

INVITROGEN CORP  
Form 10-Q/A  
August 19, 2005

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**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q/A**

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2005

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: 0-25317

**INVITROGEN CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of

incorporation or organization)

**1600 Faraday Avenue, Carlsbad, CA**  
(Address of principal executive offices)

**33-0373077**  
(I.R.S. Employer Identification No.)

**92008**  
(Zip Code)

Registrant's telephone number, including area code: (760) 603-7200

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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 is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  or No

As of August 9, 2005, there were 53,065,906 shares of the registrant's Common Stock, par value \$.01 per share, outstanding.

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**Explanatory Note**

This Quarterly Report on Form 10-Q/A ( Form 10-Q/A ) is being filed as Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2005. This Form 10-Q/A is filed with the Securities and Exchange Commission (the Commission ) for the purpose of correcting the impact of the recent acquisition of Dynal Biotech Holding AS on our pro forma financial results as disclosed in Note 4 of the Notes to Condensed Consolidated Financial Statements. This report speaks as of the original filing date and, except as indicated, has not been updated to reflect events occurring subsequent to the original filing date.

**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****INVITROGEN CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS***(in thousands, except par value and share data)*

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
	<u>          </u>	<u>          </u>
	<b>(unaudited)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 496,820	\$ 198,396
Short-term investments	428,997	779,279
Restricted cash and investments	6,102	5,706
Trade accounts receivable, net of allowance for doubtful accounts of \$6,284 and \$5,242, respectively	192,752	165,754
Inventories	156,528	122,787
Deferred income tax assets	25,513	31,866
Prepaid expenses and other current assets	29,663	28,440
	<u>          </u>	<u>          </u>
Total current assets	1,336,375	1,332,228
Long-term investments	14,813	109,088
Property and equipment, net	259,946	222,193
Goodwill	1,730,500	1,424,671
Intangible assets, net	511,911	440,182
Deferred income tax assets	1,169	1,051
Other assets	98,629	84,922
	<u>          </u>	<u>          </u>
Total assets	<u>\$ 3,953,343</u>	<u>\$ 3,614,335</u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 1,406	\$ 12,390
Accounts payable	80,964	64,261
Accrued expenses and other current liabilities	100,239	119,024
Income taxes	19,366	510
	<u>          </u>	<u>          </u>
Total current liabilities	201,975	196,185
Long-term debt	1,540,548	1,319,315
Pension liabilities	17,336	15,307
Deferred income tax liabilities	181,908	153,716
Other long-term liabilities	12,731	16,561
	<u>          </u>	<u>          </u>
Total liabilities	<u>1,954,498</u>	<u>1,701,084</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; \$0.01 par value, 6,405,884 shares authorized; no shares issued or outstanding		

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Common stock; \$0.01 par value, 125,000,000 shares authorized; 57,416,821 and 56,274,648 shares issued, respectively	574	562
Additional paid-in-capital	2,098,089	2,029,222
Deferred compensation	(15,286)	(14,887)
Accumulated other comprehensive income	27,348	72,214
Retained earnings	66,311	4,331
Less cost of treasury stock; 4,831,562 shares	(178,191)	(178,191)
	<u>          </u>	<u>          </u>
Total stockholders' equity	1,998,845	1,913,251
	<u>          </u>	<u>          </u>
Total liabilities and stockholders' equity	\$ 3,953,343	\$ 3,614,335
	<u>          </u>	<u>          </u>

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

## INVITROGEN CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

*(in thousands, except per share data)*

	For the three months		For the six months	
	ended June 30,		ended June 30,	
	2005	2004	2005	2004
	(unaudited)		(unaudited)	
Revenues	\$ 306,456	\$ 253,964	\$ 583,537	\$ 505,288
Cost of revenues	128,410	107,931	234,832	217,270
Gross profit	178,046	146,033	348,705	288,018
Operating expenses:				
Sales and marketing	56,294	43,261	104,774	88,715
General and administrative	31,999	26,206	62,003	53,229
Research and development	24,263	18,154	45,504	33,902
Purchased intangibles amortization	29,866	28,307	55,767	56,535
Purchased in-process research and development	12,686	728	13,886	728
Total operating expenses	155,108	116,656	281,934	233,109
Operating income	22,938	29,377	66,771	54,909
Other income (expense):				
Interest income	5,074	5,566	10,950	11,420
Interest expense	(7,776)	(7,720)	(15,034)	(17,201)
Gain (loss) on early retirement of debt	139		139	(6,775)
Other income (expense), net	170	(32)	25,843	
Total other income (expense), net	(2,393)	(2,186)	21,898	(12,556)
Income before provision for income taxes	20,545	27,191	88,669	42,353
Income tax provision	(5,639)	(7,502)	(26,689)	(12,155)
Net income	\$ 14,906	\$ 19,689	\$ 61,980	\$ 30,198
Earnings per common share:				
Basic	\$ 0.29	\$ 0.38	\$ 1.20	\$ 0.58
Diluted	\$ 0.27	\$ 0.36	\$ 1.10	\$ 0.56
Weighted average shares used in per share calculation:				
Basic	52,076	52,182	51,766	51,940
Diluted	55,676	61,185	60,345	55,291

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



## INVITROGEN CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

*(in thousands)*

	For the six months	
	ended June 30,	
	2005	2004
	(unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 61,980	\$ 30,198
Adjustments to reconcile net income to net cash provided by operating activities, net of effects of businesses acquired:		
Depreciation	19,155	18,574
Amortization of intangible assets	57,680	57,967
Amortization of deferred debt issue costs	1,642	1,758
Amortization of premiums on investments, net of accretion of discounts	3,046	4,169
Amortization of deferred compensation	3,340	1,929
Deferred income taxes	(19,256)	(23,120)
In-process research and development	13,886	728
Other non-cash adjustments	13,516	3,907
Changes in operating assets and liabilities:		
Trade accounts receivable	(16,284)	(22,345)
Inventories	13,976	15,252
Prepaid expenses and other current assets	17,065	(1,285)
Other assets	(16,642)	401
Accounts payable	10,719	(14,024)
Accrued expenses and other liabilities	(36,448)	(1,516)
Income taxes	8,371	18,302
Net cash provided by operating activities	135,746	90,895
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Maturities of available-for-sale securities	621,350	620,797
Purchases of available-for-sale securities	(185,363)	(684,736)
Net cash paid for acquired businesses	(483,038)	(492,680)
Purchases of property and equipment	(32,930)	(10,964)
Proceeds from sale of property and equipment		1,329
Payments for intangible assets	(1,037)	(1,549)
Net cash provided by (used in) investing activities	(81,018)	(567,803)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from long-term obligations	350,609	440,590
Principal payments on long-term obligations	(141,806)	(174,869)
Proceeds from sale of common stock	54,656	42,877
Net cash provided by financing activities	263,459	308,598
Effect of exchange rate changes on cash	(19,763)	3,325



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Net increase (decrease) in cash and cash equivalents	298,424	(164,985)
Cash and cash equivalents, beginning of period	198,396	588,678
	<u>          </u>	<u>          </u>
Cash and cash equivalents, end of period	\$ 496,820	\$ 423,693
	<u>          </u>	<u>          </u>

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

**INVITROGEN CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**1. Basis of Presentation**

*Financial Statement Preparation*

The unaudited condensed consolidated financial statements have been prepared by Invitrogen Corporation according to the rules and regulations of the Securities and Exchange Commission (SEC), and therefore, certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements for the periods presented reflect all adjustments, which are normal and recurring, necessary to fairly state the financial position, results of operations and cash flows. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2004, filed with the Securities and Exchange Commission on February 23, 2005.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Principles of Consolidation*

The condensed consolidated financial statements include the accounts of Invitrogen Corporation and its majority owned or controlled subsidiaries collectively referred to as Invitrogen (the Company). All significant intercompany accounts and transactions have been eliminated.

*Long-Lived Assets*

The Company periodically re-evaluates the original assumptions and rationale utilized in the establishment of the carrying value and estimated lives of its long-lived assets. The criteria used for these evaluations include management's estimate of the asset's continuing ability to generate income from operations and positive cash flow in future periods as well as the strategic significance of any intangible asset to the Company's business objectives. If assets are considered to be impaired, the impairment recognized is the amount by which the carrying value of the assets exceeds the fair value of the assets, which is determined by applicable market prices, when available.

*Computation of Earnings Per Share*

Basic earnings per share was computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur from the following items:

Convertible subordinated notes and contingently convertible notes where the effect of those securities is dilutive;

Dilutive stock options; and

Unvested restricted stock

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Computations for basic and diluted earnings per share employing EITF 04-8 and EITF 90-19 are as follows:

	Income	Shares	Earnings
	(numerator)	(denominator)	per share
<i>(in thousands, except per share data) (unaudited)</i>			
<b>Three months ended June 30, 2005</b>			
Basic earnings per share:			
Net income	\$ 14,906	52,076	\$ 0.29
Diluted earnings per share:			
Dilutive stock options		1,601	
Unvested restricted stock		302	
2% Convertible Senior Notes due 2023	190	1,320	
1½% Convertible Senior Notes due 2024	92	377	
Net income plus assumed conversions	\$ 15,188	55,676	\$ 0.27
Potentially dilutive securities not included above since they are antidilutive:			
Antidilutive stock options		509	
2¼% Convertible Subordinated Notes due 2006		4,786	
<b>Three months ended June 30, 2004</b>			
Basic earnings per share:			
Net income	\$ 19,689	52,182	\$ 0.38
Diluted earnings per share:			
Dilutive stock options		1,686	
Unvested restricted stock		175	
2¼% Convertible Subordinated Notes due 2006	2,091	5,807	
2% Convertible Senior Notes due 2023	189	958	
1½% Convertible Senior Notes due 2024	92	377	
Net income plus assumed conversions	\$ 22,061	61,185	\$ 0.36
Potentially dilutive securities not included above since they are antidilutive:			
Antidilutive stock options		1,420	

	Income	Shares	Earnings
	(numerator)	(denominator)	per share
<i>(in thousands, except per share data) (unaudited)</i>			
<b>Six months ended June 30, 2005</b>			
Basic earnings per share:			
Net income	\$ 61,980	51,766	\$ 1.20
Diluted earnings per share:			
Dilutive stock options		1,531	
Unvested restricted stock		238	
2¼% Convertible Subordinated Notes due 2006	3,835	5,296	
2% Convertible Senior Notes due 2023	379	1,137	
1½% Convertible Senior Notes due 2024	186	377	
Net income plus assumed conversions	\$ 66,380	60,345	\$ 1.10
Potentially dilutive securities not included above since they are antidilutive:			
Antidilutive stock options		855	
<b>Six months ended June 30, 2004</b>			
Basic earnings per share:			
Net income	\$ 30,198	51,940	\$ 0.58
Diluted earnings per share:			
Dilutive stock options		1,841	
Unvested restricted stock		169	
2% Convertible Senior Notes due 2023	378	1,053	
1½% Convertible Senior Notes due 2024	138	288	
Net income plus assumed conversions	\$ 30,714	55,291	\$ 0.56
Potentially dilutive securities not included above since they are antidilutive:			
Antidilutive stock options		973	
2¼% Convertible Subordinated Notes due 2006		5,807	
5½% Convertible Subordinated Notes due 2007		834	

**Accounting for Stock-Based Compensation**

The Company accounts for its employee stock option plans and employee stock purchase plan under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and has adopted the disclosure only provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123). Accordingly, no compensation cost has been recognized for the fixed stock option plans or stock purchase plan under the fair value recognition provisions of SFAS 123. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation.

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2005	2004	2005	2004
<i>(in thousands, except per share data)(unaudited)</i>				
Net income, as reported	\$ 14,906	\$ 19,689	\$ 61,980	\$ 30,198

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Compensation expense, net of related tax effects	(12,936)	(9,803)	(21,832)	(17,830)
Pro forma net income	\$ 1,970	\$ 9,886	\$ 40,148	\$ 12,368
Basic earnings per share:				
As reported	\$ 0.29	\$ 0.38	\$ 1.20	\$ 0.58
Pro forma	\$ 0.04	\$ 0.19	\$ 0.78	\$ 0.24
Net income used in calculation of diluted earnings per share	\$ 15,188	\$ 22,061	\$ 66,380	\$ 30,714
Compensation expense, net of related tax effects	(12,936)	(9,803)	(21,832)	(17,830)
Pro forma net income	\$ 2,252	\$ 12,258	\$ 44,548	\$ 12,884
Diluted earnings per share:				
As reported	\$ 0.27	\$ 0.36	\$ 1.10	\$ 0.56
Pro forma	\$ 0.04	\$ 0.20	\$ 0.74	\$ 0.23

**Comprehensive Income (Loss)**

The components of comprehensive income (loss) consist of the following:

<i>(in thousands) (unaudited)</i>	<b>For the three months ended</b>		<b>For the six months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Net income, as reported	\$ 14,906	\$ 19,689	\$ 61,980	\$ 30,198
Unrealized gain (loss) on investments, Net of related tax effects	692	(3,009)	(579)	(3,390)
Unrealized gain (loss) on hedging transactions, net of related tax effects	4,746	(109)	9,909	1,978
Minimum pension liability adjustment, net of related tax effects	2		4	
Foreign currency translation adjustment	(29,763)	(2,263)	(54,200)	(122)
<b>Total comprehensive income (loss)</b>	<b>\$ (9,417)</b>	<b>\$ 14,308</b>	<b>\$ 17,114</b>	<b>\$ 28,664</b>

**Recent Accounting Pronouncements**

In March 2005, the SEC released Staff Accounting Bulletin (SAB) No. 107, Share-Based Payment (SAB 107). SAB 107 provides the SEC staff position regarding the application of SFAS No. 123R. SAB 107 contains interpretive guidance related to the interaction between SFAS No. 123R and certain SEC rules and regulations, as well as provides the Staff's views regarding the valuation of share-based payment arrangements for public companies. SAB 107 also highlights the importance of disclosures made related to the accounting for share-based payment transactions. The Company is currently reviewing the effect of SAB 107 on its condensed consolidated financial statements as it prepares to adopt SFAS 123R.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R), which is a revision of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123). SFAS 123R supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends Statement of Financial Accounting Standards No. 95, Statement of Cash Flows (SFAS 95). Generally, the approach in SFAS 123R is similar to the approach described in SFAS 123. However, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. SFAS 123R must be adopted no later than January 1, 2006. Early adoption will be permitted in periods in which financial statements have not yet been issued. The Company expects to adopt SFAS 123R on January 1, 2006.

As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using Opinion 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS 123R's fair value method will have a significant impact on our results of operations, although it will have no impact on our overall financial position. Determining the exact impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future and the assumptions for the variables which impact the computation. However, had the Company adopted SFAS 123R in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share elsewhere in Note 1 of the Company's condensed consolidated financial statements. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce the Company's net operating cash flows and increase net financing cash flows in periods after adoption.

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In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153, Exchanges of Nonmonetary Assets – An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions (SFAS 153). SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, Accounting for Nonmonetary Transactions, and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for the fiscal periods beginning after June 15, 2005



and is required to be adopted by the Company beginning January 1, 2006. The Company is currently evaluating the effect that adoption of SFAS 153 will have on its consolidated results of operations and financial condition but does not expect it to have a material impact.

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, *Inventory Costs*, an amendment of ARB No. 43, Chapter 4 (SFAS 151). This statement amends the guidance in ARB No. 43 Chapter 4, *Inventory Pricing*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB No. 43, Chapter 4, previously stated that . . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal to require treatment as current period charges . . . This statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal. In addition, this statement requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this statement will be effective for inventory costs during the fiscal years beginning after June 15, 2005. The Company does not believe that the adoption of this statement will have a material impact on its financial condition or consolidated results of operations.

In December 2004, the FASB issued FASB Staff Position No. FAS 109-1, *Application of FASB Statement No. 109, Accounting for Income Taxes, for the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004* (FSP FAS 109-1). FSP FAS 109-1 clarifies that the deduction will be treated as a special deduction as described in Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. As such, the special deduction has no effect on deferred tax assets and liabilities existing at the date of enactment. The impact of the deduction will be reported in the period in which the deduction is claimed.

On October 22, 2004, the American Jobs Creation Act (AJCA) was signed into law. The AJCA includes a special one-time 85 percent dividends received deduction for certain foreign earnings that are repatriated. In December 2004, the FASB issued FASB Staff Position No. FAS 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004* (FSP FAS 109-2). FSP FAS 109-2 provides accounting and disclosure guidance for this repatriation provision. FSP FAS 109-2 requires the Company to disclose certain information regarding its evaluation of the AJCA repatriation provisions (see Note 10 of the Notes to Condensed Consolidated Financial Statements).

At its September 29-30, 2004, meeting, the FASB reached a consensus on Emerging Issues Task Force (EITF) Issue No. 04-8, *The Effect of Contingently Convertible Debt on Diluted Earnings Per Share* (EITF Issue 04-8), that contingently convertible debt instruments will be subject to the if-converted method under SFAS 128, regardless of the contingent features included in the instrument. Under past practice, issuers of contingently convertible debt instruments exclude potential common shares underlying the debt instruments from the calculation of diluted earnings per share until the market price or other contingency is met. The effective date for EITF Issue 04-8 is for reporting periods ending after December 15, 2004. The Company has applied the EITF guidance by retroactively restating earnings per share for all applicable periods (see disclosure related to *Computation of Earnings Per Share* located elsewhere in this note).

In May 2004, the FASB issued FASB Staff Position No. 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (FSP 106-2). FSP 106-2 provides guidance on the accounting for the effects of the Act for employers that sponsor postretirement health care plans that provide prescription drug benefits. This FSP also requires those employers to provide certain disclosures regarding the effect of the federal subsidy provided by the Act (the Subsidy). The guidance in FSP 106-2 related to the accounting for the Subsidy applies only to the sponsor of a single-employer defined benefit postretirement health care plan for which (a) the employer has concluded that prescription drug benefits available under the plan to some or all the participants for some or all future years are actuarially equivalent to Medicare Part D and thus qualify for the Subsidy under the Act and (b) the expected Subsidy will offset or reduce the employer's share of the cost of the underlying postretirement prescription drug coverage on which the Subsidy is based. This FSP also provides guidance for the disclosures about the effects of the Subsidy for an employer that sponsors a postretirement health care benefit plan that provides prescription drug coverage, but for which the employer has not yet been able to determine actuarial equivalency. This FSP is effective for the first interim period beginning after June 15, 2004. The Company is investigating the impact of FSP 106-2's initial recognition, measurement and disclosure provisions on its Dexter Postretirement Health and Benefit Program, but is currently unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D. As a result, measurement of the accumulated plan benefit obligation and net periodic postretirement benefit cost does not reflect the effects of the Act on the Company's postretirement benefit plan. The Company does not expect FSP 106-2 to have a material impact on its consolidated financial statements.



## 2. Composition of Certain Financial Statement Items

### Investments

Investments consist of the following:

	June 30,	December 31,
	2005	2004
<i>(in thousands)</i>	<u>2005</u>	<u>2004</u>
	<u>(unaudited)</u>	
<b>Short-term</b>		
Corporate obligations	\$ 169,566	\$ 221,492
U.S. Treasury and Agency obligations	219,402	212,657
Municipal obligations	3,423	27,179
Commercial paper	36,606	82,249
Auction rate securities		235,702
	<u>          </u>	<u>          </u>
Total short-term investments	<u>\$ 428,997</u>	<u>\$ 779,279</u>
<b>Long-term</b>		
Corporate obligations	\$ 6,785	\$ 56,676
U.S. Treasury and Agency obligations	8,028	46,033
Municipal obligations		2,327
Equity securities		4,052
	<u>          </u>	<u>          </u>
Total long-term investments	<u>\$ 14,813</u>	<u>\$ 109,088</u>
	<u>          </u>	<u>          </u>
Total investments	<u>\$ 443,810</u>	<u>\$ 888,367</u>

### Inventories

Inventories consist of the following:

	June 30,	December 31,
	2005	2004
<i>(in thousands)</i>	<u>2005</u>	<u>2004</u>
	<u>(unaudited)</u>	
Raw materials and components	\$ 20,963	\$ 17,934
	<u>          </u>	<u>          </u>
Work in process (materials, labor and overhead)	17,362	10,791
Adjustment to write up acquired work in process inventory to fair value	15,334	
	<u>          </u>	<u>          </u>

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Total work in process	32,696	10,791
Finished goods (materials, labor and overhead)	100,605	94,062
Adjustment to write up acquired finished goods inventory to fair value	2,264	
Total finished goods	102,869	94,062
	\$ 156,528	\$ 122,787

**Property and Equipment**

Property and equipment consist of the following:

	Estimated Useful life (in years)	June 30, 2005 (unaudited)	December 31, 2004
<i>(in thousands)</i>			
Land		\$ 22,783	\$ 19,449
Building and improvements	1-50	150,682	134,912
Machinery and equipment	3-13	197,446	157,423
Construction in process		34,465	17,538
		405,376	329,322
Accumulated depreciation and amortization		(145,430)	(107,129)
		\$ 259,946	\$ 222,193

**Goodwill and Other Intangible Assets**

The \$305.8 million increase in goodwill on the consolidated balance sheets from December 31, 2004 to June 30, 2005, was the result of a \$325.2 million increase due to current year acquisitions, offset by \$5.9 million in adjustments for prior acquisitions and \$13.5 million in currency translation adjustments.

Intangible assets consist of the following:

	June 30, 2005 (unaudited)			December 31, 2004		
	Weighted average life	Gross carrying amount	Accumulated amortization	Weighted average life	Gross carrying amount	Accumulated amortization
<i>(in thousands)</i>						
Amortized intangible assets:						
Purchased technology	7 years	\$ 710,669	\$ (327,515)	7 years	\$ 634,200	\$ (282,098)
Purchased tradenames and trademarks	8 years	87,400	(39,279)	5 years	54,074	(33,796)
Purchased customer base	10 years	71,053	(16,211)	13 years	54,018	(12,749)
Other intellectual properties	8 years	29,997	(14,441)	8 years	27,497	(12,026)
Genome libraries	3 years	1,581	(1,578)	3 years	1,581	(1,570)
Non-compete agreements	3 years	5,902	(3,118)	3 years	5,902	(2,302)
		<u>\$ 906,602</u>	<u>\$ (402,142)</u>		<u>\$ 777,272</u>	<u>\$ (344,541)</u>
Intangible assets not subject to amortization:						
Purchased tradenames and trademarks		<u>\$ 7,451</u>			<u>\$ 7,451</u>	

Amortization expense related to amortizable intangible assets for the three months ended June 30, 2005 and 2004 was \$30.8 million and \$29.1 million, respectively, and \$57.7 million and \$58.0 million for the six months ended June 30, 2005 and 2004, respectively.

Estimated aggregate amortization expense is expected to be \$54.3 million for the remainder of fiscal year 2005, and \$108.0 million, \$95.1 million, \$59.5 million and \$54.0 million for the years ending December 31, 2006, 2007, 2008 and 2009, respectively.

**3. Other Income (Expense), Net**

Other income (expense), net consists of the following:

For the three months	For the six months
ended June 30,	ended June 30,

	2005	2004	2005	2004
<i>(in thousands)(unaudited)</i>				
Gain on forward contract	\$	\$	\$ 21,003	\$
Sale of equity investment			2,796	
Foreign currency gain on short-term intercompany loan			2,200	
Other	170	(32)	(156)	
	\$ 170	\$ (32)	\$ 25,843	\$

#### 4. Business Combinations

##### *Dynal Acquisition*

On April 1, 2005, the Company acquired all of the outstanding shares of common stock and stock options of Dynal Biotech Holding AS (Dynal). Based in Oslo, Norway, Dynal is the industry leader in magnetic bead technologies used in cell separation and purification, cell stimulation, protein research, nucleic acid research and microbiology. The primary reason for the acquisition was to leverage Dynal's technologies across the Company's broad product portfolio. This combination has applications in numerous areas of research, including stem cell and cell therapy applications, as well as in products that support molecular diagnostics, and other key areas of research. The Company has continued Dynal's operations as part of its BioDiscovery business segment.

The results of operations have been included in the accompanying condensed consolidated financial statements from the date of acquisition.

The total cost of the acquisition was as follows:

<i>(in thousands) (unaudited)</i>	
Cash paid for common stock	\$ 347,308
Cash paid to extinguish debt as a result of acquisition	53,057
Direct costs	2,194
	<hr/>
Total purchase price	\$ 402,559
	<hr/>

As of June 30, 2005, the purchase price allocation shown below is preliminary and subject to the finalization of the independent valuation report.

<i>(in thousands) (unaudited)</i>	
Fair value of net tangible assets acquired	\$ 20,070
Fair value of purchased in-process research and development costs acquired	12,800
Fair value of identifiable intangible assets acquired	104,100
Goodwill	265,589
	<hr/>
	\$ 402,559
	<hr/>

Purchased intangibles are being amortized over a weighted average life of 8 years. An established client list, a history of operating margins and profitability, a strong scientific employee base and operations in an attractive market niche were among the factors that contributed to a purchase price resulting in the recognition of goodwill. The Company believes none of the intangible assets and goodwill recognized will be deductible for federal income tax purposes.

As part of the integration of the business, the Company has established a preliminary reserve for the termination and relocation of certain employees to other sites. The Company is currently evaluating additional integration opportunities of the business. At June 30, 2005, the Company had \$1.6 million remaining in accrued expenses and other current liabilities in the Condensed Consolidated Balance Sheets related to this integration. No activity for accrued acquisition and business integration costs were incurred for the six months ended June 30, 2005.

#### ***BioReliance Acquisition***

On February 6, 2004, the Company acquired all of the outstanding shares of common stock and stock options of BioReliance Corporation (BioReliance). Based in Rockville, Maryland, BioReliance is a contract service organization, providing testing and manufacturing services for biotech and research companies that are involved in early preclinical product development through licensed production. The primary reason for the acquisition was to improve the Company's drug discovery offering, by helping to create a system for drug discovery, development and production. The Company has continued BioReliance's operations as part of its BioProduction business segment.

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The results of operations have been included in the accompanying condensed consolidated financial statements from the date of acquisition.

The total cost of the acquisition was as follows:

<i>(in thousands) (unaudited)</i>	
Cash paid for common stock	\$ 404,793
Cash paid for outstanding common stock options	28,505
Debt assumed as a result of acquisition	70,436
Direct costs	3,322
	<hr/>
Total purchase price	\$ 507,056
	<hr/>



The final purchase price allocation is shown below:

<i>(in thousands) (unaudited)</i>	
Fair value of net tangible assets acquired	\$ 122,958
Fair value of debt assumed	(70,436)
Fair value of identifiable intangible assets acquired	44,300
Goodwill	410,234
	<u>507,056</u>

Purchased intangibles are being amortized over a weighted average life of 4 years. An established client list, a history of operating margins and profitability, a strong scientific employee base and operations in an attractive market niche were among the factors that contributed to a purchase price resulting in the recognition of goodwill. The Company believes none of the intangible assets and goodwill recognized will be deductible for federal income tax purposes, although a portion or the purchase price will be deductible for certain state tax purposes.

As a result of the integration of the business and the Company's implementation of a decision made by the board of directors of BioReliance to close duplicate facilities in Worcester, Massachusetts, prior to the acquisition, the Company has terminated 76 employees and relocated 8 employees to other sites. At June 30, 2005, the Company had \$0.9 million remaining in accrued expenses and other current liabilities in the Condensed Consolidated Balance Sheets related to this integration. Activity for accrued acquisition and business integration costs for the six months ended June 30, 2005, is as follows:

	Balance at December 31, 2004	Amounts paid in cash	Balance at June 30, 2005
<i>(in thousands)(unaudited)</i>			
Stock options	\$ 102	\$ (102)	\$
Severance charges	741	(399)	342
Change-in-control agreements	350		350
Other costs to close facilities	250		250
	<u>\$ 1,443</u>	<u>\$ (501)</u>	<u>\$ 942</u>

**Pro Forma Information**

The following unaudited pro forma information assumes that the April 2005 acquisition of Dynal and the February 2004 acquisition of BioReliance occurred at the beginning of the periods presented. The unaudited pro forma information excludes the Company's other acquisitions in 2005 and 2004, as the effects of those acquisitions were not material to the overall condensed consolidated financial statements. These unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would have actually resulted had the acquisitions been in effect as of the periods indicated above, or of future results of operations. The unaudited pro forma results for the three and six months ended June 30, 2005 and 2004, were as follows:

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	For the three months ended June 30,		For the six months ended June 30,	
	2005	2004	2005	2004
<i>(in thousands, except per share data)(unaudited)</i>				
Revenues	\$ 306,456	\$ 283,531	\$ 605,429	\$ 554,788
Net income <sup>(1)</sup>	28,405	13,404	74,427	9,049
Earnings per share:				
Basic	\$ 0.55	\$ 0.26	\$ 1.44	\$ 0.17
Diluted	\$ 0.50	\$ 0.25	\$ 1.31	\$ 0.17

<sup>(1)</sup> Includes, on a pre-tax basis, nonrecurring charges of \$1.5 million and \$11.8 million for the three months ended June 30, 2005 and 2004, and \$2.1 million and \$31.8 million for the six months ended June 30, 2005 and 2004, respectively, of increased cost of revenues for the estimated sale of inventory written up to fair market value under purchase accounting rules; and \$0.1 million and \$0.7 million for the three months ended June 30, 2005 and 2004, and \$1.3 million and \$13.3 million for the six months ended June 30, 2005 and 2004, for the write-off of purchased in-process research and development costs.

### ***Immaterial Acquisitions***

During the six months ended June 30, 2005, the Company completed three acquisitions that were not material to the overall condensed consolidated financial statements. The results of operations have been included in the accompanying condensed consolidated financial statements from the respective dates of the acquisitions.

The aggregate purchase price of the 2005 acquisitions was \$88.4 million, consisting of \$84.3 million in cash (including acquisition costs of \$0.5 million) and \$4.1 million in notes payable. The excess of purchase price over the acquired net tangible assets was \$72.1 million at June 30, 2005, of which \$29.8 million has been allocated to identifiable intangible assets amortized over a weighted average life of 9 years, \$54.1 million has been allocated to goodwill and \$1.3 million has been expensed as in-process research and development costs for the six months ended June 30, 2005. The Company has recorded a deferred tax liability on the fair value of identifiable intangible assets of \$13.1 million.

### **5. Segment Information**

The Company has two reportable segments: BioDiscovery and BioProduction.

The BioDiscovery product segment includes functional genomics, cell biology and drug discovery product lines. Functional genomics encompasses products from the initial cloning and manipulation of DNA, to examining RNA levels and regulating gene expression in cells, to capturing, separating and analyzing proteins. These include the research tools used in reagent and kit form that simplify and improve gene acquisition, gene cloning, gene expression, and gene analysis techniques. This segment also includes a full range of enzymes, nucleic acids, other biochemicals and reagents. These biologics are manufactured to the highest research standards and are matched in a gene specific, validated manner (gene, orf, rna, protein, antibodies, etc.) to ensure researchers the highest purity and scientific relevance for their experimentation. The Company also offers software that enables more efficient, accelerated analysis and interpretation of genomic, proteomic and other biomolecular data for application in pharmaceutical, therapeutic and diagnostic development. The recent acquisitions of Zymed Laboratories, Inc. (Zymed), Caltag Laboratories (Caltag) and Dynal have introduced and will continue to enable the Company to offer new technology and products, such as antibodies and proteins (Zymed and Caltag) and magnetic beads used for biological separation (Dynal), which is the first step in almost every biologic investigative or diagnostic process. See Note 4 of the Notes to Condensed Consolidated Financial Statements.

The BioProduction product segment includes all of our cell culture products and biological testing services business. Products include sera, cell and tissue culture media, reagents used in both life sciences research and in processes to grow cells in the laboratory, and to produce pharmaceuticals and other materials made by cultured cells. BioProduction services include testing to ensure that biologics are free of disease-causing agents or do not cause adverse effects, characterization of products chemical structures, development of formulations for long-term stability, and validation of purification processes under regulatory guidelines. The Company also manufactures biologics on behalf of clients both for use in clinical trials and for the worldwide commercial market.

The Company has no intersegment revenues that are material to the overall condensed consolidated financial statements. In addition, the Company does not currently segregate assets by segment as a majority of the Company's total assets are shared or considered non-segment assets. As a result, the Company has determined it is not useful to assign its shared assets to individual segments.

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Segment information is as follows:

	BioDiscovery	BioProduction	Unallocated <sup>(1)</sup>	Total
<i>(dollars in thousands)(unaudited)</i>				
<b>Three months ended June 30, 2005</b>				
Revenues	\$ 185,422	\$ 121,034	\$	\$ 306,456
Gross profit	130,956	58,208	(11,118)	178,046
Gross margin	71%	48%		58%
Selling and administrative	62,716	25,501	76	88,293
Research and development	21,283	2,767	213	24,263
Purchased intangibles amortization and in-process research and development			42,552	42,552
Operating income (loss)	\$ 46,957	\$ 29,940	\$ (53,959)	\$ 22,938
Operating margin	25%	25%		7%
<b>Three months ended June 30, 2004</b>				
Revenues	\$ 143,000	\$ 110,964	\$	\$ 253,964
Gross profit	100,634	52,772	(7,373)	146,033
Gross margin	70%	48%		58%
Selling and administrative	46,405	22,985	77	69,467
Research and development	15,670	2,250	234	18,154
Purchased intangibles amortization and in-process research and development			29,035	29,035
Operating income (loss)	\$ 38,559	\$ 27,537	\$ (36,719)	\$ 29,377
Operating margin	27%	25%		12%
<b>Six months ended June 30, 2005</b>				
Revenues	\$ 347,773	\$ 235,764	\$	\$ 583,537
Gross profit	247,111	113,406	(11,812)	348,705
Gross margin	71%	48%		60%
Selling and administrative	115,691	50,940	146	166,777
Research and development	39,440	5,632	432	45,504
Purchased intangibles amortization and in-process research and development			69,653	69,653
Operating income (loss)	\$ 91,980	\$ 56,834	\$ (82,043)	\$ 66,771
Operating margin	26%	24%		11%
<b>Six months ended June 30, 2004</b>				
Revenues	\$ 295,673	\$ 209,615	\$	\$ 505,288
Gross profit	207,917	97,856	(17,755)	288,018
Gross margin	70%	47%		57%

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Selling and administrative	96,969	44,829	146	141,944
Research and development	28,962	4,496	444	33,902
Purchased intangibles amortization and in-process research and development			57,263	57,263
Operating income (loss)	<u>\$ 81,986</u>	<u>\$ 48,531</u>	<u>\$ (75,608)</u>	<u>\$ 54,909</u>
Operating margin	28%	23%		11%

(1) Unallocated items for the three months ended June 30, 2005 and 2004, include costs for purchase accounting inventory revaluations of \$11.2 million and \$7.3 million, amortization of purchased intangibles of \$29.9 million and \$28.3 million, in-process research and development of \$12.7 million and \$0.7 million and amortization of deferred compensation of \$0.4 million and \$0.4 million, respectively. Unallocated items for the six months ended June 30, 2005 and 2004, include costs for purchase accounting inventory revaluations of \$11.8 million and \$17.6 million, amortization of purchased intangibles of \$55.8 million and \$56.5 million, in-process research and development of \$13.9 million and \$0.7 million and amortization of deferred compensation of \$0.7 million and \$0.8 million, respectively. These items are not allocated by management for purposes of analyzing the operations since they are principally non-cash or other costs resulting primarily from business restructuring or purchase accounting that are separate from ongoing operations.

**6. Long-Term Debt**

Long-term debt consists of the following:

	June 30,	December 31,
	2005	2004
	<u>2005</u>	<u>2004</u>
<i>(in thousands)</i>		
	<b>(unaudited)</b>	
3¼% Convertible Senior Notes (principal due 2025)	\$ 350,000	\$
1½% Convertible Senior Notes (principal due 2024)	450,000	450,000
2% Convertible Senior Notes (principal due 2023)	350,000	350,000
2¼% Convertible Subordinated Notes (principal due 2006)	374,931	500,000
Note payable, due September 30, 2006, interest accruing at 4.8% per annum and pledged restricted cash	11,861	12,584
Loan payable, campus purchase, due and payable prior to December 31, 2005, imputed interest of 2%		11,081
Capital lease obligations	1,147	6,424
Other	4,015	1,616
	<u>1,541,954</u>	<u>1,331,705</u>
Less current portion	(1,406)	(12,390)
	<u>\$ 1,540,548</u>	<u>\$ 1,319,315</u>

During the six months ended June 30, 2005, the Company assumed \$1.9 million in long-term obligations in conjunction with its acquisitions. The long-term obligations acquired consist of \$0.6 million classified as current portion, and \$1.3 million as long-term. In addition during the six months ended June 30, 2005, the Company sold its obligation under a build out and capital lease obligation to an unrelated third party. A total of \$5.2 million in long-term obligations was removed from the Company's Condensed Consolidated Balance Sheets.

On June 20, 2005, the Company sold 3¼% Convertible Senior Notes due 2025 (the Notes) to certain qualified institutional investors at par value. Including the exercise of the over-allotment option, the total size of the offering was \$350 million. After expenses, the net proceeds to Company was \$343 million.

Interest is payable on the Notes semi-annually in arrears beginning December 15, 2005. In addition to the coupon interest of 3.25%, additional interest of 0.225% of the market value of the Notes may be required to be paid per six month period beginning June 15, 2011, if the market value of the Notes during a specified period is 120% or more of the Notes' principal value. The Notes may be redeemed, in whole or in part, at the Company's option on or after June 15, 2011, at 100% of the principal amount plus any accrued and unpaid interest. In addition, the holders of the Notes may require the Company to repurchase all or a portion of the Notes for 100% of the principal amount, plus any accrued and unpaid interest, on June 15, 2011, 2015, and 2020 or upon the occurrence of certain fundamental changes. Prepayment of amounts due under the Notes will be accelerated in the event of bankruptcy or insolvency, and may be accelerated by the trustee or holders of 25% of the Notes' principal value upon default of payment of principal or interest when due for over thirty days, the Company's default on its conversion or repurchase obligations, failure of the Company to comply with any of its other agreements in the Notes or indenture, or upon cross-default by the Company or a significant subsidiary for failure to make a payment at maturity or the acceleration of other debt of the Company or a significant subsidiary, in either case exceeding \$50 million.

The terms of the Notes require the Company to settle the par value of such Notes in cash and deliver shares only for the differential between the stock price on the date of conversion and the base conversion price (initially approximately \$98.25 per share). As such, EITF 90-19 and 04-8

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require the Company to use the treasury stock equivalent method to calculate diluted earnings per share, as if the Notes were outstanding since date of issuance.

During the six months ended June 30, 2005, the Company used a portion of the proceeds from the issuance of the Notes to repurchase \$125 million of its 2¼% convertible subordinated notes due December 15, 2006, for less than par value. The Company recorded a gain of \$1.2 million for the call discount payment and a loss of \$1.1 million related to the write-off of unamortized deferred financing costs during the six months ended June 30, 2005.

### **7. Lines of Credit**

As of June 30, 2005, the Company's U.S. operations along with several foreign subsidiaries had available bank lines of credit denominated in local currency to meet short-term working capital requirements. The credit facilities

bear interest at fixed rates, the respective bank's prime rate, the London LIBOR rate and the Japan TIBOR rate (a weighted average rate of 2.99% at June 30, 2005). The U.S. dollar equivalent of these facilities total \$259.6 million, of which \$1.9 million was outstanding at June 30, 2005, under these lines of credit. There are no parent company guarantees associated with these facilities.

On April 27, 2005, the Company entered into a secured line of credit that provides up to \$250 million in borrowings at LIBOR plus 0.15. The secured credit facility is collateralized by investments and matures on September 30, 2005. On April 28, 2005 the Company borrowed \$124 million to repurchase \$125 million of its 2¼% convertible subordinated notes due December 15, 2006, for less than par value. On June 20, 2005, the Company sold \$350 million of its 3¼% Convertible Senior Notes due 2025 (see Note 6) to certain qualified institutional investors at par value. A portion of the proceeds was used to pay down the secured line of credit. The amount available from the secured line of credit was \$250 million at June 30, 2005.

## **8. Commitments and Contingencies**

### *Operating Leases*

During the six months ended June 30, 2005, the Company assumed several operating leases in conjunction with its acquisitions. The operating leases, which expire at various times through the year 2018, require the Company to make payments of \$3.9 million for the remainder of 2005, \$3.9 million for 2006, \$3.2 million for 2007, \$3.1 million for 2008, \$2.8 million for 2009, \$1.8 million for 2010, with \$8.1 million required for the remaining portion of the leases through 2018. Future minimum lease payments were reduced by \$2.9 million as of June 30, 2005, due to the sublease of property associated with the acquisition of Informax during December 2002.

### *Letters of Credit*

The Company had outstanding letters of credit totaling \$9.5 million at June 30, 2005, of which \$4.8 million was to support liabilities associated with the Company's self-insured worker's compensation programs and \$4.7 million was to support its building lease requirements.

### *Executive Employment Agreements*

The Company has employment contracts with key executives that provide for the continuation of salary if terminated for reasons other than cause, as defined in those agreements. At June 30, 2005, future employment contract commitments for such key executives were approximately \$5.3 million for the remainder of fiscal year 2005 and approximately \$1.0 million for both fiscal year 2006 and 2007.

### *Contingent Acquisition Obligations*

Pursuant to the purchase agreements for certain acquisitions, the Company could be required to make additional contingent cash payments based on the achievement of certain operating results of the companies. Payments aggregating a maximum of \$87.3 million and certain other payments based upon future gross sales could be required through the fourth quarter of fiscal year 2007. Additional payments totaling \$30.0 million could



be required of the Company based upon the achievement of certain research and development milestones through the second quarter of fiscal year 2006. To date no contingent payments have been earned for operating results or research and development milestones.

***Environmental Liabilities***

The Company assumed certain environmental exposures as a result of its merger with Dexter Corporation in 2000 and recorded reserves to cover estimated environmental clean-up costs. The environmental reserves, which are not discounted, were \$7.8 million at June 30, 2005, and included current reserves of \$0.7 million, which are estimated to be paid during the next twelve months, and long-term reserves of \$7.1 million. In addition, the Company has an insurance policy for these assumed environmental exposures. Based upon currently available information, the Company believes that it has adequately provided for these environmental exposures and that the outcome of these matters will not have a material adverse effect on its consolidated results of operations.

**Intellectual Properties**

The Company is involved in various claims and legal proceedings of a nature considered normal to its business, including protection of its owned and licensed intellectual property. The Company accrues for such contingencies when it is probable that a liability is incurred and the amount can be reasonably estimated. These accruals are adjusted periodically as assessments change or additional information becomes available. At June 30, 2005, the Company had accrued \$1.1 million in legal fees associated with litigation related to a patent infringement suit on the condensed consolidated financial statements. Specific royalty liabilities related to acquired businesses have also been recorded on the condensed consolidated financial statements at June 30, 2005.

**Litigation**

The Company is subject to potential liabilities under government regulations and various claims and legal actions that are pending or may be asserted. These matters have arisen in the ordinary course and conduct of the Company's business, as well as through acquisitions, and some are expected to be covered, at least partly, by insurance. Claim estimates that are probable and can be reasonably estimated are reflected as liabilities of the Company. The ultimate resolution of these matters is subject to many uncertainties. It is reasonably possible that some of the matters that are pending or may be asserted could be decided unfavorably to the Company. Although the amount of liability at June 30, 2005, with respect to these matters cannot be ascertained, the Company believes that any resulting liability should not materially affect its condensed consolidated financial statements.

**9. Pension Plans and Postretirement Health and Benefit Program**

The Company has several defined benefit pension plans covering its U.S. employees and employees in several foreign countries. The Company also administers the Dexter Postretirement Health and Benefit Program, which provides benefits to certain participants who are not employees of the Company but were employees of Dexter Corporation prior to the sale of its businesses and its merger with the Company. The acquisition of Dynal increased the Company's net periodic pension cost by \$0.3 million for the three and six months ended June 30, 2005.

The components of net periodic pension cost for the Company's pension plans and postretirement health and benefit program for the three and six months ended June 30, 2005 and 2004, were as follows:

<i>(in thousands)(unaudited)</i>	<b>Domestic Plans</b>			
	<b>For the three months ended June 30,</b>		<b>For the six months ended June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Interest cost	\$ 827	\$ 811	\$ 1,654	\$ 1,622
Expected return on plan assets	(1,331)	(1,125)	(2,662)	(2,250)
Amortization of prior service cost	60		120	
Amortization of actuarial loss	406	486	811	972
<b>Net periodic pension cost (benefit)</b>	<b>\$ (38)</b>	<b>\$ 172</b>	<b>\$ (77)</b>	<b>\$ 344</b>

<i>(in thousands)(unaudited)</i>	Foreign Plans			
	For the three months ended June 30,		For the six months ended June 30,	
	2005	2004	2005	2004
Service cost	\$ 786	\$ 583	\$ 1,328	\$ 1,168
Interest cost	426	432	746	866
Expected return on plan assets	(404)	(450)	(722)	(902)
Amortization of actuarial loss	30	19	52	38
<b>Net periodic pension cost</b>	<b>\$ 838</b>	<b>\$ 584</b>	<b>\$ 1,404</b>	<b>\$ 1,170</b>

## 10. Income Taxes

Income taxes are determined using an estimated annual effective tax rate. The provision for income taxes is less than the 35% U.S. federal statutory rate primarily due to lower tax rates in certain non-U.S. jurisdictions, export incentives and research and development tax credits available in the United States. The Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities.

On October 22, 2004, the American Jobs Creation Act (AJCA) was enacted. The AJCA includes a one-time opportunity allowing US multinational corporations to repatriate foreign earnings at a reduced rate of tax. Subject to meeting certain conditions and restrictions, 85% of qualifying repatriated foreign earnings, as defined by the AJCA, can be excluded from US taxable income. The IRS incorporated these provisions into US tax law under Internal Revenue Code § 965. The IRS issued Notice 2005-38 in May 2005, which provides clarification on certain issues related to the application of § 965. However, not all of the outstanding issues regarding the repatriation provision, as it applies to the Company, were clarified by Notice 2005-38. The Company is working on obtaining further certainty on key sections of § 965 and expects to complete its evaluation within a reasonable period of time once these uncertainties are resolved. If these uncertainties are favorably resolved, the Company expects to repatriate between \$70 and \$90 million of earnings. The related income tax benefit is estimated to range between \$10 and \$18 million. In addition to the potential income tax benefit resulting from repatriation under § 965, such repatriation could, under certain circumstances, also cause the recognition of currency translation gains of approximately \$17 million.

#### **11. Subsequent Events**

On July 20, 2005 the UK enacted legislation that included provisions designed to curtail certain UK interest expense deductions. The Company does not believe this new legislation was intended to apply to its UK operations. The Company has submitted an application to the UK tax authorities to confirm that the new rules will not impact the deductibility of its UK interest expense. However, as this legislation is new and complex, no assurance can be given that the UK tax authorities will determine the new rules do not apply to the Company's UK interest expense. Should the UK tax authorities ultimately determine that the new rules do apply, the Company could incur additional income tax expense for 2005 up to \$3.6 million. The impact of the legislation, if any, will be reported in the period in which such clarification is obtained.

On July 25, 2005, the Company entered into a definitive agreement to acquire all of the outstanding shares of common stock of publicly held broad-based life sciences company BioSource International (NASDAQ: BIOI) in an all cash transaction for approximately \$130 million. The transaction is subject to the approval of BioSource International's shareholders and is expected to close by December 31, 2005.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Unaudited Condensed Consolidated Financial Statements and Notes thereto included elsewhere in this report and the Consolidated Financial Statements and Notes thereto included in our annual report on Form 10-K.

**Forward-looking Statements**

Any statements in this Quarterly Report on Form 10-Q about our expectations, beliefs, plans, objectives, prospects, financial condition, assumptions or future events or performance are not historical facts and are forward-looking statements as that term is defined under the Federal Securities Laws. These statements are often, but not always, made through the use of words or phrases such as believe, anticipate, should, intend, plan, will, expects, estimates, projects, positioned, strategy, outlook, and similar words. You should read statements that types of words carefully. Such forward-looking statements are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what is expressed or implied in such forward-looking statements. There may be events in the future that we are not able to predict accurately or over which we have no control. Potential risks and uncertainties include, but are not limited to, those discussed below under Risk Factors That May Affect Future Results and elsewhere in this Quarterly Report as well as other risks and uncertainties detailed in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 23, 2005. We do not undertake any obligation to release publicly any revisions to such forward-looking statements to reflect events or uncertainties after the date hereof or to reflect the occurrence of unanticipated events.

**Overview**

Revenues for the six months ended June 30, 2005 were \$583.5 million, with net income of \$62.0 million. On February 14, 2005, we acquired Zymed Laboratories Inc. (Zymed), a producer of pathology products, cancer and cell biology reagents and biomarkers, and general immunochemical reagents for the life sciences research and clinical diagnostics markets. On April 1, 2005, we acquired Dynal Biotech Holding AS (Dynal), based in Oslo, Norway. Dynal is the industry leader in magnetic bead technologies that are used in cell separation and purification, cell stimulation, protein research, nucleic acid research and microbiology. On May 23, 2005, we acquired Caltag Laboratories (Caltag), a privately held immunological assay manufacturer which develops, manufactures and markets antibodies and reagents to biotechnology and pharmaceutical companies, private and university hospitals and research laboratories. These acquisitions will enhance our ability to offer new technology and products in our BioDiscovery segment.

On July 25, 2005, the Company entered into a definitive agreement to acquire all of the outstanding shares of common stock of publicly held broad-based life sciences company BioSource International (NASDAQ: BIOI) in an all cash transaction for approximately \$130 million. BioSource International develops, manufactures and markets products, new therapies and medical diagnostics for understanding disease. Its products include a wide collection of proteins, primary and secondary antibodies, reagents and assay development for immunology, signal transduction and multiplex screening. The transaction is subject to the approval of BioSource International's shareholders and is expected to close by December 31, 2005.

**Our Business and Operating Segments**

We are a leading developer, manufacturer and marketer of research tools in reagent, kit and high throughput application forms to customers engaged in life sciences research, drug discovery, diagnostics and the commercial manufacture of biological products. Additionally we are a leading supplier of sera, cell and tissue culture media and reagents used in life sciences research, as well as in processes to grow cells in the

laboratory and produce pharmaceuticals and other high valued proteins.

We conduct our business through two principal segments:

**BioDiscovery.** Our BioDiscovery product segment includes our functional genomics, cell biology and drug discovery product lines. Functional genomics encompasses products from the initial cloning and manipulation of DNA, to examining RNA levels and regulating gene expression in cells, to capturing, separating and analyzing proteins. These include the research tools used in reagent and kit form that simplify and improve gene acquisition, gene cloning, gene expression, and gene analysis techniques. This segment also includes a

full range of enzymes, nucleic acids, other biochemicals and reagents. These biologics are manufactured to the highest research standards and are matched in a gene specific, validated manner (gene, orf, rnai, protein, antibodies, etc.) to ensure researchers the highest purity and scientific relevance for their experimentation. We also offer software through this segment that enables more efficient, accelerated analysis and interpretation of genomic, proteomic and other biomolecular data for application in pharmaceutical, therapeutic and diagnostic development. The acquisitions of Zymed, Caltag and Dynal will enhance our ability to offer new technology and products, such as antibodies and proteins (Zymed and Caltag) and magnetic beads used for biological separation (Dynal), which is the first step in almost every biologic investigative or diagnostic process.

**BioProduction.** Our BioProduction product segment includes all of our cell culture products and biological testing services business. Products include sera, cell and tissue culture media, reagents used in both life sciences research and in processes to grow cells in the laboratory, and to produce pharmaceuticals and other materials made through cultured cells. BioProduction services include testing to ensure that biologics are free of disease-causing agents or do not cause adverse effects, characterization of products' chemical structures, development of formulations for long-term stability, and validation of purification processes under regulatory guidelines. We also manufacture biologics on behalf of clients both for use in clinical trials and for the worldwide commercial market.

Our BioDiscovery and BioProduction products are used for research purposes, and their use by our customers generally is not regulated by the United States Food and Drug Administration (FDA) or by any comparable international organization, with several limited exceptions. Some of our BioProduction products and manufacturing sites, including some of our BioReliance subsidiary's sites, are subject to FDA regulation and oversight and are required to comply with the Quality System Regulations, which was formerly known as current good manufacturing practice, or GMP, and is described in 21 CFR part 820. Additionally, some of these same sites and products are intended to comply with certain voluntary quality programs such as ISO 9001.

Except for our oligonucleotide, genomics services, biologics testing, specialized manufacturing, and cell culture production businesses, which are make-to-order businesses, we principally manufacture products for inventory and ship products shortly after the receipt of orders, and anticipate that we will continue to do so in the future. We do not currently have a significant backlog and do not anticipate building a material backlog in the future. In addition, we rely on third-party manufacturers to supply many of our raw materials, product components, and in some cases, entire products.

## Outlook

In 2005, we expect continued overall revenue growth of 16% due to acquisitions and organic growth. We expect our organic growth rate to contribute approximately 6% to 8%. We believe gross margins will be affected by the integration of acquired businesses in addition to sales volumes, competitive conditions, royalty payments on licensed technologies, the cost of raw materials, changes in average selling prices, our ability to make productivity improvements, and foreign currency rates. We expect to see continued productivity gains in our sales and marketing expenditures as we use product specialists to support our existing customer account managers allowing us to maintain the effectiveness of our direct selling organization while offering an increasing portfolio of products. We plan on implementing programs and actions to improve our efficiency in the general and administrative area. These programs will focus in the areas of process improvement and automation. We expect over time that these actions will reduce our general and administrative expenses as a percent of revenues. We expect research and development expense as a percent of revenues will continue to increase as we expand our capabilities to accelerate innovation and ramp up research and development of recently acquired businesses. You should also refer to the Risk Factors section included in this Form 10-Q for further discussion of risks related to our business.

**RESULTS OF OPERATIONS****Second Quarter of 2005 Compared to Second Quarter of 2004**

The following table compares revenues and gross margin by segment for the second quarter of 2005 and 2004:

	For the three months		Increase	% Increase
	ended June 30,			
	2005	2004		
<i>(in millions)(unaudited)</i>				
BioDiscovery revenues	\$ 185.5	\$ 143.0	\$ 42.5	30%
BioProduction revenues	121.0	111.0	10.0	9%
<b>Total revenues</b>	<b>\$ 306.5</b>	<b>\$ 254.0</b>	<b>\$ 52.5</b>	<b>21%</b>
BioDiscovery gross margin	71%	70%		
BioProduction gross margin	48%	48%		
<b>Total gross margin</b>	<b>58%</b>	<b>58%</b>		

**Revenues**

Revenues increased by \$52.5 million or 21% for the second quarter of 2005 compared to the second quarter of 2004. Acquisitions and foreign currency translation accounted for \$30.5 million or 12% and \$5.1 million or 2%, respectively. The remaining \$16.9 million or 7% of growth was mainly due to increased volume, slightly offset by lower average selling prices.

**Gross Margin**

Gross margin in the second quarter of 2005 compared to the second quarter of 2004 remained constant at 58%. Included in gross margin for the second quarter of 2005 and 2004 was approximately \$11.2 million and \$7.3 million of costs associated with products sold that were acquired as a result of a business combination, respectively. In accordance with purchase accounting rules, this acquired inventory was written-up to fair market value and subsequently expensed as the inventory was sold. The impact of inventory revaluations decreased our gross margin by two percentage points in the second quarter of 2005 compared to the second quarter of 2004. This decrease was offset by a four percentage point increase due to productivity improvements, product mix, increased royalties and favorable currency exchange rates, and partially offset by a two percentage point decrease due to lower average selling prices.

**Operating Expenses**



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The following table compares operating expenses by segment for the second quarter of 2005 and 2004:

	For the three months ended June 30,				
	2005		2004		Increase (decrease)
	Operating expense	As a percentage of segment revenues	Operating expense	As a percentage of segment revenues	
<i>(in millions)(unaudited)</i>					
<b>BioDiscovery segment:</b>					
Sales and marketing	\$ 40.3	22%	\$ 30.2	21%	\$ 10.1
General and administrative	22.4	12%	16.2	11%	6.2
Research and development	21.3	11%	15.7	11%	5.6
<b>BioProduction segment:</b>					
Sales and marketing	\$ 15.9	13%	\$ 13.0	12%	\$ 2.9
General and administrative	9.6	8%	10.0	9%	(0.4)
Research and development	2.8	2%	2.2	2%	0.6
<b>Unallocated:</b>					
Sales and marketing	\$ 0.1		\$ 0.1		\$ 0.0
Research and development	0.2		0.2		0.0
<b>Consolidated:</b>					
Sales and marketing	\$ 56.3	18%	\$ 43.3	17%	\$ 13.0
General and administrative	32.0	10%	26.2	10%	5.8
Research and development	24.3	8%	18.1	7%	6.2

**Sales and Marketing.** For the second quarter of 2005, sales and marketing expenses increased \$13.0 million or 30% compared to the second quarter of 2004. Acquisitions and foreign currency accounted for \$5.6 million and \$0.9 million, respectively, of incremental expenses in 2005. The remaining \$6.5 million increase was mainly due to \$3.8 million as a result of increased headcount, \$3.1 million in increased promotional and marketing activities and \$1.2 million in other costs, partially offset by \$1.6 million due to reduced incentive compensation pay. Overall, sales and marketing expenses as a percentage of revenues increased slightly by one percentage point.

**General and Administrative.** For the second quarter of 2005, general and administrative expenses increased \$5.8 million or 22% compared to the second quarter of 2004. Acquisitions and foreign currency accounted for \$3.6 million and \$0.3 million, respectively, of incremental expenses in 2005. The remaining \$1.9 million increase was mainly due to \$1.1 million in higher legal fees associated with litigation related to a patent infringement suit, \$0.9 million of implementation costs related to outsourcing certain global functions, \$0.5 million of increased compensation and \$0.2 million in other costs, partially offset by \$0.8 million of lower bad debt expense. Overall, general and administrative expenses as a percentage of revenues remained constant.

**Research and Development.** Research and development expenses for the second quarter of 2005 increased \$6.2 million or 34% compared to the second quarter of 2004. Acquisitions accounted for \$4.6 million in incremental research and development expenses in 2005. The remaining \$1.6 million increase was mainly due to \$2.4 million as a result of increased headcount, partially offset by \$0.6 million in decreased incentive compensation and \$0.2 million of outside services.

**Purchased Intangibles Amortization.** Amortization expense related to purchased intangible assets acquired in our business combinations was \$29.9 million for the second quarter of 2005 compared to \$28.3 million for the second quarter of 2004. The \$1.6 million increase is primarily due to intangible assets acquired through acquisitions, partially offset by certain intangible assets being fully amortized during 2004.

**Purchased In-Process Research and Development.** In conjunction with our acquisitions in the second quarter of 2005, we purchased in process research and development projects valued at \$12.7 million that was expensed upon the acquisition date.

**Interest Income.** Interest income was \$5.1 million for the second quarter of 2005, compared to \$5.6 million for the second quarter of 2004. The \$0.5 million decrease is mainly due to a decrease in the average balance of our investments held during the quarter ended 2005 versus 2004, mainly as a result of the use of cash for acquisitions. Interest income in the future will be affected by changes in short-term interest rates and changes in cash balances, which may materially increase or decrease as a result of acquisitions and other financing activities.

**Interest Expense.** Interest expense was \$7.8 million for the second quarter of 2005 compared to \$7.7 million for the second quarter of 2004. The \$0.1 million increase was mainly due to the issuance of our 3¼% convertible notes in June 2005, slightly offset by the partial redemption of our 2¼% convertible notes in April 2005.

**Provision for Income Taxes.** The effective tax rate as a percentage of pre-tax income was 27.4% for the second quarter of 2005 compared with 27.6% for the second quarter of 2004. The marginal decrease in the effective tax rate is mainly due to the impact of acquisitions in the second quarter offset by an increase of income earned in jurisdictions having higher tax rates.

#### **First Six Months of 2005 Compared to First Six Months of 2004**

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The following table compares revenues and gross margin by segment for the first six months of 2005 and 2004:

<i>(in millions)(unaudited)</i>	For the six months			
	ended June 30,			
	2005	2004	Increase	% Increase
BioDiscovery revenues	\$ 347.8	\$ 295.7	\$ 52.1	18%
BioProduction revenues	235.7	209.6	26.1	12%
<b>Total revenues</b>	<b>\$ 583.5</b>	<b>\$ 505.3</b>	<b>\$ 78.2</b>	<b>15%</b>
BioDiscovery gross margin	71%	70%		
BioProduction gross margin	48%	47%		
<b>Total gross margin</b>	<b>60%</b>	<b>57%</b>		

**Revenues**

Revenues increased by \$78.2 million or 15% for the first six months of 2005 compared to the first six months of 2004. Acquisitions and foreign currency translation accounted for \$41.0 million or 8% and \$10.8 million or 2%, respectively. The remaining \$26.4 million or 5% of growth was mainly due to increased volume, slightly offset by lower average selling prices.

**Gross Margin**

Gross margin for the first six months of 2005 compared to the first six months of 2004 increased three percentage points. Included in gross margin for the first six months of 2005 and 2004 was approximately \$11.8 million and \$17.6 million of costs associated with products sold that were acquired as a result of a business combination, respectively. In accordance with purchase accounting rules, this acquired inventory was written-up to fair market value and subsequently expensed as the inventory was sold. The impact of inventory revaluations increased our gross margin by one percentage point for the first six months of 2005 compared to the first six months of 2004. The remaining two percentage point increase was the result of productivity improvements, product mix, increased royalties and favorable currency exchange rates, partially offset by lower average selling prices.

**Operating Expenses**

The following table compares operating expenses by segment for the first six months of 2005 and 2004:

	For the six months ended June 30,				Increase (decrease)
	2005		2004		
	Operating expense	As a percentage of segment revenues	Operating expense	As a percentage of segment revenues	
<i>(in millions)(unaudited)</i>					
<b>BioDiscovery segment:</b>					
Sales and marketing	\$ 73.3	21%	\$ 62.7	21%	\$ 10.6
General and administrative	42.4	12%	34.3	12%	8.1
Research and development	39.4	11%	29.0	10%	10.4
<b>BioProduction segment:</b>					
Sales and marketing	\$ 31.4	13%	\$ 25.9	12%	\$ 5.5
General and administrative	19.6	8%	18.9	9%	0.7
Research and development	5.6	2%	4.5	2%	1.1
<b>Unallocated:</b>					
Sales and marketing	\$ 0.1		\$ 0.1		\$ 0.0
Research and development	0.4		0.4		0.0
<b>Consolidated:</b>					
Sales and marketing	\$ 104.8	18%	\$ 88.7	18%	\$ 16.1
General and administrative	62.0	11%	53.2	11%	8.8
Research and development	45.5	8%	33.9	7%	11.6

**Sales and Marketing.** For the first six months of 2005, sales and marketing expenses increased \$16.1 million or 18% compared to the first six months of 2004. Acquisitions and foreign currency accounted for \$7.1 million and \$2.2 million, respectively, of incremental expenses in 2005. The remaining \$6.8 million increase was mainly due to \$3.7 million as a result of increased headcount, \$3.1 million in increased promotional and marketing activities and \$0.8 million in other costs, offset by \$0.8 million due to a reduction in incentive compensation. Overall, sales and marketing expenses as a percentage of revenues remained constant.

**General and Administrative.** For the first six months of 2005, general and administrative expenses increased \$8.8 million or 17% compared to the first six months of 2004. Acquisitions and foreign currency accounted for \$5.1 million and \$1.1 million, respectively, of incremental expenses in 2005. The remaining \$2.6 million increase was mainly due to \$2.9 million of implementation costs related to outsourcing certain global functions and \$1.4 million of increased compensation, partially offset by \$1.3 million of lower bad debt expense and \$0.4 million in lower legal fees mainly due to settlement of lawsuits in the first six months of 2005. Overall, general and administrative expenses as a percentage of revenues remained constant.

**Research and Development.** Research and development expenses for the first six months of 2005 increased \$11.6 million or 34% compared to the first six months of 2004. Acquisitions and foreign currency accounted for \$7.3 million and \$0.5 million, respectively, of incremental expenses in 2005. The remaining \$3.8 million increase was mainly due to \$3.5 million as a result of increased headcount and \$0.7 million in increased lab supplies and other costs, partially offset by \$0.4 million in lower incentive compensation.

**Purchased Intangibles Amortization.** Amortization expense related to purchased intangible assets acquired in our business combinations was \$55.8 million for the first six months of 2005 compared to \$56.5 million for the first six months of 2004. The \$0.7 million decrease is primarily due to certain intangible assets being fully amortized during 2004, partially offset by intangible assets recently acquired through acquisitions.

**Purchased In-Process Research and Development.** In conjunction with our acquisitions during the first six months of 2005, we purchased in process research and development projects valued at \$13.9 million that was expensed upon the acquisition date.

**Interest Income.** Interest income was \$11.0 million for the first six months of 2005, compared to \$11.4 million for the first six months of 2004. The \$0.4 million decrease is mainly due to a decrease in the average balance of our investments held during the first six months of 2005 versus 2004, mainly as a result of the use of cash for acquisitions. Interest income in the future will be affected by changes in short-term interest rates and changes in cash balances, which may materially increase or decrease as a result of acquisitions and other financing activities.

**Interest Expense.** Interest expense was \$15.0 million for the first six months of 2005 compared to \$17.2 million for the first six months of 2004. The \$2.2 million decrease was mainly due to the redemption of our 5½% convertible notes in March 2004 and the partial redemption of our 2¼% convertible notes in April 2005, partially offset by the issuance of our 3¼% convertible notes in June 2005.

**Other Income (Expense).** Other income for the six months ended June 30, 2005 includes a \$21.0 million gain on the settlement of a forward contract related to the acquisition of Dynal. Also included in other income was a \$2.8 million gain on the sale of an equity investment. Net foreign currency transaction losses were \$0.6 million for the six months ended June 30, 2005.

**Provision for Income Taxes.** The estimated annual effective tax rate as a percentage of pre-tax income was 30.1% for the first six months of 2005 compared with 28.7% for the first six months of 2004. The increase in the effective tax rate is mainly due to the proportion of income earned in jurisdictions having higher tax rates.

#### **Segment Results for the Second Quarter of 2005 Compared to the Second Quarter of 2004**

**BioDiscovery Segment.** BioDiscovery revenues for the second quarter of 2005 increased \$42.5 million or 30% compared to the second quarter of 2004. The increase mainly consisted of 6% volume growth, 2% favorable foreign currency and 22% impact from acquisitions. BioDiscovery gross margin for the second quarter of 2005 improved one percentage point compared to the same period in 2004, mainly due to favorable currency rates and higher royalty revenue, offset by lower average selling prices. Operating margin for the second quarter of 2005 was 25% or two percentage points lower than the second quarter of 2004 mainly due to an increase in sales and marketing and general and administrative expenses as a percentage of revenues.

**BioProduction Segment.** BioProduction revenue for the second quarter of 2005 increased \$10.0 million or 9% over the second quarter of 2004. The increase was mainly due to volume growth and favorable changes in foreign currency exchange rates of 7% and 2%, respectively.

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BioProduction gross margin for the second quarter of 2005 remained constant compared to the second quarter of 2004. Operating margin also remained constant compared to the second quarter of 2004.

### **Segment Results for the First Six Months of 2005 Compared to the First Six Months of 2004**

**BioDiscovery Segment.** BioDiscovery revenues for the first six months of 2005 increased \$52.1 million or 18% compared to the first six months of 2004. The increase mainly consisted of 11% impact from acquisitions, 5% volume growth and 2% favorable foreign currency exchange rates. BioDiscovery gross margin for the first six months of 2005 improved one percentage point compared to the same period in 2004, mainly due to favorable currency rates and higher royalty revenue, offset by lower average selling prices. Operating margin for the first six months of 2005 was 26% or two percentage points lower than the first six months of 2004 mainly due to an increase in research and development expenses as a percentage of revenues.

**BioProduction Segment.** BioProduction revenue for the first six months of 2005 increased \$26.1 million or 12% over the first six months of 2004. The increase was mainly due to volume growth, acquisitions and favorable changes in foreign currency exchange rates of 6%, 4% and 2%, respectively. BioProduction gross margin for the first six months of 2005 improved one percent compared to the first six months of 2004. The increase was mainly due to improved productivity and acquisitions. Operating margin improved to 24% for the first six months of 2005 compared to 23% for the first six months of 2004.

## LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents and investments (including restricted) were \$946.7 million at June 30, 2005, a decrease of \$145.7 million from December 31, 2004. The decrease was primarily due to investments of \$483.0 million in acquired businesses, \$32.9 million in capital expenditures, payments for intangible assets of \$1.0 million and unfavorable exchange rates on cash held in currencies other than the United States dollar of \$19.8 million, offset by net loan proceeds of \$208.8 million (net of \$141.8 million payments on long-term obligations), cash provided by operations of \$135.7 million and proceeds from the issuance of common stock under our stock option and employee stock purchase plans of \$54.7 million.

Excluding balances from acquired businesses on the date of acquisition, changes in operating assets and liabilities were as follows. Accounts receivable increased \$16.3 million during the first six months of 2005. The increase in accounts receivable was primarily due to the increase in sales, partially offset by a decrease in days sales outstanding from 53 days at December 31, 2004 to 51 days at June 30, 2005 primarily due to faster collections on older receivable balances. Inventories decreased by \$14.0 million primarily due to better inventory management. Net accounts payable and other current liabilities decreased primarily due to the payout of 2004 incentive compensation in the first six months of 2005 and other expenditures. Changes in prepaid expenses and other current assets and income taxes payable were due to timing of payments versus when the expenses are incurred. As a result of working capital improvement programs currently being developed we expect to utilize our working capital more efficiently in the future resulting in higher inventory turnover and lower days sales outstanding. Our working capital factors, such as inventory turnover and days sales outstanding are seasonal, and on an interim basis during the year, may require an influx of short-term working capital.

As of June 30, 2005, the Company's U.S. operations along with several foreign subsidiaries had available bank lines of credit denominated in local currency to meet short-term working capital requirements. The U.S. dollar equivalent of these facilities totaled \$259.6 million, of which \$1.9 million was outstanding at June 30, 2005.

On April 27, 2005, the Company entered into a secured line of credit that provides up to \$250 million in borrowings at LIBOR plus 0.15. The secured credit facility is collateralized by investments and matures on September 30, 2005. On April 28, 2005 the Company borrowed \$124 million to repurchase \$125 million of its 2¼% convertible subordinated notes due December 15, 2006, for less than par value. On June 20, 2005, the Company sold its 3¼% Convertible Senior Notes due 2025 (2025 Notes) (see Note 6) to certain qualified institutional investors at par value. Including the exercise of the over-allotment option, the total size of the offering of the Notes was \$350 million. After expenses, the net proceeds to Company was \$343 million. A portion of the proceeds was used to pay down the secured line of credit. The amount available from the secured line of credit was \$250.0 million at June 30, 2005.

We believe our current cash and cash equivalents, investments, cash provided by operations and interest income earned thereon will satisfy our working capital requirements for the foreseeable future. Our future capital requirements and the adequacy of our available funds will depend on many factors, including future business acquisitions, future stock or note repayment or repurchases, scientific progress in our research and development programs and the magnitude of those programs, our ability to establish collaborative and licensing arrangements, the cost involved in preparing, filing, prosecuting, maintaining and enforcing patent claims and competing technological and market developments.



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We intend to continue our strategic investment activities in new product development, in-licensing technologies and acquisitions that support our BioDiscovery and BioProduction platforms. In the event additional funding needs arise, we may obtain cash through new debt or stock issuance, or a combination of sources.

### **CONTRACTUAL OBLIGATIONS**

During the six months ended June 30, 2005 we assumed approximately \$26.8 million in operating lease obligations from several acquisitions. Our contractual obligations were reduced by approximately \$2.9 million during the six months ended June 30, 2005, as a result of the sublease of our property in Bethesda, Maryland. We have no off-balance sheet arrangements as defined in S-K 303(a)(4)(ii).

## **CRITICAL ACCOUNTING POLICIES**

There were no significant changes in critical accounting policies or estimates from those at December 31, 2004. For information on the recent accounting pronouncements impacting our business, see Note 1 of the Notes to Condensed Consolidated Financial Statements included in Item 1.

## **RISK FACTORS THAT MAY AFFECT FUTURE RESULTS**

You should carefully consider the following risks, together with other matters described in this Form 10-Q or incorporated herein by reference in evaluating our business and prospects. If any of the following risks occurs, our business, financial condition or operating results could be harmed. In such case, the trading price of our securities could decline, in some cases significantly. The risks described below are not the only ones we face. Additional risks not presently known to us, or that we currently deem immaterial, may also impair our business operations. Certain statements in this Form 10-Q (including certain of the following factors) constitute forward-looking statements. Please refer to the section entitled "Forward-Looking Statements" on this Form 10-Q for important limitations on these forward-looking statements.

### **Risks Related to the Growth of Our Business**

#### **We must continually offer new products and technologies.**

Our success depends in large part on continuous, timely development and introduction of new products that address evolving market requirements and are attractive to customers. For example, prepackaged kits to perform research in particular cell lines and already-isolated genetic material only recently have come into widespread use among researchers. We also believe that because of the initial time investment required by our customers to purchase a new product, once a customer purchases a product from a competitor, it is very difficult to regain that customer.

These facts have led us to focus significant efforts and resources on the development and identification of new technologies and products. As a result, we have a very broad product line and are continually looking to develop, license or acquire new technologies and products to further broaden it. If we fail to develop, license or otherwise acquire new technologies, our customers will likely purchase products from our competitors, significantly harming our business. Once we have developed or obtained the technology, to the extent that we fail to timely introduce new and innovative products that are accepted by our markets, we could fail to obtain an adequate return on our research and development, licensing and acquisition investments and could lose market share to our competitors, which would be difficult or impossible to regain and could seriously damage our business. Some of the factors affecting market acceptance of our products include:

availability, quality and price as compared to competitive products;

the functionality of new and existing products;

the timing of introduction of our products as compared to competitive products;

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scientists and customers' opinions of the product's utility and our ability to incorporate their feedback into future products;

citation of the products in published research; and

general trends in life sciences research and life science informatics software development.

### **Failure to integrate acquired businesses into our operations successfully could adversely affect our business.**

As part of our strategy to develop and identify new products and technologies, we have made several acquisitions, and are likely to make more. Our integration of the operations of acquired businesses requires significant efforts, including the coordination of information technologies, research and development, sales and marketing, operations, manufacturing and finance. These efforts result in additional expenses and involve significant amounts of management's time that cannot then be dedicated to other projects. Our failure to manage successfully and coordinate the growth of the combined company could also have an adverse impact on our business. In addition, there is no guarantee that some of the businesses we acquire will become profitable or remain so. If our acquisitions

do not reach our initial expectations, we may record unexpected impairment charges. Factors that will affect the success of our acquisitions include:

presence or absence of adequate internal controls and/or significant fraud in the financial systems of acquired companies;

any decrease in customer loyalty and product orders caused by dissatisfaction with the combined companies' product lines and sales and marketing practices, including price increases;

our ability to retain key employees;

the ability of the combined company to achieve synergies among its constituent companies, such as increasing sales of the combined company's products, achieving cost savings and effectively combining technologies to develop new products.

### **Risks Related to Our Sales**

#### **We face significant competition.**

The markets for our products are very competitive and price sensitive. Our competitors, which could include certain of our customers such as large pharmaceutical companies, have significant financial, operational, sales and marketing resources and experience in research and development. Our competitors could develop new technologies that compete with our products or even render our products obsolete. If a competitor develops superior technology or cost-effective alternatives to our kits and other products, our business could be seriously harmed.

The markets for certain of our products, such as electrophoresis products, custom primers, amplification products, and fetal bovine serum, are also subject to specific competitive risks. These markets are highly price competitive. Our competitors have competed in the past by lowering prices on certain products. If they did so again we may be forced to respond by lowering our prices. This would reduce revenues and profits. Conversely, failure to anticipate and respond to price competition may hurt our market share.

We believe that customers in our markets display a significant amount of loyalty to their initial supplier of a particular product. Therefore, it may be difficult to generate sales to potential customers who have purchased products from competitors. Additionally, instead of using kits, there are numerous scientists making materials themselves. To the extent we are unable to be the first to develop and supply new products, customers may buy from our competitors or make materials themselves, causing our competitive position to suffer.

There has been an increasing trend toward industry consolidation in our markets. We expect this trend toward industry consolidation to continue as companies attempt to strengthen or hold their market positions in an evolving industry and as companies are acquired or are unable to continue operations. We believe that industry consolidation may result in stronger competitors that are better able to compete as sole-source vendors for customers. For example, in March 2005, Sigma-Aldrich Corporation acquired the JRH Biosciences division of CSL Limited, a producer of sera, cell culture media used in the production of therapeutic proteins, reagent growth factors and biological material containers. Industry consolidation could lead to more variability in operating results and could have a material adverse effect on our business.

**Reduction in research and development budgets and government funding may affect sales.**

Our customers include researchers at pharmaceutical and biotechnology companies, academic institutions, government laboratories and private foundations. Fluctuations in the research and development budgets of these researchers and their organizations could have a significant effect on the demand for our products. Research and development budgets fluctuate due to changes in available resources, mergers of pharmaceutical and biotechnology companies, spending priorities, general economic conditions and institutional and governmental budgetary policies. Our business could be seriously damaged by any significant decrease in life sciences research and development expenditures by pharmaceutical and biotechnology companies, academic institutions, government laboratories or private foundations. In particular a significant portion of our sales have been to researchers whose funding is dependent upon grants from government agencies such as the U.S. National Institutes of Health (NIH). Although the level of research funding increased significantly during the years of 1999 through 2003, increases for fiscal 2004 and 2005 were significantly lower. Government funding of research and development is subject to the political process, which is inherently fluid and unpredictable. Other programs, such as homeland security or defense, or general efforts

to reduce the federal budget deficit could be viewed by the U.S. government as a higher priority. Past proposals to reduce budget deficits have included reduced NIH and other research and development allocations. Any shift away from the funding of life sciences research and development or delays surrounding the approval of government budget proposals may cause our customers to delay or forego purchases of our products, which could seriously damage our business.

In recent years, the pharmaceutical industry has undergone consolidation. Additional mergers or corporate consolidations in the pharmaceutical industry could cause us to lose customers, which could have a harmful effect on our business.

Our customers generally receive funds from approved grants at particular times of the year, for example; as determined by the U.S. federal government. In the past, such grants have been frozen for extended periods or have otherwise become unavailable to various institutions without advance notice. The timing of the receipt of grant funds affects the timing of purchase decisions by our customers and, as a result, can cause fluctuations in our sales and operating results.

**Changing purchasing arrangements with our customers could reduce our profit margins.**

Certain of our customers have developed purchasing initiatives to reduce the number of vendors from which they purchase in order to lower their supply costs. In some cases these accounts have established agreements with large distributors, which include discounts and the distributors direct involvement with the purchasing process. These activities may force us to supply the large distributors with our products at a discount to reach those customers. For similar reasons many larger customers, including the U.S. government, have requested and may in the future request, special pricing arrangements, including blanket purchase agreements. These agreements may limit our pricing flexibility, which could have an adverse impact on our business, financial condition and results of operations. Our pricing flexibility could particularly be affected with respect to our price-sensitive products, such as electrophoresis products, custom oligonucleotides (primers), amplification products, and fetal bovine serum. For a limited number of customers we have made sales, at the customer's request, through third-party Internet vendors, to whom we are required to pay commissions. If our Internet sales grow, it could have a negative impact on our gross margins.

**Sales of biological and chemical defense materials subject us to certain risks.**

We have launched a biodefense initiative, which depends upon the acceptance of our products by the U.S. government and its defense contractors.

We have developed products for use in detecting exposure to biological pathogens and have begun marketing those products to the U.S. government and several defense contractors. If our products do not perform well, or the U.S. government changes its priorities with respect to defense against biological and chemical weapons, our sales growth could be affected. In addition, some third parties could object to our development of biological defense products, which could have a negative impact on our company.

**Risks Related to the Development and Manufacturing of Our Products**

**Failure to license new technologies could impair our new product development.**

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We believe our ability to in-license new technologies from third parties is and will continue to be critical to our ability to offer new products and therefore our business. A significant portion of our current revenues is from products manufactured or sold under licenses from third parties. Our ability to gain access to technologies that we need for new products and services depends in part on our ability to convince inventors and their agents or assignees that we can successfully commercialize their inventions. We cannot assure you that we will be able to continue to identify new technologies of interest to our customers, which are developed by others. Even if we are able to identify new technologies of interest, we may not be able to negotiate a license on acceptable terms, or at all.

### **Loss of licensed rights could hurt our business.**

A small number of our licenses do not run for the length of the underlying patent. We may not be able to renew our existing licenses on favorable terms, or at all. If we lose the rights to a patented technology, we may need to stop selling these products and possibly other products, redesign our products or lose a competitive advantage. While most of our licenses are exclusive to us in certain markets, potential competitors could also in-license technologies that we fail to exclusively license and potentially erode our market share for these and other products. Our licenses also typically subject us to various economic and commercialization obligations. If we fail to comply with these

obligations we could lose important rights under a license, such as exclusivity. In some cases, we could lose all rights under a license. Loss of such rights could, in some cases, harm our business.

In addition, certain rights granted under the license could be lost for reasons out of our control. For example, the licensor could lose patent protection for a number of reasons, including invalidity of the licensed patent, or a third party could obtain a patent that curtails our freedom to operate under one or more licenses. We do not receive indemnification from a licensor against third-party claims of intellectual property infringement.

**Fluctuation in the price and supply of raw FBS could affect our business.**

The supply of raw fetal bovine serum, or FBS, is sometimes limited because serum collection tends to be cyclical. In addition, any additional discovery of bovine spongiform encephalopathy, or BSE (popularly referred to as mad cow disease) in the U.S. may cause a decline in the demand for FBS supplied from the United States. These factors can cause the price of raw FBS to fluctuate. The profit margins we achieve on finished FBS, one of our major products, have been unstable in the past because of the fluctuations in the price of raw FBS, and any increase in the price could adversely affect those profit margins. In addition, if we are unable to obtain an adequate supply of FBS, or if we are unable to meet demand for FBS from supplies outside the U.S., we may lose market share.

**Violation of government regulations or voluntary quality programs could result in loss of revenues and additional expense.**

Certain of our products and test services are regulated by the U.S. Food and Drug Administration or the FDA, as medical devices, pharmaceuticals, or biologics. As a result we must register with the FDA as both a medical device manufacturer and a manufacturer of drug products and comply with all required regulations. Failure to comply with these regulations can lead to sanctions by the FDA such as written observations made following inspections, warning letters, product recalls, fines, product seizures and consent decrees. Test data for use in client submissions with the FDA could be disqualified. If the FDA were to take such actions, the FDA's sanctions would be available to the public. Such publicity could adversely affect our ability to sell these regulated products.

Additionally, some of our customers use our products and services in the manufacturing process for their drug and medical device products, and such end products are regulated by the FDA under Quality System Regulations, or QSR. Although the customer is ultimately responsible for QSR compliance for their products, it is also the customer's expectation that the materials sold to them will meet QSR requirements. We could lose sales and customers, and incur product liability claims, if our products do not meet QSR requirements.

ISO is an internationally recognized voluntary quality standard that requires compliance with a variety of quality requirements somewhat similar to the QSR requirements. The operations of our BioProduction segments and Eugene, Oregon facilities are intended to comply with ISO 9001. Failure to comply with this voluntary standard can lead to observations of non-compliance or even suspension of ISO certification by the certifying unit. If we lose ISO certification, this loss could cause some customers to purchase products from other suppliers.

If we violate a government mandated or voluntary quality program, we may incur additional expense to comply with the government mandated or voluntary standards. That expense may be material, and we may not have anticipated that expense in our financial forecasts. Our financial results could suffer as a result of these increased expenses.



**Risks Related to Our Intellectual Property**

**Inability to protect our technologies could affect our ability to compete.**

Our success depends to a significant degree upon our ability to develop proprietary products and technologies. When we develop such technologies, we routinely seek patent protection in the United States and abroad to the extent permitted by law. However, we cannot assure you that patents will be granted on any of our patent applications or that the scope of any of our issued patents will be sufficiently broad to offer meaningful protection. We only have patents issued in selected countries. Therefore, third parties can make, use, and sell products covered by our patents in any country in which we do not have patent protection. In addition, our issued patents or patents we license could be successfully challenged, invalidated or circumvented so that our patent rights would not create an effective competitive barrier. We provide our customers the right to use our products under label licenses that are for research purposes only. The validity of the restrictions contained in these licenses could be contested, and we cannot assure you that we would either be aware of an unauthorized use or be able to enforce the restrictions in a cost-effective

manner. Additionally, the value of our patents could be negatively impacted as a result of judicial decisions or legislative changes.

If a third party claimed an intellectual property right to technology we use, we might need to discontinue an important product or product line, alter our products and processes, defend our right to use such technology in court or pay license fees. Although we might under these circumstances attempt to obtain a license to such intellectual property, we may not be able to do so on favorable terms, or at all. Additionally, if our products are found to infringe on a third party's intellectual property, we may be required to pay damages for past infringement, and lose the ability to sell certain products or receive licensing revenues.

**Disclosure of trade secrets could aid our competitors.**

We attempt to protect our trade secrets by entering into confidentiality agreements with third parties and with our employees and consultants. However, these agreements can be breached and, if they are, there may not be an adequate remedy available to us. If our trade secrets become known we may lose our competitive position.

**Intellectual property litigation and other litigation could harm our business.**

Litigation regarding patents and other intellectual property rights is extensive in the biotechnology industry. We are aware that patents have been applied for and, in some cases, issued to others claiming technologies that are closely related to ours. We are currently a defendant in several court actions involving our intellectual property. As a result, and in part due to the ambiguities and evolving nature of intellectual property law, we periodically receive notices of potential infringement of patents held by others. We may not be able to resolve these types of claims successfully in the future.

We are currently enforcing our intellectual property rights through patent litigation in several court actions. We have incurred substantial costs, and are currently incurring substantial costs, in enforcing our intellectual property rights, primarily relating to H minus reverse transcriptase, which is the basis for our Superscript and related product lines, and we expect to incur such costs in the future for Superscript and other technologies. In the event of additional intellectual property disputes, we may be involved in further litigation. In addition to court actions, patent litigation could involve proceedings before the U.S. Patent and Trademark Office or the International Trade Commission. Intellectual property litigation can be extremely expensive, and such expense, as well as the consequences should we not prevail, could seriously harm our business. If we do not prevail in our pending patent litigation relating to H minus reverse transcriptase, we may be unable to prevent third parties from using this technology in the commercial marketplace. This could have a seriously harmful effect on our business.

**Risks Related to Our Operations**

**Litigation may harm our business or otherwise distract our management.**

Substantial, complex or extended litigation could cause us to incur large expenditures and distract our management. For example, lawsuits by employees, stockholders, collaborators, distributors, customers, or end-users of our products or services or in connection with our acquisitions could be very costly and substantially disrupt our business. Disputes from time to time with such companies or individuals are not uncommon, and we cannot assure you that we will always be able to resolve such disputes out of court or on terms favorable to us. Unexpected results could cause our financial exposure in these matters to exceed stated reserves and insurance, requiring us to allocate additional funds and other

resources to address these liabilities.

**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 as well. We face intense competition for these professionals from our competitors, customers, marketing partners and other companies throughout our industry. We do not generally 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 professionals would seriously damage our business. Additionally, integration of acquired companies and businesses can be disruptive, causing key employees to leave. Further, we use stock options, restricted stock, and restricted stock units/awards to provide incentive to these individuals to stay with us and to build long-term stockholder value. If our stock price fluctuates below the exercise price of these options or reduces the value of restricted stock and restricted stock units/awards, a key employee's incentive to stay is lessened. If we were to lose a sufficient number of our key employees, including research and

development scientists, and were unable to replace them or satisfy our needs for research and development through outsourcing, these losses could seriously damage our business.

**We have a significant amount of debt, which could adversely affect our financial condition.**

We have \$375 million of subordinated convertible notes that are due in 2006, \$350 million of senior convertible notes that are due in 2023, \$450 million of senior convertible notes due in 2024, and \$350 million of senior convertible notes due in 2025. In addition, the holders of our \$350 million of senior convertible notes due in 2023 have the option to require us to redeem the notes for cash at par value in August of 2010, 2013 or 2018. The holders of our \$450 million senior convertible notes have the option to require us to redeem the notes for cash at par value in February of 2012, 2017 or 2022. The holders of the \$350 million senior convertible notes due in 2025 have the option to require us to redeem the notes for cash at par value in June of 2011, 2015 or 2020. On April 27, 2005, we also entered into a \$250 million line of credit with Bank of America, N.A. This line of credit is secured by certain of our marketable securities and is therefore senior to the notes offered hereby to the extent of the security interest. If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments on these notes, we will be in default under the terms of the loan agreements or indentures, which could, in turn, cause defaults under the remainder of these existing and any future debt obligations.

Even if we are able to meet our debt service obligations, the amount of debt we have could adversely affect us in a number of ways, including by:

limiting our ability to obtain any necessary financing in the future for working capital, capital expenditures, debt service requirements, or other purposes;

limiting our flexibility in planning for, or reacting to, changes in our business;

placing us at a competitive disadvantage relative to our competitors who have lower levels of debt;

making us more vulnerable to a downturn in our business or the economy generally;

subjecting us to the risk of being forced to refinance these amounts when due at higher interest rates; and

requiring us to use a substantial portion of our cash to pay principal and interest on our debt, instead of contributing those funds to other purposes such as working capital and capital expenditures.

**We could lose the tax deduction on certain of our notes under certain circumstances.**

We could lose some or all of the tax deduction for interest expense associated with our Convertible Senior Notes due 2023, the Convertible Senior Notes due in 2024 and the Convertible Senior Notes due in 2025, under certain circumstances, the foregoing notes are not subject to the special Treasury Regulations governing contingent payment debt instruments or the exchange of these notes is deemed to be a taxable exchange. We also could lose the tax deduction for interest expense associated with the foregoing notes if we were to invest in non-taxable investments.

**Risks Related to Our International Operations**

**International unrest or foreign currency fluctuations could adversely affect our results.**

Including subsidiaries and distributors, our products are currently marketed in approximately 70 countries throughout the world. Our international revenues, which include revenues from our non-U.S. subsidiaries and export sales from the U.S., represented 49% of our product revenues in 2004, 48% of our product revenues in 2003, and 44% of our product revenues in 2002. We expect that international revenues will continue to account for a significant percentage of our revenues for the foreseeable future. There are a number of risks arising from our international business, including those related to:

foreign currency exchange rate fluctuations, potentially reducing the U.S. Dollars we receive for sales denominated in foreign currency;

the possibility that unfriendly nations or groups could boycott our products;

general economic and political conditions in the markets in which we operate;

potential increased costs associated with overlapping tax structures;

potential trade restrictions and exchange controls;

more limited protection for intellectual property rights in some countries;

difficulties and costs associated with staffing and managing foreign operations;

unexpected changes in regulatory requirements;

the difficulties of compliance with a wide variety of foreign laws and regulations;

longer accounts receivable cycles in certain foreign countries, whether cultural, due to exchange rate fluctuation or other factors;

import and export licensing requirements; and

changes to our distribution networks.

A significant portion of our business is conducted in currencies other than the U.S. dollar, which is our reporting currency. Our recent acquisition of Dynal Biotech Holding AS substantially increases the portion of our business that is conducted in Norwegian kroner and the associated currency translation risk. While we attempt to hedge cash flows in these currencies, this program relies in part on forecasts of these cash flows and the expected range of fluctuations. As a result, we cannot assure you this program will adequately protect our operating results from the full effects of exchange rate fluctuations. As a result, fluctuations between the currencies in which we do business have caused and will continue to cause foreign currency transaction gains and losses. We cannot predict the effects of currency exchange rate fluctuations upon our future operating results because of the number of currencies involved, the variability of currency exposures, and the volatility of currency exchange rates.

#### **Risks Related to the Market for Our Securities**

##### **Our operating results and the market price of our stock and convertible notes could be volatile.**

Our operating results and stock price have in the past been, and will continue to be, subject to quarterly fluctuations as a result of a number of factors, including those listed in this section of this Quarterly Report and those we have failed to foresee. Our stock price and the price of our convertible notes could also be affected by any inability to meet analysts' expectations, general fluctuations in the stock market or the stocks of companies in our industry or those of our customers. Such volatility has had a significant effect on the market prices of many companies' securities for reasons unrelated to their operating performance, and has in the past led to securities class action litigation. Securities litigation against us could result in substantial costs and a diversion of our management's attention and resources, which could have an adverse effect on our business.

**Risks Related to Environmental Issues**

**We are subject to risks related to handling of hazardous materials and other regulations governing environmental safety.**

Our operations are subject to complex and stringent environmental, health, safety and other governmental laws and regulations that both public officials and private individuals may seek to enforce. Our activities that are subject to these regulations include, among other things, our use of hazardous and radioactive materials and the generation, transportation and storage of waste. While we believe we are in material compliance with these laws and regulations, we could discover that we or an acquired business is not in material compliance. Existing laws and regulations may also be revised or reinterpreted, or new laws and regulations may become applicable to us, whether retroactively or prospectively, that may have a negative effect on our business and results of operations. It is also impossible to completely eliminate the risk of accidental environmental contamination or injury to individuals. In such an event, we could be liable for any damages that result, which could adversely affect our business. Additionally, although unlikely, a catastrophic incident could partially or completely shut down our research and manufacturing facilities and operations.

Furthermore, in acquiring Dexter, we assumed certain of Dexter's environmental liabilities, including clean-up of several hazardous waste sites listed on the National Priority List under federal Superfund law. Unexpected results

related to the investigation and clean-up of these sites could cause our financial exposure in these matters to exceed stated reserves and insurance, requiring us to allocate additional funds and other resources to address our environmental liabilities, which could cause a material adverse effect on our business.

**Potential product liability claims could affect our earnings and financial condition.**

We face a potential risk of liability claims based on our products or services. We carry product liability insurance coverage, which is limited in scope and amount. We cannot assure you, however, that we will be able to maintain this insurance at a reasonable cost and on reasonable terms. We also cannot assure you that this insurance will be adequate to protect us against a product liability claim, should one arise.

Some of our services include the manufacture of biologic products to be tested in human clinical trials. We could be held liable for errors and omissions in connection with these services. In addition, we formulate, test and manufacture products intended for use by the public. These activities could expose us to risk of liability for personal injury or death to persons using such products, although we do not commercially market or sell the products to end users. We seek to reduce our potential liability through measures such as contractual indemnification provisions with clients (the scope of which may vary from client-to-client, and the performances of which are not secured), insurance maintained by clients and conducting certain of these businesses through subsidiaries. Notwithstanding, we could be materially and adversely affected if we were required to pay damages or incur defense costs in connection with a claim that is outside the scope of the indemnification agreements, if the indemnity, although applicable, is not performed in accordance with its terms or if our liability exceeds the amount of applicable insurance or indemnity. In addition, we could be held liable for errors and omissions in connection with the services we perform. We currently maintain product liability and errors and omissions insurance with respect to these risks. There can be no assurance that our insurance coverage will be adequate or that insurance coverage will continue to be available on terms acceptable to us.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risk related to changes in foreign currency exchange rates, commodity prices, and interest rates, and we selectively use financial instruments to manage these risks. We do not enter into financial instruments for speculation or trading purposes. These financial exposures are monitored and managed by us as an integral part of our overall risk management program, which recognizes the unpredictability of financial markets and seeks to reduce potentially adverse effects on our results.

**Foreign Currency Transactions.** We have operations in Europe, Asia-Pacific and the Americas. As a result, our financial position, results of operations and cash flows can be affected by fluctuations in foreign currency exchange rates. Many of our reporting entities conduct a portion of their business in currencies other than the entity's functional currency. These transactions give rise to receivables and payables that are denominated in currencies other than the entity's functional currency. The value of these receivables and payables is subject to changes in exchange rates because they may become worth more or less than they were worth at the time we entered into the transaction due to changes in currency exchange rates. Both realized and unrealized gains or losses on the value of these receivables and payables are included in the determination of net income. Realized and unrealized gains or losses on the value of financial contracts entered into to hedge the currency exchange rate exposure of these receivables and payables are also included in the determination of net income. Net currency exchange gains recognized on business transactions, net of hedging transactions, were \$22.6 million for the six months ended June 30, 2005 and are included in other income and expense in the Condensed Consolidated Statements of Income. Transaction gains during the six months ended June 30, 2005 include a \$21.0 million gain on a foreign currency forward contract to buy Norwegian kroner, executed in anticipation of the Dynal acquisition, and a \$2.2 million gain on a short-term intercompany loan.

Our currency exposures vary, but are primarily concentrated in the euro, British pound sterling, Norwegian kroner and Japanese yen. Historically, we have used foreign currency forward contracts to mitigate foreign currency risk on foreign currency receivables and payables. At June 30, 2005, we had \$10.1 million in foreign currency forward contracts outstanding to hedge currency risk on specific receivables and payables. These contracts, which all settle in July 2005, effectively fix the exchange rate at which these specific receivables and payables will be



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settled in, so that gains or losses on the forward contracts offset the losses or gains from changes in the value of the underlying receivables and payables.

As part of our foreign currency-hedging program, we hedge forecasted foreign currency cash flows. At June 30, 2005, the value of our executed forward contracts to hedge forecasted foreign currency cash flows totaled \$70.1 million. The contracts mature on various dates through 2005. The contracts' increase or decrease in value prior to their maturity will be accounted for as cash flow hedges and recorded in other comprehensive income in the Condensed Consolidated Balance Sheets. To the extent any portion of the forward contracts is determined to not be

an effective hedge, the increase or decrease in value prior to the maturity will be recorded in other income and expense in our statement of income.

Based on the cash flow hedge contracts outstanding as of June 30, 2005, a 10% decrease in the value of the dollar relative to the currencies under contract would result in an approximate \$7.0 million unrealized loss. Conversely, a 10% increase in the value of the dollar relative to the currencies under contract would result in a \$7.0 million unrealized gain. Consistent with the nature of the economic hedge provided by these foreign exchange contracts, such unrealized gains or losses would be offset by corresponding decreases or increases, respectively, in the dollar value of the future foreign currency cash flows.

**Commodity Prices.** Our exposure to commodity price changes relates to certain manufacturing operations that utilize certain commodities as raw materials. We manage our exposure to changes in those prices primarily through our procurement and sales practices.

**Interest Rates.** Our investment portfolio is maintained in accordance with our investment policy that defines allowable investments, specifies credit quality standards and limits the credit exposure of any single issuer. The fair value of our cash equivalents and marketable securities is subject to change as a result of changes in market interest rates and investment risk related to the issuers' credit worthiness. We do not utilize financial contracts to manage our exposure in our investment portfolio to changes in interest rates. At June 30, 2005, we had \$946.7 million in cash, cash equivalents and marketable securities, all of which are stated at fair value. Changes in market interest rates would not be expected to have a material impact on the fair value of \$496.8 million of our cash and cash equivalents at June 30, 2005, as these consisted of securities with maturities of less than three months. A 100 basis point increase or decrease in interest rates would, however, decrease or increase, respectively, the remaining \$449.9 million of our investments by approximately \$3.9 million. While changes in interest rates may affect the fair value of our investment portfolio, any gains or losses will not be recognized in our statement of income until the investment is sold or if the reduction in fair value was determined to be a permanent impairment.

#### **Item 4. Controls and Procedures**

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act in 1934, as amended (the Exchange Act)) that are designed to ensure that information required to be disclosed in the Company's reports filed under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report (the Evaluation Date), an evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the Evaluation Date. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer have concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of the Evaluation Date.

In addition, the Principal Executive Officer and Principal Financial Officer have concluded that there have been no changes to the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the last fiscal quarter, that has materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are engaged in various legal actions arising in the ordinary course of our business and believe that the ultimate outcome of these actions will not have a material adverse effect on our business or financial condition.

**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**

(a) The Annual Meeting of Stockholders was held on April 20, 2005.

(b) See (c) below.

(c) PROPOSAL I. The following members of the Board of Directors were elected to serve for three years and until their successors are elected and qualified:

	<u>Total Votes for Each Director</u>	<u>Total Votes Withheld from Each Director</u>	<u>Term Expires</u>
Balakrishnan S. Iyer	40,010,290	199,245	2008
Ronald A. Matricaria	38,795,056	1,422,730	2008
W. Ann Reynolds, Ph.D.	39,984,167	225,288	2008
Jay M. Short, Ph.D.	38,157,635	2,090,687	2008

PROPOSAL II. A proposal to ratify the appointment of Ernst & Young LLP as independent public accountants of Invitrogen for the year ending December 31, 2005 was approved by 39,808,032 affirmative votes vs. 390,144 negative votes vs. 9,953 abstentions and broker non-votes.

**Item 5. Other Information**

None.

**Item 6. Exhibits and Reports on Form 8-K**

Exhibits: For a list of exhibits filed with this report, refer to the Index to Exhibits.

**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 thereunto duly authorized.

Date: July 28, 2005

**INVITROGEN CORPORATION**

By: /s/ David F. Hoffmeister  
David F. Hoffmeister  
Chief Financial Officer

(Principal Financial Officer and

Authorized Signatory)

INDEX TO EXHIBITS

EXHIBIT

NUMBER	DESCRIPTION OF DOCUMENT
2.9	Share Sale and Purchase Agreement Relating to the Acquisition of all issued shares in Dynal Biotech Holding AS, Reg. No. 983413609, by Invitrogen Corporation, dated as of February 7, 2005.
3.1	Restated Certificate of Incorporation of Invitrogen, as amended.(1)
3.2	Amended and Restated Bylaws of Invitrogen.(2)
3.3	Certificate of Correction to the Restated Certificate of Incorporation of Invitrogen, dated February 21, 2001.(3)
4.1	Specimen Common Stock Certificate.(4)
4.2	5 1/2% Convertible Subordinated Notes Due 2007, Registration Rights Agreement, by and among Invitrogen, and Donaldson, Lufkin & Jenrette Securities Corporation et al., as Initial Purchasers, dated March 1, 2000.(5)
4.3	Indenture, by and between Invitrogen and State Street Bank and Trust Company of California, N.A., dated March 1, 2000.(5)
4.4	2 1/4% Convertible Subordinated Notes due 2006, Registration Rights Agreement, by and among Invitrogen and Credit Suisse First Boston Corporation et al., as Initial Purchasers, dated December 11, 2001.(6)
4.5	Indenture, by and between Invitrogen and State Street Bank and Trust Company of California, N.A. and Table of Contents of Indenture, including Cross-Reference Table to the Trust Indenture Act of 1989, dated December 11, 2001.(6)
4.6	2% Convertible Senior Notes Due 2023, Registration Rights Agreement, by and among Invitrogen, and UBS Securities LLC and Credit Suisse First Boston LLC, as Initial Purchasers, dated August 1, 2003.(7)
4.7	Indenture, by and between Invitrogen and U.S. Bank National Association, dated August 1, 2003.(7)
4.8	1½% Convertible Senior Notes Due 2024, Registration Rights Agreement, by and among Invitrogen, and UBS Securities LLC and Bear Stearns & Co Inc., as Initial Purchasers, dated February 19, 2004.(8)
4.9	Indenture, by and between Invitrogen and U.S. Bank National Association, dated February 19, 2004.(8)
4.10	Indenture, by and between Invitrogen and U.S. Bank National Association, dated as of December 14, 2004. (9)
4.11	Indenture, by and between Invitrogen and U.S. Bank National Association, dated as of December 14, 2004. (9)
4.12	3.25% Convertible Senior Notes Due 2025, Registration Rights Agreement, by and among Invitrogen, and UBS Securities LLC and Banc of America Securities LLC., as Initial Purchasers, dated June 20, 2005. (10)
4.13	3.25% Convertible Senior Notes Due 2025, Indenture, by and between Invitrogen and U.S. Bank National Association, dated June 20, 2005.(10)
10.93	3.25% Convertible Senior Notes due 2025, Purchase Agreement, dated June 20, 2005.(11)
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32.1	Certification of Chief Executive Officer
32.2	Certification of Chief Financial Officer

(1) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the Quarterly Period Ended September 30, 2000 (File No. 000-25317).

(2) The Amended and Restated Bylaws are incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-68665). A further amendment to the Bylaws adopted by a Resolution of the Board of Directors dated July 19, 2001 is incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the Quarterly Period Ended June 30, 2001 (File No. 000-25317).

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- (3) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2001 (File No. 000-25317).
- (4) Incorporated by reference to Registrant's Registration Statement on Form S-1 (File No. 333-68665).
- (5) Incorporated by reference to the Registrant's Registration Statement on Form S-3 (File No. 333-37964).
- (6) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the Year Ended December 31, 2001 (File No. 000-25317), as amended.

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- (7) Incorporated by reference to Registrant's Registration Statement on Form S-3 (File No. 333-110060).
- (8) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the Quarterly Period ended March 31, 2004 (File No. 000-25317).
- (9) Incorporated by reference to Registrant's Quarterly Report on Form 10-K for the year period ended December 31, 2004. (File No. 000-25317).
- (10) Incorporated by reference to Registrant's Current Report on Form 8-K, filed on June 24, 2005 (File No. 000-25317).
- (11) Incorporated by reference to Registrant's Current Report on Form 8-K, filed on June 20, 2005 (File No. 000-25317).