BIO RAD LABORATORIES INC
Form 10-Q
November 08, 2006

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

FORM 10-Q

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from to

Commission file number 1-7928

BIO-RAD LABORATORIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	94-1381833
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1000 Alfred Nobel Drive, Hercules, California	94547
(Address of principal executive offices)	(Zip Code)

(510) 724-7000
Registrant's telephone number, including area code
No Change
Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required
to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [X] Yes [ ] No

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
[ ] Yes [X] No

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

Title of Class	Shares Outstanding at October 31, 2006
Class A Common Stock,	
Par Value $0.0001 per share	21,567,886
Class B Common Stock,	
Par Value $0.0001 per share	4,909,908

PART 1 FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net sales	$ 304,764	$ 283,225	$ 930,849	$ 873,698
Cost of goods sold	137,975	126,413	403,870	389,837
Gross profit	166,789	156,812	526,979	483,861
Selling, general and administrative expense	105,950	102,738	316,486	306,458
Product research and development expense	30,988	28,673	90,050	83,995
Interest expense	8,212	8,210	24,111	24,371
Foreign exchange (gains) losses	(293)	(97)	959	(1,296)
Other (income) expense, net	(10,514)	(3,506)	(22,809)	(14,033)
Income from continuing operations before taxes	32,446	20,794	118,182	84,366
Provision for income taxes	9,296	4,575	31,568	20,239
Income from continuing operations	23,150	16,219	86,614	64,127
Discontinued operations				
Gain on divestiture, net of tax benefits				
of zero in 2005	--	--	--	3,974
Net income	$ 23,150	$ 16,219	$ 86,614	$ 68,101
Basic earnings per share:				
Continuing operations	$ 0.88	$ 0.62	$ 3.29	$ 2.47
Discontinued operations	--	--	--	0.15
Net income	$ 0.88	$ 0.62	$ 3.29	$ 2.62
Weighted average common shares	26,407	26,115	26,342	26,015

Diluted earnings per share:				
Continuing operations	$ 0.86	$ 0.61	$ 3.22	$ 2.41
Discontinued operations	--	--	--	0.15
Net income	$ 0.86	$ 0.61	$ 3.22	$ 2.56
Weighted average common shares	26,971	26,695	26,900	26,620

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

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BIO-RAD LABORATORIES, INC

Condensed Consolidated Balance Sheets

(In thousands, except share data)

(Unaudited)

	September 30, 2006	December 31, 2005
ASSETS:		
Cash and cash equivalents	$ 238,418	$ 296,716
Restricted cash	--	36,138
Short-term investments	243,155	116,343
Accounts receivable, net	273,367	247,192
Inventories, net	246,207	212,342
Prepaid expenses, taxes and other current assets	91,566	99,480
Total current assets	1,092,713	1,008,211
Net property, plant and equipment	182,728	180,258
Goodwill	113,276	113,276
Purchased intangibles, net	24,926	28,449
Other assets	109,992	96,388
Total assets	$ 1,523,635	$ 1,426,582
LIABILITIES AND STOCKHOLDERS EQUITY:		
Accounts payable	$ 64,513	$ 72,950
Accrued payroll and employee benefits	79,456	81,076
Notes payable and current maturities of long-term debt	3,768	3,341
Sales, income and other taxes payable	19,075	15,841
Litigation accrual	9,838	55,701
Accrued royalties	35,203	34,386
Other current liabilities	69,459	55,948
Total current liabilities	281,312	319,243
Long-term debt, net of current maturities	425,750	425,687
Deferred tax liabilities	7,577	2,281
Other long-term liabilities	24,256	21,397
Total liabilities	738,895	768,608
STOCKHOLDERS EQUITY:		
	--	--

Preferred stock, $0.0001 par value, 7,500,000 shares authorized; none outstanding		
Class A common stock, $0.0001 par value, 80,000,000 shares authorized; outstanding		
21,558,014 at September 30, 2006 and 21,316,556 at December 31, 2005	2	2
Class B common stock, $0.0001 par value, 20,000,000 shares authorized; outstanding		
4,909,908 at September 30, 2006 and December 31, 2005	1	1
Additional paid-in capital	75,271	60,112
Retained earnings	657,421	570,807
Accumulated other comprehensive income:		
Currency translation and other	52,045	27,052
Total stockholders equity	784,740	657,974
Total liabilities and stockholders equity	$ 1,523,635	$ 1,426,582

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

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

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Cash flows from operating activities:		
Cash received from customers	$ 915,289	$ 865,235
Cash paid to suppliers and employees	(789,626)	(762,788)
Litigation settlement related to MJ acquisition	(45,963)	--
Interest paid	(24,528)	(24,489)
Income tax payments	(9,595)	(30,085)
Miscellaneous receipts	19,080	11,018
Excess tax benefits from stock-based compensation	(1,291)	--
Net cash provided by operating activities	63,366	58,891
Cash flows from investing activities:		
Capital expenditures, net	(38,079)	(26,297)
Payments for acquisitions and investments	(11,397)	(3,646)
Receipt (payment) of restricted cash related to MJ acquisition litigation	36,138	(35,828)
Proceeds from divestitures	12,772	--
Payments on purchase of intangible assets	--	(5,000)
Purchases of marketable securities and investments	(226,526)	(850,547)
Sales of marketable securities and investments	94,726	901,601
Foreign currency economic hedges, net	(1,677)	5,422
Net cash used in investing activities	(134,043)	(14,295)
Cash flows from financing activities:		
Net borrowings (repayments) under line-of-credit arrangements	118	(1,812)
Payments on long-term debt	(358)	(273)
Debt issuance and retirement costs	--	(331)
Proceeds from issuance of common stock	8,511	6,919
Excess tax benefits on stock compensation	1,291	--
Net cash provided by financing activities	9,562	4,503

Effect of exchange rate changes on cash		2,817		(853)
Net increase (decrease) in cash and cash equivalents		(58,298)		48,246
Cash and cash equivalents at beginning of period		296,716		195,734
Cash and cash equivalents at end of period	$	238,418	$	243,980
Reconciliation of net income to net cash provided by operating activities:				
Net income	$	86,614	$	68,101
Adjustments to reconcile net income to net cash provided by				
operating activities:				
Depreciation and amortization		40,300		44,581
Stock based compensation		3,928		--
Excess tax benefits from stock based compensation		(1,291)		--
Increase in accounts receivable		(14,947)		(2,314)
Increase in inventories		(25,646)		(28,221)
(Increase) decrease in other current assets		19,028		(5,350)
Increase (decrease) in accounts payable and other current liabilities		(10,176)		3,594
Increase (decrease) in income taxes payable		1,865		(5,383)
Litigation settlement related to MJ acquisition		(45,963)		--
Other		9,654		(16,117)
Net cash provided by operating activities	$	63,366	$	58,891
Non-cash Investing Activities:				
Tender of Accent stock	$	(3,200)	$	--
Receipt of Nanometrics stock	$	5,354	$	--

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

BIO-RAD LABORATORIES, INC

Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. BASIS OF PRESENTATION

In this report, Bio-Rad, we, us, and our refer to Bio-Rad Laboratories, Inc. and its subsidiaries. The accompanying unaudited condensed consolidated financial statements of Bio-Rad have been prepared in accordance with accounting principles generally accepted in the United States of America and reflect all adjustments which are, in the opinion of management, necessary to fairly state the results of the interim periods presented. All such adjustments are of a normal recurring nature. Results for the interim period are not necessarily indicative of the results for the entire year. The condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements contained in our Annual Report for the year ended December 31, 2005.

Share-Based Compensation Accounting Policy

Prior to January 1, 2006, we applied Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), and related interpretations, in accounting for our share-based compensation plans. All employee stock options were granted at or above the grant date market price. Accordingly, no compensation cost was recognized in the financial statements but was included as a pro forma disclosure in the consolidated financial statements. We also recorded no compensation expense in connection with our Employee Stock Purchase Plan (ESPP) as the purchase price of the stock was not less than 85% of the lower of the fair market value of our common stock at the beginning of each offering period or at the end of each purchase period.

As of January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS)123(R), Share-Based Payment using the modified-prospective method. Under this transition method we are required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. In accordance with the modified prospective transition method, our results for prior periods have not been restated. See Note 12 for information on the impact of our adoption of SFAS 123(R).

New Financial Accounting Standards

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

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertain tax positions, prescribes a recognition threshold and measurement attribute for recognition and provides guidance on classification, disclosure and other issues. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are in the process of evaluating the impact of the adoption of FIN 48 on the results of operations and financial condition.

2. RESTRICTED CASH

Restricted cash of $36.1 million at December 31, 2005 represented deposits in a money market account that was used as collateral to protect a surety company in connection with its execution of a surety bond in the amount of $37.2 million to stay the enforcement of a judgment in a legal matter. This matter has since been settled and the surety bond is no longer needed. The cash is no longer restricted and has been returned to cash and cash equivalents.

3. SHORT-TERM INVESTMENTS

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

	September 30, 2006	December 31, 2005
Available-for-sale securities:		
Asset backed securities	$ 39.9	$ 36.6
Corporate obligations	131.7	31.4
U.S. Agencies	32.6	25.5
Variable rate notes	10.7	8.7
Auction rate securities	--	3.9
Marketable equity securities	7.9	--
Certificates of deposit	5.1	--
Mortgage backed securities	15.3	10.2
Total short-term investments	$ 243.2	$ 116.3

Management classifies investments in marketable securities at the time of purchase. Marketable debt and equity securities classified as short-term investments have been designated as available-for-sale and are stated at fair value which approximates cost. These investments are marked to market, with unrealized gains and losses reported as a component of comprehensive income.

4. INVENTORIES

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

	September 30, 2006	December 31, 2005
Raw materials	$ 52.4	$ 48.3
Work in process	60.1	51.6
Finished goods	133.7	112.4
	$ 246.2	$ 212.3

5. PROPERTY, PLANT AND EQUIPMENT

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

	September 30, 2006	December 31, 2005
Land and improvements	$ 9.5	$ 9.8
Buildings and leasehold improvements	120.8	120.0
Equipment	340.4	322.4
	470.7	452.2
Accumulated depreciation	(288.0)	(271.9)
Net property, plant and equipment	$ 182.7	$ 180.3

Net capital expenditures include proceeds from the sale of property, plant and equipment of $0.2 million and $3.3 million for the nine months ended September 30, 2006 and 2005, respectively.

6. ACCENT/NANOMETRICS MERGER

During July 2006, Accent Semiconductor Technology Inc. (Accent), a private company, was acquired by Nanometrics Inc. (Nanometrics), a publicly held company. In preparation for the merger, Accent repaid the $11.8 million note receivable and accrued interest owed to Bio-Rad as part of Accent s 2000 purchase of the assets and certain liabilities of our former semiconductor and optoelectronic metrology business. As part of the merger agreement, we tendered our ownership interest in Accent in exchange for approximately 600,000 shares of Nanometrics stock valued at $5.4 million on conversion. We also received a $2.5 million facilitation fee for aiding in the merger. These transactions resulted in a gain of $4.7 million included in Other (income) expense, net. Our current ownership interest in Nanometrics is less than 5%, is marked to market and included in Other assets. There are certain restrictions on selling our Nanometrics shares within the first year of ownership.

7. GOODWILL AND OTHER PURCHASED INTANGIBLE ASSETS

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

	September 30, 2006			
	Remaining Weighted Average Useful Life	Carrying Amount	Accumulated Amortization	Net
Developed Product Technology	4	$ 9.2	$ 2.9	$ 6.3
Licenses	13	14.0	2.0	12.0
Know How	3	9.4	5.1	4.3
Covenants Not to Compete	2	2.0	1.0	1.0
Patents	4	1.0	0.1	0.9
Customer Lists	2	0.6	0.3	0.3
Other	5	2.1	2.0	0.1
		$ 38.3	$ 13.4	$ 24.9

	December 31, 2005			
	Remaining Weighted Average Useful Life	Carrying Amount	Accumulated Amortization	Net
Developed Product Technology	5	$ 9.2	$ 1.4	$ 7.8
Licenses	14	14.0	1.3	12.7
Know How	4	8.7	3.7	5.0
Covenants Not to Compete	3	2.0	0.7	1.3
Patents	4	1.0	--	1.0
Customer Lists	3	0.6	0.2	0.4
Other	1	2.2	2.0	0.2
		$ 37.7	$ 9.3	$ 28.4

Recorded purchased intangible asset amortization expense for the three months ended September 30, 2006 and 2005 was $1.2 and $2.7 million, respectively. Recorded purchased intangible asset amortization expense for the nine months ended September 30, 2006 and 2005 was $3.8 million and $8.3 million, respectively. Based on existing purchased intangible assets, estimated purchased intangible asset amortization expense for the years ended December 31, 2007, 2008, 2009, 2010 and 2011 is $5.2 million, $4.4 million, $3.2 million, $2.1 million and $1.4 million, respectively.

8. DISCONTINUED OPERATIONS

On May 31, 2004, we sold a group of assets and transferred certain liabilities that comprised a substantial portion of our confocal microscopy product line to Carl Zeiss Jena GmbH. Since the discontinued operations were sold in the third quarter of 2004, there were no sales or operating losses in the nine months ended September 30, 2005. However, during the first quarter of 2005, we reached an agreement to settle the $6.7 million estimated retained lease commitment that comprised the most significant portion of the original shut-down provision. Consequently, we recognized a $4.0 million gain on the revised disposition of the confocal microscopy product line in March 2005.

9. PRODUCT WARRANTY LIABILITY

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

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

	2006	2005
January 1,	$ 12.0	$ 10.1
Provision for warranty	11.1	9.3
Actual warranty costs	(10.8)	(8.3)
September 30,	$ 12.3	$ 11.1

10. LONG-TERM DEBT

In June 2005, Bio-Rad entered into a new Credit Agreement, which amended and restated the Credit Agreement dated September 9, 2003, as amended December 8, 2004. Borrowings are permitted up to a maximum of $150.0 million on a revolving basis and can be used to make acquisitions, for working capital and for other general corporate purposes. Under certain conditions, this Credit Agreement may be increased up to an additional $50 million. It will mature on June 21, 2010.

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

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

11. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for that period. Diluted earnings per share takes into account the effect of dilutive instruments, such as stock options, and uses the average share price for the period using the treasury stock method. Under the treasury stock method, the amount that the employee must pay for exercising stock options, the amount of compensation cost for future service that Bio-Rad has not yet recognized, and the amount of tax benefits that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares. Common stock equivalents are excluded from the diluted earnings per share calculation if the effect would be anti-dilutive.

Weighted average shares used for diluted earnings per share include the dilutive effect of outstanding options to purchase 564,000 and 580,000 shares of stock for the three months ended September 30, 2006 and 2005, respectively. There were 326,000 and 308,000 anti-dilutive options for the three months ended September 30, 2006 and 2005, respectively.

Weighted average shares used for diluted earnings per share include the dilutive effect of outstanding options to purchase 558,000 and 605,000 shares of stock for the nine months ended September 30, 2006 and 2005, respectively. There were 382,000 and 272,000 anti-dilutive options for the nine months ended September 30, 2006 and 2005, respectively.

12. STOCK OPTION AND PURCHASE PLANS

Description of Share-Based Compensation Plans

Stock Option Plans

We have two stock option plans for officers and certain other employees: the Amended 1994 Stock Option Plan (the 1994 Plan) and the 2003 Stock Option Plan (the 2003 Plan). Both plans authorize the grant to employees of incentive stock options and non-qualified stock options. The maximum number of shares issuable over the term on the 2003 Plan is 1,675,000 shares and may be of either Class A or Class B Common Stock. Of these shares, 809,630 remain available to be granted as of September 30, 2006. We no longer make stock option grants under the 1994 Plan.

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

Employee Stock Purchase Plan (ESPP)

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