

BIO RAD LABORATORIES INC  
Form 10-Q  
November 09, 2010

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

**FORM 10-Q**

(Mark One)

☒

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

For the quarterly period ended September 30, 2010

**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 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.

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Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
(Do not check if smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

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 at October 27, 2010
Class A Common Stock, Par Value \$0.0001 per share	22,616,016
Class B Common Stock, Par Value \$0.0001 per share	5,182,843

**BIO-RAD LABORATORIES, INC.  
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## PART I 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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net sales	\$ 471,502	\$ 461,055	\$ 1,393,398	\$ 1,289,171
Cost of goods sold	205,172	200,545	601,633	557,797
Gross profit	266,330	260,510	791,765	731,374
Selling, general and administrative expense	148,654	153,623	458,541	437,606
Research and development expense	42,874	39,516	126,999	119,075
Income from operations	74,802	67,371	206,225	174,693
Interest expense	14,400	14,487	43,169	32,661
Foreign exchange losses, net	2,749	1,472	3,546	3,249
Other (income) expense, net	(256)	192	(3,572)	(4,956)
Income before taxes	57,909	51,220	163,082	143,739
Provision for income taxes	(12,824)	(11,920)	(44,084)	(33,096)
Net income including noncontrolling interests	45,085	39,300	118,998	110,643
Less: Net income attributable to noncontrolling interests	(321)	(776)	(1,416)	(3,885)
Net income attributable to Bio-Rad	\$ 44,764	\$ 38,524	\$ 117,582	\$ 106,758
Basic earnings per share:				
Net income per share basic attributable to Bio-Rad	\$ 1.62	\$ 1.40	\$ 4.26	\$ 3.90
Weighted average common shares - basic	27,697	27,431	27,616	27,375
Diluted earnings per share:				
Net income per share diluted attributable to Bio-Rad	\$ 1.59	\$ 1.38	\$ 4.18	\$ 3.85
Weighted average common shares - diluted	28,103	27,875	28,110	27,749

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



BIO-RAD LABORATORIES, INC.

Condensed Consolidated Balance Sheets

(In thousands)

(Unaudited)

	September 30, 2010	December 31, 2009
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 630,640	\$ 649,938
Short-term investments	107,360	94,876
Accounts receivable, net	368,603	345,734
Inventories, net	402,883	351,206
Prepaid expenses, taxes and other current assets	142,223	120,920
Total current assets	1,651,709	1,562,674
Property, plant and equipment, net	321,507	302,417
Goodwill, net	351,860	327,626
Purchased intangibles, net	206,616	204,779
Other assets	150,512	138,357
Total assets	\$ 2,682,204	\$ 2,535,853
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
Accounts payable	\$ 99,120	\$ 92,988
Accrued payroll and employee benefits	120,171	126,702
Notes payable and current maturities of long-term debt	9,161	5,132
Income and other taxes payable	52,176	42,322
Accrued royalties	24,877	46,692
Other current liabilities	105,189	106,136
Total current liabilities	410,694	419,972
Long-term debt, net of current maturities	733,574	737,919
Other long-term liabilities	109,804	98,749
Total liabilities	1,254,072	1,256,640
<b>STOCKHOLDERS' EQUITY:</b>		
Bio-Rad stockholders' equity:		
Preferred stock	0	0
Class A common stock	2	2
Class B common stock	1	1
Additional paid-in capital	150,136	130,444
Retained earnings	1,113,779	996,197
Accumulated other comprehensive income	159,914	133,082

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Total Bio-Rad stockholders' equity	1,423,832	1,259,726
Noncontrolling interests	4,300	19,487
Total stockholders' equity	1,428,132	1,279,213
Total liabilities and stockholders' equity	\$ 2,682,204	\$ 2,535,853

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)

	2010	Nine Months Ended September 30,	2009
Cash flows from operating activities:			
Cash received from customers	\$ 1,367,777		\$ 1,291,054
Cash paid to suppliers and employees	(1,143,699)		(1,030,153)
Interest paid	(48,812)		(31,511)
Income tax payments	(50,254)		(27,746)
Miscellaneous receipts, net	3,193		8,088
Excess tax benefits from share-based compensation	(2,684)		(380)
Net cash provided by operating activities	125,521		209,352
Cash flows from investing activities:			
Capital expenditures, net	(55,757)		(48,931)
Payments for acquisitions, net of cash received, and long-term investments	(88,694)		(35,937)
Payments on purchases of intangible assets	(2,715)		(7,430)
Purchases of marketable securities and investments	(178,716)		(91,484)
Sales and maturities of marketable securities and investments	160,238		36,632
Proceeds from (payments for) foreign currency economic hedges, net	1,234		(6,211)
Net cash used in investing activities	(164,410)		(153,361)
Cash flows from financing activities:			
Net payments on line-of-credit arrangements and notes payable	(462)		(2,641)
Long-term borrowings	2,000		294,750
Payments on long-term borrowings	(5,441)		(5,253)
Proceeds from issuance of common stock	9,017		7,668
Debt issuance costs on long-term borrowings	(575)		(2,641)
Excess tax benefits from share-based compensation	2,684		380
Net cash provided by financing activities	7,223		292,263
Effect of foreign exchange rate changes on cash	12,368		1,401
Net (decrease) increase in cash and cash equivalents	(19,298)		349,655
Cash and cash equivalents at beginning of period	649,938		204,524
Cash and cash equivalents at end of period	\$ 630,640		\$ 554,179

Reconciliation of net income including  
noncontrolling interests to net cash  
provided by operating activities:

Net income including noncontrolling interests	\$ 118,998	\$ 110,643
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities excluding the effects of acquisitions:		
Depreciation and amortization	79,964	74,003
Share-based compensation	7,357	6,670
Excess tax benefits from share-based compensation	(2,684)	(380)
(Increase) decrease in accounts receivable	(17,974)	3,485
(Increase) decrease in inventories	(21,645)	5,177
(Increase) decrease in other current assets	(3,561)	9,235
Decrease in accounts payable and other current liabilities	(29,122)	(12,973)
(Decrease) increase in income taxes payable	(1,287)	18,659
Other	(4,525)	(5,167)
Net cash provided by operating activities	\$ 125,521	\$ 209,352

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 preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Estimates have been prepared on the basis of the best available information. Actual results could differ materially from those estimates. The condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2009.

We evaluate subsequent events and the evidence they provide about conditions existing at the date of the balance sheet as well as conditions that arose after the balance sheet date but before the financial statements are issued. The effects of conditions that existed at the balance sheet date are recognized in the financial statements. Events and conditions arising after the balance sheet date but before the financial statements are issued are evaluated to determine if disclosure is required to keep the financial statements from being misleading. To the extent such events and conditions exist, disclosures are made regarding the nature of events and the estimated financial effects for those events and conditions.

**2. ACQUISITION**

On January 6, 2010, we acquired certain diagnostic businesses of Biotest AG (Biotest) for 45 million Euros (approximately \$64.9 million) in cash. The acquisition was accounted for as a business combination. The operating results of these businesses are included in our Clinical Diagnostics segment. The purchase price allocation reflected \$30.9 million of net tangible assets and \$21.2 million of intangible assets based upon management's estimate of relative fair values of the assets acquired and liabilities assumed on the acquisition date. Further, goodwill of

\$12.8 million was recorded as the excess of the consideration transferred over the fair values of the identifiable net assets acquired. The goodwill recorded will not be deductible for tax purposes. Integrating the acquired portion of Biotest's diagnostic businesses into Bio-Rad's product portfolio broadened our product offering in the area of immunohematology and provided Bio-Rad access to the U.S. markets with a range of products.

### 3. FAIR VALUE MEASUREMENTS

We determine the fair value of an asset or liability based on the assumptions that market participants would use in pricing the asset or liability. The identification of market participant assumptions provides a basis for determining what inputs are to be used for pricing each asset or liability. A fair value hierarchy has been established which gives precedence to fair value measurements calculated using observable inputs over those using unobservable inputs. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1	Quoted prices in active markets for identical instruments
Level 2	Other significant observable inputs (including quoted prices in active markets for similar instruments)
Level 3	Significant unobservable inputs (including assumptions in determining the fair value of certain investments)

Financial assets and liabilities carried at fair value on a recurring basis as of September 30, 2010 are classified in the hierarchy as follows (in millions):

	Level 1	Level 2	Total
Financial Assets Carried at Fair Value:			
Cash equivalents (a):			
Commercial paper	\$ 0.0	\$ 187.2	\$ 187.2
Time deposits	116.9	0.0	116.9
Money market funds	31.6	0.0	31.6
Available-for-sale investments (b):			
Corporate debt securities	0.0	37.2	37.2
U.S. government sponsored agencies	0.0	52.7	52.7
Municipal obligations	0.0	8.1	8.1
Marketable equity securities	70.1	0.0	70.1
Asset-backed securities:			
Collateralized mortgage obligations	0.0	0.2	0.2
Other mortgage-backed securities	0.0	2.8	2.8
Other	0.0	0.3	0.3
Forward foreign exchange contracts (c)	0.0	0.4	0.4
Total Financial Assets Carried at Fair Value	\$ 218.6	\$ 288.9	\$ 507.5
Financial Liabilities Carried at Fair Value:			
Forward foreign exchange contracts (d)	\$ 0.0	\$ 3.1	\$ 3.1

(a)

Cash equivalents are included in Cash and cash equivalents in the Condensed Consolidated Balance Sheets.

(b)

Available-for-sale investments of \$107.4 million are included in Short-term investments and \$64.0 million are included in Other assets in the Condensed Consolidated Balance Sheets.

(c)

Forward foreign exchange contracts in an asset position are included in Prepaid expenses, taxes and other current assets in the Condensed Consolidated Balance Sheets.

(d)

Forward foreign exchange contracts in a liability position are included in Other current liabilities in the Condensed Consolidated Balance Sheets.

To estimate the fair value of Level 2 debt securities, excluding commercial paper and U.S. Treasury bills and notes, we examine quarterly the pricing provided by two pricing services and we obtain indicative market prices when there is insufficient correlation between the pricing services. To estimate the fair value of Level 2 commercial paper and U.S. Treasury bills and notes we examine quarterly the pricing from our primary pricing service to ensure consistency with other similar securities. As a result of our analysis as of September 30, 2010, we utilized our primary pricing service for all Level 2 debt securities for consistency since the results did not require the use of alternative pricing.

In addition, we review for investment securities that may trade in illiquid or inactive markets by identifying instances of a significant decrease in the volume and frequency of trades, relative to historical levels, as well as instances of a significant widening of the bid-ask spread in the brokered markets. As of September 30, 2010, we did not have any investment securities in illiquid or inactive markets.

The inputs used by our primary pricing service for Level 2 cash equivalents, corporate debt securities, foreign government obligations, U.S. government sponsored agencies and municipal obligations, vary depending on the type of security being valued, but generally include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, corporate actions or Nationally Recognized Municipal Securities Information Repository (NRMSIR) material event notices, plus new issue money market rates.

The inputs used by our primary pricing service in estimating the fair value of Level 2 collateralized mortgage obligations and other mortgage-backed securities include many of the inputs mentioned above in addition to monthly payment information. These issues were priced by our primary pricing service against issues with similar vintage and credit quality with adjustments for tranche, average life and extension risk.

**Forward foreign exchange contracts:** As part of distributing our products, we regularly enter into intercompany transactions. We enter into forward foreign currency exchange contracts to manage foreign exchange risk of future movements in foreign exchange rates that affect foreign currency denominated intercompany receivables and payables. We do not use derivative financial instruments for speculative or trading purposes. We do not seek hedge accounting treatment for these contracts. As a result, these contracts, generally with maturity dates of 90 days or less and related primarily to currencies of industrial countries, are recorded at their fair value at each balance sheet date. The fair value of these contracts was derived using the spot rates published in the Wall Street Journal on the last business day of the quarter and the points provided by counterparties. The resulting gains or losses offset exchange gains or losses on the related receivables and payables, both of which are recorded as Foreign exchange (gains) losses in the Condensed Consolidated Statements of Income. The cash flows related to these contracts are classified as Cash flows from investing activities in the Condensed Consolidated Statements of Cash Flows. At September 30, 2010, we had contracts maturing in October through December 2010 to sell foreign currency with a notional value of \$50.6 million and an unrealized loss of \$0.2 million. Contracts to purchase foreign currency had a notional value of \$345.0 million with an unrealized loss of \$2.5 million.

Financial assets carried at fair value on a recurring basis as of December 31, 2009 are classified in the hierarchy as follows (in millions):

	Level 1	Level 2	Total
Assets:			
Cash equivalents	\$	\$	\$
	301.4	89.8	391.2

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Forward foreign exchange contracts	0.0	0.3	0.3
Available-for-sale investments:			
Corporate debt securities	0.0	23.8	23.8
Municipal obligations	0.0	2.4	2.4
Asset-backed securities	0.0	5.5	5.5
U.S. government sponsored agencies	0.0	41.5	41.5
Foreign government obligations	0.0	17.9	17.9
Marketable equity securities	64.2	0.2	64.4
Total	\$	\$	\$
	365.6	181.4	547.0

As of September 30, 2010 and December 31, 2009, we did not hold any financial assets that use Level 3 inputs to determine fair value.



Available-for-sale investments consist of the following (in millions):

	September 30, 2010			Estimated
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Short-term investments:				
Corporate debt securities	\$ 37.2	\$ 0.0	\$ 0.0	\$ 37.2
Municipal obligations	8.1	0.0	0.0	8.1
Asset-backed securities	0.3	0.0	0.0	0.3
U.S. government sponsored agencies	52.7	0.0	0.0	52.7
Marketable equity securities	8.9	0.7	(0.5)	9.1
	107.2	0.7	(0.5)	107.4
Long-term investments:				
Marketable equity securities	38.3	23.4	(0.4)	61.3
Asset-backed securities	2.8	0.1	(0.2)	2.7
	41.1	23.5	(0.6)	64.0
Total	\$ 148.3	\$ 24.2	\$ (1.1)	\$ 171.4

  

	December 31, 2009			Estimated
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Short-term investments:				
Corporate debt securities	\$ 23.8	\$ 0.0	\$ 0.0	\$ 23.8
Municipal obligations	2.4	0.0	0.0	2.4
Asset-backed securities	0.9	0.0	0.0	0.9
U.S. government sponsored agencies	41.5	0.0	0.0	41.5
Foreign government obligations	17.9	0.0	0.0	17.9
Marketable equity securities	8.6	0.4	(0.6)	8.4
	95.1	0.4	(0.6)	94.9
Long-term investments:				
Marketable equity securities	29.9	26.4	(0.3)	56.0
Asset-backed securities	5.0	0.2	(0.6)	4.6
	34.9	26.6	(0.9)	60.6
Total	\$ 130.0	\$ 27.0	\$ (1.5)	\$ 155.5

As of September 30, 2010 and December 31, 2009, we had investments with gross unrealized losses of \$0.9 million and \$1.5 million, respectively, that were in a loss position for 12 months or more. The number of investment

positions that were in an unrealized loss position were 34 and 37 as of September 30, 2010 and December 31, 2009, respectively.

The unrealized losses on these securities are due to a number of factors, including changes in interest rates, changes in economic conditions and changes in market outlook for various industries, among others. Because Bio-Rad has the ability and intent to hold these investments with unrealized losses until a recovery of fair value, or for a reasonable period of time sufficient for a forecasted recovery of fair value, which may be maturity, we do not consider these investments to be other-than-temporarily impaired at September 30, 2010.

The following is a summary of the amortized cost and estimated fair value of our debt securities at September 30, 2010 by contractual maturity date (in millions):

	Amortized Cost	Fair Value
Mature in less than one year	\$ 98.0	\$ 98.0
Mature in one to five years	0.0	0.0
Mature in more than five years	3.1	3.0
Total	\$ 101.1	\$ 101.0

The estimated fair value of financial instruments in the table below has been determined using available market information or other appropriate valuation methodologies. Estimates are not necessarily indicative of the amounts that could be realized in a current market exchange as considerable judgment is required in interpreting market data used to develop estimates of fair value. The use of different market assumptions or estimation techniques could have a material effect on the estimated fair value. Other assets include some financial instruments that have fair values based on market quotations. Long-term debt has an estimated fair value based on quoted market prices for the same or similar issues.

The estimated fair value of our financial instruments is as follows (in millions):

	September 30, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Other assets	\$ 115.6	\$ 144.6	\$ 101.8	\$ 119.6
Total long-term debt, excluding leases	\$ 720.5	\$ 751.7	\$ 720.1	\$ 734.1

We own shares of ordinary voting stock of Sartorius AG, of Goettingen, Germany, a process technology supplier to the biotechnology, pharmaceutical, chemical and food and beverage industries. We own over 30% of the outstanding voting shares (excluding treasury shares) of Sartorius as of September 30, 2010. The Sartorius family trust and Sartorius family members hold a controlling interest of the outstanding voting shares. We do not have any representative or designee on Sartorius' board of directors, nor do we have any other influence over the operating and financial policies of Sartorius. Therefore, we account for this investment using the cost method. The carrying value of this investment is included in Other assets in our Condensed Consolidated Balance Sheets.

**4. INVENTORIES**

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

	September 30, 2010	December 31, 2009
Raw materials	\$ 77.6	\$ 68.2
Work in process	117.3	97.5
Finished goods	208.0	185.5
Inventories, net	\$ 402.9	\$ 351.2

**5. PROPERTY, PLANT AND EQUIPMENT**

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

	September 30, 2010	December 31, 2009
Land and improvements	\$ 18.2	\$ 16.8
Buildings and leasehold improvements	228.8	204.6
Equipment	537.1	506.7
	784.1	728.1
Accumulated depreciation	(462.6)	(425.7)
Property, plant and equipment, net	\$ 321.5	\$ 302.4

Proceeds from the sale of property, plant and equipment of \$0.5 million and \$0.4 million for the nine months ended September 30, 2010 and 2009, respectively, are included in Capital expenditures, net in the Condensed Consolidated Statements of Cash Flows.

**6. GOODWILL AND OTHER PURCHASED INTANGIBLE ASSETS**

Changes to goodwill by segment were as follows (in millions):

Life Science	Clinical Diagnostics	Total
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Balances as of January 1, 2010:

Goodwill	\$ 70.7	\$ 284.1	\$ 354.8
Accumulated impairment losses	(27.2)	0.0	(27.2)
Goodwill, net	43.5	284.1	327.6

Acquisitions

0.0 12.8 12.8

Currency fluctuations

0.0 11.5 11.5

0.0 24.3 24.3

Balances as of September 30, 2010:

Goodwill	70.7	308.4	379.1
Accumulated impairment losses	(27.2)	0.0	(27.2)
Goodwill, net	\$ 43.5	\$ 308.4	\$ 351.9

In conjunction with the acquisition of certain businesses of Biotest in January 2010 (see Note 2), we acquired \$12.8 million of goodwill and \$21.2 million of intangible assets: \$7.5 million of customer relationships, \$9.5 million of developed product technology and \$4.2 million of tradenames.

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

September 30, 2010				
	Average Remaining Life (years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships/lists	1-13	99.4	(22.1)	77.3
Know how	1-7	88.1	(28.9)	59.2
Developed product technology	1-11	47.0	(17.4)	29.6
Licenses	1-10	35.4	(11.3)	24.1
Tradenames	2-12	28.6	(13.8)	14.8
Covenants not to compete	1-8	5.9	(4.3)	1.6
Patents	0	1.0	(1.0)	0.0
Other	1	0.1	(0.1)	0.0
		305.5	(98.9)	206.6

December 31, 2009				
	Average Remaining Life (years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships/lists	1-14	\$ 90.3	\$ (15.9)	\$ 74.4
Know how	1-7	92.0	(28.5)	63.5
Developed product technology	1-12	40.5	(16.5)	24.0
Licenses	2-11	37.6	(12.2)	25.4
Tradenames	3-12	23.6	(8.8)	14.8
Covenants not to compete	2-9	6.0	(3.4)	2.6
Patents	1	1.0	(0.9)	0.1
Other	2	0.1	(0.1)	0.0
		\$ 291.1	\$ (86.3)	\$ 204.8

Amortization expense related to purchased intangible assets for the three months ended September 30, 2010 and 2009 was \$8.3 million and \$8.2 million, respectively. Amortization expense related to purchased intangible assets for the nine months ended September 30, 2010 and 2009 was \$25.1 million and \$23.2 million, respectively. Estimated future amortization expense (based on existing intangible assets) for the years ending December 31, 2011, 2012, 2013, 2014

and 2015 is \$32.8 million, \$30.1 million, \$25.9 million, \$23.0 million and \$20.6 million, respectively.



**7. PRODUCT WARRANTY LIABILITY**

We warrant certain equipment against defects in design, materials and workmanship, generally for a period of one year. Upon delivery of that equipment, we establish, as part of Cost of goods sold, a provision for the expected costs of such warranty based on historical experience, specific warranty terms and customer feedback. A review is performed on a quarterly basis to assess the adequacy of our warranty accrual.

Components of the warranty accrual, included in Other current liabilities and Other long-term liabilities, were as follows (in millions):

	2010
January 1	\$ 16.1
Provision for warranty	14.4
Actual warranty costs	(12.9)
September 30	\$ 17.6

**8. LONG-TERM DEBT**

The principal components of long-term debt are as follows (in millions):

	September 30, 2010	December 31, 2009
7.5% Senior Subordinated Notes	\$ 225.0	\$ 225.0
6.125% Senior Subordinated Notes	200.0	200.0
8.0% Senior Subordinated Notes	295.5	295.1
Capital leases and other debt	21.8	22.5
	742.3	742.6
Less current maturities	(8.7)	(4.7)
Long-term debt	\$ 733.6	\$ 737.9

In June 2010, Bio-Rad entered into a \$200.0 million Amended and Restated Credit Agreement (Credit Agreement). Borrowings under the Credit Agreement are on a revolving basis and can be used for acquisitions, for working capital and for other general corporate purposes. We had no outstanding balance under the Credit Agreement as of September 30, 2010. The Credit Agreement expires on June 21, 2014.

In May 2009, Bio-Rad sold \$300.0 million principal amount of Senior Subordinated Notes due 2016 (8.0% Notes).

The sale yielded net cash proceeds of \$294.8 million at an effective interest rate of 8.3%. The notes pay a fixed rate of interest of 8.0% per year. We have the option to redeem any or all of the 8.0% 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 8.0% Notes are not secured, rank equal to other senior subordinated notes and rank junior to all of Bio-Rad's existing and future senior debt.

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. 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 of 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 of Bio-Rad's existing and future senior debt.

The Credit Agreement is secured by substantially all of our personal property assets, the assets of our domestic subsidiaries and 65% of the capital stock of certain foreign subsidiaries. It is guaranteed by all of our existing and future material domestic subsidiaries. The Credit Agreement, the 6.125% Notes, the 7.5% Notes and the 8.0% Notes require Bio-Rad to comply with certain financial ratios and covenants, among other things. The covenants include a leverage ratio test and an interest coverage test. There are also restrictions on our ability to declare or pay dividends, incur debt, guarantee debt, enter into transactions with affiliates, merge or consolidate, sell assets, make investments, create liens and prepay subordinated debt. We were in compliance with all covenants as of September 30, 2010.

## 9. NONCONTROLLING INTERESTS

Activity in noncontrolling interests is as follows (in millions):

January 1, 2010	\$ 19.5
Net income attributable to noncontrolling interests	1.4
Purchase of noncontrolling interests	(16.7)
Currency fluctuations and other	0.1
September 30, 2010	\$ 4.3

In February 2010, we acquired the remaining 45 shares of DiaMed Holding AG, which were held by multiple noncontrolling shareholders. We paid 1.5 million Swiss Francs, or approximately \$1.4 million to these shareholders under the terms of the original purchase agreement dated October 1, 2007. As this acquisition was accounted for as an equity transaction, Bio-Rad's additional paid-in capital was reduced by \$0.7 million.

In September 2010, we acquired the remaining noncontrolling interests of DiaMed France SA. We paid 10.2 million Euros, or approximately \$12.9 million, in cash. Approximately 1.5 million Euros, or approximately \$1.9 million, will be due in 2011 as additional contingent consideration and is included in Other current liabilities in the Condensed Consolidated Balance Sheet. As this acquisition was accounted for as an equity transaction, Bio-Rad's additional paid-in capital was increased by \$1.2 million.

**10. EARNINGS PER SHARE**

Basic earnings per share is computed by dividing net income (loss) attributable to Bio-Rad 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 restricted stock, and uses the average share price for the period in determining the number of potential common shares that are to be added to the weighted average number of shares outstanding. Potential common shares are excluded from the diluted earnings per share calculation if the effect of including such securities would be anti-dilutive.

The weighted average number of common shares outstanding used to calculate basic and diluted earnings per share and the anti-dilutive shares are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Basic weighted average shares outstanding	27,697	27,431	27,616	27,375
Effect of potentially dilutive stock options and restricted stock awards	406	444	494	374
Diluted weighted average common shares	28,103	27,875	28,110	27,749
Anti-dilutive shares	132	208	117	284

## 11. SHARE-BASED COMPENSATION

Included in our share-based compensation expense is the cost related to stock options, restricted stock and restricted stock unit grants, and Employee Stock Purchase Plan (ESPP) stock purchases.

For the three months ended September 30, 2010 and 2009, we recognized pre-tax share-based compensation expense of \$2.5 million and \$2.6 million, respectively. For the nine months ended September 30, 2010 and 2009, we recognized pre-tax share-based compensation expense of \$7.3 million and \$6.7 million, respectively.

### Stock Options

The following table summarizes our stock option activity during the nine months ended September 30, 2010:

	Shares	Weighted Average Exercise Price
Outstanding, January 1, 2010	1,206,374	\$ 50.78
Granted	58,500	\$ 84.57
Exercised	(168,387)	\$ 22.05
Forfeited/Expired	(5,055)	\$ 61.58
Outstanding, September 30, 2010	1,091,432	\$ 56.97
Vested and expected to vest September 30, 2010	1,072,987	\$ 56.57
Exercisable, September 30, 2010	874,630	\$ 52.04

Cash received from stock options exercised during the three months ended September 30, 2010 and 2009 was \$1.4 million and \$1.5 million, respectively. The actual tax benefit realized for the tax deductions from stock options exercised was \$2.7 million and \$0.9 million for the three months ended September 30, 2010 and 2009, respectively. Cash received from stock options exercised during the nine months ended September 30, 2010 and 2009 was \$3.7 million and \$2.6 million, respectively. The actual tax benefit realized for the tax deductions from stock options exercised was \$4.5 million and \$1.6 million for the nine months ended September 30, 2010 and 2009, respectively.

As of September 30, 2010, there was approximately \$6.3 million of total unrecognized compensation cost related to stock options granted under our stock options plans. The cost is expected to be recognized over a weighted average period of approximately 3 years.

### ***Restricted Stock***

The following table summarizes our restricted stock activity during the nine months ended September 30, 2010:

	Restricted Stock Shares	Weighted Average Grant-Date Fair Value
Nonvested shares, January 1, 2010	101,247	\$ 82.86
Granted	0	0
Vested	(28,518)	\$ 81.94
Cancelled/Forfeited	(965)	\$ 84.52
Nonvested shares, September 30, 2010	71,764	\$ 83.21

As of September 30, 2010, there was approximately \$4.6 million of total unrecognized compensation cost related to restricted stock granted under the 2007 Plan. The cost is expected to be recognized over a weighted average period of approximately 2 years.

### ***Restricted Stock Units***

The following table summarizes our restricted stock unit activity during the nine months ended September 30, 2010:

	Units	Weighted Average Grant-Date Fair Value
Outstanding, January 1, 2010	163,198	\$ 77.01
Granted	126,330	\$ 84.57
Vested	(33,825)	\$ 78.41
Forfeited	(4,570)	\$ 78.23
Outstanding, September 30, 2010	251,133	\$ 80.60

As of September 30, 2010, there was approximately \$15.9 million of total unrecognized compensation cost related to restricted stock units granted under the 2007 Plan. That cost is expected to be recognized over a weighted average period of approximately 4 years.

***Employee Stock Purchase Plan***

We sold 28,140 shares for \$2.0 million and 27,725 shares for \$1.8 million under our employee stock purchase plan for the three months ended September 30, 2010 and 2009, respectively. We sold 70,749 shares for \$5.4 million and 85,178 shares for \$5.0 million under our employee stock purchase plan for the nine months ended September 30, 2010 and 2009, respectively. At September 30, 2010, there were 157,855 authorized shares remaining in the employee stock purchase plan.



**12. OTHER (INCOME) EXPENSE, NET**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Interest and investment income	\$ (0.7)	\$ (0.8)	\$ (4.3)	\$ (4.6)
Net realized gains on investments	(0.1)	(0.1)	(0.4)	(0.1)
Other-than-temporary impairment of investments	0.0	0.4	0.0	2.9
Miscellaneous other (income) expense items	0.5	0.7	1.1	(3.2)
Other (income) expense, net	\$ (0.3)	\$ 0.2	\$ (3.6)	\$ (5.0)

Other-than-temporary impairments were recorded in 2009 on certain of our available-for-sale investments in light of the continuing declines in their market prices at that time. We did not believe these particular investments would recover their carrying value.

**13. INCOME TAXES**

Our effective tax rate was 22% and 23% for the three months ended September 30, 2010 and 2009, respectively. Our effective tax rate was 27% and 23% for the nine months ended September 30, 2010 and 2009, respectively. The effective tax rates for all periods presented were lower than the statutory rate due to tax benefits for nontaxable dividend income, research and development tax credits, and differences between U.S. and foreign taxes. The higher effective tax rate for the nine months ended September 30, 2010 was primarily due to a decline in the percentage of total earnings earned in lower tax jurisdictions, the expiration of the research and development tax credit in the U.S. and an increase in the liability for uncertain tax positions.

As of September 30, 2010, we believe it is reasonably possible that our unrecognized tax benefits will decrease by up to \$5.7 million in the next 12 months due to audit settlements with various tax authorities. With respect to these unrecognized tax benefits, we are currently unable to make a reasonable estimate as to the period of final settlement, if any, with the respective tax authorities.

We record liabilities related to uncertain tax positions. We do not believe any uncertain tax positions currently pending will have a material adverse effect on our Condensed Consolidated Financial Statements, although an adverse resolution of one or more of these uncertain tax positions in any period could have a material impact on the results of operations for that period.



**14. COMPREHENSIVE INCOME (LOSS)**

The components of our total comprehensive income (loss) are as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income including noncontrolling interests	\$ 45.1	\$ 39.3	\$ 119.0	\$ 110.6
Currency translation adjustments	85.1	38.7	28.8	37.7
Post-employment benefits, net of tax	0.0	0.0	0.0	0.1
Net unrealized holding gains (losses) on available-for-sale investments net of tax effects of (\$1.0) million and \$1.0 million for the three and nine months ended September 30, 2010, respectively. There was no tax effect for the three or nine months ended September 30, 2009.	1.7	15.6	(1.7)	19.7
Reclassification adjustments for gains (losses) included in net income including noncontrolling interests, net of tax effects of (\$0.1) million for the three months and (\$0.2) million for the nine months ended September 30, 2010. There was no tax effect for the three or nine months ended September 30, 2009.	0.0	0.3	0.2	2.8
Total comprehensive income (loss)	131.9	93.9	146.3	170.9
Less: comprehensive income (loss) attributable to noncontrolling interests	2.6	1.6	1.9	4.0
Comprehensive income (loss) attributable to Bio-Rad	\$ 129.3	\$ 92.3	\$ 144.4	\$ 166.9

Reclassification adjustments are calculated using the specific identification method.

**15. SEGMENT INFORMATION**

Information regarding industry segments for the three months ended September 30, 2010 and 2009 is as follows (in millions):

		Life Science	Clinical Diagnostics	Other Operations
Segment net sales	2010	\$ 153.2	\$ 314.9	\$ 3.4

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	2009	\$	150.4	\$	307.5	\$	3.2
Segment profit	2010	\$	11.4	\$	49.6	\$	0.3
	2009	\$	9.6	\$	44.3	\$	0.0

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Information regarding industry segments for the nine months ended September 30, 2010 and 2009 is as follows (in millions):

		Life Science	Clinical Diagnostics	Other Operations
Segment net sales	2010	\$ 455.3	\$ 928.8	\$ 9.3
	2009	\$ 440.5	\$ 839.4	\$ 9.3
Segment profit	2010	\$ 30.5	\$ 134.6	\$ 0.5
	2009	\$ 25.0	\$ 119.0	\$ 0.3

Segment results are presented in the same manner as we present our operations internally to make operating decisions and assess performance. Net corporate operating 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 before taxes (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Total segment profit	\$ 61.3	\$ 53.9	\$ 165.6	\$ 144.3
Foreign exchange losses	(2.7)	(1.5)	(3.5)	(3.2)
Net corporate operating, interest and other expense not allocated to segments	(1.0)	(1.0)	(2.6)	(2.4)
Other income, net	0.3	(0.2)	3.6	5.0
Consolidated income before taxes	\$ 57.9	\$ 51.2	\$ 163.1	\$ 143.7

### 16. LEGAL PROCEEDINGS

Based on an internal review, we have identified conduct in certain of our overseas operations that may have violated the anti-bribery provisions of the United States Foreign Corrupt Practices Act (FCPA) and is likely to have violated the FCPA's books and records and internal controls provisions and our own internal policies. In May 2010, we voluntarily disclosed these matters to the U.S. Department of Justice (DOJ) and the Securities and Exchange Commission (SEC). The Audit Committee of our Board of Directors (Audit Committee) has assumed direct responsibility for reviewing these matters and has hired experienced independent counsel to conduct an investigation and provide legal advice. We have provided, and intend to continue to provide, additional information to the DOJ and the SEC as the Audit Committee's investigation progresses.

The Audit Committee's investigation is continuing and we are presently unable to predict the duration, scope or results of the Audit Committee's investigation, of any investigations by the DOJ or the SEC or whether either agency will

commence any legal actions. The DOJ and the SEC have a broad range of civil and criminal sanctions under the FCPA and other laws and regulations including, but not limited to, injunctive relief, disgorgement, fines, penalties, modifications to business practices including the termination or modification of existing business relationships, the imposition of compliance programs and the retention of a monitor to oversee compliance with the FCPA. The imposition of any of these sanctions or remedial measures could have a material adverse effect on our business. We have not to date assessed whether any of the activities in question violated the laws of the foreign jurisdictions in which they took place.