

BIO RAD LABORATORIES INC  
Form 10-Q  
August 08, 2007

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

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FORM 10-Q

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

For the quarterly period ended June 30, 2007

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 (I.R.S. Employer Identification No.)  
organization)  
1000 Alfred Nobel Drive, Hercules, California 94547  
(Address of principal executive offices) (Zip Code)  
(510) 724-7000  
Registrant's telephone number, including area code  
No Change  
Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Yes  No

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

| Title of Class  | Shares Outstanding<br>at July 30, 2007 |
|---|--|
| Class A Common Stock,<br>Par Value \$0.0001 per share | 21,708,713                             |
| Class B Common Stock,<br>Par Value \$0.0001 per share | 4,992,270                              |

## PART 1 FINANCIAL INFORMATION

## Item 1. Financial Statements.

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

|   | Three Months Ended |            | Six Months Ended |            |
|---|--------------------|------------|------------------|------------|
|   | June 30,           |            | June 30,         |            |
|   | 2007               | 2006       | 2007             | 2006       |
| Net sales                                   | \$ 339,114         | \$ 317,747 | \$ 661,622       | \$ 626,085 |
| Cost of goods sold                          | 149,123            | 133,085    | 292,250          | 265,895    |
| Gross profit                                | 189,991            | 184,662    | 369,372          | 360,190    |
| Selling, general and administrative expense | 119,551            | 110,466    | 227,301          | 210,536    |
| Product research and development expense    | 34,754             | 30,971     | 67,535           | 59,062     |
| Interest expense                            | 7,867              | 7,880      | 15,736           | 15,899     |
| Foreign exchange (gains) losses             | (398)              | 1,241      | (670)            | 1,252      |
| Other (income) expense, net                 | (7,495)            | (7,753)    | (13,681)         | (12,295)   |
| Income before taxes                         | 35,712             | 41,857     | 73,151           | 85,736     |
| Provision for income taxes                  | 10,041             | 9,591      | 20,483           | 22,272     |
| Net income                                  | \$ 25,671          | \$ 32,266  | \$ 52,668        | \$ 63,464  |
| Basic earnings per share:                   |                    |            |                  |            |
| Net income                                  | \$ 0.96            | \$ 1.22    | \$ 1.98          | \$ 2.41    |
| Weighted average common shares              | 26,657             | 26,341     | 26,619           | 26,309     |
| Diluted earnings per share:                 |                    |            |                  |            |
| Net income                                  | \$ 0.95            | \$ 1.20    | \$ 1.94          | \$ 2.36    |
| Weighted average common shares              | 27,164             | 26,900     | 27,160           | 26,865     |

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

## BIO-RAD LABORATORIES, INC

## Condensed Consolidated Balance Sheets

(In thousands, except share data)

|  | June 30,<br>2007<br>(Unaudited) | December 31,<br>2006 |
|--|---------------------------------|----------------------|
| <b>ASSETS:</b>   |                                 |                      |
| Cash and cash equivalents                              | \$ 232,403                      | \$ 223,607           |
| Short-term investments                                 | 270,463                         | 264,473              |
| Accounts receivable, net                               | 303,266                         | 292,970              |
| Inventories, net                                       | 265,185                         | 253,045              |
| Prepaid expenses, taxes and other current assets       | 96,422                          | 95,682               |
| Total current assets                                   | 1,167,739                       | 1,129,777            |
| Net property, plant and equipment                      | 191,605                         | 189,627              |
| Goodwill   | 121,492                         | 119,492              |
| Purchased intangibles, net                             | 44,272                          | 44,605               |
| Other assets   | 129,635                         | 112,667              |
| Total assets   | \$ 1,654,743                    | \$ 1,596,168         |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY:</b>            |                                 |                      |
| Accounts payable                                       | \$ 67,229                       | \$ 83,411            |
| Accrued payroll and employee benefits                  | 82,436                          | 92,101               |
| Notes payable and current maturities of long-term debt | 4,604                           | 3,042                |
| Sales, income and other taxes payable                  | 16,683                          | 19,949               |
| Litigation accrual                                     | 6,707                           | 8,810                |
| Accrued royalties                                      | 31,705                          | 31,826               |
| Other current liabilities                              | 72,485                          | 80,394               |
| Total current liabilities                              | 281,849                         | 319,533              |
| Long-term debt, net of current maturities              | 426,165                         | 425,625              |
| Deferred tax liabilities                               | 11,338                          | 7,512                |
| Other long-term liabilities                            | 38,592                          | 23,960               |
| Total liabilities                                      | 757,944                         | \$ 776,630           |
| <b>STOCKHOLDERS EQUITY:</b>                            |                                 |                      |

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|   |              |              |
|---|--------------|--------------|
| Preferred stock, \$0.0001 par value, 7,500,000 shares authorized;<br>none outstanding   | --           | --           |
| Class A common stock, \$0.0001 par value, 80,000,000 shares authorized; outstanding 21,702,913 at June 30, 2007 and 21,594,311 at December 31, 2006 | 2            | 2            |
| Class B common stock, \$0.0001 par value, 20,000,000 shares authorized; outstanding 4,992,270 at June 30, 2007 and 4,909,908 at December 31, 2006   | 1            | 1            |
| Additional paid-in capital  | 89,290       | 78,230       |
| Retained earnings   | 721,741      | 674,070      |
| Accumulated other comprehensive income:   |              |              |
| Currency translation and other  | 85,765       | 67,235       |
| Total stockholders' equity  | 896,799      | 819,538      |
| Total liabilities and stockholders' equity  | \$ 1,654,743 | \$ 1,596,168 |

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)

|  | Six Months Ended |            |
|--|------------------|------------|
|  | June 30,         |            |
|  | 2007             | 2006       |
| Cash flows from operating activities:                |                  |            |
| Cash received from customers                         | \$ 654,230       | \$ 612,996 |
| Cash paid to suppliers and employees                 | (600,174)        | (549,519)  |
| Litigation settlement                                | (2,082)          | (44,960)   |
| Interest paid  | (15,026)         | (15,403)   |
| Income tax payments                                  | (17,835)         | (2,620)    |
| Miscellaneous receipts                               | 16,590           | 11,498     |
| Excess tax benefits from share-based compensation    | (2,272)          | (500)      |
| Net cash provided by operating activities            | 33,431           | 11,492     |
| Cash flows from investing activities:                |                  |            |
| Capital expenditures, net                            | (27,270)         | (24,851)   |
| Payments for acquisitions and long-term investments  | (2,496)          | (5,589)    |
| Proceeds from divestitures                           | --               | 1,000      |
| Payments on purchase of intangible assets            | (2,075)          | --         |
| Purchases of marketable securities and investments   | (202,563)        | (127,763)  |
| Sales of marketable securities and investments       | 197,210          | 51,823     |
| Foreign currency economic hedges, net                | 1,212            | (2,514)    |
| Receipt of restricted cash                           | --               | 36,138     |
| Net cash used in investing activities                | (35,982)         | (71,756)   |
| Cash flows from financing activities:                |                  |            |
| Net borrowings under line-of-credit arrangements     | 1,226            | 798        |
| Payments on long-term debt                           | (305)            | (230)      |
| Proceeds from issuance of common stock               | 6,162            | 5,467      |
| Excess tax benefits from share-based compensation    | 2,272            | 500        |
| Net cash provided by financing activities            | 9,355            | 6,535      |
| Effect of exchange rate changes on cash              | 1,992            | 2,659      |
| Net increase (decrease) in cash and cash equivalents | 8,796            | (51,070)   |

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|   |            |            |
|---|------------|------------|
| Cash and cash equivalents at beginning of period                                  | 223,607    | 296,716    |
| Cash and cash equivalents at end of period  | \$ 232,403 | \$ 245,646 |
| Reconciliation of net income to net cash provided by operating activities:        |            |            |
| Net income  | \$ 52,668  | \$ 63,464  |
| Adjustments to reconcile net income to net cash provided by operating activities: |            |            |
| Depreciation and amortization   | 28,840     | 26,436     |
| Share-based compensation  | 2,372      | 2,524      |
| Excess tax benefits from share-based compensation                                 | (2,272)    | (500)      |
| Increase in accounts receivable   | (5,524)    | (13,340)   |
| Increase in inventories   | (8,957)    | (23,916)   |
| (Increase) decrease in other current assets                                       | (4,120)    | 992        |
| Decrease in accounts payable and other current liabilities                        | (28,743)   | (13,620)   |
| Increase in income taxes payable  | 2,489      | 3,135      |
| Decrease in litigation accrual  | (2,082)    | (44,960)   |
| Other   | (1,240)    | 11,277     |
| Net cash provided by operating activities   | \$ 33,431  | \$ 11,492  |

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



BIO-RAD LABORATORIES, INC

Notes to Condensed Consolidated Financial Statements  
(Unaudited)

1. BASIS OF PRESENTATION

In this report, Bio-Rad, we, us, and our refer to Bio-Rad Laboratories, Inc. and its subsidiaries. The accompanying unaudited condensed consolidated financial statements of Bio-Rad have been prepared in accordance with accounting principles generally accepted in the United States of America (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 preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Estimates have been prepared on the basis of the best available information. Actual results could differ materially from those estimates. The condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements contained in our Annual Report for the year ended December 31, 2006.

Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 159, *The Fair Value Option for Financial Assets and Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*, which permits entities to account for most financial instruments at fair value rather than under other applicable generally accepted accounting principles. The accounting results in the instrument being marked to fair value every reporting period with the gain/loss from a change in fair value recorded in the income statement. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. We are in the process of evaluating the impact of the adoption of SFAS 159 on the results of our operations and financial condition.

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



## 2. SHORT-TERM INVESTMENTS

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

|                                | June 30,<br>2007 | December 31,<br>2006 |
|--------------------------------|------------------|----------------------|
| Available-for-sale securities: |                  |                      |
| Corporate obligations          | \$ 149.9         | \$ 143.7             |
| Asset backed securities        | 46.2             | 43.5                 |
| U.S Agencies                   | 26.3             | 32.5                 |
| Mortgage backed securities     | 21.3             | 15.4                 |
| Marketable equity securities   | 17.1             | 14.4                 |
| Variable rate notes            | 9.7              | 10.0                 |
| Certificates of deposit        | --               | 5.0                  |
| Total short-term investments   | \$ 270.5         | \$ 264.5             |

Management classifies investments in marketable securities at the time of purchase and reevaluates such classification at each balance sheet date. Marketable debt and equity securities classified as short-term investments have been designated as available-for-sale and are stated at fair value. These investments are marked to market, with unrealized gains and losses reported as a component of comprehensive income. We review our short-term investments for other-than-temporary losses on a quarterly basis.

## 3. INVENTORIES

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

|                 | June 30,<br>2007 | December 31,<br>2006 |
|-----------------|------------------|----------------------|
| Raw materials   | \$ 49.6          | \$ 59.3              |
| Work in process | 64.9             | 57.7                 |
| Finished goods  | 150.7            | 136.0                |
|                 | \$ 265.2         | \$ 253.0             |

## 4. PROPERTY, PLANT AND EQUIPMENT

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

|                                      | June 30,<br>2007 | December 31,<br>2006 |
|--------------------------------------|------------------|----------------------|
| Land and improvements                | \$ 9.6           | \$ 9.6               |
| Buildings and leasehold improvements | 124.2            | 122.0                |
| Equipment                            | 376.4            | 357.6                |
|                                      | 510.2            | 489.2                |
| Accumulated depreciation             | (318.6)          | (299.6)              |
| Net property, plant and equipment    | \$ 191.6         | \$ 189.6             |

Net capital expenditures include proceeds from the sale of property, plant and equipment of \$0.1 million for the six months ended June 30, 2007 and June 30, 2006.

## 5. ACQUISITION

DiaMed Holding AG (DiaMed), a private Swiss company, develops, manufactures and markets a complete line of reagents and instruments used in blood typing and screening. Founded in 1977 and based in Switzerland, DiaMed has unaudited annual sales of approximately \$200 million to hospitals, clinical laboratories and blood banks in more than 100 countries.

In May 2007, Bio-Rad announced that it had signed a definitive agreement to acquire approximately 77.7% of the outstanding shares of DiaMed. Under the terms of the agreement, Bio-Rad will pay approximately 477 million Swiss francs (approximately \$390 million using June 30, 2007 exchange rates) in cash to acquire these shares. DiaMed holds approximately 9.6% of its outstanding shares as treasury shares. After the closing of this transaction, Bio-Rad will conduct a tender offer to acquire the remaining 12.7% outstanding shares as outlined in the share purchase agreement. The transaction is subject to certain closing conditions, including regulatory approvals, and is expected to close by the end of the year.

## 6. GOODWILL AND OTHER PURCHASED INTANGIBLE ASSETS

In November 2006, we acquired CIPHERGEN Biosystems, Inc.'s ProteinChipR Systems business and worldwide rights to its Surface Enhanced Laser Desorption/Ionization (SELDI) technology. At that time, the SELDI patent was under review by the U.S. Patent and Trademark Office and we had agreed to pay an additional \$2.0 million to CIPHERGEN if the patent was granted. We have been notified that the patent will be issued and have accrued the payment and recorded additional goodwill on the CIPHERGEN acquisition.

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

|                               | June 30, 2007      |                             |  |     |
|-------------------------------|--------------------|-----------------------------|--|-----|
| Average<br>Historical<br>Life | Carrying<br>Amount | Accumulated<br>Amortization |  | Net |

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|                              |      |         |         |         |
|------------------------------|------|---------|---------|---------|
| Developed Product Technology | 5-15 | \$ 27.9 | \$ 5.2  | \$ 22.7 |
| Licenses                     | 5-14 | 17.3    | 2.8     | 14.5    |
| Know How                     | 6-7  | 10.0    | 6.6     | 3.4     |
| Covenants Not to Compete     | 5    | 2.4     | 1.4     | 1.0     |
| Patents                      | 4    | 1.0     | 0.3     | 0.7     |
| Customer Lists               | 2-15 | 1.4     | 0.6     | 0.8     |
| Other                        | 7-15 | 1.3     | 0.1     | 1.2     |
|                              |      | \$ 61.3 | \$ 17.0 | \$ 44.3 |

|                              | December 31, 2006  |          |              |         |
|------------------------------|--------------------|----------|--------------|---------|
|                              | Average            | Carrying | Accumulated  | Net     |
|                              | Historical<br>Life | Amount   | Amortization |         |
| Developed Product Technology | 5-15               | \$ 27.9  | \$ 3.6       | \$ 24.3 |
| Licenses                     | 14                 | 14.0     | 2.2          | 11.8    |
| Know How                     | 6-7                | 9.8      | 5.7          | 4.1     |
| Covenants Not to Compete     | 5                  | 2.4      | 1.1          | 1.3     |
| Patents                      | 4                  | 1.0      | 0.1          | 0.9     |
| Customer Lists               | 2-15               | 1.4      | 0.4          | 1.0     |
| Other                        | 7-15               | 1.3      | 0.1          | 1.2     |
|                              |                    | \$ 57.8  | \$ 13.2      | \$ 44.6 |

Recorded purchased intangible asset amortization expense for the three months ended June 30, 2007 and 2006 was \$1.9 million and \$1.3 million, respectively. Recorded purchased intangible asset amortization expense for the six months ended June 30, 2007 and 2006 was \$3.7 million and \$2.6 million, respectively. Estimated purchased intangible asset amortization expense (based on existing intangible assets) for the years ended December 31, 2008, 2009, 2010, 2011 and 2012 is \$7.0 million, \$5.5 million, \$4.3 million, \$3.6 million and \$2.5 million, respectively.

## 7. PRODUCT WARRANTY LIABILITY

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

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

|                        | 2007    | 2006    |
|------------------------|---------|---------|
| January 1,             | \$ 12.9 | \$ 12.0 |
| Provision for warranty | 7.6     | 7.4     |
| Actual warranty costs  | (7.8)   | (7.0)   |

|          |         |         |
|----------|---------|---------|
| June 30, | \$ 12.7 | \$ 12.4 |
|----------|---------|---------|

8. LONG-TERM DEBT

In June 2005, Bio-Rad entered into a new Credit Agreement, which amends and restates the Credit Agreement dated September 9, 2003, as amended December 8, 2004. Borrowings are permitted up to a maximum of \$150.0 million on a revolving basis and can be used to make acquisitions, for working capital and other general corporate purposes.

Under certain conditions, this Credit Agreement may be increased up to an additional \$50 million. Borrowings under the credit agreement are payable on June 21, 2010. We had no outstanding balance as of June 30, 2007.



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

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

The Credit Agreement, the 6.125% Notes, and the 7.5% Notes require Bio-Rad to comply with certain financial ratios and covenants, among other things. The covenants include a leverage ratio test, an interest coverage test and a consolidated net worth test. There are also restrictions on our ability to declare or pay dividends, incur debt, guarantee debt, enter into transactions with affiliates, merge or consolidate, sell assets, make investments, create liens and prepay subordinated debt. We were in compliance with all financial ratios as of June 30, 2007.

## 9. ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

We adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. As a result of adoption, we recognized a charge of approximately \$5 million to the January 1, 2007 retained earnings balance. As of the adoption date, we had gross tax effected unrecognized tax benefits of \$13.3 million of which \$12.8 million, if recognized, would affect the effective tax rate. Also as of the adoption date, we had accrued interest expense related to the unrecognized tax benefits of \$1.9 million. We recognize interest and penalties accrued related to unrecognized tax benefits as a component of income tax expense.

The following table summarizes the open tax years that are subject to examination by tax authorities as of June 30, 2007:

|        |             |
|--------|-------------|
| U.S.   | 1997 - 2006 |
| Canada | 2002 - 2006 |

|         |             |
|---------|-------------|
| U.K.    | 2001 - 2006 |
| France  | 2003 - 2006 |
| Germany | 2004 - 2006 |
| Japan   | 2002 - 2006 |
| Italy   | 1999 - 2006 |

It is reasonably possible that within the next twelve months approximately \$7.7 million of previously unrecognized tax benefits will be recorded. These benefits are related to uncertainty regarding the sustainability of certain deductions for tax years that remain subject to examination by the relevant tax authorities.

## 10. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for that period. Diluted earnings per share takes into account the effect of dilutive instruments, such as stock options, and uses the average share price for the period in determining the number of common stock equivalents that are to be added to the weighted average number of shares outstanding. Common stock equivalents are excluded from the diluted earnings per share calculation if the effect would be anti-dilutive.

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

|                         | Three Months Ended |        | Six Month Ended |        |
|-------------------------|--------------------|--------|-----------------|--------|
|                         | June 30,           |        | June 30,        |        |
|                         | 2007               | 2006   | 2007            | 2006   |
| Basic shares            | 26,657             | 26,341 | 26,619          | 26,309 |
| Stock options and other | 507                | 559    | 541             | 556    |
| Diluted shares          | 27,164             | 26,900 | 27,160          | 26,865 |
| Anti-dilutive shares    | 301                | 485    | 293             | 343    |

## 11. SHARE-BASED COMPENSATION

We account for share-based compensation in accordance with SFAS 123(R), *Share-Based Payment*, which was adopted January 1, 2006 utilizing the modified prospective transition method.

### Description of Share-Based Compensation Plans

#### *Stock Option Plans*

We have two stock option plans for officers and certain other employees: the Amended 1994 Stock Option Plan (the 1994 Plan ) and the 2003 Stock Option Plan (the 2003 Plan ). Both plans authorize the grant to employees of incentive stock options and non-qualified stock options. We no longer make stock option grants under the 1994 Plan or 2003

Plan.

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

In April 2007, our stockholders approved the Bio-Rad Laboratories, Inc. 2007 Incentive Award Plan (the 2007 Plan ). The 2007 Plan authorizes the grant to employees of stock options, restricted stock awards, stock appreciation rights and other types of equity awards. A total of 1,650,360 shares have been reserved for issuance of equity awards and may be of either Class A or Class B Common Stock. No equity awards have been granted from this plan during the first six months of 2007.

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

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

#### **Share-Based Compensation Expense**

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

For the three months ended June 30, 2007 and 2006 we recognized pre-tax share-based compensation expense of \$1.1 million and \$1.4 million, respectively. The tax benefit recognized in the income statement for the three months ended June 30, 2007 and 2006 related to share-based compensation was \$0.2 million and \$0.2 million, respectively. For the six months ended June 30, 2007 and 2006 we recognized pre-tax share-based compensation expense of \$2.4 million and \$2.5 million, respectively. The tax benefit recognized in the income statement for the six months ended June 30, 2007 and 2006 related to share-based compensation was \$0.5 million and \$0.4 million, respectively. We did not capitalize any share-based compensation expense. In accordance with SFAS 123(R), we recognize share-based compensation net of estimated forfeitures.

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

#### *Stock Options*

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No stock options were granted during the first six months of 2007. The weighted average fair value for stock options granted during the second quarter of 2006 was estimated using a Black-Scholes option-pricing model with the following assumptions.

Three and Six Months Ended  
June 30, 2006

|   |         |
|---|---------|
| Expected volatility                               | 36%     |
| Risk-free interest rate                           | 4.62%   |
| Expected life (in years)                          | 7.4     |
| Expected dividend                                 | --      |
| Weighted average fair value<br>of options granted | \$29.85 |

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

The following table summarizes our stock option activity during the first six months of 2007:

|                                | Six Months Ended June 30, 2007 |                                 |                                     |   |
|--------------------------------|--------------------------------|---------------------------------|-------------------------------------|---|
|                                | Shares                         | Weighted Average Exercise Price | Weighted Remaining Contractual Term | Aggregate Intrinsic Value as of June 30, 2007 (in millions) |
| Outstanding, beginning of year | 1,667,769                      | \$40.06                         |                                     |   |
| Granted                        | 0                              |                                 |                                     |   |
| Exercised                      | (147,936)                      | \$24.40                         |                                     |   |
| Forfeited/Expired              | (7,018)                        | \$54.37                         |                                     |   |
| Outstanding, end of period     | 1,512,815                      | \$41.53                         | 5.87                                | \$51.5  |
| Exercisable, end of period     | 944,426                        | \$32.28                         | 4.85                                | \$40.9  |

Intrinsic value for stock options is defined as the difference between the current market value and the grant price. The total intrinsic value of stock options exercised during each of the three month periods ended June 30, 2007 and 2006 was approximately \$1 million. The total intrinsic value of stock options exercised during the six months ended June 30, 2007 and 2006 was approximately \$9 million and \$3 million, respectively.

Cash received from stock options exercised during the three months ended June 30, 2007 and 2006 was \$0.8 million and \$1.0 million, respectively. The actual tax benefit realized for the tax deductions from stock options exercised totaled \$0.6 million and \$0.3 million for the three months ended June 30, 2007 and 2006, respectively. Cash received from stock options exercised during the six months ended June 30, 2007 and 2006 was \$3.6 million and \$2.4 million, respectively. The actual tax benefit realized for the tax deductions from stock options exercised totaled \$2.6 million and \$0.7 million for the six months ended June 30, 2007 and 2006, respectively.

As of June 30, 2007, there was approximately \$8 million of total unrecognized compensation cost related to nonvested share-based compensation awards granted under our stock option plans. That cost is expected to be recognized over a weighted-average period of approximately 2 years.





*Employee Stock Purchase Plan*

The fair value of the employees' purchase rights was estimated using a Black-Scholes model with the following weighted average assumptions:

|   | Three Month Ended |         | Six Months Ended |         |
|---|-------------------|---------|------------------|---------|
|   | June 30,          |         | June 30,         |         |
|   | 2007              | 2006    | 2007             | 2006    |
| Expected volatility                               | 19%               | 30%     | 23%              | 33%     |
| Risk-free interest rate                           | 5.04%             | 4.63%   | 5.05%            | 4.36%   |
| Expected life (in years)                          | .25               | .25     | .25              | .25     |
| Expected dividend                                 | --                | --      | --               | --      |
| Weighted average fair value<br>of purchase rights | \$13.42           | \$13.35 | \$15.22          | \$14.02 |

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

We sold 20,675 shares for \$1.2 million and 40,173 shares for \$2.1 million under our employee stock purchase plan for the three months ended June 30, 2007 and 2006, respectively. We sold 43,028 shares for \$2.6 million and 59,846 shares for \$3.0 million under our employee stock purchase plan for the six months ended June 30, 2007 and 2006, respectively. At June 30, 2007, 464,522 shares remain authorized under the Plan.

We currently issue new shares to satisfy stock option exercises and ESPP stock purchases.

## 12. FOREIGN EXCHANGE GAINS AND LOSSES

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

## 13. OTHER INCOME AND EXPENSE

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

|                                   | Three Months   |          | Six Months     |           |
|-----------------------------------|----------------|----------|----------------|-----------|
|                                   | Ended June 30, |          | Ended June 30, |           |
|                                   | 2007           | 2006     | 2007           | 2006      |
| Interest and investment income    | \$ (8.5)       | \$ (6.2) | \$ (13.9)      | \$ (10.6) |
| Other                             | 1.0            | (1.6)    | 0.2            | (1.7)     |
| Total other (income) expense, net | \$ (7.5)       | \$ (7.8) | \$ (13.7)      | \$ (12.3) |

## 14. COMPREHENSIVE INCOME

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

|   | Three Months<br>Ended June 30, |         | Six Months<br>Ended June 30, |         |
|---|--------------------------------|---------|------------------------------|---------|
|   | 2007                           | 2006    | 2007                         | 2006    |
| Net income, as reported   | \$ 25.7                        | \$ 32.3 | \$ 52.7                      | \$ 63.5 |
| Currency translation adjustments  | 5.3                            | 14.5    | 8.6                          | 19.5    |
| Net unrealized holding gains on available-for-sale investments net of tax effect of \$0.8 and \$1.2 million for the three months ended June 30, 2007 and 2006 and \$5.7 and \$3.9 million for the six months ended June 30, 2007 and 2006, respectively | 1.5                            | 1.9     | 9.9                          | 6.5     |
| Total comprehensive income  | \$ 32.5                        | \$ 48.7 | \$ 71.2                      | \$ 89.5 |

## 15. SEGMENT INFORMATION

Information regarding industry segments for the three months ended June 30, 2007 and 2006 is as follows (in millions):

|                |      |          | Life Science      | Clinical<br>Diagnostics | Other<br>Operations |
|----------------|------|----------|-------------------|-------------------------|---------------------|
|                |      |          | Segment net sales | 2007                    | \$ 146.0            |
|                | 2006 | \$ 134.4 | \$ 180.2          | \$ 3.1                  |                     |
| Segment profit | 2007 | \$ 1.5   | \$ 26.4           | \$ 0.3                  |                     |
|                | 2006 | \$ 4.3   | \$ 31.3           | \$ --                   |                     |

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Information regarding industry segments for the six months ended June 30, 2007 and 2006 is as follows (in millions):

|                   |      | Life Science | Clinical<br>Diagnostics | Other<br>Operations |
|-------------------|------|--------------|-------------------------|---------------------|
| Segment net sales | 2007 | \$ 287.6     | \$ 367.5                | \$ 6.5              |
|                   | 2006 | \$ 279.2     | \$ 340.5                | \$ 6.4              |
| Segment profit    | 2007 | \$ 7.0       | \$ 52.1                 | \$ 0.5              |
|                   | 2006 | \$ 18.4      | \$ 57.2                 | \$ --               |

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

|  | Three Months   |         | Six Months     |         |
|--|----------------|---------|----------------|---------|
|  | Ended June 30, |         | Ended June 30, |         |
|  | 2007           | 2006    | 2007           | 2006    |
| Total segment profit   | \$ 28.2        | \$ 35.6 | \$ 59.6        | \$ 75.6 |
| Foreign exchange gains (losses)  | 0.4            | (1.2)   | 0.7            | (1.3)   |
| Net corporate operating, interest and other income and expense not allocated to segments | (0.4)          | (0.3)   | (0.8)          | (0.9)   |
| Other income (expense), net  | 7.5            | 7.8     | 13.7           | 12.3    |
| Consolidated income before taxes   | \$ 35.7        | \$ 41.9 | \$ 73.2        | \$ 85.7 |

## 16. LEGAL PROCEEDINGS

In February 2006, Bio-Rad completed negotiations with Applera Corporation (Applera) and Roche Molecular Systems, Inc. to settle the patent infringement litigation against MJ Research, Inc. (MJ Research) which Bio-Rad acquired in 2004. The total net settlement amount, including amounts related to previously accrued back royalties, was approximately \$62 million. In connection with the settlements, we entered into a royalty-bearing license agreement with Applera relating to our real-time instrument business in the United States and a term limited license in the rest of the world.

Applera Corporation filed an action in the Regional Court of Düsseldorf, Germany in June 2003 against MJ Research, Inc. and others alleging infringement of a European patent relating to real-time PCR thermal cyclers technology.

Bio-Rad is also a defendant in this action. The suit seeks actual damages, costs and expenses and injunctive relief. In May 2004, the Düsseldorf court issued an adverse ruling against MJ Research and us, which included an injunction against us and MJ Research from selling any real-time PCR instruments and reagents in Germany. In December 2004, the European Patent Office revoked the patent for lack of novelty and the injunctions against MJ Research and Bio-Rad were lifted, allowing MJ Research and us to resume sales of real-time PCR thermal cyclers and reagents.

Applera appealed revocation of the patent, and in July 2006 the European Patent Office reversed its novelty rejection and reinstated the patent, subject to further review by the Opposition Division of the European Patent Office for other grounds for revocation.

In May 2007, Applera and Bio-Rad settled the litigation in the Düsseldorf court, and Bio-Rad agreed to withdraw its opposition to Applera's European patent relating to real-time PCR instruments. As part of the settlement, the parties extended Bio-Rad's existing license to Applera's European patent.

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

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

This discussion should be read in conjunction with the information contained in both our Consolidated Financial Statements for the year ended December 31, 2006 and this report for the quarter and six months ended June 30, 2007.

Other than statements of historical fact, statements made in this report include forward looking statements, such as statements with respect to Bio-Rad's future financial performance, operating results, plans and objectives that involve risk and uncertainties. Forward-looking statements generally can be identified by the use of forward-looking terminology such as, believe, expect, may, will, intend, estimate, continue, or similar expressions or the use of those terms or expressions. Such statements involve risks and uncertainties, which could cause actual results to vary materially from those expressed in or indicated by the forward-looking statements. We have based these forward looking statements on our current expectations and projections about future events. However, actual results may differ materially from those currently anticipated depending on a variety of risk factors including among other things: our ability to successfully develop and market new products; our reliance on and access to necessary intellectual property; our ability to integrate acquisitions; our ability to service our debt; competition in and government regulation of the industries in which we operate; and the monetary policies of various countries. We caution you not to place undue reliance on forward-looking statements, which reflect an analysis only and speak only as of the date hereof. We undertake no obligation to publicly update or revise any forward looking statements, whether as a result of new information, future events, or otherwise.

**Overview.** We are a multinational manufacturer and worldwide distributor of Life Science research and Clinical Diagnostics products. Our business is organized into two segments, Life Science and Clinical Diagnostics, with the mission to provide scientists with specialized tools needed for biological research and clinical diagnostics. We sell more than 8,000 products and services to a diverse client base comprised of research, healthcare, industrial, education and government customers worldwide. We manufacture and supply our customers with a range of reagents, apparatus and equipment to separate complex chemical and biological materials and to identify, analyze and purify components. Because our customers require replication of results in manufacturing processes, research experiments and diagnostic tests, much of our revenues are recurring. Approximately 36% of our second quarter 2007 consolidated net sales are from the United States and approximately 64% are international sales largely denominated in local currency with the majority of these sales in Euros, Yen and British Sterling. As a result, our consolidated sales expressed in dollars benefit when the US dollar weakens and suffer when the dollar strengthens in relation to other currencies. Currency fluctuations contributed to the increase in our consolidated sales expressed in US dollars in the current quarter and half year ended June 30, 2007. We benefited in the quarter ended June 30, 2006 from foreign currency fluctuations with little impact for the half year ended June 30, 2006.

On a currency neutral basis, we estimate the in vitro diagnostic market is growing approximately 6% and is comprised of specialty areas experiencing significant growth offset by slower growth in the routine testing market. Pricing for routine diagnostic tests is impacted by declining government reimbursement schedules, particularly in the United States, Japan, and Germany.





We estimate the overall average growth of the life science market is currently about 5% on a currency neutral basis. Some spending on government sponsored research has slowed or is being deferred especially in the United States and Asia. The market for BSE (bovine spongiform encephalopathy) tests continues to decline as countries with established testing programs reduce the required number of tests performed, resulting in competitive pricing pressures and lower average selling prices per test. Current BSE testing levels are largely dependant on government mandates to safeguard the respective country's beef supply.

### Critical Accounting Policies

As previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006, we have identified accounting for income taxes, valuation of long-lived and intangible assets and goodwill, valuation of inventories, allowance for doubtful accounts, warranty reserves and litigation reserves as the accounting policies critical to the operations of Bio-Rad. For a full discussion of these policies, please refer to our Form 10-K for the period ended December 31, 2006.

There have been no changes in Bio-Rad's accounting policies during the three months and six months ended June 30, 2007 except for the treatment of tax contingency accruals. Effective January 1, 2007, Bio-Rad began to measure and record tax contingency accruals in accordance with FIN 48. The expanded disclosure requirements of FIN 48 are presented in Note 9 to these consolidated condensed financial statements.

FIN 48 prescribes a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Only tax positions meeting the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of this Interpretation. FIN 48 also provides guidance on accounting for derecognition, interest and penalties, and classification and disclosure of matters related to uncertainty in income taxes. Tax positions that meet the more-likely-than-not threshold are then measured to determine the amount of benefit to recognize in the financial statements.

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

|                    | Three Months Ended |         | Six Months Ended |         | Year Ended   |
|--------------------|--------------------|---------|------------------|---------|--------------|
|                    | June 30,           |         | June 30,         |         | December 31, |
|                    | 2007               | 2006    | 2007             | 2006    | 2006         |
| Net sales          | 100.0 %            | 100.0 % | 100.0 %          | 100.0 % | 100.0 %      |
| Cost of goods sold | 44.0               | 41.9    | 44.2             | 42.5    | 44.1         |

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|   |       |        |      |        |       |
|---|-------|--------|------|--------|-------|
| Gross profit  | 56.0  | 58.1   | 55.8 | 57.5   | 55.9  |
| Selling, general and administrative expense   | 35.3  | 34.8   | 34.4 | 33.6   | 34.5  |
| Product research and development expense, excluding purchased in-process research and development | 10.2  | 9.7    | 10.2 | 9.4    | 9.7   |
| Net income  | 7.6 % | 10.2 % | 8.0% | 10.1 % | 8.1 % |

Three Months Ended June 30, 2007 Compared to

Three Months Ended June 30, 2006

Corporate Results -- Sales, Margins and Expenses

Net sales (sales) in the second quarter of 2007 rose 6.7% to \$339.1 million from \$317.7 million in the second quarter of 2006. The positive impact to sales from a strengthening US dollar represented \$11.8 million of sales growth. For Bio-Rad in total, on a currency neutral basis, second quarter 2007 sales grew 3.0% compared to the second quarter of 2006. Before adjustment to a currency neutral basis, the Clinical Diagnostics segment sales grew by 5.4%, while the Life Science segment sales grew 8.6%. On a currency neutral basis, Clinical Diagnostics segment sales growth was 1.4%, while Life Science segment sales grew 5.2%. Clinical Diagnostics segment sales in the second quarter of 2006 benefited from an \$11.7 million settlement with bioMérieux which included back royalties. There was no similar event in the current quarter. Adjusting for this single item, Clinical Diagnostics segment growth was 12.7% for the current quarter. Clinical Diagnostics segment growth after adjustment for currency and the settlement was driven by quality control, blood virus and clinical microbiology products. Life Science segment sales growth is attributable to protein discovery products associated with the CIPHERGEN acquisition, protein separation and protein function reagents and equipment. Sales of process chromatography media were strong as the products continued to gain broad market acceptance. Sales of our BSE test declined offsetting overall growth in the Life Science segment. Geographically, locations with significant growth were the United States, Asia Pacific (excluding Japan) and Eastern Europe.

Consolidated gross margins were 56.0% for the second quarter of 2007 compared to 58.1% for the second quarter of 2006 and 55.9% for all of 2006. Clinical Diagnostics segment gross margins excluding the bioMérieux settlement which had no cost associated in the prior period, was slightly higher when compared to the second quarter of 2006 without the settlement. Life Science segment gross margins for the period declined by one and a quarter points. Declining BSE margins and underabsorbed factory overhead from lower-than-planned sales contributed to the decrease.

Selling, general and administrative expenses (SG&A) represented 35.3% of sales for the second quarter of 2007 compared to 34.8% of sales for the second quarter of 2006. SG&A grew by 8.2% without adjustment for the increase caused by currency which is estimated to have had a \$3.4 million or 3.0% impact, accelerating growth. The increase in SG&A was attributable evenly to the Clinical Diagnostics and the Life Science segments. The largest factor affecting the increase was personnel costs and related expenses, such as benefits and travel expenses mainly related to acquisitions made in 2006.

Product research and development expense rose to 10.2% of sales or \$34.8 million in the second quarter of 2007. Both Life Science and Clinical Diagnostics segments increased expenditures at a rate of growth greater than the rate of sales growth. Currency had less than an \$0.8 million impact on R&D spending as a significant portion of R&D spending is incurred in the United States. Areas of interest for the Life Science segment are genomics, proteomics,

process chromatography and food safety. The Clinical Diagnostics segment areas of interest include expanded tests for the BioPlex<sup>®</sup> 2200 system and enhancements to existing quality controls, diabetes monitoring and blood virus diagnostics.

Corporate Results   Other Items

Interest expense is similar to the second quarter of 2006. Average indebtedness remained virtually unchanged at \$430 million in the second quarter of 2007. The vast majority of our debt, \$425 million, is fixed rate borrowings of 7.5% (\$225 million) and 6.125% (\$200 million) due in 2013 and 2014, respectively. We will not be subjected to significant increased borrowing costs despite an increased interest rate environment unless we add new debt.

Exchange gains and losses consist of foreign currency transaction gains and losses on intercompany net receivables and payables and the change in fair market value of our forward foreign exchange contracts used to manage our foreign exchange risk. The exchange gain recorded in the current quarter and exchange loss in the prior year are both largely a result of our decision not to hedge our Brazilian subsidiary's current net intercompany payables, denominated in US dollars and Euros.

Other income and expense (net) for the second quarter of 2007 declined slightly compared to the second quarter of 2006. Investment income, especially interest, rose as returns on cash and short-term investments improved from that available in the prior period. Offsetting this increase were losses on the disposal of certain fixed assets as we began renovations of several facilities.

Our effective tax rate was 28% for the second quarter of 2007 and 23% for the second quarter of 2006. The effective tax rates for the second quarters of both 2007 and 2006 reflect tax benefits for nontaxable dividend income. The 2007 effective tax rate reflects a benefit for tax credits. The lower effective tax rate for the second quarter of 2006 is due to export sales, a settlement of an IRS tax audit for 1995 and 1996, and reductions in valuation allowances on certain foreign deferred tax assets.

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

Six Months Ended June 30, 2007 Compared to

Six Months Ended June 30, 2006

Corporate Results -- Sales, Margins and Expenses

Net sales (sales) in the first half of 2007 rose 5.7% to \$661.6 million from \$626.1 million in the first half of 2006.

The positive impact to sales from a weakening US dollar represented \$24.6 million. For Bio-Rad in total, on a currency neutral basis, sales grew 1.7% compared to the prior period. Before adjustment to a currency neutral basis, the Clinical Diagnostics segment sales grew by 7.9% to \$367.5 million and the Life Science segment sales grew 3.0% to \$287.6 million. On a currency neutral basis, Clinical Diagnostics segment sales increased 3.5% and Life Science segment sales declined by 0.4%. Adjusted for the bioMérieux settlement, currency neutral sales growth would be 3.7% on a consolidated basis and 7.2% for the Clinical Diagnostics segment. Sales growth in the Clinical Diagnostics segment is attributable to quality control, clinical microbiology, diabetes, and blood virus product lines. Life Science segment sales growth rates are net of the effect of declining BSE sales. Product lines contributing to increasing sales are process chromatography, protein discovery products associated with the CIPHERGEN acquisition and protein function reagents and instruments.

Consolidated gross margins were 55.8% for the first half of 2007 compared to 57.5% for the first half of 2006 and 55.9% for all of 2006. The bioMérieux settlement in 2006 raised that period's gross margin by 0.8% from 56.7%. Clinical Diagnostics segment gross margins remained virtually unchanged from the prior period rising only 0.2% after elimination of the settlement which had no associated costs in the period reported. Life Science segment gross margins excluding the BSE product line decreased from the prior year by approximately 1.5%. The decrease was caused by the underabsorption of factory costs due to lower than anticipated production levels, higher royalty costs and sales mix.

Selling, general and administrative expenses (SG&A) represented 34.4% of sales for the first half of 2007 compared to 33.6% of sales in the prior year period. Our SG&A increased 8% in absolute dollars before adjustment for any change in currency translation. The weakening dollar increased international spending such that on a currency neutral basis, adjusted SG&A growth was 4.6%. Overall net costs increased for personnel including fringe benefits, information technology operating costs and conceptualization and design of enhancements to our information technology infrastructure.

Product research and development expense increased 14.3% to \$67.5 million in the first half of 2007 compared to the same period in 2006. In absolute dollar spending, the \$8.5 million increase was equally attributable to both the Life Science and Clinical Diagnostics segments. Areas of development for the Life Science segment are amplification, proteomics and process chromatography. Clinical Diagnostics segment development efforts are focused on expanded tests for the BioPlex 2200 testing platform, as well as enhancements to existing offerings in clinical microbiology, blood virus and quality control products.

#### Corporate Results Other Items

Interest expense for the first half of 2007 declined by \$0.2 million from the prior year to \$15.7 million. This decrease is the net effect of a small decrease in our average indebtedness from the first half of 2006. Our borrowing costs should remain relatively unchanged since \$425 million of the total outstanding debt represents fixed rate borrowings of 7.5% and 6.125%, due in 2013 and 2014, respectively. Additions to our average indebtedness in the form of new borrowings or increased borrowing on current lines of credit would cause the cost component to rise.

Exchange gains and losses consist of foreign currency transaction gains and losses on intercompany net receivables and payables and the change in fair value of our forward foreign exchange contracts used to manage our foreign exchange risk. The year 2007 generally represents gains on the unhedged position of current intercompany debt between Bio-Rad Brazil and Bio-Rad USA and France. Losses in 2006 reflect losses in Brazil and the estimating process involved in the timing of shipments and settling intercompany debt.

Other income and expense for the first half of 2007 includes investment income; generally interest income on our cash and cash equivalents, short-term investments, marketable securities and any notes receivable. We also include in this category any gains or losses associated with the sale or disposal of any surplus manufacturing equipment or other productive assets.

Bio-Rad's effective tax rate was 28% for the first half of 2007 and 26% for the first half of 2006. The effective tax rates for both six month periods are lower than the statutory rate due to tax benefits for nontaxable dividend income. The 2007 effective tax rate reflects a benefit for tax credits. The 2006 effective tax rate reflects a benefit for export sales, the settlement of an IRS tax audit for 1995 and 1996, and reductions in valuation allowances on certain foreign

deferred tax assets.

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



## Financial Condition

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

As of June 30, 2007, we had available \$232.4 million in cash and cash equivalents and \$270.4 million of short-term investments. We also had \$29.1 million under international lines of credit. Under the \$150.0 million restated and amended Revolving Credit Facility we have \$145.6 million available with \$4.4 million reserved for standby letters of credit issued by our banks to guarantee our obligations to certain insurance companies related to the deductible on the co-insurance provision of policies issued for us as the beneficiary. We estimate that approximately \$390 million of our total available liquidity is required to close the DiaMed acquisition. The closing is subject to regulatory approval in several countries and could close before the end of the year. After the closing, Bio-Rad will conduct a tender offer to acquire the remaining shares of DiaMed. We are investigating financing options to fund the acquisition. After funding the acquisition, management believes that the remaining availability, together with cash flow from operations, will be adequate to meet our current objectives for operations, research and development, capital additions for plant, equipment and systems.

## Cash Flows from Operations

Net cash provided by operations was \$33.4 million and \$11.5 million for the six months ended June 30, 2007 and 2006, respectively. Comparing the first half of 2007 to the first half of 2006, the cash paid to suppliers and employees represents proportionally higher growth in expenses than customer collection and sales. The main improvement in net cash provided by operations is the result of not having the \$44.2 million payment relating to the settlement of the ABI litigation in 2006. This payment reduced an acquisition liability set up as part of the 2004 purchase of MJ GeneWorks, Inc.

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

## Cash Flows for Investing Activities

Net capital expenditures totaled \$27.3 million for the six months ended June 30, 2007 compared to \$24.9 million for the same period of 2006. Capital expenditures represent the addition and replacement of production machinery and research equipment, ongoing manufacturing and facility additions for compliance, and leasehold improvements. All periods include reagent rental equipment placed with Clinical Diagnostics customers who then contract to purchase our reagents for use. An increase in the investment in reagent rental equipment is anticipated later in the year in connection with the introduction of the BioPlex 2200 multi-analyte system into the diagnostic testing market. Also included in capital expenditures are investments in business systems and data communication upgrades and enhancements.

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

The Board of Directors has authorized the repurchase of up to \$18.0 million of Bio-Rad's common stock over an indefinite period of time. This repurchase was designed to both satisfy our obligations under the employee stock purchase and stock option plans and to improve shareholder value. Through June 30, 2007, we have cumulatively repurchased 1,179,272 shares of Class A Common Stock and 60,000 shares of Class B Common Stock for a total of \$14.7 million. Our credit agreements restrict our ability to repurchase our stock. There were no share repurchases made in the first half of 2007 or all of 2006.

Item 3.

#### Quantitative and Qualitative Disclosures about Market Risk

During the six months ended June 30, 2007, 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, 2006.

Item 4.

#### Controls and Procedures

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

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

procedures were effective at the reasonable assurance level.

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

## PART II OTHER INFORMATION

### Item 1. Legal Proceedings

See Note 16, Legal Proceedings in the Notes to Condensed Consolidated Financial Statements of Part 1, Item 1 of this Form 10-Q.

Item 1A. Risk Factors

A discussion of risk factors relevant to Bio-Rad is included in our Form 10K for the year ended December 31, 2006 as filed on March 1, 2007. There have been no significant changes to these risk factors as of June 30, 2007.

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

None.

Item 3. Defaults Upon Senior Securities

None.

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

At Bio-Rad's annual meeting of stockholders on April 25, 2007, the following individuals were elected to the Board of Directors:

|                          | Class of<br>Common Stock<br>Elected From | Votes<br>For | Votes<br>Withheld |
|--------------------------|--|--------------|-------------------|
| James J. Bennett         | Class B                                  | 4,831,706    | 2,625             |
| Louis Drapeau            | Class A                                  | 19,377,841   | 607,123           |
| Albert J. Hillman        | Class A                                  | 17,923,362   | 2,061,062         |
| Ruediger Naumann-Etienne | Class B                                  | 4,832,194    | 2,137             |
| Alice N. Schwartz        | Class B                                  | 4,832,128    | 2,203             |
| David Schwartz           | Class B                                  | 4,831,568    | 2,763             |
| Norman Schwartz          | Class B                                  | 4,831,608    | 2,723             |

The following proposals were approved at our annual meeting:

|  | Votes<br>For | Votes<br>Against | Abstentions | Broker<br>Non-Vote |
|--|--------------|------------------|-------------|--------------------|
| Ratification of Deloitte & Touche LLP<br>as Bio-Rad's independent auditors | 6,776,518    | 55,645           | 665         | 3,276              |
| Approval of the Bio-Rad Laboratories, Inc.<br>2007 Incentive Award Plan    | 6,198,526    | 174,836          | 36,523      | 426,219            |

Item 5. Other Information

None.

The foregoing matters are described in detail on pages 5-6 and 21-25 of Bio-Rad's definitive Proxy Statement dated March 30, 2007 filed with the Securities and Exchange Commission and incorporated herein by reference.

Item 6.

Exhibits

(a) Exhibits

The following documents are filed as part of this report:

Exhibit

No.

- |         |  |
|---------|--|
| 2.1     | Share Purchase Agreement dated as of May 14, 2007 by and among Bio-Rad Laboratories, Inc. and certain selling shareholders regarding the purchase of 77.6765% of the equity of DiaMed Holding AG. *      |
| 10.15.1 | Amendment No. 1 to Real-Time Settlement Agreement dated as of May 4, 2007 by and between Bio-Rad Laboratories, Inc., MJ Research, Inc. and Applera Corporation, through its Applied Biosystems Group.    |
| 10.17.1 | Amendment No. 1 to Real-Time Patent License Agreement dated as of May 4, 2007 by and between Bio-Rad Laboratories, Inc., MJ Research, Inc. and Applera Corporation through its Applied Biosystems Group. |
| 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  |

\* Pursuant to Regulation S-K Item 601(b)(2), the exhibits and schedules to this agreement have not been filed. We agree to furnish supplementally a copy of any omitted exhibits or schedules to the SEC upon request.

We have requested confidential treatment of certain portions of this agreement.



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: | August 8, 2007 | <u>/s/ Norman Schwartz</u><br>Norman Schwartz, President,<br>Chief Executive Officer                |
| Date: | August 8, 2007 | <u>/s/ Christine A. Tsingos</u><br>Christine A. Tsingos, Vice President,<br>Chief Financial Officer |

