

BIO RAD LABORATORIES INC  
Form 10-Q  
May 08, 2014

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

FORM 10-Q  
(Mark  
One)

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

For the quarterly period ended March 31, 2014  
or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-7928

BIO-RAD LABORATORIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

94-1381833

(State or other jurisdiction of incorporation or  
organization)

(I.R.S. Employer Identification No.)

1000 Alfred Nobel Drive, Hercules, California

94547

(Address of principal executive offices)

(Zip Code)

(510) 724-7000

(Registrant's telephone number, including area code)

No Change

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

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232,405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if smaller reporting company) Smaller reporting company

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

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Yes  No

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

| Title of Class                                     | Shares Outstanding at April 29, 2014 |
|--|--------------------------------------|
| Class A Common Stock, Par Value \$0.0001 per share | 23,727,428                           |
| Class B Common Stock, Par Value \$0.0001 per share | 5,091,890                            |

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BIO-RAD LABORATORIES, INC.

FORM 10-Q MARCH 31, 2014

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## BIO-RAD LABORATORIES, INC.

## Condensed Consolidated Balance Sheets

(In thousands, except share data)

|   | March 31,<br>2014 | December 31,<br>2013 |
|---|-------------------|----------------------|
|   | (Unaudited)       |                      |
| <b>ASSETS:</b>  |                   |                      |
| Cash and cash equivalents   | \$364,507         | \$331,551            |
| Short-term investments  | 276,826           | 277,369              |
| Accounts receivable, net  | 383,928           | 422,660              |
| <b>Inventories:</b>   |                   |                      |
| Raw materials   | 108,549           | 105,708              |
| Work in process   | 145,172           | 129,894              |
| Finished goods  | 260,131           | 265,689              |
| Total inventories   | 513,852           | 501,291              |
| Prepaid expenses, taxes and other current assets  | 227,697           | 214,985              |
| Total current assets  | 1,766,810         | 1,747,856            |
| Property, plant and equipment, at cost  | 1,105,803         | 1,087,315            |
| Less: accumulated depreciation and amortization   | (674,927          | ) (657,960           |
| Property, plant and equipment, net  | 430,876           | 429,355              |
| Goodwill, net   | 520,525           | 517,770              |
| Purchased intangibles, net  | 256,444           | 266,188              |
| Other investments   | 420,241           | 377,870              |
| Other assets  | 46,482            | 49,751               |
| Total assets  | \$3,441,378       | \$3,388,790          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>  |                   |                      |
| Accounts payable  | \$130,864         | \$148,510            |
| Accrued payroll and employee benefits   | 133,048           | 130,658              |
| Notes payable and current maturities of long-term debt  | 1,732             | 1,786                |
| Income and other taxes payable  | 32,596            | 33,555               |
| Estimated loss contingency  | 39,800            | 30,000               |
| Other current liabilities   | 143,211           | 142,963              |
| Total current liabilities   | 481,251           | 487,472              |
| Long-term debt, net of current maturities   | 435,611           | 435,615              |
| Other long-term liabilities   | 291,913           | 278,981              |
| Total liabilities   | 1,208,775         | 1,202,068            |
| <b>Stockholders' equity:</b>  |                   |                      |
| Class A common stock, shares issued 23,727,025 and 23,680,749 at 2014 and 2013, respectively; shares outstanding 23,726,903 and 23,680,627 at 2014 and 2013, respectively | 2                 | 2                    |
| Class B common stock, shares issued 5,092,907 and 5,096,780 at 2014 and 2013, respectively; shares outstanding 5,091,990 and 5,095,863 at 2014 and 2013, respectively     | 1                 | 1                    |
| Additional paid-in capital  | 247,318           | 239,986              |
| Class A treasury stock at cost, 122 shares at 2014 and 2013   | (12               | ) (12                |
| Class B treasury stock at cost, 917 shares at 2014 and 2013   | (89               | ) (89                |

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|  |             |             |
|--|-------------|-------------|
| Retained earnings                          | 1,612,785   | 1,606,117   |
| Accumulated other comprehensive income     | 372,598     | 340,717     |
| Total stockholders' equity                 | 2,232,603   | 2,186,722   |
| Total liabilities and stockholders' equity | \$3,441,378 | \$3,388,790 |

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

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

|  | Three Months Ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2014                            | 2013      |
| Net sales  | \$509,344                       | \$499,672 |
| Cost of goods sold                                   | 234,055                         | 228,260   |
| Gross profit   | 275,289                         | 271,412   |
| Selling, general and administrative expense          | 202,275                         | 185,917   |
| Research and development expense                     | 52,543                          | 50,343    |
| Income from operations                               | 20,471                          | 35,152    |
| Interest expense                                     | 3,857                           | 10,977    |
| Foreign exchange losses, net                         | 2,737                           | 1,528     |
| Other (income) expense, net                          | (661                            | ) (1,400  |
| Income before income taxes                           | 14,538                          | 24,047    |
| Provision for income taxes                           | (7,870                          | ) (3,875  |
| Net income including noncontrolling interests        | 6,668                           | 20,172    |
| Net income attributable to noncontrolling interests  | —                               | (21       |
| Net income attributable to Bio-Rad                   | \$6,668                         | \$20,151  |
| Basic earnings per share:                            |                                 |           |
| Net income per basic share attributable to Bio-Rad   | \$0.23                          | \$0.71    |
| Weighted average common shares - basic               | 28,791                          | 28,494    |
| Diluted earnings per share:                          |                                 |           |
| Net income per diluted share attributable to Bio-Rad | \$0.23                          | \$0.70    |
| Weighted average common shares - diluted             | 29,059                          | 28,817    |

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

## BIO-RAD LABORATORIES, INC.

## Condensed Consolidated Statements of Comprehensive Income

(In thousands)

(Unaudited)

|   | Three Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2014                            | 2013      |
| Net income including noncontrolling interests   | \$6,668                         | \$20,172  |
| Other comprehensive income:   |                                 |           |
| Foreign currency translation adjustments  | 5,527                           | (34,392 ) |
| Foreign other post-employment benefits adjustments, net of income taxes                   | 61                              | 309       |
| Net unrealized holding gains on available-for-sale (AFS) investments, net of income taxes | 26,293                          | 29,152    |
| Other comprehensive income (loss), net of income taxes                                    | 31,881                          | (4,931 )  |
| Comprehensive income  | 38,549                          | 15,241    |
| Comprehensive (income) attributable to noncontrolling interests                           | —                               | (185 )    |
| Comprehensive income attributable to Bio-Rad  | \$38,549                        | \$15,056  |

Reclassification adjustments are calculated using the specific identification method.

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

## BIO-RAD LABORATORIES, INC.

## Condensed Consolidated Statements of Cash Flows

(In thousands, unaudited)

|  | Three Months Ended |           |
|--|--------------------|-----------|
|  | March 31,          |           |
|  | 2014               | 2013      |
| Cash flows from operating activities:  |                    |           |
| Cash received from customers   | \$544,447          | \$504,158 |
| Cash paid to suppliers and employees   | (468,101)          | (460,093) |
| Interest paid  | (292)              | (11,675)  |
| Income tax payments  | (6,909)            | (14,195)  |
| Investment proceeds and miscellaneous receipts, net  | 1,283              | 1,985     |
| Excess tax benefits from share-based compensation  | (182)              | (106)     |
| (Payments for) proceeds from forward foreign exchange contracts, net   | (1,325)            | 3,943     |
| Net cash provided by operating activities  | 68,921             | 24,017    |
| Cash flows from investing activities:  |                    |           |
| Capital expenditures   | (25,932)           | (34,103)  |
| Proceeds from dispositions of property, plant and equipment  | 114                | 26        |
| Payments for acquisitions, net of cash received, and long-term investments   | (1,364)            | (64,056)  |
| Payments for purchases of intangible assets  | (12,358)           | (463)     |
| Payments for purchases of marketable securities and investments  | (45,273)           | (146,971) |
| Proceeds from sales of marketable securities and investments   | 24,402             | 60,185    |
| Proceeds from maturities of marketable securities and investments  | 21,490             | 77,100    |
| Net cash used in investing activities  | (38,921)           | (108,282) |
| Cash flows from financing activities:  |                    |           |
| Net payments on line-of-credit arrangements and notes payable  | (50)               | (19)      |
| Payments on long-term borrowings   | (66)               | (74)      |
| Payments of contingent consideration   | —                  | (10,574)  |
| Proceeds from issuance of common stock   | 3,424              | 3,135     |
| Excess tax benefits from share-based compensation  | 182                | 106       |
| Net cash provided by (used in) financing activities  | 3,490              | (7,426)   |
| Effect of foreign exchange rate changes on cash  | (534)              | (3,068)   |
| Net increase (decrease) in cash and cash equivalents   | 32,956             | (94,759)  |
| Cash and cash equivalents at beginning of period   | 331,551            | 463,388   |
| Cash and cash equivalents at end of period   | \$364,507          | \$368,629 |
| Reconciliation of net income including noncontrolling interests to net cash provided by operating activities:        |                    |           |
| Net income including noncontrolling interests  | \$6,668            | \$20,172  |
| Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities: |                    |           |
| Depreciation and amortization  | 36,671             | 33,290    |
| Share-based compensation   | 3,701              | 3,482     |
| Losses (gains) on dispositions of securities   | 100                | (190)     |
| Excess tax benefits from share-based compensation  | (182)              | (106)     |
| Changes in fair value of contingent consideration  | (4,893)            | (711)     |
| Decrease in accounts receivable  | 39,569             | 14,454    |
| Increase in inventories  | (11,429)           | (18,350)  |
| Increase in other current assets   | (11,390)           | (11,161)  |



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|   |          |          |   |
|---|----------|----------|---|
| Increase (decrease) in accounts payable and other current liabilities | 7,318    | (9,151   | ) |
| Increase (decrease) in income taxes payable                           | 1,621    | (9,684   | ) |
| Net decrease/increase in other long-term assets/liabilities           | 1,167    | 1,972    |   |
| Net cash provided by operating activities                             | \$68,921 | \$24,017 |   |

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

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## BIO-RAD LABORATORIES, INC

### Notes to Condensed Consolidated Financial Statements (Unaudited)

#### 1. BASIS OF PRESENTATION AND USE OF ESTIMATES

##### Basis of Presentation

In this report, "Bio-Rad," "we," "us," "the Company" and "our" refer to Bio-Rad Laboratories, Inc. and its subsidiaries. The accompanying unaudited condensed consolidated financial statements of Bio-Rad have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and reflect all adjustments which are, in the opinion of management, necessary to fairly state the results of the interim periods presented. All such adjustments are of a normal recurring nature, with the exception to the adjustments noted below. Results for the interim period are not necessarily indicative of the results for the entire year. The condensed consolidated balance sheet at December 31, 2013 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. The condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2013.

We evaluate subsequent events and the evidence they provide about conditions existing at the date of the balance sheet as well as conditions that arose after the balance sheet date but through the date the financial statements are issued. The effects of conditions that existed at the balance sheet date are recognized in the financial statements. Events and conditions arising after the balance sheet date but before the financial statements are issued are evaluated to determine if disclosure is required to keep the financial statements from being misleading. To the extent such events and conditions exist, disclosures are made regarding the nature of events and the estimated financial effects for those events and conditions.

##### Use of Estimates

The preparation of the condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting periods. Bio-Rad bases its estimates on historical experience and on various other market-specific and other relevant assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ materially from those estimates.

#### CORRECTION OF IMMATERIAL ERRORS, AND RECLASSIFICATION OF CERTAIN AMOUNTS

##### Statement of Cash Flows

During the first quarter of 2013, we reported payments for contingent consideration as cash outflows from investing activities in error. Amounts paid pertaining to the purchase accounting contingent liability should have been classified as cash outflows from financing activities. Amounts paid in excess of the purchase accounting contingent liability should have been classified as cash outflows from operating activities. We have adjusted the amounts previously reported in our Form 10-Q for the three-month period ended March 31, 2013 in conjunction with the filing of this 10-Q by reducing cash outflows from investing activities by \$11.0 million and increasing cash outflows from financing activities and operating activities by \$10.6 million and \$0.4 million, respectively.

During the first quarter of 2013, we reported payments for/proceeds from forward foreign exchange contracts as cash flows from investing activities in error. Cash flows from forward foreign exchange contracts should have been classified as cash flows from operating activities. We have adjusted the amounts previously reported in our Form

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10-Q for the three-month period ended March 31, 2013 in conjunction with the filing of this 10-Q by reducing cash inflows from investing activities by \$3.9 million and increasing cash inflows from operating activities by \$3.9 million.

#### Research and Development (R&D) Tax Credit

During the third quarter of 2013, we revised the classification of one item for all periods presented from “Provision for income taxes” to “Research and development expense” in our Condensed Consolidated Statements of Income to conform to the current year presentation. The item reclassified pertains to a refundable French R&D tax credit, which after the reclassification reduces Research and development expense. We believe this presentation is appropriate as we are not required to have taxable income in order to earn the credits. As a result of recording this reclassification, there is an additional impact to our income tax provision due to the application of our effective income tax rate throughout the year. This causes the income tax provision impact to not always equal the pre-tax impact on a quarterly basis, but it does equal on an annual basis. The effect of these items for the first quarter of 2013 were as follows: a reduction of \$1.6 million to Research and development expense, an increase of \$0.9 million to Provision for income taxes, and an increase of \$0.7 million to Net income attributable to Bio-Rad.

Management evaluated the materiality of all the errors described above from a qualitative and quantitative perspective. Based on such evaluation, we have concluded that while these errors were significant to the quarter ended March 31, 2013, their correction impacted only the March 31, 2013 presentation and did not have an effect on the trend of financial results, taking into account the requirements of the Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). Accordingly, we are correcting these errors in the first quarter of the 2014 Condensed Consolidated Financial Statements included in this Form 10-Q.

## 2.ACQUISITIONS

In January 2013, we acquired 100% of the outstanding shares of AbD Serotec, a division of MorphoSys AG, for total consideration of \$62.2 million (net of cash received of \$7.3 million). This acquisition was accounted for as a business combination as AbD Serotec represented an integrated set of activities and assets that was capable of being conducted and managed for the purpose of providing a return and therefore constitutes a business in accordance with GAAP. The amount of acquisition-related costs was minimal as Bio-Rad primarily represented itself during the acquisition process. This business acquisition is included in our Life Science segment's results of operations from the acquisition date. We believe that with AbD Serotec's comprehensive catalog of antibodies, we are able to offer our customers total assay solutions that can be validated on many of our research platforms for western blotting, multiplex protein expression, ELISA and cell sorting.

The final fair values of the net assets acquired consist of definite-lived intangible assets of \$44.0 million, goodwill of \$14.9 million and net tangible assets of \$3.3 million. A portion of the goodwill recorded may be deductible for income tax purposes.

## 3.FAIR VALUE MEASUREMENTS

We determine the fair value of an asset or liability based on the assumptions that market participants would use in pricing the asset or liability in an orderly transaction between market participants at the measurement date. The identification of market participant assumptions provides a basis for determining what inputs are to be used for pricing each asset or liability. A fair value hierarchy has been established which gives precedence to fair value measurements calculated using observable inputs over those using unobservable inputs. This hierarchy prioritizes the inputs into

three broad levels as follows:

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Level 1: Quoted prices in active markets for identical instruments

Level 2: Other significant observable inputs (including quoted prices in active markets for similar instruments)

Level 3: Significant unobservable inputs (including assumptions in determining the fair value of certain investments)

Financial assets and liabilities carried at fair value and measured on a recurring basis as of March 31, 2014 are classified in the hierarchy as follows (in millions):

|   | Level 1 | Level 2 | Level 3 | Total   |
|---|---------|---------|---------|---------|
| <b>Financial Assets Carried at Fair Value:</b>      |         |         |         |         |
| <b>Cash equivalents:</b>                            |         |         |         |         |
| Commercial paper                                    | \$—     | \$7.5   | \$—     | \$7.5   |
| U.S. government sponsored agencies                  | —       | 1.2     | —       | 1.2     |
| Foreign time deposits                               | 19.0    | —       | —       | 19.0    |
| Money market funds                                  | 2.4     | —       | —       | 2.4     |
| Total cash equivalents (a)                          | 21.4    | 8.7     | —       | 30.1    |
| <b>Available-for-sale investments:</b>              |         |         |         |         |
| Corporate debt securities                           | —       | 134.5   | —       | 134.5   |
| Foreign brokered certificates of deposit            | —       | 5.1     | —       | 5.1     |
| U.S. government sponsored agencies                  | —       | 41.3    | —       | 41.3    |
| Foreign government obligations                      | —       | 3.2     | —       | 3.2     |
| Municipal obligations                               | —       | 10.2    | —       | 10.2    |
| Marketable equity securities                        | 366.5   | —       | —       | 366.5   |
| Asset-backed securities                             | —       | 50.6    | —       | 50.6    |
| Total available-for-sale investments (b)            | 366.5   | 244.9   | —       | 611.4   |
| Forward foreign exchange contracts (c)              | —       | 0.4     | —       | 0.4     |
| Total financial assets carried at fair value        | \$387.9 | \$254.0 | \$—     | \$641.9 |
| <b>Financial Liabilities Carried at Fair Value:</b> |         |         |         |         |
| Forward foreign exchange contracts (d)              | \$—     | \$0.4   | \$—     | \$0.4   |
| Contingent consideration (e)                        | —       | —       | 15.9    | 15.9    |
| Total financial liabilities carried at fair value   | \$—     | \$0.4   | \$15.9  | \$16.3  |

Financial assets and liabilities carried at fair value and measured on a recurring basis as of December 31, 2013 are classified in the hierarchy as follows (in millions):

|   | Level 1 | Level 2 | Level 3 | Total   |
|---|---------|---------|---------|---------|
| <b>Financial Assets Carried at Fair Value:</b>      |         |         |         |         |
| Cash equivalents:                                   |         |         |         |         |
| Commercial paper                                    | \$—     | \$7.0   | \$—     | \$7.0   |
| Foreign time deposits                               | 11.1    | —       | —       | 11.1    |
| U.S. government sponsored agencies                  | —       | 1.2     | —       | 1.2     |
| Money market funds                                  | 1.2     | —       | —       | 1.2     |
| Total cash equivalents (a)                          | 12.3    | 8.2     | —       | 20.5    |
| Available-for-sale investments:                     |         |         |         |         |
| Corporate debt securities                           | —       | 132.5   | —       | 132.5   |
| Foreign brokered certificates of deposit            | —       | 8.9     | —       | 8.9     |
| U.S. government sponsored agencies                  | —       | 39.1    | —       | 39.1    |
| Foreign government obligations                      | —       | 5.6     | —       | 5.6     |
| Municipal obligations                               | —       | 11.0    | —       | 11.0    |
| Marketable equity securities                        | 325.2   | —       | —       | 325.2   |
| Asset-backed securities                             | —       | 48.6    | —       | 48.6    |
| Total available-for-sale investments (b)            | 325.2   | 245.7   | —       | 570.9   |
| Forward foreign exchange contracts (c)              | —       | 0.6     | —       | 0.6     |
| Total financial assets carried at fair value        | \$337.5 | \$254.5 | \$—     | \$592.0 |
| <b>Financial Liabilities Carried at Fair Value:</b> |         |         |         |         |
| Forward foreign exchange contracts (d)              | \$—     | \$1.1   | \$—     | \$1.1   |
| Contingent consideration (e)                        | —       | —       | 20.8    | 20.8    |
| Total financial liabilities carried at fair value   | \$—     | \$1.1   | \$20.8  | \$21.9  |

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

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

|                        | March 31,<br>2014 | December 31,<br>2013 |
|------------------------|-------------------|----------------------|
| Short-term investments | \$276.8           | \$277.4              |
| Other investments      | 334.6             | 293.5                |
| Total                  | \$611.4           | \$570.9              |

(c) Forward foreign exchange contracts in an asset position are included in Prepaid expenses, taxes and other current assets in the Condensed Consolidated Balance Sheets.

(d) Forward foreign exchange contracts in a liability position are included in Other current liabilities in the Condensed Consolidated Balance Sheets.

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

|                             | March 31, 2014 | December 31, 2013 |
|-----------------------------|----------------|-------------------|
| Other current liabilities   | \$3.0          | \$6.1             |
| Other long-term liabilities | 12.9           | 14.7              |
| Total                       | \$15.9         | \$20.8            |

During the third quarter of 2012, we recognized a contingent consideration liability upon our acquisition of a new cell sorting system from Propel Labs, Inc. The fair value of the contingent consideration was based on a probability-weighted income approach related to the achievement of certain development and sales milestones. The development milestone was achieved and paid in 2013. Based on the most recent valuation, the sales milestones could potentially range from \$0 to a maximum of 60.0%, 51.32% and 50.38% of annual cell sorting system purchase orders starting September 2013, September 2014 and September 2015, with payment to occur upon the anniversary of the completion of a certain number of cell sorting systems for three consecutive years, respectively. These maximum payout ratios begin at annual cell sorting system purchase orders in excess of \$20 million, \$30 million and \$45 million for the three consecutive years, respectively. The contingent consideration was revalued by a reduction of \$4.9 million in 2014 to Selling, general and administrative expense to its estimated fair value of \$15.9 million as of March 31, 2014.

The following table provides a reconciliation of the Level 3 contingent consideration liability measured at estimated fair value based on original valuations and updated quarterly for the three months ended March 31, 2014 (in millions):

|  |        |        |
|--|--------|--------|
| January 1  | 2014   | \$20.8 |
| Decrease in estimated fair value of contingent consideration included in Selling, general and administrative expense - Cell sorting system | (4.9   | )      |
| March 31   | \$15.9 |        |

The following table provides quantitative information about Level 3 inputs for fair value measurement of our contingent consideration liability as of March 31, 2014. Significant increases or decreases in these inputs in isolation could result in a significantly lower or higher fair value measurement.

|                     | Valuation Technique                  | Unobservable Input                  | Range |       |
|---------------------|--------------------------------------|-------------------------------------|-------|-------|
|                     |                                      |                                     | From  | To    |
| Cell sorting system | Probability-weighted income approach | Sales milestones:                   |       |       |
|                     |                                      | Credit adjusted discount rates      | 0.67% | 1.45% |
|                     |                                      | Projected volatility of growth rate | 13%   | 20%   |
|                     |                                      | Market price of risk                | 1.25% | N/A   |

To estimate the fair value of Level 2 debt securities as of March 31, 2014 and December 31, 2013, our primary pricing provider uses S&P Capital IQ as the primary pricing source. Our pricing process allows us to select a hierarchy of pricing sources for securities held. The chosen pricing hierarchy for our Level 2 securities, other than certificates of deposit and commercial paper, is S&P Capital IQ as the primary pricing source and then our custodian as the secondary pricing source. If S&P Capital IQ does not price a Level 2 security that we hold, then the pricing provider will utilize our custodian supplied pricing.



For commercial paper as of March 31, 2014 and December 31, 2013, pricing is determined by a straight-line calculation, starting with the purchase price on the date of purchase and increasing to par at maturity. Interest bearing certificates of deposit and commercial paper are priced at par.

In addition to the above, our primary pricing provider performed daily reasonableness testing of the S&P Capital IQ prices to custodian reported prices. Prices outside a tolerable variance of approximately 1% are investigated and resolved.

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

|  | March 31, 2014    |                     |                      |                            |
|--|-------------------|---------------------|----------------------|----------------------------|
|  | Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>Losses | Estimated<br>Fair<br>Value |
| Short-term investments:                  |                   |                     |                      |                            |
| Corporate debt securities                | \$ 134.3          | \$ 0.4              | \$(0.2)              | ) \$ 134.5                 |
| Foreign brokered certificates of deposit | 5.1               | —                   | —                    | ) 5.1                      |
| Municipal obligations                    | 10.3              | —                   | (0.1)                | ) 10.2                     |
| Asset-backed securities                  | 50.4              | —                   | (0.1)                | ) 50.3                     |
| U.S. government sponsored agencies       | 41.3              | —                   | —                    | ) 41.3                     |
| Foreign government obligations           | 3.2               | —                   | —                    | ) 3.2                      |
| Marketable equity securities             | 26.6              | 5.6                 | —                    | ) 32.2                     |
|  | 271.2             | 6.0                 | (0.4)                | ) 276.8                    |
| Long-term investments:                   |                   |                     |                      |                            |
| Marketable equity securities             | 54.5              | 279.8               | —                    | ) 334.3                    |
| Asset-backed securities                  | 0.4               | —                   | (0.1)                | ) 0.3                      |
|  | 54.9              | 279.8               | (0.1)                | ) 334.6                    |
| Total                                    | \$ 326.1          | \$ 285.8            | \$(0.5)              | ) \$ 611.4                 |

|  | December 31, 2013 |                     |                      | Estimated<br>Fair<br>Value |
|--|-------------------|---------------------|----------------------|----------------------------|
|  | Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>Losses |                            |
| Short-term investments:                  |                   |                     |                      |                            |
| Corporate debt securities                | \$132.6           | \$0.3               | \$(0.4)              | ) \$132.5                  |
| Foreign brokered certificates of deposit | 8.9               | —                   | —                    | ) 8.9                      |
| Municipal obligations                    | 11.1              | —                   | (0.1)                | ) 11.0                     |
| Asset-backed securities                  | 48.4              | 0.1                 | (0.2)                | ) 48.3                     |
| U.S. government sponsored agencies       | 39.1              | 0.1                 | (0.1)                | ) 39.1                     |
| Foreign government obligations           | 5.6               | —                   | —                    | ) 5.6                      |
| Marketable equity securities             | 26.6              | 5.4                 | —                    | ) 32.0                     |
|  | 272.3             | 5.9                 | (0.8)                | ) 277.4                    |
| Long-term investments:                   |                   |                     |                      |                            |
| Marketable equity securities             | 54.5              | 238.7               | —                    | ) 293.2                    |
| Asset-backed securities                  | 0.4               | —                   | (0.1)                | ) 0.3                      |
|  | 54.9              | 238.7               | (0.1)                | ) 293.5                    |
| Total                                    | \$327.2           | \$244.6             | \$(0.9)              | ) \$570.9                  |

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

|  | March 31,<br>2014 | December 31,<br>2013 |
|--|-------------------|----------------------|
| Fair value of investments in a loss position 12 months or more                 | \$4.2             | \$2.3                |
| Fair value of investments in a loss position less than 12 months               | \$58.1            | \$73.9               |
| Gross unrealized losses for investments in a loss position 12 months or more   | \$0.1             | \$0.1                |
| Gross unrealized losses for investments in a loss position less than 12 months | \$0.4             | \$0.8                |

The unrealized losses on these securities are due to a number of factors, including changes in interest rates, changes in economic conditions and changes in market outlook for various industries, among others. Because Bio-Rad has the ability and intent to hold these investments with unrealized losses until a recovery of fair value, or for a reasonable period of time sufficient for a forecasted recovery of fair value, which may be maturity, we do not consider these investments to be other-than-temporarily impaired at March 31, 2014 or at December 31, 2013.

As part of distributing our products, we regularly enter into intercompany transactions. We enter into forward foreign exchange contracts to manage foreign exchange risk of future movements in foreign exchange rates that affect foreign currency denominated intercompany receivables and payables. We do not use derivative financial instruments for speculative or trading purposes. We do not seek hedge accounting treatment for these contracts. As a result, these contracts, generally with maturity dates of 90 days or less and denominated primarily in currencies of industrial countries, are recorded at their fair value at each balance sheet date. The notional principal amounts provide one measure of the transaction volume outstanding as of March 31, 2014 and do not represent the amount of Bio-Rad's exposure to loss. The estimated fair value of these contracts was derived using the spot rates from Reuters on the last business day of the quarter and the points provided by counterparties. The resulting gains or losses offset exchange gains or losses on the related receivables and payables, both of which are included in Foreign exchange losses, net in the unaudited interim Condensed Consolidated Statements of Income.

The following is a summary of our forward foreign exchange contracts (in millions):



|   |                   |
|---|-------------------|
|   | March 31,<br>2014 |
| Contracts maturing in April through June 2014 to sell foreign currency:     |                   |
| Notional value  | \$82.5            |
| Unrealized gain or loss   | \$—               |
| Contracts maturing in April through June 2014 to purchase foreign currency: |                   |
| Notional value  | \$373.5           |
| Unrealized gain or loss   | \$—               |

The following is a summary of the amortized cost and estimated fair value of our debt securities at March 31, 2014 by contractual maturity date (in millions):

|                                | Amortized<br>Cost | Estimated Fair<br>Value |
|--------------------------------|-------------------|-------------------------|
| Mature in less than one year   | \$95.4            | \$95.5                  |
| Mature in one to five years    | 110.0             | 110.0                   |
| Mature in more than five years | 39.6              | 39.4                    |
| Total                          | \$245.0           | \$244.9                 |

The estimated fair value of financial instruments that are not recognized at fair value in the Condensed Consolidated Balance Sheets and are included in Other investments, are presented in the table below. Fair value has been determined using significant observable inputs, including quoted prices in active markets for similar instruments.

Estimates are not necessarily indicative of the amounts that could be realized in a current market exchange as considerable judgment is required in interpreting market data used to develop estimates of fair value. The use of different market assumptions or estimation techniques could have a material effect on the estimated fair value. Other investments include financial instruments, the majority of which have fair value based on similar, actively traded stock adjusted for various discounts, including a discount for marketability. Long-term debt, excluding leases and current maturities, has an estimated fair value based on quoted market prices for the same or similar issues.

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

|   | March 31, 2014     |                            |                                  | December 31, 2013  |                            |                                  |
|---|--------------------|----------------------------|----------------------------------|--------------------|----------------------------|----------------------------------|
|   | Carrying<br>Amount | Estimated<br>Fair<br>Value | Fair Value<br>Hierarchy<br>Level | Carrying<br>Amount | Estimated<br>Fair<br>Value | Fair Value<br>Hierarchy<br>Level |
| Other investments   | \$78.9             | \$439.9                    | 2                                | \$77.5             | \$382.9                    | 2                                |
| Total long-term debt, excluding leases and current maturities (a) | \$423.3            | \$444.6                    | 2                                | \$423.2            | \$433.0                    | 2                                |

(a) The carrying amount of our capital leases at March 31, 2014 and December 31, 2013 was approximately \$12.5 million and \$12.6 million respectively. We believe these amounts approximate fair value due to the market rates inherent in the leases.

We own shares of ordinary voting stock of Sartorius AG (Sartorius), of Goettingen, Germany, a process technology supplier to the biotechnology, pharmaceutical, chemical and food and beverage industries. We own over 35% of the outstanding voting shares (excluding treasury shares) of Sartorius as of March 31, 2014. The Sartorius family trust



and Sartorius family members hold a controlling interest of the outstanding voting shares. We do not have any representative or designee on Sartorius' Board of Directors, nor do we have the ability to exercise significant influence over the operating and financial policies of Sartorius. We account for this investment using the cost method. The carrying value of this investment is included in Other investments in our Condensed Consolidated Balance Sheets. Because the stock is thinly traded and in conjunction with the valuation method discussed above, we have classified the estimated fair value as Level 2. The Level 2 classification is appropriate given the valuation method employed, which incorporates an observable input of the fair value of the Sartorius' actively traded preferred stock.

#### 4. GOODWILL AND OTHER PURCHASED INTANGIBLE ASSETS

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

|                                 | Life<br>Science | Clinical<br>Diagnostics | Total   |
|---------------------------------|-----------------|-------------------------|---------|
| Balances as of January 1, 2014: |                 |                         |         |
| Goodwill                        | \$209.0         | \$337.0                 | \$546.0 |
| Accumulated impairment losses   | (27.2           | ) (1.0                  | ) (28.2 |
| Goodwill, net                   | 181.8           | 336.0                   | 517.8   |
| Currency fluctuations           | 0.1             | 2.6                     | 2.7     |
| Balances as of March 31, 2014:  |                 |                         |         |
| Goodwill                        | 209.1           | 339.6                   | 548.7   |
| Accumulated impairment losses   | (27.2           | ) (1.0                  | ) (28.2 |
| Goodwill, net                   | \$181.9         | \$338.6                 | \$520.5 |

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

|                              | March 31, 2014                       |                   |                             | Net                |
|------------------------------|--------------------------------------|-------------------|-----------------------------|--------------------|
|                              | Average<br>Remaining<br>Life (years) | Purchase<br>Price | Accumulated<br>Amortization | Carrying<br>Amount |
| Customer relationships/lists | 1-11                                 | \$100.8           | \$(43.4                     | ) \$57.4           |
| Know how                     | 2-12                                 | 195.5             | (95.2                       | ) 100.3            |
| Developed product technology | 1-13                                 | 110.0             | (39.1                       | ) 70.9             |
| Licenses                     | 1-12                                 | 45.0              | (23.3                       | ) 21.7             |
| Tradenames                   | 1-9                                  | 4.3               | (2.2                        | ) 2.1              |
| Covenants not to compete     | 5-8                                  | 4.9               | (0.9                        | ) 4.0              |
| Other                        | —                                    | 0.6               | (0.6                        | ) —                |
|                              |                                      | \$461.1           | \$(204.7                    | ) \$256.4          |

|                              | December 31, 2013                    |                   |                             |                           |
|------------------------------|--------------------------------------|-------------------|-----------------------------|---------------------------|
|                              | Average<br>Remaining<br>Life (years) | Purchase<br>Price | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
| Customer relationships/lists | 1-11                                 | \$99.8            | \$(41.1)                    | ) \$58.7                  |
| Know how                     | 2-12                                 | 194.6             | (89.3)                      | ) 105.3                   |
| Developed product technology | 1-13                                 | 109.5             | (36.2)                      | ) 73.3                    |
| Licenses                     | 1-12                                 | 44.9              | (22.4)                      | ) 22.5                    |
| Tradenames                   | 1-9                                  | 4.3               | (2.1)                       | ) 2.2                     |
| Covenants not to compete     | 5-9                                  | 4.9               | (0.7)                       | ) 4.2                     |
| Other                        | —                                    | 0.6               | (0.6)                       | ) —                       |
|                              |                                      | \$458.6           | \$(192.4)                   | ) \$266.2                 |

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

|                      | Three Months Ended<br>March 31, |        |
|----------------------|---------------------------------|--------|
|                      | 2014                            | 2013   |
| Amortization expense | \$10.9                          | \$11.1 |

#### 5.PRODUCT WARRANTY LIABILITY

We warrant certain equipment against defects in design, materials and workmanship, generally for a period of one year. Upon delivery of that equipment, we establish, as part of Cost of goods sold, a provision for the expected costs of such warranty based on historical experience, specific warranty terms and customer feedback. A review is performed on a quarterly basis to assess the adequacy of our warranty accrual.

Components of the warranty accrual, included in Other current liabilities and Other long-term liabilities in the Condensed Consolidated Balance Sheets, were as follows (in millions):

|                        |        |   |
|------------------------|--------|---|
| January 1, 2014        | \$15.6 |   |
| Provision for warranty | 5.3    |   |
| Actual warranty costs  | (4.2)  | ) |
| March 31, 2014         | \$16.7 |   |

## 6. LONG-TERM DEBT

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

|   | March 31,<br>2014 | December 31,<br>2013 |
|---|-------------------|----------------------|
| 4.875% Senior Notes due 2020, net of discount | \$423.3           | \$423.2              |
| Capital leases and other debt                 | 12.5              | 12.6                 |
|   | 435.8             | 435.8                |
| Less current maturities                       | (0.2              | ) (0.2               |
| Long-term debt                                | \$435.6           | \$435.6              |

## Senior Notes due 2020

In December 2010, Bio-Rad sold \$425.0 million principal amount of Senior Notes due 2020 (4.875% Notes). The sale yielded net cash proceeds of \$422.6 million at an effective rate of 4.946%. The 4.875% Notes pay a fixed rate of interest of 4.875% per year. We have the option to redeem any or all of the 4.875% Notes at any time at a redemption price of 100% of the principal amount (plus a specified make-whole premium as defined in the indenture governing the 4.875% Notes) and accrued and unpaid interest thereon to the redemption date. Our obligations under the 4.875% Notes are not secured and rank equal in right of payment with all of our existing and future unsubordinated indebtedness. Certain covenants apply to the 4.875% Notes including limitations on the following: liens, sale and leaseback transactions, mergers, consolidations or sales of assets and other covenants. There are no restrictive covenants relating to total indebtedness, interest coverage, stock repurchases, recapitalizations, dividends and distributions to shareholders or current ratios.

## Amended and Restated Credit Agreement (Credit Agreement)

In June 2010, Bio-Rad entered into a \$200.0 million Credit Agreement. Borrowings under the Credit Agreement are on a revolving basis and can be used for acquisitions, for working capital and for other general corporate purposes. We had no outstanding borrowings under the Credit Agreement as of March 31, 2014 or December 31, 2013. The Credit Agreement expires on June 21, 2014.

The Credit Agreement is secured by substantially all of our personal property assets, the assets of our domestic subsidiaries and 65% of the capital stock of certain of our foreign subsidiaries. It is guaranteed by all of our existing and future material domestic subsidiaries. The Credit Agreement requires Bio-Rad to comply with certain financial ratios and covenants, among other things. These ratios and covenants include a leverage ratio test and an interest coverage test, as well as restrictions on our ability to declare or pay dividends, incur debt, guarantee debt, enter into transactions with affiliates, merge or consolidate, sell assets, make investments, create liens and prepay subordinated debt. We were in compliance with all of these ratios and covenants as of March 31, 2014.



## 7. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income included in our Condensed Consolidated Balance Sheets consists of the following components (in millions):

|  | Foreign<br>currency<br>translation<br>adjustments | Foreign<br>post-employment<br>benefits<br>adjustments | Other<br>net unrealized<br>holding gains on<br>available-for-sale<br>investments | Bio-Rad<br>Accumulated<br>other<br>comprehensive<br>income | Non-controlling<br>interests | Total<br>Accumulated<br>other<br>comprehensive<br>income |
|--|---|---|--|--|------------------------------|--|
| Balances as of January 1,<br>2014:                                     | \$ 189.4  | \$ (8.1   | ) \$ 159.4   | \$ 340.7   | \$ —                         | \$ 340.7   |
| Other comprehensive<br>income, before<br>reclassifications             | 5.5   | —   | 41.6   | 47.1   | —                            | 47.1   |
| Amounts reclassified from<br>Accumulated other<br>comprehensive income | —   | 0.1   | —  | 0.1  | —                            | 0.1  |
| Income tax effects   | —   | —   | (15.3  | ) (15.3  | )—                           | (15.3  |
| Other comprehensive<br>income, net of income<br>taxes                  | 5.5   | 0.1   | 26.3   | 31.9   | —                            | 31.9   |
| Balances as of March 31,<br>2014:                                      | \$ 194.9  | \$ (8.0   | ) \$ 185.7   | \$ 372.6   | \$ —                         | \$ 372.6   |
|  | Foreign<br>currency<br>translation<br>adjustments | Foreign<br>post-employment<br>benefits<br>adjustments | Other<br>net unrealized<br>holding gains on<br>available-for-sale<br>investments | Bio-Rad<br>Accumulated<br>other<br>comprehensive<br>income | Non-controlling<br>interests | Total<br>Accumulated<br>other<br>comprehensive<br>income |
| Balances as of January 1,<br>2013:                                     | \$ 172.9  | \$ (8.1   | ) \$ 109.7   | \$ 274.5   | \$ (0.2                      | ) \$ 274.3   |
| Other comprehensive (loss)<br>income, before<br>reclassifications      | (34.4   | )0.2  | 46.3   | 12.1   | —                            | 12.1   |
| Amounts reclassified from<br>Accumulated other<br>comprehensive income | (0.2  | )0.1  | (0.2   | ) (0.3   | )0.2                         | (0.1   |
| Income tax effects   | —   | —   | (16.9  | ) (16.9  | )—                           | (16.9  |
| Other comprehensive<br>income (loss), net of<br>income taxes           | (34.6   | )0.3  | 29.2   | (5.1   | )0.2                         | (4.9   |
| Balances as of March 31,<br>2013:                                      | \$ 138.3  | \$ (7.8   | ) \$ 138.9   | \$ 269.4   | \$ —                         | \$ 269.4   |

The amounts reclassified out of Accumulated other comprehensive income into the Condensed Consolidated Statements of Income, with presentation location, were as follows:



| Components of Comprehensive income                          | Income before taxes impact<br>(in millions) |          | Location                                    |
|---|---|----------|---|
|   | March 31,<br>2014                           | 2013     |   |
| Amortization of foreign other post-employment benefit items | \$(0.1 )                                    | \$(0.1 ) | Selling, general and administrative expense |
| Net holding gains on available-for-sale investments         | \$—   | \$0.2    | Other (income) expense, net                 |

## 8. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income attributable to Bio-Rad by the weighted average number of common shares outstanding for that period. Diluted earnings per share takes into account the effect of dilutive instruments, such as stock options and restricted stock, and uses the average share price for the period in determining the number of potential common shares that are to be added to the weighted average number of shares outstanding.

Potential common shares are excluded from the diluted earnings per share calculation if the effect of including such securities would be anti-dilutive.

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

|  | Three Months Ended<br>March 31, |        |
|--|---------------------------------|--------|
|  | 2014                            | 2013   |
| Basic weighted average shares outstanding                                | 28,791                          | 28,494 |
| Effect of potentially dilutive stock options and restricted stock awards | 268                             | 323    |
| Diluted weighted average common shares                                   | 29,059                          | 28,817 |
| Anti-dilutive shares   | 94                              | 92     |

## 9. OTHER INCOME AND EXPENSE, NET

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

|  | Three Months Ended<br>March 31, |          |
|--|---------------------------------|----------|
|  | 2014                            | 2013     |
| Interest and investment income           | \$(0.7 )                        | \$(1.3 ) |
| Net realized losses gains on investments | —                               | (0.2 )   |
| Miscellaneous other expense items, net   | —                               | 0.1      |
| Other (income) expense, net              | \$(0.7 )                        | \$(1.4 ) |

## 10. INCOME TAXES

Our effective income tax rate was 54% and 16% for the three months ended March 31, 2014 and 2013, respectively. The effective tax rate for the first quarter of 2014 was higher than expected due to losses incurred in foreign jurisdictions for which no income tax benefit is expected, and due to adjustments principally related to state taxes. In addition, our effective income tax rate for the first quarter of 2014 does not include a benefit of the U.S. federal research credit as it has not been extended beyond 2013. The effective tax rate for the first quarter of 2013 reflected a significant tax benefit related to the 2012 U.S. federal research credit, which was retroactively reinstated on January 2, 2013.

Our foreign taxes for all periods resulted primarily from taxable income earned in France and Switzerland. Switzerland's statutory tax rate is significantly lower than the U.S. statutory tax rate of 35%. Also, our effective tax rates for all periods are also generally reduced by French tax incentives related to our research and development activities.

We file federal, state and foreign income tax returns in many jurisdictions in the United States and abroad. Our income tax returns are audited by federal, state and foreign tax authorities. We are currently under examination by the Internal Revenue Service (IRS) for the 2009 and 2010 tax years and by various state and foreign jurisdictions. There are differing interpretations of tax laws and regulations, and as a result, significant disputes may arise with these tax authorities involving issues of the timing and amount of deductions and allocations of income among various tax jurisdictions. We periodically evaluate our exposures associated with our tax filing positions.

As of March 31, 2014, based on the expected outcome of certain examinations or as a result of the expiration of statute of limitations for certain jurisdictions, we believe that within the next 12 months it is reasonably possible that our previously unrecognized tax benefits could decrease by approximately \$1.5 million. Substantially all such amounts will impact our effective income tax rate.

We record liabilities for unrecognized tax benefits related to uncertain tax positions. We do not believe any currently pending uncertain tax positions will have a material adverse effect on our condensed consolidated financial statements, although an adverse resolution of one or more of these uncertain tax positions in any period may have a material impact on the results of operations for that period.

## 11. SEGMENT INFORMATION

Information regarding industry segments for the three months ended March 31, 2014 and 2013 is as follows (in millions):

|                       |      | Life<br>Science | Clinical<br>Diagnostics | Other<br>Operations |
|-----------------------|------|-----------------|-------------------------|---------------------|
| Segment net sales     | 2014 | \$ 161.5        | \$ 344.3                | \$ 3.5              |
|                       | 2013 | \$ 156.3        | \$ 339.9                | \$ 3.5              |
| Segment (loss) profit | 2014 | \$(6.6 )        | \$ 32.4                 | \$ 0.1              |
|                       | 2013 | \$(12.8 )       | \$ 37.7                 | \$ 0.1              |

Segment results are presented in the same manner as we present our operations internally to make operating decisions and assess performance. Net corporate operating, interest and other expense for segment results consists of receipts

and expenditures that are not the primary responsibility of segment operating management and therefore are not allocated to the segments for performance assessment by our chief operating decision maker. The three

months ended March 31, 2014 included an additional accrual of \$8.0 million in connection with our ongoing efforts to resolve the SEC and DOJ investigations relating to the FCPA (see Note 12). Interest expense is charged to segments based on the carrying amount of inventory and receivables employed by that segment. The following reconciles total segment profit to consolidated income before taxes (in millions):

|   | Three Months Ended<br>March 31, |        |
|---|---------------------------------|--------|
|   | 2014                            | 2013   |
| Total segment profit  | \$25.9                          | \$25.0 |
| Foreign exchange losses, net  | (2.7                            | ) (1.5 |
| Net corporate operating, interest and other expense not allocated to segments | (9.4                            | ) (0.9 |
| Other income (expense), net   | 0.7                             | 1.4    |
| Consolidated income before income taxes                                       | \$14.5                          | \$24.0 |

## 12. LEGAL PROCEEDINGS

Based on an internal investigation, we identified conduct in certain of our overseas operations that may have violated the anti-bribery provisions of the United States Foreign Corrupt Practices Act (FCPA) and is likely to have violated the FCPA's books and records and internal controls provisions and our own internal policies. In May 2010, we voluntarily disclosed these matters to the U.S. Department of Justice (DOJ) and the Securities and Exchange Commission (SEC), each of which commenced an investigation. The Audit Committee of our Board of Directors (Audit Committee) assumed direct responsibility for reviewing these matters and hired experienced independent counsel to conduct an investigation and provide legal advice. We provided additional information to the DOJ and the SEC as the Audit Committee's investigation progressed. We continue to cooperate with the DOJ and SEC investigations and to provide information to them.

The DOJ and SEC investigations are continuing and we are presently unable to predict the duration, scope or results of these investigations or whether either agency will commence any legal actions. The DOJ and the SEC have a broad range of civil and criminal sanctions under the FCPA and other laws and regulations including, but not limited to, injunctive relief, disgorgement, fines, penalties, modifications to business practices including the termination or modification of existing business relationships, the imposition of compliance programs and the retention of a monitor to oversee compliance with the FCPA. While we have been engaged in discussions with the DOJ and SEC concerning a resolution of these matters, we are unable to estimate a range of reasonably possible outcomes of this matter that differs from our aggregate accrual for the Estimated loss contingency recorded as of March 31, 2014 of \$43.0 million, including \$3.2 million of accrued interest. The amount that was accrued during the first quarter of 2014 for the Estimated loss contingency was \$8.0 million, of which \$9.8 million was expensed to Selling, general and administrative expense and \$1.8 million reduced Interest expense. The imposition of any of these sanctions or remedial measures could have a material adverse effect on our business or financial condition. We have not to date determined whether any of the activities in question violated the laws of the foreign jurisdictions in which they took place.

On April 13, 2011, a shareholder derivative lawsuit was filed against each of our directors in the Superior Court for Contra Costa County, California. The case, which also names the Company as a nominal defendant, is captioned City of Riviera Beach General Employees' Retirement System v. David Schwartz, et al., Case No. MSC11-00854. In the complaint, the plaintiff alleges that our directors breached their fiduciary duties by failing to ensure that we had sufficient internal controls and systems for compliance with the FCPA. Purportedly seeking relief on our behalf, the plaintiff seeks an award of unspecified compensatory and punitive damages, costs and expenses (including attorneys' fees), and a declaration that our directors have breached their fiduciary duties. We and the individual defendants filed

a demurrer requesting dismissal of the complaint in this case, as well as a motion to stay this matter pending resolution of the above-referenced investigations by the DOJ and SEC. Following a hearing on

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

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

### 13. SUBSEQUENT EVENT

In April 2014, we acquired GnuBIO, Inc. (GnuBIO) for approximately \$40 million in cash at the closing date, exclusive of contingent consideration related to the achievement of certain milestones, which per the acquisition agreement could total as much as \$70 million. The acquisition will be included in our Clinical Diagnostics segment's results of operations from the acquisition date and will be accounted for as a business combination. The amount of acquisition-related cost was minimal as Bio-Rad primarily represented itself during the acquisition process. The goodwill to be recorded will not be deductible for income tax purposes. We are presently unable to report the fair value assessment of the net assets acquired, as more time is needed to complete the information transfer from the seller and include all information into a valuation of individual assets and liabilities, including the contingent consideration. We believe GnuBIO's innovative DNA workflow is well-suited for the clinical diagnostics sequencing market and will leverage our leadership role in the area of droplet digital PCR.

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

This discussion should be read in conjunction with the information contained in both our Consolidated Financial Statements for the year ended December 31, 2013 and the financial statements for the three months ended March 31, 2014.

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



Overview. We are a multinational manufacturer and worldwide distributor of our own life science research and clinical diagnostics products. Our business is organized into two reportable segments, Life Science and Clinical Diagnostics, with the mission to provide scientists with specialized tools needed for biological research and clinical diagnostics.

We sell more than 8,000 products and services to a diverse client base comprised of scientific research, healthcare, education and government customers worldwide. We do not disclose quantitative information about our different products and services as it is impractical to do so based primarily on the numerous products and services that we sell and the global markets that we serve.

We manufacture and supply our customers with a range of reagents, apparatus and equipment to separate complex chemical and biological materials and to identify, analyze and purify components. Because our customers require standardization for their experiments and test results, much of our revenues are recurring.

We are impacted by the support of many governments for both research and healthcare. The current global economic outlook is becoming increasingly uncertain as the need to control government social spending by many governments limits opportunities for growth. Approximately 32% of our year-to-date 2014 consolidated net sales are derived from the United States and approximately 68% are derived from international locations, with Europe being our largest region overall. Our international sales are largely denominated in local currencies such as Euros, Swiss Franc, Japanese Yen, China Yuan and British Sterling. As a result, our consolidated net sales expressed in dollars benefit when the U.S. dollar weakens and suffer when the dollar strengthens. When the U.S. dollar strengthens, we benefit from lower cost of sales from our own international manufacturing sites as well as non-U.S. suppliers, and from lower international operating expenses.

In April 2014, we acquired GnuBIO, Inc. (GnuBIO) for approximately \$40 million in cash at the closing date, exclusive of contingent consideration related to the achievement of certain milestones, which per the acquisition agreement could total as much as \$70 million. The acquisition will be included in our Clinical Diagnostics segment's results of operations from the acquisition date and will be accounted for as a business combination. We believe GnuBIO's innovative DNA workflow is well-suited for the clinical diagnostics sequencing market and will leverage our leadership role in the area of droplet digital PCR.

During the first quarter of 2014, we accrued an additional \$8.0 million associated with our efforts to resolve the investigations by the U.S. Department of Justice (DOJ) and Securities and Exchange Commission (SEC) relating to the United States Foreign Corrupt Practices Act (FCPA), of which \$9.8 million was expensed to Selling, general and administrative expense and \$1.8 million reduced Interest expense. As of March 31, 2014, the aggregate accrual for the Estimated loss contingency was \$43.0 million, including \$3.2 million of accrued interest.

During the third quarter of 2013, we revised the classification of one item for all periods presented from "Provision for income taxes" to "Research and development expense" in our Consolidated Statements of Income to conform to the current year presentation. The item reclassified pertains to a refundable French R&D tax credit, which after the reclassification reduces Research and development expense. We believe this presentation is appropriate as we are not required to have taxable income in order to earn the credits. As a result of recording this reclassification, there is an additional impact to our income tax provision due to the application of our effective income tax rate throughout the year. This causes the income tax provision impact to not always equal the pre-tax impact on a quarterly basis, but it does equal on an annual basis. The effect of these items for the first quarter of 2013 were as follows: a reduction of \$1.6 million to Research and development expense, an increase of \$0.9 million to Provision for income taxes, and an increase of \$0.7 million to Net income attributable to Bio-Rad.

During the first quarter of 2013, we reported payments for contingent consideration as cash outflows from investing activities in error. Amounts paid pertaining to the purchase accounting contingent liability should have been classified as cash outflows from financing activities. Amounts paid in excess of the purchase accounting contingent liability should have been classified as cash outflows from operating activities. We have adjusted the amounts previously reported in our Form 10-Q for the three-month period ended March 31, 2013 in conjunction with the filing of this 10-Q by reducing cash outflows from investing activities by \$11.0 million and increasing cash outflows from

financing activities and operating activities by \$10.6 million and \$0.4 million, respectively.

During the first quarter of 2013, we reported payments for/proceeds from forward foreign exchange contracts as cash flows from investing activities in error. Cash flows from forward foreign exchange contracts should have been

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classified as cash flows from operating activities. We have adjusted the amounts previously reported in our Form 10-Q for the three-month period ended March 31, 2013 in conjunction with the filing of this 10-Q by reducing cash inflows from investing activities by \$3.9 million and increasing cash inflows from operating activities by \$3.9 million.

In January 2013, we acquired 100% of the outstanding shares of AbD Serotec, a division of MorphoSys AG, for total consideration of \$62.2 million (net of cash received of \$7.3 million). This acquisition was accounted for as a business combination and is included in our Life Science segment's results of operations from the acquisition date. The final fair values of the net assets acquired consist of definite-lived intangible assets of \$44.0 million, goodwill of \$14.9 million and net tangible assets of \$3.3 million. We believe that with AbD Serotec's comprehensive catalog of antibodies, we are able to offer our customers total assay solutions that can be validated on many of our research platforms for western blotting, multiplex protein expression, ELISA and cell sorting.

During the third quarter of 2012, we recognized a contingent consideration liability upon our acquisition of a new cell sorting system from Propel Labs, Inc. The fair value of the contingent consideration was based on a probability-weighted income approach related to the achievement of certain development and sales milestones. The development milestone was achieved and paid in 2013. Based on the most recent valuation, the sales milestones could potentially range from \$0 to a maximum of 60.0%, 51.32% and 50.38% of annual cell sorting system purchase orders starting September 2013, September 2014 and September 2015, with payment to occur upon the anniversary of the completion of a certain number of cell sorting systems for three consecutive years, respectively. These maximum payout ratios begin at annual cell sorting system purchase orders in excess of \$20 million, \$30 million and \$45 million for the three consecutive years, respectively. The contingent consideration was revalued by a reduction of \$4.9 million in 2014 to Selling, general and administrative expense to its estimated fair value of \$15.9 million as of March 31, 2014.

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

|   | Three Months Ended |         |   |
|---|--------------------|---------|---|
|   | March 31,          |         |   |
|   | 2014               | 2013    |   |
| Net sales                                   | 100.0              | % 100.0 | % |
| Cost of goods sold                          | 46.0               | 45.7    |   |
| Gross profit                                | 54.0               | 54.3    |   |
| Selling, general and administrative expense | 39.7               | 37.2    |   |
| Research and development expense            | 10.3               | 10.1    |   |
| Net income attributable to Bio-Rad          | 1.3                | 4.0     |   |

## Critical Accounting Policies and Estimates

As previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013, we have identified accounting for income taxes, valuation of goodwill and long-lived assets, valuation of inventories, warranty reserves, valuation of investments, allowance for doubtful accounts and litigation accruals as the accounting policies and estimates critical to the operations of Bio-Rad.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably likely to occur could materially impact the financial statements. Management believes that there have been no significant changes during the three months ended March 31, 2014 to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013. For a full discussion of these policies and estimates, please refer to our Form 10-K for the period ended December 31, 2013 filed with the SEC.

## Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

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

Net sales (sales) for the first quarter of 2014 were \$509.3 million compared to \$499.7 million in the first quarter of 2013, an increase of 1.9%. Excluding the impact of foreign currency, first quarter 2014 sales increased by approximately 2.9% compared to the same period in 2013. Currency neutral sales growth was reflected in all regions, most notably in Latin America, Eastern Europe and Asia Pacific.

The Life Science segment sales for the first quarter of 2014 were \$161.5 million, an increase of 3.3% compared to the same period last year. On a currency neutral basis, sales increased 4.6% compared to the first quarter in 2013. The currency neutral sales increase was broad based as we realized growth in all divisions except for a slight decrease in Protein Separations. Currency neutral sales growth was primarily in Europe, China and Latin America. A government austerity program has slowed Japanese market growth.

The Clinical Diagnostics segment sales for the first quarter of 2014 were \$344.3 million, an increase of 1.3% compared to the same period last year. On a currency neutral basis, sales increased 2.1% compared to the first quarter in 2013. Clinical Diagnostics had growth across most product lines on a currency neutral basis, most notably from quality control products. Currency neutral sales growth was primarily in Asia Pacific and Latin America.

Consolidated gross margins were 54.0% for the first quarter of 2014 compared to 54.3% for the first quarter of 2013. Life Science segment gross margins for the first quarter of 2014 increased by approximately 1.7 percentage points from the same period last year primarily due to higher royalty expense in 2013. Clinical Diagnostics segment gross margins for the first quarter of 2014 decreased by approximately 1.1 percentage points from the same period last year. The decrease was primarily due to price pressure and less favorable manufacturing variances compared to the same period in 2013.

Selling, general and administrative expenses (SG&A) represented 39.7% of sales for the first quarter of 2014 compared to 37.2% of sales for the first quarter of 2013. Increases in SG&A expense relative to sales were primarily driven by:

an accrual of \$9.8 million in connection with our efforts to resolve the SEC and DOJ investigations relating to the FCPA that was recorded in the first quarter of 2014,

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an increase of \$8.3 million of employee-related expenses, our largest cost, associated with modest increases in headcount, incentive compensation and related fringe benefits, and an increase in software amortization of \$2.5 million primarily due to the first phase of the ERP system being placed in service in April 2013.

Partially offsetting these costs were:

a decrease in the valuation of the cell sorting system contingent consideration of \$4.9 million in the first quarter of 2014, and

a decrease in bad debt expense of \$2.1 million, primarily in Russia due to a distributor bad debt in 2013.

Research and development expense (R&D) increased to \$52.5 million or 10.3% of sales in the first quarter of 2014 compared to \$50.3 million or 10.1% of sales in the first quarter of 2013. Life Science segment R&D increased in the first quarter of 2014 from the prior year quarter, with concentrated efforts in genomics and cell biology. Clinical Diagnostics segment R&D increased in the first quarter of 2014 from the prior year period primarily due to continued investments in new instrument platforms and assays.

#### Results of Operations – Non-operating

Interest expense for the first quarter of 2014 decreased by \$7.1 million to \$3.9 million compared to \$11.0 million for the first quarter of 2013 primarily due to the absence of interest expense in the first quarter of 2014 associated with the \$300.0 million principal amount of Senior Subordinated Notes (8.0% Notes), which were redeemed on September 30, 2013. In addition, Interest expense was reduced by \$1.8 million of interest expense associated with our initial efforts to resolve the DOJ and SEC investigations relating to the FCPA that was recorded in the first quarter of 2014.

Foreign currency exchange gains and losses consist primarily of foreign currency transaction gains and losses on intercompany net receivables and payables and the change in fair value of our forward foreign exchange contracts used to manage our foreign currency exchange risk. Foreign currency exchange losses, net for the quarter ended March 31, 2014 increased compared to the prior year period primarily attributable to higher transaction costs and an unfavorable result of the estimating process inherent in the timing of shipments and payments.

Other (income) expense, net for the first quarter of 2014 decreased to \$0.7 million income compared to \$1.4 million income for the first quarter of 2013 primarily due to lower interest and investment income.

Our effective income tax rate was 54% and 16% for the three months ended March 31, 2014 and 2013, respectively. The effective tax rate for the first quarter of 2014 was higher than expected due to losses incurred in foreign jurisdictions for which no income tax benefit is expected, and due to adjustments principally related to state taxes. In addition, our effective income tax rate for the first quarter of 2014 does not include a benefit of the U.S. federal research credit, as it has not been extended beyond 2013. The effective tax rate for the first quarter of 2013 reflected a significant tax benefit related to the 2012 U.S. federal research credit, which was retroactively reinstated on January 2, 2013.

Our foreign taxes for all periods resulted primarily from taxable income earned in France and Switzerland. Switzerland's statutory tax rate is significantly lower than the U.S. statutory tax rate of 35%. Also, our effective tax rates for all periods are also generally reduced by French tax incentives related to our research and development activities.

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





## Liquidity and Capital Resources

Bio-Rad operates and conducts business globally, primarily through subsidiary companies established in the markets in which we trade. Goods are manufactured in a small number of locations, and are then shipped to local distribution facilities around the world. Our product mix is diversified, and certain products compete largely on product efficacy, while others compete on price. Gross margins are generally sufficient to exceed normal operating costs, and funding for research and development of new products, as well as routine outflows of capital expenditures, interest and taxes.

In addition to the annual positive cash flow from operating activities, additional liquidity is readily available via the sale of short-term investments and access to our \$200.0 million Amended and Restated Credit Agreement (Credit Agreement) that we entered into in June 2010. Borrowings under the Credit Agreement are on a revolving basis and can be used to make acquisitions, for working capital and for other general corporate purposes. We had no outstanding borrowings under the Credit Agreement as of March 31, 2014. The Credit Agreement is secured by substantially all of our personal property assets, the assets of our domestic subsidiaries and 65% of the capital stock of certain foreign subsidiaries. It is guaranteed by all of our existing and future material domestic subsidiaries and expires in June 2014. We are currently evaluating our options on renewing the Credit Agreement or similar arrangements.

At March 31, 2014, we had \$641.3 million in cash, cash equivalents and short-term investments, of which approximately 41% was held in our foreign subsidiaries. We believe that our holdings of cash, cash equivalents and short-term investments in the U.S. and in our foreign subsidiaries are sufficient to meet both the current and long-term needs of our global operations. The amount of funds held in the United States can fluctuate due to the timing of receipts and payments in the ordinary course of business and due to other reasons, such as business-development activities. As part of our ongoing liquidity assessments, we regularly monitor the mix of domestic and foreign cash flows (both inflows and outflows). Repatriation of overseas funds will result in additional U.S. federal and state income tax payments. In general, it is our practice and intention to indefinitely reinvest the cash generated by our foreign subsidiaries in our foreign subsidiaries' operations.

Under domestic and international lines of credit, we had \$219.0 million available for borrowing as of March 31, 2014, of which \$8.3 million is reserved for standby letters of credit issued by our banks to guarantee our obligations, mostly to meet the deductible amount under insurance policies for our benefit. Management believes that this availability, together with cash flow from operations, will be adequate to meet our current objectives for operations, research and development, capital additions for manufacturing and distribution, plant and equipment, information technology systems and an acquisition of reasonable proportion to our existing total available capital.

The continuing slow economic growth in developed nations and in the U.S., may adversely affect our future results of operations. Demand for our products and services could change more dramatically than in previous years based on activity, funding, reimbursement constraints and support levels from government, universities, hospitals and private industry, including diagnostic laboratories. The need for certain sovereign nations with large annual deficits to curtail spending could lead to slower growth of, or even a decline in, our business. Sovereign nations either delaying payment for goods and services or renegotiating their debts could impact our liquidity. The situation in these sovereign nations is continuously evolving and we have no greater knowledge of the situation other than what is publicly reported. As of March 31, 2014 and December 31, 2013, we had accounts receivable, net of allowance for doubtful accounts, in Spain, Italy, Greece and Portugal of \$56.0 million and \$66.0 million, respectively.

The instability in credit markets along with inadequate capitalization in some parts of the financial services industry could impact both our ability and our customer's ability to access the necessary capital for acquisition, equipment and technology modernization, and the financing of inventories and receivables. Without this crucial intermediary function, manufacturers and end users may have to renegotiate existing arrangements, reduce activity levels or seek

other business partners.

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### Cash Flows from Operations

Net cash provided by operations was \$68.9 million and \$24.0 million for the three months ended March 31, 2014 and 2013, respectively. The increase in cash flows primarily resulted from:

- higher cash received from customers as collections were higher, most notably from Spain of approximately \$11 million from public agencies in the first quarter of 2014,
- a decrease in income taxes paid primarily due to a \$5 million federal income tax extension payment in 2013 and lower international income tax payments, and
- a decrease in interest paid primarily due to the early redemption of the \$300.0 million of 8.0% Senior Subordinated Notes on September 30, 2013, partially offset by
- higher cash paid to suppliers and employees, most notably due to employee compensation.

### Cash Flows from Investing Activities

Net cash used in investing activities was \$38.9 million compared to \$108.3 million for the three months ended March 31, 2014 and 2013, respectively. Purchases, net of sales and maturities, of marketable securities and investments were lower than the prior year period primarily due to sales of securities to provide cash to redeem the \$300.0 million 8.0% Senior Subordinated Notes and therefore expect purchases, net of sales and maturities, to decline markedly year over year. In addition, we purchased longer dated securities to take advantage of higher returns on investments and therefore we experienced an additional decline in maturities and redemptions of securities. Net cash used in investing activities was also lower as no acquisitions occurred during the first quarter of 2014 compared to the acquisition of AbD Serotec in the first quarter of 2013. Purchases of intangible assets was higher in 2014 primarily due to a payment for the purchase of a license of \$12 million.

Our investment objective is to maintain liquidity to meet anticipated operational and other corporate requirements in which capital is preserved and increased through investing in low risk, high quality securities with commensurate returns, consistent with our risk tolerance level.

We continue to review possible acquisitions to expand both our Life Science and Clinical Diagnostics segments. We routinely meet with the principals or brokers of the subject companies. Excluding GnuBIO, it is not certain at this time that any of these discussions involving material or significant acquisitions will advance to completion.

Capital expenditures totaled \$25.9 million and \$34.1 million for the three months ended March 31, 2014 and 2013, respectively. Capital expenditures represent the addition and replacement of production machinery and research equipment, ongoing manufacturing and facility additions for expansion, regulatory, environmental and compliance. Also included in capital expenditures are investments in business systems and data communication upgrades and enhancements. All periods include equipment placed with Clinical Diagnostics segment customers who then contract to purchase our reagents for use. Capital expenditures were lower for the three months ended March 31, 2014 compared to the same period last year as we placed in service the first phase of a global single instance ERP platform in April 2013 and began to expense costs capitalized during the application development stage in 2012. However, as we continue to implement more phases of the ERP platform and expand our e-commerce platform, we expect capital expenditures to increase and continue to remain historically higher for the next four years or more. The current estimated global implementation cost for the single instance ERP platform could exceed \$250 million and is estimated to take approximately four or more years to fully implement.

### Cash Flows from Financing Activities

Net cash provided by financing activities was \$3.5 million compared to net cash used in financing activities of \$7.4 million for the three months ended March 31, 2014 and 2013, respectively. Net cash used in financing activities for the three months ended March 31, 2013 was primarily due to \$5.0 million paid to Propel Labs' shareholders in contingent consideration associated with the valuation as of the 2012 acquisition date, and \$5.6 million paid to QuantaLife in contingent consideration associated with the valuation as of the 2011 acquisition date.

We have outstanding Senior Notes of \$425 million, which are not due until 2020. As indicated above, we redeemed all of the Senior Subordinated Notes of \$300 million on September 30, 2013. We believe the current cash is sufficient to meet normal operating costs, and funding for research and development of new products, as well as routine outflows of capital expenditures, interest and taxes.

The Board of Directors has authorized the repurchase of up to \$18.0 million of Bio-Rad's common stock, of which \$3.3 million has yet to be repurchased as of March 31, 2014. The Credit Agreement limits our ability to repurchase our stock. We had no repurchases of our stock during the first three months of 2014 or 2013.

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

During the three months ended March 31, 2014, there have been no material changes from the disclosures about market risk provided in our Annual Report on Form 10-K for the year ended December 31, 2013.

### Item 4. Controls and Procedures

#### Disclosure Controls and Procedures

At December 31, 2013, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as a result of the material weakness in our internal control over financial reporting at December 31, 2013, which we view as an integral part of our disclosure controls and procedures, discussed in further detail below.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

In connection with our assessment of the effectiveness of internal control over financial reporting at December 31, 2013, we identified the following material weakness that existed at December 31, 2013:

A material weakness exists in the design of monitoring controls over operations at certain of our locations both within the United States and overseas, as well as a lack of documentation required to operate these controls appropriately.

Specifically, the precision at which these controls are designed and documented, and the completeness and timeliness of communication between some of our locations are not sufficient to detect and correct a material misstatement in our consolidated financial statements. As a result there was a misstatement in a foreign pension accrual, and there is a reasonable possibility that a material misstatement to our annual or interim consolidated financial statements could occur and not be detected or prevented.

As a result of this material weakness, our management concluded that our internal control over financial reporting was not effective at December 31, 2013 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Management intends to enhance its management review controls used to monitor our financial information worldwide. Our enhancements will increase the level of precision in our management review controls. Management plans to enhance its review controls by (i) designing and documenting additional management review controls, (ii) documenting, as needed, precision and specificity to existing management review controls, and (iii) supplementing resources and providing training to effectively perform management review controls.



We intend to formalize through documentation, communication and training the steps required for investigation of financial deviations or differences from expectation detected in our management review controls and the procedures for execution and communication of timely corrective actions, as needed. We believe this planned increased level of precision in our management review controls will allow for earlier detection of errors.

In addition, the design of our monitoring controls will follow a top-down approach that begins at the financial statement level to identify and assess the overall risks to internal control over financial reporting.

We also plan to make organizational changes and develop skills in our employees across all functions involved in the performance of internal control over financial reporting to ensure that we have adequate local, regional and global monitoring, oversight and timely communication.

With the oversight of senior management and our audit committee, we have begun taking the above steps. While our remediation efforts are in process, they have not been completed. Accordingly, our management has concluded that the material weakness still exists as of March 31, 2014.

We cannot assure you that we will be able to remediate the material weakness or that additional deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement new or improved internal controls, or any difficulties that we may encounter in their maintenance or implementation, could result in additional significant deficiencies or material weaknesses, result in material misstatements in our financial statements and cause us to fail to meet our reporting obligations, which in turn could cause the trading price of our common stock to decline.

#### Changes to Internal Control Over Financial Reporting

Other than the changes discussed above, we identified no changes in internal control over financial reporting that occurred during our quarter ended March 31, 2014 that have materially affected, or that are reasonable likely to materially affect, our internal control over financial reporting. Our management has used the criteria set forth in the report entitled "Internal Control - Integrated Framework (1992)" published by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission to evaluate the effectiveness of Bio-Rad's internal control over financial reporting at March 31, 2014.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

See Note 12, “Legal Proceedings” in the Notes to Condensed Consolidated Financial Statements of Part 1, Item 1 of this Form 10-Q.

#### Item 1A. Risk Factors

The ongoing investigation by government agencies of possible violations by us of the United States Foreign Corrupt Practices Act and similar laws could have a material adverse effect on our business.

Based on an internal investigation, we identified conduct in certain of our overseas operations that may have violated the anti-bribery provisions of the United States Foreign Corrupt Practices Act (FCPA) and is likely to have violated the FCPA's books and records and internal controls provisions and our own internal policies. In May 2010, we voluntarily disclosed these matters to the U.S. Department of Justice (DOJ) and the Securities and Exchange Commission (SEC), each of which commenced an investigation. The Audit Committee of our Board of Directors (Audit Committee) assumed direct responsibility for reviewing these matters and hired experienced independent counsel to conduct an investigation and provide legal advice. We provided additional information to the DOJ and the SEC as the Audit Committee's investigation progressed. Following the completion of the Audit Committee's investigation, we continue to cooperate with the DOJ and SEC investigations and to provide information to them.

The DOJ and SEC investigations are continuing and we are presently unable to predict the duration, scope or results of these investigations or whether either agency will commence any legal actions. The DOJ and the SEC have a broad range of civil and criminal sanctions under the FCPA and other laws and regulations including, but not limited to, injunctive relief, disgorgement, fines, penalties, modifications to business practices including the termination or modification of existing business relationships, the imposition of compliance programs and the retention of a monitor to oversee compliance with the FCPA. We are engaged in discussions with the DOJ and SEC concerning a resolution of these matters, but we are unable to estimate the outcome of these discussions or whether we will be able to reach mutually acceptable settlements. At this point, we are unable to estimate a range of reasonably possible outcomes of this matter that differs from our aggregate accrual for the Estimated loss contingency recorded as of March 31, 2014 of \$43.0 million, including \$3.2 million of accrued interest. The amount that was accrued during the first quarter of 2014 for the Estimated loss contingency was \$8.0 million, of which \$9.8 million was expensed to Selling, general and administrative expense and \$1.8 million reduced Interest expense. The imposition of any of these sanctions or remedial measures could have a material adverse effect on our business, including our results of operations, cash balance and credit rates. We have not to date determined whether any of the activities in question violated the laws of the foreign jurisdictions in which they took place.

On April 13, 2011, a shareholder derivative lawsuit was filed against each of our directors in the Superior Court for Contra Costa County, California. The case, which also names the Company as a nominal defendant, is captioned City of Riviera Beach General Employees' Retirement System v. David Schwartz, et al., Case No. MSC11-00854. In the complaint, the plaintiff alleges that our directors breached their fiduciary duties by failing to ensure that we had sufficient internal controls and systems for compliance with the FCPA. Purportedly seeking relief on our behalf, the plaintiff seeks an award of unspecified compensatory and punitive damages, costs and expenses (including attorneys' fees), and a declaration that our directors have breached their fiduciary duties. We and the individual defendants filed a demurrer requesting dismissal of the complaint in this case, as well as a motion to stay this matter pending resolution of the above-referenced investigations by the DOJ and SEC. Following a hearing on September 30, 2011, the court



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

We have identified a material weakness in our internal control over financial reporting at December 31, 2013. Our failure to establish and maintain effective internal control over financial reporting could result in material misstatements in our financial statements, our failure to meet our reporting obligations and cause investors to lose confidence in our reported financial information, which in turn could cause the trading price of our common stock to decline.

Maintaining effective internal control over financial reporting is necessary for us to produce reliable financial statements. In connection with our assessment of the effectiveness of internal control over financial reporting and the preparation of our financial statements for the year ended December 31, 2013, we identified a material weakness in the design of monitoring controls over operations at certain of our locations both within the United States and overseas, as well as a lack of documentation required to operate these controls appropriately. As a result there is a reasonable possibility that a material misstatement to our annual or interim consolidated financial statements could occur and not be detected or prevented. See Item 4. "Controls and Procedures".

Under standards established by the Public Company Accounting Oversight Board, a material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Under the criteria set forth by the Committee of Sponsoring Organization of the Treadway Commission in Internal Control - An Integrated Framework, a material weakness in the design of monitoring controls indicates that we have not sufficiently developed and/or documented (i.e. designed) internal controls by which management can review and oversee (i.e. monitor) our financial information to detect and correct material errors or that the personnel responsible for performing the review did not have the sufficient skillset or knowledge of the subject matter to perform a proper assessment.

In connection with our assessment of our internal control over financial reporting at December 31, 2013, we determined that the precision at which our controls are designed and documented, and the completeness and timeliness of communication between some of our locations are not sufficient to detect and correct a material misstatement in our consolidated financial statements. The reference to the precision of certain of our controls indicates that, where we do have monitoring controls, we do not have within them the appropriate thresholds (i.e. precision) used by management to detect the magnitude of errors that could, either individually or in aggregate, result in a material misstatement. The reference to communications between some of our locations indicates that we have not included in all of our monitoring controls specificity about required communication channels and timelines for communication between elements of the Company when errors are detected.

For example, during 2013, we identified two financial adjustments that were not timely detected through our management review controls because the control's precision, or threshold, for error detection was set too high to prevent a potential material misstatement and, once detected, the error was not communicated to our corporate finance management in an adequate and timely fashion to correct our financial statements.

Specifically, during the third quarter of 2013, we identified certain immaterial errors requiring adjustment to prior years and quarters related to the valuation of finished goods inventory in our Life Science segment. The inventory adjustment had developed over a period of years and was not identified prior to 2013 because of a failure to perform detailed management reviews of account reconciliations at a sufficient level of precision to identify the error in prior periods. The methodology used to account for the inventory valuation was not documented, which also contributed to the failure to identify the issue on a timely basis. In addition, following detection at the local level, higher levels of the organization were not informed about this issue in a timely manner. As a result, we over-expensed inventory for non-sales transactions, such as inventory used for demonstration purposes and product samples, which resulted in an

understatement of inventory balances in prior periods. We have commenced remediation of this deficiency by enhancing the related reconciliation control and lowering the quarterly threshold for communicating errors.

In addition, in the fourth quarter of 2013, our independent registered public accounting firm identified an

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immaterial financial adjustment pertaining to our Japanese pension liability. The adjustment had developed over a period of years and was not identified prior to 2013 as no monitoring control had been designed to detect this error. The error resulted from an incorrect methodology applied at the local level. The lack of any monitoring control allowed the error to cumulate over a number of years. We have commenced remediation of this deficiency by designing a monitoring control for our pension liabilities and providing training to local personnel.

We are actively engaged in developing a remediation plan designed to address the material weakness in our internal control over financial reporting. We plan to enhance our monitoring controls by (i) designing and documenting additional management review controls, (ii) documenting, as needed, precision and specificity to existing management review controls, and (iii) supplementing resources and providing training to effectively perform management review controls.

With the oversight of senior management and our audit committee, we have begun taking the above steps. While our remediation efforts are in process, they have not been completed. Accordingly, our management has concluded that the material weakness still exists as of March 31, 2014.

However, we cannot assure you that we will be able to remediate this material weakness or that additional material weaknesses in our internal control over financial reporting will not be identified in the future. For example, we have previously identified different material weaknesses in internal controls at December 31, 2012 and December 31, 2011, both of which we believe have been remediated, but we identified a new material weakness at December 31, 2013. Such material weaknesses have adversely affected us in the past and could affect us in the future, and the results of our periodic management evaluations and annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act of 2002. Any failure to implement and document new and more precise monitoring controls or to implement organizational changes including skillset enhancements through resource changes or education to improve detection and communication of financial misstatements across all levels of the organization could result in additional material weaknesses, result in material misstatements in our financial statements and cause us to fail to meet our reporting obligations, which in turn could cause the trading price of our common stock to decline.

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

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

As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many private sector investors to reduce and, in some cases, cease to provide credit to governments, businesses and consumers. These factors have led to depressed spending by some governments, businesses and consumers. Our customers and suppliers may experience cash flow concerns and, as a result, customers may modify, delay or cancel plans to purchase our products and suppliers may increase their prices,

reduce their output or change terms of sales. Additionally, if customers' or suppliers' operating and financial performance deteriorates, or if they are unable to make scheduled payments or obtain credit, customers may not be able to pay, or may delay payment of, amounts owed to us. Sovereign nations either delaying payment for goods and services or renegotiating their debts could impact our liquidity. The situation in these sovereign

nations is continuously evolving and we have no greater knowledge of the situation other than what is publicly reported. As of March 31, 2014 and December 31, 2013, we had accounts receivable, net of allowance for doubtful accounts, in Spain, Italy, Greece and Portugal of \$56.0 million and \$66.0 million, respectively.

Suppliers may restrict credit or impose less favorable payment terms. Any inability of current and/or potential customers to pay us for our products or any demands by suppliers for accelerated payment terms may adversely affect our earnings and cash flow. Additionally, strengthening of the U.S. dollar associated with the global financial crisis may adversely affect the results of our international operations when those results are translated into U.S. dollars.

Furthermore, the disruption in the credit markets could impede our access to capital, especially if we are unable to maintain our current credit ratings. Should we have limited access to additional financing sources when needed, we may decide to defer capital expenditures or seek other higher cost sources of liquidity, which may or may not be available to us on acceptable terms. Continued turbulence in the U.S. and international markets and economies, and prolonged declines in business and consumer spending may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers, including our ability to refinance maturing liabilities and access the capital markets to meet liquidity needs.

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

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

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

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

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

The life science and clinical diagnostics markets are each highly competitive. Some of our competitors have consolidated, and some of our competitors have greater financial resources than we do and are less leveraged than we are, making them better equipped to license technologies and intellectual property from third parties or to fund

research and development, manufacturing and marketing efforts. Moreover, competitive and regulatory conditions in many markets in which we operate restrict our ability to fully recover, through price increases, higher costs of acquired goods and services resulting from inflation and other drivers of cost increases. Our competitors can be expected to continue to improve the design and performance of their products and to introduce new products with

competitive price and performance characteristics. Maintaining these advantages will require us to continue to invest in research and development, sales and marketing and customer service and support. We cannot assure you that we will have sufficient resources to continue to make such investments or that we will be successful in maintaining such advantages.

We have significant international operations which subject us to various risks such as general economic and market conditions in the countries in which we operate, as well as compliance with our global controls, policies and procedures.

A significant portion of our sales are made outside of the United States. Our foreign subsidiaries generated 68% of our net sales for the three months ended March 31, 2014. Our international operations are subject to risks common to foreign operations, such as general economic and market conditions in the countries in which we operate, changes in governmental regulations, political instability, import restrictions, additional scrutiny over certain financial instruments and currency exchange rate risks. In particular, political unrest in Southeast Asia, the Middle East and Eastern Europe may affect our sales in those regions. For example, the recent political turmoil in Ukraine, along with the response of the Russian and United States governments to this situation, has the potential to impact our operations in Russia. Also, we may not be able to participate in certain public tenders in Russia because of increasing measures to restrict access to such tenders for companies without local manufacturing capabilities.

In addition, we have a dispersed international sales team, and we use distributors and agents in many of our international operations. This structure makes it more difficult for us to ensure that our international selling operations comply with our global policies and procedures. In addition, changes to the distributors and agents we use could have an impact on our sales and access to our customers. We cannot assure you that shifts in currency exchange rates, especially significant strengthening of the U.S. dollar compared to the Euro and Swiss Franc, will not have a material adverse effect on our operating results and financial condition.

We are dependent on government funding and the capital spending programs of our customers, and the effect of healthcare reform on government funding and our customers' ability to purchase our products is uncertain.

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

Healthcare reform and the growth of managed care organizations have been and continue to be significant factors in the clinical diagnostics market. The trend towards managed care, together with healthcare reform of the delivery system in the United States and efforts to reform in Europe, has resulted in increased pressure on healthcare providers and other participants in the healthcare industry to reduce costs. Consolidation among healthcare providers has resulted in fewer, more powerful groups, whose purchasing power gives them cost containment leverage. These competitive forces place constraints on the levels of overall pricing, and thus could have a material adverse effect on our gross margins for products we sell in clinical diagnostics markets.

In the United States, there have been, and we expect there will continue to be, a number of legislative and regulatory changes to the healthcare system that could affect our revenues and profitability and the revenues and profitability of our customers. Our Clinical Diagnostics business is impacted by the level of reimbursement available for clinical tests from Medicare, Medicaid, other governmental payors and commercial third party payors. Payment for many



diagnostic tests furnished to Medicare fee-for-service beneficiaries is made based on the Medicare Clinical Laboratory Fee Schedule (CLFS), a fee schedule established and adjusted from time to time by the Centers for Medicare and Medicaid Services (CMS). In recent years, payments under the CLFS have decreased and may decrease further in future years. Some commercial payors are guided by the CLFS in establishing their reimbursement rates. Clinicians may decide not to order clinical diagnostic tests if third party payments are

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inadequate, and we cannot predict whether third party payors will offer adequate reimbursement for tests utilizing our products to make them commercially attractive.

Moreover, in March 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or collectively, the PPACA, impose significant new programs and responsibilities affecting U.S. pharmaceutical and medical device industries. The PPACA, among other things, establishes annual fees and taxes on manufacturers of certain medical devices, including our devices, and promotes programs that increase the federal government's comparative effectiveness research, which may be used to evaluate the selection of medical services by clinicians and others. PPACA also mandates a reduction in payments for clinical laboratory services paid under the CLFS of 1.75% for the years 2011 through 2015. In addition, a productivity adjustment is made to the CLFS payment amount, further reducing payment rates. These changes in payments apply to some or all of the clinical laboratory test services we furnish to Medicare beneficiaries.

In addition, other legislative changes have been proposed and adopted in the United States since the PPACA was enacted. On August 2, 2011, the Budget Control Act of 2011, among other things, created measures for spending reductions by Congress. A Joint Select Committee on Deficit Reduction, tasked with recommending a targeted deficit reduction of at least \$1.2 trillion for the years 2013 through 2021, was unable to reach required goals, thereby triggering the legislation's automatic reduction to several government programs. This includes aggregate reductions to Medicare payments to providers of 2% per fiscal year, which went into effect on April 1, 2013. On January 2, 2013, the American Taxpayer Relief Act of 2012, or the ATRA, was signed into law, which, among other things, further reduced Medicare payments to several providers, including hospitals, imaging centers and cancer treatment centers, and increased the statute of limitations period for the government to recover overpayments to providers from three to five years.

To the extent that the healthcare industry seeks to address the need to contain costs stemming from reform measures such as those contained in PPACA and ATRA, or in future legislation, by limiting the number of clinical tests being performed or the amount of reimbursement available for such tests, our results of operations could be materially and adversely affected. If these changes in the healthcare markets in the United States and Europe continue, we could be forced to alter our approach in selling, marketing, distributing and servicing our products.

Our failure to improve our product offerings and develop and introduce new products would negatively impact our business.

Our future success depends on our ability to continue to improve our product offerings and develop and introduce new product lines and extensions that integrate new technological advances. If we are unable to integrate technological advances into our product offerings or to design, develop, manufacture and market new product lines and extensions successfully and in a timely manner, our operating results will be adversely affected. We cannot assure you that our product and process development efforts will be successful or that new products we introduce will achieve market acceptance.

If we experience a disruption of our information technology systems, or if we fail to successfully implement, manage and integrate our information technology and reporting systems, it could harm our business.

Our information technology (IT) systems are an integral part of our business, and a serious disruption of our IT systems could have a material adverse effect on our business and results of operations. We depend on our IT systems to process orders, manage inventory and collect accounts receivable. Our IT systems also allow us to efficiently purchase products from our suppliers and ship products to our customers on a timely basis, maintain cost-effective operations and provide customer service. We cannot assure you that our contingency plans will allow us to operate at our current level of efficiency.

Our ability to implement our business plan in a rapidly evolving market requires effective planning, reporting and analytical processes. We expect that we will need to continue to improve and further integrate our IT systems, reporting systems and operating procedures by training and educating our employees with respect to these improvements and integrations on an ongoing basis in order to effectively run our business. If we fail to

successfully manage and integrate our IT systems, reporting systems and operating procedures, it could adversely affect our business or operating results.

Breaches of information systems security could damage our reputation, disrupt operations, increase costs and/or decrease revenues.

Through our sales and eCommerce channels, we collect and store confidential information that customers provide to, among other things, purchase products or services, enroll in promotional programs and register on our Web site. We also acquire and retain information about suppliers and employees in the normal course of business. Despite instituted safeguards for the protection of such information, computer hackers may attempt to penetrate our or our vendors' information systems and, if successful, misappropriate confidential customer, supplier, employee or other business information. Loss of customer, supplier, employee or other business information could disrupt our operations, damage our reputation and expose us to claims from customers, suppliers, financial institutions, regulators, payment card associations, employees and other persons, any of which could have an adverse effect on our company, its financial condition and results of operations.

We may experience difficulties implementing our new global enterprise resource planning system.

We are engaged in a multi-year implementation of a new global enterprise resource planning system (ERP). The ERP is designed to accurately maintain our books and records and provide information important to the operation of our business to our management team. The ERP will continue to require significant investment of human and financial resources. In implementing the ERP, we may experience significant delays, increased costs and other difficulties. Any significant disruption or deficiency in the design and implementation of the ERP could adversely affect our ability to process orders, ship product, send invoices and track payments, fulfill contractual obligations or otherwise operate our business. In 2013, we experienced system implementation issues in our Clinical Diagnostics segment that impacted invoicing and caused an increase in accounts receivable. While we have invested significant resources in planning, project management and training, additional and significant implementation issues may arise.

Risks relating to intellectual property rights may negatively impact our business.

We rely on a combination of copyright, trade secret, patent and trademark laws and third-party nondisclosure agreements to protect our intellectual property rights and products. However, we cannot assure you that our intellectual property rights will not be challenged, invalidated, circumvented or rendered unenforceable, or that meaningful protection or adequate remedies will be available to us. For instance, it may be possible for unauthorized third parties to copy our intellectual property, to reverse engineer or obtain and use information that we regard as proprietary, or to develop equivalent technologies independently. Additionally, third parties may assert patent, copyright and other intellectual property rights to technologies that are important to us. If we are unable to license or otherwise access protected technology used in our products, or if we lose our rights under any existing licenses, we could be prohibited from manufacturing and marketing such products. We may find it necessary to enforce our patents or other intellectual property rights or to defend ourselves against claimed infringement of the rights of others through litigation, which could result in substantial costs to us and divert our resources. We also could incur substantial costs to redesign our products, to defend any legal action taken against us or to pay damages to an infringed party. The foregoing matters could adversely impact our business.

We are subject to substantial government regulation, and any changes in regulation or violations of regulations by us could adversely affect our business, prospects, results of operations or financial condition.

Some of our products (primarily diagnostic products), production processes and marketing are subject to federal, state, local and foreign regulation, including by the FDA and its foreign counterparts. The FDA regulates our diagnostic

products as medical devices pursuant to the Federal Food, Drug and Cosmetic Act. Unless an exemption applies, each medical device marketed in the United States must first receive either clearance of a 510(k) premarket notification or approval of a premarket approval application (PMA) from the FDA, depending on the risk classification of the device. Medical devices can be marketed only for the indications for which they are cleared or approved. The FDA has also generally chosen to not enforce applicable regulations, including premarket

requirements, with respect to certain diagnostic products referred to as laboratory developed tests, which are tests developed by a single laboratory for use only in that laboratory. However, the FDA has indicated, since 2010, that it intends to reconsider its policy regarding enforcement and to begin drafting an oversight framework for such tests. After a device receives 510(k) clearance, any modification that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, requires a new 510(k) clearance or could require a PMA approval. After a device is placed on the market, regardless of the classification or pre-market pathway, it remains subject to significant regulatory requirements, including, for example, recordkeeping and reporting requirements, such as the FDA's medical device reporting regulations and reporting of corrections and removals. The FDA has broad regulatory and enforcement powers. If the FDA determines that we have failed to comply with applicable regulatory requirements, it can impose a variety of enforcement actions ranging from public warning letters, fines, injunctions, consent decrees and civil penalties to suspension or delayed issuance of approvals, seizure or recall of our products, total or partial shutdown of production, withdrawal of approvals or clearances already granted, and criminal prosecution. The FDA can also require us to repair, replace or refund the cost of devices that we manufactured or distributed.

In addition, the FDA may change its clearance and approval policies, adopt additional regulations or revise existing regulations, or take other actions, which may prevent or delay approval or clearance of our products or impact our ability to modify our currently approved or cleared products on a timely basis. For example, the FDA recently initiated a review of the premarket clearance process in response to internal and external concerns regarding the 510(k) program. In January 2011, the FDA announced several proposed action items intended to reform the review process governing the clearance of medical devices to improve the efficiency and transparency of the clearance process, as well as bolster patient safety. Some of these proposals, if enacted, could impose additional regulatory requirements upon us, which could delay our ability to obtain new 510(k) clearances, increase the costs of compliance or restrict our ability to maintain our current clearances. Moreover, as part of the Food and Drug Administration Safety and Innovation Act, or FDASIA, Congress reauthorized the Medical Device User Fee Amendments with various FDA performance goal commitments and enacted several "Medical Device Regulatory Improvements" and miscellaneous reforms which are further intended to clarify and improve medical device regulation both pre- and post-clearance or approval. Any delay in, or failure to receive or maintain, clearance or approval for our products could prevent us from generating revenue from these products and adversely affect our business operations and financial results. Additionally, the FDA and other regulatory authorities have broad enforcement powers. Regulatory enforcement or inquiries, or other increased scrutiny on us, could affect the perceived safety and efficacy of our products and dissuade our customers from using our products. Many foreign governments have similar rules and regulations regarding the importation, registration, labeling, sale and use of our products. Such agencies may also impose new requirements that may require us to modify or re-register products already on the market or otherwise impact our ability to market our products in those countries.

We are also subject to government regulation of the use and handling of a number of materials and controlled substances. The U.S. Drug Enforcement Administration establishes registration, security, recordkeeping, reporting, storage, distribution and other requirements for controlled substances pursuant to the Controlled Substances Act of 1970. Failure to comply with present or future laws and regulations could result in substantial liability to us, suspension or cessation of our operations, restrictions on our ability to expand at our present locations or require us to make significant capital expenditures or incur other significant expenses.

We are subject to federal and state healthcare fraud and abuse laws and regulations and could face substantial penalties if we are unable to fully comply with such laws.

We are subject to healthcare fraud and abuse regulation and enforcement by both the federal government and the states and foreign governments in which we conduct our business. These healthcare laws and regulations include, for example:

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the federal Anti-Kickback Statute, which prohibits, among other things, persons or entities from soliciting, receiving, offering or providing remuneration, directly or indirectly, in return for or to induce either the referral of an individual for, or the purchase order or recommendation of, any item or services for which payment may be made under a federal healthcare program such as the Medicare and Medicaid programs;

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- federal false claims laws, which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third-party payors that are false or fraudulent, and which may apply to entities like us to the extent that our interactions with customers may affect their billing or coding practices;

the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which established new federal crimes for knowingly and willfully executing a scheme to defraud any healthcare benefit program or making false statements in connection with the delivery of or payment for healthcare benefits, items or services;

the federal Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology for Economic and Clinical Health Act, which governs the conduct of certain electronic healthcare transactions and protects the security and privacy of protected health information; and

state or foreign law equivalents of each of the above federal laws, such as anti-kickback and false claims laws, which may apply to items or services reimbursed by any third-party payor, including commercial insurers.

The risk of our being found in violation of these laws is increased by the fact that many of these laws are broad and their provisions are open to a variety of interpretations. Further, the PPACA amends the intent requirement of the federal anti-kickback and criminal health care fraud statutes. A person or entity no longer needs to have actual knowledge of this statute or specific intent to violate it. In addition, the government may assert that a claim including items or services resulting from a violation of the federal anti-kickback statute constitutes a false or fraudulent claim for purposes of the false claims statutes.

Further, the PPACA includes provisions known as the Physician Payment Sunshine Act, which requires certain manufacturers of drugs, biologics, devices and medical supplies to record any transfers of value to U.S. physicians and U.S. teaching hospitals. Manufacturers must also disclose investment interests held by physicians and their family members. Failure to submit the required information may result in civil monetary penalties of up to an aggregate of \$150,000 per year (and up to an aggregate of \$1 million per year for “knowing failures”), for all payments, transfers of value or ownership or investment interests not reported in an annual submission, and may result in liability under other federal laws or regulations. Manufacturers have been required to perform data collection since August 1, 2013 and must report such data to the Centers for Medicare and Medicaid Services by March 31, 2014 and by the 90<sup>th</sup> day of each subsequent calendar year. Several states in the U.S. have also implemented similar reporting requirements and/or mandate implementation of compliance programs. An increasing number of countries worldwide either have adopted or are considering similar laws requiring transparency of interactions with health care professionals. The shifting compliance environment and the need to build and maintain robust and expandable systems to comply with multiple jurisdictions with different compliance and/or reporting requirements increases the possibility that a healthcare company may violate one or more of the requirements.

These laws will continue to impose administrative, cost and compliance burdens on us. In addition, any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business. If our operations are found to be in violation of any of the laws described above or any other governmental regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines, exclusion from the Medicare and Medicaid programs, and the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our financial results.



Regulations related to “conflict minerals” could adversely impact our business.

On August 22, 2012, the SEC adopted a rule requiring disclosures by public companies of their use of specified minerals (tantalum, tin, tungsten and gold) that are necessary to the functionality or production of products manufactured or contracted to be manufactured. The rule, which is effective for 2013, requires that we:

examine our products to determine whether and to what extent the rule applies,  
if applicable, perform a reasonable country of origin inquiry to determine whether or not the specified minerals originated from the Democratic Republic of Congo (DRC) or an adjoining country,  
if applicable, conduct due diligence regarding the source and chain of custody of the specified minerals, and  
file a report by May 31, 2014 that includes a description of our process and the results of our efforts.

We have incurred, and will continue to incur, additional costs in order to comply with the disclosure requirements of this rule. In addition, we might incur further costs due to possible changes to our products, processes, or sources of supply as a consequence of our due diligence activities. As our supply chain is complex, we may not be able to sufficiently verify the origins of the specified minerals used in our products through our due diligence procedures, which may harm our reputation. In addition, we may encounter challenges to satisfy those customers who require that all of the components of our products be certified as “DRC conflict free”, which could place us at a competitive disadvantage if we do not do so.

A reduction or interruption in the supply of components and raw materials could adversely affect our manufacturing operations and related product sales.

The manufacture of many of our products requires the timely delivery of sufficient amounts of quality components and materials. We manufacture our products in numerous manufacturing facilities around the world. We acquire our components and materials from many suppliers in various countries. We work closely with our suppliers to ensure the continuity of supply but we cannot guarantee these efforts will always be successful. Further, while efforts are made to diversify our sources of components and materials, in certain instances we acquire components and materials from a sole supplier. In addition, due to the regulatory environment in which we operate, we may be unable to quickly establish additional or replacement sources for some components or materials. A reduction or interruption in supply, and an inability to develop alternative sources for such supply, could adversely affect our ability to manufacture our products in a timely or cost-effective manner, and our ability to make product sales.

We are currently subject to environmental regulations and enforcement proceedings.

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

We may in the future incur capital and operating costs to comply with currently existing laws and regulations, and possible new statutory enactments, and these expenditures may be significant. We have incurred, and may in the future incur, fines related to environmental matters and liability for costs or damages related to spills or other releases of hazardous substances into the environment at sites where we have operated, or at off-site locations where we have sent hazardous substances for disposal. We can provide no assurance, however, that such matters or any future obligations to comply with environmental laws and regulations will not have a material impact on our operations or financial condition.



Loss of key personnel could hurt our business.

Our products and services are highly technical in nature. In general, only highly qualified and trained scientists have the necessary skills to develop and market our products and provide our services. In addition, some of our manufacturing positions are highly technical. We face intense competition for these professionals from our competitors, customers, marketing partners and other companies throughout our industry. We generally do not enter into employment agreements requiring these employees to continue in our employment for any period of time. Any failure on our part to hire, train and retain a sufficient number of qualified personnel could substantially damage our business. Additionally, if we were to lose a sufficient number of our research and development scientists and were unable to replace them or satisfy our needs for research and development through outsourcing, it could adversely affect our business.

A significant majority of our voting stock is held by the Schwartz family, which could lead to conflicts of interest.

We have two classes of voting stock: Class A Common Stock and Class B Common Stock. With a few exceptions, holders of Class A and Class B Common Stock vote as a single class. When voting as a single class, each share of Class A Common Stock is entitled to one-tenth of a vote, while each share of Class B Common Stock has one vote. In the election or removal of directors, the classes vote separately and the holders of Class A Common Stock are entitled to elect 25% of the Board of Directors, with holders of Class B Common Stock electing the remaining directors.

As of February 14, 2014, the Schwartz family collectively held approximately 15% of our Class A Common Stock and 94% of our Class B Common Stock. As a result, the Schwartz family is able to elect a majority of the directors, effect fundamental changes in our direction and control matters affecting us, including the determination of business opportunities that may be suitable for our company. In addition, this concentration of ownership and voting power may have the effect of delaying or preventing a change in control of our company.

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

Natural disasters, terrorist attacks, acts of war or other events beyond our control may cause damage or disruption to us and our employees, facilities, information systems, security systems, vendors and customers, which could significantly impact our net sales, costs and expenses, and financial condition.

We have significant manufacturing and distribution facilities, particularly in the western United States, France, Switzerland, Germany and Singapore. In particular, the western United States has experienced a number of earthquakes, wildfires, floods, landslides and other natural disasters in recent years. The occurrences could damage or destroy our facilities which may result in interruptions to our business and losses that exceed our insurance coverage. In addition, strikes or other labor unrest could cause disruption to our business. Terrorist attacks, such as those that occurred on September 11, 2001, have contributed to economic instability in the United States, and further acts of terrorism, bioterrorism, violence or war could affect the markets in which we operate, our business operations, our expectations and other forward-looking statements contained or incorporated in this document. Any of these events could cause a decrease in our revenue, earnings and cash flows.

We may incur losses in future periods due to write-downs in the value of financial instruments.

We have positions in a variety of financial instruments including asset backed securities and other similar instruments. Financial markets are quite volatile and the markets for these securities can be illiquid. The value of these securities will continue to be impacted by external market factors including default rates, changes in the value of the underlying property, such as residential or commercial real estate, rating agency actions, the prices at which observable market

transactions occur and the financial strength of various entities, such as financial guarantors who provide insurance for the securities. Should we need to convert these positions to cash, we may not be able to sell these instruments without significant losses due to current debtor financial conditions or other market considerations.

We have substantial debt and have the ability to incur additional debt. The principal and interest payment obligations of such debt may restrict our future operations and impair our ability to meet our obligations under our notes.

As of March 31, 2014 we and our subsidiaries have approximately \$437.3 million of outstanding indebtedness.

The following chart shows certain important credit statistics.

|                            | At March 31, 2014<br>(dollars in millions) |
|----------------------------|--|
| Total debt                 | \$437.3                                    |
| Total stockholders' equity | \$2,232.6                                  |
| Debt to equity ratio       | 0.2  |

Our incurrence of substantial amounts of debt may have important consequences. For instance, it could:

- make it more difficult for us to satisfy our financial obligations, including those relating to our outstanding notes;
- require us to dedicate a substantial portion of our cash flow from operations to the payment of interest and principal due under our debt, including our outstanding notes, which will reduce funds available for other business purposes;
- increase our vulnerability to general adverse economic and industry conditions;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- place us at a competitive disadvantage compared with some of our competitors that have less debt; and
- limit our ability to obtain additional financing required to fund working capital and capital expenditures and for other general corporate purposes.

Our ability to satisfy our obligations and to reduce our total debt depends on our future operating performance and on economic, financial, competitive and other factors, many of which are beyond our control. Our business may not generate sufficient cash flow, and future financings may not be available to provide sufficient net proceeds, to meet these obligations or to successfully execute our business strategy.

Our existing credit facility and the terms of our other debt instruments, including agreements we may enter in the future, contain or will contain covenants imposing significant restrictions on our business. These restrictions may affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise. These covenants place restrictions on our ability to, among other things:

- incur additional debt;
- acquire other businesses or assets through merger or purchase;
- create liens;
- make investments;
- enter into transactions with affiliates;
- sell assets;
- in the case of some of our subsidiaries, guarantee debt; and
- declare or pay dividends, redeem stock or make other distributions to stockholders.

Our existing credit facility also requires that we meet certain financial tests and maintain certain financial ratios, including a maximum consolidated leverage ratio test, a minimum consolidated interest coverage ratio test and a minimum net worth test.



Our ability to comply with these covenants may be affected by events beyond our control, including prevailing economic, financial and industry conditions. The breach of any of these restrictions could result in a default. An event of default under our debt agreements would permit some of our lenders to declare all amounts borrowed from them to be due and payable, together with accrued and unpaid interest. If we were unable to repay debt to our senior secured lenders, these lenders could proceed against the collateral securing that debt. The collateral is substantially all of our personal property assets, the assets of our domestic subsidiaries and 65% of the capital stock of certain of our foreign subsidiaries. In addition, acceleration of our other indebtedness may cause us to be unable to make interest payments on our outstanding notes and repay the principal amount of our outstanding notes or may cause the future subsidiary guarantors, if any, to be unable to make payments under the guarantees.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

(a) Exhibits

The following documents are filed as part of this report:

Exhibit  
No.

- 10.1 Amendment to the Bio-Rad Laboratories, Inc. 2007 Incentive Award Plan
- 31.1 Chief Executive Officer Section 302 Certification
- 31.2 Chief Financial Officer Section 302 Certification
- 32.1 Chief Executive Officer Certification pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Chief Financial Officer Certification pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- The following materials from this report, formatted in XBRL (Extensible Business Reporting Language):
- 101 (i) the Condensed Consolidated Balance Sheets, (ii) the unaudited interim Condensed Consolidated Statements of Income, (iii) the unaudited interim Condensed Consolidated Statements of Comprehensive Income, (iv) the unaudited interim Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements.



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

BIO-RAD LABORATORIES, INC.  
(Registrant)

Date: May 7, 2014 /s/ Norman Schwartz  
Norman Schwartz, Chairman of the Board,  
President and Chief Executive Officer

Date: May 7, 2014 /s/ Christine A. Tsingos  
Christine A. Tsingos, Executive Vice President,  
Chief Financial Officer