

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

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

FORM 10-Q

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

For the quarterly period ended June 30, 2006

OR

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

For the transition period from to

Commission file number 1-7928

BIO-RAD LABORATORIES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

94-1381833
(I.R.S. Employer Identification No.)

1000 Alfred Nobel Drive, Hercules, California
(Address of principal executive offices)

94547
(Zip Code)

(510) 724-7000

Registrant's telephone number, including area code

No Change

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

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

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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. [] [] No
Yes

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

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

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

Title of Class	Shares Outstanding at July 31, 2006
Class A Common Stock, Par Value \$0.0001 per share	21,467,917
Class B Common Stock, Par Value \$0.0001 per share	4,909,908

PART 1 FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Net sales	\$ 317,747	\$ 291,302	\$ 626,085	\$ 590,473
Cost of goods sold	133,085	130,659	265,895	263,424
Gross profit	184,662	160,643	360,190	327,049
Selling, general and administrative expense	110,466	104,222	210,536	203,720
Product research and development expense	30,971	28,499	59,062	55,322
Interest expense	7,880	8,044	15,899	16,161
Foreign exchange (gains) losses	1,241	(922)	1,252	(1,199)
Other (income) expense, net	(7,753)	(4,689)	(12,295)	(10,527)
Income from continuing operations before taxes	41,857	25,489	85,736	63,572
Provision for income taxes	9,591	7,101	22,272	15,664
Income from continuing operations	32,266	18,388	63,464	47,908
Discontinued operations				
Gain on divestiture, net of tax benefits				
of zero in 2005	--	--	--	3,974
Net income	\$ 32,266	\$ 18,388	\$ 63,464	\$ 51,882
Basic earnings per share:				
Continuing operations	\$ 1.22	\$ 0.71	\$ 2.41	\$ 1.85
Discontinued operations	--	--	--	0.15
Net income	\$ 1.22	\$ 0.71	\$ 2.41	\$ 2.00
Weighted average common shares	26,341	26,020	26,309	25,965

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Diluted earnings per share:

Continuing operations	\$ 1.20	\$ 0.69	\$ 2.36	\$ 1.80
Discontinued operations	--	--	--	0.15
Net income	\$ 1.20	\$ 0.69	\$ 2.36	\$ 1.95
Weighted average common shares	26,900	26,610	26,865	26,583

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

BIO-RAD LABORATORIES, INC

Condensed Consolidated Balance Sheets

(In thousands, except share data)

(Unaudited)

	June 30, 2006	December 31, 2005
ASSETS:		
Cash and cash equivalents	\$ 245,646	\$ 296,716
Restricted cash	--	36,138
Short-term investments	188,319	116,343
Accounts receivable, net	273,014	247,192
Inventories, net	244,339	212,342
Prepaid expenses, taxes and other current assets	106,855	99,480
Total current assets	1,058,173	1,008,211
Net property, plant and equipment	183,783	180,258
Goodwill	113,276	113,276
Purchased intangibles, net	26,238	28,449
Other assets	112,566	96,388
Total assets	\$ 1,494,036	\$ 1,426,582
LIABILITIES AND STOCKHOLDERS EQUITY:		
Accounts payable	\$ 69,302	\$ 72,950
Accrued payroll and employee benefits	76,980	81,076
Notes payable and current maturities of long-term debt	4,478	3,341
Sales, income and other taxes payable	19,396	15,841
Litigation accrual	10,742	55,701
Accrued royalties	35,059	34,386
Other current liabilities	65,064	55,948
Total current liabilities	281,021	319,243
Long-term debt, net of current maturities	425,873	425,687
Deferred tax liabilities	7,180	2,281
Other long-term liabilities	23,848	21,397
Total liabilities	737,922	768,608
STOCKHOLDERS EQUITY:	--	--

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Preferred stock, \$0.0001 par value, 7,500,000 shares authorized; none outstanding		
Class A common stock, \$0.0001 par value, 80,000,000 shares authorized; outstanding		
21,464,736 at June 30, 2006 and 21,316,556 at December 31, 2005	2	2
Class B common stock, \$0.0001 par value, 20,000,000 shares authorized; outstanding		
4,909,908 at June 30, 2006 and December 31, 2005	1	1
Additional paid-in capital	68,770	60,112
Retained earnings	634,271	570,807
Accumulated other comprehensive income:		
Currency translation and other	53,070	27,052
Total stockholders equity	756,114	657,974
Total liabilities and stockholders equity	\$ 1,494,036	\$ 1,426,582

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

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

	Six Months Ended June 30,	
	2006	2005
Cash flows from operating activities:		
Cash received from customers	\$ 612,996	\$ 583,459
Cash paid to suppliers and employees	(549,519)	(527,665)
Litigation settlement related to MJ acquisition	(44,960)	--
Interest paid	(15,403)	(15,459)
Income tax payments	(2,620)	(20,161)
Miscellaneous receipts	11,498	7,644
Excess tax benefits from stock-based compensation	(500)	--
Net cash provided by operating activities	11,492	27,818
Cash flows from investing activities:		
Capital expenditures, net	(24,851)	(17,591)
Payments for acquisitions and investments	(5,589)	(2,674)
Receipt (payment) of restricted cash related to MJ acquisition litigation	36,138	(35,565)
Proceeds from divestitures	1,000	--
Payments on purchase of intangible assets	--	(1,000)
Purchases of marketable securities and investments	(127,763)	(796,590)
Sales of marketable securities and investments	51,823	870,905
Foreign currency economic hedges, net	(2,514)	5,509
Net cash provided by (used in) investing activities	(71,756)	22,994
Cash flows from financing activities:		
Net borrowings under line-of-credit arrangements	798	1,138
Payments on long-term debt	(230)	(231)
Debt issuance and retirement costs	--	(331)
Proceeds from issuance of common stock	5,467	4,516
Excess tax benefits on stock compensation	500	--
Net cash provided by financing activities	6,535	5,092
Effect of exchange rate changes on cash	2,659	494

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Net increase (decrease) in cash and cash equivalents	(51,070)	56,398
Cash and cash equivalents at beginning of period	296,716	195,734
Cash and cash equivalents at end of period	\$ 245,646	\$ 252,132
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 63,464	\$ 51,882
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	26,436	30,091
Stock based compensation	2,524	--
Excess tax benefits from stock based compensation	(500)	--
Increase in accounts receivable	(13,340)	(24)
Increase in inventories	(23,916)	(16,321)
(Increase) decrease in other current assets	992	(4,140)
Decrease in accounts payable and other current liabilities	(13,620)	(16,117)
Increase (decrease) in income taxes payable	3,135	(9,323)
Litigation settlement related to MJ acquisition	(44,960)	--
Other	11,277	(8,230)
Net cash provided by operating activities	\$ 11,492	\$ 27,818

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

BIO-RAD LABORATORIES, INC

Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. BASIS OF PRESENTATION

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

Share-Based Compensation Accounting Policy

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

As of January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS)123(R), Share-Based Payment using the modified-prospective method. Under this transition method we are required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. In accordance with the modified prospective transition method, our results for prior periods have not been restated. See Note 11 for information on the impact of our adoption of SFAS 123(R).

New Financial Accounting Standard

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

2. RESTRICTED CASH

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

3. SHORT-TERM INVESTMENTS

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

	June 30, 2006	December 31, 2005
Available-for-sale securities:		
Asset backed securities	\$ 41.4	\$ 36.6
Corporate obligations	84.1	31.4
U.S Agencies	30.5	25.5
Variable rate notes	10.2	8.7
Auction rate securities	--	3.9
Marketable equity securities	7.7	--
Certificates of deposit	5.0	--
Other	9.4	10.2
Total short-term investments	\$ 188.3	\$ 116.3

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

4. INVENTORIES

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

	June 30, 2006	December 31, 2005
Raw materials	\$ 52.3	\$ 48.3
Work in process	63.0	51.6
Finished goods	129.0	112.4
	\$ 244.3	\$ 212.3

5. PROPERTY, PLANT AND EQUIPMENT

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

	June 30, 2006	December 31, 2005
Land and improvements	\$ 9.6	\$ 9.8
Buildings and leasehold improvements	120.3	120.0
Equipment	339.0	322.4
	468.9	452.2
Accumulated depreciation	(285.1)	(271.9)
Net property, plant and equipment	\$ 183.8	\$ 180.3

Net capital expenditures include proceeds from the sale of property, plant and equipment of \$0.1 million for the six months ended June 30, 2006 and 2005.

6. GOODWILL AND OTHER PURCHASED INTANGIBLE ASSETS

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

	June 30, 2006			
	Remaining Weighted Average Useful Life	Carrying Amount	Accumulated Amortization	Net
Developed Product Technology	4	\$ 9.2	\$ 2.4	\$ 6.8
Licenses	13	14.0	1.8	12.2
Know How	3	9.4	4.7	4.7
Covenants Not to Compete	3	2.0	0.9	1.1
Patents	4	1.0	--	1.0

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Customer Lists	3	0.6	0.3	0.3
Other	2	2.2	2.1	0.1
		\$ 38.4	\$ 12.2	\$ 26.2

December 31, 2005

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

Recorded purchased intangible asset amortization expense for the three months ended June 30, 2006 and 2005 was \$1.3 million and \$2.8 million, respectively. Recorded intangible asset amortization expense for the six months ended June 30, 2006 and 2005 was \$2.6 million and \$5.6 million, respectively. Estimated purchased intangible asset amortization expense (based on existing intangible assets) for the years ended December 31, 2007, 2008, 2009, 2010 and 2011 is \$5.2 million, \$4.5 million, \$3.0 million, \$2.1 million and \$1.4 million, respectively.

7. DISCONTINUED OPERATIONS

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

8. PRODUCT WARRANTY LIABILITY

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

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

	2006	2005
January 1,	\$ 12.0	\$ 10.1
Provision for warranty	7.4	5.6
Actual warranty costs	(7.0)	(5.4)
June 30,	\$ 12.4	\$ 10.3

9. LONG-TERM DEBT

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

Under certain conditions, this Credit Agreement may be increased up to an additional \$50 million. It will mature on June 21, 2010.

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

In August 2003, Bio-Rad sold \$225.0 million principal amount of Senior Subordinated Notes due 2013 (7.5% Notes). The notes pay a fixed rate of interest of 7.5% per year. Upon any sale of our common stock, we have the right to repurchase up to 35% of the 7.5% Notes any time prior to August 15, 2006 at a specified redemption price plus accrued and unpaid interest and certain other charges. Furthermore, we have the option to redeem any or all of the 7.5% Notes at various declining redemption prices or at 100% of the principal amount plus the applicable premium (as defined by the indenture) along with accrued and unpaid interest and certain other charges depending on the date redeemed. Bio-Rad's obligations under the 7.5% Notes are not secured, rank equal to other senior subordinated notes and rank junior to all Bio-Rad's existing and future senior debt.

10. EARNINGS PER SHARE

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

Weighted average shares used for diluted earnings per share include the dilutive effect of outstanding options to purchase 559,000 and 590,000 shares of stock for the three months ended June 30, 2006 and 2005, respectively. Options to purchase 485,000 and 603,000 shares of common stock were outstanding during the three month periods ended June 30, 2006 and 2005, respectively, but were excluded from the computation of diluted earnings per share because the exercise price of the options was greater than the average market price of the common shares.

Weighted average shares used for diluted earnings per share include the dilutive effect of outstanding options to purchase 556,000 and 618,000 shares of stock for the six months ended June 30, 2006 and 2005, respectively. There were 343,000 and 540,000 anti-dilutive options for the six months ended June 30, 2006 and 2005, respectively.

11. STOCK OPTION AND PURCHASE PLANS

Description of Share-Based Compensation Plans

Stock Option Plans

We maintain incentive and non-qualified stock option plans for officers and certain other employees. The 2003 Stock Option Plan of Bio-Rad Laboratories, Inc. (the Plan) authorizes the grant to employees of incentive stock options and non-qualified stock options. A total of 1,67