

BIO RAD LABORATORIES INC  
Form 10-Q  
May 10, 2012

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 March 31, 2012  
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 April 24, 2012
Class A Common Stock, Par Value \$0.0001 per share	23,118,842
Class B Common Stock, Par Value \$0.0001 per share	5,125,234

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BIO-RAD LABORATORIES, INC.

FORM 10-Q MARCH 31, 2012

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## BIO-RAD LABORATORIES, INC.

## Condensed Consolidated Balance Sheets

(In thousands, except share data)

	March 31, 2012	December 31, 2011
(Unaudited)		
<b>ASSETS:</b>		
Cash and cash equivalents	\$533,812	\$574,231
Short-term investments	273,238	238,884
Accounts receivable, net	387,619	398,674
<b>Inventories:</b>		
Raw materials	102,444	99,326
Work in process	125,813	120,191
Finished goods	235,112	213,993
Total inventories	463,369	433,510
Prepaid expenses, taxes and other current assets	159,410	152,856
Total current assets	1,817,448	1,798,155
Property, plant and equipment, at cost	925,489	881,912
Less: accumulated depreciation and amortization	(556,290)	(532,411)
Property, plant and equipment, net	369,199	349,501
Goodwill, net	480,060	468,933
Purchased intangibles, net	258,312	259,497
Other assets	262,855	220,717
Total assets	\$3,187,874	\$3,096,803
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
Accounts payable	\$109,571	\$129,124
Accrued payroll and employee benefits	119,749	112,564
Notes payable and current maturities of long-term debt	809	814
Income and other taxes payable	50,032	52,285
Accrued royalties	22,933	25,219
Other current liabilities	140,986	139,109
Total current liabilities	444,080	459,115
Long-term debt, net of current maturities	731,899	731,698
Other long-term liabilities	171,849	161,608
Total liabilities	1,347,828	1,352,421
<b>Stockholders' equity:</b>		
<b>Bio-Rad stockholders' equity:</b>		
Class A common stock, issued and outstanding - 23,112,346 at 2012 and 23,020,215 at 2011	2	2
Class B common stock, issued and outstanding - 5,130,409 at 2012 and 5,164,765 at 2011	1	1
Additional paid-in capital	192,341	185,334
Retained earnings	1,390,915	1,359,910
Accumulated other comprehensive income	256,390	198,690
Total Bio-Rad stockholders' equity	1,839,649	1,743,937
Noncontrolling interests	397	445

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Total stockholders' equity	1,840,046	1,744,382
Total liabilities and stockholders' equity	\$3,187,874	\$3,096,803

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

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

	Three Months Ended March 31,	
	2012	2011
Net sales	\$486,277	\$485,121
Cost of goods sold	207,695	207,510
Gross profit	278,582	277,611
Selling, general and administrative expense	171,293	167,763
Research and development expense	52,923	42,730
Income from operations	54,366	67,118
Interest expense	13,196	16,766
Foreign exchange losses, net	1,441	3,042
Other (income) expense, net	(6,450)	(951)
Income before income taxes	46,179	48,261
Provision for income taxes	(15,235)	(15,323)
Net income including noncontrolling interests	30,944	32,938
Net loss attributable to noncontrolling interests	61	101
Net income attributable to Bio-Rad	\$31,005	\$33,039
Basic earnings per share:		
Net income per share basic attributable to Bio-Rad	\$1.10	\$1.18
Weighted average common shares - basic	28,201	27,904
Diluted earnings per share:		
Net income per share diluted attributable to Bio-Rad	\$1.09	\$1.16
Weighted average common shares - diluted	28,553	28,389

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

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

	Three Months Ended March 31,	
	2012	2011
Net income including noncontrolling interests	\$ 30,944	\$ 32,938
Other comprehensive income:		
Foreign currency translation adjustments	34,369	20,788
Other post-employment benefits adjustments, net of tax expense of \$0.	6	—
Net unrealized holding gains on available-for-sale investments, net of tax expense of \$11.2 million and \$6.2 million for the three months ended March 31, 2012 and 2011, respectively.	19,254	10,624
Reclassification adjustments for gains included in Net income including noncontrolling interests, net of tax expense of \$2.4 million and \$0.1 million for the three months ended March 31, 2012 and 2011, respectively.	4,084	141
Other comprehensive income, net of tax	57,713	31,553
Comprehensive income	88,657	64,491
Comprehensive loss attributable to noncontrolling interests	48	188
Comprehensive income attributable to Bio-Rad	\$ 88,705	\$ 64,679

Reclassification adjustments are calculated using the specific identification method.  
 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)

	Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities:		
Cash received from customers	\$501,075	\$496,749
Cash paid to suppliers and employees	(428,733	) (436,430
Interest paid	(12,340	) (22,189
Income tax payments	(25,010	) (18,373
Investment proceeds and miscellaneous receipts, net	609	1,264
Excess tax benefits from share-based compensation	(341	) (1,239
Net cash provided by operating activities	35,260	19,782
Cash flows from investing activities:		
Capital expenditures	(34,654	) (17,809
Proceeds from sale of property, plant and equipment	—	23
Payments for acquisitions, net of cash received, and long-term investments	(15,329	) (3,571
Payments on purchases of intangible assets	(245	) (103
Purchases of marketable securities and investments	(185,468	) (89,746
Sales of marketable securities and investments	27,721	2,707
Maturities of marketable securities and investments	123,100	38,825
Payments for foreign currency economic hedges, net	(1,410	) (7,619
Net cash used in investing activities	(86,285	) (77,293
Cash flows from financing activities:		
Net borrowings on line-of-credit arrangements and notes payable	139	2,385
Payments on long-term borrowings	(225	) (225,763
Proceeds from issuance of common stock	3,464	7,638
Debt issuance costs on long-term borrowings	—	(242
Excess tax benefits from share-based compensation	341	1,239
Net cash provided by (used in) financing activities	3,719	(214,743
Effect of foreign exchange rate changes on cash	6,887	(6,389
Net decrease in cash and cash equivalents	(40,419	) (278,643
Cash and cash equivalents at beginning of period	574,231	906,551
Cash and cash equivalents at end of period	\$533,812	\$627,908
Reconciliation of net income including noncontrolling interests to net cash provided by operating activities:		
Net income including noncontrolling interests	\$30,944	\$32,938
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities excluding the effects of acquisitions:		
Depreciation and amortization	31,096	28,115
Share-based compensation	3,136	2,783
Foreign currency economic hedges, net	1,410	7,619
(Gains) losses on dispositions of securities	(6,247	) 51
Excess tax benefits from share-based compensation	(341	) (1,239
Decrease in accounts receivable	17,582	10,901
Increase in inventories	(15,502	) (20,685
Increase in other current assets	(4,617	) (8,466



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Decrease in accounts payable and other current liabilities	(7,780	) (31,861	)
Decrease in income taxes payable	(10,436	) (4,514	)
Other	(3,985	) 4,140	)
Net cash provided by operating activities	\$35,260	\$19,782	)

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, 2011 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, 2011.

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.

##### Correction of Immaterial Errors Related to Prior Periods

During the first quarter of 2012, we identified an error in the consolidated financial statements for the years 2007 through 2011, related to a foreign supplemental tax associated with social benefits. We incorrectly interpreted and applied the local statutes to our circumstances. We estimate that we will be required to pay an amount of \$6.1 million, which includes taxes, penalties and interest. The foreign supplemental tax, and the related penalties and interest, are not deductible for income tax purposes, and as such this error does not have an impact on Bio-Rad's tax provision.

Additionally, we identified two other errors pertaining to prior periods, both related to income taxes, as follows:

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an overstatement of income tax expense in the first quarter of 2011 in the amount of \$1.6 million, due to a delay in recognizing a reduction in a foreign tax rate; and  
• an understatement of income tax expense over the years 2008 to 2011 in the amount of \$0.9 million, due to claiming a tax deduction in excess of a statutory limit.

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The effect of the errors on the 2007, 2008, 2009, 2010 and 2011 consolidated financial statements would have been charges of \$1.1 million, \$1.5 million, \$1.3 million and \$1.6 million, and a \$0.1 million benefit, respectively.

Management evaluated the materiality of the errors from a qualitative and quantitative perspective. Based on such evaluation, we have concluded that while the accumulation of these errors was significant to the three-month period ended March 31, 2012, their correction would not be material to any individual prior period or for the year ending December 31, 2012, nor did it have an effect on the trend of financial results, taking into account the requirements of the Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). Accordingly, we have corrected these errors in the results of operations for the three-month period ended March 31, 2012 as follows: (i) \$4.1 million charge to Cost of goods sold; (ii) \$1.2 million charge to Interest expense; (iii) \$0.8 million charge to Other (income) expense, net; and (iv) an income tax benefit of \$0.7 million.

#### 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). We adopted this guidance as of January 1, 2012 and it did not have a material impact on our results of operations or financial position.

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 December 2011, the FASB deferred the new requirement to present components of reclassifications of other comprehensive income on the face of the income statement. We adopted this guidance using the two separate but consecutive statements as of January 1, 2012.

## 2.ACQUISITIONS

In January 2012, we purchased, for cash, certain assets from a current raw material supplier for approximately \$12.5 million. The asset acquisition was accounted for as a business combination and is included in the Clinical Diagnostics segment's results of operations. The fair value of the assets acquired were determined to be \$6.3 million of net tangible assets, \$5.1 million of intangible assets and \$1.1 million of goodwill. We expect the goodwill recorded to be deductible for tax purposes. In addition, we paid \$2.0 million for employment agreements as an incentive to certain employees of the acquired business to remain with Bio-Rad. Such amount will be expensed over the next two years and is recorded in Prepaid expenses, taxes and other current assets and Other assets in the accompanying Condensed Consolidated Balance Sheet. We believe this acquisition will allow us to secure the supply of critical raw materials and lower our overall costs in the Clinical Diagnostics segment. We do not consider the acquisition to be a material business combination and, therefore, have not disclosed the pro forma results of operations as required for material business combinations.

In October 2011, we acquired all of the issued and outstanding stock of QuantaLife, Inc. (QuantaLife). The fair value of the consideration as of the acquisition date was \$179.4 million, which comprised of \$150.3 million paid in cash at the closing date, a \$5.0 million holdback of cash until the completion of certain post-closing matters, and \$24.1 million in contingent consideration potentially payable to QuantaLife shareholders. The contingent consideration was recognized at its estimated fair value of \$24.1 million, based on a probability-weighted income approach, and could reach \$48 million upon the achievement of certain sales and development milestones. The contingent consideration for the development milestone was valued based on assumptions regarding the probability of achieving the milestone,

with such amounts discounted to present value. The contingent consideration for the sales milestones were valued based on a statistical significant number of simulations for each potential outcome. The operating results of this business are included in the results of operations of our Life Science segment from the acquisition date. The acquisition was accounted for as a business combination. We do not consider the QuantaLife

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acquisition to be a material business combination and, therefore, have not disclosed the pro forma results of operations as required for material business combinations.

The fair values of the net assets acquired as of the acquisition date were determined to be \$106.1 million of goodwill, \$94.7 million of intangible assets and \$21.4 million of net tangible liabilities. We do not expect the goodwill recorded to be deductible for tax purposes. Integrating the acquired QuantaLife business into Bio-Rad is expected to expand our current portfolio of products for the amplification and study of DNA and we believe it will complement Bio-Rad's existing business.

The determination of the fair value of net assets acquired of QuantaLife was based upon valuation information, estimates and assumptions available at October 4, 2011. We are still finalizing our analysis of a limited number of acquired tax attributes which could affect the fair values of certain deferred tax assets and goodwill. As a result, as of March 31, 2012, our accounting for the acquisition remains preliminary.

### 3. FAIR VALUE MEASUREMENTS

We determine the fair value of an asset or liability based on the assumptions that market participants would use in pricing the asset or liability in an orderly transaction between market participants at the measurement date. 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 March 31, 2012 are classified in the hierarchy as follows (in millions):

	Level 1	Level 2	Level 3	Total
Financial Assets Carried at Fair Value:				
Cash equivalents (a):				
Commercial paper	\$—	\$146.3	\$—	\$146.3
Municipals	—	5.0	—	5.0
Foreign government obligations	—	8.7	—	8.7
Time deposits	26.0	5.0	—	31.0
Money market funds	7.0	—	—	7.0
Total cash equivalents	33.0	165.0	—	198.0
Available-for-sale investments (b):				
Corporate debt securities	—	170.1	—	170.1
Brokered certificates of deposit	—	1.8	—	1.8
U.S. government sponsored agencies	—	57.9	—	57.9
Foreign government obligations	—	10.1	—	10.1
Municipal obligations	—	3.1	—	3.1
Marketable equity securities	175.5	—	—	175.5
Asset-backed securities	—	18.8	—	18.8
Total available-for-sale investments	175.5	261.8	—	437.3
Forward foreign exchange contracts (c)	—	0.3	—	0.3
Total financial assets carried at fair value	\$208.5	\$427.1	\$—	\$635.6
Financial Liabilities Carried at Fair Value:				
Forward foreign exchange contracts (d)	\$—	\$0.6	\$—	\$0.6
Contingent consideration (e)	—	—	24.7	24.7
Total financial liabilities carried at fair value	\$—	\$0.6	\$24.7	\$25.3

Financial assets and liabilities carried at fair value and measured on a recurring basis as of December 31, 2011 are classified in the hierarchy as follows (in millions):

	Level 1	Level 2	Level 3	Total
<b>Financial Assets Carried at Fair Value:</b>				
<b>Cash equivalents (a):</b>				
Commercial paper	\$—	\$106.0	\$—	\$106.0
Bonds	—	8.6	—	8.6
Time deposits	21.6	—	—	21.6
Money market funds	58.3	—	—	58.3
Total cash equivalents	79.9	114.6	—	194.5
<b>Available-for-sale investments (b):</b>				
Corporate debt securities	—	170.6	—	170.6
Brokered certificates of deposit	—	1.8	—	1.8
U.S. government sponsored agencies	—	36.9	—	36.9
Foreign government obligations	—	5.7	—	5.7
Municipal obligations	—	5.0	—	5.0
Marketable equity securities	134.8	—	—	134.8
Asset-backed securities	—	11.2	—	11.2
Total available-for-sale investments	134.8	231.2	—	366.0
Forward foreign exchange contracts (c)	—	0.8	—	0.8
Total financial assets carried at fair value	\$214.7	\$346.6	\$—	\$561.3
<b>Financial Liabilities Carried at Fair Value:</b>				
Forward foreign exchange contracts (d)	\$—	\$1.2	\$—	\$1.2
Contingent consideration (e)	—	—	24.1	24.1
Total financial liabilities carried at fair value	\$—	\$1.2	\$24.1	\$25.3

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

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

	March 31, 2012	December 31, 2011
Short-term investments	\$273.2	\$238.8
Other assets	164.1	127.2
Total	\$437.3	\$366.0

(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.

(e) Contingent consideration liability is included in the following accounts in the Condensed Consolidated Balance Sheet (in millions):

	March 31, 2012	December 31, 2011
Other current liabilities	\$14.9	\$8.5
Other long-term liabilities	9.8	15.6



Total

\$24.7

\$24.1

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During the fourth quarter of 2011 we recognized a contingent consideration liability upon our acquisition of QuantaLife related to potential future payments due upon the achievement of certain sales and development milestones. The contingent consideration could reach \$48 million upon the achievement of certain sales and development milestones. The contingent consideration was determined based on a probability-weighted income approach. The significant unobservable inputs used in the fair value measurement of the contingent consideration of achieving the sales milestone were credit adjusted discount rates ranging from 0.82% to 1.38%, projected volatility of growth rates ranging from 7.5% to 15% and a market price of risk of 0.4%. The significant unobservable inputs used in the fair value measurement of the contingent consideration of achieving the development milestone were a 95% probability with a risk-adjusted discount rate of 0.9%. Significant increases or decreases in these inputs in isolation could result in a significantly lower or higher fair value measurement.

The following table provides a reconciliation of the Level 3 contingent consideration measured at fair value based on third party pricing without adjustment for the period ended March 31, 2012 (in millions):

	2012
January 1	\$24.1
Increase in fair value included in Selling, general and administrative expense	0.6
March 31	\$24.7

To estimate the fair value of Level 2 debt securities as of December 31, 2011 and March 31, 2012, our primary pricing service relied on inputs from multiple industry-recognized pricing sources to determine the price for each investment. In addition, they performed reasonableness testing of their prices on a daily basis by comparing them to the prices reported by our custodians as well as prior day prices. If the price difference fell outside of tolerable levels, they investigated the cause and resolved the pricing issue. Based on a review of the results of this analysis, we utilized our primary pricing service for all Level 2 debt securities as none of these securities tested outside of the tolerable levels.

As of March 31, 2012, our primary pricing service inputs for Level 2 cash equivalents (municipal obligations), U.S. government sponsored agencies, municipal obligations, corporate and foreign government 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 March 31, 2012, our primary pricing service inputs for Level 2 cash equivalents (commercial paper, including foreign government commercial paper, and time deposits), 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 sources of security data. The dynamic inputs such as credit rating, factor and variable-rate, were updated daily. The static characteristics included 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 were based on indicative bids from market participants.

As of December 31, 2011, our primary pricing service inputs for Level 2 cash equivalents (bonds), 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 December 31, 2011, our primary pricing service inputs for Level 2 cash equivalents (commercial paper), 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 sources of security data. The dynamic inputs such as credit rating, factor and variable-rate, were updated daily. The static characteristics included 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 were based on indicative bids from market participants.

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 notional principal amounts provide one measure of the transaction volume outstanding as of March 31, 2012 and December 31, 2011, and do not represent the amount of Bio-Rad's exposure to loss. The estimated 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):

	March 31, 2012
Contracts maturing in April through June 2012 to sell foreign currency:	
Notional value	\$49.8
Unrealized loss	\$—
Contracts maturing in April through June 2012 to purchase foreign currency:	
Notional value	\$345.1
Unrealized loss	\$0.3

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

	March 31, 2012			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Short-term investments:				
Corporate debt securities	\$169.7	\$0.5	\$(0.1)	) \$170.1
Brokered certificates of deposit	1.8	—	—	1.8
Municipal obligations	3.1	—	—	3.1
Asset-backed securities	18.4	0.1	—	18.5
U.S. government sponsored agencies	58.0	—	(0.1)	) 57.9
Foreign government obligations	9.7	—	—	9.7
Marketable equity securities	11.8	0.3	—	12.1
	272.5	0.9	(0.2)	) 273.2
Long-term investments:				
Marketable equity securities	57.5	106.4	(0.5)	) 163.4
Asset-backed securities	0.5	—	(0.2)	) 0.3
Foreign government obligations	0.4	—	—	0.4
	58.4	106.4	(0.7)	) 164.1
Total	\$330.9	\$107.3	\$(0.9)	) \$437.3

	December 31, 2011			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Short-term investments:				
Corporate debt securities	\$170.9	\$0.1	\$(0.4)	) \$170.6
Brokered certificates of deposit	1.8	—	—	1.8
Municipal obligations	5.0	—	—	5.0
Asset-backed securities	10.8	—	—	10.8
U.S. government sponsored agencies	36.8	0.1	—	36.9
Foreign government obligations	5.4	—	—	5.4
Marketable equity securities	7.7	0.6	—	8.3
	238.4	0.8	(0.4)	) 238.8
Long-term investments:				
Marketable equity securities	57.2	70.0	(0.7)	) 126.5
Asset-backed securities	0.5	—	(0.1)	) 0.4
Foreign government obligations	0.3	—	—	0.3
	58.0	70.0	(0.8)	) 127.2
Total	\$296.4	\$70.8	\$(1.2)	) \$366.0

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

	March 31, 2012	December 31, 2011
Fair value	\$94.4	\$77.8
Gross unrealized losses for investments in a loss position 12 months or more	\$0.3	\$0.4
Gross unrealized losses for investments in a loss position less than 12 months	\$0.6	\$0.8

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 March 31, 2012.

The following is a summary of the amortized cost and estimated fair value of our debt securities at March 31, 2012 by contractual maturity date (in millions):

	Amortized Cost	Estimated Fair Value
Mature in less than one year	\$138.5	\$138.5
Mature in one to five years	78.2	78.4
Mature in more than five years	44.9	44.9
Total	\$261.6	\$261.8

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, excluding leases and current maturities, has an estimated fair value based on quoted market prices for the same or similar issues.

The estimated fair value of our financial instruments and the level of the fair value hierarchy within which the fair value measurements is categorized are as follows (in millions):

	March 31, 2012			December 31, 2011		
	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy Level	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy Level
Other assets	\$226.8	\$343.1	1	\$186.6	\$252.4	1
Total long-term debt, excluding leases and current maturities	\$719.3	\$766.3	2	\$719.1	\$759.1	2

We own shares of ordinary voting stock of Sartorius AG (Sartorius), 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 March 31, 2012. 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 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.



## 4. 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, 2012:			
Goodwill	\$176.8	\$319.3	\$496.1
Accumulated impairment losses	(27.2)	) —	(27.2)
Goodwill, net	149.6	319.3	468.9
Acquisitions			
	—	1.1	1.1
Currency fluctuations			
	—	10.1	10.1
Balances as of March 31, 2012:			
Goodwill	176.8	330.5	507.3
Accumulated impairment losses	(27.2)	) —	(27.2)
Goodwill, net	\$149.6	\$330.5	\$480.1

In conjunction with the acquisition of certain assets from a current raw material supplier in January 2012 (see Note 2), we recorded \$1.1 million of goodwill and \$5.1 million of definite-lived intangible assets considered developed product technology.

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

	March 31, 2012			Net
	Average Remaining Life (years)	Purchase Price	Accumulated Amortization	Carrying Amount
Customer relationships/lists	1-12	\$101.7	\$(33.8)	) \$67.9
Know how	1-14	190.6	(52.5)	) 138.1
Developed product technology	1-10	53.7	(26.5)	) 27.2
Licenses	1-8	35.6	(16.5)	) 19.1
Tradenames	1-10	30.3	(24.4)	) 5.9
Covenants not to compete	1-7	5.9	(5.8)	) 0.1
Patents	—	1.0	(1.0)	) —
Other	—	0.1	(0.1)	) —
		\$418.9	\$(160.6)	) \$258.3



	December 31, 2011			
	Average Remaining Life (years)	Purchase Price	Accumulated Amortization	Net Carrying Amount
Customer relationships/lists	1-12	\$98.7	\$(30.9)	) \$67.8
Know how	1-14	187.0	(45.7)	) 141.3
Developed product technology	1-11	47.6	(24.6)	) 23.0
Licenses	1-9	35.6	(15.7)	) 19.9
Tradenames	1-10	29.5	(22.1)	) 7.4
Covenants not to compete	1-7	5.8	(5.7)	) 0.1
Patents	—	1.0	(1.0)	) —
Other	—	0.1	(0.1)	) —
		\$405.3	\$(145.8)	) \$259.5

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

	Three Months Ended March 31,	
	2012	2011
Amortization expense	\$10.8	\$8.8

#### 5.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, 2011	\$16.4	
Provision for warranty	3.9	
Actual warranty costs	(4.9	)
March 31, 2012	\$15.4	

## 6. LONG-TERM DEBT

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

	March 31, 2012	December 31, 2011
8.0% Senior Subordinated Notes due 2016	\$296.4	\$296.3
4.875% Senior Notes due 2020	422.9	422.8
Capital leases and other debt	13.0	13.2
	732.3	732.3
Less current maturities	(0.4	) (0.6
Long-term debt	\$731.9	\$731.7

## 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 March 31, 2012. 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 March 31, 2012.

## 7. NONCONTROLLING INTERESTS

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

January 1, 2012	\$0.4
Net loss attributable to noncontrolling interests	(0.1
Currency fluctuations	0.1
March 31, 2012	\$0.4

## 8. 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 March 31,	
	2012	2011
Basic weighted average shares outstanding	28,201	27,904
Effect of potentially dilutive stock options and restricted stock awards	352	485
Diluted weighted average common shares	28,553	28,389
Anti-dilutive shares	112	54

#### 9. OTHER INCOME AND EXPENSE

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

	Three Months Ended March 31,	
	2012	2011
Interest and investment income	\$(1.0)	\$(0.7)
Realized gains on investments	(6.5)	(0.2)
Miscellaneous other (income) expense items	1.0	(0.1)
Other (income) expense, net	\$(6.5)	\$(1.0)

#### 10. INCOME TAXES

Our effective tax rate was 33% and 32% for the three months ended March 31, 2012 and 2011, 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 and research and development tax credits. The effective tax rate for the first quarter of 2011 also reflected a tax benefit from nontaxable dividend income. The first quarter of 2012 effective tax rate does not include tax benefits from U.S. federal research credits and nontaxable dividend income that both expired in 2011.

As of March 31, 2012, 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. 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.

## 11.SEGMENT INFORMATION

Information regarding industry segments for the three months ended March 31, 2012 and 2011 is as follows (in millions):

		Life Science	Clinical Diagnostics	Other Operations
Segment net sales	2012	\$154.8	\$327.2	\$4.3
	2011	\$154.5	\$327.2	\$3.4
Segment profit (loss)	2012	\$(3.9	) \$45.7	\$0.9
	2011	\$3.1	\$48.0	\$0.2

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 March 31,	
	2012	2011
Total segment profit	\$42.7	\$51.3
Foreign exchange losses, net	(1.4	) (3.0
Net corporate operating, interest and other expense not allocated to segments	(1.6	) (1.0
Other income (expense), net	6.5	1.0
Consolidated income before taxes	\$46.2	\$48.3

## 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 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. 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 stay this matter pending resolution of the above-referenced investigations by the DOJ and SEC. Following a hearing on September 30, 2011, the court sustained our demurrer and dismissed the complaint, without prejudice, and granted the plaintiff additional time to file an amended complaint. The court denied our motion to stay this matter because it dismissed the complaint. The parties have agreed to a stipulated dismissal of this case, without prejudice, and to a tolling of the statute of limitations pending the resolution of the DOJ and SEC investigations.

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.

## 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, 2011 and this report for the quarter ended March 31, 2012.

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 and 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 32% of our year-to-date 2011 consolidated net sales are derived from the United States and approximately 68% are derived from international locations. The international sales are largely denominated in local currencies such as Euros, Swiss Franc, Japanese Yen, Singapore Dollar 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.

During the first quarter of 2012, we identified an error in the consolidated financial statements for the years 2007 through 2011, related to a foreign supplemental tax associated with social benefits. We incorrectly interpreted and applied the local statutes to our circumstances. We estimate that we will be required to pay an amount of \$6.1 million, which includes taxes, penalties and interest. The foreign supplemental tax, and the related penalties and interest, are not deductible for income tax purposes, and as such this error does not have an impact on Bio-Rad's tax provision.





Additionally, we identified two other errors pertaining to prior periods, both related to income taxes, as follows:

- an overstatement of income tax expense in the first quarter of 2011 in the amount of \$1.6 million, due to a delay in recognizing a reduction in a foreign tax rate; and
- an understatement of income tax expense over the years 2008 to 2011 in the amount of \$0.9 million, due to claiming a tax deduction in excess of a statutory limit.

The effect of the errors on the 2007, 2008, 2009, 2010 and 2011 consolidated financial statements would have been charges of \$1.1 million, \$1.5 million, \$1.3 million and \$1.6 million, and a \$0.1 million benefit, respectively.

Management evaluated the materiality of the errors from a qualitative and quantitative perspective. Based on such evaluation, we have concluded that while the accumulation of these errors was significant to the three-month period ended March 31, 2012, their correction would not be material to any individual prior period or for the year ending December 31, 2012, nor did it have an effect on the trend of financial results, taking into account the requirements of the Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). Accordingly, we have corrected these errors in the results of operations for the three-month period ended March 31, 2012 as follows: (i) \$4.1 million charge to Cost of goods sold; (ii) \$1.2 million charge to Interest expense; (iii) \$0.8 million charge to Other (income) expense, net; and (iv) an income tax benefit of \$0.7 million.

In January 2012, we purchased, for cash, certain assets from a current raw material supplier for approximately \$12.5 million. The asset acquisition was accounted for as a business combination and is included in the Clinical Diagnostics segment's results of operations. The fair value of the assets acquired were determined to be \$6.3 million of net tangible assets, \$5.1 million of intangible assets and \$1.1 million of goodwill. In addition, we paid \$2.0 million for employment agreements as an incentive to certain employees of the acquired business to remain with Bio-Rad. Such amount will be expensed over the next two years and is recorded in Prepaid expenses, taxes and other current assets and Other assets in the accompanying Condensed Consolidated Balance Sheet. We believe this acquisition will allow us to secure the supply of critical raw materials and lower our overall costs in the Clinical Diagnostics segment.

In October 2011, we acquired all the issued and outstanding stock of QuantaLife, Inc. (QuantaLife). The fair value of the consideration as of the acquisition date was \$179.4 million, which comprised of \$150.3 million paid in cash at the closing date, a \$5.0 million holdback of cash until the completion of certain post-closing matters, and \$24.1 million in contingent consideration potentially payable to QuantaLife shareholders. The contingent consideration could reach \$48 million upon the achievement of certain sales and development milestones. The operating results of this business are included in the results of operations of our Life Science segment from the acquisition date. This transaction was accounted for as the acquisition of a business. Integrating the acquired QuantaLife business into Bio-Rad is expected to expand our current portfolio of products for the amplification and study of DNA and we believe it will complement Bio-Rad's existing business.

The determination of the fair value of net assets acquired of QuantaLife was based upon valuation information, estimates and assumptions available at October 4, 2011. We are still finalizing our analysis of a limited number of acquired tax attributes which could affect the fair values of certain deferred tax assets and goodwill. As a result, as of March 31, 2012, our accounting for the acquisition was preliminary.

The following shows cost of goods sold, gross profit, expense items and net income as a percentage of net sales:



	Three Months Ended			
	March 31,			
	2012	2011		
Net sales	100.0	% 100.0		%
Cost of goods sold	42.7	42.8		
Gross profit	57.3	57.2		
Selling, general and administrative expense	35.2	34.6		
Research and development expense	10.9	8.8		
Net income attributable to Bio-Rad	6.4	6.8		

### Critical Accounting Policies and Estimates

As previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011, 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 three months ended March 31, 2012 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, 2011. For a full discussion of these policies and estimates, please refer to our Form 10-K for the period ended December 31, 2011.

### Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

#### Results of Operations -- Sales, Margins and Expenses

Net sales (sales) for the first quarter of 2012 increased to \$486.3 million from \$485.1 million in the first quarter of 2011, a sales increase of 0.2%. Excluding the impact of foreign currency, first quarter 2012 sales increased by approximately 1.4% compared to the same period in 2011. Currency neutral sales growth was reflected in all regions except for Europe, which declined by approximately 1.8%.

The Life Science segment sales for the first quarter of 2012 were \$154.8 million, an increase of 0.2% compared to the same period last year. On a currency neutral basis, sales increased 0.7% compared to the first quarter in 2011. The electrophoresis and imaging product lines contributed to the sales growth supported by several recent product launches, as well as new products from QuantaLife. Currency neutral sales growth in the Life Science segment was driven primarily by Europe and the Pacific Rim, while sales in North America and Latin America declined.

The Clinical Diagnostics segment sales for the first quarter of 2012 were \$327.2 million, which were primarily unchanged compared to the same period last year. On a currency neutral basis, sales increased 1.6% compared to the first quarter in 2011. Clinical Diagnostics product lines generating growth were quality controls, diabetes and BioPlex® 2200 system. The first quarter of 2012 sales as compared to 2011 sales were impacted by a one-time blood typing sale of approximately \$8 million in the first quarter of 2011. Currency neutral sales growth was primarily in the U.S. and Asia Pacific, while Europe and most other regions declined primarily due to both spending constraints by

public agencies and pricing concessions.

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Consolidated gross margins were 57.3% for the first quarter of 2012 compared to 57.2% for the first quarter of 2011. Life Science segment gross margins for the first quarter of 2012 increased from the same period last year by approximately 0.7%. The increase was primarily due to a better sales mix of products and service revenue from our selling entities. Clinical Diagnostics segment gross margins for the first quarter of 2012 decreased by approximately 0.4% from the same period last year. The decrease was primarily due to a foreign supplemental tax associated with social benefits of \$4.1 million, partially offset by margin gains in diabetes from lower service and warranty costs and BioPlex® 2200 system on increased reagent pull through, and favorable manufacturing variances.

Selling, general and administrative expenses (SG&A) represented 35.2% of sales for the first quarter of 2012 compared to 34.6% of sales for the first quarter of 2011. Increases in the spending rate were primarily driven by employee-related costs, our largest cost, associated with an increase in headcount that included acquisitions and merit increases, bad debt provisions primarily associated with public agencies in southern Europe, the inclusion of QuantaLife, customer marketing and valuation expense for the QuantaLife contingent consideration.

Research and development expense increased to \$52.9 million or 10.9% of sales in the first quarter of 2012 compared to \$42.7 million or 8.8% of sales in the first quarter of 2011. Life Science segment research and development expense increased in the first quarter of 2012 from the prior year quarter primarily due to QuantaLife and efforts concentrated in chromatography and genomics. Clinical Diagnostics segment research and development expense increased in the first quarter of 2012 from the prior year period primarily due to increased and broad investment in new products in blood typing, quality controls, diabetes and blood virus product lines.

#### Results of Operations – Non-operating

Interest expense for the first quarter of 2012 decreased by \$3.6 million to \$13.2 million compared to \$16.8 million for the first quarter of 2011 primarily due to the refinancing of a portion of our debt that was completed in January 2011, lowering our borrowing rate. The interest rates on our current borrowings for our \$300.0 million of 8.0% Senior Subordinated Notes are fixed through 2016 at 8.0% and for our \$425.0 million of 4.875% Senior Notes are fixed 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. Decreased foreign currency exchange losses, net for the quarter ended March 31, 2012 was primarily attributable to a concentrated effort to pay down intercompany balances, a decrease in the cost to hedge, and less volatility in the estimating process of shipments and payments of intercompany payables.

Other (income) expense, net for the first quarter of 2012 increased to \$6.5 million income compared to \$1.0 million income for the first quarter of 2011 primarily due to realized gains on investments.

Our effective tax rate was 33% and 32% for the first quarter of 2012 and 2011, 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 and research and development tax credits. The effective tax rate for the first quarter of 2011 also reflected a tax benefit from nontaxable dividend income. The first quarter of 2012 effective tax rate does not include tax benefits from U.S. federal research credits and nontaxable dividend income that both expired in 2011.

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 taxes.

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 March 31, 2012. The Credit Agreement expires on June 21, 2014.

The continuing slow economic growth in developed nations may adversely affect our future results of operations. Demand for our products and services could change more dramatically than in previous years based on activity, funding, reimbursement constraints and support levels from government, universities, hospitals and private industry, including diagnostic laboratories. The need for certain sovereign nations with large annual deficits to curtail spending could lead to slower growth of, or even a decline in our business. Sovereign nations either delaying payment for goods and services or renegotiating their debts could impact our liquidity. The situation in these sovereign nations is continuously evolving and we have no greater knowledge of the situation other than what is publicly reported. As of March 31, 2012, we had accounts receivable, net of allowance for doubtful accounts, in Spain, Italy, Greece and Portugal of \$87.8 million.

At March 31, 2012, we had available \$807.1 million in cash, cash equivalents and short-term investments. Under domestic and international lines of credit, we had \$220.1 million available for borrowing as of March 31, 2012, of which \$13.1 million is reserved for standby letters of credit issued by our banks to guarantee our obligations, mostly to meet the deductible amount under insurance policies for our benefit. 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 \$35.3 million and \$19.8 million for the three months ended March 31, 2012 and 2011, respectively. The increased cash flows primarily resulted from lower cash paid to employees for lower commissions and bonus payments, and suppliers. Also affecting cash flows from operations was the capitalization of external and internal labor costs for the Enterprise Resource Planning (ERP) project that are categorized as capital expenditures but were considered operating activities in 2011, and a decline in interest paid due to the refinancing of a portion of our debt that was completed in January 2011. We continue to focus on cash flow improvements as a company-wide goal.

## Cash Flows from Investing Activities

Capital expenditures totaled \$34.7 million and \$17.8 million for the three months ended March 31, 2012 and 2011, 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. Capital expenditures have increased and we anticipate them to continue to increase in future periods due to 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 four more years to implement.

In January 2012, we purchased, for cash, certain assets from a current raw material supplier for approximately \$12.5 million. The asset acquisition was accounted for as a business combination and is included in the Clinical Diagnostics segment's results of operations. The fair value of the assets acquired were determined to be \$6.3 million of net tangible assets, \$5.1 million of intangible assets and \$1.1 million of goodwill. In addition, we paid \$2.0 million for employment agreements as an incentive to certain employees of the acquired business to remain with Bio-Rad. Such amount will be expensed over the next two years and is recorded in Prepaid expenses, taxes and other current assets and Other assets in the accompanying Condensed Consolidated Balance Sheet. We believe this acquisition will allow us to secure the supply of critical raw materials and lower our overall costs in the Clinical Diagnostics segment.

In October 2011, we acquired all the issued and outstanding stock of QuantaLife for a total consideration of \$179.4 million that was comprised of \$150.3 million in cash, a \$5.0 million holdback of cash until the completion of certain post-closing matters, and contingent consideration potentially payable to QuantaLife shareholders. The contingent consideration was recognized at its estimated fair value of \$24.1 million and could reach \$48 million upon the achievement of certain sales and development milestones. This transaction was accounted for as the acquisition of a business and the operating results of QuantaLife are included in our Life Science segment from the acquisition date. Integrating the acquired QuantaLife business into Bio-Rad is expected to expand our current portfolio of products for the amplification and study of DNA and we believe it will complement Bio-Rad's existing 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.

#### Cash Flows from Financing Activities

Net cash provided by financing activities was \$3.7 million for the three months ended March 31, 2012 and net cash used by financing activities was \$214.7 million for the three months ended March 31, 2011. 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. 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 three months of 2012 or 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). We adopted this guidance as of January 1, 2012 and it did not have a material impact on our results of operations or financial position.



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 December 2011, the FASB deferred the new requirement to present components of reclassifications of other comprehensive income on the face of the income statement. We adopted this guidance using the two separate but consecutive statements as of January 1, 2012.

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

During the three months ended March 31, 2012, 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, 2011.

### 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 our disclosure controls and procedures were effective to provide reasonable assurance that material information relating to Bio-Rad is made known to management, including the Chief Executive Officer and Chief Financial Officer.

We have determined that the material weakness in our internal control over financial reporting that was previously disclosed as of December 31, 2010 was remediated as of December 31, 2011. As stated in “Item 9A. Controls and Procedures” contained in our Annual Report on Form 10-K for the year ended December 31, 2010 and “Item 4. Controls and Procedures” contained in our quarterly reports on Form 10-Q during 2011, management had identified three significant deficiencies in our internal control over financial reporting that, when considered and taken together, had constituted a material weakness in our internal control over financial reporting as of those dates. 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.

In response to and following identification of the material weakness, management has enhanced the operation of a number of existing controls related to Bio-Rad's internal control over financial reporting, including our previously existing controls and processes for FCPA compliance, and implemented additional controls. We have determined that these enhancements have remediated the significant deficiencies that, when taken and considered together, constituted the material weakness described above to the extent that a material weakness no longer exists as of December 31, 2011. The enhancements we have implemented include:

• 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, who have extensive experience in the area of FCPA compliance, our adoption of a comprehensive FCPA compliance policy which we have determined 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, and which specifically includes:

Specific Procedures for engaging third party distributors, agents and similar representatives; and  
Pre-approval of certain customer-related expenditures;

Formation and operation of a formal Disclosure Committee;

Global reorganization of our finance department in which finance managers report directly to our Chief Financial Officer;

Our hiring of a Corporate Compliance Officer, who reports directly to our Chief Executive Officer, to assist with anti-corruption and other compliance matters;

Implementation of new expenditure approval processes in some countries;

An increase in audit scope by our internal audit department to test for pre-approval of certain customer-related expenditures;

An increase in the number of locations audited by our internal audit department;

Imposition of personnel actions for non-compliance with our policies; and

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

Implementation of the actions described above and resulting improvements in controls have strengthened internal control over financial reporting and have, in particular, addressed the related material weakness that was identified as of December 31, 2010 and the end of subsequent fiscal quarters in 2011. As part of the 2011 assessment of internal control over financial reporting, management tested and evaluated these additional controls to assess whether they are operating effectively and as of December 31, 2011, we determined that such controls were successfully tested and the material weakness was remediated. However, we continue to have a significant deficiency related to our revenue process, and we have identified two additional significant deficiencies with respect to (i) reagent rental controls at certain of our international subsidiaries and (ii) multiple controls for various business processes at a more limited number of minor international subsidiaries. We are continuing the process of evaluating and improving our processes and procedures for FCPA compliance.

#### Changes to Internal Control Over Financial Reporting

Other than the implementation and operation of controls implemented to address the material weakness described above, there were no other changes in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or are reasonably likely to materially 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.

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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), 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 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. 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, including our results of operations, cash balance and credit rates. 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 previously identified significant deficiencies in our internal control over financial reporting that, when considered and taken together, had constituted a material weakness in our internal control over financial reporting. Although we have remediated those significant deficiencies to the extent that they no longer, when considered and taken together, constitute a material weakness in internal control over financial reporting, some remain significant deficiencies and we have identified other significant deficiencies in internal control over financial reporting. Any failure to 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 had identified three significant deficiencies in our internal control over financial reporting that, when considered and taken together, had constituted a material weakness in our internal control over financial reporting as of December 31, 2010 and through the first three quarters of 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 basis.

The three significant deficiencies that we identified 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

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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.

In response to, and following identification of the material weakness, management has enhanced the operation of a number of existing controls related to Bio-Rad's internal control over financial reporting, including our previously existing controls and processes for FCPA compliance, and implemented additional controls. We have determined that these actions have remediated significant deficiencies that, when considered and taken together, constituted the material weakness described above to the extent that a material weakness no longer exists. However, we continue to have a significant deficiency related to our revenue process, and we have identified two additional significant deficiencies with respect to (i) reagent rentals at certain of our international subsidiaries and (ii) multiple controls for various business processes at a more limited number of minor international subsidiaries.

We cannot assure you that we will be able to remediate these significant deficiencies or that additional significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Such significant deficiencies or material weaknesses could 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 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 stay this matter pending resolution of the above-referenced investigations by the DOJ and SEC. Following a hearing on September 30, 2011, the court sustained our demurrer and dismissed the complaint, without prejudice, and granted the plaintiff additional time to file an amended complaint. The court denied our motion to stay this matter because it dismissed the complaint. The parties have agreed to a stipulated dismissal of this case, without prejudice, and to a tolling of the statute of limitations pending the resolution of the DOJ and SEC investigations.

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.

The continuing slow economic growth in developed nations may adversely affect our future results of operations. Demand for our products and services could change more dramatically than in previous years based on activity, funding, reimbursement constraints and support levels from government, universities, hospitals and private industry, including diagnostic laboratories. The need for certain sovereign nations with large annual deficits to curtail spending could lead to slower growth of, or even a decline in, our business. Although signs of limited recovery may exist in some markets, there are continued concerns about systemic economic imbalance, the availability and cost of credit, declining asset values and geopolitical issues that contribute to increased market volatility and uncertain expectations for the global economy. These conditions, combined with greater volatility in business activity levels and consumer confidence, high unemployment and volatile oil prices, contributed to unprecedented levels of volatility in the capital

markets in recent years. Continuing 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 and the strength of counterparties specifically has led many private sector investors to reduce and, in some cases, cease to provide credit to governments, businesses and consumers. These factors have led to depressed spending by some governments, businesses and consumers. Our customers and suppliers may experience cash flow concerns and, as a result, customers may modify, delay or cancel plans to purchase our products and suppliers may increase their prices, reduce their output or change terms of sales. Additionally, if customers' or suppliers' 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. Sovereign nations either delaying payment for goods and services or renegotiating their debts could impact our liquidity. The situation in these sovereign nations is continuously evolving and we have no greater knowledge of the situation other than what is publicly reported. As of March 31, 2012, we had accounts receivable, net of allowance for doubtful accounts, in Spain, Italy, Greece and Portugal of \$87.8 million.

Suppliers 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 suppliers 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 control 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 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 68% of our net sales for the three months ended March 31, 2012. 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 programs 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.

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.

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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.

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 14, 2012, the Schwartz family collectively held approximately 16% of our Class A Common Stock and 91% 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.

David Schwartz, our co-founder and Chairman of the Board, passed away on April 1, 2012; however, we do not expect Mr. Schwartz's death to affect the Schwartz family's majority voting power.

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 March 31, 2012 we and our subsidiaries have approximately \$732.7 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 March 31, 2012 (dollars in millions)
Total debt	\$732.7
Bio-Rad's stockholders' equity	\$1,839.6
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 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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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 Balance Sheets, (ii) the Condensed Consolidated Statements of Income,  
(iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated  
Statements of Cash Flows, and (v) 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: May 10, 2012 /s/ Norman Schwartz  
Norman Schwartz, President,  
Chief Executive Officer

Date: May 10, 2012 /s/ Christine A. Tsingos  
Christine A. Tsingos, Vice President,  
Chief Financial Officer