

BIO RAD LABORATORIES INC  
Form 10-Q  
November 07, 2008

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

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FORM 10-Q

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

For the quarterly period ended September 30, 2008

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

94-1381833

(State or other jurisdiction of incorporation  
or organization)

(I.R.S. Employer Identification No.)

1000 Alfred Nobel Drive, Hercules, California

94547

(Address of principal executive offices)

(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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X Yes No

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 of 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 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<br>at October 31, 2008 |
|---|---|
| Class A Common Stock,<br>Par Value \$0.0001 per share | 22,154,599                                |
| Class B Common Stock,<br>Par Value \$0.0001 per share | 5,138,057                                 |

## 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,     |              |
|   | 2008               | 2007       | 2008              | 2007         |
| Net sales   | \$ 441,842         | \$ 339,742 | \$ 1,316,400      | \$ 1,001,364 |
| Cost of goods sold  | 201,300            | 151,385    | 600,554           | 443,635      |
| Gross profit  | 240,542            | 188,357    | 715,846           | 557,729      |
| Selling, general and administrative expense                 | 150,518            | 117,687    | 436,807           | 344,988      |
| Product research and development expense                    | 38,830             | 33,145     | 118,398           | 100,680      |
| Income from operations                                      | 51,194             | 37,525     | 160,641           | 112,061      |
| Interest expense  | 8,180              | 7,847      | 24,128            | 23,583       |
| Foreign exchange (gains) losses                             | 91                 | 257        | 2,396             | (413)        |
| Other (income) expense, net                                 | (523)              | (5,687)    | (4,667)           | (19,368)     |
| Income before taxes and minority interests                  | 43,446             | 35,108     | 138,784           | 108,259      |
| Provision for income taxes                                  | 12,557             | 7,137      | 34,012            | 27,620       |
| Minority interests in earnings of consolidated subsidiaries | 3,056              | --         | 7,046             | --           |
| Net income  | \$ 27,833          | \$ 27,971  | \$ 97,726         | \$ 80,639    |
| Basic earnings per share:                                   |                    |            |                   |              |
| Net income  | \$ 1.03            | \$ 1.05    | \$ 3.63           | \$ 3.03      |
| Weighted average common shares                              | 27,029             | 26,715     | 26,953            | 26,651       |

Diluted earnings per share:

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|                                |         |         |         |         |
|--------------------------------|---------|---------|---------|---------|
| Net income                     | \$ 1.01 | \$ 1.03 | \$ 3.55 | \$ 2.96 |
| Weighted average common shares | 27,605  | 27,270  | 27,517  | 27,197  |

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)

|   | September 30,<br>2008<br>(Unaudited) | December 31,<br>2007 |
|---|--------------------------------------|----------------------|
| <b>ASSETS:</b>  |                                      |                      |
| Cash and cash equivalents                                 | \$ 193,627                           | \$ 161,764           |
| Short-term investments                                    | 40,685                               | 61,977               |
| Accounts receivable, net                                  | 348,253                              | 358,076              |
| Inventories, net  | 383,266                              | 321,015              |
| Prepaid expenses, taxes and other current assets          | 117,615                              | 126,142              |
| Total current assets                                      | 1,083,446                            | 1,028,974            |
| Net property, plant and equipment                         | 293,128                              | 271,561              |
| Goodwill  | 325,641                              | 328,439              |
| Purchased intangibles, net                                | 199,769                              | 210,304              |
| Other assets  | 112,961                              | 132,316              |
| Total assets  | \$ 2,014,945                         | \$ 1,971,594         |
| <b>LIABILITIES AND STOCKHOLDERS<br/>EQUITY:</b>           |                                      |                      |
| Accounts payable  | \$ 100,626                           | \$ 96,470            |
| Accrued payroll and employee benefits                     | 107,502                              | 121,255              |
| Notes payable and current maturities of long-term<br>debt | 11,886                               | 15,627               |
| Sales, income and other taxes payable                     | 32,985                               | 27,905               |
| Litigation accrual  | 1,161                                | 5,473                |
| Accrued royalties   | 34,580                               | 44,069               |
| Other current liabilities                                 | 97,074                               | 103,369              |
| Total current liabilities                                 | 385,814                              | 414,168              |
| Long-term debt, net of current maturities                 | 446,378                              | 441,805              |
| Deferred tax liabilities                                  | 36,528                               | 51,215               |
| Other long-term liabilities                               | 60,406                               | 58,282               |
| Total liabilities   | 929,126                              | 965,470              |
| Minority interests  | 35,584                               | 34,434               |

## STOCKHOLDERS EQUITY:

|  |              |              |
|--|--------------|--------------|
| Preferred stock, \$0.0001 par value, 7,500,000 shares authorized;<br>none outstanding  | --           | --           |
| Class A common stock, \$0.0001 par value, 80,000,000 shares authorized; outstanding 22,153,501 at September 30, 2008 and 21,877,695 at December 31, 2007 | 2            | 2            |
| Class B common stock, \$0.0001 par value, 20,000,000 shares authorized; outstanding 5,071,395 at September 30, 2008 and 5,006,440 at December 31, 2007   | 1            | 1            |
| Additional paid-in capital   | 118,586      | 98,629       |
| Retained earnings  | 859,793      | 762,067      |
| Accumulated other comprehensive income:  |              |              |
| Currency translation and other   | 71,853       | 110,991      |
| Total stockholders equity  | 1,050,235    | 971,690      |
| Total liabilities, minority interests and stockholders equity  | \$ 2,014,945 | \$ 1,971,594 |

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, |              |
|---|------------------------------------|--------------|
|   | 2008                               | 2007         |
| Cash flows from operating activities:                       |                                    |              |
| Cash received from customers                                | \$ 1,318,003                       | \$ 1,007,292 |
| Cash paid to suppliers and employees                        | (1,152,538)                        | (880,104)    |
| Litigation settlement                                       | (3,344)                            | (3,147)      |
| Interest paid   | (24,141)                           | (24,008)     |
| Income tax payments   | (31,053)                           | (32,720)     |
| Miscellaneous receipts                                      | 9,562                              | 23,735       |
| Excess tax benefits from share-based compensation           | (3,459)                            | (2,619)      |
| Net cash provided by operating activities                   | 113,030                            | 88,429       |
| Cash flows from investing activities:                       |                                    |              |
| Capital expenditures, net                                   | (62,729)                           | (45,938)     |
| Payments for acquisitions and long-term investments         | (18,069)                           | (2,496)      |
| Payments on purchase of intangible assets                   | (3,400)                            | (2,075)      |
| Purchases of marketable securities and investments          | (62,557)                           | (265,342)    |
| Sales of marketable securities and investments              | 65,437                             | 458,036      |
| Foreign currency economic hedges, net                       | (550)                              | (2,127)      |
| Net cash provided by (used in) investing activities         | (81,868)                           | 140,058      |
| Cash flows from financing activities:                       |                                    |              |
| Net borrowings (payments) under line-of-credit arrangements | (172)                              | 1,350        |
| Payments on long-term debt                                  | (9,349)                            | (488)        |
| Proceeds from issuance of common stock                      | 10,471                             | 9,109        |
| Excess tax benefits from share-based compensation           | 3,459                              | 2,619        |
| Net cash provided by financing activities                   | 4,409                              | 12,590       |
| Effect of exchange rate changes on cash                     | (3,708)                            | 8,108        |
| Net increase in cash and cash equivalents                   | 31,863                             | 249,185      |
| Cash and cash equivalents at beginning of period            | 161,764                            | 223,607      |

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|   |    |          |    |          |
|---|----|----------|----|----------|
| Cash and cash equivalents at end of period  | \$ | 193,627  | \$ | 472,792  |
| Reconciliation of net income to net cash provided by operating activities:        |    |          |    |          |
| Net income  | \$ | 97,726   | \$ | 80,639   |
| Adjustments to reconcile net income to net cash provided by operating activities: |    |          |    |          |
| Depreciation and amortization   |    | 74,322   |    | 43,406   |
| Minority interest   |    | 7,046    |    | --       |
| Share-based compensation  |    | 5,276    |    | 3,877    |
| Excess tax benefits from share-based compensation                                 |    | (3,459)  |    | (2,619)  |
| Decrease in accounts receivable   |    | 6,117    |    | 5,240    |
| Increase in inventories   |    | (60,470) |    | (10,819) |
| (Increase) decrease in other current assets                                       |    | 32       |    | (2,192)  |
| Decrease in accounts payable and other current liabilities                        |    | (21,344) |    | (26,102) |
| (Decrease) increase in income taxes payable                                       |    | 7,995    |    | (9,697)  |
| Decrease in litigation accrual  |    | (3,344)  |    | (3,147)  |
| Other   |    | 3,133    |    | 9,843    |
| Net cash provided by operating activities   | \$ | 113,030  | \$ | 88,429   |
| Non-cash investing and financing activities:                                      |    |          |    |          |
| Capital lease obligation for facilities   | \$ | 9,741    | \$ | --       |

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 for interim financial statements. Accordingly, they do not include all the information and footnotes for complete financial statements. The statements 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, 2007.

Recent Accounting Pronouncements

In June 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. Emerging Issues Task Force (EITF) 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. FSP No. EITF 03-6-1 concluded that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of basic earnings per share (EPS) pursuant to the two-class method. This FSP becomes effective for us on January 1, 2009. Early adoption of the FSP is not permitted; however, it will apply retrospectively to EPS data for all periods presented in the financial statements or in financial data. We do not currently expect that this FSP will have a material impact on our EPS data in fiscal year 2009 or on EPS for any prior periods presented in the financial data upon adoption.

In May 2008, the FASB issued SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS 162 identifies the sources of accounting principles and the framework for selecting principles to be used in the preparation and presentation of financial statements in accordance with generally accepted accounting principles. This statement will be effective 60 days after the Securities and Exchange Commission approves the Public Company Accounting Oversight Board's amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. We do not anticipate that the adoption of SFAS 162 will have an effect on our

consolidated financial statements.

In March 2008, the FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of SFAS 133. SFAS 161 seeks to improve financial reporting for derivative instruments and hedging activities by requiring enhanced disclosures regarding the impact on financial position, financial performance, and cash flows. To achieve this increased transparency, SFAS 161 requires: (1) the disclosure of the fair value of derivative instruments and gains and losses in a tabular format; (2) the disclosure of derivative features that are credit risk-related; and (3) cross-referencing within the footnotes. SFAS 161 is effective for us on January 1, 2009. We do not believe the adoption of SFAS 161 will have a material impact on our consolidated financial statements.

As amended in February 2008 by FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, SFAS 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FSP FAS 157-2 defers the effective date of SFAS 157 for all nonfinancial assets and liabilities, except those items recognized or disclosed at fair value on an annual or more frequently recurring basis, until January 1, 2009. As such, we partially adopted the provisions of SFAS 157 effective January 1, 2008. See Note 16. We expect to adopt the remaining provisions of SFAS 157 beginning in 2009. We expect the adoption of SFAS 157 to impact the way in which we calculate fair value for our annual impairment review of goodwill and non-amortizable intangible assets, and when conditions exist that require us to calculate the fair value of long-lived assets; however, we do not expect this adoption to have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS 141R, *Business Combinations*. SFAS 141R continues to require the purchase method of accounting to be applied to all business combinations, but it significantly changes the accounting for certain aspects of business combinations. Under SFAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS 141R will change the accounting treatment for certain specific acquisition related items including: (1) expensing acquisition related costs as incurred; (2) valuing noncontrolling interests at fair value at the acquisition date; and (3) expensing restructuring costs associated with an acquired business. SFAS 141R also includes a substantial number of new disclosure requirements. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. We expect SFAS 141R will have an impact on our accounting for future business combinations once adopted but the effect is dependent upon the acquisitions that are made in the future.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements*. SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary (minority interest) is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and separate from the parent company's equity. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling income interest. This statement is effective for us on January 1, 2009. We are still in the process of evaluating the impact that SFAS 160 will have on our consolidated financial statements.

## 2. ACQUISITIONS

On October 1, 2007, we purchased 85.96% of the outstanding shares of DiaMed Holding AG (DiaMed), a private Swiss company that develops, manufactures and markets a broad line of reagents and instruments used in blood typing and screening. Please see the notes to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2007 for further disclosure on the acquisition of shares of DiaMed from the majority shareholders and the forthcoming tender offer to minority shareholders.

In March 2008, we acquired an additional 556 shares of DiaMed. This brings our total ownership of the outstanding shares of DiaMed to 89.54%. The purchase of these minority interest shares increased the value of our purchased intangibles, goodwill and other current liabilities by approximately \$7 million, \$7 million, and \$6 million respectively.

Our liability for minority interests decreased by approximately \$6 million as a result of this transaction. The owners of the 556 shares received a first payment of approximately \$14 million with a second payment to be paid when the tender offer is made to the remaining minority shareholders.

### 3. SHORT-TERM INVESTMENTS

Short-term investments are marked to market, with unrealized gains and losses reported as a component of comprehensive income. We review our short-term investments for other-than-temporary losses on a quarterly basis. We did not recognize any other-than-temporary losses in the three months ended September 30, 2008 or 2007. We recognized \$0.6 million in other-than-temporary losses for the nine months ended September 30, 2008. There were no other-than-temporary losses for the nine months ended September 30, 2007.

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

|   | September 30,<br>2008 | December 31,<br>2007 |
|---|-----------------------|----------------------|
| Available-for-sale securities:                      |                       |                      |
| Corporate obligations                               | \$ 9.9                | \$ 10.3              |
| Asset backed securities (including mortgage backed) | 18.1                  | 34.5                 |
| U.S. Agencies                                       | 3.8                   | --                   |
| Marketable equity securities                        | 8.9                   | 17.2                 |
| Total short-term investments                        | \$ 40.7               | \$ 62.0              |

### 4. INVENTORIES

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

|                 | September 30,<br>2008 | December 31,<br>2007 |
|-----------------|-----------------------|----------------------|
| Raw materials   | \$ 71.9               | \$ 61.6              |
| Work in process | 106.2                 | 88.4                 |
| Finished goods  | 205.2                 | 171.0                |
|                 | \$ 383.3              | \$ 321.0             |

### 5. PROPERTY, PLANT AND EQUIPMENT

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

|                                      | September 30,<br>2008 | December 31,<br>2007 |
|--------------------------------------|-----------------------|----------------------|
| Land and improvements                | \$ 16.3               | \$ 11.9              |
| Buildings and leasehold improvements | 188.1                 | 181.8                |
| Equipment                            | 456.4                 | 420.6                |
|                                      | 660.8                 | 614.3                |
| Accumulated depreciation             | (367.7)               | (342.7)              |
| Net property, plant and equipment    | \$ 293.1              | \$ 271.6             |

Net capital expenditures include proceeds from the sale of property, plant and equipment of \$0.9 million and \$0.1 million for the nine months ended September 30, 2008 and 2007, respectively.

## 6. GOODWILL AND OTHER PURCHASED INTANGIBLE ASSETS

Goodwill balances have been included in Corporate for segment reporting purposes in Note 15. Changes to goodwill were as follows (in millions):

|                                      | 2008     | 2007     |
|--------------------------------------|----------|----------|
| January 1                            | \$ 328.4 | \$ 119.5 |
| Additional DiaMed share purchase     | 6.7      | --       |
| Final purchase accounting allocation | (11.4)   | --       |
| Ciphergen acquisition                | --       | 2.0      |
| Currency fluctuations                | 1.9      | --       |
| September 30                         | \$ 325.6 | \$ 121.5 |

As of September 30, 2008, the purchase price allocation related to the DiaMed acquisition was finalized. The completion of the purchase price allocation involved certain analyses of inventory, taxes and external valuations for certain fixed assets and property. The final revisions included adjustments to the carrying value of DiaMed's recorded assets and liabilities and related depreciation and amortization, with the residual amount being allocated to goodwill.

Overall, goodwill declined as some estimated acquisition liabilities were settled without requiring payment, additional collections were made on opening balance receivables, and an increase in work in process inventory was recorded. These reductions were partially offset by the additional DiaMed shares purchased in March 2008 (see Note 2).

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

|                              | Average<br>Historical<br>Life (years) | September 30, 2008 |                             |         |
|------------------------------|---------------------------------------|--------------------|-----------------------------|---------|
|                              |                                       | Carrying<br>Amount | Accumulated<br>Amortization | Net     |
| Customer relationships/lists | 2-16                                  | \$ 73.4            | \$ 6.1                      | \$ 67.3 |
| Know how                     | 6-10                                  | 83.3               | 16.4                        | 66.9    |
| Developed product technology | 5-15                                  | 45.0               | 11.7                        | 33.3    |
| Licenses                     | 1-14                                  | 25.9               | 8.0                         | 17.9    |
| Tradenames                   | 5-15                                  | 16.8               | 3.2                         | 13.6    |

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|                          |   |          |         |          |
|--------------------------|---|----------|---------|----------|
| Covenants not to compete | 5 | 2.4      | 2.0     | 0.4      |
| Patents                  | 4 | 1.0      | 0.6     | 0.4      |
| Other                    | 7 | 0.1      | 0.1     | --       |
|                          |   | \$ 247.9 | \$ 48.1 | \$ 199.8 |



|                              | December 31, 2007                     |                    |                             |          |
|------------------------------|---------------------------------------|--------------------|-----------------------------|----------|
|                              | Average<br>Historical<br>Life (years) | Carrying<br>Amount | Accumulated<br>Amortization | Net      |
| Customer relationships/lists | 2-16                                  | \$ 71.0            | \$ 2.0                      | \$ 69.0  |
| Know how                     | 6-10                                  | 81.4               | 9.7                         | 71.7     |
| Developed product technology | 5-15                                  | 44.3               | 7.6                         | 36.7     |
| Licenses                     | 1-14                                  | 20.4               | 4.3                         | 16.1     |
| Tradenames                   | 5-15                                  | 16.2               | 0.8                         | 15.4     |
| Covenants not to compete     | 5                                     | 2.4                | 1.6                         | 0.8      |
| Patents                      | 4                                     | 1.0                | 0.4                         | 0.6      |
| Other                        | 7                                     | 0.1                | 0.1                         | --       |
|                              |                                       | \$ 236.8           | \$ 26.5                     | \$ 210.3 |

Recorded purchased intangible asset amortization expense for the three months ended September 30, 2008 and 2007 was \$7.5 and \$1.9 million, respectively. Recorded purchased intangible asset amortization expense for the nine months ended September 30, 2008 and 2007 was \$23.3 million and \$5.6 million, respectively. Estimated purchased intangible asset amortization expense (based on existing intangible assets) for the years ended December 31, 2009, 2010, 2011, 2012 and 2013 is \$26.8 million, \$24.8 million, \$24.1 million, \$22.2 million and \$19.5 million, respectively.

## 7. 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 are as follows (in millions):

|                        | 2008    | 2007    |
|------------------------|---------|---------|
| January 1,             | \$ 15.3 | \$ 12.9 |
| Provision for warranty | 13.1    | 10.3    |
| Actual warranty costs  | (13.2)  | (10.4)  |



In September 2007, Bio-Rad entered into Amendment No. 2 to the Amended and Restated Credit Agreement (the Credit Agreement ). Amendment No. 2 amends certain provisions of the Credit Agreement including increasing the amount of borrowings permissible under the Credit Agreement to \$200 million from \$150 million, which may be increased up to an additional \$50 million under certain conditions, and amending certain covenants to permit the acquisition by Bio-Rad of DiaMed including, but not limited to, the incurrence of certain indebtedness and liens in connection with such acquisition.

Borrowings under the Credit Agreement are on a revolving basis and can be used to make acquisitions, for working capital and other general corporate purposes. Borrowings under the credit agreement are payable on September 21, 2010. We had no outstanding balance as of September 30, 2008.

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 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.

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, and the 7.5% Notes require Bio-Rad to comply with certain financial ratios and covenants, among other things. The covenants include a leverage ratio test, an interest coverage test and a consolidated net worth 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 financial ratios as of September 30, 2008.

## 9. PROVISION FOR INCOME TAXES

Bio-Rad's effective tax rate was 29% and 20% for the third quarter of 2008 and 2007, respectively. The effective tax rates for the third quarter of 2008 and 2007 reflect tax benefits for nontaxable dividend income, research and development tax credits, and differences between U.S. and foreign rates. The lower effective tax rate for the third quarter of 2007 reflects benefits from tax audit settlements and adjustments necessary to reflect actual tax liabilities based on filing amended returns.

It is reasonably possible that within the next twelve months approximately \$1.2 million of previously unrecognized tax benefits will be recorded. These benefits are related to uncertainty regarding the sustainability of tax positions for years that remain subject to examination by the relevant tax authorities.

## 10. 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 less the weighted average number of unvested restricted shares outstanding. 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 common stock equivalents that are to be added to the weighted average number of shares outstanding. Common stock equivalents are excluded from the diluted earnings per share calculation if the effect 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 |        | Nine Months Ended |        |
|---|--------------------|--------|-------------------|--------|
|   | September 30,      |        | September 30,     |        |
|   | 2008               | 2007   | 2008              | 2007   |
| Weighted average shares outstanding         | 27,171             | 26,765 | 27,055            | 26,668 |
| Weighted average unvested restricted shares | (142)              | (50)   | (102)             | (17)   |
| Basic shares                                | 27,029             | 26,715 | 26,953            | 26,651 |
| Effect of potentially dilutive securities:  |                    |        |                   |        |
| Stock options and restricted stock awards   | 576                | 555    | 564               | 546    |
| Diluted weighted average common shares      | 27,605             | 27,270 | 27,517            | 27,197 |
| Anti-dilutive shares                        | 113                | 292    | 83                | 278    |

## 11. SHARE-BASED COMPENSATION

Included in our share-based compensation expense is the cost related to stock option, restricted stock and restricted stock unit grants that vest after January 1, 2006, as well as the cost related to our employee stock purchase plan stock purchases.

For the three months ended September 30, 2008 and 2007, we recognized pre-tax share-based compensation expense of \$2.2 million and \$1.5 million, respectively. For the nine months ended September 30, 2008 and 2007, we recognized pre-tax share-based compensation expense of \$5.3 million and \$3.9 million, respectively. We did not capitalize any share-based compensation expense. In accordance with SFAS 123(R), we recognize share-based compensation net of estimated forfeitures.

Stock compensation awards made during the nine months ended September 30, 2008 included stock options, restricted stock and restricted stock units representing 174,930 shares of common stock. The awards generally vest over five years at 20% per year based on continued service with Bio-Rad. There were no stock compensation awards made during the three months ended September 30, 2008.

*Stock Options*

The weighted average fair value for stock options was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions and weighted average fair values.

|   | Three Months Ended |          | Nine Months Ended |          |
|---|--------------------|----------|-------------------|----------|
|   | September 30,      |          | September 30,     |          |
|   | 2008               | 2007     | 2008              | 2007     |
| Expected volatility                               | --                 | 34%      | 34%               | 34%      |
| Risk-free interest rate                           | --                 | 4.72%    | 3.92%             | 4.72%    |
| Expected life (in years)                          | --                 | 8.5      | 8.5               | 8.5      |
| Expected dividend                                 | --                 | --       | --                | --       |
| Weighted average fair value<br>of options granted | --                 | \$ 37.05 | \$ 42.21          | \$ 37.05 |

Volatility is 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. The expected life represents the number of years that we estimate, based primarily on historical experience, that the options will be outstanding prior to exercise. 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 during the first nine months of 2008:

|                                    | Shares    | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic Value<br>as of<br>September 30, 2008<br>(in millions) |
|------------------------------------|-----------|--|---|--|
| Outstanding, January 1, 2008       | 1,488,275 | \$ 43.06                                 |   |  |
| Granted                            | 59,000    | \$ 88.35                                 |   |  |
| Exercised                          | (197,131) | \$ 29.37                                 |   |  |
| Forfeited/Expired                  | (21,567)  | \$ 53.93                                 |   |  |
| Outstanding, September 30,<br>2008 | 1,328,577 | \$ 46.92                                 | 5.33  | \$ 69.4  |

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Vested and expected to vest

|                                 |           |          |      |         |
|---------------------------------|-----------|----------|------|---------|
| September 30, 2008              | 1,299,912 | \$ 46.41 | 5.27 | \$ 68.5 |
| Exercisable, September 30, 2008 | 901,458   | \$ 38.20 | 4.39 | \$ 54.9 |

Cash received from stock options exercised during the three months ended September 30, 2008 and 2007 was \$2.4 and \$1.5 million, respectively. The actual tax benefit realized for the tax deductions from stock options exercised totaled \$1.7 and \$0.5 million for the three months ended September 30, 2008 and 2007, respectively. Cash received from stock options exercised during the nine months ended September 30, 2008 and 2007 was \$5.8 million and \$5.1 million, respectively. The actual tax benefit realized for the tax deductions from stock options exercised totaled \$4.6 million and \$3.1 million for the nine months ended September 30, 2008 and 2007, respectively.



As of September 30, 2008, there was approximately \$8.2 million of total unrecognized compensation cost related to stock options granted under our stock option plans. That cost is expected to be recognized over a weighted average period of approximately two years.

*Restricted Stock*

The following table summarizes our restricted stock activity during the nine months ended September 30, 2008:

|                                      | Restricted<br>Stock<br>Shares | Weighted Average<br>Grant-Date<br>Fair Value |
|--------------------------------------|-------------------------------|--|
| Nonvested shares, January 1, 2008    | 75,720                        | \$ 75.33                                     |
| Granted                              | 78,485                        | \$ 88.09                                     |
| Vested                               | (14,625)                      | \$ 75.33                                     |
| Cancelled/Forfeited                  | (3,163)                       | \$ 76.52                                     |
| Nonvested shares, September 30, 2008 | 136,417                       | \$ 82.64                                     |

As of September 30, 2008, there was approximately \$9.0 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 four years.

*Restricted Stock Units*

The following table summarizes our restricted stock unit activity during the nine months ended September 30, 2008:

|                              | Units  | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic Value<br>as of<br>September 30, 2008<br>(in millions) |
|------------------------------|--------|---|--|
| Outstanding, January 1, 2008 | 26,750 |   |  |
| Granted                      | 37,445 |   |  |

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|                                      |         |      |        |
|--------------------------------------|---------|------|--------|
| Vested                               | (2,593) |      |        |
| Cancelled/Forfeited                  | (953)   |      |        |
| Outstanding, September 30, 2008      | 60,649  | 2.55 | \$ 6.0 |
| Expected to vest, September 30, 2008 | 53,754  | 2.47 | \$ 5.3 |

The weighted average grant-date fair value of restricted stock units granted during the nine months ended September 30, 2008 was \$88.00.

As of September 30, 2008, there was approximately \$3.7 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 four years.

*Employee Stock Purchase Plan*

We sold 24,069 shares for \$1.7 million and 22,479 shares for \$1.5 million under our employee stock purchase plan for the three months ended September 30, 2008 and 2007, respectively. We sold 65,715 shares for \$4.7 million and 65,507 shares for \$4.0 million under our employee stock purchase plan for the nine months ended September 30, 2008 and 2007, respectively. At September 30, 2008, there were 360,447 authorized shares remaining in the employee stock purchase plan.

## 12. 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 value of our forward foreign exchange contracts used to manage our foreign exchange risk.

## 13. OTHER INCOME AND EXPENSE

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

|                                   | Three Months                |          | Nine Months                 |           |
|-----------------------------------|-----------------------------|----------|-----------------------------|-----------|
|                                   | Ended September 30,<br>2008 | 2007     | Ended September 30,<br>2008 | 2007      |
| Interest and investment income    | \$ (2.6)                    | \$ (5.8) | \$ (7.4)                    | \$ (19.7) |
| Impairment on investments         | 1.4                         | --       | 3.7                         | --        |
| Other                             | 0.7                         | 0.1      | (1.0)                       | 0.3       |
| Total other (income) expense, net | \$ (0.5)                    | \$ (5.7) | \$ (4.7)                    | \$ (19.4) |

For the nine months ended September 30, 2008, we recognized \$2.7 million of an other-than-temporary impairment loss on an investee included in long-term assets. In light of continuing declines in its market price, we no longer believe that the investment will recover in the foreseeable future. Additionally, we recognized \$1.0 million of impairment in an equity investee.

## 14. COMPREHENSIVE INCOME

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

|   | Three Months                |         | Nine Months                 |          |
|---|-----------------------------|---------|-----------------------------|----------|
|   | Ended September 30,<br>2008 | 2007    | Ended September 30,<br>2008 | 2007     |
| Net income, as reported   | \$ 27.8                     | \$ 28.0 | \$ 97.7                     | \$ 80.6  |
| Currency translation adjustments  | (88.6)                      | 20.8    | (21.3)                      | 29.4     |
| Net unrealized holding gains (losses) on<br>available-for-sale<br>investments net of tax effects of (\$6.7) and (\$2.3)<br>million<br>for the three months ended September 30, 2008 and<br>2007 and (\$12.3) and \$3.4 million for the nine months<br>ended September 30, 2008 and 2007, respectively | (11.3)                      | (4.0)   | (17.8)                      | 5.9      |
| Total comprehensive income (loss)   | \$ (72.1)                   | \$ 44.8 | \$ 58.6                     | \$ 115.9 |

## 15. SEGMENT INFORMATION

Information regarding industry segments for the three months ended September 30, 2008 and 2007 is as follows (in millions):

|                   |      |    | Life<br>Science |    | Clinical<br>Diagnostics |    | Other<br>Operations |
|-------------------|------|----|-----------------|----|-------------------------|----|---------------------|
| Segment net sales | 2008 | \$ | 156.9           | \$ | 281.4                   | \$ | 3.6                 |
|                   | 2007 | \$ | 143.0           | \$ | 193.3                   | \$ | 3.4                 |
| Segment profit    | 2008 | \$ | 9.3             | \$ | 34.3                    | \$ | 0.1                 |
|                   | 2007 | \$ | 5.2             | \$ | 24.5                    | \$ | 0.2                 |

Information regarding industry segments for the nine months ended September 30, 2008 and 2007 is as follows (in millions):

|                   |      |    | Life<br>Science |    | Clinical<br>Diagnostics |    | Other<br>Operations |
|-------------------|------|----|-----------------|----|-------------------------|----|---------------------|
| Segment net sales | 2008 | \$ | 473.1           | \$ | 832.4                   | \$ | 10.9                |
|                   | 2007 | \$ | 430.6           | \$ | 560.8                   | \$ | 10.0                |
| Segment profit    | 2008 | \$ | 28.2            | \$ | 109.4                   | \$ | 0.7                 |
|                   | 2007 | \$ | 12.2            | \$ | 76.5                    | \$ | 0.8                 |

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 before taxes and minority interests (in millions):

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|   | Three Months        |         | Nine Months         |          |
|---|---------------------|---------|---------------------|----------|
|   | Ended September 30, |         | Ended September 30, |          |
|   | 2008                | 2007    | 2008                | 2007     |
| Total segment profit  | \$ 43.7             | \$ 29.9 | \$ 138.3            | \$ 89.5  |
| Foreign exchange gains (losses)   | (0.1)               | (0.3)   | (2.4)               | 0.4      |
| Net corporate operating, interest and other<br>income and expense not allocated to segments | (0.7)               | (0.2)   | (1.8)               | (1.0)    |
| Other income (expense), net   | 0.5                 | 5.7     | 4.7                 | 19.4     |
| Consolidated income before taxes and<br>minority interests                                  | \$ 43.4             | \$ 35.1 | \$ 138.8            | \$ 108.3 |

## 16. FAIR VALUE MEASUREMENT

Effective January 1, 2008, we partially adopted SFAS 157 which defines fair value measurements and implements a hierarchical disclosure requirement. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or the exit price. Accordingly, an entity must now determine the fair value of an asset or liability based on the assumptions that market participants would use in pricing the asset or liability, not assumptions made by the reporting entity. The identification of market participant assumptions provides a basis for determining what inputs are to be used for pricing each asset or liability. Additionally, SFAS 157 establishes a fair value hierarchy which gives precedence to fair value measurements calculated using observable inputs to those using unobservable inputs. This hierarchy prioritizes the inputs into three broad levels as follows:

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

Financial assets carried at fair value as of September 30, 2008 are classified in the hierarchy as follows (in millions):

|                               | Level 1 | Level 2 | Total   |
|-------------------------------|---------|---------|---------|
| Available-for-sale securities | \$ 20.7 | \$ 20.0 | \$ 40.7 |
| Long-term assets              | 31.7    | --      | 31.7    |
| Total                         | \$ 52.4 | \$ 20.0 | \$ 72.4 |

## 17. LEGAL PROCEEDINGS

Eppendorf AG filed a patent infringement case against us and our subsidiaries, MJ GeneWorks, Inc. and MJ Research, Inc., in the U.S. District Court for the Western District of Wisconsin on October 31, 2007. The complaint alleges that our thermocycler devices with gradient functionality infringe U.S. Patent No. 6,767,512. Eppendorf sought damages, including treble damages for alleged willful infringement, injunctive relief and reasonable attorneys' fees, expenses and costs. In August 2008 the parties settled this litigation.

We are party to various claims, legal actions and complaints arising in the ordinary course of business. We do not believe, at this time, that any ultimate liability resulting from these matters 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.

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, 2007 and this report for the quarter and nine months ended September 30, 2008.



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. Forward-looking statements generally can be identified by the use of forward-looking terminology such as, believe, expect, may, will, intend, estimate, continue, or similar expressions or the use of those terms or expressions. Such statements involve risks and uncertainties, which could cause actual results to vary materially from those expressed in or indicated by the forward-looking statements. 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 integrate acquisitions; 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 caution you not to place undue reliance on forward-looking statements, which reflect an analysis only and speak only as of the date hereof. 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 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 in manufacturing processes, research experiments and diagnostic tests, much of our revenues are recurring. Approximately 30% of our year-to-date 2008 consolidated net sales are from the United States and approximately 70% are international sales largely denominated in local currency with the majority of these sales in Euros, Swiss Franc, 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 contributed to the increase in our consolidated sales expressed in US dollars in the current quarter and nine months ended September 30, 2008.

The market for reagents and apparatus remains good while growth rates have slowed due to both public and private grant funding being more measured. The market for large capital equipment has slowed, as many pharmaceutical and biotechnology customers delayed or reduced their capital spending. Bio-Rad is generally less impacted by trends in capital spending as lower priced reagents and apparatus comprise more than 70% of product sales.

#### Critical Accounting Policies and Estimates

As previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007, we have identified accounting for income taxes, valuation of long-lived and intangible assets and goodwill, valuation of inventories, allowance for doubtful accounts, warranty reserves and litigation reserves as the accounting policies and estimates critical to the operations of Bio-Rad. For a full discussion of these policies, please refer to our Form 10-K for the period ended December 31, 2007.



## Corporate Results

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

|   | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         | Year Ended<br>December 31, |
|---|-------------------------------------|---------|------------------------------------|---------|----------------------------|
|   | 2008                                | 2007    | 2008                               | 2007    | 2007                       |
| Net sales   | 100.0 %                             | 100.0 % | 100.0 %                            | 100.0 % | 100.0 %                    |
| Cost of goods sold  | 45.6                                | 44.6    | 45.6                               | 44.3    | 45.8                       |
| Gross profit  | 54.4                                | 55.4    | 54.4                               | 55.7    | 54.2                       |
| Selling, general and<br>administrative expense  | 34.1                                | 34.6    | 33.2                               | 34.5    | 34.8                       |
| Product research and<br>development expense,<br>excluding purchased<br>in-process research and<br>development | 8.8                                 | 9.8     | 9.0                                | 10.1    | 9.6                        |
| Net income  | 6.3 %                               | 8.2 %   | 7.4 %                              | 8.1 %   | 6.4 %                      |

Three Months Ended September 30, 2008 Compared to

Three Months Ended September 30, 2007

## Corporate Results -- Sales, Margins and Expenses

Net sales (sales) in the third quarter of 2008 rose 30.1% to \$441.8 million from \$339.7 million in the third quarter of 2007. The positive impact to sales from a weakening US dollar represented \$19.6 million of sales growth. On a currency neutral basis, third quarter 2008 sales grew 24.3% compared to the third quarter of 2007. For consolidated Bio-Rad, excluding the DiaMed acquisition, overall currency neutral growth was 5.6%. The Clinical Diagnostics segment sales grew by 45.6%, while the Life Science segment sales grew 9.7%. On a currency neutral basis, Clinical Diagnostics segment sales growth was 39.4%, while the Life Science segment sales grew 4.4%. The Clinical Diagnostics segment also benefited from the acquisition of DiaMed providing 32.9% of the segment's total currency neutral sales growth. Clinical Diagnostics segment product lines contributing to sales growth were the BioPlex 2200<sup>®</sup> system and reagents, our quality control product offerings and clinical microbiology products. Life Science segment currency neutral sales growth excluding the food science products (principally BSE) grew 5.7%. Product

lines providing growth in the Life Science segment were process chromatography media, protein separation, protein interaction and multi analyte detection. Sales of our BSE test declined offsetting overall growth. Geographically, each segment contributed to sales growth without considering the DiaMed acquisition, with the greatest growth in the Asia Pacific area.

Consolidated gross margins were 54.4% for the third quarter of 2008 compared to 55.4% for the third quarter of 2007 and 54.2% for the year 2007. The Clinical Diagnostics segment gross margin declined from the prior year by approximately 2.4%, which includes the DiaMed acquisition and purchase accounting amortization. Excluding just the acquisition, Clinical Diagnostics segment margin increased approximately 0.9%. Life Science segment margins increased from the prior period by approximately 1.7%. The Life Science segment margin improvement resulted from higher sales and overall lower unit manufacturing costs.

Selling, general and administrative expenses (SG&A) represented 34.1% of sales for the third quarter of 2008 compared to 34.6% of sales for the third quarter of 2007. SG&A grew by 27.9% without adjustment for the increase caused by currency which is estimated to have had a \$5.6 million or 4.7% additional impact. Excluding the impact of DiaMed, the SG&A currency neutral growth is estimated at 5.9%. The increase in total SG&A is largely a result of the acquisition of DiaMed including compliance and integration costs in the current quarter. The currency neutral growth of Life Science and Clinical Diagnostics segments (excluding DiaMed), is the result of higher personnel costs and to a lesser extent, travel expenses and third party commissions.

Product research and development expense rose to \$38.8 million or 8.8% of sales in the third quarter of 2008. Both Life Science and Clinical Diagnostics segments increased with the Clinical Diagnostics segment accounting for most of the increased spending. Research and development spending increased 17.2% including DiaMed, and 12.8% on a currency neutral basis. Areas of interest for the Life Science segment are genomics, proteomics, process chromatography and food safety. The Clinical Diagnostics segment areas of interest include additional assays for the BioPlex 2200 system and enhancements to existing quality controls, diabetes monitoring, blood typing and blood virus diagnostics.

#### Corporate Results Other Items

Interest expense for the third quarter of 2008 increased by \$0.3 million compared to the third quarter of 2007. Average indebtedness increased to \$446.4 million in the third quarter of 2008. Debt increased from the prior period because of the DiaMed acquisition and capitalized obligations for the addition of facilities in Hercules, California. Our debt is mainly fixed rate borrowings at 7.5% and 6.125%. We should not be subjected to significant increased borrowing costs in an increased interest rate environment unless we add new debt.

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. The exchange loss recorded in the current quarter and in the prior year are both largely a result of the estimating process inherent in the timing of shipments and settling of intercompany debt. We do not currently hedge the net intercompany payable of our Brazilian subsidiaries denominated in US dollars, Euros and Swiss Francs.

Other income and expense, net for the third quarter of 2008 declined \$5.2 million compared to the third quarter of 2007. The change represents both a decline in investment income on invested funds in 2007 which were approximately \$400 million greater prior to the acquisition of DiaMed. Additionally in the third quarter of 2008, we impaired an investment in an equity method investee in the amount of \$1.0 million.

Bio-Rad's effective tax rate was 29% and 20% for the third quarter of 2008 and 2007, respectively. The effective tax rates for the third quarter of 2008 and 2007 reflect tax benefits for nontaxable dividend income, research and

development tax credits, and differences between U.S. and foreign rates. The lower effective tax rate for the third quarter of 2007 reflects benefits from tax audit settlements and adjustments necessary to reflect actual tax liabilities based on filing amended returns.

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, 2008 Compared to

Nine Months Ended September 30, 2007

Corporate Results -- Sales, Margins and Expenses

Net sales (sales) in the first nine months of 2008 rose 31.5% to \$1.3 billion from \$1.0 billion in the first nine months of 2007. The positive impact to sales from a weakening US dollar represented \$69.4 million. For Bio-Rad in total, on a currency neutral basis, sales grew 24.5% compared to the prior year period. Excluding the impact of the DiaMed acquisition, consolidated sales increased 5.6% on a currency neutral basis. The Clinical Diagnostics segment sales grew by 48.4% to \$832.4 million and the Life Science segment sales grew 9.9% to \$473.1 million. On a currency neutral basis, Clinical Diagnostics segment sales increased 41.2%, or 7.3% excluding the DiaMed acquisition, and Life Science segment sales increased by 3.3%. The Clinical Diagnostics segment, excluding DiaMed, experienced sales growth in all product groups with the strongest growth in the BioPlex 2200 system, quality controls and clinical microbiology. On a currency neutral basis, Life Science segment sales grew 5.9% excluding the food science product line. Sales gains were largely attributable to protein function reagents and equipment as well as process chromatography media. The ongoing decline in BSE sales continues to offset the growth in the remaining Life Science segment product lines. Geographically, sales growth was strongest in Asia and the United States.

Consolidated gross margins were 54.4% for the first nine months of 2008 compared to 55.7% for the first nine months of 2007 and 54.2% for the year 2007. Excluding the impact of the DiaMed acquisition, our consolidated gross margin for the first nine months of 2008 was 56.2%, which was relatively unchanged from the prior year period. The Clinical Diagnostics segment gross margin has declined 3.6% from the prior year period including the DiaMed acquisition with its purchased intangible amortization. Excluding this event, Clinical Diagnostics segment margins remained unchanged. Life Science segment margins increased by approximately 2.0%, resulting from higher sales and increased efforts to reduce manufacturing overhead costs.

Selling, general and administrative expenses (SG&A) represented 33.2% of sales for the first nine months of 2008 compared to 34.5% of sales in the prior year period. Our SG&A increased 26.6% in absolute dollars before adjustment for any change in currency translation. The weakening dollar increased international spending such that on a currency neutral basis, SG&A growth was 20.9%. The increase in SG&A on a currency neutral basis is largely the result of the DiaMed acquisition including incremental compliance and integration costs. The currency neutral growth of Life Science and Clinical Diagnostics segments (excluding DiaMed) is the result of higher personnel costs, information technology operating costs and travel expenses.

Product research and development expense increased to \$118.4 million, a 17.6% increase in the first nine months of 2008 compared to the same period in 2007. On a currency neutral basis, research and development spending increased 13.0% including DiaMed. Most all of the currency neutral research and development spending growth is attributable to the Clinical Diagnostics segment including DiaMed. Life Science segment development efforts are

directed toward genomics, proteomics and process chromatography application. Clinical Diagnostics segment efforts include development efforts at DiaMed along with expanded tests for the BioPlex 2200 system and improvements on additions to existing autoimmune, blood virus and quality control products.



Corporate Results   Other Items

Interest expense for the first nine months of 2008 increased by \$0.5 million from the prior year to \$24.1 million. With the DiaMed acquisition, we have added capitalized lease obligations which increase overall interest expense. We also added a lease obligation for additional facilities at our campus in Hercules, California. Our debt is still largely represented by our subordinated notes with fixed borrowing rates of 7.5% and 6.125%.

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 net losses for the first nine months of 2008 generally arose from the first quarter of 2008 when DiaMed foreign currency exposures were not integrated into our hedging program. We have not experienced similar losses in the subsequent quarters of 2008 since we began the DiaMed integration. We continue to exclude the intercompany debt of our Brazilian subsidiary from our hedging program.

Other income and expense, net for the first nine months of 2008 includes investment income, generally consisting of interest income on our cash and cash equivalents, short-term investments, marketable securities and any notes receivable. We also include in this category any gains or losses associated with the sale or disposal of any surplus manufacturing equipment or other productive assets. The decline in other income and expense is the result of less investment income after employing approximately \$400 million to acquire DiaMed.

Bio-Rad's effective tax rate was 25% for the first nine months of 2008 and 26% for the first nine months of 2007. The effective tax rates for both nine month periods are 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 rates. The lower effective tax rate for the first nine months of 2008 reflects discrete events that reduced tax expense by decreasing tax liabilities for uncertain tax positions as a result of the expiration of statutes of limitations and settlements of claims for refunds.

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.

Liquidity and Capital Resources

Bio-Rad operates and conducts business globally, primarily through subsidiary companies established in the markets in which we trade. Goods are manufactured in a small number of locations, and intermediate or finished products are

then shipped for completion and/or distribution to facilities around the globe. Our product mix is diversified, and certain products compete largely on product efficacy, while others compete on price. Gross margins are generally sufficient to exceed normal operating costs. Funding for research and development of new products as well as routine outflows of capital expenditures and tax expense are covered by cash flow from operations. We currently operate with an adequate level of interest coverage and our current market capitalization is high relative to our current level of debt. In addition to the strong positive cash flow from operating activities, additional liquidity is readily available via the sale of short-term investments and our revolving credit facility.

As of September 30, 2008, we had available \$234.3 million in cash and cash equivalents and short-term investments, and \$19.6 million available under international lines of credit. Under the \$200.0 million Amended and Restated Credit Agreement we have \$192.2 million available with \$7.8 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 to make the offer to the minority shareholders of DiaMed Holding as outlined in the DiaMed purchase and sale agreement.

#### Cash Flows from Operations

Net cash provided by operations was \$113.0 million and \$88.4 million for the nine months ended September 30, 2008 and 2007, respectively. The net improvement of \$24.6 million reflects the inclusion of the DiaMed acquisition in the current year. Both cash received from customers and cash paid to suppliers have increased due to the inclusion of the DiaMed operations with Bio-Rad in the nine months of 2008. The decline in miscellaneous receipts from the prior year largely represents less investment income as cash investments held at September 30, 2007 were used to acquire an 86% interest in DiaMed Holding in October 1, 2007.

We regularly review the allowance for uncollectible receivables 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 \$62.7 million for the nine months ended September 30, 2008 compared to \$45.9 million for the same period of 2007. Capital expenditures represent the addition and replacement of production machinery and research equipment, ongoing manufacturing and facility additions for expansions, regulatory and environmental compliance, and leasehold improvements. All periods include reagent rental equipment placed with Clinical Diagnostics segment customers who then contract to purchase our reagents for use. An increase in the investment in reagent rental equipment has occurred in connection with the introduction of the BioPlex 2200 system into the diagnostic testing market and improved placements of blood virus testing equipment. Also included in capital expenditures are investments in business systems and data communication upgrades and enhancements.

We intend to offer to buy the remaining outstanding shares of the minority shareholders of DiaMed Holding, AG. During the first quarter of 2008, we purchased 556 shares from certain minority shareholders as described in Note 2. The persons holding these shares received a first payment of approximately \$14 million toward the total price. Due to the weakening of the Swiss Franc versus the U.S. dollar, we now estimate the cash required to purchase the

remaining shares of DiaMed, based on rates at September 30, 2008, at approximately \$55 million.

During the current quarter, we acquired additional land and buildings in the business park in Hercules, California that serves as the Corporate, Life Science and Clinical Diagnostics headquarters of Bio-Rad. The facility was financed through a capitalized lease obligation that transfers title to us as the end of the lease term. The net present value of the lease payments is \$9.7 million. The above transaction is not included as a cash transaction in the condensed consolidated statement of cash flows for the current period since the seller provided 100% of the financing.

We continue to review possible acquisitions to expand both our Life Science and Clinical Diagnostics segments. We routinely meet with the principals or brokers of the subject companies. We are evaluating some acquisitions on a preliminary basis. It is not certain that any of these transactions will advance beyond the preliminary stages or be completed. Should we decide to make an acquisition of any material size, we would need to raise capital, most probably in the public debt market.

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 of which \$3.3 million is remaining. Our credit agreements restrict our ability to repurchase our stock. There were no share repurchases made in the first nine months of 2008 or for the year 2007.

#### Recent Accounting Pronouncements

In June 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. Emerging Issues Task Force (EITF) 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. FSP No. EITF 03-6-1 concluded that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of basic earnings per share (EPS) pursuant to the two-class method. This FSP becomes effective for us on January 1, 2009. Early adoption of the FSP is not permitted; however, it will apply retrospectively to EPS data for all periods presented in the financial statements or in financial data. We do not currently expect that this FSP will have a material impact on our EPS data in fiscal year 2009 or on EPS for any prior periods presented in the financial data upon adoption.

In May 2008, the FASB issued SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS 162 identifies the sources of accounting principles and the framework for selecting principles to be used in the preparation and presentation of financial statements in accordance with generally accepted accounting principles. This statement will be effective 60 days after the Securities and Exchange Commission approves the Public Company Accounting Oversight Board's amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. We do not anticipate that the adoption of SFAS 162 will have an effect on our consolidated financial statements.

In March 2008, the FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of SFAS 133. SFAS 161 seeks to improve financial reporting for derivative instruments and hedging activities by requiring enhanced disclosures regarding the impact on financial position, financial performance, and cash flows. To achieve this increased transparency, SFAS 161 requires: (1) the disclosure of the fair value of derivative instruments and gains and losses in a tabular format; (2) the disclosure of derivative features that are credit risk-related; and (3) cross-referencing within the footnotes. SFAS 161 is effective for us on January 1, 2009. We do not believe the adoption of SFAS 161 will have a material impact on our consolidated financial statements.

As amended in February 2008 by FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, SFAS 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FSP FAS 157-2 defers the effective date of SFAS 157 for all nonfinancial assets and liabilities, except those items recognized or disclosed at fair value on an annual or more frequently recurring basis, until January 1, 2009. As such, we partially adopted the provisions of SFAS 157 effective January 1, 2008. See Note 16. We expect to adopt the remaining provisions of SFAS 157 beginning in 2009. We expect the adoption of SFAS 157 to impact the way in which we calculate fair value for our annual impairment review of goodwill and non-amortizable intangible assets, and when conditions exist that require us to calculate the fair value of long-lived assets; however, we do not expect this adoption to have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS 141R, *Business Combinations*. SFAS 141R continues to require the purchase method of accounting to be applied to all business combinations, but it significantly changes the accounting for certain aspects of business combinations. Under SFAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS 141R will change the accounting treatment for certain specific acquisition related items including: (1) expensing acquisition related costs as incurred; (2) valuing noncontrolling interests at fair value at the acquisition date; and (3) expensing restructuring costs associated with an acquired business. SFAS 141R also includes a substantial number of new disclosure requirements. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. We expect SFAS 141R will have an impact on our accounting for future business combinations once adopted but the effect is dependent upon the acquisitions that are made in the future.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements*. SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary (minority interest) is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and separate from the parent company's equity. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling income interest. This statement is effective for us on January 1, 2009. We are still in the process of evaluating the impact that SFAS 160 will have on our consolidated financial statements.

Item 3.

#### Quantitative and Qualitative Disclosures about Market Risk

During the nine months ended September 30, 2008, 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, 2007.

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 1A. Risk Factors

A discussion of risk factors relevant to Bio-Rad is included in our Form 10-K for the year ended December 31, 2007 as filed on February 29, 2008. There have been no significant changes to these risk factors as of September 30, 2008.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

### Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information

None.

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<br>Section 1350,<br>as adopted pursuant to Section 906 of the Sarbanes-Oxley Act<br>of 2002 |
| 32.2 | Chief Financial Officer Certification pursuant to 18 U.S.C<br>Section 1350,<br>as adopted pursuant to Section 906 of the Sarbanes-Oxley Act<br>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 7, 2008 | <u>/s/ Norman Schwartz</u><br>Norman Schwartz, President,<br>Chief Executive Officer                |
| Date: | November 7, 2008 | <u>/s/ Christine A. Tsingos</u><br>Christine A. Tsingos, Vice President,<br>Chief Financial Officer |