

BIO RAD LABORATORIES INC  
Form 10-Q  
November 08, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

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 1-7928

BIO-RAD LABORATORIES, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or  
organization)

94-1381833  
(I.R.S. Employer Identification No.)

1000 Alfred Nobel Drive, Hercules, California  
(Address of principal executive offices)

94547  
(Zip Code)

(510) 724-7000

Registrant's telephone number, including area code

No Change

Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

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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. [  ] [  ] No  
Yes

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Title of Class  | Shares Outstanding<br>at October 31, 2006 |
|---|---|
| Class A Common Stock,<br>Par Value \$0.0001 per share | 21,567,886                                |
| Class B Common Stock,<br>Par Value \$0.0001 per share | 4,909,908                                 |

## PART 1 FINANCIAL INFORMATION

## Item 1. Financial Statements.

BIO-RAD LABORATORIES, INC.  
Condensed Consolidated Statements of Income  
(In thousands, except per share data)  
(Unaudited)

|  | Three Months Ended |            | Nine Months Ended |            |
|--|--------------------|------------|-------------------|------------|
|  | September 30,      |            | September 30,     |            |
|  | 2006               | 2005       | 2006              | 2005       |
| Net sales                                      | \$ 304,764         | \$ 283,225 | \$ 930,849        | \$ 873,698 |
| Cost of goods sold                             | 137,975            | 126,413    | 403,870           | 389,837    |
| Gross profit                                   | 166,789            | 156,812    | 526,979           | 483,861    |
| Selling, general and administrative expense    | 105,950            | 102,738    | 316,486           | 306,458    |
| Product research and development expense       | 30,988             | 28,673     | 90,050            | 83,995     |
| Interest expense                               | 8,212              | 8,210      | 24,111            | 24,371     |
| Foreign exchange (gains) losses                | (293)              | (97)       | 959               | (1,296)    |
| Other (income) expense, net                    | (10,514)           | (3,506)    | (22,809)          | (14,033)   |
| Income from continuing operations before taxes | 32,446             | 20,794     | 118,182           | 84,366     |
| Provision for income taxes                     | 9,296              | 4,575      | 31,568            | 20,239     |
| Income from continuing operations              | 23,150             | 16,219     | 86,614            | 64,127     |
| Discontinued operations                        |                    |            |                   |            |
| Gain on divestiture, net of tax benefits       |                    |            |                   |            |
| of zero in 2005                                | --                 | --         | --                | 3,974      |
| Net income                                     | \$ 23,150          | \$ 16,219  | \$ 86,614         | \$ 68,101  |
| Basic earnings per share:                      |                    |            |                   |            |
| Continuing operations                          | \$ 0.88            | \$ 0.62    | \$ 3.29           | \$ 2.47    |
| Discontinued operations                        | --                 | --         | --                | 0.15       |
| Net income                                     | \$ 0.88            | \$ 0.62    | \$ 3.29           | \$ 2.62    |
| Weighted average common shares                 | 26,407             | 26,115     | 26,342            | 26,015     |

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Diluted earnings per share:

|                                |         |         |         |         |
|--------------------------------|---------|---------|---------|---------|
| Continuing operations          | \$ 0.86 | \$ 0.61 | \$ 3.22 | \$ 2.41 |
| Discontinued operations        | --      | --      | --      | 0.15    |
| Net income                     | \$ 0.86 | \$ 0.61 | \$ 3.22 | \$ 2.56 |
| Weighted average common shares | 26,971  | 26,695  | 26,900  | 26,620  |

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

## BIO-RAD LABORATORIES, INC

## Condensed Consolidated Balance Sheets

(In thousands, except share data)

(Unaudited)

|  | September 30,<br>2006 | December 31, 2005 |
|--|-----------------------|-------------------|
| <b>ASSETS:</b>   |                       |                   |
| Cash and cash equivalents                              | \$ 238,418            | \$ 296,716        |
| Restricted cash  | --                    | 36,138            |
| Short-term investments                                 | 243,155               | 116,343           |
| Accounts receivable, net                               | 273,367               | 247,192           |
| Inventories, net                                       | 246,207               | 212,342           |
| Prepaid expenses, taxes and other current assets       | 91,566                | 99,480            |
| Total current assets                                   | 1,092,713             | 1,008,211         |
| Net property, plant and equipment                      | 182,728               | 180,258           |
| Goodwill   | 113,276               | 113,276           |
| Purchased intangibles, net                             | 24,926                | 28,449            |
| Other assets   | 109,992               | 96,388            |
| Total assets   | \$ 1,523,635          | \$ 1,426,582      |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY:</b>            |                       |                   |
| Accounts payable                                       | \$ 64,513             | \$ 72,950         |
| Accrued payroll and employee benefits                  | 79,456                | 81,076            |
| Notes payable and current maturities of long-term debt | 3,768                 | 3,341             |
| Sales, income and other taxes payable                  | 19,075                | 15,841            |
| Litigation accrual                                     | 9,838                 | 55,701            |
| Accrued royalties                                      | 35,203                | 34,386            |
| Other current liabilities                              | 69,459                | 55,948            |
| Total current liabilities                              | 281,312               | 319,243           |
| Long-term debt, net of current maturities              | 425,750               | 425,687           |
| Deferred tax liabilities                               | 7,577                 | 2,281             |
| Other long-term liabilities                            | 24,256                | 21,397            |
| Total liabilities                                      | 738,895               | 768,608           |
| <b>STOCKHOLDERS EQUITY:</b>                            | --                    | --                |

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|   |              |              |
|---|--------------|--------------|
| Preferred stock, \$0.0001 par value, 7,500,000 shares authorized; none outstanding  |              |              |
| Class A common stock, \$0.0001 par value, 80,000,000 shares authorized; outstanding |              |              |
| 21,558,014 at September 30, 2006 and 21,316,556 at December 31, 2005                | 2            | 2            |
| Class B common stock, \$0.0001 par value, 20,000,000 shares authorized; outstanding |              |              |
| 4,909,908 at September 30, 2006 and December 31, 2005                               | 1            | 1            |
| Additional paid-in capital  | 75,271       | 60,112       |
| Retained earnings   | 657,421      | 570,807      |
| Accumulated other comprehensive income:   |              |              |
| Currency translation and other  | 52,045       | 27,052       |
| Total stockholders' equity  | 784,740      | 657,974      |
| Total liabilities and stockholders' equity  | \$ 1,523,635 | \$ 1,426,582 |

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

BIO-RAD LABORATORIES, INC.  
Condensed Consolidated Statements of Cash Flows  
(In thousands)  
(Unaudited)

|   | Nine Months Ended<br>September 30, |            |
|---|------------------------------------|------------|
|   | 2006                               | 2005       |
| Cash flows from operating activities:                                     |                                    |            |
| Cash received from customers  | \$ 915,289                         | \$ 865,235 |
| Cash paid to suppliers and employees                                      | (789,626)                          | (762,788)  |
| Litigation settlement related to MJ acquisition                           | (45,963)                           | --         |
| Interest paid   | (24,528)                           | (24,489)   |
| Income tax payments   | (9,595)                            | (30,085)   |
| Miscellaneous receipts  | 19,080                             | 11,018     |
| Excess tax benefits from stock-based compensation                         | (1,291)                            | --         |
| Net cash provided by operating activities                                 | 63,366                             | 58,891     |
| Cash flows from investing activities:                                     |                                    |            |
| Capital expenditures, net   | (38,079)                           | (26,297)   |
| Payments for acquisitions and investments                                 | (11,397)                           | (3,646)    |
| Receipt (payment) of restricted cash related to MJ acquisition litigation | 36,138                             | (35,828)   |
| Proceeds from divestitures  | 12,772                             | --         |
| Payments on purchase of intangible assets                                 | --                                 | (5,000)    |
| Purchases of marketable securities and investments                        | (226,526)                          | (850,547)  |
| Sales of marketable securities and investments                            | 94,726                             | 901,601    |
| Foreign currency economic hedges, net                                     | (1,677)                            | 5,422      |
| Net cash used in investing activities                                     | (134,043)                          | (14,295)   |
| Cash flows from financing activities:                                     |                                    |            |
| Net borrowings (repayments) under line-of-credit arrangements             | 118                                | (1,812)    |
| Payments on long-term debt  | (358)                              | (273)      |
| Debt issuance and retirement costs  | --                                 | (331)      |
| Proceeds from issuance of common stock                                    | 8,511                              | 6,919      |
| Excess tax benefits on stock compensation                                 | 1,291                              | --         |
| Net cash provided by financing activities                                 | 9,562                              | 4,503      |

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|   |            |            |
|---|------------|------------|
| Effect of exchange rate changes on cash   | 2,817      | (853)      |
| Net increase (decrease) in cash and cash equivalents                              | (58,298)   | 48,246     |
| Cash and cash equivalents at beginning of period                                  | 296,716    | 195,734    |
| Cash and cash equivalents at end of period  | \$ 238,418 | \$ 243,980 |
| Reconciliation of net income to net cash provided by operating activities:        |            |            |
| Net income  | \$ 86,614  | \$ 68,101  |
| Adjustments to reconcile net income to net cash provided by operating activities: |            |            |
| Depreciation and amortization   | 40,300     | 44,581     |
| Stock based compensation  | 3,928      | --         |
| Excess tax benefits from stock based compensation                                 | (1,291)    | --         |
| Increase in accounts receivable   | (14,947)   | (2,314)    |
| Increase in inventories   | (25,646)   | (28,221)   |
| (Increase) decrease in other current assets                                       | 19,028     | (5,350)    |
| Increase (decrease) in accounts payable and other current liabilities             | (10,176)   | 3,594      |
| Increase (decrease) in income taxes payable                                       | 1,865      | (5,383)    |
| Litigation settlement related to MJ acquisition                                   | (45,963)   | --         |
| Other   | 9,654      | (16,117)   |
| Net cash provided by operating activities   | \$ 63,366  | \$ 58,891  |
| Non-cash Investing Activities:  |            |            |
| Tender of Accent stock  | \$ (3,200) | \$ --      |
| Receipt of Nanometrics stock  | \$ 5,354   | \$ --      |

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



BIO-RAD LABORATORIES, INC

Notes to Condensed Consolidated Financial Statements  
(Unaudited)

1. BASIS OF PRESENTATION

In this report, Bio-Rad, we, us, and our refer to Bio-Rad Laboratories, Inc. and its subsidiaries. The accompanying unaudited condensed consolidated financial statements of Bio-Rad have been prepared in accordance with accounting principles generally accepted in the United States of America and reflect all adjustments which are, in the opinion of management, necessary to fairly state the results of the interim periods presented. All such adjustments are of a normal recurring nature. Results for the interim period are not necessarily indicative of the results for the entire year. The condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements contained in our Annual Report for the year ended December 31, 2005.

*Share-Based Compensation Accounting Policy*

Prior to January 1, 2006, we applied Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), and related interpretations, in accounting for our share-based compensation plans. All employee stock options were granted at or above the grant date market price. Accordingly, no compensation cost was recognized in the financial statements but was included as a pro forma disclosure in the consolidated financial statements. We also recorded no compensation expense in connection with our Employee Stock Purchase Plan (ESPP) as the purchase price of the stock was not less than 85% of the lower of the fair market value of our common stock at the beginning of each offering period or at the end of each purchase period.

As of January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS)123(R), Share-Based Payment using the modified-prospective method. Under this transition method we are required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. In accordance with the modified prospective transition method, our results for prior periods have not been restated. See Note 12 for information on the impact of our adoption of SFAS 123(R).

*New Financial Accounting Standards*

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS 157, Fair Value Measurements to eliminate the diversity in practice that exists due to different definitions of fair value and the limited guidance for applying those definitions in GAAP. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are in the process of evaluating the impact of the adoption of SFAS 157 on the results of operations and financial condition.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertain tax positions, prescribes a recognition threshold and measurement attribute for recognition and provides guidance on classification, disclosure and other issues. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are in the process of evaluating the impact of the adoption of FIN 48 on the results of operations and financial condition.

## 2. RESTRICTED CASH

Restricted cash of \$36.1 million at December 31, 2005 represented deposits in a money market account that was used as collateral to protect a surety company in connection with its execution of a surety bond in the amount of \$37.2 million to stay the enforcement of a judgment in a legal matter. This matter has since been settled and the surety bond is no longer needed. The cash is no longer restricted and has been returned to cash and cash equivalents.

## 3. SHORT-TERM INVESTMENTS

Short-term investments consist of the following (in millions):

|                                | September 30,<br>2006 | December<br>31,<br>2005 |
|--------------------------------|-----------------------|-------------------------|
| Available-for-sale securities: |                       |                         |
| Asset backed securities        | \$ 39.9               | \$ 36.6                 |
| Corporate obligations          | 131.7                 | 31.4                    |
| U.S. Agencies                  | 32.6                  | 25.5                    |
| Variable rate notes            | 10.7                  | 8.7                     |
| Auction rate securities        | --                    | 3.9                     |
| Marketable equity securities   | 7.9                   | --                      |
| Certificates of deposit        | 5.1                   | --                      |
| Mortgage backed securities     | 15.3                  | 10.2                    |
| Total short-term investments   | \$ 243.2              | \$ 116.3                |

Management classifies investments in marketable securities at the time of purchase. Marketable debt and equity securities classified as short-term investments have been designated as available-for-sale and are stated at fair value which approximates cost. These investments are marked to market, with unrealized gains and losses reported as a component of comprehensive income.

## 4. INVENTORIES

The principal components of inventories are as follows (in millions):

|                 | September 30,<br>2006 | December<br>31,<br>2005 |
|-----------------|-----------------------|-------------------------|
| Raw materials   | \$ 52.4               | \$ 48.3                 |
| Work in process | 60.1                  | 51.6                    |
| Finished goods  | 133.7                 | 112.4                   |
|                 | \$ 246.2              | \$ 212.3                |

## 5. PROPERTY, PLANT AND EQUIPMENT

The principal components of property, plant and equipment are as follows (in millions):

|                                      | September 30,<br>2006 | December 31,<br>2005 |
|--------------------------------------|-----------------------|----------------------|
| Land and improvements                | \$ 9.5                | \$ 9.8               |
| Buildings and leasehold improvements | 120.8                 | 120.0                |
| Equipment                            | 340.4                 | 322.4                |
|                                      | 470.7                 | 452.2                |
| Accumulated depreciation             | (288.0)               | (271.9)              |
| Net property, plant and equipment    | \$ 182.7              | \$ 180.3             |

Net capital expenditures include proceeds from the sale of property, plant and equipment of \$0.2 million and \$3.3 million for the nine months ended September 30, 2006 and 2005, respectively.

## 6. ACCENT/NANOMETRICS MERGER

During July 2006, Accent Semiconductor Technology Inc. (Accent), a private company, was acquired by Nanometrics Inc. (Nanometrics), a publicly held company. In preparation for the merger, Accent repaid the \$11.8 million note receivable and accrued interest owed to Bio-Rad as part of Accent's 2000 purchase of the assets and certain liabilities of our former semiconductor and optoelectronic metrology business. As part of the merger agreement, we tendered our ownership interest in Accent in exchange for approximately 600,000 shares of Nanometrics stock valued at \$5.4 million on conversion. We also received a \$2.5 million facilitation fee for aiding in the merger. These transactions resulted in a gain of \$4.7 million included in Other (income) expense, net. Our current ownership interest in Nanometrics is less than 5%, is marked to market and included in Other assets. There are certain restrictions on selling our Nanometrics shares within the first year of ownership.

## 7. GOODWILL AND OTHER PURCHASED INTANGIBLE ASSETS

Other than goodwill, we have no intangible assets with indefinite lives. Information regarding our identifiable purchased intangible assets is as follows (in millions):

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September 30, 2006

|                              | Remaining<br>Weighted<br>Average<br>Useful Life | Carrying<br>Amount | Accumulated<br>Amortization | Net     |
|------------------------------|---|--------------------|-----------------------------|---------|
| Developed Product Technology | 4   | \$ 9.2             | \$ 2.9                      | \$ 6.3  |
| Licenses                     | 13  | 14.0               | 2.0                         | 12.0    |
| Know How                     | 3   | 9.4                | 5.1                         | 4.3     |
| Covenants Not to Compete     | 2   | 2.0                | 1.0                         | 1.0     |
| Patents                      | 4   | 1.0                | 0.1                         | 0.9     |
| Customer Lists               | 2   | 0.6                | 0.3                         | 0.3     |
| Other                        | 5   | 2.1                | 2.0                         | 0.1     |
|                              |   | \$ 38.3            | \$ 13.4                     | \$ 24.9 |

|                              | December 31, 2005                               |                    |                             |         |
|------------------------------|---|--------------------|-----------------------------|---------|
|                              | Remaining<br>Weighted<br>Average<br>Useful Life | Carrying<br>Amount | Accumulated<br>Amortization | Net     |
| Developed Product Technology | 5   | \$ 9.2             | \$ 1.4                      | \$ 7.8  |
| Licenses                     | 14  | 14.0               | 1.3                         | 12.7    |
| Know How                     | 4   | 8.7                | 3.7                         | 5.0     |
| Covenants Not to Compete     | 3   | 2.0                | 0.7                         | 1.3     |
| Patents                      | 4   | 1.0                | --                          | 1.0     |
| Customer Lists               | 3   | 0.6                | 0.2                         | 0.4     |
| Other                        | 1   | 2.2                | 2.0                         | 0.2     |
|                              |   | \$ 37.7            | \$ 9.3                      | \$ 28.4 |

Recorded purchased intangible asset amortization expense for the three months ended September 30, 2006 and 2005 was \$1.2 and \$2.7 million, respectively. Recorded purchased intangible asset amortization expense for the nine months ended September 30, 2006 and 2005 was \$3.8 million and \$8.3 million, respectively. Based on existing purchased intangible assets, estimated purchased intangible asset amortization expense for the years ended December 31, 2007, 2008, 2009, 2010 and 2011 is \$5.2 million, \$4.4 million, \$3.2 million, \$2.1 million and \$1.4 million, respectively.

## 8. DISCONTINUED OPERATIONS

On May 31, 2004, we sold a group of assets and transferred certain liabilities that comprised a substantial portion of our confocal microscopy product line to Carl Zeiss Jena GmbH. Since the discontinued operations were sold in the third quarter of 2004, there were no sales or operating losses in the nine months ended September 30, 2005. However, during the first quarter of 2005, we reached an agreement to settle the \$6.7 million estimated retained lease commitment that comprised the most significant portion of the original shut-down provision. Consequently, we recognized a \$4.0 million gain on the revised disposition of the confocal microscopy product line in March 2005.

## 9. PRODUCT WARRANTY LIABILITY

Bio-Rad warrants certain equipment against defects in design, materials and workmanship, generally for one year. Upon shipment of that equipment, we establish, as part of cost of goods sold, a provision for the expected cost of such warranty.

Components of the product warranty liability included in other current liabilities and other long-term liabilities were as follows (in millions):

|                        | 2006    | 2005    |
|------------------------|---------|---------|
| January 1,             | \$ 12.0 | \$ 10.1 |
| Provision for warranty | 11.1    | 9.3     |
| Actual warranty costs  | (10.8)  | (8.3)   |
| September 30,          | \$ 12.3 | \$ 11.1 |



## 10. LONG-TERM DEBT

In June 2005, Bio-Rad entered into a new Credit Agreement, which amended and restated the Credit Agreement dated September 9, 2003, as amended December 8, 2004. Borrowings are permitted up to a maximum of \$150.0 million on a revolving basis and can be used to make acquisitions, for working capital and for other general corporate purposes. Under certain conditions, this Credit Agreement may be increased up to an additional \$50 million. It will mature on June 21, 2010.

In December 2004, Bio-Rad sold \$200.0 million principal amount of Senior Subordinated Notes due 2014 (6.125% Notes). The notes pay a fixed rate of interest of 6.125% per year. Upon any sale of our common stock, we have the right to repurchase up to 35% of the 6.125% Notes any time prior to December 15, 2007 at a specified redemption price plus accrued and unpaid interest and certain other charges. Furthermore, we have the option to redeem any or all of the 6.125% Notes at various declining redemption prices or at 100% of the principal amount plus the applicable premium (as defined by the indenture) along with accrued and unpaid interest and certain other charges depending on the date redeemed. Bio-Rad's obligations under the 6.125% Notes are not secured, rank equal to other senior subordinated notes and rank junior to all Bio-Rad's existing and future senior debt.

In August 2003, Bio-Rad sold \$225.0 million principal amount of Senior Subordinated Notes due 2013 (7.5% Notes). The notes pay a fixed rate of interest of 7.5% per year. We have the option to redeem any or all of the 7.5% Notes at various declining redemption prices or at 100% of the principal amount plus the applicable premium (as defined by the indenture) along with accrued and unpaid interest and certain other charges depending on the date redeemed. Bio-Rad's obligations under the 7.5% Notes are not secured, rank equal to other senior subordinated notes and rank junior to all Bio-Rad's existing and future senior debt.

## 11. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for that period. Diluted earnings per share takes into account the effect of dilutive instruments, such as stock options, and uses the average share price for the period using the treasury stock method. Under the treasury stock method, the amount that the employee must pay for exercising stock options, the amount of compensation cost for future service that Bio-Rad has not yet recognized, and the amount of tax benefits that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares. Common stock equivalents are excluded from the diluted earnings per share calculation if the effect would be anti-dilutive.

Weighted average shares used for diluted earnings per share include the dilutive effect of outstanding options to purchase 564,000 and 580,000 shares of stock for the three months ended September 30, 2006 and 2005, respectively. There were 326,000 and 308,000 anti-dilutive options for the three months ended September 30, 2006 and 2005,

respectively.

Weighted average shares used for diluted earnings per share include the dilutive effect of outstanding options to purchase 558,000 and 605,000 shares of stock for the nine months ended September 30, 2006 and 2005, respectively.

There were 382,000 and 272,000 anti-dilutive options for the nine months ended September 30, 2006 and 2005, respectively.

## 12. STOCK OPTION AND PURCHASE PLANS

### Description of Share-Based Compensation Plans

#### *Stock Option Plans*

We have two stock option plans for officers and certain other employees: the Amended 1994 Stock Option Plan (the 1994 Plan ) and the 2003 Stock Option Plan (the 2003 Plan ). Both plans authorize the grant to employees of incentive stock options and non-qualified stock options. The maximum number of shares issuable over the term on the 2003 Plan is 1,675,000 shares and may be of either Class A or Class B Common Stock. Of these shares, 809,630 remain available to be granted as of September 30, 2006. We no longer make stock option grants under the 1994 Plan.

Under both of these plans, Class A and Class B options are granted at prices not less than fair market value on the date of grant. Generally, options granted have a term of 10 years and vest in increments of 20% per year over a five-year period on the yearly anniversary date of the grant. For options granted before January 1, 2001, options vest in increments of 25% over a four-year period on the yearly anniversary date of the grant.

#### *Employee Stock Purchase Plan (ESPP)*

Bio-Rad has an employee stock purchase plan that provides that eligible employees may contribute up to 10% of their compensation up to \$25,000 annually toward the quarterly purchase of our Class A common stock. The employees purchase price is 85% of the lesser of the fair market value of the stock on the first business day or the last business day of each calendar quarter. Bio-Rad has authorized the sale of 2,390,000 shares of common stock under the ESPP.

### Impact of Adoption of SFAS 123(R)

For the three months ended September 30, 2006, we recognized pre-tax share-based compensation expense of \$1.4 million and after-tax share-based compensation expense of \$1.2 million. After-tax share-based compensation expense reduced our net income per share and diluted net income per share by \$0.04 for the three months ended September 30, 2006.

For the nine months ended September 30, 2006, we recognized pre-tax share-based compensation expense of \$3.9 million and after-tax share-based compensation expense of \$3.5 million. After-tax share-based compensation expense reduced our net income per share and diluted net income per share by \$0.13 for the nine months ended September 30, 2006 and 2005.

Included in our share-based compensation expense is the cost related to prior year option grants that vest after January 1, 2006 and the cost related to our ESPP stock purchases.

Prior to the adoption of SFAS 123(R), we presented all benefits of tax deductions resulting from the exercise of share-based compensation as operating cash flows in the Statement of Cash Flows. SFAS 123(R) requires the benefits of tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. The recognized tax benefit was \$0.8 million and \$1.3 million, respectively, for the three and nine months ended September 30, 2006.

For options granted before January 1, 2006, we amortized the fair value on an accelerated basis. For options granted after January 1, 2006, we amortized the fair value on a straight-line basis. All options are amortized over the requisite service periods of the awards, which are generally the vesting periods.

In accordance with SFAS 123(R), we recognize share-based compensation net of estimated forfeitures. Prior to January 1, 2006, we recognized forfeitures and the corresponding reduction in pro forma expenses as they occurred.

Share-Based Compensation Expense

The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS 123 in accounting for the compensation cost for our stock option and stock purchase plans in the three and nine months ended September 30, 2005 (in millions, except per share data).

|   | Three Months<br>Ended<br>September 30,<br>2005 | Nine Months<br>Ended<br>September 30,<br>2005 |
|---|--|---|
| Net income, as reported   | \$<br>16.2                                     | \$<br>68.1                                    |
| Deduct: Total stock based employee compensation expense determined under fair value methods for all awards net of related tax effects | 0.8  | 2.5   |
| Pro forma net income  | \$<br>15.4                                     | \$<br>65.6                                    |
| Earnings per share:   |  |   |
| Basic -- as reported  | \$<br>0.62                                     | \$<br>2.62                                    |
| Basic -- pro forma  | \$<br>0.59                                     | \$<br>2.52                                    |
| Diluted -- as reported  | \$<br>0.61                                     | \$<br>2.56                                    |
| Diluted -- pro forma  | \$<br>0.58                                     | \$<br>2.46                                    |

Determining Fair Value

## Valuation Assumptions for Stock Options

We currently use the Black-Scholes option-pricing model to calculate the fair value of share-based awards. This model incorporates various assumptions including volatility, interest rate and expected life. The following table summarizes the assumptions used to compute the weighted average fair value of stock option grants. No stock options were granted during the three month periods ended September 30, 2006 and 2005.

|   | Nine Months Ended |         |
|---|-------------------|---------|
|   | September 30,     |         |
|   | 2006              | 2005    |
| Expected volatility                               | 36%               | 37%     |
| Risk-free interest rate                           | 4.62%             | 3.45%   |
| Expected life (in years)                          | 7.4               | 4.7     |
| Expected dividend                                 | --                | --      |
| Weighted average fair value<br>of options granted | \$29.85           | \$20.76 |

Volatility was based on the historical volatilities of our common stock for a period equal to the stock option's expected life. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. In 2005, the expected life was estimated using the historical exercise behavior of employees. In 2006, we estimated the expected life using the simplified method described in the SEC's Staff Accounting Bulletin No. 107. We do not anticipate paying any cash dividends in the future and therefore use an expected dividend yield of zero.

#### Valuation Assumptions for ESPP

The fair value of the employee's purchase rights for the three and nine months ended September 30, 2006 and 2005 was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions.

|   | Three Months Ended    |         | Nine Months Ended     |         |
|---|-----------------------|---------|-----------------------|---------|
|   | September 30,<br>2006 | 2005    | September 30,<br>2006 | 2005    |
| Expected volatility                               | 24%                   | 27%     | 30%                   | 27%     |
| Risk-free interest rate                           | 5.01%                 | 3.16%   | 4.59%                 | 2.76%   |
| Expected life (in years)                          | .25                   | .25     | .25                   | .25     |
| Expected dividend                                 | --                    | --      | --                    | --      |
| Weighted average fair value<br>of options granted | \$13.24               | \$12.19 | \$13.75               | \$11.26 |

The major assumptions are primarily based on historical data. Volatility was based on the historical volatilities of our common stock for a period equal to the purchase right's expected life. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. We do not anticipate paying any cash dividends in the future and therefore use an expected dividend yield of zero.

The following table summarizes our stock option activity for the nine months ended September 30, 2006:

| Weighted<br>Average<br>Exercise | Weighted<br>Remaining<br>Average<br>Contractual | Aggregate<br>Intrinsic Value<br>as of<br>September 30, 2006 |
|---------------------------------|---|---|
|---------------------------------|---|---|

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|                                  | Shares    | Price    | Term | (in millions) |
|----------------------------------|-----------|----------|------|---------------|
| Outstanding, beginning of period | 1,589,206 | \$ 34.43 |      |               |
| Granted                          | 313,233   | \$ 62.68 |      |               |
| Exercised                        | (159,967) | \$ 26.45 |      |               |
| Forfeited/Expired                | (35,486)  | \$ 51.28 |      |               |
| Outstanding, end of period       | 1,706,986 | \$ 40.01 | 6.26 | \$ 52.4       |
| Exercisable, end of period       | 833,598   | \$ 25.54 | 4.46 | \$ 37.7       |

Intrinsic value for stock options is defined as the difference between the current market value and the grant price. The total intrinsic value of stock options exercised during the three and nine months ended September 30, 2006 was \$3.2 million and \$6.6 million, respectively.



Cash received from stock options exercised during the three and nine months ended September 30, 2006 was \$1.8 million and \$4.2 million, respectively. The actual tax benefit realized for the tax deductions from stock options exercised totaled \$1.0 million and \$1.7 million for the three and nine months ended September 30, 2006, respectively.

We sold 21,645 shares for \$1.2 million and 26,556 shares for \$1.1 million under our ESPP for the three months ended September 30, 2006 and 2005, respectively. We sold 81,491 shares for \$4.3 million and 69,955 shares for \$3.0 million under the ESPP to employees for the nine months ended September 30, 2006 and 2005, respectively. At September 30, 2006, there are 525,947 remaining authorized shares under the ESPP.

We currently issue new shares to satisfy stock option exercises and ESPP stock purchases, but may use repurchased stock to fulfill our obligations.

As of September 30, 2006, there was \$10.4 million of total unrecognized compensation cost from stock options. That cost is expected to be recognized over a weighted-average period of approximately two years.

### 13. FOREIGN EXCHANGE GAINS AND LOSSES

Exchange gains and losses consist of foreign currency transaction gains and losses on intercompany net receivables and payables and the change in fair market value of our forward foreign exchange contracts used to manage our foreign exchange risk.

### 14. OTHER INCOME AND EXPENSE

Other (income) expense, net includes the following components (in millions):

|                                    | Three Months        |          | Nine Months         |           |
|------------------------------------|---------------------|----------|---------------------|-----------|
|                                    | Ended September 30, |          | Ended September 30, |           |
|                                    | 2006                | 2005     | 2006                | 2005      |
| Interest and investment income     | \$ (5.5)            | \$ (4.0) | \$ (16.1)           | \$ (12.4) |
| Gain on exchange of stock (Note 6) | (4.7)               | --       | (4.7)               | --        |

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|                                   |           |          |           |           |
|-----------------------------------|-----------|----------|-----------|-----------|
| Other                             | (.3)      | 0.5      | (2.0)     | (1.6)     |
| Total other (income) expense, net | \$ (10.5) | \$ (3.5) | \$ (22.8) | \$ (14.0) |

## 15. COMPREHENSIVE INCOME

The components of Bio-Rad's total comprehensive income were (in millions):

|  | Three Months Ended |         | Nine Months Ended |         |
|--|--------------------|---------|-------------------|---------|
|  | September 30,      |         | September 30,     |         |
|  | 2006               | 2005    | 2006              | 2005    |
| Net income, as reported  | \$ 23.2            | \$ 16.2 | \$ 86.6           | \$ 68.1 |
| Currency translation adjustments   | (1.9)              | (1.8)   | 17.6              | (26.9)  |
| Net unrealized holding gain net of tax effect of<br>\$0.5 and \$1.8 million for the three months<br>ended September 30, 2006 and 2005 and \$4.4<br>and<br>\$2.7 million for the nine months ended<br>September 30, 2006 and 2005, respectively | 0.9                | 3.1     | 7.4               | 2.9     |
| Total comprehensive income   | \$ 22.2            | \$ 17.5 | \$ 111.6          | \$ 44.1 |

## 16. SEGMENT INFORMATION

Information regarding industry segments for the three months ended September 30, 2006 and 2005 is as follows (in millions):

|                       |      | Life Science | Clinical<br>Diagnostics | Other<br>Operations |
|-----------------------|------|--------------|-------------------------|---------------------|
| Segment net sales     | 2006 | \$ 137.4     | \$ 164.4                | \$ 3.0              |
|                       | 2005 | \$ 132.1     | \$ 148.3                | \$ 2.8              |
| Segment profit (loss) | 2006 | \$ 6.3       | \$ 15.9                 | \$ (0.1)            |
|                       | 2005 | \$ 3.4       | \$ 15.0                 | \$ (0.4)            |

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Information regarding industry segments for the nine months ended September 30, 2006 and 2005 is as follows (in millions):

|                       |      | Life Science | Clinical<br>Diagnostics | Other<br>Operations |
|-----------------------|------|--------------|-------------------------|---------------------|
| Segment net sales     | 2006 | \$ 416.6     | \$ 504.8                | \$ 9.4              |
|                       | 2005 | \$ 409.3     | \$ 455.5                | \$ 8.9              |
| Segment profit (loss) | 2006 | \$ 24.8      | \$ 73.1                 | \$ (0.1)            |
|                       | 2005 | \$ 21.5      | \$ 49.4                 | \$ (0.9)            |

Segment results are presented in the same manner as we present our operations internally to make operating decisions and assess performance. Net corporate operating income (expense) consists of receipts and expenditures that are not the primary responsibility of segment operating management. Interest expense is charged to segments based on the carrying amount of inventory and receivables employed by that segment. The following reconciles total segment profit to consolidated income from continuing operations before taxes (in millions):

|  | Three Months                |         | Nine Months                 |         |
|--|-----------------------------|---------|-----------------------------|---------|
|  | Ended September 30,<br>2006 | 2005    | Ended September 30,<br>2006 | 2005    |
| Total segment profit   | \$ 22.1                     | \$ 18.0 | \$ 97.8                     | \$ 70.0 |
| Foreign exchange gains (losses)  | 0.3                         | 0.1     | (1.0)                       | 1.3     |
| Net corporate operating, interest and<br>other income and expense not<br>allocated to segments | (0.5)                       | (0.8)   | (1.4)                       | (0.9)   |
| Other income (expense), net  | 10.5                        | 3.5     | 22.8                        | 14.0    |
| Consolidated income from continuing<br>operations before taxes                                 | \$ 32.4                     | \$ 20.8 | \$ 118.2                    | \$ 84.4 |

## 17. LEGAL PROCEEDINGS

In the second quarter of 2006, Bio-Rad reached a settlement agreement with bioMérieux resolving various licensing disputes between the two companies. The licensing disputes were originally between bioMérieux and Pasteur Sanofi Diagnostics (PSD) and were part of Bio-Rad's acquisition of PSD in 1999. As a result of the settlement, Bio-Rad recorded \$11.7 million of revenue in the second quarter of 2006.

Applera Corporation (Applera) filed an action in the Regional Court of Düsseldorf, Germany in June 2003 against MJ Research, Inc. (which Bio-Rad acquired in 2004) and others alleging infringement of a European patent relating to real-time PCR thermal cycler technology. Bio-Rad is also a defendant in this action. The suit seeks actual damages, costs and expenses and injunctive relief. In May 2004, the Düsseldorf court issued an adverse ruling against MJ Research and us, which included an injunction against us and MJ Research from selling any real-time PCR instruments and reagents in Germany. In December 2004, the European Patent Office revoked the patent for lack of novelty and the injunctions against MJ Research and Bio-Rad were lifted, allowing MJ Research and us to resume sales of real-time PCR thermal cyclers and reagents. Applera appealed revocation of the patent, and in July 2006 the European Patent Office reversed its novelty rejection and reinstated the patent, subject to further review by the Opposition Division of the European Patent Office for other grounds for revocation. The patent will be returned to the Opposition Division for review of these other issues.

We are party to various claims, legal actions and complaints arising in the ordinary course of business. We do not believe that any ultimate liability resulting from any of these lawsuits will have a material adverse effect on our results of operations, financial position or liquidity. However, we cannot give any assurance regarding the ultimate outcome of these lawsuits and their resolution could be material to our operating results for any particular period, depending upon the level of income for the period.

## 18. SUBSEQUENT EVENTS

On August 14, 2006, Bio-Rad announced in a press release that it had signed a definitive agreement to acquire CIPHERGEN Biosystems, Inc.'s ProteinChip Systems® business and worldwide technology rights to the Surface Enhanced Laser Desorption/Ionization (SELDI-TOF-MS) for approximately \$20 million in cash. The acquisition will include certain product lines, manufacturing capability, and intellectual property as well as access to CIPHERGEN's life science customer base. In addition, Bio-Rad will make a \$3 million equity investment in CIPHERGEN.

In October 2006, Bio-Rad completed the acquisition of Blackhawk BioSystems, Inc. for approximately \$17 million. Blackhawk is a provider of quality control products used in infectious disease testing. With the acquisition of the Blackhawk infectious disease controls, we will be able to offer a broader line of quality control products for the clinical laboratory. This acquisition will be included in the Clinical Diagnostics segment.

Item 2.

Management's Discussion and Analysis of Results of Operations  
and Financial Condition.

This discussion should be read in conjunction with the information contained in both our Consolidated Financial Statements for the year ended December 31, 2005 and this report for the quarter and nine months ended September 30, 2006.

Other than statements of historical fact, statements made in this report include forward looking statements, such as statements with respect to Bio-Rad's future financial performance, operating results, plans and objectives that involve risk and uncertainties. We have based these forward looking statements on our current expectations and projections about future events. However, actual results may differ materially from those currently anticipated depending on a variety of risk factors including among other things: our ability to successfully develop and market new products; our reliance on and access to necessary intellectual property; our ability to service our debt; competition in and government regulation of the industries in which we operate; and the monetary policies of various countries. We undertake no obligation to publicly update or revise any forward looking statements, whether as a result of new information, future events, or otherwise.

Overview. We are a multinational manufacturer and worldwide distributor of life science research and clinical diagnostics products. Our business is organized into two primary segments, Life Science and Clinical Diagnostics, with the mission to provide scientists with specialized tools needed for biological research and clinical diagnostics. We sell more than 8,000 products and services to a diverse client base comprised of research, healthcare, industrial,

education and government customers worldwide. We manufacture and supply our customers with a range of reagents, apparatus and equipment to separate complex chemical and biological materials and to identify, analyze and purify components. Because our customers require replication of results from experiments and tests, we estimate that approximately 70% of our revenues are recurring. Approximately 36% of our third quarter 2006 consolidated net sales are from the United States and approximately 64% are international sales largely denominated in local currency with the majority of these sales in Euros, Yen and British Sterling. As a result, our consolidated sales expressed in dollars benefit when the US dollar weakens and suffer when the dollar strengthens in relation to other currencies.

Currency fluctuations benefited our consolidated sales expressed in US dollars in the current quarter ended September 30, 2006. For the year-to-date period, currency fluctuations were detrimental to our consolidated sales.

We benefited throughout the prior year from foreign currency fluctuations.



On a currency neutral basis, the diagnostic market is growing around 4% comprised of specialty areas experiencing significant growth offset by flat to declining growth in the routine testing market. Pricing for routine diagnostic tests is impacted by declining government reimbursement schedules, particularly in the United States, Japan, and Germany.

The overall average growth of the life science market is currently about 5% on a currency neutral basis. Some spending on government sponsored research has slowed or is being deferred especially in the United States and Japan. Large capital instrumentation systems sales continue to lag behind the overall growth rate. Reagent sales are rising faster than the average growth. The market for Bovine Spongiform Encephalopathy (BSE) tests continues to decline as countries with established testing programs consolidate testing sites and new competitors enter the market, resulting in competitive pricing pressures and lower average selling prices per test.

The following shows gross profit and expense items as a percentage of net sales:

|  | Three Months Ended    |                       | Nine Months Ended     |                       | Year Ended           |
|--|-----------------------|-----------------------|-----------------------|-----------------------|----------------------|
|  | September 30,<br>2006 | September 30,<br>2005 | September 30,<br>2006 | September 30,<br>2005 | December 31,<br>2005 |
| Net sales                                      | 100.0 %               | 100.0 %               | 100.0 %               | 100.0 %               | 100.0 %              |
| Cost of goods sold                             | 45.3                  | 44.6                  | 43.4                  | 44.6                  | 45.3                 |
| Gross profit                                   | 54.7                  | 55.4                  | 56.6                  | 55.4                  | 54.7                 |
| Selling, general and<br>administrative expense | 34.8                  | 36.3                  | 34.0                  | 35.1                  | 35.2                 |
| Product research and<br>development expense    | 10.2                  | 10.1                  | 9.7                   | 9.6                   | 9.7                  |
| Income from<br>continuing operations           | 7.6                   | 5.7                   | 9.3                   | 7.3                   | 6.6                  |
| Discontinued operations                        | --                    | --                    | --                    | 0.5                   | 0.3                  |
| Net income                                     | 7.6 %                 | 5.7 %                 | 9.3 %                 | 7.8 %                 | 6.9 %                |

#### Critical Accounting Policies

As previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2005, we have identified accounting for income taxes, valuation of long-lived and intangible assets and goodwill, valuation of inventories, allowance for doubtful accounts, litigation reserves, and warranty reserves as the accounting policies critical to the operations of Bio-Rad. For a full discussion of these policies, please refer to our Form 10-K for the year ended December 31, 2005.



Three Months Ended September 30, 2006 Compared to

Three Months Ended September 30, 2005

Corporate Results Sales, Margins and Expenses

Net sales (sales) in the third quarter of 2006 rose 7.6% to \$304.8 million from \$283.2 million in the third quarter of 2005. The positive impact to sales from a weakening US dollar represented \$7.1 million. For Bio-Rad in total, on a currency neutral basis, third quarter 2006 sales grew 5.1% compared to the third quarter of 2005. The Clinical Diagnostics segment sales grew by 10.8% before adjustment to a currency neutral basis, while the Life Science segment sales grew 4.0% before adjustment. On a currency neutral basis, Clinical Diagnostics segment sales growth was 7.8%, while Life Science segment sales grew 2.0%.

Clinical Diagnostics segment growth was led by blood virus, quality control products and contract manufacturing. Life Science segment sales increased for product lines focused on protein expression, analysis and purification. Life Science segment revenue for the BSE product line continued to decline. Geographically, sales into emerging markets showed substantial growth for both Clinical Diagnostics and Life Science segments.

Consolidated gross margins were 54.7% for the third quarter of 2006 compared to 55.4% for the third quarter of 2005 and 54.7% for all of 2005. Clinical Diagnostics segment gross margins remained unchanged when compared to the prior year. Similar to prior periods, Life Science segment margins were negatively impacted by declining average selling prices for the BSE product line. Additionally, costs increased for obsolete inventory, royalties and other manufacturing costs.

Selling, general and administrative expenses (SG&A) represented 34.8% of sales for the third quarter of 2006 compared to 36.3% of sales for the third quarter of 2005. SG&A grew by 3.1% without adjustment for the increase caused by currency, which is estimated to have had a 1.5% impact on the total growth rate. The Clinical Diagnostics segment SG&A expense in absolute dollars grew at the rate of sales growth. Life Science segment SG&A expense declined on lower personnel costs as the segment reduced headcount from a year ago. Additionally, legal costs for the Life Science segment declined as the prior year's quarter had significant activity related to the ABI settlement. Overall, we had increased costs from share-based compensation and employee salary increases.

Product research and development expense remained relatively flat at 10.2% of sales or \$31.0 million in the third quarter of 2006. Both Clinical Diagnostics and Life Science segments increased expenditures in absolute dollars over the prior period. Areas of interest for the Clinical Diagnostics segment include expanded tests for the Bio-Plex 2200™ system, expanded software data management for the quality control product line and improvements to existing diabetes monitoring. Life Science segment spending increases were concentrated into gene expression products. Currency had little impact on R&D, as spending is concentrated in the United States.



Corporate Results Other Items

Interest expense is similar to the third quarter of 2005. Average indebtedness decreased from approximately \$436 million in the third quarter of 2005 to approximately \$431 million in the third quarter of 2006. The minor decrease reflects the paydown of foreign local lines of credit. Our borrowing costs should remain relatively unchanged for the near term as \$425 million of the outstanding amount represents fixed rate borrowings of 7.5% and 6.125%, due in 2013 and 2014, respectively.

Exchange gains and losses consist of foreign currency transaction gains and losses on intercompany net receivables and payables and the change in fair market value of forward foreign exchange contracts used to manage our foreign exchange risk. The exchange gain recorded in the current quarter is a result of unhedged positions related to currencies for Brazil, Russia and other eastern European countries which are either relatively small or costly to hedge.

Other income and expense, net, for the third quarter of 2006 increased compared to the third quarter of 2005 as investment income, especially interest, rose as returns on cash and short-term investments improved from that available in the prior period. Included in the current quarter is a gain of \$4.7 million associated with the tender of our ownership in Accent Semiconductor Technology Inc. (Accent), a privately held company. In conjunction with the merger of Accent and Nanometrics Inc., a publicly held company, Bio-Rad's stock in Accent was exchanged for approximately 600,000 shares of Nanometrics stock valued at \$5.4 million on conversion. We also received a \$2.5 million facilitation fee for aiding in the merger which is included in the gain of \$4.7 million. Bio-Rad has less than a 5% interest in Nanometrics and has designated the investment available for sale and marked the investment to market. Also included in other income and expense are gains or losses associated with the sale of surplus manufacturing or other productive assets.

Our effective tax rate was 29% for the third quarter of 2006 and 22% for the third quarter of 2005. The higher effective tax rate for the third quarter of 2006 was the result of several items unique to the third quarter of 2005 including a reduction of the valuation allowances on certain foreign deferred tax assets. The effective tax rates for the third quarters of both 2006 and 2005 reflect tax benefits for nontaxable dividend income, export sales and adjustments necessary to reflect actual tax liabilities. The effect of SFAS 123(R) in the third quarter of 2006 is an increase to the tax rate of approximately 1%.

Our effective tax rate may be impacted in the future, either favorably or unfavorably, by many factors including but not limited to statutory tax rates, changes in existing laws or regulations, tax audits and settlements, and generation of tax credits.



Nine Months Ended September 30, 2006 Compared to

Nine Months Ended September 30, 2005

Corporate Results Sales, Margins and Expenses

Net sales (sales) in the nine months ended 2006 rose 6.5% to \$930.8 million from \$873.7 million in the nine months ended 2005. The negative impact to sales from a strengthening US dollar represented \$10.4 million. For Bio-Rad in total, on a currency neutral basis, sales grew 7.7% compared to the prior period. Before adjustment to a currency neutral basis, the Clinical Diagnostics segment sales grew by 10.8% to \$504.8 million and the Life Science segment sales grew 1.8% to \$416.6 million. On a currency neutral basis, Clinical Diagnostics segment sales increased 11.8% and Life Science segment sales grew 3.2%. The Clinical Diagnostics segment sales growth is in part attributable to the \$11.7 million in back royalties and license fees in our settlement with bioMérieux. The Clinical Diagnostics segment delivered several large orders in Asia and to emerging markets which occur infrequently when compared to the delivery patterns in more developed markets like the United States and European Union. Blood virus and quality control products are experiencing growth at or just above diagnostic industry growth rates. Life Science segment sales growth rates are net of the effect of declining BSE sales. Excluding BSE sales, the remaining product lines had growth in the range of 7% (unadjusted for foreign currency) led by continued growth in gene expression products and instrumentation and process purification products.

Consolidated gross margins were 56.6% for the nine months ended 2006 compared to 55.4% for the nine months ended 2005 and 54.7% for all of 2005. Clinical Diagnostic segment gross margins increased approximately 2.4% over the prior period. The agreement with bioMérieux for back royalties and license fees had no cost of sales associated with it in the period presented. Additionally, improvements in factory efficiency and limited price increases improved gross margin for the quality control product line. Life Science segment gross margins excluding the BSE product line increased from the prior year by approximately 0.3%. Including the impact of lower average selling prices in the BSE product lines, gross margin in the Life Science segment declined by approximately 0.6%.

Selling, general and administrative expenses (SG&A) represented 34.0% of sales for the nine months ended 2006 compared to 35.1% of sales in the prior year period. Our SG&A increased 3.3% in absolute dollars before adjustment for any change in currency translation. The strengthening dollar lowered international spending such that on a currency neutral basis SG&A grew by 4.4%. Overall, we had increased costs for share-based compensation, salary increases, agent commissions and a one-time settlement with a business partner. Most of the growth in SG&A in absolute dollars was concentrated in the Clinical Diagnostics segment with a decline in the Life Science segment occurring primarily in the third quarter.

Product research and development expense increased 7.2% to \$90.1 million in the nine months ended 2006 compared to the same period in 2005. In absolute dollar spending, the \$6.1 million increase was equally attributable to both segments. Areas of development for the Life Science segment are proteomics, multi-analyte detection and process

chromatography. Clinical Diagnostics segment development efforts are focused on expanded tests for the Bio-Plex 2200 testing platform, as well as enhancements to existing offerings in clinical microbiology, blood virus and quality control products.



Corporate Results   Other Items

Interest expense for the nine months ended 2006 declined by \$0.3 million from the prior year to \$24.1 million. This decrease is the net effect of a small decrease in our average indebtedness from approximately \$436 million in the nine months ended 2005 to approximately \$431 million for the nine months ended 2006. Our borrowing costs should remain relatively unchanged for the near term as \$425 million of the outstanding amount represents fixed rate borrowings of 7.5% and 6.125%, due in 2013 and 2014, respectively.

Exchange gains and losses consist of foreign currency transaction gains and losses on intercompany net receivables and payables and the change in fair value of our forward foreign exchange contracts used to manage our foreign exchange risk. The exchange loss in 2006 reflects losses on unhedged positions, differences in timing and estimating intercompany shipments, and payments and other transaction costs. In late 2004, we stopped hedging the Brazilian Real because of the expense, moving to an unhedged position for these intercompany receivables and payables. The exchange gains reported in the 2005 period reflect the strengthening of the Brazilian Real versus the US dollar and the Euro. For 2006 year-to-date the Brazilian Real has had only a minor impact on total exchange gains and losses.

Other income and expense, net, for the nine months ended 2006 includes investment income, mainly interest on our cash and cash equivalents, short-term investments, marketable securities and notes receivable. Interest and investment income rose approximately \$2.0 million as market returns improved. The Accent stock tender and facilitation fee added \$4.7 million. We also include in this category any gains or losses associated with the sale of any surplus manufacturing equipment or other productive assets.

Bio-Rad's effective tax rate was 27% for the nine months ended 2006 and 24% on continuing operations for the nine months ended 2005. The effective tax rates for both nine-month periods are lower than the statutory rate due to reductions of the valuation allowances on certain foreign deferred tax assets and tax benefits for nontaxable dividend income and export sales. The 2006 effective tax rate reflects a benefit for the settlement of an IRS tax audit for 1995 and 1996. The effect of SFAS 123(R) for the nine month period is an increase to the tax rate of approximately 1%.

Our effective tax rate may be impacted in the future, either favorably or unfavorably, by many factors including but not limited to statutory tax rates, changes in existing laws or regulations, tax audits and settlements, and generation of tax credits.

Financial Condition

Our principal capital requirement is for working capital to fund the growth of Bio-Rad. Management assesses our liquidity in terms of our ability to generate cash to fund our operations and make acquisitions. The relevant factors that effect liquidity are cash flows from operations, capital expenditures, acquisition opportunities, common stock repurchases, the adequacy of available bank lines of credit and the ability to raise long-term capital by borrowing in the debt markets with satisfactory terms and conditions.

As of September 30, 2006, we had available \$238.4 million in cash and cash equivalents and \$29.2 million available under international lines of credit. We also had \$243.2 million of short-term investments. Under the \$150.0 million restated and amended Revolving Credit Facility we have \$145.6 million available with \$4.4 million reserved for standby letters of credit issued by our banks to guarantee our obligations to certain insurance companies related to the deductible on the co-insurance provision of policies issued for us as the beneficiary. Management believes that this availability, together with cash flow from operations, will be adequate to meet our current objectives for operations, research and development, capital additions for plant, equipment and systems and potential acquisitions.

#### Cash Flows from Operations

Net cash provided by operations was \$63.4 million and \$58.9 million for the nine months ended September 30, 2006 and 2005, respectively. The increase in net cash provided by operations resulted from improved profitability and increases in investment income. Included in year-to-date cash flows from operations are \$46.0 million in payments relating to the settlement with ABI. These payments reduced an acquisition liability set up as part of the purchase of MJ Research in August 2004. Inventory additions were generally in the Clinical Diagnostic segment for new product introductions, planned sales increases of our quality control products which are characterized by large batch sizes and long lead times, and the internalizing of some equipment manufacturing which had been previously outsourced. The increase in accounts receivable reflect sales growth with extended terms to Eastern Europe and Asia, which typically require payment terms in excess of our average mix. Also included in the year-to-date cash flows from operations is a significant tax refund that is atypical to most quarters and covers several periods.

We regularly review the allowance for uncollectible accounts receivable and believe net accounts receivable are fully realizable. We also routinely review inventory for the impact of obsolescence and changes in market prices caused by the introduction of new products, technologies and in government reimbursement policies.

#### Cash Flows for Investing Activities

Net capital expenditures totaled \$38.1 million for the nine months ended September 30, 2006 compared to \$26.3 million for the same period of 2005. Net capital expenditures represent the addition and replacement of production machinery and research equipment, ongoing manufacturing and facility additions for compliance, and leasehold improvements. All periods include reagent rental equipment placed with Clinical Diagnostics customers who then contract to purchase our reagents for use. Also included in net capital expenditures are investments in business systems and data communication upgrades and enhancements. During the nine months ended 2006, we made tenant improvements and equipped our new European logistics center which was occupied in June 2006.

During the fourth quarter, we acquired Blackhawk Biosystems, Inc., a provider of quality control products, for approximately \$17 million. We expect to close an asset purchase of the ProteinChip Systems® business of CIPHERGEN

Inc. and worldwide technology rights to the Surface Enhanced Laser Desorption/Ionization (SELDI-TOF-MS) for up to \$20 million in the fourth quarter. We continue to review other possible acquisitions to expand both our Life Science and Clinical Diagnostics segments. We routinely meet with the principals or brokers of companies for possible acquisitions. We are evaluating and negotiating acquisitions on a preliminary basis, but it is not certain that any of these transactions will advance beyond the preliminary stages or be completed.

The Board of Directors has authorized the repurchase of up to \$18.0 million of Bio-Rad's common stock over an indefinite period of time. Through September 30, 2006, we have cumulatively repurchased 1,179,272 shares of Class A Common Stock and 60,000 shares of Class B Common Stock for a total of \$14.7 million. Our credit agreements restrict our ability to repurchase our stock. There were no share repurchases made in the nine months ended 2006 or all of 2005. The repurchase was designed to both satisfy our obligations under the employee stock purchase and stock option plans and to improve shareholder value.

Item 3.

Quantitative and Qualitative Disclosures about Market Risk

During the nine months ended September 30, 2006, there have been no material changes from the disclosures about market risk provided in our Annual Report on Form 10-K for the year ended December 31, 2005.

Item 4.

Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

There has been no change in our internal controls over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.



PART II OTHER INFORMATION

Item 1.

Legal Proceedings

See Note 17, Legal Proceedings in the Notes to Condensed Consolidated Financial Statements of Part 1, Item 1 of this Form 10-Q.

Item 6.

Exhibits

(a) Exhibits

The following documents are filed as part of this report:

Exhibit

| No.  |  |
|------|--|
| 31.1 | Chief Executive Officer Section 302 Certification  |
| 31.2 | Chief Financial Officer Section 302 Certification  |
| 32.1 | Chief Executive Officer Certification pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Chief Financial Officer Certification pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

BIO-RAD LABORATORIES, INC.

(Registrant)

|       |                  |  |
|-------|------------------|--|
| Date: | November 8, 2006 | /s/ Norman Schwartz<br>Norman Schwartz, President,<br>Chief Executive Officer                |
| Date: | November 8, 2006 | /s/ Christine A. Tsingos<br>Christine A. Tsingos, Vice President,<br>Chief Financial Officer |



