

BIO RAD LABORATORIES INC
Form 10-Q
August 05, 2009

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

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
(Address of principal executive offices)

94547
(Zip Code)

(510) 724-7000

Registrant's telephone number, including area code

No Change

Former name, former address and former fiscal year, if changed since last report.

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

90 days.

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, 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 at July 29, 2009 |
|--|-------------------------------------|
| Class A Common Stock, Par Value \$0.0001 per share | 22,284,233 |
| Class B Common Stock, Par Value \$0.0001 per share | 5,131,547 |

BIO-RAD LABORATORIES, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------|------------------|------------|
| | June 30, | | June 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Net sales | \$ 427,183 | \$ 452,361 | \$ 828,116 | \$ 874,558 |
| Cost of goods sold | 185,221 | 203,940 | 357,253 | 399,254 |
| Gross profit | 241,962 | 248,421 | 470,863 | 475,304 |
| Selling, general and administrative expense | 143,670 | 146,634 | 283,983 | 286,289 |
| Research and development expense | 42,407 | 42,079 | 79,558 | 79,568 |
| Income from operations | 55,885 | 59,708 | 107,322 | 109,447 |
| Interest expense | 10,367 | 7,991 | 18,174 | 15,948 |
| Foreign exchange (gains) losses | 2,551 | (288) | 1,777 | 2,305 |
| Other (income) expense, net | (6,307) | (3,951) | (5,148) | (4,144) |
| Income before taxes | 49,274 | 55,956 | 92,519 | 95,338 |
| Provision for income taxes | (9,974) | (10,632) | (21,176) | (21,455) |
| Net income including noncontrolling interests | 39,300 | 45,324 | 71,343 | 73,883 |
| Less: Net income attributable to noncontrolling interests | (1,331) | (1,926) | (3,109) | (3,990) |
| Net income attributable to Bio-Rad | \$ 37,969 | \$ 43,398 | \$ 68,234 | \$ 69,893 |
| Basic earnings per share: | | | | |
| Net income attributable to Bio-Rad | \$ 1.39 | \$ 1.61 | \$ 2.50 | \$ 2.59 |
| Weighted average common shares | 27,370 | 27,038 | 27,346 | 26,997 |
| Diluted earnings per share: | | | | |
| Net income attributable to Bio-Rad | \$ 1.37 | \$ 1.57 | \$ 2.47 | \$ 2.54 |
| Weighted average common shares | 27,742 | 27,569 | 27,681 | 27,553 |

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)

(Unaudited)

| | June 30, 2009 | December 31, 2008 |
|--|------------------|----------------------|
| ASSETS: | | |
| Cash and cash equivalents | \$ 533,474 | \$ 204,524 |
| Short-term investments | 29,885 | 38,950 |
| Accounts receivable, net | 335,828 | 339,653 |
| Inventories, net | 377,594 | 375,616 |
| Prepaid expenses, taxes and other current assets | 121,054 | 135,198 |
| Total current assets | 1,397,835 | 1,093,941 |
| Net property, plant and equipment | 302,836 | 300,732 |
| Goodwill | 318,264 | 321,820 |
| Purchased intangibles, net | 213,933 | 228,590 |
| Other assets | 111,589 | 92,181 |
| Total assets | \$ 2,344,457 | \$ 2,037,264 |
| LIABILITIES AND STOCKHOLDERS EQUITY: | | |
| Accounts payable | \$ 90,850 | \$ 117,982 |
| Accrued payroll and employee benefits | 104,267 | 119,420 |
| Notes payable and current maturities of long-term debt | 5,874 | 9,578 |
| Sales, income and other taxes payable | 46,486 | 33,731 |
| Accrued royalties | 35,373 | 30,874 |
| Other current liabilities | 100,759 | 106,449 |
| Total current liabilities | 383,609 | 418,034 |
| Long-term debt, net of current maturities | 738,454 | 445,979 |
| Deferred tax liabilities | 42,418 | 42,570 |
| Other long-term liabilities | 52,335 | 60,041 |
| Total liabilities | 1,216,816 | 966,624 |
| STOCKHOLDERS EQUITY: | | |
| Bio-Rad stockholders equity: | | |
| Class A common stock, \$0.0001 par value, 80,000,000 shares | | |

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| | | | |
|---|---------------------------------|--------------|--------------|
| authorized; outstanding | 22,277,179 at June 30, 2009 | | |
| and | 22,182,451 at December 31, 2008 | 2 | 2 |
| Class B common stock, \$0.0001 par value, 20,000,000 shares | | | |
| authorized; outstanding | 5,131,547 at June 30, 2009 | | |
| and | 5,137,357 at December 31, 2008 | 1 | 1 |
| Additional paid-in capital | | | |
| | | 118,920 | 124,401 |
| Retained earnings | | | |
| | | 919,810 | 851,577 |
| Accumulated other comprehensive income | | | |
| | | 71,448 | 65,158 |
| Total Bio-Rad stockholders equity | | | |
| | | 1,110,181 | 1,041,139 |
| Noncontrolling interests | | | |
| | | 17,460 | 29,501 |
| Total stockholders equity | | | |
| | | 1,127,641 | 1,070,640 |
| Total liabilities and stockholders equity | | | |
| | | \$ 2,344,457 | \$ 2,037,264 |

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)

| | 2009 | Six Months Ended June 30, | 2008 |
|---|------------|------------------------------|------------|
| Cash flows from operating activities: | | | |
| Cash received from customers | \$ 831,208 | | \$ 877,910 |
| Cash paid to suppliers and employees | (698,527) | | (781,755) |
| Interest paid | (15,340) | | (15,448) |
| Income tax payments | (13,220) | | (16,848) |
| Miscellaneous receipts | 7,830 | | 5,544 |
| Excess tax benefits from share-based compensation | (88) | | (2,492) |
| Net cash provided by operating activities | 111,863 | | 66,911 |
| Cash flows from investing activities: | | | |
| Capital expenditures, net | (33,395) | | (39,584) |
| Payments for acquisitions and long-term investments | (33,805) | | (17,110) |
| Payments on purchase of intangible assets | (5,360) | | (675) |
| Purchases of marketable securities and investments | (21,697) | | (32,993) |
| Sales of marketable securities and investments | 23,382 | | 43,466 |
| Foreign currency economic hedges, net | 105 | | (5,257) |
| Net cash used in investing activities | (70,770) | | (52,153) |
| Cash flows from financing activities: | | | |
| Net payments under line-of-credit arrangements | (2,228) | | (773) |
| Long-term borrowings | 294,750 | | -- |
| Payments on long-term debt | (3,585) | | (4,414) |
| Proceeds from issuance of common stock | 4,396 | | 6,371 |
| Debt issuance costs on 8% bonds | (2,316) | | -- |
| Excess tax benefits from share-based compensation | 88 | | 2,492 |
| Net cash provided by financing activities | 291,105 | | 3,676 |
| Effect of exchange rate changes on cash | (3,248) | | 3,445 |

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| | | |
|--|------------|------------|
| Net increase in cash and cash equivalents | 328,950 | 21,879 |
| Cash and cash equivalents at beginning of period | 204,524 | 161,764 |
| Cash and cash equivalents at end of period | \$ 533,474 | \$ 183,643 |
| Reconciliation of net income including noncontrolling interests to net cash provided by operating activities: | | |
| Net income including noncontrolling interests | \$ 71,343 | \$ 73,883 |
| Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities excluding the effects of acquisitions: | | |
| Depreciation and amortization | 47,765 | 49,323 |
| Share-based compensation | 4,117 | 3,119 |
| Excess tax benefits from share-based compensation | (88) | (2,492) |
| Decrease in accounts receivable | 6,982 | 1,950 |
| (Increase) decrease in inventories | 1,165 | (38,717) |
| Decrease in other current assets | 8,600 | 307 |
| Decrease in accounts payable and other current liabilities | (34,959) | (33,271) |
| Increase in income taxes payable | 10,722 | 8,461 |
| Other | (3,784) | 4,348 |
| Net cash provided by operating activities | \$ 111,863 | \$ 66,911 |

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 on Form 10-K, for the year ended December 31, 2008, as amended May 18, 2009 on Form 8-K. We have evaluated subsequent events through August 5, 2009, the date these financial statements were issued.

Significant Accounting Policies

We have expanded our disclosure regarding our significant accounting policies relating to Goodwill and Long-Lived Assets. Please refer to our Annual Report on Form 10-K for the year ended December 31, 2008, as amended May 18, 2009 on Form 8-K, for a full discussion of our significant accounting policies.

Goodwill

Goodwill represents the excess of the cost over the fair value of net tangible and identifiable intangible assets of acquired businesses. Goodwill is assessed for impairment by applying fair-value based tests annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. We perform impairment tests of goodwill at our reporting unit level, which is one level below our reporting segments. Our reporting units are identified as components for which discrete financial information is available and is regularly reviewed by management. Goodwill amounts are assigned to the reporting units based upon the amounts allocated at the time of their respective acquisition.

The goodwill impairment test consists of a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit to its carrying value, including goodwill. We use discounted cash flow models to determine the fair value of a reporting unit. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test is not required. The second step, if required, compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. The fair value of a reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. If the carrying amount of the reporting unit's goodwill exceeds its implied fair value, an impairment charge is recognized in an amount equal to that excess.

Long-Lived Assets

For purposes of recognition and measurement of an impairment loss, a long-lived asset or assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. We assess the impairment of long-lived assets (including identifiable intangible assets) whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that we consider important that could trigger an impairment review include:

- significant under-performance relative to expected, historical or projected future operating results;
- significant changes in the manner of use of the long-lived assets, intangible assets or the strategy for our overall business;
- a current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of before the end of its previously estimated useful life; and
- significant negative industry, legal, regulatory or economic trends.

When management determines that the carrying value of long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we test for any impairment based on a projected undiscounted cash flow method. Projected future operating results and cash flows of the asset or asset group are used to establish the fair value used in evaluating the carrying value of long-lived and intangible assets. We estimate the future cash flows of the long-lived assets using current and long-term financial forecasts. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If this is the case, an impairment loss would be recognized. The impairment loss recognized is the amount by which the carrying amount exceeds the fair value.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. This statement replaces SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles*, and establishes the FASB Accounting Standards Codification (Codification) as the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. SFAS 168 explicitly recognizes rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws as sources of authoritative GAAP for SEC registrants. This statement is effective for our interim period ending September 30, 2009 and we do not believe its adoption will have a material impact on our condensed consolidated financial statements.

In May 2009, the FASB issued SFAS 165, *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This statement became effective for our interim period ended June 30, 2009, and did not have a

material impact on our condensed consolidated financial statements.

In April 2009, the FASB issued the following FASB Staff Positions (FSPs) intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities. These FSPs became effective for our interim period ended June 30, 2009.

FSP FAS 157- 4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, provides additional guidance for estimating fair value in accordance with SFAS 157, *Fair Value Measurements*, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also provides guidance on identifying circumstances that indicate a transaction is not orderly. The effect of this FSP did not have a material impact on our condensed consolidated financial statements.

FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, amends SFAS 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments in interim reporting periods of publicly traded companies that were previously only required to be disclosed in annual financial statements. This FSP also amends APB Opinion 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. As FSP FAS 107-1 and APB 28-1 amends only the disclosure requirements about fair value of financial instruments in interim periods, the adoption of this FSP did not affect our financial condition, results of operations or cash flows. See Note 2.

FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, amends current other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The adoption of FSP FAS 115-2 and FAS 124-2 did not have a material impact on our condensed consolidated financial statements.

On January 1, 2009 we adopted SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements*. SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary (minority interest) is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and separate from the parent company's equity. This statement also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. These disclosure requirements have been applied retrospectively to all periods presented. The adoption of this standard did not have a material impact on our condensed consolidated financial statements. The adoption of this standard impacted certain captions previously used on the consolidated income statement, largely identifying net income including noncontrolling interests and net income attributable to Bio-Rad. Certain captions on the consolidated balance sheets and statements of cash flows have also changed.

On January 1, 2009, we adopted SFAS 141R, *Business Combinations*. SFAS 141R continues to require the purchase method of accounting to be applied to all business combinations, but it significantly changes the accounting for certain aspects of business combinations. Under SFAS 141R, an acquiring entity is required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS 141R changes the accounting treatment for certain specific acquisition related items including: (1) expensing acquisition related costs as incurred; (2) valuing noncontrolling interests at fair value at the acquisition date; and (3) expensing restructuring costs associated with an acquired business. SFAS 141R also includes a substantial number of new disclosure requirements. SFAS 141R did not have a material impact on our condensed consolidated financial statements.

In June 2008, the FASB issued FSP Emerging Issues Task Force (EITF) 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. FSP EITF 03-6-1 concluded that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share (EPS)

pursuant to the two-class method. This FSP became effective for us beginning January 1, 2009. The adoption of this FSP did not have a material impact on our EPS data in the six months of 2009 or on EPS for any prior periods. See Note 10.

2. FAIR VALUE MEASUREMENTS

Available-for-sale investments

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

| | June 30, 2009 | | | |
|---------------------------------------|-------------------|---------------------|----------------------|-----------------|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Market Value |
| Short-term investments: | | | | |
| Corporate obligations | \$ 8.0 | \$ -- | \$ -- | \$ 8.0 |
| Municipal obligations | 3.0 | -- | -- | 3.0 |
| Asset-backed securities | 2.0 | -- | -- | 2.0 |
| U.S. government sponsored agencies | 9.5 | -- | -- | 9.5 |
| Marketable equity securities | 8.7 | -- | (1.3) | 7.4 |
| | 31.2 | -- | (1.3) | 29.9 |
| Long-term investments: | | | | |
| Marketable equity securities | 29.7 | 1.3 | (4.6) | 26.4 |
| Asset-backed securities | 7.7 | 0.1 | (2.1) | 5.7 |
| | 37.4 | 1.4 | (6.7) | 32.1 |
| Total | \$ 68.6 | \$ 1.4 | \$ (8.0) | \$ 62.0 |

| | December 31, 2008 | | | |
|---------------------------------------|-------------------|---------------------|----------------------|-----------------|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Market Value |
| Short-term investments: | | | | |
| Corporate obligations | \$ 7.0 | \$ -- | \$ -- | \$ 7.0 |
| Municipal obligations | 5.0 | -- | -- | 5.0 |
| Asset-backed securities | 14.1 | -- | (1.6) | 12.5 |
| U.S. government sponsored agencies | 7.3 | -- | -- | 7.3 |

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| | | | | |
|------------------------------|---------|-------|-----------|---------|
| Marketable equity securities | 10.6 | -- | (3.4) | 7.2 |
| | 44.0 | -- | (5.0) | 39.0 |
| Long-term investments: | | | | |
| Marketable equity securities | 28.5 | -- | (8.2) | 20.3 |
| | 28.5 | -- | (8.2) | 20.3 |
| Total | \$ 72.5 | \$ -- | \$ (13.2) | \$ 59.3 |

The following is a summary of the amortized cost and estimated fair value of our investments at June 30, 2009 by maturity date (in millions):

| | Amortized Cost | Fair Value |
|--------------------------------|-------------------|---------------|
| Mature in less than one year | \$ 20.6 | \$ 20.6 |
| Mature in one to five years | 0.3 | 0.3 |
| Mature in more than five years | 9.3 | 7.3 |
| Total | \$ 30.2 | \$ 28.2 |

The fair value of our available-for-sale investments has declined 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 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 June 30, 2009.

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, not assumptions made by the reporting entity. The identification of market participant assumptions provides a basis for determining what inputs are to be used for pricing each asset or liability. 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 securities
- Level 2 Other significant observable inputs (including quoted prices in active markets for similar securities)
- Level 3 Significant unobservable inputs (including our assumptions in determining the fair value of investments)

Financial assets carried at fair value as of June 30, 2009 are classified in the hierarchy as follows (in millions):

| | Level 1 | Level 2 | Total |
|------------------------------------|---------|---------|---------|
| Short-term investments: | | | |
| Corporate obligations | \$ 7.0 | \$ 1.0 | \$ 8.0 |
| Municipal obligations | -- | 3.0 | 3.0 |
| Asset-backed securities | -- | 2.0 | 2.0 |
| U.S. government sponsored agencies | -- | 9.5 | 9.5 |
| Marketable equity securities | 7.2 | 0.2 | 7.4 |
| | 14.2 | 15.7 | 29.9 |
| Long-term investments: | | | |
| Marketable equity securities | 26.4 | -- | 26.4 |
| Asset-backed securities | -- | 5.7 | 5.7 |
| | 26.4 | 5.7 | 32.1 |
| Total | \$ 40.6 | \$ 21.4 | \$ 62.0 |

Financial assets carried at fair value as of December 31, 2008 are classified in the hierarchy as follows (in millions):

| | Level 1 | Level 2 | Total |
|-------------------------|---------|---------|--------|
| Short-term investments: | | | |
| Corporate obligations | \$ 6.0 | \$ 1.0 | \$ 7.0 |
| Municipal obligations | -- | 5.0 | 5.0 |

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| | | | |
|--|---------|---------|---------|
| Asset backed securities | -- | 12.5 | 12.5 |
| U.S. government sponsored agencies | -- | 7.3 | 7.3 |
| Marketable equity securities | 7.0 | 0.2 | 7.2 |
| | 13.0 | 26.0 | 39.0 |
| Long-term marketable equity securities | 20.3 | -- | 20.3 |
| Total | \$ 33.3 | \$ 26.0 | \$ 59.3 |

Other Financial Instruments

In June 2009, we adopted FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, which requires disclosures about fair value of financial instruments in interim reporting periods of publicly traded companies that were previously only required to be disclosed in annual financial statements.

For certain financial instruments, including cash and cash equivalents, short-term investments, accounts receivable, marketable securities, notes payable, and accounts payable, the carrying amounts approximate fair value.

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 includes some financial instruments that have fair values based on market quotations. Long-term debt has an estimated fair value based on quoted market prices for the same or similar issues.

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

| | June 30, 2009 | | December 31, 2008 | |
|----------------------|--------------------|----------------------------|--------------------|----------------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Other assets | \$ 98.4 | \$ 114.9 | \$ 79.8 | \$ 78.2 |
| Total long-term debt | \$ 719.8 | \$ 698.5 | \$ 425.0 | \$ 381.0 |

3. INVENTORIES

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

June 30, December 31,

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| | 2009 | 2008 |
|-----------------|----------|----------|
| Raw materials | \$ 69.6 | \$ 69.5 |
| Work in process | 109.2 | 105.0 |
| Finished goods | 198.8 | 201.1 |
| | \$ 377.6 | \$ 375.6 |

4. PROPERTY, PLANT AND EQUIPMENT

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

| | June 30, 2009 | December 31, 2008 |
|--------------------------------------|------------------|----------------------|
| Land and improvements | \$ 16.6 | \$ 16.6 |
| Buildings and leasehold improvements | 198.7 | 193.3 |
| Equipment | 491.5 | 466.0 |
| | 706.8 | 675.9 |
| Accumulated depreciation | (404.0) | (375.2) |
| Net property, plant and equipment | \$ 302.8 | \$ 300.7 |

Net capital expenditures include proceeds from the sale of property, plant and equipment of \$0.4 million and \$0.9 million for the six months ended June 30, 2009 and 2008, respectively.

5. ACQUISITIONS

In December 2008, we acquired 100% of the shares of DiaMed Fennica Oy (Fennica) and 100% of the shares of DiaMed (G.B.) Limited. These companies were independent distributors of DiaMed products and are included in our Clinical Diagnostics segment. The total cash purchase price of these acquisitions was approximately \$17 million. We are in the process of finalizing the allocation of the purchase price to the individual assets acquired and liabilities assumed. The preliminary allocation of the purchase price included in the current period balance sheet is based on the best estimates of management.

6. GOODWILL AND OTHER PURCHASED INTANGIBLE ASSETS

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

| | Life Science | Clinical Diagnostics | Total |
|--|-----------------|-------------------------|-------|
|--|-----------------|-------------------------|-------|

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| | | | |
|--|---------|----------|----------|
| December 31, 2008 | \$ 43.5 | \$ 278.3 | \$ 321.8 |
| Updated purchase accounting allocation | -- | (0.3) | (0.3) |
| Currency fluctuations | -- | (3.2) | (3.2) |
| June 30, 2009 | \$ 43.5 | \$ 274.8 | \$ 318.3 |

Goodwill related to the acquisition of DiaMed Fennica and DiaMed (G.B.) Limited remains preliminary, as we are in the process of finalizing the purchase price to the individual assets acquired and liabilities assumed. In the first half of 2009, goodwill declined as some estimated acquisition liabilities were settled without requiring payment. The completion of the purchase price allocation is pending the finalization of certain analyses of inventory, taxes and liabilities. The final allocation may result in adjustments to the carrying value of the recorded assets and liabilities, revisions of the useful lives of intangible assets and the determination of any residual amount that will be allocated to goodwill. The related depreciation and amortization from the acquired assets is also subject to revision based on the final allocation.

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

| | June 30, 2009 | | |
|------------------------------|--------------------|-----------------------------|--------------------|
| | Gross | | Net |
| | Carrying Amount | Accumulated Amortization | Carrying Amount |
| Customer relationships/lists | \$ 85.5 | \$ 11.3 | \$ 74.2 |
| Know how | 89.6 | 24.0 | 65.6 |
| Developed product technology | 44.4 | 15.0 | 29.4 |
| Licenses | 37.4 | 10.4 | 27.0 |
| Tradenames | 21.2 | 6.2 | 15.0 |
| Covenants not to compete | 5.1 | 2.6 | 2.5 |
| Patents | 1.0 | 0.8 | 0.2 |
| Other | 0.1 | 0.1 | -- |
| | \$ 284.3 | \$ 70.4 | \$ 213.9 |

| | December 31, 2008 | | |
|------------------------------|--------------------|-----------------------------|--------------------|
| | Gross | | Net |
| | Carrying Amount | Accumulated Amortization | Carrying Amount |
| Customer relationships/lists | \$ 83.4 | \$ 7.6 | \$ 75.8 |
| Know how | 90.8 | 18.9 | 71.9 |
| Developed product technology | 44.7 | 12.6 | 32.1 |
| Licenses | 37.5 | 8.8 | 28.7 |
| Tradenames | 21.1 | 4.2 | 16.9 |
| Covenants not to compete | 4.9 | 2.1 | 2.8 |
| Patents | 1.0 | 0.6 | 0.4 |
| Other | 0.1 | 0.1 | -- |
| | \$ 283.5 | \$ 54.9 | \$ 228.6 |

Recorded purchased intangible asset amortization expense for the three months ended June 30, 2009 and 2008 was \$7.8 million and \$8.3 million, respectively. Recorded purchased intangible asset amortization expense for the six months ended June 30, 2009 and 2008 was \$15.0 million and \$15.8 million, respectively. Estimated purchased intangible asset amortization expense (based on existing intangible assets) for the years ending December 31, 2010, 2011, 2012, 2013 and 2014 is \$29.9 million, \$28.8 million, \$26.2 million, \$23.6 million and \$20.7 million, respectively.

7. PRODUCT WARRANTY LIABILITY

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

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

| | |
|------------------------|---------|
| December 31, 2008 | \$ 15.8 |
| Provision for warranty | 7.1 |
| Actual warranty costs | (8.0) |
| June 30, 2009 | \$ 14.9 |

8. LONG-TERM DEBT

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

| | June 30, 2009 | December 31, 2008 |
|----------------------------------|------------------|----------------------|
| 7.5% Senior Subordinated Notes | \$ 225.0 | \$ 225.0 |
| 6.125% Senior Subordinated Notes | 200.0 | 200.0 |
| 8.0% Senior Subordinated Notes | 294.8 | -- |
| Other debt | 0.2 | 0.4 |
| Capitalized leases | 24.1 | 27.8 |
| | 744.1 | 453.2 |
| Less current maturities | (5.6) | (7.2) |
| Long-term debt | \$ 738.5 | \$ 446.0 |

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

The sale yielded proceeds of \$294.8 million at an effective interest rate of 8.3%. The notes pay a fixed rate of interest of 8.0% per year. We have the option to redeem any or all of the 8.0% Notes at various declining redemption prices or at 100% of the principal amount plus the applicable premium (as defined by the indenture) along with accrued and unpaid interest and certain other charges depending on the date redeemed. Bio-Rad's obligations under the 8.0% Notes are not secured, rank equal to other senior subordinated notes and rank junior to all Bio-Rad's existing and future senior debt.

In May 2009, Bio-Rad entered into Amendment No. 3 to the Amended and Restated Credit Agreement (the "Credit Agreement"). Amendment No. 3 amends certain provisions of the Credit Agreement including increasing the amount of certain indebtedness permitted under the Credit Agreement under certain conditions, as well as increasing the permitted maximum leverage ratio to permit the issuance of the \$300 million Senior Subordinated Notes.

Borrowings under the Credit Agreement are on a revolving basis and can be used to make acquisitions, for working capital and other general corporate purposes. Borrowings under the credit agreement are payable on June 21, 2010. We had no outstanding balance as of June 30, 2009.

The Credit Agreement is secured by substantially all of our personal property assets, the assets of our domestic subsidiaries and 65% of the capital stock of certain foreign subsidiaries. It is guaranteed by all of our existing and future material domestic subsidiaries. The Credit Agreement, the 6.125% Notes, the 7.5% Notes, and the 8.0% Notes

require Bio-Rad to comply with certain financial ratios and covenants, among other things. The covenants include a leverage ratio test, 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 covenants as of June 30, 2009.

9. NONCONTROLLING INTERESTS

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

| | |
|---|---------|
| December 31, 2008 | \$ 29.5 |
| Net income attributable to noncontrolling interests | 3.1 |
| Purchase of noncontrolling interests | (14.5) |
| Currency fluctuations | (0.6) |
| June 30, 2009 | \$ 17.5 |

On April 30, 2009, we acquired 955 of the remaining 1,000 shares of DiaMed Holding AG, which were held by multiple noncontrolling shareholders. We paid approximately \$30 million to these shareholders under the terms of the original purchase agreement dated October 1, 2007. As this acquisition is accounted for as an equity transaction, Bio-Rad's additional paid-in capital was reduced by \$14.2 million. Although we own virtually all the shares of DiaMed Holding AG, there are still outstanding noncontrolling interests in certain subsidiaries acquired as part of the DiaMed acquisition.

10. EARNINGS PER SHARE

Effective January 1, 2009, we adopted new guidance which concluded that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. As our unvested restricted shares qualify as participating securities, we have included these shares in the computation of EPS for the three and six months ended June 30, 2009 and 2008. The adoption of this FSP did not have a material impact on our EPS for these periods.

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 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 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 June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|--------|------------------------------|--------|
| | 2009 | 2008 | 2009 | 2008 |
| Weighted average shares outstanding | 27,370 | 27,038 | 27,346 | 26,997 |
| Effect of potentially dilutive securities: | | | | |
| Stock options and restricted stock awards | 372 | 531 | 335 | 556 |
| Diluted weighted average common shares | 27,742 | 27,569 | 27,681 | 27,553 |
| Anti-dilutive shares | 273 | 113 | 268 | 81 |

11. SHARE-BASED COMPENSATION

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

For the three months ended June 30, 2009 and 2008, we recognized pre-tax share-based compensation expense of \$2.1 million and \$1.5 million, respectively. For the six months ended June 30, 2009 and 2008, we recognized pre-tax share based compensation expense of \$4.1 and \$3.1 million, respectively. We did not capitalize any share-based compensation expense. We recognize share-based compensation net of estimated forfeitures.

Stock Options

Share-based compensation awards made during the six months ended June 30, 2009 included stock options and restricted stock units representing 179,185 shares of common stock. Share-based awards made during the six months ended June 30, 2008 included stock options, restricted stock and restricted stock units representing 174,930 shares of common stock. The awards generally vest over five years at 20% per year based on continued service with Bio-Rad.

The following table summarizes our stock option activity during the first six months of 2009:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value as of June 30, 2009 (in millions) |
|--|-----------|--|---|---|
| Outstanding, January 1, 2009 | 1,254,127 | \$ 48.84 | | |
| Granted | 58,500 | \$ 75.07 | | |
| Exercised | (29,680) | \$ 39.15 | | |
| Forfeited/Expired | (11,011) | \$ 59.03 | | |
| Outstanding, June 30, 2009 | 1,271,936 | \$ 50.19 | 5.08 | \$ 32.9 |
| Vested and expected to vest June 30, 2009 | 1,247,359 | \$ 49.73 | 5.02 | \$ 32.8 |
| Exercisable, June 30, 2009 | 959,485 | \$ 43.75 | 4.26 | \$ 30.6 |

Cash received from stock options exercised during the three months ended June 30, 2009 and 2008 was \$1.0 million and \$1.3 million, respectively. The actual tax benefit realized for the tax deductions from stock options exercised totaled \$0.6 million and \$0.7 million for the three months ended June 30, 2009 and 2008, respectively. Cash received from stock options exercised during the six months ended June 30, 2009 and 2008 was \$1.2 million and \$3.4 million, respectively. The actual tax benefit realized for the tax deductions from stock options exercised totaled \$0.7 million and \$2.8 million for the six months ended June 30, 2009 and 2008, respectively.

As of June 30, 2009, there was approximately \$7.9 million of total unrecognized compensation cost related to stock options granted under our stock option plans. That cost is expected to be recognized over a weighted average period of approximately three years.

Restricted Stock

The following table summarizes our restricted stock activity during the six months ended June 30, 2009:

| | Restricted Stock Shares | Weighted Average Grant-Date Fair Value |
|-----------------------------------|-------------------------------|--|
| Nonvested shares, January 1, 2009 | 135,914 | \$ 82.64 |
| Granted | -- | |
| Vested | (15,318) | \$ 88.09 |
| Cancelled/Forfeited | (2,308) | \$ 82.68 |
| Nonvested shares, June 30, 2009 | 118,288 | \$ 81.94 |

As of June 30, 2009, there was approximately \$7.3 million of total unrecognized compensation cost related to restricted stock granted under the 2007 Plan. The cost is expected to be recognized over a weighted average period of approximately four years.

Restricted Stock Units

The following table summarizes our restricted stock unit activity during the six months ended June 30, 2009:

| | Units | Weighted Average Grant- Date Fair Value | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value as of June 30, 2009 (in millions) |
|----------------------------|---------|---|---|---|
| Nonvested, January 1, 2009 | 60,649 | \$ 83.08 | | |
| Granted | 120,685 | \$ 74.40 | | |
| Vested | (4,167) | \$ 88.00 | | |
| Forfeited/Expired | (1,250) | \$ 82.93 | | |
| Nonvested, June 30, 2009 | 175,917 | \$ 77.01 | 2.65 | \$ 13.3 |

As of June 30, 2009, there was approximately \$10.4 million of total unrecognized compensation cost related to restricted stock units granted under the 2007 Plan. That cost is expected to be recognized over a weighted average period of approximately five years.

Employee Stock Purchase Plan

We sold 26,730 shares for \$1.5 million and 20,653 shares for \$1.4 million under our employee stock purchase plan for the three months ended June, 2009 and 2008, respectively. We sold 57,453 shares for \$3.2 million and 41,646 shares for \$3.0 million under our employee stock purchase plan for the six months ended June 30, 2009 and 2008, respectively. At June 30, 2009, there were 280,176 authorized shares remaining in the employee stock purchase plan.

12. FOREIGN EXCHANGE GAINS AND LOSSES

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

13. OTHER INCOME AND EXPENSE

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|----------|------------------------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| Interest and investment income | \$ (2.9) | \$ (4.7) | \$ (3.8) | \$ (6.5) |
| Net realized losses on investments | -- | -- | -- | 0.7 |
| Impairment on investments | -- | 2.4 | 2.5 | 3.2 |
| Miscellaneous other (income) expense items | (3.4) | (1.7) | (3.8) | (1.5) |
| Other (income) expense, net | \$ (6.3) | \$ (4.0) | \$ (5.1) | \$ (4.1) |

We recognized impairments on some of our available-for-sale investments in light of the continuing declines in their market prices. We did not believe these particular investments would recover in the near future.

14. COMPREHENSIVE INCOME

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|---------|------------------------------|---------|
| | 2009 | 2008 | 2009 | 2008 |
| Net income including noncontrolling interests | \$ 39.3 | \$ 45.3 | \$ 71.3 | \$ 73.9 |
| Currency translation adjustments | 44.3 | (11.2) | (1.0) | 67.3 |
| Post-employment benefits adjustments net of nominal tax for the three and six months ended June 30, 2009, respectively. | -- | -- | 0.1 | -- |
| Net unrealized holding gains (losses) on available-for-sale investments net of tax effect of (\$3.1) million and (\$4.2) million for the three and | | | | |

six months ending June 30, 2008, respectively.

There was no tax effect for the three or

| | | | | |
|---------------------------------|-----|-------|-----|-------|
| six months ended June 30, 2009. | 9.8 | (2.6) | 4.1 | (4.0) |
|---------------------------------|-----|-------|-----|-------|

Reclassification adjustments for gains (losses) included in net income including noncontrolling interests, net of tax effect of (\$1.1) million and (\$1.4) million for the three and six months ended June 30, 2008, respectively. There was no tax effect for the three or six months ended June 30, 2009.

| | | | | |
|---|---------|---------|---------|----------|
| Total comprehensive income | 93.4 | 29.4 | 77.0 | 134.7 |
| Comprehensive income attributable to noncontrolling interests | (2.3) | (1.6) | (2.5) | (7.3) |
| Comprehensive income attributable to Bio-Rad | \$ 91.1 | \$ 27.8 | \$ 74.5 | \$ 127.4 |

Reclassification adjustments are calculated using the specific identification method.

15. SEGMENT INFORMATION

Information regarding industry segments for the three months ended June 30, 2009 and 2008 is as follows (in millions):

| | | Life Science | Clinical Diagnostics | Other Operations |
|-------------------|------|-----------------|-------------------------|---------------------|
| Segment net sales | 2009 | \$ 149.7 | \$ 274.3 | \$ 3.2 |
| | 2008 | \$ 161.6 | \$ 287.4 | \$ 3.4 |
| Segment profit | 2009 | \$ 9.5 | \$ 36.6 | \$ 0.1 |
| | 2008 | \$ 9.3 | \$ 43.1 | \$ -- |

Information regarding industry segments for the six months ended June 30, 2009 and 2008 is as follows (in millions):

| | | Life Science | Clinical Diagnostics | Other Operations |
|-------------------|------|-----------------|-------------------------|---------------------|
| Segment net sales | 2009 | \$ 290.1 | \$ 531.9 | \$ 6.1 |
| | 2008 | \$ 316.3 | \$ 551.1 | \$ 7.2 |
| Segment profit | 2009 | \$ 15.5 | \$ 74.7 | \$ 0.3 |
| | 2008 | \$ 19.0 | \$ 75.1 | \$ 0.5 |

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

Three Months

Six Months

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| | Ended June 30, | | Ended June 30, | |
|--|----------------|---------|----------------|---------|
| | 2009 | 2008 | 2009 | 2008 |
| Total segment profit | \$ 46.2 | \$ 52.4 | \$ 90.5 | \$ 94.6 |
| Foreign exchange gains (losses) | (2.6) | 0.3 | (1.8) | (2.3) |
| Net corporate operating, interest and other expense not allocated to segments | (0.6) | (0.7) | (1.3) | (1.1) |
| Other income, net | 6.3 | 4.0 | 5.1 | 4.1 |
| Consolidated income before taxes | \$ 49.3 | \$ 56.0 | \$ 92.5 | \$ 95.3 |

16. LEGAL PROCEEDINGS

We are party to various claims, legal actions and complaints arising in the ordinary course of business. We do not believe, at this time, that any ultimate liability resulting from 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, 2008, as amended on May 18, 2009 on Form 8-K, and this report for the quarter and six months ended June 30, 2009.

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: 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 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 replication of results in manufacturing processes, research experiments and diagnostic tests, much of our revenues are recurring. Approximately 34% of our year-to-date 2009 consolidated net sales are from the United States and approximately 66% are from international locations. The international sales are largely denominated in local currencies such as Euros, Swiss Franc, Japanese Yen and British Sterling. As a result, our consolidated sales expressed in dollars benefit when the U.S. dollar weakens and suffer when the dollar strengthens. When the U.S. dollar strengthens, we also benefit from lower cost of sales from our own international manufacturing sites as well as non-U.S. suppliers and we benefit from lower international operating expenses.

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

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

| | Three Months Ended June | | Six Months Ended June | |
|---|-------------------------|---------|-----------------------|---------|
| | 30, | 30, | 30, | 30, |
| | 2009 | 2008 | 2009 | 2008 |
| Net sales | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| Cost of goods sold | 43.4 | 45.1 | 43.1 | 45.7 |
| Gross profit | 56.6 | 54.9 | 56.9 | 54.3 |
| Selling, general and administrative expense | 33.6 | 32.4 | 34.3 | 32.7 |
| Research and development expense | 9.9 | 9.3 | 9.6 | 9.1 |
| Net income attributable to Bio-Rad | 8.9 | 9.6 | 8.2 | 8.0 |

Critical Accounting Policies and Estimates

As previously disclosed in our Annual Report on Form 10-K for year ended December 31, 2008, as amended May 18, 2009 on Form 8-K, we have identified accounting for income taxes, valuation of long-lived and intangible assets and goodwill, valuation of inventories, valuation of investments, warranty reserves, allowance for doubtful accounts and litigation reserves as the accounting policies and estimates critical to the operations of Bio-Rad. For a full discussion of these policies, please refer to our amended Form 10-K for the year ended December 31, 2008. We have expanded our disclosure regarding our critical accounting policies and estimates relating to goodwill and long-lived assets.

Valuation of Goodwill and Long-lived Assets

Goodwill represents the excess of the cost over the fair value of net tangible and identifiable intangible assets of acquired businesses. Goodwill amounts are assigned to the reporting units based upon the amounts allocated at the time of their respective acquisition, adjusted for subsequent significant transfers of business between reporting units.

We assess the impairment of goodwill annually in the fourth quarter or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. There was no indication of impairment in the first six months of 2009. We perform the impairment tests of goodwill at our reporting unit level, which is one level below our reporting segments. The goodwill impairment test consists of a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit to its carrying value, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test is not required. The second step, if required, compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business

combination is determined. The fair value of a reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. If the carrying amount of the reporting unit's goodwill exceeds its implied fair value, an impairment charge is recognized in an amount equal to that excess.

We use projected discounted cash flow models to determine the fair value of a reporting unit. The discounted cash value projected for goodwill may be different from the fair value that would result from an actual transaction between a willing buyer and a willing seller. Projections such as discounted cash flow models are inherently uncertain and accordingly, actual future cash flows may differ materially from projected cash flows. Management judgment is required in developing the assumptions for the discounted cash flow model. These assumptions include revenue growth rates, profit margins, future capital expenditures, working capital needs, expected foreign currency rates, discount rates and terminal values. We estimate future cash flows using current and long-term high level strategic financial forecasts. These forecasts take into account the current economic environment. The discount rates used are compiled using independent sources, current trends in similar businesses and other observable market data. Changes to these rates might result in material changes in the valuation and determination of the recoverability of goodwill. For example, an increase in the discount rate used to discount cash flows will decrease the computed fair value. In order to evaluate the sensitivity of the fair value calculations on the goodwill impairment test, we apply a 10% decrease to the fair value of each reporting unit.

To validate the reasonableness of the reporting unit fair values, we reconcile the aggregate fair values of the reporting units to the enterprise market capitalization including an implied control premium. In performing the reconciliation we may, depending on the volatility of the market value of our stock price, use either the stock price on the valuation date or the average stock price over a range of dates around the valuation date. We compare the implied control premium to premiums paid in observable recent transactions of comparable companies to determine if the fair values of the reporting units are reasonable.

For purposes of recognition and measurement of an impairment loss, a long-lived asset or assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. We assess the impairment of long-lived assets (including identifiable intangibles) whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that we consider important that could trigger an impairment review include:

- significant under-performance relative to expected, historical or projected future operating results;
- significant changes in the manner of use of the long-lived assets, intangible assets or the strategy for our overall business;
- A current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of before the end of its previously estimated useful life; and
- significant negative industry, legal, regulatory or economic trends.

When management determines that the carrying value of long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we test for any impairment based on a projected undiscounted cash flow method. Projected future operating results and cash flows of the asset or asset group are used to establish the fair value used in evaluating the carrying value of long-lived and intangible assets. We estimate the future cash flows of the long-lived assets using current and long-term financial forecasts. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If this is the case, an impairment loss would be recognized. The impairment

loss recognized is the amount by which the carrying amount exceeds the fair value.

Three Months Ended June 30, 2009 Compared to

Three Months Ended June 30, 2008

Results of Operations

Net sales (sales) in the second quarter of 2009 declined 5.6% to \$427.2 million from \$452.4 million in the second quarter of 2008. On a currency neutral basis, sales increased 3.5%. Sales growth was generated by the Asia Pacific, United States and Latin American markets.

The Life Science segment sales for the second quarter were \$149.7 million, down 7.4% or 0.4% on a currency neutral basis, compared to the same period last year. Performance of the Life Science segment was negatively impacted by weakened sales in Europe and delays in spending by the National Institute of Health (NIH) and the National Science Foundation (NSF). Large instrumentation sales were weak as many of our biotechnology customers face capital constraints and project delays. Sales across a number of product lines in the Life Science segment performed well during the quarter, in particular the Bio-Plex[®] suspension array system assays, process media and our real-time polymerase chain reaction (PCR) instruments and reagents. Life Science had very strong sales in Asia Pacific.

The Clinical Diagnostics segment reported sales of \$274.3 million for the second quarter, down 4.6% compared to the second quarter in 2008. On a currency neutral basis, the Clinical Diagnostics segment increased 5.8%. These results reflect continued growth across most product lines, most notable quality control, microbiology and blood virus testing products. Performance in this segment also benefited from placements of the BioPlex[®]2200 system, which employs multiplexing technology to analyze multiple disease markers from a single patient sample.

Consolidated gross margins were 56.6% for the second quarter of 2009 compared to 54.9% for the second quarter of 2008. Life Science segment gross margins improved from the second quarter of 2008 by approximately 0.5%. The improvement was the result of better factory overhead absorption, reduction in costs and improved efficiency. Our Singapore manufacturing plant contributed to these lower costs. Clinical Diagnostics segment gross margins increased by approximately 2.5% driven by the cessation of royalties for blood typing and blood virus products, the inclusion of DiaMed Holding AG (DiaMed) distributors acquired at year-end, and an improvement in BioPlex 2200 margins as volumes increase.

Selling, general and administrative expenses (SG&A) represented 33.6% of sales for the second quarter of 2009 compared to 32.4% of sales for the second quarter of 2008. The Life Science segment had declines in SG&A at a rate greater than the decline in sales both before and after adjusting for currency, the result of cost-cutting efforts to temper weakened sales. The Clinical Diagnostic segment had SG&A growth increase faster than sales, largely driven by acquisition and integration costs related to the DiaMed distributors.

Research and development expense increased to \$42.4 million or 9.9% of sales in the second quarter of 2009 compared to \$42.1 million or 9.3% of sales in the second quarter of 2008. Life Science segment research and development expense declined from the prior year but still represents a near 9% effort. Life Science segment development efforts are directed toward amplification, proteomics and process chromatography. Clinical Diagnostics segment research and development expense increased to approximately 10% of sales for the second quarter of 2009. Clinical Diagnostics segment research and development efforts are concentrating on additional assays for the BioPlex 2200 testing platform and improvements to existing blood typing instrumentation, diabetes monitoring, autoimmune, blood virus and quality control products.

Interest expense for the second quarter of 2009 increased by \$2.4 million compared to the second quarter of 2008. Indebtedness increased by \$294 million in the second quarter of 2009 due to the addition of the \$300 million Senior Subordinated Notes issued in May 2009. Included in this increase is interest and amortization of bond discount and debt issuance costs. Our debt is mainly fixed rate borrowings which will require renewal or payment in 2013, 2014 and 2016.

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 loss in the current quarter is attributable to greater market volatility, higher costs to hedge, inherent forecast error in amounts to hedge and implementation losses in returning to hedging local Brazilian exposures.

Other income and expense, net for the second quarter of 2009 increased \$2.4 million compared to the second quarter of 2008. The current quarter includes \$4.6 million of income for relief of a foreign non-income based tax obligation, offset by lower dividend and interest income in the current capital markets. The reversal of this tax obligation is a one-time event. Additionally, no other-than-temporary impairments on investments were recorded in the current quarter.

Bio-Rad's effective tax rate was 20% and 19% for the second quarter of 2009 and 2008, respectively. The effective tax rates for the second quarter of 2009 and 2008 both reflect tax benefits for nontaxable dividend income, research and development tax credits, and differences between U.S. and foreign tax rates. The lower effective tax rate for the second quarter of 2008 also reflects a benefit from a decrease in tax liabilities for uncertain tax positions as a result of the expiration of statute of limitations and settlements of claims for refunds.

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

Six Months Ended June 30, 2009 Compared to

Six Months Ended June 30, 2008

Results of Operations

Net sales (sales) in the first half of 2009 declined 5.3% to \$828.1 million from \$874.6 million in the first half of 2008. For consolidated Bio-Rad on a currency neutral basis, first half 2009 sales grew 3.4% compared to the prior period.

Our Life Science segment sales were \$290.1 million, a decline of 8.3% compared to the first half of 2008 or 1.6% on a currency neutral basis. Excluding the impact of a declining BSE market, Life Science segment sales grew a currency neutral 1.0%. Product groups showing positive growth include PCR chemicals and instruments, as well as bio-education. Reported sales in Asia Pacific have provided year-to-date growth while other geographic regions have declined.

Our Clinical Diagnostics segment sales were \$531.9 million, down 3.5% compared to the first half of 2008. Excluding the impact of foreign currency, sales increased 6.4% compared to the first half of 2008. The Clinical Diagnostics segment is experiencing sales growth in Bio-Plex 2200, quality controls and blood virus products. On a regional basis, growth areas were Asia Pacific, the United States and Latin America.

Consolidated gross margins were 56.9% for the first half of 2009 compared to 54.3% for the first half of 2008 and 54.6% for all of 2008. Life Science segment gross margins improved in the first half of 2009 by approximately 1.3%. The improvement is the result of better manufacturing overhead absorption from a reduction in costs, the move of new products to more cost efficient off-shore manufacturing and sales mix favoring higher margin reagents and fewer instruments with typically lower margins. Clinical Diagnostics segment gross margins improved by approximately 3.3% generally on improved results from immunohematology products. Improvements included lower royalties from the expiration of patents, additional revenue due to the acquisition of distributors and lower amortization of purchased intangibles.

Selling, general and administrative expenses (SG&A) represented 34.3% of sales for the first half of 2009 compared to 32.7% of sales in the prior year period. Overall net costs increased for personnel including fringe benefits, third party commissions on Asia Pacific and Latin America sales, and purchased intangible amortization from DiaMed distributor acquisitions.

Research and development expense (R&D) was \$79.6 million, increasing to 9.6% of sales, compared to 9.1% in the first half of 2008. Life Science segment development efforts are directed towards genomics, proteomics and process chromatography applications. Clinical Diagnostics segment development efforts are focused on expanded tests for the BioPlex 2200 testing platform, as well as other enhancements to existing offerings in immunohematology automation, clinical microbiology, blood virus and quality control products.

Interest expense for the first half of 2009 increased 14% to \$18.2 million when compared to the first half of 2008. An additional \$300 million of Senior Subordinated Notes were issued in May 2009 increasing our indebtedness to \$744.1 million at June 30, 2009 and increasing our interest expense.

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 first half of 2009 exchange loss of \$1.8 million is attributable to greater market volatility, higher costs to hedge, inherent forecast error and implementation losses in returning to hedging local Brazilian exposures.

Other income and expense for the first half of 2009 includes investment and dividend income; generally interest income on our cash and cash equivalents, short-term investments and long term marketable securities. The current year increase includes \$4.6 million for relief of a foreign non-income based tax obligation, offset by lower interest and dividend income in current capital markets and a decline in the amount of permanent impairments of marketable equity securities. We also include in this category any gains or losses associated with the sale or disposal of surplus manufacturing equipment or other productive assets.

Bio-Rad's effective tax rate was 23% for the first six months of 2009 and 23% for the first six months of 2008. The effective tax rates for both six month periods are lower than the statutory rate due to tax benefits for nontaxable dividend income, research and development tax credits, and differences between U.S. and foreign tax rates.

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

Liquidity and Capital Resources

Bio-Rad operates and conducts business globally, primarily through subsidiary companies established in the markets in which we trade. Goods are manufactured in a small number of locations, and are then shipped to local distribution facilities around the globe. Our product mix is diversified, and certain products compete largely on product efficacy, while others compete on price. Gross margins are generally sufficient to exceed normal operating costs. Funding for research and development of new products as well as routine outflows of capital expenditure and tax expense are covered by cash flow from operations. We currently operate with an adequate level of interest coverage. 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 revolving credit facility.

At June 30, 2009, we had available \$563.4 million in cash, cash equivalents and short-term investments, and \$23.4 million under international lines of credit. Under the \$200.0 million restated and amended Revolving Credit Facility we have \$195.4 million available with \$4.6 million reserved for standby letters of credit issued by our banks to guarantee our obligations to certain insurance companies. Management believes that this availability, together with cash flow from operations, will be adequate to meet our current objectives for operations, research and development, capital additions for plant, equipment and systems and future acquisitions.

Cash Flows from Operations

Net cash provided by operations was \$111.9 million compared to \$66.9 million for the six months ended June 30, 2008. The net improvement of \$45.0 million represents a \$36.5 million improvement in the net change in cash received from customers and cash paid to suppliers. The improvement is mostly attributable to lower payments to suppliers for inventories as inventory levels have remained unchanged during the current year and were up significantly in the prior year. Additionally, we experienced a reduction in taxes paid of \$3.6 million.

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 government reimbursement policies.

Cash Flows for Investing Activities

Net capital expenditures totaled \$33.4 million for the six months ended June 30, 2009 compared to \$39.6 million for the same period of 2008. Capital expenditures represent the addition and replacement of production machinery and research equipment, ongoing manufacturing and facility additions for expansions, regulatory and environmental

compliance, and leasehold improvements. Also included in capital expenditures are investments in business systems and data communication upgrades and enhancements. All periods include equipment placed with Clinical Diagnostics customers who then contract to purchase our reagents for use.

On April 30, 2009, we acquired 955 of the remaining 1,000 shares of DiaMed Holding AG, held by multiple noncontrolling shareholders. We paid approximately \$30 million to these shareholders under the terms of the original purchase agreement dated October 1, 2007. The acquisition of the noncontrolling shares was accounted for as an equity transaction. Although we own virtually all the shares of DiaMed Holding AG, there are still outstanding noncontrolling interests in certain subsidiaries acquired as part of the DiaMed acquisition.

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.

The Board of Directors has authorized the repurchase of up to \$18.0 million of Bio-Rad's common stock over an indefinite period of time of which \$3.3 million is remaining. Our credit agreements restrict our ability to repurchase our stock. There were no share repurchases made in the first six months of 2009 or for the year 2008.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. This statement replaces SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles*, and establishes the FASB Accounting Standards Codification (Codification) as the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. SFAS 168 explicitly recognizes rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws as sources of authoritative GAAP for SEC registrants. This statement is effective for our interim period ending September 30, 2009 and we do not believe its adoption will have a material impact on our condensed consolidated financial statements.

In May 2009, the FASB issued SFAS 165, *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This statement became effective for our interim period ended June 30, 2009, and did not have a material impact on our condensed consolidated financial statements.

In April 2009, the FASB issued the following FASB Staff Positions (FSPs) intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities. These FSPs became effective for our interim period ended June 30, 2009.

FSP FAS 157- 4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, provides additional guidance for estimating fair value in accordance with SFAS 157, *Fair Value Measurements*, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also provides guidance on identifying circumstances that indicate a transaction is not orderly. The effect of this FSP did not have a material impact on our condensed consolidated financial statements.

FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, amends SFAS 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments in interim reporting periods of publicly traded companies that were previously only required to be disclosed in annual financial statements. This FSP also amends APB Opinion 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. As FSP FAS 107-1 and APB 28-1 amends only the disclosure requirements about fair value of financial instruments in interim periods, the adoption of this FSP did not affect our financial condition, results of operations or cash flows. See Note 2.

FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, amends current other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The adoption of FSP FAS 115-2 and FAS 124-2 did not have a material impact on our condensed consolidated financial statements.

On January 1, 2009 we adopted SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements*. SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary (minority interest) is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and separate from the parent company's equity. This statement also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. These disclosure requirements have been applied retrospectively to all periods presented. The adoption of this standard did not have a material impact on our condensed consolidated financial statements. The adoption of this standard impacted certain captions previously used on the consolidated income statement, largely identifying net income including noncontrolling interests and net income attributable to Bio-Rad. Certain captions on the consolidated balance sheets and statements of cash flows have also changed.

On January 1, 2009, we adopted SFAS 141R, *Business Combinations*. SFAS 141R continues to require the purchase method of accounting to be applied to all business combinations, but it significantly changes the accounting for certain aspects of business combinations. Under SFAS 141R, an acquiring entity is required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS 141R changes the accounting treatment for certain specific acquisition related items including: (1) expensing acquisition related costs as incurred; (2) valuing noncontrolling interests at fair value at the acquisition date; and (3) expensing restructuring costs associated with an acquired business. SFAS 141R also includes a substantial number of new disclosure requirements. SFAS 141R did not have a material impact on our condensed consolidated financial statements.

In June 2008, the FASB issued FSP Emerging Issues Task Force (EITF) 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. FSP EITF 03-6-1 concluded that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share (EPS) pursuant to the two-class method. This FSP became effective for us beginning January 1, 2009. The adoption of this FSP did not have a material impact on our EPS data in the six months of 2009 or on EPS for any prior periods. See Note 10.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

During the six months ended June 30, 2009, 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, 2008, as amended May 18, 2009 on Form 8-K.

Item 4. 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 upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission's rules and forms and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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 I, Item 1 of this Form 10-Q.

Item 1A. Risk Factors

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

Recent global market and economic conditions have been unprecedented and challenging with tighter credit conditions and recession in most major economies expected to continue through 2009. Continued concerns about the systemic impact of potential long-term and wide-spread recession, energy costs, geopolitical issues, the availability and cost of credit, and the global housing and mortgage markets have contributed to increased market volatility and diminished expectations for western and emerging economies. These conditions, combined with volatile oil prices,

declining business and consumer confidence and increased unemployment, have contributed to volatility of unprecedented levels.

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 lenders and institutional investors to reduce, and in some cases, cease to provide credit to businesses and consumers. These factors have led to a decrease in spending by businesses and consumers alike. Our customers and vendors may experience cash flow concerns and, as a result, customers may modify, delay or cancel plans to purchase our products and vendors may increase their prices, reduce their output or change terms of sales. Additionally, if customers or 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 and suppliers may restrict credit or impose different payment terms. Any inability of current

and/or potential customers to pay us for our products or any demands by suppliers for different 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, which could be further adversely affected if we are unable to maintain our current credit ratings. Should we have limited access to additional financing sources, we may need to defer capital expenditures or seek other sources of liquidity, which may not be available to us on acceptable terms, if at all. Continued turbulence in the U.S. and international markets and economies and prolonged declines in business consumer spending may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers, including our ability to refinance maturing liabilities and access the capital markets to meet liquidity needs.

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

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

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

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

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

The life science and clinical diagnostics markets are each highly competitive. Some of our competitors have greater financial resources than we do and are less leveraged than we are, making them better equipped to license 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 foreign 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 66% of our net sales in the six months ended June 30, 2009. 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 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. The effect of potential healthcare reform on government funding and our customers ability to purchase our products is uncertain.

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

Healthcare reform and the growth of managed care organizations have been and continue to be significant factors in the clinical diagnostics market. The trend towards managed care, together with efforts to reform the healthcare delivery system in the United States and 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, 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 have previously and may assert patent, copyright and other intellectual property rights to technologies that are important to us. If we are unable to license or otherwise access protected technology used in our products, or if we lose our rights under any existing licenses, we could be prohibited from manufacturing and marketing such products. We may find it necessary to enforce our patents or other intellectual property rights or to defend ourselves against claimed infringement of the rights of others through litigation, which could result in substantial costs to us and divert our resources. We also could incur substantial costs to redesign our products, to defend any legal action taken against us or to pay damages to an infringed party. The foregoing matters could adversely impact our business.

We are subject to substantial government regulation.

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

We are currently subject to environmental regulations and enforcement proceedings.

Our operations are subject to federal, state, local and foreign environmental laws and regulations that govern such activities as transportation of goods, emissions to air and discharges to water, as well as handling and disposal practices for solid, hazardous and medical wastes. In addition to environmental laws that regulate our operations, we are also subject to environmental laws and regulations that create liability and clean-up responsibility for spills, disposals or other releases of hazardous substances into the environment as a result of our operations or otherwise impacting real property that we own or operate. The environmental laws and regulations also subject us to claims by third parties for damages resulting from any spills, disposals or releases resulting from our operations or at any of our properties.

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. In that regard, we currently are investigating soil and groundwater contamination at one of our properties under the oversight of a state agency. Based on the currently available information, we believe that the costs to clean up this contamination will not have a material adverse effect on the future results of our operations or our financial condition. 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 17, 2009, the Schwartz family collectively held approximately 16% of our Class A Common Stock and 90% of our Class B Common Stock. As a result, the Schwartz family is able to elect a majority of the directors, effect fundamental changes in our direction and control matters affecting us, including the allocation of business opportunities that may be suitable for our company. In addition, this concentration of ownership and voting power may have the effect of delaying or preventing a change in control of our company.

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

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

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

Natural disasters, terrorist attacks or acts of war may cause damage or disruption to us and our employees, facilities, information systems, security systems, vendors and customers,

which could significantly impact our net sales, costs and expenses, and financial condition.

We have significant manufacturing and distribution facilities located in Southern and Northern California. California has experienced a number of earthquakes, wildfires, flooding, 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 liquidate these positions for cash, our ability to sell these instruments without significant losses may also be limited by the market environment.

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 June 30, 2009 we and our subsidiaries have approximately \$744.1 million of outstanding indebtedness. In addition, the indentures governing our notes permit us to incur additional debt provided we comply with the limitation on the incurrence of additional indebtedness and disqualified capital stock covenants contained in the indentures.

The following chart shows certain important credit statistics.

| | At June 30, 2009 (in millions) |
|----------------------|-----------------------------------|
| Total debt | \$ 744.1 |
| Stockholders equity | \$ 1,127.6 |
| Debt to equity ratio | 0.7 |

The 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 the 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 the 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.

The agreements governing our debt impose restrictions on our business.

The indenture governing our notes and the terms of other debt instruments, including without limitation our credit facilities and other 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 shareholders.

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 foreign subsidiaries. In addition, acceleration of our other indebtedness may cause us to be unable to make interest payments on our notes and repay the principal amount of the 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. Submission of Matters to a Vote of Security Holders.

At Bio-Rad's annual meeting of stockholders on April 28, 2009, the following individuals were elected to the Board of Directors:

| | Class of Common Stock Elected From | Votes For | Votes Withheld |
|--------------------------|--|--------------|-------------------|
| James J. Bennett | Class B | 4,896,663 | 39,839 |
| Louis Drapeau | Class A | 20,367,128 | 677,231 |
| Albert J. Hillman | Class A | 20,037,099 | 1,007,260 |
| Ruediger Naumann-Etienne | Class B | 4,901,433 | 35,069 |
| Alice N. Schwartz | Class B | 4,896,663 | 39,839 |
| David Schwartz | Class B | 4,896,663 | 39,839 |
| Norman Schwartz | Class B | 4,896,663 | 39,839 |

The following proposal was approved at our annual meeting:

| | Votes For | Votes Against | Abstentions | Broker Non-Vote |
|--|--------------|------------------|-------------|--------------------|
| Ratification of Deloitte & Touche LLP as Bio-Rad's independent auditors | 6,987,105 | 18,526 | 35,307 | -- |

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

The following documents are filed as part of this report:

Exhibit

| | |
|--------|--|
| No. | |
| 10.4.5 | Amendment to the 1994 Stock Option Plan of Bio-Rad Laboratories, Inc., dated February 18, 2009 |
| 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 |

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 5, 2009 | <u>/s/ Norman Schwartz</u> Norman Schwartz, President, Chief Executive Officer |
| Date: | August 5, 2009 | <u>/s/ Christine A. Tsingos</u> Christine A. Tsingos, Vice President, Chief Financial Officer |