 16,482
Due in 1 to 2 years	1,217	1,217
	$ 17,695	$ 17,699

6. Inventories

Inventories relate to the Company s bioprocessing business. The Company values inventory at cost or, if lower, market value, using the first-in, first-out method. The Company reviews its inventories at least quarterly and records a provision for excess and obsolete inventory based on its estimates of expected sales volume, production capacity and expiration dates of raw materials, work-in-process and finished products. Expected sales volumes are determined based on supply forecasts provided by key customers for the next 3 to 12 months. The Company writes down inventory that has become obsolete, inventory that has a cost basis in excess of its expected net realizable value, and inventory in excess of expected requirements to cost of product revenue. Manufacturing of bioprocessing finished goods is done to order and tested for quality specifications prior to shipment. Reserves for excess and obsolete inventory were approximately $343,000 at March 31, 2016 and December 31, 2015.

A change in the estimated timing or amount of demand for the Company s products could result in additional provisions for excess inventory quantities on hand. Any significant unanticipated changes in demand or unexpected quality failures could have a significant impact on the value of inventory and reported operating results. During all periods presented in the accompanying financial statements, there have been no material adjustments related to a revised estimate of inventory valuations.

Work-in-process and finished products inventories consist of material, labor, outside processing costs and manufacturing overhead. Inventories consist of the following (in thousands):

	March 31, 2016	December 31, 2015
Raw Materials	$ 12,576	$ 10,671
Work-in-process	3,387	1,586
Finished products	5,355	5,741
Total	$ 21,318	$ 17,998

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7. Property, Plant and Equipment

Property, plant and equipment consist of the following (in thousands):

	March 31, 2016	December 31, 2015
Leasehold improvements	$ 13,365	$ 13,306
Equipment	14,418	13,758
Furniture and fixtures	2,961	2,808
Construction in progress	282	425
Total property, plant and equipment	31,026	30,297
Less: accumulated depreciation	(17,415)	(16,496)
Property, plant and equipment, net	$ 13,611	$ 13,801

Depreciation expense totaled approximately $751,000 and $749,000 for the three-month periods ended March 31, 2016 and 2015, respectively.

8. Intangible Assets

Intangible assets, except for the Refine Technology, LLC tradename and in-process research and development, are amortized over their useful lives using the estimated economic benefit method, as applicable, and the amortization expense is recorded within selling, general and administrative expense in the Company s statements of comprehensive income (loss). The Refine Technology, LLC tradename and in-process research and development are not amortized. The Company reviews its indefinite-lived intangible assets not subject to amortization to determine if adverse conditions exist or a change in circumstances exists that would indicate an impairment. Intangible assets and their related useful lives are reviewed at least annually to determine if any adverse conditions exist that would indicate the carrying value of these assets may not be recoverable. More frequent impairment assessments are conducted if certain conditions exist, including a change in the competitive landscape, any internal decisions to pursue new or different technology strategies, a loss of a significant customer, or a significant change in the marketplace, including changes in the prices paid for our products or changes in the size of the market for our products. An impairment results if the carrying value of the asset exceeds the estimated fair value of the asset. If the estimate of an intangible asset s remaining useful life is changed, the remaining carrying amount of the intangible asset is amortized prospectively over the revised remaining useful life. The Company continues to believe that its intangible assets are recoverable at March 31, 2016.

Intangible assets consisted of the following at March 31, 2016 (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Weighted Average Useful Life (in years)
Technology developed	$ 3,315	$ (854)	12

In process research and development		1,600			
Patents		240		(185)	8
Customer relationships		11,985		(4,346)	9
Trademark/ tradename		700			
Total intangible assets	$	17,840	$	(5,385)	10

Intangible assets consisted of the following at December 31, 2015 (in thousands):

		Gross Carrying Amount		Accumulated Amortization	Weighted Average Useful Life (in years)
Technology developed	$	3,295	$	(782)	12
In process research and development		1,600			
Patents		240		(177)	8
Customer relationships		11,805		(3,926)	9
Trademark/ tradename		700			
Total intangible assets	$	17,640	$	(4,885)	10

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Amortization expense for amortized intangible assets was approximately $399,000 and $401,000 for the three months ended March 31, 2016 and 2015, respectively. As of March 31, 2016, the Company expects to record amortization expense as follows (in thousands):

Years Ending	Amortization Expense	
December 31, 2016 (nine months remaining)	$	1,279
December 31, 2017		1,705
December 31, 2018		1,541
December 31, 2019		1,526
December 31, 2020		1,190

9. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	March 31, 2016		December 31, 2015	
Employee compensation	$	2,888	$	4,680
Taxes		9		166
Current portion of contingent consideration		4,168		4,480
Professional fees		485		269
Unearned revenue		411		258
Other accrued expenses		2,716		2,204
Total	$	10,677	$	12,057

10. Stock-Based Compensation

For the three months ended March 31, 2016 and 2015, the Company recorded stock-based compensation expense of approximately $922,000 and $702,000, respectively, for share-based awards granted under the Second Amended and Restated 2001 Repligen Corporation Stock Plan (the 2001 Plan) and the Repligen Corporation Amended and Restated 2012 Stock Option and Incentive Plan (the 2012 Plan, and collectively with the 2001 Plan and the 1992 Repligen Corporation Stock Option Plan, the Plans).

The following table presents stock-based compensation expense included in the Company s consolidated statements of comprehensive income (loss):

	Three Months Ended March 31,			
	2016		2015	
Cost of product revenue	$	60	$	43
Research and development		80		69
Selling, general and administrative		782		590

Total	$ 922	$ 702

The 2012 Plan allows for the granting of incentive and nonqualified options to purchase shares of common stock, restricted stock and other equity awards. Incentive options granted to employees under the Plans generally vest over a three to five-year period, with 20%-33% vesting on the first anniversary of the date of grant and the remainder vesting in equal yearly installments thereafter. Nonqualified options issued to non-employee directors under the Plans generally vest over one year. Options granted under the Plans have a maximum term of ten years from the date of grant and generally, the exercise price of the stock options equals the fair market value of the Company s common stock on the date of grant. At March 31, 2016, options to purchase 1,312,508 shares were outstanding under the Plans. At March 31, 2016, 2,085,727 shares were available for future grant under the 2012 Plan.

The Company uses the Black-Scholes option pricing model to calculate the fair value of stock option awards on the grant date, and the Company uses the value of the common stock as of the grant date to value restricted stock units. The Company measures stock-based compensation cost at the grant date based on the estimated fair value of the award, and recognizes awards with service based vesting as expense over the employee s requisite service period on a straight-line basis. The Company records the expense for share-based awards subject to performance-based milestone vesting over the remaining service period when management determines that achievement of the milestone is probable. Management evaluates whether the achievement of a performance-based milestone is probable as of the reporting date. The Company has no awards that are performance-based or subject to market conditions. The Company recognizes stock-based compensation expense for options that are ultimately expected to vest, and accordingly, such compensation expense has been adjusted for estimated forfeitures.

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Information regarding option activity for the three months ended March 31, 2016 under the Plans is summarized below:

	Options Outstanding	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at January 1, 2016	1,240,935	$ 10.44		
Granted	244,220	13.44		
Exercised	(113,747)	6.86		
Forfeited/Cancelled	(58,900)	6.15		
Options outstanding at March 31, 2016	1,312,508	$ 11.50	7.34	$ 20,679
Options exercisable at March 31, 2016	517,769	$ 7.91	5.11	$ 9,792
Vested and expected to vest at March 31, 2016 (1)	1,221,408	$ 11.61	7.26	$ 19,133

(1) This represents the number of vested options as of March 31, 2016 plus the number of unvested options expected to vest as of March 31, 2016 based on the unvested outstanding options at March 31, 2016 adjusted for estimated forfeiture rates of 8% for awards granted to non-executive level employees and 3% for awards granted to executive level employees.

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the closing price of the common stock on March 31, 2016 of $26.82 and the exercise price of each in-the-money option) that would have been received by the option holders had all option holders exercised their options on March 31, 2016.

The weighted average grant date fair value of options granted during the three months ended March 31, 2016 and 2015 was $19.57 and $19.67, respectively. The total fair value of stock options that vested during the three months ended March 31, 2016 and 2015 was approximately $1,387,000 and $671,000, respectively.

As of March 31, 2016, there was approximately $9,764,000 of total unrecognized compensation cost related to unvested share-based awards. This cost is expected to be recognized over a weighted average remaining requisite service period of 2.93 years. The Company expects 703,639 unvested options to vest over the next five years.

11. Income Taxes

For the three months ended March 31, 2016, the Company had income before taxes of approximately $2,540,000 and recorded a tax provision of approximately $915,000 for an effective tax rate of approximately 36.0%. For the three months ended March 31, 2015, the Company had income before taxes of approximately $4,198,000 and recorded a tax provision of $1,268,000 for an effective tax rate of approximately 30.2%. This was based on expected effective tax rates of 26.5% and 25.9% for the years ending December 31, 2016 and 2015, respectively. The effective income tax rate is based upon the forecasted income by jurisdiction. The effective tax rate for the three months ended March 31, 2016 is higher than the U.S. statutory tax rate mainly due to the tax treatment of contingent consideration expense. The effective tax rate for the three months ended March 31, 2015 is lower than the U.S. statutory tax rate due to the lower statutory tax rate in Sweden.

The Company has net operating loss carryforwards of approximately $46,984,000 and business tax credit carryforwards of approximately $1,920,000 available to reduce future federal income taxes, if any. The net operating loss and business tax credits carryforwards will continue to expire at various dates through December 2035. Net operating loss carryforwards and available tax credits are subject to review and possible adjustment by the Internal Revenue Service and may be limited in the event of certain changes in the ownership interest of significant stockholders.

As of December 31, 2015, we concluded that realization of deferred tax assets beyond December 31, 2015 is not more likely than not, and as such, as of December 31, 2015 we maintained a valuation allowance against the majority of our remaining deferred tax assets. As of March 31, 2016, we concluded that realization of deferred tax assets beyond March 31, 2016 is not more likely than not, and as such, as of March 31, 2016 we maintained a valuation allowance against the majority of our remaining deferred tax assets.

The fiscal years ended December 31, 2012, 2013, 2014 and 2015 are subject to examination by U.S. federal, state and Sweden taxing authorities.

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12. Fair Value Measurement

In determining the fair value of its assets and liabilities, the Company uses various valuation approaches. The Company employs a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company s assumptions about the inputs that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances. The fair value hierarchy is broken down into three levels based on the source of inputs as follows:

Level 1	Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access
Level 2	Valuations based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and models for which all significant inputs are observable, either directly or indirectly
Level 3	Valuations based on inputs that are unobservable and significant to the overall fair value measurement

The availability of observable inputs can vary among the various types of financial assets and liabilities. To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for financial statement disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is categorized is based on the lowest level input that is significant to the overall fair value measurement.

The Company s fixed income investments are comprised of obligations of U.S. government agencies and corporate marketable securities. These investments have been initially valued at the transaction price and subsequently valued, at the end of each reporting period, utilizing third party pricing services or other market observable data. The pricing services utilize industry standard valuation models, including both income and market based approaches and observable market inputs to determine value. These observable market inputs include reportable trades, benchmark yields, credit spreads, broker/dealer quotes, bids, offers, current spot rates and other industry and economic events. At least annually, the Company validates the prices provided by third party pricing services by reviewing their pricing methods and matrices, obtaining market values from other pricing sources, analyzing pricing data in certain instances and confirming that the relevant markets are active. The Company did not adjust or override any fair value measurements provided by the pricing services as of March 31, 2016.

The following fair value hierarchy table presents information about each major category of the Company s assets measured at fair value on a recurring basis as of March 31, 2016 (in thousands):

	Fair value measurement at reporting date using:			
	Quoted prices in active markets for identical assets	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**

	(Level 1)			
Assets:				
Money market funds	$ 11,331	$	$	$ 11,331
U.S. Government and agency securities	5,896	300		6,196
Corporate and other debt securities		11,503		11,503
Total	$ 17,227	$ 11,803	$	$ 29,030
Liabilities:				
Contingent consideration short-term			4,018	4,018
Contingent consideration long-term			145	145
Total	$	$	$ 4,163	$ 4,163

The Company