

REPLIGEN CORP  
Form 10-Q  
November 01, 2018  
[Table of Contents](#)

**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, 2018**

**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**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**04-2729386**  
**(I.R.S. Employer**  
**Identification No.)**

**41 Seyon Street, Bldg. 1, Suite 100**

**Waltham, MA**  
**(Address of principal executive offices)**

**02453**  
**(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 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. (Check one):

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 Section 13(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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of October 29, 2018.

| <b>Class</b>                            | <b>Number of Shares</b> |
|---|-------------------------|
| Common Stock, par value \$.01 per share | 43,859,319              |



**Table of Contents**

**Table of Contents**

|  | <b>PAGE</b> |
|--|-------------|
| <b>PART I</b>  |             |
| <b><u>FINANCIAL INFORMATION</u></b>  |             |
| Item 1. <u>Financial Statements</u>  |             |
| <u>Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017</u>  | 3           |
| <u>Condensed Consolidated Statements of Comprehensive Income for the Three- and Nine-Month Periods Ended September 30, 2018 and 2017</u> | 4           |
| <u>Condensed Consolidated Statements of Cash Flows for the Nine-Month Periods Ended September 30, 2018 and 2017</u>                      | 5           |
| <u>Notes to Unaudited Condensed Consolidated Financial Statements</u>  | 6           |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                                     | 24          |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | 31          |
| Item 4. <u>Controls and Procedures</u>   | 32          |
| <b>PART II</b>   |             |
| <b><u>OTHER INFORMATION</u></b>  |             |
| Item 1. <u>Legal Proceedings</u>   | 33          |
| Item 1A. <u>Risk Factors</u>   | 33          |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>   | 33          |
| Item 3. <u>Defaults Upon Senior Securities</u>   | 33          |
| Item 4. <u>Mine Safety Disclosures</u>   | 33          |
| Item 5. <u>Other Information</u>   | 33          |
| Item 6. <u>Exhibits</u>  | 33          |
| <u>Signatures</u>  | 34          |

**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. Financial Statements****REPLIGEN CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS***(Unaudited, amounts in thousands, except share data)*

|  | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|--|-------------------------------|------------------------------|
| <b>Assets</b>  |                               |                              |
| Current assets:  |                               |                              |
| Cash and cash equivalents  | \$ 190,304                    | \$ 173,759                   |
| Accounts receivable, less reserve for doubtful accounts of \$164 at September 30, 2018 and \$58 at December 31, 2017, respectively | 30,784                        | 27,585                       |
| Royalties and other receivables  | 46                            | 153                          |
| Inventories, net   | 42,284                        | 39,004                       |
| Prepaid expenses and other current assets  | 3,830                         | 2,281                        |
| Total current assets   | 267,248                       | 242,782                      |
| Property, plant and equipment, net   | 29,359                        | 22,417                       |
| Intangible assets, net   | 136,534                       | 144,753                      |
| Goodwill   | 326,977                       | 327,333                      |
| Other assets   | 2,007                         | 6,234                        |
| Total assets   | 762,125                       | \$ 743,519                   |
| <b>Liabilities and stockholders' equity</b>  |                               |                              |
| Current liabilities:   |                               |                              |
| Accounts payable   | \$ 9,482                      | \$ 7,282                     |
| Accrued liabilities  | 17,964                        | 17,929                       |
| Convertible senior notes, current portion  | 102,400                       |                              |
| Total current liabilities  | 129,846                       | 25,211                       |
| Convertible senior notes, net  |                               | 99,250                       |
| Deferred tax liabilities   | 21,120                        | 25,167                       |
| Other long-term liabilities  | 4,672                         | 2,343                        |
| Commitments and contingencies (Note 14)  |                               |                              |
| Stockholders' equity:  |                               |                              |
| Preferred stock, \$.01 par value, 5,000,000 shares authorized, no shares issued or outstanding                                     | 439                           | 436                          |

Edgar Filing: REPLIGEN CORP - Form 10-Q

Common stock, \$.01 par value, 80,000,000 shares authorized, 43,853,389 shares at September 30, 2018 and 43,587,079 shares at December 31, 2017 issued and outstanding

|  |            |            |
|--|------------|------------|
| Additional paid-in capital                 | 639,027    | 628,983    |
| Accumulated other comprehensive loss       | (11,773)   | (6,363)    |
| Accumulated deficit                        | (21,206)   | (31,508)   |
| Total stockholders' equity                 | 606,487    | 591,548    |
| Total liabilities and stockholders' equity | \$ 762,125 | \$ 743,519 |

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

Table of Contents**REPLIGEN CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME***(Unaudited, amounts in thousands except share and per share data)*

|   | <b>Three Months Ended<br/>September 30,</b> |                 | <b>Nine Months Ended<br/>September 30,</b> |                  |
|---|---|-----------------|--|------------------|
|   | <b>2018</b>                                 | <b>2017</b>     | <b>2018</b>                                | <b>2017</b>      |
| <b>Revenue:</b>                             |   |                 |  |                  |
| Product revenue                             | \$ 49,500                                   | \$ 36,514       | \$ 142,042                                 | \$ 99,516        |
| Royalty and other revenue                   | 29  | 66              | 48   | 108              |
| <b>Total revenue</b>                        | <b>49,529</b>                               | <b>36,580</b>   | <b>142,090</b>                             | <b>99,624</b>    |
| <b>Operating expenses:</b>                  |   |                 |  |                  |
| Cost of product revenue                     | 22,183                                      | 19,987          | 62,939                                     | 47,913           |
| Research and development                    | 3,601                                       | 2,001           | 12,669                                     | 5,603            |
| Selling, general and administrative         | 15,859                                      | 14,998          | 48,347                                     | 35,365           |
| <b>Total operating expenses</b>             | <b>41,643</b>                               | <b>36,986</b>   | <b>123,955</b>                             | <b>88,881</b>    |
| Income (loss) from operations               | 7,886                                       | (406)           | 18,135                                     | 10,743           |
| <b>Other income (expenses):</b>             |   |                 |  |                  |
| Investment income                           | 558   | 102             | 1,251                                      | 308              |
| Interest expense                            | (1,687)                                     | (1,618)         | (5,008)                                    | (4,804)          |
| Other (expenses) income                     | (134)                                       | (100)           | 187  | (548)            |
| <b>Total other expenses, net</b>            | <b>(1,263)</b>                              | <b>(1,616)</b>  | <b>(3,570)</b>                             | <b>(5,044)</b>   |
| Income (loss) before income taxes           | 6,623                                       | (2,022)         | 14,565                                     | 5,699            |
| Income tax provision (benefit)              | 1,829                                       | (6,691)         | 3,586                                      | (10,476)         |
| <b>Net income</b>                           | <b>\$ 4,794</b>                             | <b>\$ 4,669</b> | <b>\$ 10,979</b>                           | <b>\$ 16,175</b> |
| <b>Earnings per share:</b>                  |   |                 |  |                  |
| Basic                                       | \$ 0.11                                     | \$ 0.11         | \$ 0.25                                    | \$ 0.44          |
| Diluted                                     | \$ 0.10                                     | \$ 0.11         | \$ 0.24                                    | \$ 0.43          |
| <b>Weighted average shares outstanding:</b> |   |                 |  |                  |
| Basic                                       | 43,822,472                                  | 41,236,554      | 43,728,503                                 | 36,435,591       |
| Diluted                                     | 45,828,175                                  | 42,563,002      | 45,132,115                                 | 37,386,333       |
| <b>Other comprehensive income:</b>          |   |                 |  |                  |

Edgar Filing: REPLIGEN CORP - Form 10-Q

|  |          |          |          |           |   |
|--|----------|----------|----------|-----------|---|
| Unrealized gain on investments           |          |          |          |           | 5 |
| Foreign currency translation (loss) gain | (630)    | 2,025    | (5,410)  | 7,097     |   |
| Comprehensive income                     | \$ 4,164 | \$ 6,694 | \$ 5,569 | \$ 23,277 |   |

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



Table of Contents

**REPLIGEN CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(Unaudited, amounts in thousands)*

|  | <b>Nine Months Ended<br/>September 30,</b> |                 |
|--|--|-----------------|
|  | <b>2018</b>                                | <b>2017</b>     |
| <b>Cash flows from operating activities:</b>   |  |                 |
| Net income   | \$ 10,979                                  | \$ 16,175       |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |  |                 |
| Depreciation and amortization  | 11,775                                     | 6,374           |
| Provision for doubtful accounts  | 107  |                 |
| Non-cash interest expense  | 3,160                                      | 2,958           |
| Stock-based compensation expense   | 7,672                                      | 4,845           |
| Deferred tax expense   | 472  | (13,062)        |
| Loss on conversion of convertible senior notes   | 1  |                 |
| Loss on disposal of assets   |  | 64              |
| <b>Changes in assets and liabilities:</b>  |  |                 |
| Accounts receivable  | (1,583)                                    | (8,472)         |
| Other receivables  | (149)                                      | 196             |
| Inventories  | (4,805)                                    | 699             |
| Prepaid expenses and other current assets  | (1,437)                                    | (739)           |
| Other assets   | (1,348)                                    | (704)           |
| Accounts payable   | 3,354                                      | 159             |
| Accrued liabilities  | (1,070)                                    | (6,089)         |
| Long-term liabilities  | 87   | (171)           |
| <b>Net cash provided by operating activities</b>   | <b>27,215</b>                              | <b>2,233</b>    |
| <b>Cash flows from investing activities:</b>   |  |                 |
| Acquisition of Spectrum Inc., net of cash received                                       |  | (112,941)       |
| Purchases of marketable securities   |  | (48)            |
| Redemptions of marketable securities   |  | 19,600          |
| Purchases of property, plant and equipment   | (8,580)                                    | (3,686)         |
| <b>Net cash used in investing activities</b>   | <b>(8,580)</b>                             | <b>(97,075)</b> |
| <b>Cash flows from financing activities:</b>   |  |                 |
| Proceeds from issuance of common stock, net of issuance costs                            |  | 129,309         |
| Exercise of stock options  | 2,374                                      | 2,035           |
| Repayment of senior convertible notes  | (11)                                       |                 |
| Payment of contingent consideration  |  | (1,702)         |
| <b>Net cash provided by financing activities</b>   | <b>2,363</b>                               | <b>129,642</b>  |

|   |            |            |
|---|------------|------------|
| Effect of exchange rate changes on cash and cash equivalents    | (4,453)    | 2,633      |
| Net increase in cash, cash equivalents and restricted cash      | 16,545     | 37,433     |
| Cash, cash equivalents and restricted cash, beginning of period | 173,759    | 122,233    |
| Cash, cash equivalents and restricted cash, end of period       | \$ 190,304 | \$ 159,666 |
| Supplemental disclosure of cash flow activities:                |            |            |
| Cash paid during the period for:                                |            |            |
| Income taxes  | \$ 3,120   | \$ 3,555   |
| Interest  | \$ 1,222   | \$ 1,222   |
| Non-cash investing and financing activities:                    |            |            |
| Non-cash effect of adoption of ASU 2016-16                      | \$ 5,609   | \$         |
| Payment of contingent consideration in common stock             | \$         | \$ 1,062   |
| Stock tendered for acquisition of Spectrum                      | \$         | \$ 247,575 |
| Property, plant and equipment related to lease incentives       | \$ 2,270   | \$         |

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

**Table of Contents**

**REPLIGEN CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Basis of Presentation**

The condensed 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 condensed 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, 2017.

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 condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Repligen Sweden AB (Repligen Sweden), Repligen GmbH, Repligen Singapore Pte. Ltd., our former subsidiary, TangenX Technology Corporation (TangenX, which was acquired on December 14, 2016 and merged into the Company as of June 30, 2017) and Spectrum LifeSciences, LLC (Spectrum, which was acquired on August 1, 2017). All significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying unaudited condensed 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.

***Recent Accounting Standards Updates***

We consider the applicability and impact of all Accounting Standards Updates on our condensed consolidated financial statements. Updates not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position or results of operations. Recently issued Accounting Standards Updates which we feel may be applicable to us are as follows:

***Recently Issued Accounting Standard Updates Not Yet Adopted***

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2016-02, *Leases (Topic 842)*. Subsequently, the FASB issued additional updates which clarify this guidance, including ASU 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transitioning to Topic 842*, in January 2018, which allows an entity to elect an optional transition practical expedient to not evaluate land easements that exist or expired before the entity's adoption of Topic 842, and ASU 2018-11, *Leases Targeted Improvements (Topic 842)*, in July 2018, that gives entities the option to not provide comparative period financial

statements and instead apply the transition requirements as of the effective date of the new standard. The Company plans to adopt the new standard using this optional method. Pursuant to the guidance under ASU 2016-02, the Company also plans to elect the optional package of practical expedients, which will allow the Company to not reassess: (i) whether expired or existing contracts contain leases; (ii) lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases. The new standard also allows entities to make certain policy elections, some of which the Company also plans to elect, including: a policy to not record short-term leases on the balance sheet. The Company is currently working through lease contract scoping, design and implementation of transition related controls, and finalization of accounting elections. The Company is still assessing the impact this standard will have on its consolidated financial statements and disclosures; however, it anticipates that the new standard will result in the Company recording additional right of use assets and corresponding liabilities on its consolidated balance sheet.

In February 2018, the FASB issued ASU 2018-02, *Income Statement Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which gives entities the option to reclassify to retained earnings tax effects related to items that have been stranded in accumulated other comprehensive

**Table of Contents**

income as a result of the Tax Cuts and Jobs Act (the Act). For all entities, the guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Entities can choose whether to apply the amendments retrospectively to each period in which the effect of the Act is recognized or to apply the amendments in the period of adoption. The Company has not assessed the impact of the new standard on its consolidated financial statements but does not expect its adoption to have a material impact on the Company's consolidated financial statements.

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*. ASU 2018-13 includes amendments that aim to improve the effectiveness of fair value measurement disclosures. The amendments in this guidance modify the disclosure requirements on fair value measurements based on the concepts in FASB Concepts Statement, *Conceptual Framework for Financial Reporting Chapter 8: Notes to Financial Statements*, including the consideration of costs and benefits. The amendments become effective for the Company in the year ending December 31, 2020 and early adoption is permitted. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The guidance also requires the entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, which includes reasonably certain renewals. The guidance becomes effective for the Company in the year ending December 31, 2020 and early adoption is permitted. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements.

*Recently Issued Accounting Standard Updates Adopted During the Period*

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, (ASC 606) which supersedes the revenue recognition requirements in Accounting Standards Codification (ASC) 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 adoption of this ASU included updates as provided under ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*; ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*; ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*; and ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. The Company adopted the provisions of ASC 606 using the modified retrospective method effective January 1, 2018. See Note 3 for further discussion of the effects of this standard on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 203): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 addresses eight specific cash flow issues and clarifies their presentation and classification in the Statement of Cash Flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017 and is to be applied retrospectively with early adoption permitted. The Company has historically classified payments up to the amount of its contingent consideration liability recognized at the date of its acquisition as financing activities, with additional payments classified as operating activities. Because the Company

has classified its contingent consideration payments as required by this standard, the adoption of this standard did not have any impact on its consolidated financial statements when applied on a retrospective basis.

In October 2016, the FASB issued ASU 2016-16, *Intra-Entity Transfers of Assets Other Than Inventory*. ASU 2016-16 requires that the income tax consequences of an intra-entity asset transfer other than inventory are recognized at the time of the transfer. An entity will continue to recognize the income tax consequences of an intercompany transfer of inventory when the inventory is sold to a third party. The Company adopted this standard on a modified-retrospective basis on January 1, 2018. See Note 12 for a discussion of the impact of this ASU on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that the statement of cash flows explain the change during the period in the total cash, which is inclusive of cash and cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning of period and end of period balances on the statement of cash flows upon adoption of this standard. The Company adopted this standard on a retrospective basis on January 1, 2018. The adoption resulted in an increase to cash, cash equivalents and restricted cash of \$450,000 in the statement of cash flows at December 31, 2016 and September 30, 2017. The Company did not hold any restricted cash at December 31, 2017 or September 30, 2018.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The Company adopted this standard as of January 1, 2018, and the adoption of ASU 2017-01 did not have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, eliminating the requirement to calculate the implied fair value, essentially eliminating step two from the goodwill impairment test. ASU 2017-04 requires goodwill impairment to be based upon the results of step one of the impairment test, which is defined as the excess of the carrying value of a reporting unit over its fair value. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. The standard is effective for the Company on a prospective basis beginning on January 1, 2020, with early adoption permitted. The Company adopted this standard as of January 1, 2018, and the adoption of this standard did not have a material impact on the Company's consolidated financial statements.

**Table of Contents****2. Acquisition of Spectrum LifeSciences, LLC**

On August 1, 2017, the Company completed the acquisition of Spectrum pursuant to the terms of an Agreement and Plan of Merger and Reorganization, dated as of June 22, 2017 (such acquisition, the Spectrum Acquisition ).

Spectrum is a diversified filtration company with a differentiated portfolio of hollow fiber cartridges, benchtop to commercial scale filtration and perfusion systems and a broad portfolio of disposable and single-use solutions. Spectrum's products are primarily used for the filtration, isolation, purification and concentration of monoclonal antibodies, vaccines, recombinant proteins, diagnostic products and cell therapies where the company offers both standard and customized solutions to its bioprocessing customers.

Spectrum's filtration products include its KrosFl® line of hollow fiber cartridges, tangential flow filtration ( TFF ) systems and single-use flow path consumables, as well as its Spectra/Por® portfolio of laboratory dialysis products and its Pro-Connex® single-use hollow fiber Module-Bag-Tubing sets. Outside of filtration, Spectrum products include Spectra/Chrom® liquid chromatography products for research applications. These bioprocessing products account for the majority of Spectrum revenues. Spectrum also offers a line of operating room products.

*Consideration Transferred*

The Company accounted for the Spectrum Acquisition as a purchase of a business under ASC 805, *Business Combinations*. The Spectrum Acquisition was funded through payment of approximately \$122.9 million in cash, issuance of 6,153,995 unregistered shares of the Company's common stock totaling \$247.6 million and a working capital adjustment of \$425,000 for a total purchase price of \$370.9 million. Under the acquisition method of accounting, the assets of Spectrum were recorded as of the acquisition date, at their respective fair values, and consolidated with those of the Company. The fair value of the net assets acquired was \$370.9 million.

The consideration and purchase price information has been prepared using a valuation that required the use of significant assumptions and estimates in its preparation. Critical estimates included, but were not limited to, future expected cash flows, including projected revenues and expenses, and the applicable discount rates. These estimates were based on assumptions that the Company believes to be reasonable; however, actual results may differ from these estimates.

The total consideration transferred follows (amounts in thousands):

|                            |            |
|----------------------------|------------|
| Cash consideration         | \$ 122,932 |
| Equity consideration       | 247,575    |
| Working capital adjustment | 425        |
| Net assets acquired        | \$ 370,932 |

Acquisition and integration-related costs are not included as a component of consideration transferred, but are expensed in the periods in which the costs are incurred. The Company has incurred \$2,313,000 in integration costs related to the Spectrum Acquisition for the nine-month period ended September 30, 2018 and \$7,060,000 in acquisition and integration costs for the year ended December 31, 2017. These costs are primarily included in selling, general and administrative expenses in the consolidated statements of operations.

*Fair Value of Net Assets Acquired*

## Edgar Filing: REPLIGEN CORP - Form 10-Q

The amounts recorded for the assets acquired and liabilities assumed are final, based on the facts and circumstances that existed as of the acquisition date. The components and allocation of the purchase price consists of the following amounts (amounts in thousands):

|                                   |           |
|-----------------------------------|-----------|
| Cash and cash equivalents         | \$ 10,137 |
| Accounts receivable               | 5,075     |
| Inventory                         | 13,502    |
| Prepaid expenses and other assets | 616       |
| Fixed assets                      | 6,004     |
| Deferred tax assets               | 1,102     |
| Customer relationships            | 78,400    |



**Table of Contents**

|  |                   |
|--|-------------------|
| Developed technology                     | 38,560            |
| Trademark and tradename                  | 2,160             |
| Non-competition agreements               | 960               |
| Goodwill                                 | 265,722           |
| Accounts payable                         | (1,335)           |
| Unrecognized tax benefit                 | (576)             |
| Accrued liabilities                      | (5,787)           |
| Deferred tax liabilities                 | (43,608)          |
| <b>Fair value of net assets acquired</b> | <b>\$ 370,932</b> |

Of the consideration paid, \$78.4 million represents the fair value of customer relationships that is amortized over the weighted average determined useful life of 15 years, and \$38.6 million represents the fair value of developed technology that is amortized over a weighted average determined useful life of 20 years. \$960,000 represents the fair value of non-competition agreements that are amortized over a determined life of 3 years. \$2.2 million represents the fair value of trademarks and trade names that are determined to have an indefinite useful life. The aforementioned intangible assets are amortized on a straight-line basis.

The goodwill of \$265.7 million represents future economic benefits expected to arise from synergies from combining operations and commercial organizations to increase market presence and the extension of existing customer relationships. None of the goodwill recorded is expected to be deductible for income tax purposes.

*Revenue, Net Income and Pro Forma Presentation*

The Company recorded revenue from Spectrum of \$13,188,000 and \$37,220,000 for the three- and nine-month periods ended September 30, 2018, respectively, and \$19,394,000 from August 1, 2017, the date of acquisition, through December 31, 2017. The Company has included the operating results of Spectrum in its consolidated statements of operations since the August 1, 2017 acquisition date. The following table presents unaudited supplemental pro forma information as if the Spectrum Acquisition had occurred as of January 1, 2016 (amounts in thousands, except per share data):

|                     | <b>Pro-forma<br/>Nine Months Ended<br/>September 30, 2017</b> |
|---------------------|---|
| Total revenue       | 121,301   |
| Net income          | 14,994  |
| Earnings per share: |   |
| Basic               | \$ 0.36   |
| Diluted             | \$ 0.36   |

The unaudited pro forma information for the nine-month period ended September 30, 2017 was calculated after applying the Company's accounting policies and the impact of acquisition date fair value adjustments. The unaudited pro forma net income for the nine-month period ended September 30, 2017 was adjusted to exclude acquisition-related transaction costs, as these expenses would have been incurred in the prior year assuming the Spectrum Acquisition closed on January 1, 2016.

These unaudited pro forma condensed consolidated financial results include certain adjustments to reflect the unaudited pro forma results of operations as if the acquisition had occurred as of January 1, 2016. The unaudited pro forma information does not reflect the effect of costs or synergies that would have been expected to result from the integration of the acquisition. The unaudited pro forma information does not purport to be indicative of the results of operations that actually would have resulted had the combinations occurred at the beginning of the period presented, or of future results of the consolidated entities.

### **3. Revenue Recognition**

#### ***Adoption of ASC Topic 606, Revenue from Contracts with Customers***

The Company adopted ASC 606 on January 1, 2018, using the modified retrospective method for all contracts not completed as of the date of adoption. For contracts that were modified before the effective date, the Company reflected the aggregate effect of all modifications when identifying performance obligations and allocating transaction price in accordance with the practical expedient in paragraph ASC 606-10-65-1-(f)-4, which did not have a material effect on the

**Table of Contents**

cumulative impact of adopting ASC 606. Results for reporting periods beginning January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period. The impact to the Company's consolidated financial statements as a result of applying ASC 606 was immaterial. Deferred revenue resulting from contracts with customers is included in accrued expenses on the Company's consolidated balance sheet.

***Revenue Recognition***

Revenue is recognized when, or as, obligations under the terms of a contract are satisfied, which occurs when control of the promised products or services is transferred to customers. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products or services to a customer (transaction price). To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price utilizing the expected value method or the most likely amount method, depending on the facts and circumstances relative to the contract. Variable consideration is included in the transaction price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of the Company's anticipated performance and all information (historical, current and forecasted) that is reasonably available. Sales, value add, and other taxes collected on behalf of third parties are excluded from revenue.

When determining the transaction price of a contract, an adjustment is made if payment from a customer occurs either significantly before or significantly after performance, resulting in a significant financing component. Applying the practical expedient in paragraph 606-10-32-18, the Company does not assess whether a significant financing component exists if the period between when the Company performs its obligations under the contract and when the customer pays is one year or less. None of the Company's contracts contained a significant financing component as of September 30, 2018.

Contracts with customers may contain multiple performance obligations. For such arrangements, the transaction price is allocated to each performance obligation based on the estimated relative standalone selling prices of the promised products or services underlying each performance obligation. The Company determines standalone selling prices based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, the Company estimates the standalone selling price taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations.

The Company recognizes product revenue under the terms of each customer agreement upon transfer of control to the customer, which occurs at a point in time.

***Disaggregation of Revenue***

Revenues for the three- and nine-month periods ended September 30, 2018 and 2017 were as follows (amounts in thousands, except percentages):

|      | Three Months Ended |          |      | Nine Months Ended |           |          |
|------|--------------------|----------|------|-------------------|-----------|----------|
|      | September 30,      |          |      | September 30,     |           |          |
| 2018 | 2017               | % Change | 2018 | 2017              | \$ Change | % Change |

\$  
Change

|                           |           |           |           |         |            |           |           |         |
|---------------------------|-----------|-----------|-----------|---------|------------|-----------|-----------|---------|
| Product revenue           | \$ 49,500 | \$ 36,514 | \$ 12,986 | 35.6%   | \$ 142,042 | \$ 99,516 | \$ 42,526 | 42.7%   |
| Royalty and other revenue | 29        | 66        | (37)      | (56.1%) | 48         | 108       | (60)      | (55.6%) |
| Total revenues            | \$ 49,529 | \$ 36,580 | \$ 12,949 | 35.4%   | \$ 142,090 | \$ 99,624 | \$ 42,466 | 42.6%   |

When disaggregating revenue, the Company considered all of the economic factors that may affect its revenues. Because all of its revenues are from bioprocessing customers, there are no differences in the nature, timing and uncertainty of the Company's revenues and cash flows from any of its product lines. However, given that the Company's revenues are generated in different geographic regions, factors such as regulatory and geopolitical factors within those regions could impact the nature, timing and uncertainty of the Company's revenues and cash flows. In addition, a significant portion of the Company's revenues are generated from two customers; therefore, economic factors specific to these two customers could impact the nature, timing and uncertainty of the Company's revenues and cash flows.

The following tables disaggregate the Company's revenue from contracts with customers by geographic region (amounts in thousands).

**Table of Contents**

|                    | Three Months Ended |                  | Nine Months Ended |                  |
|--------------------|--------------------|------------------|-------------------|------------------|
|                    | September 30,      |                  | September 30,     |                  |
|                    | 2018               | 2017             | 2018              | 2017             |
| North America      | \$ 24,064          | \$ 16,428        | \$ 66,575         | \$ 40,203        |
| Europe             | 19,328             | 16,374           | 58,497            | 49,322           |
| Asia and Australia | 6,075              | 3,630            | 16,731            | 9,949            |
| Other              | 62                 | 148              | 287               | 150              |
| <b>Total</b>       | <b>\$ 49,529</b>   | <b>\$ 36,580</b> | <b>\$ 142,090</b> | <b>\$ 99,624</b> |

Revenue from significant customers is as follows (amounts in thousands):

|                | Three Months Ended |          | Nine Months Ended |           |
|----------------|--------------------|----------|-------------------|-----------|
|                | September 30,      |          | September 30,     |           |
|                | 2018               | 2017     | 2018              | 2017      |
| MilliporeSigma | \$ 8,791           | \$ 5,191 | \$ 24,181         | \$ 17,727 |
| GE Healthcare  | \$ 7,743           | \$ 6,254 | \$ 22,253         | \$ 24,285 |

***Protein Products***

The Company's protein product line generates revenue through the sale of Protein A ligands and growth factors. Protein A ligands are an essential component of Protein A chromatography resins (media) used in the purification of virtually all mAb-based drugs on the market or in development. The Company manufactures multiple forms of Protein A ligands under long-term supply agreements with major life sciences companies, who in turn sell their Protein A chromatography media to end users (biopharmaceutical manufacturers). The Company also manufactures growth factors for sale under long-term supply agreements with certain life sciences companies as well as direct sales to its customers. Each protein product is considered distinct and therefore represents a separate performance obligation. Protein product revenue is generally recognized at a point in time upon transfer of control to the customer.

***Filtration Products***

The Company's filtration product line generates revenue through the sale of KrosFlo® hollow fiber ( HF ) TFF membranes and modules, ProConnex® single-use flow path connectors, flat sheet TFF cassettes and hardware, and XCell alternating tangential flow ( ATF ) devices and related consumables.

The Company markets the KrosFlo line of HF cartridges and TFF systems and the ProConnex line of single-use flow path connectors which were acquired as part of the acquisition of Spectrum in August 2017. These products are used in the filtration, isolation, purification and concentration of biologics and diagnostic products. Sales of large-scale systems generally include components and consumables as well as training and installation services at the request of the customer. Because the initial sale of components and consumables are necessary for the operation of the system, such items are combined with the systems as a single performance obligation. Training and installation services do not significantly modify or customize these systems and therefore represent a distinct performance obligation.

The Company's other filtration product offerings are not highly interdependent of one another and are therefore considered distinct products that represent separate performance obligations. Revenue on these products is generally recognized at a point in time upon transfer of control to the customer. The Company invoices the customer for the installation and training services in an amount that directly corresponds with the value to the customer of the

Company's performance to date; therefore, revenue recognized is based on the amount billable to the customer in accordance with the practical expedient under ASC 606-10-55-18.

The Company also markets flat sheet TFF cassettes and hardware. TFF is a rapid and efficient method for separation and purification of biomolecules that is widely used in laboratory, process development and process scale applications in biopharmaceutical manufacturing. The Company's single-use Sius TFF cassettes and hardware are not highly interdependent of one another and are therefore considered distinct products that represent separate performance obligations. Sius TFF product revenue is generally recognized at a point in time upon transfer of control to the customer.

The Company also markets the XCell ATF System, a technologically advanced filtration device used in upstream processes to continuously remove cellular metabolic waste products during the course of a fermentation run, freeing healthy cells to continue producing the biologic drug of interest. ATF Systems typically include a filtration system and consumables (i.e., tube devices, metal stands) as well as training and installation services at the request of the customer. The filtration system and consumables are considered distinct products and therefore represent separate performance obligations. First time purchasers of the systems typically purchase a controller that is shipped with the tube device(s)

**Table of Contents**

and metal stand(s). The controller is not considered distinct as it is a proprietary product that is highly interdependent with the filtration system; therefore, the controller is combined with the filtration system and accounted for as a single performance obligation. The training and installation services do not significantly modify or customize the ATF system and therefore represent a distinct performance obligation. ATF system product revenue related to the filtration system (including the controller if applicable) and consumables is generally recognized at a point in time upon transfer of control to the customer. ATF system service revenue related to training and installation services is generally recognized over time, as the customer simultaneously receives and consumes the benefits as the Company performs. The Company invoices the customer for the installation and training services in an amount that directly corresponds with the value to the customer of the Company's performance to date; therefore, revenue recognized is based on the amount billable to the customer in accordance with the practical expedient under ASC 606-10-55-18.

***Chromatography Products***

The Company's chromatography product line includes a number of products used in the downstream purification and quality control of biological drugs. The majority of chromatography revenue relates to the OPUS pre-packed chromatography column line and Protein A chromatography resins. OPUS columns typically consist of the outer hardware of the column with a resin as ordered by the customer packed inside of the column. OPUS columns may also be ordered without the packed resin. In either scenario, the OPUS column and resin are not interdependent of one another and are therefore considered distinct products that represent separate performance obligations. Chromatography product revenue is generally recognized at a point in time upon transfer of control to the customer.

***Other Products***

The Company's other products include ELISA test kits used by quality control departments to detect and measure the presence of leached Protein A and/or growth factor in the final product. Each ELISA kit is considered distinct and therefore represents a separate performance obligation. Other product revenue is generally recognized at a point in time upon transfer of control to the customer.

***Transaction Price Allocated to Future Performance Obligations***

Remaining performance obligations represents the transaction price of contracts for which work has not been performed or has been partially performed. The Company's future performance obligations relate primarily to the installation and training of certain of its systems sold to customers. These performance obligations are completed within one year of receipt of a purchase order from its customers. Accordingly, the Company has elected to not disclose the value of these unsatisfied performance obligations as provided under ASC 606-10-50-14.

***Contract Balances from Contracts with Customers***

The following table provides information about receivables and deferred revenue from contracts with customers as of September 30, 2018 (amounts in thousands):

|   | <b>2018</b> |
|---|-------------|
| Balances from contracts with customers only:              |             |
| Accounts receivable                                       | \$ 30,784   |
| Deferred revenue  | 1,234       |
| Revenue recognized in the three-month period relating to: |             |

|  |        |
|--|--------|
| The beginning deferred revenue balance   | \$ 441 |
| Changes in pricing related to products or services satisfied in previous periods |        |

The timing of revenue recognition, billings and cash collections results in the accounts receivables and deferred revenue balances on the Company's consolidated balance sheets. There were no impairment losses on receivables during the three- and nine-month periods ending September 30, 2018.

A contract asset is created when the Company satisfies a performance obligation by transferring a promised good to the customer. Contract assets may represent conditional or unconditional rights to consideration. The right is conditional, and recorded as a contract asset, if the Company must first satisfy another performance obligation in the contract before it is entitled to payment from the customer. Contract assets are transferred to billed receivables once the right becomes unconditional. If the Company has the unconditional right to receive consideration from the customer, the contract asset is accounted for as a billed receivable and presented separately from other contract assets. A right is unconditional if nothing other than the passage of time is required before payment of that consideration is due.



**Table of Contents**

When consideration is received, or such consideration is unconditionally due, from a customer prior to transferring goods or services to the customer under the terms of a contract, a contract liability is recorded. Contract liabilities are recognized as revenue after control of the products or services is transferred to the customer and all revenue recognition criteria have been met.

**Costs to Obtain or Fulfill a Customer Contract**

The Company's sales commission structure is based on achieving revenue targets. The commissions are driven by revenue derived from customer purchase orders which are short term in nature.

Applying the practical expedient in paragraph 340-40-25-4, the Company recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one year or less. These costs are included in selling, general, and administrative expenses. When shipping and handling costs are incurred after a customer obtains control of the products, the Company accounts for these as costs to fulfill the promise and not as a separate performance obligation.

**4. Accumulated Other Comprehensive Income**

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

|                                   | <b>Foreign Currency<br/>Translation<br/>Gain/<br/>(Loss)</b> |
|-----------------------------------|--|
| Balance at December 31, 2017      | \$ (6,363)   |
| Foreign currency translation loss | \$ (5,410)   |
| Balance at September 30, 2018     | \$ (11,773)  |

**5. Earnings Per Share**

The Company reports earnings per share in accordance with ASC 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, 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- and nine-month periods ended September 30, 2018 and

2017.

Basic and diluted weighted average shares outstanding were as follows:

|  | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2018</b>                                 | <b>2017</b> | <b>2018</b>                                | <b>2017</b> |
| Weighted average common shares                           | 43,822,472                                  | 41,236,554  | 43,728,503                                 | 36,435,591  |
| Dilutive common stock options and restricted stock units | 651,265                                     | 484,242     | 511,433                                    | 454,340     |
| Dilutive effect of convertible senior notes              | 1,354,438                                   | 842,206     | 892,179                                    | 496,402     |
| Weighted average common shares, assuming dilution        | 45,828,175                                  | 42,563,002  | 45,132,115                                 | 37,386,333  |

---

**Table of Contents**

At September 30, 2018, there were outstanding options to purchase 1,033,312 shares of the Company's common stock at a weighted average exercise price of \$26.99 per share and 707,716 restricted stock units. For the three- and nine-month periods ended September 30, 2018, 329,409 and 485,520 options to purchase shares of the Company's common stock, respectively, 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 September 30, 2017, there were outstanding options to purchase 749,669 shares of the Company's common stock at a weighted average exercise price of \$20.84 per share and 515,468 restricted stock units. For the three- and nine-month periods ended September 30, 2017, 162,544 and 326,572 options to purchase shares of the Company's common stock, respectively, 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.

As provided by the terms of the indenture underlying the Company's 2.125% Convertible Senior Notes due 2021 (the Notes), the Company has a choice to settle the conversion obligation for the Notes in cash, shares or any combination of the two. The Company currently intends to settle the par value of the Notes in cash and any excess conversion premium in shares. The Company applies the provisions of ASC 260, *Earnings Per Share*, subsection 10-45-44, to determine the diluted weighted average shares outstanding as it relates to the conversion spread on the Notes. Accordingly, the par value of the Notes will not be included in the calculation of diluted income per share, but the dilutive effect of the conversion premium will be considered in the calculation of diluted net income per share using the treasury stock method. The dilutive impact of the Notes is based on the difference between the Company's current period average stock price and the conversion price of the Notes, provided there is a premium. Pursuant to this accounting standard, there is no dilution from the accreted principal of the Notes as of September 30, 2018 and September 30, 2017.

**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.

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 (amounts in thousands):

|                   | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|-------------------|-------------------------------|------------------------------|
| Raw Materials     | \$ 24,349                     | \$ 21,678                    |
| Work-in-process   | 6,278                         | 4,756                        |
| Finished products | 11,657                        | 12,570                       |
| Total             | \$ 42,284                     | \$ 39,004                    |

## **7. Property, Plant and Equipment**

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

**Table of Contents**

|  | September 30,<br>2018 | December 31,<br>2017 |
|--|-----------------------|----------------------|
| Land                                       | \$ 1,023              | \$ 1,023             |
| Buildings                                  | 764                   | 764                  |
| Leasehold improvements                     | 15,940                | 15,673               |
| Equipment                                  | 23,405                | 21,904               |
| Furniture and fixtures                     | 5,156                 | 4,272                |
| Construction in progress                   | 10,086                | 2,581                |
| <b>Total property, plant and equipment</b> | <b>56,374</b>         | <b>46,217</b>        |
| Less: accumulated depreciation             | (27,015)              | (23,800)             |
| <b>Property, plant and equipment, net</b>  | <b>\$ 29,359</b>      | <b>\$ 22,417</b>     |

Depreciation expense totaled approximately \$3,871,000 and \$2,988,000 for the nine-month periods ended September 30, 2018 and 2017, respectively.

**8. Intangible Assets**

Intangible assets are amortized over their useful lives using the straight-line method, as applicable, and the amortization expense is recorded within selling, general and administrative expense in the Company's condensed consolidated statements of comprehensive income.

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 September 30, 2018.

Intangible assets consisted of the following at September 30, 2018 (amounts in thousands):

|                        | Gross Carrying<br>Amount | Accumulated<br>Amortization | Weighted<br>Average<br>Useful Life<br>(in<br>years) |
|------------------------|--------------------------|-----------------------------|---|
| Technology developed   | \$ 51,689                | \$ (5,221)                  | 19  |
| Patents                | 240                      | (240)                       | 8   |
| Customer relationships | 101,563                  | (14,821)                    | 14  |

Edgar Filing: REPLIGEN CORP - Form 10-Q

|                                |                  |                   |                    |           |
|--------------------------------|------------------|-------------------|--------------------|-----------|
| Trademark                      | definite lived   | 2,160             | (131)              | 20        |
| Trademark                      | indefinite lived | 700               |                    |           |
| Other intangibles              |                  | 1,061             | (466)              | 3         |
| <b>Total intangible assets</b> |                  | <b>\$ 157,413</b> | <b>\$ (20,879)</b> | <b>16</b> |

Intangible assets consisted of the following at December 31, 2017 (amounts in thousands):

|                                | <b>Gross Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Weighted<br/>Average<br/>Useful Life<br/>(in<br/>years)</b> |           |
|--------------------------------|----------------------------------|-------------------------------------|--|-----------|
| Technology developed           | \$ 51,801                        | \$ (3,201)                          | 19   |           |
| Patents                        | 240                              | (238)                               | 8  |           |
| Customer relationships         | 102,120                          | (9,636)                             | 14   |           |
| Trademarks definite lived      | 2,160                            | (47)                                | 20   |           |
| Trademarks indefinite lived    | 700                              |                                     |  |           |
| Other intangibles              | 1,063                            | (209)                               | 3  |           |
| <b>Total intangible assets</b> |                                  | <b>\$ 158,084</b>                   | <b>\$ (13,331)</b>   | <b>16</b> |

**Table of Contents**

Amortization expense for amortized intangible assets was approximately \$7,906,000 and \$3,476,000 for the nine-month periods ended September 30, 2018 and 2017, respectively. As of September 30, 2018, the Company expects to record amortization expense as follows (amounts in thousands):

| <b>Years Ending</b>                        | <b>Amortization Expense</b> |
|--|-----------------------------|
| December 31, 2018 (three months remaining) | \$ 2,636                    |
| December 31, 2019                          | 10,433                      |
| December 31, 2020                          | 9,854                       |
| December 31, 2021                          | 9,363                       |
| December 31, 2022                          | 9,361                       |

**9. Accrued Liabilities**

Accrued liabilities consist of the following (amounts in thousands):

|                          | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|--------------------------|-------------------------------|------------------------------|
| Employee compensation    | \$ 7,986                      | \$ 9,560                     |
| Taxes                    | 2,719                         | 1,668                        |
| Related party payable    | 1,728                         |                              |
| Royalty and license fees | 1,065                         | 1,383                        |
| Accrued purchases        | 261                           | 1,191                        |
| Warranties               | 605                           | 598                          |
| Professional fees        | 563                           | 947                          |
| Deferred revenue         | 1,234                         | 960                          |
| Other accrued expenses   | 1,803                         | 1,622                        |
| <b>Total</b>             | <b>\$ 17,964</b>              | <b>\$ 17,929</b>             |

**10. Convertible Senior Notes**

The carrying value of the Notes is as follows (amounts in thousands):

|  | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|--|-------------------------------|------------------------------|
| <b>2.125% Convertible Senior Notes due 2021:</b> |                               |                              |
| Principal amount                                 | \$ 114,989                    | \$ 115,000                   |
| Unamortized debt discount                        | (10,706)                      | (13,395)                     |
| Unamortized debt issuance costs                  | (1,883)                       | (2,355)                      |
| <b>Total Convertible Senior Notes</b>            | <b>\$ 102,400</b>             | <b>\$ 99,250</b>             |

|                       |           |
|-----------------------|-----------|
| Less: Current portion | (102,400) |
|-----------------------|-----------|

|   |    |    |        |
|---|----|----|--------|
| Total Convertible Senior Notes, long-term | \$ | \$ | 99,250 |
|---|----|----|--------|

On May 24, 2016, the Company issued \$115.0 million aggregate principal amount of its Notes. The net proceeds from the sale of the Notes, after deducting the underwriting discounts and commissions and other related offering expenses, were approximately \$111.1 million. The Notes bear interest at the rate of 2.125% per annum, payable semiannually in arrears on June 1 and December 1 of each year, beginning December 1, 2016.

The Notes will mature on June 1, 2021, unless earlier repurchased, redeemed or converted in accordance with their terms. Prior to March 1, 2021, the Notes will be convertible at the option of holders of the Notes only upon satisfaction of certain conditions and during certain periods, and thereafter, the Notes will be convertible at any time until the close of business on the second scheduled trading day immediately preceding the maturity date. Upon conversion, holders of the Notes will receive shares of the Company's common stock, cash or a combination thereof, at the Company's election. It is the Company's current intent and policy to settle all conversions through combination settlement, which involves satisfying the principal amount outstanding with cash and any note conversion value over the principal amount in shares of the Company's common stock.

Notes with a par value of \$11,000 were submitted for conversion in the fourth quarter of 2017, and this conversion was settled in the first quarter of 2018. The conversion resulted in the issuance of a nominal amount of shares of the Company's common stock, and the Company recorded a loss of \$1,000 on the conversion of these Notes.



---

**Table of Contents**

During the third quarter of 2018, the closing price of the Company's common stock exceeded 130% of the conversion price of the Notes for more than 20 trading days of the last 30 consecutive trading days of the quarter. As a result, the Notes are convertible at the option of the holders of the Notes during the fourth quarter of 2018, the quarter immediately following the quarter when the conditions were met, as stated in the terms of the Notes. These terms were also met in the second quarter of 2018 and as a result, the Company reclassified the carrying value of the Notes from long-term liabilities to current liabilities on the Company's consolidated balance sheet as of June 30, 2018. As of September 30, 2018, the if-converted value of the Notes exceeded the aggregate principal amount by approximately \$87.4 million. As of the date of this filing, no Notes were converted by the holders of such Notes in the third quarter of 2018. In the event the closing price conditions are met in the fourth quarter of 2018 or a future fiscal quarter, the Notes will be convertible at a holder's option during the immediately following fiscal quarter.

The conversion rate for the Notes will initially be 31.1813 shares of the Company's common stock per \$1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately \$32.07 per common share, and is subject to adjustment under the terms of the Notes. Holders of the Notes may require the Company to repurchase their Notes upon the occurrence of a fundamental change prior to maturity for cash at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased plus accrued and unpaid interest, if any, to, but excluding, the repurchase date.

The Company will not have the right to redeem the Notes prior to June 5, 2019, but may redeem the Notes, at its option, in whole or in part, on any business day on or after June 5, 2019 and prior to the maturity date if the last reported sale price of the Company's common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides written notice of redemption. The redemption price will be equal to 100% of the principal amount of the principal amount of Notes to be redeemed plus accrued and unpaid interest to, but excluding, the redemption date.

The Notes contain customary terms and events of default. If an event of default (other than certain events of bankruptcy, insolvency or reorganization involving the Company) occurs and is continuing, the holders of at least 25% in aggregate principal amount of the outstanding Notes may declare 100% of the principal of, and any accrued and unpaid interest on, all of the Notes to be due and payable. Upon the occurrence of certain events of bankruptcy, insolvency or reorganization involving the Company, 100% of the principal of and accrued and unpaid interest, if any, on all of the Notes will become due and payable automatically. Notwithstanding the foregoing, the Notes provide that, to the extent the Company elects and for up to 270 days, the sole remedy for an event of default relating to certain failures by the Company to comply with certain reporting covenants consist exclusively of the right to receive additional interest on the Notes. The Company is not aware of any events of default, current events or market conditions that would allow holders to call or convert the Notes as of September 30, 2018.

The cash conversion feature of the Notes required bifurcation from the Notes and was initially accounted for as an equity instrument classified to stockholders' equity, as the conversion feature was determined to be clearly and closely related to the Company's stock. Based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry and asset base and with similar maturity, the Company estimated the implied interest rate, assuming no conversion option. Assumptions used in the estimate represent what market participants would use in pricing the liability component, including market interest rates, credit standing, and yield curves, all of which are defined as Level 2 observable inputs. The estimated implied interest rate was applied to the Notes, which resulted in a fair value of the liability component of \$96,289,000 upon issuance, calculated as the present value of implied future payments based on the \$115 million aggregate principal amount. The equity component of the Notes was recognized as a debt discount, recorded in additional paid-in capital, and represents the difference between the aggregate principal of the Notes and the fair value of the Notes without conversion option on

their issuance date. The debt discount is amortized to interest expense using the effective interest method over five years, or the life of the Notes. The Company assesses the equity classification of the cash conversion feature quarterly, and it is not re-measured as long as it continues to meet the conditions for equity classification.

Interest expense recognized on the Notes during the three-month period ended September 30, 2018 includes \$611,000, \$911,000 and \$160,000 for the contractual coupon interest, the accretion of the debt discount and the amortization of the debt issuance costs, respectively. Interest expense recognized on the Notes during the nine-month period ended September 30, 2018 includes \$1,833,000, \$2,687,000 and \$473,000 for the contractual coupon interest, the accretion of the debt discount and the amortization of the debt issuance costs, respectively. The effective interest rate on the Notes is 6.6%, which includes the interest on the Notes, amortization of the debt discount and debt issuance costs. As of September 30, 2018, the carrying value of the Notes was approximately \$102.4 million and the fair value of the principal was approximately \$202.4 million. The fair value of the Notes was determined based on the most recent trade activity of the Notes as of September 30, 2018.

**Table of Contents****11. Stock-Based Compensation**

For the three-month periods ended September 30, 2018 and 2017, the Company recorded stock-based compensation expense of approximately \$2,779,000 and \$1,817,000, respectively, for share-based awards granted under the Second Amended and Restated 2001 Repligen Corporation Stock Plan (the 2001 Plan), the Repligen Corporation Amended and Restated 2012 Stock Option and Incentive Plan (the 2012 Plan, ), and the Repligen Corporation 2018 Stock Option and Incentive Plan (the 2018 Plan, and together with the 2001 Plan and the 2012 Plan, the Plans). The Company recorded stock-based compensation expense of approximately \$7,672,000 and \$4,845,000 for the nine-month periods ended September 30, 2018 and 2017, respectively, for share-based awards granted under the Plans.

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

|                                     | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|-------------------------------------|---------------------------|-------------|--------------------------|-------------|
|                                     | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|                                     | <b>2018</b>               | <b>2017</b> | <b>2018</b>              | <b>2017</b> |
| Cost of product revenue             | \$ 277                    | \$ 197      | \$ 777                   | \$ 491      |
| Research and development            | 253                       | 127         | 650                      | 338         |
| Selling, general and administrative | 2,249                     | 1,493       | 6,245                    | 4,016       |
| Total                               | \$ 2,779                  | \$ 1,817    | \$ 7,672                 | \$ 4,845    |

The 2018 Plan allows for the granting of incentive and nonqualified options to purchase shares of common stock, restricted stock units ( RSUs ) and other equity awards. Employee grants 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 and RSUs issued to non-employee directors under the Plans generally vest over one year. In the first quarter of 2018, to create a longer-term retention incentive, the Company's Compensation Committee granted long-term incentive compensation awards to its Chief Executive Officer consisting of both stock options and RSUs that are subject to time-based vesting over nine years. 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 September 30, 2018, options to purchase 1,033,312 shares and 707,716 RSUs were outstanding under the Plans. At September 30, 2018, 2,906,351 shares were available for future grant under the 2018 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 RSUs. The Company measures stock-based compensation cost at the grant date based on the estimated fair value of the award. The Company recognizes expense on awards with service based vesting over the employee's requisite service period on a straight-line basis. In the third quarter of 2017, the Company issued performance stock units to certain employees related to the Spectrum Acquisition which are tied to the achievement of certain revenue and gross margin metrics and the passage of time. Additionally, in the first quarter of 2018, the Company issued performance stock units to certain individuals which are tied to the achievement of certain 2018 revenue metrics and the passage of time. The Company recognizes expense on performance based awards over the vesting period based on the probability that the performance metrics will be achieved. 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.

Information regarding option activity for the nine-month period ended September 30, 2018 under the Plans is summarized below:

|   | <b>Options<br/>Outstanding</b> | <b>Weighted-<br/>Average<br/>Exercise<br/>Price<br/>Per<br/>Share</b> | <b>Weighted-<br/>Average<br/>Remaining<br/>Contractual<br/>Term<br/>(in years)</b> | <b>(in thousands)<br/>Aggregate<br/>Intrinsic<br/>Value</b> |
|---|--------------------------------|---|--|---|
| Options outstanding at December 31, 2017  | 734,940                        | \$ 20.80  |  |   |
| Granted                                   | 439,678                        | 34.79   |  |   |
| Exercised                                 | (131,718)                      | 18.02   |  |   |
| Forfeited/cancelled                       | (9,588)                        | 29.71   |  |   |
| Options outstanding at September 30, 2018 | 1,033,312                      | \$ 26.99  | 7.38   | \$ 29,421   |
| Options exercisable at September 30, 2018 | 444,446                        | \$ 18.73  | 5.29   | \$ 16,325   |

**Table of Contents**

|   | <b>Options<br/>Outstanding</b> | <b>Weighted-<br/>Average<br/>Exercise<br/>Price<br/>Per<br/>Share</b> | <b>Weighted-<br/>Average<br/>Remaining<br/>Contractual<br/>Term<br/>(in years)</b> | <b>(in thousands)<br/>Aggregate<br/>Intrinsic<br/>Value</b> |
|---|--------------------------------|---|--|---|
| Vested and expected to vest at September 30, 2018 (1) | 986,509                        | \$ 26.64  | 7.29   | \$ 28,429   |

- (1) Represents the number of vested options as of September 30, 2018 plus the number of unvested options expected to vest as of September 30, 2018 based on the unvested outstanding options at September 30, 2018 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 September 28, 2018, the last trading day of the nine-month period ended September 30, 2018, of \$55.46 per share 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 September 30, 2018.

The weighted average grant date fair value of options granted during the nine-month periods ended September 30, 2018 and 2017 was \$18.56 and \$16.94, respectively. The total fair value of stock options that vested during the nine-month periods ended September 30, 2018 and 2017 was approximately \$2,113,000 and \$2,074,000, respectively.

Information regarding RSU and performance stock unit activity for the nine-month period ended September 30, 2018 under the Plans is summarized below:

|   | <b>Units<br/>Outstanding</b> | <b>Weighted-<br/>Average<br/>Remaining<br/>Contractual<br/>Term<br/>(in years)</b> | <b>(in<br/>thousands)<br/>Aggregate<br/>Intrinsic<br/>Value</b> |
|---|------------------------------|--|---|
| Restricted and performance stock units outstanding at December 31, 2017 | 505,235                      |  |   |
| Granted   | 385,461                      |  |   |
| Vested  | (134,590)                    |  |   |
| Forfeited/cancelled   | (48,390)                     |  |   |
| Restricted stock units outstanding at September 30, 2018                | 707,716                      | 3.94   | \$ 39,250   |
| Vested and expected to vest at September 30, 2018 (1)                   | 649,985                      | 3.43   | \$ 36,048   |

- (1)

Represents the number of unvested RSUs expected to vest as of September 30, 2018 based on the unvested outstanding RSUs at September 30, 2018 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 (equal to the closing price of the common stock on September 28, 2018, the last trading day of the nine-month period ended September 30, 2018, of \$55.46 per share) that would have been received by the RSU holders had all RSUs vested on September 28, 2018. The aggregate intrinsic value of RSUs vested during the nine-month periods ended September 30, 2018 and 2017 was approximately \$5,165,000 and \$3,480,000, respectively.

The weighted average grant date fair value of RSUs granted during the nine-month periods ended September 30, 2018 and 2017 was \$35.13 and \$36.85, respectively. The total grant date fair value of RSUs that vested during the nine-month periods ended September 30, 2018 and 2017 was approximately \$4,065,000 and \$2,565,000, respectively.

As of September 30, 2018, there was \$28,360,000 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 4.51 years.

## **12. Income Taxes**

The Company's effective tax rate for the three- and nine-month periods ended September 30, 2018 was 27.6% and 24.6%, respectively, compared to 330.9% and (183.8%), respectively, for the corresponding periods in the prior year. The effective tax rate for the three- and nine-month periods ended September 30, 2018 was higher than the U.S. statutory rate of 21% due to state tax effects and the impact of the Global Intangible Low-Taxed Income ( GILTI ) tax enacted as part of the Act enacted in December 2017. For the three- and nine-month periods ended September 30, 2017, the

---

**Table of Contents**

effective tax rate was lower than the U.S. statutory tax rate of 34% primarily due to the sale of intellectual property from Repligen Corporation to Repligen Sweden AB. The Company utilized certain of its U.S. deferred tax assets as a result of this sale and reduced its valuation allowance on these deferred tax assets by approximately \$9,200,000 in the second quarter of 2017. The Company recorded a tax benefit of \$5,625,000 on the Company's consolidated statements of comprehensive income as a result of the sale of the intellectual property.

ASU 2016-16, *Intra-Entity Transfers of Assets Other Than Inventory*, requires the income tax consequences of intra-entity transfers of assets other than inventory to be recognized when the intra-entity transfer occurs rather than deferring recognition of income tax consequences until the transfer was made with an outside party. The Company adopted the provisions of this ASU in the first quarter of 2018. The adoption resulted in a decrease of \$5,609,000 to other assets, a decrease of \$4,932,000 to deferred tax liabilities and a decrease of \$677,000 to accumulated deficit at January 1, 2018.

At December 31, 2017, the Company had net operating loss carryforwards of approximately \$19,652,000 in the U.S., net operating loss carryforwards of approximately 603,000 (approximately \$743,000) in Germany, federal business tax credit carryforwards of \$297,000 and state business tax credit carryforwards of approximately \$99,000 available to reduce future domestic income taxes, if any. The net operating loss and business tax credits carryforwards will continue to expire at various dates through December 2037. The net operating loss and business tax credit carryforwards are subject to review and possible adjustment by the Internal Revenue Service. While an IRC Section 382 study was completed in the second quarter of 2017, and no current limitations were identified, use of these net operating loss and business tax credit carryforwards may be limited in the future based on certain changes in the ownership interest of significant stockholders.

On December 22, 2017, the Act was signed into law. The Act made significant changes to federal tax law, including, but not limited to, a reduction in the federal income tax rate from 35% to 21%, taxation of certain global intangible low-taxed income, allowing for immediate expensing of qualified assets, stricter limits on deductions for interest and certain executive compensation, and a one-time transition tax on previously deferred earnings of certain foreign subsidiaries. Due to the complexities involved in accounting for the enactment of the Act, the SEC issued Staff Accounting Bulletin No. (SAB) 118, which allows a registrant to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. Under the SAB 118 guidance, the Company has determined that although its accounting for the effect of certain provisions of the Act is incomplete, it is able to make reasonable estimates for certain effects of tax reform and therefore have recorded provisional amounts.

The Act lowered the Company's U.S. statutory federal tax rate from 35% to 21% effective January 1, 2018. The Company recorded a tax benefit of \$12,812,000 in the year ended December 31, 2017 for the reduction in its US deferred tax assets and liabilities resulting from the rate change.

The Company is subject to a territorial tax system under the Act, in which the Company is required to provide for tax on GILTI earned by certain foreign subsidiaries. Additionally, the Company is required to make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred as a period expense. As of September 30, 2018, the Company is still evaluating the effects of the GILTI provisions as guidance and interpretations continue to emerge. Therefore, the Company has not determined its accounting policy on the GILTI provisions. However, the standard requires that the Company reflects the impact of the GILTI provisions as a period expense until the accounting policy is finalized. Therefore, the Company has included the provisional estimate of GILTI related to current-year operations in its estimated annual effective tax rate only and will be updating the impact and accounting policy as the analysis related to the GILTI provisions is completed.

The Act also includes a one-time deemed repatriation transition tax whereby entities that are shareholders of a specified foreign corporation must include in gross income the undistributed and previously untaxed post-1986 earnings and profits of the specified foreign corporation. The provisional amount recorded at December 31, 2017 increased the Company's tax provision by \$3,266,000. This amount may change as the Company refines its calculations of post-1986 earnings and profits for our foreign subsidiaries, as well as the amounts held in cash.

The Company anticipates that future guidance and interpretations with respect to the Act will cause the Company to further adjust its provisional amounts recorded as of December 31, 2017. No further adjustments have been made to these provisional amounts in 2018. Any measurement period adjustments will be reported as a component of provision for income taxes in the reporting period the amounts are determined. The final accounting will be completed no later than one year from the enactment of the Act.

The Company's tax returns are subject to examination by federal, state and international tax authorities for the following periods:



**Table of Contents**

|               | <b>Jurisdiction</b> | <b>Fiscal Years<br/>Subject<br/>to Examination</b> |
|---------------|---------------------|--|
| United States | federal and state   | 2015-2017  |
| Sweden        |                     | 2011-2017  |
| Germany       |                     | 2017   |
| Netherlands   |                     | 2012-2017  |

**13. 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 have historically 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 applicable 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.

As of September 30, 2018 and December 31, 2017, the Company had no assets or liabilities for which fair value measurement is either required or has been elected to be applied.

In May 2016, the Company issued \$115.0 million aggregate principal amount of the Notes due June 1, 2021. Interest is payable semi-annually in arrears on June 1 and December 1 of each year, beginning December 1, 2016. As of September 30, 2018, the carrying value of the Notes was approximately \$102.4 million, net of unamortized discount, and the fair value of the Notes was approximately \$202.4 million. The fair value of the Notes was determined based on the most recent trade activity of the Notes as of September 30, 2018. These valuations are Level 1 valuations, as the valuations are based on unadjusted quoted prices in active markets that the Company has the ability to access. The Notes are discussed in more detail in Note 10, *Convertible Senior Notes*.

There were no re-measurements to fair value during the nine-month period ended September 30, 2018 of financial assets and liabilities that are not measured at fair value on a recurring basis.

**Table of Contents****14. Commitments and Contingencies**

The Company leases its headquarters in Waltham, Massachusetts as well as certain of its office and manufacturing space around the world.

In February 2018, the Company entered into an agreement to lease 63,761 square feet of office and manufacturing space in Marlborough, Massachusetts from U.S. REIF 111 Locke Drive Massachusetts, LLC (the Premises ).

The term of the lease commenced on June 1, 2018 (the Commencement Date ) and shall continue for a period of 126 consecutive months, unless earlier terminated in accordance with the terms of the lease (the Lease Term ). Under the lease, the Company has the option to extend the Lease Term for two additional five-year periods.

Fixed rent with respect to 40,000 square feet of the Premises commenced on the Commencement Date, and rent for the full 63,761 square feet of the Premises shall begin 19 months following the Commencement Date. Under the terms of the lease, the Company has provided a letter of credit of approximately \$163,000 as a security deposit and is required to pay its pro rata share of any building operating expenses and real estate taxes.

Future minimum rental commitments under the Company s leases as of September 30, 2018 are as follows (amounts in thousands):

|                               | <b>Minimum<br/>Rental<br/>Commitments</b> |
|-------------------------------|---|
| 2018 (three months remaining) | \$ 893                                    |
| 2019                          | 3,425                                     |
| 2020                          | 3,266                                     |
| 2021                          | 2,957                                     |
| 2022                          | 2,049                                     |
| Thereafter                    | 4,872                                     |

**15. Related Party Transactions**

Certain facilities leased by Spectrum are owned by the former owner of Spectrum, who currently holds greater than 10% of the Company s outstanding common stock. The lease amounts paid to this shareholder were negotiated in connection with the Spectrum Acquisition. The Company has incurred rent expense totaling \$555,000 for the nine-month period ended September 30, 2018 related to these leases.

As part of the Spectrum Acquisition, the Company is responsible for filing all tax returns for Spectrum for the period from January 1, 2017 through July 31, 2017, the day before the Spectrum Acquisition. The Company is responsible for collecting any tax refunds from federal and state authorities and remitting these refunds to the former shareholders of Spectrum, including the former owner of Spectrum who currently holds greater than 10% of the Company s outstanding common stock. As of September 30, 2018, the Company has accrued \$1,728,000 of these refunds payable to the Spectrum shareholders, net of \$207,000 of expenses paid by the Company on behalf of Spectrum for tax preparation and other fees. These amounts are included in accrued liabilities on the Company s consolidated balance sheet.

**16. Segment Reporting**

The Company views its operations, makes decisions regarding how to allocate resources and manages its business as one operating segment. As a result, the financial information disclosed herein represents all of the material financial information related to the Company's sole operating segment.

The following table represents the Company's total revenue by geographic area (based on the location of the customer):

|                    | <b>Three Months Ended</b> |                      | <b>Nine Months Ended</b> |                      |
|--------------------|---------------------------|----------------------|--------------------------|----------------------|
|                    | <b>September 30,</b>      | <b>September 30,</b> | <b>September 30,</b>     | <b>September 30,</b> |
|                    | <b>2018</b>               | <b>2017</b>          | <b>2018</b>              | <b>2017</b>          |
| North America      | 49%                       | 45%                  | 47%                      | 40%                  |
| Europe             | 39%                       | 45%                  | 41%                      | 50%                  |
| Asia and Australia | 12%                       | 10%                  | 12%                      | 10%                  |
| Other              | 0%                        | 0%                   | 0%                       | 0%                   |
| <b>Total</b>       | <b>100%</b>               | <b>100%</b>          | <b>100%</b>              | <b>100%</b>          |

**Table of Contents**

Revenue from significant customers as a percentage of the Company's total revenue is as follows:

|                | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|----------------|---------------------------|-------------|--------------------------|-------------|
|                | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|                | <b>2018</b>               | <b>2017</b> | <b>2018</b>              | <b>2017</b> |
| MilliporeSigma | 18%                       | 14%         | 17%                      | 18%         |
| GE Healthcare  | 16%                       | 17%         | 16%                      | 24%         |

Significant accounts receivable balances as a percentage of the Company's total trade accounts receivable are as follows:

|                | <b>September 30,</b> | <b>December 31,</b> |
|----------------|----------------------|---------------------|
|                | <b>2018</b>          | <b>2017</b>         |
| GE Healthcare  | 21%                  | 11%                 |
| MilliporeSigma | 14%                  | 19%                 |

---

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Overview**

Repligen and its subsidiaries, collectively doing business as Repligen Corporation ( Repligen , we , our , or the Company ) is a leading provider of advanced bioprocessing technology and solutions used in the process of manufacturing biologic drugs. Our products are made to substantially increase biopharmaceutical manufacturing efficiencies and flexibility. As the global biologics market continues to experience strong growth and expansion, our customers primarily large biopharmaceutical companies and contract manufacturing organizations face critical production cost, capacity, quality and time pressures that our products are made to address. Our commitment to bioprocessing is helping to set new standards for the way our customers manufacture biologic drugs monoclonal antibodies, recombinant proteins, vaccines and gene therapies. We are dedicated to inspiring advances in bioprocessing as a trusted partner in the production of biologic drugs that improve human health worldwide.

Prior to 2012, the Company was focused on drug development, with clinical trial costs supported by bioprocessing product sales. At that time our bioprocessing business was largely represented by sales of Protein A ligands, which we sell through long-term original equipment manufacturer ( OEM ) supply agreements. Our 2011 acquisition of Novozymes Biopharma Sweden AB further expanded our proteins product portfolio and provided the impetus to set a new direction for the company. By mid-2012, we permanently discontinued and have since divested all drug development programs. We retained our proteins OEM business and, through internal innovation and strategic acquisitions, we have built chromatography and filtration product offerings that we sell directly to biologics manufacturers. We continue to seek out strategic opportunities to strengthen and expand our bioprocessing business.

We currently operate as one bioprocessing business, with a comprehensive suite of products to serve both upstream and downstream processes in biologic drug manufacturing. Building on over 35 years of industry expertise, we have developed a broad and diversified product portfolio that reflects our commitment to build a best-in-class bioprocessing technology company with a world-class direct sales and commercial organization.

Our Protein products are represented by our Protein A affinity ligands and cell culture growth factor products. In addition to long-standing OEM supply agreements with GE Healthcare, MilliporeSigma and Purolite Life Sciences for these products, in June 2018 we secured an agreement with Navigo Proteins GmbH for the exclusive co-development of multiple affinity ligands for which Repligen holds commercialization rights. We are manufacturing and have agreed to supply the first of these ligands, NGL-Impact A, exclusively to Purolite Life Sciences, who will pair our high-performance ligand with their agarose jetting base bead technology used in Purolite's Jetted A50 Protein A resin.

Our direct-to customer Chromatography product line includes a number of products used in the downstream purification and quality control of biological drugs, including a broad range of OPUS® pre-packed chromatography columns, chromatography resins and ELISA test kits.

Our direct-to-customer Filtration product line includes our XCell ATF system for use in upstream process intensification, our Sius TFF cassettes for use in downstream purification and formulation processes, our KrosFI® line of hollow fiber cartridges and TFF systems, and our ProConnex® single-use tubing sets. With the addition of Spectrum LifeSciences LLC ( Spectrum ) in August 2017 (the Spectrum Acquisition ), we now in-house manufacture hollow fiber filters that can be used in our XCell ATF systems and have increased our direct sales presence in Europe and Asia. In September 2018, we entered into a collaboration agreement with Sartorius Stedim Biotech ( SSB ) to integrate our XCell ATF cell retention control technology into SSB's BIOSTA® STR large-scale, single-use bioreactors, to create novel perfusion-enabled bioreactors. We continue to expand the applications for our

bioprocessing products and to diversify our end markets beyond monoclonal antibodies to include vaccines, recombinant protein and gene therapies.

### **Critical Accounting Policies and Estimates**

A critical accounting policy is one which is both important to the portrayal of our financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. For a description of our critical accounting policies that affect our more significant judgments and estimates used in the preparation of our consolidated financial statements, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations and our significant accounting policies in Note 2 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC.

**Table of Contents****Results of Operations***Revenues*

Product revenues for the three- and nine-month periods ended September 30, 2018 and 2017 were as follows (amounts in thousands, except percentages):

|                           | Three Months Ended<br>September 30, |                  |                  |              | Nine Months Ended<br>September 30, |                  |                  |              |
|---------------------------|-------------------------------------|------------------|------------------|--------------|------------------------------------|------------------|------------------|--------------|
|                           | 2018                                | 2017             | \$ Change        | % Change     | 2018                               | 2017             | \$ Change        | % Change     |
| Product revenue           | \$ 49,500                           | \$ 36,514        | \$ 12,986        | 35.6%        | \$ 142,042                         | \$ 99,516        | \$ 42,526        | 42.7%        |
| Royalty and other revenue | 29                                  | 66               | (37)             | (56.1%)      | 48                                 | 108              | (60)             | (55.6%)      |
| <b>Total revenues</b>     | <b>\$ 49,529</b>                    | <b>\$ 36,580</b> | <b>\$ 12,949</b> | <b>35.4%</b> | <b>\$ 142,090</b>                  | <b>\$ 99,624</b> | <b>\$ 42,466</b> | <b>42.6%</b> |

Sales of bioprocessing products increased 35.6% and 42.7% in the three- and nine-month periods ended September 30, 2018, respectively, compared to the corresponding periods in the prior year. This increase was primarily due to continued adoption of our products by our key bioprocessing customers and for the three- and nine-month periods of 2018, the addition of revenues following the Spectrum Acquisition. Sales of our bioprocessing products are impacted by the timing of orders, development efforts at our customers or end-users and regulatory approvals for biologics that incorporate our products, which may result in significant quarterly fluctuations. Such quarterly fluctuations are expected, but they may not be predictive of future revenue or otherwise indicate a trend.

*Costs and operating expenses*

Total costs and operating expenses for the three- and nine-month periods ended September 30, 2018 and 2017 were comprised of the following (amounts in thousands, except percentages):

|   | Three Months Ended<br>September 30, |                  |                 |              | Nine Months Ended<br>September 30, |                  |                  |              |
|---|-------------------------------------|------------------|-----------------|--------------|------------------------------------|------------------|------------------|--------------|
|   | 2018                                | 2017             | \$ Change       | % Change     | 2018                               | 2017             | \$ Change        | % Change     |
| Cost of product revenue                   | \$ 22,183                           | \$ 19,987        | \$ 2,196        | 11.0%        | \$ 62,939                          | \$ 47,913        | \$ 15,026        | 31.4%        |
| Research and development                  | 3,601                               | 2,001            | 1,600           | 80.0%        | 12,669                             | 5,603            | 7,066            | 126.1%       |
| Selling, general and administrative       | 15,859                              | 14,998           | 861             | 5.7%         | 48,347                             | 35,365           | 12,982           | 36.7%        |
| <b>Total costs and operating expenses</b> | <b>\$ 41,643</b>                    | <b>\$ 36,986</b> | <b>\$ 4,657</b> | <b>12.6%</b> | <b>\$ 123,955</b>                  | <b>\$ 88,881</b> | <b>\$ 35,074</b> | <b>39.5%</b> |

Cost of product revenue increased 11.0% and 31.4% in the three- and nine-month periods ended September 30, 2018, respectively, compared to the corresponding periods in the prior year. This increase is primarily due to the increased product revenues noted above. Gross margins may fluctuate in the fourth quarter of 2018 and future quarters based on



expected production volume and product mix.

Research and development expenses increased by 80.0% and 126.1% in the three- and nine-month periods ended September 30, 2018, respectively, compared to the corresponding periods in the prior year. This increase is driven by investments made in the second quarter of 2018 to expand our proteins product offerings through our development agreement with Navigo Proteins GmbH. Additionally, the increase is related to product development activities acquired as part of the Spectrum Acquisition and increased activity on our various bioprocessing product development projects.

Selling, general and administrative expenses increased 5.7% and 36.7% in the three- and nine-month periods ended September 30, 2018, respectively, compared to the corresponding periods in the prior year. This increase is due to selling and administrative activities incurred following the Spectrum Acquisition, as well as the continued buildout of our administrative infrastructure to support future growth and continued expansion of our customer-facing activities to drive sales of our bioprocessing products.

*Investment income*

Investment income for the three- and nine-month periods ended September 30, 2018 and 2017 was as follows (amounts in thousands, except percentages):

**Table of Contents**

|                   | Three Months Ended<br>September 30, |        |           |          | Nine Months Ended<br>September 30, |        |           |          |
|-------------------|-------------------------------------|--------|-----------|----------|------------------------------------|--------|-----------|----------|
|                   | 2018                                | 2017   | \$ Change | % Change | 2018                               | 2017   | \$ Change | % Change |
| Investment income | \$ 558                              | \$ 102 | \$ 456    | 447.1%   | \$ 1,251                           | \$ 308 | \$ 943    | 306.2%   |

Investment income includes income earned on invested cash balances. The increase in investment income in the three- and nine-month periods ended September 30, 2018 compared to the corresponding prior year periods is attributable to higher average invested cash balances and higher interest rates on such cash balances.

*Interest expense*

Interest expense for the three- and nine-month periods ended September 30, 2018 and 2017 was as follows (amounts in thousands, except percentages):

|                  | Three Months Ended<br>September 30, |            |           |          | Nine Months Ended<br>September 30, |            |           |          |
|------------------|-------------------------------------|------------|-----------|----------|------------------------------------|------------|-----------|----------|
|                  | 2018                                | 2017       | \$ Change | % Change | 2018                               | 2017       | \$ Change | % Change |
| Interest expense | \$ (1,687)                          | \$ (1,618) | \$ (69)   | (4.3%)   | \$ (5,008)                         | \$ (4,804) | \$ (204)  | (4.2%)   |

Increases in interest expense in the three- and nine-month periods ended September 30, 2018, respectively, compared to the corresponding periods in the prior year are attributable to interest expense related to the issuance of 2.125% Convertible Senior Notes due 2021 (the Notes) in May 2016.

*Other (expenses) income*

Other (expenses) income for the three- and nine-month periods ended September 30, 2018 and 2017 was as follows (amounts in thousands, except percentages):

|                         | Three Months Ended<br>September 30, |          |           |          | Nine Months Ended<br>September 30, |          |           |          |
|-------------------------|-------------------------------------|----------|-----------|----------|------------------------------------|----------|-----------|----------|
|                         | 2018                                | 2017     | \$ Change | % Change | 2018                               | 2017     | \$ Change | % Change |
| Other (expenses) income | \$ (134)                            | \$ (100) | \$ (34)   | (34.0%)  | \$ 187                             | \$ (548) | \$ 735    | 134.1%   |

Changes in other (expenses) income in the three- and nine-month periods ended September 30, 2018, respectively, compared to the corresponding periods in the prior year are primarily attributable to foreign currency gains and losses related to amounts due from non-Swedish kronor-based customers and cash balances denominated in U.S. dollars and British pounds held by Repligen Sweden AB.

*Income tax provision (benefit)*

Income tax provision (benefit) for the three- and nine-month periods ended September 30, 2018 and 2017 was as follows (amounts in thousands, except percentages):

| Three Months Ended<br>September 30, | Nine Months Ended<br>September 30, |
|-------------------------------------|------------------------------------|
|-------------------------------------|------------------------------------|

|                                | 2018     | 2017       | \$ Change | % Change | 2018     | 2017        | \$ Change | % Change |
|--------------------------------|----------|------------|-----------|----------|----------|-------------|-----------|----------|
| Income tax provision (benefit) | \$ 1,829 | \$ (6,691) | \$ 8,520  | 127.3%   | \$ 3,586 | \$ (10,476) | \$ 14,062 | 134.2%   |

For the three- and nine-month periods ended September 30, 2018, we had income before taxes of \$6,623,000 and \$14,565,000, respectively, and recorded a tax provision of \$1,829,000 and \$3,586,000, respectively. The effective tax rate was 27.6% and 24.6% for the three- and nine-month periods ended September 30, 2018, respectively, and is based upon the estimated income for the year and the composition of the income in different jurisdictions. The effective tax rate for the three- and nine-month periods ended September 30, 2018 was higher than the U.S. statutory rate of 21% due to state tax effects and the impact of the Global Intangible Low-Taxed Income tax enacted as part of the Tax Cuts and Jobs Act (the Act) enacted in December 2017.

For the three- and nine-month periods ended September 30, 2017, we had losses before taxes of \$(2,022,000) and income before taxes of \$5,699,000, respectively, and recorded a tax benefit of (\$6,691,000) and (\$10,476,000), respectively. The effective tax rate was 330.9% and (183.8%) for the three- and nine-month periods ended September 30, 2017, respectively, and is based upon the estimated income for the year and the composition of the income in different jurisdictions. The effective tax rate was lower than the U.S. statutory tax rate of 34% primarily due to a benefit of approximately \$6,611,000 related to the release of the valuation allowance on deferred tax assets held in the United States, resulting from the Spectrum

**Table of Contents**

Acquisition in the third quarter of 2017 and a benefit of approximately \$5,625,000 related to the reduction of the Company's valuation allowance on its deferred tax assets resulting from the sale of certain intellectual property from Repligen Corporation to Repligen Sweden AB in the second quarter of 2017.

***Non-GAAP Financial Measures***

We provide non-GAAP adjusted income from operations; adjusted net income; and adjusted EBITDA as supplemental measures to GAAP measures regarding our operating performance. These financial measures exclude the items detailed below and, therefore, have not been calculated in accordance with GAAP. A detailed explanation and a reconciliation of each non-GAAP financial measure to its most comparable GAAP financial measure is provided below.

We include this financial information because we believe these measures provide a more accurate comparison of our financial results between periods and more accurately reflect how management reviews its financial results. We excluded the impact of certain acquisition-related items because we believe that the resulting charges do not accurately reflect the performance of our ongoing operations for the period in which such charges are incurred.

***Adjusted Income from Operations***

Adjusted income from operations is measured by taking income from operations as reported in accordance with GAAP and excluding acquisition and integration costs, amortization of intangible assets and inventory step-up charges booked through our consolidated statements of comprehensive income. The following is a reconciliation of income from operations in accordance with GAAP to adjusted income from operations for the three- and nine-month periods ended September 30, 2018 and 2017 (amounts in thousands):

|  | <b>Three Months Ended</b> |             | <b>Nine Months</b>   |             |
|--|---------------------------|-------------|----------------------|-------------|
|  | <b>September 30,</b>      |             | <b>Ended</b>         |             |
|  | <b>2018</b>               | <b>2017</b> | <b>September 30,</b> | <b>2017</b> |
| GAAP income (loss) from operations     | \$ 7,886                  | \$ (406)    | \$ 18,135            | \$ 10,743   |
| Adjustments to income from operations: |                           |             |                      |             |
| Acquisition and integration costs      | 805                       | 3,378       | 2,313                | 6,165       |
| Intangible amortization                | 2,608                     | 1,993       | 7,906                | 3,476       |
| Inventory step-up charges              |                           | 2,720       |                      | 2,944       |
| Adjusted income from operations        | \$ 11,299                 | \$ 7,685    | \$ 28,354            | \$ 23,328   |

***Adjusted Net Income***

Adjusted net income is measured by taking net income as reported in accordance with GAAP and excluding acquisition and integration costs and related tax effects, amortization of intangible assets and related tax effects, inventory step-up charges and non-cash interest expense booked through our consolidated statements of comprehensive income. The following is a reconciliation of net income in accordance with GAAP to adjusted net income for the three-month periods ended September 30, 2018 and 2017 (amounts in thousands, except per share data):

|   | Three Months Ended September 30,<br>2018 |   | 2017     |   |
|---|--|---|----------|---|
|   | Amount                                   | Fully Diluted<br>Earnings<br>per<br>Share | Amount   | Fully Diluted<br>Earnings<br>per<br>Share |
| GAAP net income   | \$ 4,794                                 | \$ 0.10                                   | \$ 4,669 | \$ 0.11                                   |
| Adjustments to net income:  |  |   |          |   |
| Acquisition and integration costs   | 805                                      | 0.02                                      | 3,378    | 0.08                                      |
| Intangible amortization   | 2,608                                    | 0.06                                      | 1,993    | 0.05                                      |
| Inventory step-up charges   |  |   | 2,720    | 0.06                                      |
| Non-cash interest expense   | 1,071                                    | 0.02                                      | 1,002    | 0.02                                      |
| Tax effect of intangible amortization and acquisition and integration costs | (248)                                    | (0.01)                                    | (577)    | (0.01)                                    |

**Table of Contents**

|   | Three Months Ended September 30, |                                  |          |                                  |
|---|----------------------------------|----------------------------------|----------|----------------------------------|
|   | 2018                             |                                  | 2017     |                                  |
|   | Amount                           | Fully Diluted Earnings per Share | Amount   | Fully Diluted Earnings per Share |
| Release of valuation allowance on deferred tax assets |                                  |                                  | (6,611)  | (0.16)                           |
| Adjusted net income                                   | \$ 9,030                         | \$ 0.19                          | \$ 6,574 | \$ 0.15                          |

Per share totals may not add due to rounding.

The following is a reconciliation of net income in accordance with GAAP to non-GAAP adjusted net income for the nine-month periods ended September 30, 2018 and 2017 (amounts in thousands, except per share data):

|   | Nine Months Ended September 30, |                                  |           |                                  |
|---|---------------------------------|----------------------------------|-----------|----------------------------------|
|   | 2018                            |                                  | 2017      |                                  |
|   | Amount                          | Fully Diluted Earnings per Share | Amount    | Fully Diluted Earnings per Share |
| GAAP net income   | \$ 10,979                       | \$ 0.24                          | \$ 16,175 | \$ 0.43                          |
| Adjustments to net income:  |                                 |                                  |           |                                  |
| Acquisition and integration costs   | 2,313                           | 0.05                             | 6,165     | 0.16                             |
| Intangible amortization   | 7,906                           | 0.18                             | 3,476     | 0.09                             |
| Inventory step-up charges   |                                 |                                  | 2,944     | 0.08                             |
| Non-cash interest expense   | 3,160                           | 0.07                             | 2,958     | 0.08                             |
| Tax effect of intangible amortization and acquisition and integration costs | (779)                           | (0.02)                           | (781)     | (0.02)                           |
| Release of valuation allowance on deferred tax assets                       |                                 |                                  | (12,236)  | (0.33)                           |
| Adjusted net income   | \$ 23,579                       | \$ 0.52                          | \$ 18,701 | \$ 0.50                          |

**Adjusted EBITDA**

Adjusted EBITDA is measured by taking net income as reported in accordance with GAAP, excluding investment income, interest expense, taxes, depreciation and amortization, and excluding acquisition and integration costs and inventory step-up charges booked through our consolidated statements of comprehensive income. The following is a reconciliation of net income in accordance with GAAP to adjusted EBITDA for the three- and nine-month periods ended September 30, 2018 and 2017 (amounts in thousands):

|  | Three Months Ended September 30, | Nine Months Ended September 30, |
|--|----------------------------------|---------------------------------|
|--|----------------------------------|---------------------------------|

Edgar Filing: REPLIGEN CORP - Form 10-Q

|                                   | <b>2018</b> | <b>2017</b> | <b>2018</b> | <b>2017</b> |
|-----------------------------------|-------------|-------------|-------------|-------------|
| GAAP net income                   | \$ 4,794    | \$ 4,669    | \$ 10,979   | \$ 16,175   |
| Adjustments to net income:        |             |             |             |             |
| Investment income                 | (558)       | (102)       | (1,251)     | (308)       |
| Interest expense                  | 1,687       | 1,618       | 5,008       | 4,804       |
| Tax provision                     | 1,829       | (6,691)     | 3,586       | (10,476)    |
| Depreciation                      | 1,273       | 1,130       | 3,871       | 2,988       |
| Amortization                      | 2,608       | 1,993       | 7,906       | 3,476       |
| EBITDA                            | 11,633      | 2,617       | 30,099      | 16,659      |
| Other adjustments:                |             |             |             |             |
| Acquisition and integration costs | 805         | 3,378       | 2,313       | 6,165       |
| Inventory step-up charges         |             | 2,720       |             | 2,944       |
| Adjusted EBITDA                   | \$ 12,438   | \$ 8,715    | \$ 32,412   | \$ 25,768   |

---

**Table of Contents*****Liquidity and Capital Resources***

We have financed our operations primarily through revenues derived from product sales, research grants, proceeds and royalties from license arrangements, sales of equity securities and issuance of convertible debt. Our revenue for the foreseeable future will primarily be limited to our bioprocessing product revenue.

At September 30, 2018, we had cash and cash equivalents of \$190,304,000 compared to cash and cash equivalents of \$173,759,000 at December 31, 2017.

On August 1, 2017, we completed our acquisition of Spectrum for approximately \$122.9 million in cash and 6,153,995 unregistered shares of the Company's common stock and a working capital adjustment of \$425,000 for a total purchase price of \$370.9 million.

During the third quarter of 2018, the closing price of the Company's common stock exceeded 130% of the conversion price of the Notes for more than 20 trading days of the last 30 consecutive trading days of the quarter. As a result, the Notes are convertible at the option of the holders of the Notes during the fourth quarter of 2018. The Notes have a face value of \$115.0 million and a carrying value of \$102.4 million and are classified as current liabilities on the Company's consolidated balance sheet as of September 30, 2018. It is the Company's policy and intent to settle the face value of the Notes in cash and any excess conversion premium in shares of our common stock. Between the end of the third quarter and the date of this filing, none of the Notes have been converted by the holders of such Notes.

***Operating activities***

For the nine-month period ended September 30, 2018, our operating activities provided cash of \$27,215,000 reflecting net income of \$10,979,000 and non-cash charges totaling \$23,187,000 primarily related to depreciation, amortization, non-cash interest expense, deferred tax expense and stock-based compensation charges. An increase in accounts receivable consumed \$1,583,000 of cash and was primarily driven by the 43% year-to-date increase in revenues. An increase in inventory levels to accommodate future revenue growth consumed \$4,805,000 of cash and payment of accrued liabilities consumed \$1,070,000 of cash. This utilization of cash is partially offset by \$3,354,000 of cash provided by an increase in accounts payable due to the timing of payments to vendors. The remaining cash flow used in operations resulted from net unfavorable changes in various other working capital accounts.

For the nine-month period ended September 30, 2017, our operating activities provided cash of \$2,233,000 reflecting net income of \$16,175,000 and non-cash charges totaling \$1,179,000 primarily related to depreciation, amortization, non-cash interest expense, deferred tax expense and stock-based compensation charges. An increase in accounts receivable consumed \$8,472,000 of cash and was primarily due to the increase in revenues and timing of cash receipts from customers. Payments of accrued liabilities consumed \$6,089,000 of cash and were mainly due to the payment of contingent consideration to Refine and Atoll related to 2016 sales milestones and the payment of certain Spectrum liabilities in the third quarter of 2017. The remaining cash flow provided by operations resulted from net unfavorable changes in various other working capital accounts.

***Investing activities***

Our investing activities consumed \$8,580,000 of cash related to capital expenditures for the nine-month period ended September 30, 2018. Our investing activities consumed \$97,075,000 of cash for the nine-month period ended September 30, 2017, primarily due to the payment of cash consideration of \$112,941,000 (net of cash received) for the Spectrum Acquisition and \$3,686,000 used for fixed asset additions, partially offset by net redemptions of marketable securities of \$19,552,000.



*Financing activities*

For the nine-month period ended September 30, 2018, our financing activities provided \$2,363,000 of cash. We received proceeds of \$2,374,000 from stock option exercises, partially offset by cash outlays of \$11,000 related to the partial conversion of the Notes in the first quarter of 2018. For the nine-month period ended September 30, 2017, our financing activities provided \$129,642,000 of cash. In July 2017, we completed a public offering in which 2,807,017 shares of our common stock were sold to the public at a price of \$42.75 per share. The underwriters were granted an option, which they exercised in full, to purchase an additional 421,052 shares of our common stock. Total proceeds from this offering, net of underwriting discounts, commissions and other offering expenses, totaled approximately \$129.3 million. Proceeds from stock option exercises in the nine-month period ended September 30, 2017 were \$2,035,000, partially offset by contingent

**Table of Contents**

consideration payments of \$1,702,000 related to the initial valuation of the likelihood that the 2016 XCell ATF sales milestones and Atoll revenue growth milestones would be achieved.

We do not currently use derivative financial instruments.

Working capital decreased by approximately \$80,169,000 to \$137,402,000 at September 30, 2018 from \$217,571,000 at December 31, 2017 due to the various changes noted above.

Our future capital requirements will depend on many factors, including the following:

the expansion of our bioprocessing business;

our identification and execution of strategic acquisitions or business combinations;

the ability to sustain sales and profits of our bioprocessing products;

market acceptance of our new products;

our ability to acquire additional bioprocessing products;

the resources required to successfully integrate our recently acquired businesses and recognize expected synergies;

the scope of and progress made in our research and development activities;

the extent of any share repurchase activity;

the election of any Note holders to convert their Notes during an eligible period; and

the success of any proposed financing efforts.

Absent acquisitions of additional businesses, products, product candidates or intellectual property, we believe our current cash balances are adequate to meet our cash needs for at least twelve months from the date of this filing. We expect operating expenses to increase as we integrate Spectrum into our business, continue to develop and expand our bioprocessing product lines and expand our commercial capabilities for the foreseeable future. Our future capital requirements may include, but are not limited to, purchases of property, plant and equipment, the acquisition of additional bioprocessing products and technologies to complement our existing manufacturing capabilities, continued investment in our intellectual property portfolio and future repayment of convertible debt.

We plan to continue to invest in our bioprocessing business and in key research and development activities associated with the development of new bioprocessing products. We actively evaluate various strategic transactions on an ongoing basis, including monetizing existing assets and licensing or acquiring complementary products, technologies or businesses that would complement our existing portfolio of development programs. We continue to seek to acquire such potential assets that may offer us the best opportunity to create value for our shareholders. In order to acquire such assets, we may need to seek additional financing to fund these investments. This may require the issuance or sale of additional equity or debt securities. The sale of additional equity may result in additional dilution to our stockholders. Should we need to secure additional financing to acquire a product, fund future investment in research and development, or meet our future liquidity requirements, we may not be able to secure such financing, or obtain such financing on favorable terms because of the volatile nature of the biotechnology marketplace.

### ***Contractual Obligations and Commitments***

In February 2018, we entered into an agreement to lease 63,761 square feet of office and manufacturing space in Marlborough, Massachusetts from U.S. REIF 111 Locke Drive Massachusetts, LLC (the Premises ).

The lease commences during the second quarter of 2018 (the Commencement Date ) and shall continue for a period of 126 consecutive months, unless earlier terminated in accordance with the terms of the lease (the Lease Term ). Under the lease, the Company has the option to extend the Lease Term for two additional five-year periods.

Fixed rent with respect to 40,000 square feet of the Premises only, shall commence on the Commencement Date, and rent for the full 63,761 square feet of the Premises shall begin 19 months following the Commencement Date. Under the terms of the lease, the Company has provided a letter of credit of approximately \$163,000 as a security deposit and is required to pay its pro rata share of any building operating expenses and real estate taxes.

Other than the lease detailed above, there were no material changes to our contractual obligations during the three- and nine-month periods ended September 30, 2018. For a complete discussion of our contractual obligations, please refer to Part II,

**Table of Contents**

Item 7., *Management's Discussion and Analysis of Financial Condition and Results of Operations*, in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC.

***Off-Balance Sheet Arrangements***

We do not have any special purpose entities or