

BIO RAD LABORATORIES INC  
Form 10-Q  
November 03, 2011

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, 2011  
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.

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 (§232,405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  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)

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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 26, 2011
Class A Common Stock, Par Value \$0.0001 per share	22,966,102
Class B Common Stock, Par Value \$0.0001 per share	5,155,347

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BIO-RAD LABORATORIES, INC.

FORM 10-Q SEPTEMBER 30, 2011

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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,	
	2011	2010	2011	2010
Net sales	\$516,514	\$471,502	\$1,523,291	\$1,393,398
Cost of goods sold	220,338	205,172	656,368	601,633
Gross profit	296,176	266,330	866,923	791,765
Selling, general and administrative expense	176,867	148,654	521,370	458,541
Research and development expense	45,387	42,874	136,327	126,999
Income from operations	73,922	74,802	209,226	206,225
Interest expense	12,341	14,400	41,148	43,169
Foreign exchange losses, net	6,346	2,749	12,132	3,546
Other (income) expense, net	(538)	(256)	(5,907)	(3,572)
Income before income taxes	55,773	57,909	161,853	163,082
Provision for income taxes	(9,911)	(12,824)	(43,031)	(44,084)
Net income including noncontrolling interests	45,862	45,085	118,822	118,998
Net loss (income) attributable to noncontrolling interests	35	(321)	162	(1,416)
Net income attributable to Bio-Rad	\$45,897	\$44,764	\$118,984	\$117,582
Basic earnings per share:				
Net income per share basic attributable to Bio-Rad	\$1.63	\$1.62	\$4.25	\$4.26
Weighted average common shares - basic	28,072	27,697	27,997	27,616
Diluted earnings per share:				
Net income per share diluted attributable to Bio-Rad	\$1.61	\$1.59	\$4.18	\$4.18
Weighted average common shares - diluted	28,456	28,103	28,454	28,110

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, 2011 (Unaudited)	December 31, 2010
<b>ASSETS:</b>		
Cash and cash equivalents	\$671,028	\$906,551
Restricted cash	—	6,422
Short-term investments	239,174	118,636
Accounts receivable, net	375,031	387,996
Inventories:		
Raw materials	101,881	82,270
Work in process	123,616	110,527
Finished goods	220,084	205,303
Total inventories	445,581	398,100
Prepaid expenses, taxes and other current assets	146,889	157,641
Total current assets	1,877,703	1,975,346
Property, plant and equipment, at cost	862,143	812,133
Less: accumulated depreciation and amortization	(523,201)	(478,516)
Property, plant and equipment, net	338,942	333,617
Goodwill, net	371,227	363,981
Purchased intangibles, net	180,228	203,881
Other assets	201,695	185,939
Total assets	\$2,969,795	\$3,062,764
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
Accounts payable	\$113,476	\$113,440
Accrued payroll and employee benefits	120,167	131,381
Notes payable and current maturities of long-term debt	806	233,181
Income and other taxes payable	46,368	50,935
Accrued royalties	21,609	23,944
Other current liabilities	112,900	113,746
Total current liabilities	415,326	666,627
Long-term debt, net of current maturities	731,597	731,100
Other long-term liabilities	129,226	124,518
Total liabilities	1,276,149	1,522,245
Stockholders' equity:		
Bio-Rad stockholders' equity:		
Class A common stock, issued and outstanding - 22,965,199 at 2011 and 22,677,300 at 2010	2	2
Class B common stock, issued and outstanding - 5,155,550 at 2011 and 5,175,343 at 2010	1	1
Additional paid-in capital	179,840	156,986
Retained earnings	1,300,671	1,181,687
Accumulated other comprehensive income	212,635	198,020
Total Bio-Rad stockholders' equity	1,693,149	1,536,696
Noncontrolling interests	497	3,823
Total stockholders' equity	1,693,646	1,540,519

Total liabilities and stockholders' equity	\$2,969,795	\$3,062,764
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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 September 30,	
	2011	2010
Cash flows from operating activities:		
Cash received from customers	\$1,508,934	\$1,367,777
Cash paid to suppliers and employees	(1,249,674)	(1,143,699)
Interest paid	(46,086)	(48,812)
Income tax payments	(38,029)	(50,254)
Investment proceeds and miscellaneous receipts, net	8,124	3,193
Excess tax benefits from share-based compensation	(2,030)	(2,684)
Net cash provided by operating activities	181,239	125,521
Cash flows from investing activities:		
Capital expenditures	(67,233)	(56,266)
Proceeds from sale of property, plant and equipment	177	509
Payments for acquisitions, net of cash received, and long-term investments	(8,698)	(88,694)
Payments on purchases of intangible assets	(439)	(2,715)
Purchases of marketable securities and investments	(382,758)	(178,716)
Sales of marketable securities and investments	47,718	1,917
Maturities of marketable securities and investments	200,925	158,321
(Payments for) proceeds from foreign currency economic hedges, net	(3,581)	1,234
Net cash used in investing activities	(213,889)	(164,410)
Cash flows from financing activities:		
Net payments on line-of-credit arrangements and notes payable	(31)	(462)
Long-term borrowings	—	2,000
Payments on long-term borrowings	(226,615)	(5,441)
Proceeds from issuance of common stock	13,031	9,017
Debt issuance costs on long-term borrowings	(242)	(575)
Excess tax benefits from share-based compensation	2,030	2,684
Net cash (used in) provided by financing activities	(211,827)	7,223
Effect of foreign exchange rate changes on cash	8,954	12,368
Net decrease in cash and cash equivalents	(235,523)	(19,298)
Cash and cash equivalents at beginning of period	906,551	649,938
Cash and cash equivalents at end of period	\$671,028	\$630,640
Reconciliation of net income including noncontrolling interests to net cash provided by operating activities:		
Net income including noncontrolling interests	\$118,822	\$118,998
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities excluding the effects of acquisitions:		
Depreciation and amortization	88,127	79,964
Share-based compensation	7,816	7,357
Foreign currency economic hedges, net	3,581	(1,234)
Excess tax benefits from share-based compensation	(2,030)	(2,684)
Decrease (increase) in accounts receivable	11,632	(17,974)
Increase in inventories	(50,294)	(21,645)
Increase in other current assets	(3,490)	(3,561)

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Decrease in accounts payable and other current liabilities	(12,874	)	(29,122	)
Increase (decrease) in income taxes payable	5,576		(1,287	)
Other	14,373		(3,291	)
Net cash provided by operating activities	\$181,239		\$125,521	

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

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## BIO-RAD LABORATORIES, INC

### Notes to Condensed Consolidated Financial Statements (Unaudited)

#### 1. BASIS OF PRESENTATION AND USE OF ESTIMATES

##### Basis of Presentation

In this report, “Bio-Rad,” “we,” “us,” “the Company” 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 (GAAP) and reflect all adjustments which are, in the opinion of management, necessary to fairly state the results of the interim periods presented. All such adjustments are of a normal recurring nature. Results for the interim period are not necessarily indicative of the results for the entire year. The condensed consolidated balance sheet at December 31, 2010 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. 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, 2010.

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 through the date 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.

##### Use of Estimates

The preparation of the condensed consolidated 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. Bio-Rad bases its estimates on historical experience and on various other market-specific and other relevant assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ materially from those estimates.

##### Restricted Cash

Restricted cash of approximately \$6.4 million at December 31, 2010 represented a deposit in an escrow account for the final lump sum payment under a building finance lease. That amount was paid in June 2011. There was no restricted cash balance as of September 30, 2011.

##### Recent Accounting Standards Updates

In May 2011, the Financial Accounting Standards Board (FASB) issued guidance in regard to fair value measurement. The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and International Financial Reporting Standards (IFRS). This guidance is

effective for interim and annual periods beginning after December 15, 2011. We do not anticipate that the adoption of this guidance will have a material impact on our condensed consolidated financial statements.

In June 2011, the FASB issued guidance in regard to the presentation of comprehensive income. In the new guidance an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Bio-Rad is currently evaluating the alternative presentations, however, the adoption of this guidance will not have a material impact on our condensed consolidated financial statements as it relates to disclosure purposes only.

In September 2011, the FASB issued guidance in regard to goodwill impairment. The new guidance is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities with the option of performing a "qualitative" assessment to determine whether further impairment testing is necessary. An entity can choose to perform the qualitative assessment on none, some, or all of its reporting units. Moreover, an entity can bypass the qualitative assessment for any reporting unit in any period and proceed directly to step one of the impairment test, and then perform the qualitative assessment in any subsequent period. The new guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. Bio-Rad is currently evaluating the new process, however, the adoption of this guidance will not have a material impact on our condensed consolidated financial statements.

## 2. 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 and measured on a recurring basis as of September 30, 2011 are classified in the hierarchy as follows (in millions):

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	Level 1	Level 2	Total
<b>Financial Assets Carried at Fair Value:</b>			
Cash equivalents (a):			
Commercial paper	\$—	\$72.4	\$72.4
Foreign government obligations	—	5.0	5.0
Time deposits	31.8	—	31.8
Money market funds	149.7	—	149.7
Total cash equivalents	181.5	77.4	258.9
Available-for-sale investments (b):			
Corporate debt securities	—	193.9	193.9
Brokered certificates of deposit	—	6.8	6.8
U.S. government sponsored agencies	—	18.0	18.0
Foreign government obligations	—	6.3	6.3
Municipal obligations	—	5.0	5.0
Marketable equity securities	116.4	—	116.4
Asset-backed securities	—	2.7	2.7
Total available-for-sale investments	116.4	232.7	349.1
Forward foreign exchange contracts (c)	—	3.8	3.8
Total financial assets carried at fair value	\$297.9	\$313.9	\$611.8
<b>Financial Liabilities Carried at Fair Value:</b>			
Forward foreign exchange contracts (d)	\$—	\$1.0	\$1.0

Financial assets and liabilities carried at fair value and measured on a recurring basis as of December 31, 2010 are classified in the hierarchy as follows (in millions):

	Level 1	Level 2	Total
<b>Financial Assets Carried at Fair Value:</b>			
Cash equivalents (a):			
Commercial paper	\$—	\$179.6	\$179.6
Time deposits	16.7	25.0	41.7
Money market funds	266.3	—	266.3
Total cash equivalents	283.0	204.6	487.6
Available-for-sale investments (b):			
Corporate debt securities	—	39.8	39.8
U.S. government sponsored agencies	—	54.7	54.7
Foreign government obligations	—	4.5	4.5
Municipal obligations	—	7.7	7.7
Marketable equity securities	102.2	—	102.2
Asset-backed securities:			
Collateralized mortgage obligations	—	0.1	0.1
Other mortgage-backed securities	—	2.5	2.5
Other	—	0.3	0.3
Total available-for-sale investments	102.2	109.6	211.8
Forward foreign exchange contracts (c)	—	0.5	0.5
Total financial assets carried at fair value	\$385.2	\$314.7	\$699.9
<b>Financial Liabilities Carried at Fair Value:</b>			
Forward foreign exchange contracts (d)	\$—	\$3.3	\$3.3

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

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(b) Available-for-sale investments are included in the following accounts in the Condensed Consolidated Balance Sheets (in millions):

	September 30, 2011	December 31, 2010
Short-term investments	\$239.2	\$118.6
Other assets	109.9	93.2
Total	\$349.1	\$211.8

(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.

As of September 30, 2011 and December 31, 2010, we did not hold any financial assets or liabilities that use Level 3 inputs to determine fair value.

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, 2011 and December 31, 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, 2011 and December 31, 2010, we did not have any investment securities in illiquid or inactive markets.

As of September 30, 2011, our primary pricing service inputs for Level 2 U.S. government sponsored agencies, municipal obligations, corporate debt securities (bonds) and asset-backed securities consisted of market prices from a variety of industry standard data providers, security master files from large financial institutions and other third-party sources. These multiple market prices were used by our primary pricing service as inputs into a distribution-curve based algorithm to determine the daily market value.

As of September 30, 2011, our primary pricing service inputs for Level 2 cash equivalents (commercial paper and foreign government obligations), corporate debt securities (commercial paper), foreign government obligations (commercial paper) and time deposits consisted of dynamic and static security characteristics information obtained from several independent security characteristic sources. The dynamic inputs such as credit rating, factor and variable-rate are updated daily. The static characteristics include inputs such as day count and first coupon upon initial security creation. These securities were typically priced via mathematical calculations reliant on these observable inputs. Other available-for-sale foreign government obligations are based on indicative bids from market participants.

As of December 31, 2010 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, varied depending on the type of security being valued, but generally included 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.

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As of December 31, 2010 the inputs used by our primary pricing service in estimating the fair value of Level 2 collateralized mortgage obligations and other mortgage-backed securities included 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 losses (gains), net 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.

The following is a summary of our forward foreign currency exchange contracts (in millions):

	September 30, 2011
Contracts maturing in October through December 2011 to sell foreign currency:	
Notional value	\$44.7
Unrealized loss	\$(0.2 )
Contracts maturing in October through December 2011 to purchase foreign currency:	
Notional value	\$429.8
Unrealized gain	\$3.0

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



	September 30, 2011			Estimated
	Amortized	Unrealized	Unrealized	Fair
	Cost	Gains	Losses	Value
Short-term investments:				
Corporate debt securities	\$194.3	\$—	\$(0.4)	) \$193.9
Brokered certificates of deposit	6.8	—	—	6.8
Municipal obligations	5.0	—	—	5.0
Asset-backed securities	2.3	—	—	2.3
U.S. government sponsored agencies	18.0	—	—	18.0
Foreign government obligations	5.4	—	—	5.4
Marketable equity securities	8.0	0.4	(0.6)	) 7.8
	239.8	0.4	(1.0)	) 239.2
Long-term investments:				
Marketable equity securities	55.3	54.8	(1.5)	) 108.6
Asset-backed securities	0.5	—	(0.1)	) 0.4
Foreign government obligations	0.9	—	—	0.9
	56.7	54.8	(1.6)	) 109.9
Total	\$296.5	\$55.2	\$(2.6)	) \$349.1
December 31, 2010				
	Amortized	Unrealized	Unrealized	Estimated
	Cost	Gains	Losses	Fair
				Value
Short-term investments:				
Corporate debt securities	\$39.8	\$—	\$—	\$39.8
Municipal obligations	7.7	—	—	7.7
Asset-backed securities	1.9	—	—	1.9
U.S. government sponsored agencies	54.7	—	—	54.7
Foreign government obligations	4.5	—	—	4.5
Marketable equity securities	8.8	1.3	(0.1)	) 10.0
	117.4	1.3	(0.1)	) 118.6
Long-term investments:				
Marketable equity securities	45.5	47.9	(0.9)	) 92.5
Asset-backed securities	0.7	0.1	(0.1)	) 0.7
	46.2	48.0	(1.0)	) 93.2
Total	\$163.6	\$49.3	\$(1.1)	) \$211.8

The following is a summary of investments with gross unrealized losses and the associated fair value (in millions):

	September 30, 2011	December 31, 2010
Fair value	\$79.9	\$4.5
Gross unrealized losses for investments in a loss position 12 months or more	\$0.4	\$0.6
Gross unrealized losses for investments in a loss position less than 12 months	\$2.2	\$0.5

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, 2011.

The following is a summary of the amortized cost and estimated fair value of our debt securities at September 30, 2011 by contractual maturity date (in millions):

	Amortized Cost	Estimated Fair Value
Mature in less than one year	\$187.2	\$187.1
Mature in one to five years	43.2	42.9
Mature in more than five years	2.8	2.7
Total	\$233.2	\$232.7

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, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Other assets	\$166.6	\$229.2	\$145.6	\$205.6
Current maturities of long-term debt, excluding leases	\$—	\$—	\$225.0	\$228.1
Total long-term debt, excluding leases and current maturities	\$718.9	\$756.9	\$718.2	\$734.8

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, 2011. 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 the ability to exercise significant influence over the operating and financial policies of Sartorius. In addition, the ordinary voting stock of Sartorius AG is thinly traded. 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.



3.GOODWILL AND OTHER PURCHASED INTANGIBLE ASSETS

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

	Life Science	Clinical Diagnostics	Total
Balances as of January 1, 2011:			
Goodwill	\$70.7	\$320.5	\$391.2
Accumulated impairment losses	(27.2)	) —	(27.2)
Goodwill, net	43.5	320.5	364.0
Currency fluctuations	—	7.2	7.2
Balances as of September 30, 2011:			
Goodwill	70.7	327.7	398.4
Accumulated impairment losses	(27.2)	) —	(27.2)
Goodwill, net	\$43.5	\$327.7	\$371.2

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

	September 30, 2011			
	Average Remaining Life (years)	Purchase Price	Accumulated Amortization	Net Carrying Amount
Customer relationships/lists	1-12	\$102.9	\$(31.2)	) \$71.7
Know how	5	95.3	(41.9)	) 53.4
Developed product technology	1-11	48.5	(23.7)	) 24.8
Licenses	1-9	35.6	(14.8)	) 20.8
Tradenames	1-11	30.2	(21.1)	) 9.1
Covenants not to compete	1-8	5.9	(5.5)	) 0.4
Patents	—	1.0	(1.0)	) —
Other	—	0.1	(0.1)	) —
		\$319.5	\$(139.3)	) \$180.2
	December 31, 2010			
	Average Remaining Life (years)	Purchase Price	Accumulated Amortization	Net Carrying Amount
Customer relationships/lists	1-13	\$102.3	\$(24.8)	) \$77.5
Know how	1-6	92.6	(33.0)	) 59.6
Developed product technology	1-11	47.9	(19.2)	) 28.7
Licenses	1-10	35.4	(12.2)	) 23.2
Tradenames	2-12	29.5	(15.9)	) 13.6
Covenants not to compete	1-8	5.9	(4.6)	) 1.3
Patents	—	1.0	(1.0)	) —
Other	1	0.1	(0.1)	) —
		\$314.7	\$(110.8)	) \$203.9



Amortization expense related to purchased intangible assets is as follows (in millions):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Amortization expense	\$9.6	\$8.3	\$27.7	\$25.1

#### 4.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 in the Condensed Consolidated Balance Sheets, were as follows (in millions):

December 31, 2010	\$18.3	
Provision for warranty	16.3	
Actual warranty costs	(18.2	)
September 30, 2011	\$16.4	

#### 5.LONG-TERM DEBT

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

	September 30, 2011	December 31, 2010
7.5% Senior Subordinated Notes due 2013	\$—	\$225.0
8.0% Senior Subordinated Notes due 2016	296.1	295.6
4.875% Senior Notes due 2020	422.8	422.6
Capital leases and other debt	13.4	21.0
	732.3	964.2
Less current maturities	(0.7	) (233.1
Long-term debt	\$731.6	\$731.1

#### Senior Notes due 2020

In December 2010, Bio-Rad sold \$425.0 million principal amount of Senior Notes due 2020. The net proceeds from the issuance of the Senior Notes were used, together with cash on hand, to redeem all \$200 million of our Senior Subordinated Notes due 2014 in December 2010 and all \$225 million of our Senior Subordinated Notes due 2013 (as defined below) in January 2011.



## Senior Subordinated Notes due 2013

In August 2003, Bio-Rad sold \$225.0 million principal amount of Senior Subordinated Notes due 2013. In January 2011, we redeemed all of the Senior Subordinated Notes due 2013 for \$234.6 million, including a call premium, which is included in Interest expense in our Condensed Consolidated Statements of Income.

## Amended and Restated Credit Agreement (Credit Agreement)

In June 2010, Bio-Rad entered into a \$200.0 million 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 borrowings under the Credit Agreement as of September 30, 2011. The Credit Agreement expires on June 21, 2014.

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 of our foreign subsidiaries. It is guaranteed by all of our existing and future material domestic subsidiaries. The Credit Agreement and the Senior Subordinated Notes due 2016 require Bio-Rad to comply with certain financial ratios and covenants, among other things. These ratios and covenants include a leverage ratio test and an interest coverage test, as well as 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 of these ratios and covenants as of September 30, 2011.

## 6. NONCONTROLLING INTERESTS

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

January 1, 2011	\$3.8	
Net loss attributable to noncontrolling interests	(0.2	)
Purchase of noncontrolling interests	(3.4	)
Currency fluctuations	0.3	
September 30, 2011	\$0.5	

In June 2011, we acquired the remaining outstanding shares of DiaMed S.E.A. Limited (DiaMed Thailand) from multiple noncontrolling shareholders for approximately \$0.2 million in cash. As this acquisition was accounted for as an equity transaction, Bio-Rad's noncontrolling interest was reduced by \$1.0 million and additional paid-in-capital was increased by \$0.8 million.

In February 2011, we acquired an additional 39% of Distribuidora de Analitica para Medicina Ibérica S.A. (DiaMed Spain) from multiple noncontrolling shareholders, increasing our ownership in DiaMed Spain to 90%. We paid approximately 2.5 million Euros or \$3.4 million in cash. This acquisition was accounted for as an equity transaction, which reduced Bio-Rad's noncontrolling interests and additional paid-in capital by approximately \$2.4 million and \$1.0 million, respectively.

## 7. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income 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 that are excluded from the diluted earnings per share calculation are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Basic weighted average shares outstanding	28,072	27,697	27,997	27,616
Effect of potentially dilutive stock options and restricted stock awards	384	406	457	494
Diluted weighted average common shares	28,456	28,103	28,454	28,110
Anti-dilutive shares	59	132	37	117

## 8. OTHER INCOME AND EXPENSE

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Interest and investment (income) expense	\$0.1	\$(0.7)	\$(5.5)	\$(4.3)
Net realized gains on investments	(0.1)	(0.1)	(0.3)	(0.4)
Miscellaneous other (income) expense items	(0.5)	0.5	(0.1)	1.1
Other (income) expense, net	\$(0.5)	\$(0.3)	\$(5.9)	\$(3.6)

## 9. INCOME TAXES

Our effective tax rate was 18% and 22% for the three months ended September 30, 2011 and 2010, respectively. Our effective tax rate was 27% for both the nine months ended September 30, 2011 and 2010. The effective tax rates for all periods presented were lower than the U.S. statutory rate primarily due to tax benefits from differences between U.S. and foreign statutory tax rates, research and development tax credits, and nontaxable dividend income.

The effective tax rate for the three months ended September 30, 2011 was lower than the rate for the same period in 2010 primarily due to a change in estimate resulting in lower tax rates on French patent income and discrete benefits related to the release of tax reserves, partially offset by decreased benefit pertaining to differences between U.S. and foreign statutory tax rates. There was no change to the effective tax rate for the nine months ended September 30, 2011 compared to the same period in 2010.

As of September 30, 2011, based on the expected outcome of certain examinations or as a result of the expiration of statute of limitations for certain jurisdictions, we believe that within the next 12 months it is reasonably possible that our previously unrecognized tax benefits could decrease by approximately \$3 million to \$7 million. Substantially all such amounts will impact our effective income tax rate.

We record liabilities related to uncertain tax positions. We do not believe any currently pending uncertain tax positions 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 may have a material impact on the results of operations for that period.



## 10.COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net income including noncontrolling interests	\$45.9	\$45.1	\$118.8	\$119.0
Foreign currency translation adjustments	(71.4	) 85.1	12.8	28.8
Net unrealized holding gains (losses) on available-for-sale investments, net of tax benefit of \$7.1 million and tax expense of \$1.0 million for the three months ended September 30, 2011 and 2010, respectively, and tax expense of \$1.1 million and tax benefit of \$1.0 million for the nine months ended September 30, 2011 and 2010, respectively.	(12.1	) 1.7	2.0	(1.7
Reclassification adjustments for gains included in Net income including noncontrolling interests, net of tax benefit of \$0.1 and tax expense of \$0.1 million for the three months ended September 30, 2011 and 2010, respectively, and tax expense of \$0.2 million for the nine months ended September 30, 2010. There was no tax impact for the nine months ended September 30, 2011.	—	—	0.1	0.2
Total comprehensive (loss) income	(37.6	) 131.9	133.7	146.3
Comprehensive income attributable to noncontrolling interests	(0.4	) (2.6	) —	(1.9
Comprehensive (loss) income attributable to Bio-Rad	\$(38.0	) \$129.3	\$133.7	\$144.4

Reclassification adjustments are calculated using the specific identification method.

## 11.SEGMENT INFORMATION

Information regarding industry segments for the three months ended September 30, 2011 and 2010 is as follows (in millions):

		Life Science	Clinical Diagnostics	Other Operations
Segment net sales	2011	\$171.5	\$341.3	\$3.7
	2010	\$153.2	\$314.9	\$3.4
Segment profit	2011	\$12.5	\$49.5	\$0.5
	2010	\$11.4	\$49.6	\$0.3

Information regarding industry segments for the nine months ended September 30, 2011 and 2010 is as follows (in millions):

		Life Science	Clinical Diagnostics	Other Operations
Segment net sales	2011	\$495.9	\$1,016.5	\$10.9
	2010	\$455.3	\$928.8	\$9.3
Segment profit	2011	\$25.6	\$144.1	\$1.1
	2010	\$30.5	\$134.6	\$0.5

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,	
	2011	2010	2011	2010
Total segment profit	\$62.5	\$61.3	\$170.9	\$165.6
Foreign exchange losses, net	(6.3 )	(2.7 )	(12.1 )	(3.5 )
Net corporate operating, interest and other expense not allocated to segments	(0.9 )	(1.0 )	(2.8 )	(2.6 )
Other income (expense), net	0.5	0.3	5.9	3.6
Consolidated income before taxes	\$55.8	\$57.9	\$161.9	\$163.1

## 12.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), each of which commenced an investigation. 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 and the DOJ and SEC investigations are 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. We are unable to estimate the outcome of this matter. However, the imposition of any of these sanctions or remedial measures could have a material adverse effect on our business or financial condition. We have not to date determined whether any of the activities in question violated the laws of the foreign jurisdictions in which they took place.



On April 13, 2011, a shareholder derivative lawsuit was filed against each of our directors in the Superior Court for Contra Costa County, California. The case, which also names the Company as a nominal defendant, is captioned City of Riviera Beach General Employees' Retirement System v. David Schwartz, et al., Case No. MSC11-00854. In the complaint, the plaintiff alleges that our directors breached their fiduciary duties by failing to ensure that we had sufficient internal controls and systems for compliance with the FCPA. Purportedly seeking relief on our behalf, the plaintiff seeks an award of unspecified compensatory and punitive damages, costs and expenses (including attorneys' fees), and a declaration that our directors have breached their fiduciary duties. We and the individual defendants filed a demurrer requesting dismissal of the complaint in this case, as well as a motion to dismiss the complaint and a motion to stay this matter pending resolution of the above-referenced investigations by the DOJ and SEC. Following a hearing on September 30, 2011, the court granted our motion to dismiss the complaint, without prejudice, and the plaintiff has until February 29, 2012 to file an amended complaint. The court denied our motion to stay this matter because it dismissed the complaint.

In addition, we are party to various other 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 any of these other 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 other matters and their resolution could be material to our operating results for any particular period, depending on the level of income for the period.

### 13. SUBSEQUENT EVENT

On October 4, 2011, we acquired all the issued and outstanding stock of QuantaLife, Inc. (QuantaLife) for cash consideration of \$164.8 million, less a \$5.0 million holdback of cash until the completion of certain post-closing matters, netting to \$159.8 million in cash, plus potential future net contingent consideration payments that could be up to approximately \$48 million. QuantaLife will be included in our Life Science segment. The acquired assets will be measured at their estimated fair values at the acquisition date based upon management's best estimates. Goodwill will be measured as the excess of the consideration transferred over the fair values of the identifiable net assets acquired. We do not expect the goodwill that will be recorded with this acquisition to be deductible for tax purposes. Integrating the acquired QuantaLife business into Bio-Rad's life science research is expected to expand our current state of the art methods of quantitative PCR and we believe it will complement Bio-Rad's existing amplification business.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion should be read in conjunction with the information contained in both our Consolidated Financial Statements for the year ended December 31, 2010 and this report for the three and nine months ended September 30, 2011.

Other than statements of historical fact, statements made in this report include forward looking statements, such as statements with respect to our 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 negative 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: changes in general domestic and worldwide economic conditions; our ability to successfully develop and market new products; our

reliance on and access to necessary intellectual property; our ability to successfully integrate any acquired business; our substantial leverage and 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 except as required by Federal Securities law.

**Overview.** We are a multinational manufacturer and worldwide distributor of our own life science research and clinical diagnostics products. Our business is organized into two primary segments, Life Science and Clinical Diagnostics, with the mission to provide scientists with specialized tools needed for biological research and clinical diagnostics. We sell more than 8,000 products and services to a diverse client base comprised of scientific research, healthcare, 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 standardization for their experiments and test results, much of our revenues are recurring. We are impacted by the support of many governments for both research and healthcare. The current global economic outlook is becoming increasingly uncertain as the need to control government social spending by many governments limits opportunities for growth. Approximately 31% of our year-to-date 2011 consolidated net sales are derived from the United States and approximately 69% are derived from international locations. The international sales are largely denominated in local currencies such as Euros, Swiss Franc, Japanese Yen and British Sterling. As a result, our consolidated net sales expressed in dollars benefit when the U.S. dollar weakens and suffer when the dollar strengthens. When the U.S. dollar strengthens, we benefit from lower cost of sales from our own international manufacturing sites as well as non-U.S. suppliers and from lower international operating expenses.

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

	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
	2011	2010	2011	2010	%
Net sales	100.0	% 100.0	% 100.0	% 100.0	%
Cost of goods sold	42.7	43.5	43.1	43.2	
Gross profit	57.3	56.5	56.9	56.8	
Selling, general and administrative expense	34.2	31.5	34.2	32.9	
Research and development expense	8.8	9.1	8.9	9.1	
Net income attributable to Bio-Rad	8.9	9.5	7.8	8.4	

#### Critical Accounting Policies and Estimates

As previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010, we have identified accounting for income taxes, valuation of goodwill and long-lived assets, valuation of inventories, warranty reserves, valuation of investments, allowance for doubtful accounts and litigation accruals as the accounting policies and estimates critical to the operations of Bio-Rad.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably likely to occur could materially impact the financial statements. Management believes that there have been no significant changes during the nine months ended September 30, 2011 to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010. For a full discussion of these policies and estimates, please refer to our Form 10-K for the period ended December 31, 2010.



Three Months Ended September 30, 2011 Compared to  
Three Months Ended September 30, 2010

#### Corporate Results -- Sales, Margins and Expenses

Net sales (sales) for the third quarter of 2011 increased to \$516.5 million from \$471.5 million in the third quarter of 2010, a sales increase of 9.5%. Excluding the impact of foreign currency, third quarter 2011 sales increased by approximately 1.1% compared to the same period in 2010. Currency neutral sales growth was reflected in all regions except for Europe.

The Life Science segment sales for the third quarter of 2011 were \$171.5 million, an increase of 11.9% compared to the same period last year. On a currency neutral basis, sales increased 5.1% compared to the third quarter in 2010. The electrophoresis and imaging product lines contributed to the sales growth supported by several recent product launches. Currency neutral sales growth in the Life Science segment was driven primarily in Europe and the Pacific Rim, while U.S. sales have declined. During the third quarter of 2010, sales included the effect of U.S. government stimulus spending.

The Clinical Diagnostics segment reported sales for the third quarter of 2011 were \$341.3 million, an increase of 8.4% compared to the same period last year. On a currency neutral basis, sales decreased 0.9% compared to the third quarter in 2010. Clinical Diagnostics product lines generating growth were quality controls and BioPlex 2200. Currency neutral sales growth was primarily in the U.S., while most other regions declined on both competitive pricing pressures and spending constraints by public agencies.

Consolidated gross margins were 57.3% for the third quarter of 2011 compared to 56.5% for the third quarter of 2010. Life Science segment gross margins for the third quarter of 2011 increased from the same period last year by approximately 1.3%. The increase was primarily due to a better mix of higher margin products. Clinical Diagnostics segment gross margins for the third quarter of 2011 increased by approximately 0.7% from the same period last year. The increase was primarily due to favorable manufacturing variances.

Selling, general and administrative expenses (SG&A) represented 34.2% of sales for the third quarter of 2011 compared to 31.5% of sales for the third quarter of 2010. Increases in the spending rate were affected by currency translation and primarily driven by employee-related costs, our largest cost, bad debt provisions primarily associated with public agencies in southern Europe, professional services primarily due to beginning our new ERP platform design and implementation phase, travel, marketing and facilities costs.

Research and development expense increased to \$45.4 million or 8.8% of sales in the third quarter of 2011 compared to \$42.9 million or 9.1% of sales in the third quarter of 2010. Life Science segment research and development expense was relatively flat in the third quarter of 2011 from the prior year quarter. Clinical Diagnostics segment research and development expense increased in the third quarter of 2011 from the prior year period with efforts concentrated on quality controls, immunohematology and the development and cost reduction of instruments.

#### Corporate Results – Other Items

Interest expense for the third quarter of 2011 decreased by \$2.1 million compared to the third quarter of 2010 primarily due to the refinancing of \$425 million of debt in December 2010 through January 2011, lowering our

borrowing rate. The interest rates on our current borrowings are fixed through 2016 at 8% and through 2020 at 4.875%.

Foreign currency 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 currency exchange risk. Approximately \$3.0 million of the current period loss was attributable to entering into larger forward foreign exchange contracts than required. Foreign currency exchange losses, net for the quarter ended September 30, 2011 was also attributable to market volatility, increasing costs to hedge, and the result of the estimating process inherent in the timing of shipments and payments of intercompany payables.

Other (income) expense, net for the third quarter of 2011 increased to \$0.5 million income compared to \$0.3 million income for the third quarter of 2010. The increase was primarily due to a legal fee settlement in the third quarter of 2010, partially offset by an other-than-temporary impairment of investments during the third quarter of 2011.

Our effective tax rate was 18% and 22% for the third quarter of 2011 and 2010, respectively. The effective tax rates for both periods were lower than the U.S. statutory rate primarily due to tax benefits from differences between U.S. and foreign statutory tax rates, research and development tax credits and nontaxable dividend income.

The effective tax rate for the third quarter of 2011 was lower than the rate for the same period in 2010 primarily due to a change in estimate resulting in lower tax rates on French patent income and discrete benefits related to the release of tax reserves, partially offset by decreased benefit pertaining to differences between U.S. and foreign statutory tax rates.

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

#### Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010

##### Corporate Results -- Sales, Margins and Expenses

Sales for the first nine months of 2011 increased to \$1.52 billion from \$1.39 billion in the first nine months of 2010, a sales increase of 9.3%. Excluding the impact of foreign currency, the first nine months of 2011 sales increased by approximately 3.4% compared to the same period in 2010. Currency neutral sales growth was reflected in all regions, except for Europe.

The Life Science segment sales for the first nine months of 2011 were \$495.9 million, an increase of 8.9% compared to the same period last year. On a currency neutral basis, sales increased 3.9% compared to the first nine months of 2010. Product groups showing growth included process chromatography media, imaging systems and electrophoresis. Currency neutral sales growth in the Life Science segment was primarily in the U.S., Europe and Latin America. In many developed countries, constraints in government budgets have limited sales growth opportunities. During the third quarter of 2010, sales included the effect of U.S. government stimulus spending.

The Clinical Diagnostics segment reported sales for the first nine months of 2011 were \$1.02 billion, an increase of 9.4% compared to the same period last year. On a currency neutral basis, sales increased 3.0% compared to the first nine months of 2010. Clinical Diagnostics product lines generating growth were immunohematology, quality controls, BioPlex 2200 and clinical microbiology. Currency neutral sales growth was primarily in the Pacific Rim and the U.S., partially offset with weaker sales in Europe due to spending constraints in several countries' national healthcare systems.

Consolidated gross margins were 56.9% for the first nine months of 2011 compared to 56.8% for the first nine months of 2010 and were relatively unchanged for both the Life Science segment and the Clinical Diagnostics segment.

Selling, general and administrative expenses (SG&A) represented 34.2% of sales for the first nine months of 2011 compared to 32.9% of sales for the first nine months of 2010. Growth in the rate of SG&A spending was greater than the rate of sales growth. Increases in the spending rate were primarily driven by employee-related costs, our largest cost, professional services, facilities, bad debt provisions primarily associated with public agencies in southern Europe, travel, marketing and information technology.

Research and development expense increased to \$136.3 million or 8.9% of sales in the first nine months of 2011 compared to \$127.0 million or 9.1% of sales in the first nine months of 2010. Life Science segment research and development expense increased in the first nine months of 2011 from the prior year period with efforts concentrated on genomics, proteomics and process chromatography applications. Clinical Diagnostics segment research and development expense increased in the first nine months of 2011 from the prior year period with efforts concentrated on diabetes and immunohematology, and is focused mainly on the development and cost reduction of instruments.

#### Corporate Results – Other Items

Interest expense for the first nine months of 2011 decreased by \$2.0 million compared to the first nine months of 2010 primarily due to the refinancing of our debt in December 2010 through January 2011, lowering our borrowing rate. The interest rates on our current borrowings are fixed through 2016 at 8% and through 2020 at 4.875%.

Foreign currency 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 currency exchange risk. Approximately \$3.0 million of the current period loss was attributable to entering into larger forward foreign exchange contracts than required. Foreign currency exchange losses, net for the first nine months of 2011 was also attributable to market volatility, increasing costs to hedge, and the result of the estimating process inherent in the timing of shipments and payments of intercompany payables.

Other (income) expense, net for the first nine months of 2011 increased to \$5.9 million income compared to \$3.6 million income for the first nine months of 2010. The increase was primarily due to higher dividend income from holdings in Sartorius AG whose dividends almost doubled from the prior year period and a legal fee settlement in the third quarter of 2010, partially offset by an other-than-temporary impairment of investments during 2011.

Our effective tax rate was 27% for both the first nine months of 2011 and 2010. The effective tax rates for both periods were lower than the U.S. statutory rate due to tax benefits for nontaxable dividend income, research and development tax credits, differences between U.S. and foreign statutory tax rates, and discrete events recorded in the period.

Our effective tax rate may be impacted in the future, either favorably or unfavorably, by many factors including, but not limited to, changes to statutory tax rates, changes in tax laws or regulations, tax audits and settlements, and the 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 are then shipped to local distribution facilities around the world. 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, and funding for research and development of new products, as well as routine outflows of capital expenditure, interest and tax

expense are provided by cash flow from operations. In addition to the annual positive cash flow from operating activities, additional liquidity is readily available via the sale of short-term investments and access to our \$200.0 million Amended and Restated Credit Agreement (Credit Agreement) that we entered into in June 2010. Borrowings under the Credit Agreement are on a revolving basis and can be used to make acquisitions, for



working capital and for other general corporate purposes. We had no outstanding borrowings under the Credit Agreement as of September 30, 2011. The Credit Agreement expires on June 21, 2014.

At September 30, 2011, we had available \$910.2 million in cash, cash equivalents and short-term investments. Under domestic and international lines of credit, we had \$221.1 million available for borrowing as of September 30, 2011, of which \$16.8 million is reserved for standby letters of credit issued by our banks to guarantee our obligations to various companies. 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 manufacturing and distribution, plant and equipment, information technology systems and an acquisition of reasonable proportion to our existing total available capital.

#### Cash Flows from Operations

Net cash provided by operations was \$181.2 million and \$125.5 million for the nine months ended September 30, 2011 and 2010, respectively. The increase primarily represented higher cash received from customers due to higher sales and a decline in income taxes paid that was caused by timing differences, partially offset by inventory build for anticipated fourth quarter sales and new product introductions. During the second quarter of 2010, Bio-Rad made a large payment of 22.6 million Euros covering royalties for multiple years. We continue to focus on cash flow improvements as a global company-wide goal.

#### Cash Flows from Investing Activities

Capital expenditures totaled \$67.2 million and \$56.3 million for the nine months ended September 30, 2011 and 2010, respectively. Capital expenditures represent the addition and replacement of production machinery and research equipment, ongoing manufacturing and facility additions for expansion, regulatory and environmental, and compliance. Also included in capital expenditures are investments in business systems and data communication upgrades and enhancements. All periods include equipment placed with Clinical Diagnostics segment customers who then contract to purchase our reagents for use. We anticipate increasing expenditures in future periods for the implementation of a global single instance ERP platform and to expand our e-commerce platform internationally. The ERP software was purchased in December 2010. The estimated global implementation cost for the single instance ERP platform could reach approximately \$150 million and is estimated to take approximately five years to implement.

On January 6, 2010, we acquired certain diagnostic businesses of Biotest AG for 45 million Euros (approximately \$64.9 million) in cash, which is included in our Clinical Diagnostics segment. In February 2011, we acquired an additional 39% of Distribuidora de Analitica para Medicina Ibérica S.A. (DiaMed Spain) from multiple noncontrolling shareholders, increasing our ownership in DiaMed Spain to 90%. We paid approximately 2.5 million Euros or \$3.4 million in cash. In June 2011, we acquired the remaining outstanding shares of DiaMed S.E.A. Limited (DiaMed Thailand) from multiple noncontrolling shareholders for approximately \$0.2 million in cash.

On October 4, 2011, we acquired all the issued and outstanding stock of QuantaLife, Inc. (QuantaLife) for cash consideration of \$164.8 million, less a \$5.0 million holdback of cash to be paid at the completion of certain post-closing matters, plus potential future net contingent consideration payments that are capped at approximately \$48 million. QuantaLife will be included in our Life Science segment. Integrating the acquired QuantaLife business into Bio-Rad's life science research is expected to expand our current state of the art methods of quantitative PCR and we believe it will complement Bio-Rad's existing amplification business.

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. It is not certain that any of these discussions

will advance beyond the preliminary stages to completion at this time.

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### Cash Flows from Financing Activities

Net cash used in financing activities was \$211.8 million for the nine months ended September 30, 2011 and net cash provided by financing activities was \$7.2 million for the nine months ended September 30, 2010. Cash used in 2011 was attributable to the redemption in January 2011 of our \$225.0 million Senior Subordinated Notes due 2013, including a call premium of \$2.8 million that was recorded in Interest expense in the Condensed Consolidated Statements of Income. During the fourth quarter of 2010 we placed \$425.0 million Senior Notes that were used to retire our 2014 bonds and our 2013 bonds in December 2010 and January 2011, respectively. Cash provided in 2010 was primarily proceeds from issuance of common stock related to our share-based compensation, partially offset by repayments of long-term debt. We have outstanding Senior Notes of \$425 million and Senior Subordinated Notes of \$300 million, which are not due until 2020 and 2016, respectively.

The Credit Agreement that was entered into in June 2010, 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 and expires in June 2014.

The Board of Directors has authorized the repurchase of up to \$18 million of Bio-Rad's common stock over an indefinite period of time of which \$3.3 million has yet to be repurchased. The Credit Agreement and the indenture governing our 8.0% Senior Subordinated Notes due 2016 restrict our ability to repurchase our stock. We did not repurchase any shares of our common stock during the first nine months of 2011 or 2010.

### Recent Accounting Standards Updates

In May 2011, the Financial Accounting Standards Board issued guidance in regard to fair value measurement. The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and International Financial Reporting Standards (IFRS). This guidance is effective for interim and annual periods beginning after December 15, 2011. We do not anticipate that the adoption of this guidance will have a material impact on our condensed consolidated financial statements.

In June 2011, the FASB issued guidance in regard to the presentation of comprehensive income. In the new guidance an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Bio-Rad is currently evaluating the alternative presentations, however, the adoption of this guidance will not have a material impact on our condensed consolidated financial statements as it relates to disclosure purposes only.

In September 2011, the FASB issued guidance in regard to goodwill impairment. The new guidance is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities with the option of performing a "qualitative" assessment to determine whether further impairment testing is necessary. An entity can choose to perform the qualitative assessment on none, some, or all of its reporting units. Moreover, an entity can bypass the qualitative assessment for any reporting unit in any period and proceed directly to step one of the impairment test, and then perform the qualitative assessment in any subsequent period. The new guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with

early adoption permitted. Bio-Rad is currently evaluating the new process, however, the adoption of this guidance will not have a material impact on our condensed consolidated financial statements.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

During the nine months ended September 30, 2011, 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, 2010.

### Item 4. Controls and Procedures

#### Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, although our disclosure controls and procedures were generally effective in timely alerting them to material information relating to us and our consolidated subsidiaries required to be disclosed in the reports we file and submit under the Securities Exchange Act of 1934, as amended (the Exchange Act), they were not effective as disclosed below.

The conclusion that our disclosure controls and procedures were not effective relates in part to the results to date of our Audit Committee's investigation with the assistance of independent special counsel of our compliance with the United States Foreign Corrupt Practices Act (FCPA). Based on that investigation, we determined that our previous lack of a comprehensive FCPA compliance policy and training program and other inadequate entity-level controls, as discussed below, led us to fail to identify FCPA compliance issues that were presented.

We have continued implementing our remediation plan with respect to our disclosure controls and procedures to provide greater assurance of future compliance with the requirements of the FCPA and to ensure that potential FCPA issues are appropriately identified, reported and evaluated in the future. These remediation efforts have included:

- Company-wide, comprehensive training of our personnel in the requirements of the FCPA, including training with respect to those areas of our operations that are most likely to raise FCPA compliance concerns;

- With the assistance of special counsel to the Audit Committee, which has extensive experience in the area of FCPA compliance, our adoption of a comprehensive FCPA compliance policy that is appropriate for us in light of our worldwide operations, particularly in geographical areas that present challenges to regulatory compliance because of less mature legal frameworks;

- Our hiring of an additional person to assist in FCPA compliance; and

- Our determination that, in the future, FCPA compliance will be a point of emphasis to be evaluated quarterly by our internal legal group and our internal audit group, and that a report on our FCPA compliance will be provided regularly to the Audit Committee.

#### Changes in Internal Control Over Financial Reporting

Our management concluded in its last annual assessment that our internal control over financial reporting was not effective as of December 31, 2010 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America, to the extent and for the reasons set forth below.

In connection with our Audit Committee's investigation of our compliance with the FCPA discussed above, our management identified three significant deficiencies in our internal control over financial reporting that, when

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considered and taken together, constitute a material weakness in our internal control over financial reporting. A significant deficiency is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of our financial reporting. A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

These three significant deficiencies were the result of: (i) a number of entity-level control deficiencies, including our lack of a comprehensive FCPA policy and training program; our lack of a formal, effective disclosure committee to facilitate our compliance with Section 302 of the Sarbanes-Oxley Act of 2002; inadequate policies regarding enterprise-wide risk assessment and management related to doing business in high-risk, emerging markets; our failure to perform background checks on certain parties prior to entering into material contracts with such parties; our lack of compliance with our existing Code of Business Ethics and Conduct in certain countries; and ineffective disclosure of significant exceptions to compliance with company policies through our quarterly management sub-certification process; (ii) a number of control deficiencies related to our expenditure processes at certain of our international subsidiaries and (iii) a number of control deficiencies related to our revenue and accounts receivable processes at certain of our international subsidiaries.

During the quarter ended September 30, 2011, we continued to remediate the significant deficiencies identified above and the resulting material weakness. In addition to our FCPA-related remediation efforts described above under "Disclosure Controls and Procedures," these efforts included activities by our recently formed disclosure committee to facilitate our compliance with Section 302 of the Sarbanes-Oxley Act of 2002 and our continued implementation of procedures for performing background checks on certain parties prior to entering into material contracts with such parties. We are also in the process of evaluating the initiation of additional actions to remediate these significant deficiencies and the resulting material weakness, including developing and implementing additional policies, further strengthening our disclosure processes and increasing the resources that we devote to our internal compliance and audit functions.

While our remediation efforts are in process, they have not been completed. Accordingly, our management has concluded that our internal control over financial reporting is not effective as of September 30, 2011 and that we continue to have a material weakness in our internal control over financial reporting. Our conclusion is not based on quantified misstatements in our historical financial statements or our financial statements as of and for our quarter ended September 30, 2011, but instead on the risk that we may be unable to prevent or detect on a timely basis potential material errors in our future financial statements. We do not presently anticipate that the material weakness in our internal control over financial reporting as of September 30, 2011 will have any material effect on our previously reported financial results or our financial results for the quarter and nine months ended September 30, 2011.

We cannot assure you that we will be able to remediate these significant deficiencies and the resulting material weakness or that additional significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement new or improved internal controls, or any difficulties that we may encounter in their maintenance or implementation, could result in additional significant deficiencies or material weaknesses, result in material misstatements in our financial statements and cause us to fail to meet our reporting obligations, which in turn could cause the trading price of our common stock to decline.

Other than the changes discussed above, we identified no changes in our internal control over financial reporting that occurred during our quarter ended September 30, 2011 that have materially affected, or that are reasonably likely materially to affect, our internal control over financial reporting.





## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

See Note 12, “Legal Proceedings” in the Notes to Condensed Consolidated Financial Statements of Part 1, Item 1 of this Form 10-Q.

### Item 1A. Risk Factors

The ongoing investigation by our Audit Committee and by government agencies of possible violations by us of the United States Foreign Corrupt Practices Act and similar laws could have a material adverse effect on our business.

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), which each commenced an investigation. 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 and the DOJ and SEC investigations are continuing and we are presently unable to predict the duration, scope or results of the Audit Committee’s investigation, of the 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, including our results of operations, cash balance and credit ratings. We have not to date determined whether any of the activities in question violated the laws of the foreign jurisdictions in which they took place.

We have not completed our actions to remediate previously identified significant deficiencies in our internal control over financial reporting that, when considered and taken together, constitute a material weakness in our internal control over financial reporting as of September 30, 2011. Our failure to establish and maintain effective internal control over financial reporting could result in our failure to meet our reporting obligations and cause investors to lose confidence in our reported financial information, which in turn could cause the trading price of our common stock to decline.

In connection with our Audit Committee’s investigation of our compliance with the FCPA discussed above, our management identified three significant deficiencies in our internal control over financial reporting that, when considered and taken together, constitute a material weakness in our internal control over financial reporting as of September 30, 2011. A significant deficiency is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of our financial reporting. A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely

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The three significant deficiencies that we identified are the result of: (i) a number of entity-level control deficiencies, including our lack of a comprehensive FCPA policy and training program; our lack of a formal, effective disclosure committee to facilitate our compliance with Section 302 of the Sarbanes-Oxley Act of 2002; inadequate policies regarding enterprise-wide risk assessment and management related to doing business in high-risk, emerging markets; our failure to perform background checks on certain parties prior to entering into material contracts with such parties; our lack of compliance with our existing Code of Business Ethics and Conduct in certain countries; and ineffective disclosure of significant exceptions to compliance with company policies through our quarterly management sub-certification process; (ii) a number of control deficiencies related to our expenditure processes at certain of our international subsidiaries and (iii) a number of control deficiencies related to our revenue and accounts receivable process at certain of our international subsidiaries. For more information about these three significant deficiencies and the resulting material weakness in our internal control over financial reporting and the remediation efforts that we have initiated and intend to initiate to attempt to remediate these three significant deficiencies and the resulting material weakness, please see Item 4 (“Controls and Procedures”) in this report.

We cannot assure you that we will be able to remediate these significant deficiencies and the resulting material weakness or that additional significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement new or improved internal controls, or any difficulties that we may encounter in their maintenance or implementation, could result in additional significant deficiencies or material weaknesses, result in material misstatements in our financial statements and cause us to fail to meet our reporting obligations, which in turn could cause the trading price of our common stock to decline. Any such failure could also adversely affect the results of our periodic management evaluations and annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act of 2002.

On April 13, 2011, a shareholder derivative lawsuit was filed against each of our directors in the Superior Court for Contra Costa County, California. The case, which also names us as a nominal defendant, is captioned City of Riviera Beach General Employees’ Retirement System v. David Schwartz, et al., Case No. MSC11-00854. In the complaint, the plaintiff alleges that our directors breached their fiduciary duties by failing to ensure that we had sufficient internal controls and systems for compliance with the FCPA. Purportedly seeking relief on our behalf, the plaintiff seeks an award of unspecified compensatory and punitive damages, costs and expenses (including attorneys’ fees), and a declaration that our directors have breached their fiduciary duties. We and the individual defendants have filed a demurrer requesting dismissal of the complaint in this case, as well as a motion to dismiss the complaint and a motion to stay this matter pending resolution of the above-referenced investigations by the DOJ and SEC. Following a hearing on September 30, 2011, the court granted our motion to dismiss the complaint, without prejudice, and the plaintiff has until February 29, 2012 to file an amended complaint. The court denied our motion to stay this matter because it dismissed the complaint.

Adverse changes in general domestic and worldwide economic conditions and instability and disruption of credit markets could adversely affect our operating results, financial condition or liquidity.

Recent global market and economic conditions have been unprecedented and challenging with tighter credit conditions, slower growth and recession in most major economies. Although signs of recovery may exist, there are continued concerns about the systemic impact of inflation, the availability and cost of credit, a declining real estate market and geopolitical issues that contribute to increased market volatility and uncertain expectations for the global economy. These conditions, combined with declining business activity levels and consumer confidence, increased unemployment and volatile oil prices, contributed to unprecedented levels of volatility in the capital markets in recent years. Any additional, continued or recurring disruptions in the capital and credit markets may adversely affect our

business, results of operations, cash flows and financial condition.

As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally

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and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide credit to businesses and consumers. These factors have led to a decrease in spending by businesses and consumers alike. Our customers and vendors may experience cash flow concerns and, as a result, customers may modify, delay or cancel plans to purchase our products and vendors may increase their prices, reduce their output or change terms of sales. Additionally, if customers' or vendors' operating and financial performance deteriorates, or if they are unable to make scheduled payments or obtain credit, customers may not be able to pay, or may delay payment of, amounts owed to us.

Vendors may restrict credit or impose less favorable payment terms. Any inability of current and/or potential customers to pay us for our products or any demands by vendors for accelerated payment terms may adversely affect our earnings and cash flow. Additionally, strengthening of the U.S. dollar associated with the global financial crisis may adversely affect the results of our international operations when those results are translated into U.S. dollars.

Furthermore, the disruption in the credit markets could impede our access to capital, especially if we are unable to maintain our current credit ratings. Should we have limited access to additional financing sources when needed, we may decide to defer capital expenditures or seek other higher cost sources of liquidity, which may or may not be available to us on acceptable terms. Continued turbulence in the U.S. and international markets and economies, and prolonged declines in business and consumer spending may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers, including our ability to refinance maturing liabilities and access the capital markets to meet liquidity needs.

We cannot assure you that we will be able to integrate acquired companies, products or technologies into our company successfully, or we may not be able to realize the anticipated benefits from the acquisitions.

As part of our overall business strategy, we pursue acquisitions of and investments in complementary companies, products and technologies. In order to be successful in these activities, we must, among other things:

- assimilate the operations and personnel of acquired companies;
- retain acquired business customers;
- minimize potential disruption to our ongoing business;
- retain key technical and management personnel;
- integrate acquired companies into our strategic and financial plans;
- accurately assess the value of target companies, products and technologies;
- comply with new regulatory requirements;
- harmonize standards, controls, procedures and policies;
- minimize the impact to our relationships with our employees and customers; and
- assess, document and remediate any deficiencies in disclosure controls and procedures and internal controls over financial reporting

The benefits of any acquisition may prove to be less than anticipated and may not outweigh the costs reported in our financial statements. Completing any potential future acquisition could cause significant diversion of our management's time and resources. If we acquire new companies, products or technologies, we may be required to assume contingent liabilities or record impairment charges for goodwill and other intangible assets over time. We cannot assure you that we will successfully overcome these risks or any other problems we encounter in connection with any acquisitions, and any such acquisitions could adversely affect our business, financial position or operating results.

The industries and market segments in which we operate are highly competitive, and we may not be able to compete effectively with larger companies with greater financial resources than we have.

The life science and clinical diagnostics markets are each highly competitive. Some of our competitors have greater financial resources than we do and are less leveraged than we are, making them better equipped to license

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technologies and intellectual property from third parties or to fund research and development, manufacturing and marketing efforts. Moreover, competitive and regulatory conditions in many markets in which we operate restrict our ability to fully recover, through price increases, higher costs of acquired goods and services resulting from inflation and other drivers of cost increases. Our competitors can be expected to continue to improve the design and performance of their products and to introduce new products with competitive price and performance characteristics. Maintaining these advantages will require us to continue to invest in research and development, sales and marketing and customer service and support. We cannot assure you that we will have sufficient resources to continue to make such investments or that we will be successful in maintaining such advantages.

We have significant international operations which subject us to various risks such as general economic and market conditions in the countries in which we operate.

A significant portion of our sales are made outside of the United States. Our foreign subsidiaries generated 69% of our net sales for the nine months ended September 30, 2011. Our international operations are subject to risks common to foreign operations, such as general economic and market conditions in the countries in which we operate, changes in governmental regulations, political instability, import restrictions, additional scrutiny over certain financial instruments and currency exchange rate risks. We cannot assure you that shifts in currency exchange rates, especially significant strengthening of the U.S. dollar compared to the Euro, will not have a material adverse effect on our operating results and financial condition.

We are dependent on government funding and the capital spending programs of our customers, and the effect of healthcare reform on government funding and our customers' ability to purchase our products is uncertain.

Our customers include universities, clinical diagnostics laboratories, government agencies, hospitals and pharmaceutical, biotechnology and chemical companies. The capital spending programs of these institutions and companies have a significant effect on the demand for our products. Such policies are based on a wide variety of factors, including the resources available to make such purchases, the availability of funding from grants by governments or government agencies, the spending priorities among various types of equipment and the policies regarding capital expenditures during industry downturns or recessionary periods. If government funding to our customers were to decrease, or if our customers were to decrease or reallocate their budgets in a manner adverse to us, our business, financial condition or results of operations could be materially adversely affected.

Healthcare reform and the growth of managed care organizations have been and continue to be significant factors in the clinical diagnostics market. The trend towards managed care, together with healthcare reform of the delivery system in the United States and efforts to reform in Europe, has resulted in increased pressure on healthcare providers and other participants in the healthcare industry to reduce costs. Consolidation among healthcare providers has resulted in fewer, more powerful groups, whose purchasing power gives them cost containment leverage. These competitive forces place constraints on the levels of overall pricing, and thus could have a material adverse effect on our profit margins for products we sell in clinical diagnostics markets. To the extent that the healthcare industry seeks to address the need to contain costs by limiting the number of clinical tests being performed, our results of operations could be materially and adversely affected. If these changes in the healthcare markets in the United States and Europe continue, we could be forced to alter our approach in selling, marketing, distributing and servicing our products.

Our failure to improve our product offerings and develop and introduce new products may negatively impact our business.

Our future success depends on our ability to continue to improve our product offerings and develop and introduce new product lines and extensions that integrate new technological advances. If we are unable to integrate technological advances into our product offerings or to design, develop, manufacture and market new product lines and extensions

successfully and in a timely manner, our operating results will be adversely affected. We cannot assure you that our product and process development efforts will be successful or that new products we introduce will achieve market acceptance.

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If we experience a disruption of our information technology systems, or if we fail to successfully implement, manage and integrate our information technology and reporting systems, it could harm our business.

Our information technology (IT) systems are an integral part of our business, and a serious disruption of our IT systems could have a material adverse effect on our business and results of operations. We depend on our IT systems to process orders, manage inventory and collect accounts receivable. Our IT systems also allow us to efficiently purchase products from our suppliers and ship products to our customers on a timely basis, maintain cost-effective operations and provide customer service. We cannot assure you that our contingency plans will allow us to operate at our current level of efficiency.

Our ability to implement our business plan in a rapidly evolving market requires effective planning, reporting and analytical processes. We expect that we will need to continue to improve and further integrate our IT systems, reporting systems and operating procedures by training and educating our employees with respect to these improvements and integrations on an ongoing basis in order to effectively run our business. If we fail to successfully manage and integrate our IT systems, reporting systems and operating procedures, it could adversely affect our business or operating results.

Risks relating to intellectual property rights may negatively impact our business.

We rely on a combination of copyright, trade secret, patent and trademark laws and third-party nondisclosure agreements to protect our intellectual property rights and products. However, we cannot assure you that our intellectual property rights will not be challenged, invalidated, circumvented or rendered unenforceable, or that meaningful protection or adequate remedies will be available to us. For instance, it may be possible for unauthorized third parties to copy our intellectual property, to reverse engineer or obtain and use information that we regard as proprietary, or to develop equivalent technologies independently. Additionally, third parties may assert patent, copyright and other intellectual property rights to technologies that are important to us. If we are unable to license or otherwise access protected technology used in our products, or if we lose our rights under any existing licenses, we could be prohibited from manufacturing and marketing such products. We may find it necessary to enforce our patents or other intellectual property rights or to defend ourselves against claimed infringement of the rights of others through litigation, which could result in substantial costs to us and divert our resources. We also could incur substantial costs to redesign our products, to defend any legal action taken against us or to pay damages to an infringed party. The foregoing matters could adversely impact our business.

We are subject to substantial government regulation.

Some of our products (primarily diagnostic products), production processes and marketing are subject to federal, state, local and foreign regulation, including the FDA and its foreign counterparts. We are also subject to government regulation of the use and handling of a number of materials and controlled substances. Failure to comply with present or future regulations could result in substantial liability to us, suspension or cessation of our operations, restrictions on our ability to expand at our present locations or require us to make significant capital expenditures or incur other significant expenses.

We are currently subject to environmental regulations and enforcement proceedings.

Our operations are subject to federal, state, local and foreign environmental laws and regulations that govern such activities as transportation of goods, emissions to air and discharges to water, as well as handling and disposal practices for solid, hazardous and medical wastes. In addition to environmental laws that regulate our operations, we are also subject to environmental laws and regulations that create liability and clean-up responsibility for spills,

disposals or other releases of hazardous substances into the environment as a result of our operations or otherwise impacting real property that we own or operate. The environmental laws and regulations also subject us to claims by third parties for damages resulting from any spills, disposals or releases resulting from our operations or at any of our properties.

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We may in the future incur capital and operating costs to comply with currently existing laws and regulations, and possible new statutory enactments, and these expenditures may be significant. We have incurred, and may in the future incur, fines related to environmental matters and liability for costs or damages related to spills or other releases of hazardous substances into the environment at sites where we have operated, or at off-site locations where we have sent hazardous substances for disposal. We can provide no assurance, however, that such matters or any future obligations to comply with environmental laws and regulations will not have a material impact on our operations or financial condition.

Loss of key personnel could hurt our business.

Our products and services are highly technical in nature. In general, only highly qualified and trained scientists have the necessary skills to develop and market our products and provide our services. In addition, some of our manufacturing positions are highly technical. We face intense competition for these professionals from our competitors, customers, marketing partners and other companies throughout our industry. We generally do not enter into employment agreements requiring these employees to continue in our employment for any period of time. Any failure on our part to hire, train and retain a sufficient number of qualified personnel could substantially damage our business. Additionally, if we were to lose a sufficient number of our research and development scientists and were unable to replace them or satisfy our needs for research and development through outsourcing, it could adversely affect our business.

A significant majority of our voting stock is held by the Schwartz family, which could lead to conflicts of interest.

We have two classes of voting stock, Class A Common Stock and Class B Common Stock. With a few exceptions, holders of Class A and Class B Common Stock vote as a single class. When voting as a single class, each share of Class A Common Stock is entitled to one-tenth of a vote, while each share of Class B Common Stock has one vote. In the election or removal of directors, the classes vote separately and the holders of Class A Common Stock are entitled to elect 25% of the Board of Directors, with holders of Class B Common Stock electing the remaining directors.

As of February 15, 2011, the Schwartz family collectively held approximately 16% of our Class A Common Stock and 90% of our Class B Common Stock. As a result, the Schwartz family is able to elect a majority of the directors, effect fundamental changes in our direction and control matters affecting us, including the allocation of business opportunities that may be suitable for our company. In addition, this concentration of ownership and voting power may have the effect of delaying or preventing a change in control of our company.

The Schwartz family may exercise its control over us according to interests that are different from other investors' or debtors' interests.

Our business could be adversely impacted if we have further deficiencies in our disclosure controls and procedures or internal control over financial reporting.

The design and effectiveness of our disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements or misrepresentations. We cannot assure you that our disclosure controls and procedures over internal control of financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, particularly a material weakness in internal control over financial reporting, which may occur in the future could result in misstatements of our results of operations, restatements of our financial statements, a decline in our stock price, or otherwise materially adversely affect our business, reputation, results of operation, financial condition or liquidity.

Natural disasters, terrorist attacks or acts of war may cause damage or disruption to us and our employees, facilities, information systems, security systems, vendors and customers, which could significantly impact our net sales, costs and expenses, and financial condition.

We have significant manufacturing and distribution facilities, particularly in the western United States, France and Switzerland. In particular, the western United States has experienced a number of earthquakes, wildfires, floods, landslides and other natural disasters in recent years. The occurrences could damage or destroy our facilities which may result in interruptions to our business and losses that exceed our insurance coverage. Terrorist attacks, such as those that occurred on September 11, 2001, have contributed to economic instability in the United States, and further acts of terrorism, bioterrorism, violence or war could affect the markets in which we operate, our business operations, our expectations and other forward-looking statements contained or incorporated in this document. Any of these events could cause a decrease in our revenue, earnings and cash flows.

We may incur losses in future periods due to write-downs in the value of financial instruments.

We have positions in a variety of financial instruments including asset backed securities and other similar instruments. Financial markets are quite volatile and the markets for these securities can be illiquid. The value of these securities will continue to be impacted by external market factors including default rates, changes in the value of the underlying property, such as residential or commercial real estate, rating agency actions, the prices at which observable market transactions occur and the financial strength of various entities, such as financial guarantors who provide insurance for the securities. Should we need to convert these positions to cash, we may not be able to sell these instruments without significant losses due to current debtor financial conditions or other market considerations.

We have substantial debt and have the ability to incur additional debt. The principal and interest payment obligations of such debt may restrict our future operations and impair our ability to meet our obligations under our notes.

As of September 30, 2011 we and our subsidiaries have approximately \$732.4 million of outstanding indebtedness. In addition, we are permitted to incur additional debt provided we comply with the limitation on the incurrence of additional indebtedness and disqualified capital stock covenants contained in the indenture governing our Senior Subordinated Notes due 2016 (8.0% Notes).

The following chart shows certain important credit statistics.

	At September 30, 2011 (\$'s in millions)
Total debt	\$732.4
Bio-Rad's stockholders' equity	\$1,693.1
Debt to equity ratio	0.4

Our incurrence of substantial amounts of debt may have important consequences. For instance, it could:

- make it more difficult for us to satisfy our financial obligations, including those relating to our outstanding notes;
- require us to dedicate a substantial portion of our cash flow from operations to the payment of interest and principal due under our debt, including our outstanding notes, which will reduce funds available for other business purposes;
- increase our vulnerability to general adverse economic and industry conditions;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- place us at a competitive disadvantage compared with some of our competitors that have less debt; and
- limit our ability to obtain additional financing required to fund working capital and capital expenditures and for other general corporate purposes.



Our ability to satisfy our obligations and to reduce our total debt depends on our future operating performance and on economic, financial, competitive and other factors, many of which are beyond our control. Our business may not generate sufficient cash flow, and future financings may not be available to provide sufficient net proceeds, to meet these obligations or to successfully execute our business strategy.

Our existing credit facility, the indenture governing our 8.0% Notes and the terms of our other debt instruments, including agreements we may enter in the future, contain or will contain covenants imposing significant restrictions on our business. These restrictions may affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise. These covenants place restrictions on our ability to, among other things:

- incur additional debt;
- acquire other businesses or assets through merger or purchase;
- create liens;
- make investments;
- enter into transactions with affiliates;
- sell assets;
- in the case of some of our subsidiaries, guarantee debt; and
- declare or pay dividends, redeem stock or make other distributions to stockholders.

Our existing credit facility also requires that we meet certain financial tests and maintain certain financial ratios, including a maximum consolidated leverage ratio test, minimum consolidated interest coverage ratio test and a minimum net worth test.

Our ability to comply with these covenants may be affected by events beyond our control, including prevailing economic, financial and industry conditions. The breach of any of these restrictions could result in a default. An event of default under our debt agreements would permit some of our lenders to declare all amounts borrowed from them to be due and payable, together with accrued and unpaid interest. If we were unable to repay debt to our senior secured lenders, these lenders could proceed against the collateral securing that debt. The collateral is substantially all of our personal property assets, the assets of our domestic subsidiaries and 65% of the capital stock of certain of our foreign subsidiaries. In addition, acceleration of our other indebtedness may cause us to be unable to make interest payments on our outstanding notes and repay the principal amount of our outstanding notes or may cause the future subsidiary guarantors, if any, to be unable to make payments under the guarantees.

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

None.

## Item 3. Defaults Upon Senior Securities

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 Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Chief Financial Officer Certification pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101 The following materials from this report, formatted in XBRL (Extensible Business Reporting Language):  
(i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Balance Sheets,  
(iii) the Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Condensed Consolidated  
Financial Statements.

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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 3, 2011 /s/ Norman Schwartz  
Norman Schwartz, President,  
Chief Executive Officer

Date: November 3, 2011 /s/ Christine A. Tsingos  
Christine A. Tsingos, Vice President,  
Chief Financial Officer