BIO RAD LABORATORIES INC
Form 10-Q
August 07, 2015

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2015

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 x No o

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 x No o

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

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

Yes o No x

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

Title of Class	Shares Outstanding at July 29, 2015
Class A Common Stock, Par Value $0.0001 per share	24,045,394
Class B Common Stock, Par Value $0.0001 per share	5,116,331

BIO-RAD LABORATORIES, INC.

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INFORMATION RELATING TO FORWARD-LOOKING STATEMENTS

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,” “anticipate,” “may,” “will,” “intend,” “estimate,” “continue,” or similar expressions or the negativ terms or expressions. Such statements involve risks and uncertainties, which could cause actual results to vary materially from those expressed in or indicated by the forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. However, actual results may differ materially from those currently anticipated depending on a variety of risk factors including, but not limited to, those identified under “Part II, Item 1A, Risk Factors” of this Quarterly Report on Form 10-Q. 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 law.

PART I – FINANCIAL INFORMATION
Item 1. Financial Statements
BIO-RAD LABORATORIES, INC.
Condensed Consolidated Balance Sheets
(In thousands, except share data)

	June 30, 2015	December 31, 2014
ASSETS:	(Unaudited)	
Cash and cash equivalents	$450,133	$413,251
Short-term investments	277,513	284,384
Accounts receivable, net	354,161	377,640
Inventories:		
Raw materials	115,508	106,028
Work in process	123,938	131,783
Finished goods	261,529	233,186
Total inventories	500,975	470,997
Other current assets	159,146	170,095
Total current assets	1,741,928	1,716,367
Property, plant and equipment, at cost	1,109,122	1,089,098
Less: accumulated depreciation and amortization	(669,478)	(660,262)
Property, plant and equipment, net	439,644	428,836
Goodwill, net	514,078	500,441
Purchased intangibles, net	237,706	254,228
Other investments	541,732	389,309
Other assets	50,255	52,097
Total assets	$3,525,343	$3,341,278
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Accounts payable, accrued payroll and employee benefits	$239,847	$282,034
Current maturities of long-term debt	268	265
Income and other taxes payable	25,238	35,165
Other current liabilities	138,541	129,297
Total current liabilities	403,894	446,761
Long-term debt, net of current maturities	435,660	435,710
Deferred income taxes	211,959	154,917
Other long-term liabilities	114,933	118,735
Total liabilities	1,166,446	1,156,123
Stockholders' equity:		
Class A common stock, shares issued 24,045,019 and 23,971,808 at 2015 and 2014, respectively; shares outstanding 24,044,897 and 23,971,686 at 2015 and 2014, respectively	2	2
Class B common stock, shares issued 5,117,745 and 5,098,799 at 2015 and 2014, respectively; shares outstanding 5,116,828 and 5,097,882 at 2015 and 2014, respectively	1	1
Additional paid-in capital	285,745	271,346
Class A treasury stock at cost, 122 shares at 2015 and 2014	(12)	(12)

Class B treasury stock at cost, 917 shares at 2015 and 2014	(89)	(89)
Retained earnings	1,741,203	1,694,962
Accumulated other comprehensive income	332,047	218,945
Total stockholders’ equity	2,358,897	2,185,155
Total liabilities and stockholders’ equity	$3,525,343	$3,341,278

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net sales	$506,102	$536,832	$978,923	$1,046,176
Cost of goods sold	226,505	239,590	429,220	473,645
Gross profit	279,597	297,242	549,703	572,531
Selling, general and administrative expense	192,845	195,838	381,400	398,113
Research and development expense	46,547	55,717	93,749	108,260
Income from operations	40,205	45,687	74,554	66,158
Interest expense	4,834	5,564	9,836	9,421
Foreign currency exchange losses (gains), net	2,938	(286)	6,744	2,451
Other (income) expense, net	(7,107)	(8,388)	(8,260)	(9,049)
Income before income taxes	39,540	48,797	66,234	63,335
Provision for income taxes	(11,117)	(17,166)	(19,993)	(25,036)
Net income	$28,423	$31,631	$46,241	$38,299
Basic earnings per share:				
Net income per basic share	$0.98	$1.10	$1.59	$1.33
Weighted average common shares - basic	29,136	28,826	29,114	28,809
Diluted earnings per share:				
Net income per diluted share	$0.97	$1.09	$1.58	$1.32
Weighted average common shares - diluted	29,381	29,092	29,338	29,076

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$28,423	$31,631	$46,241	$38,299
Other comprehensive income (loss):				
Foreign currency translation adjustments	37,066	2,107	17,596	7,634
Foreign other post-employment benefits adjustments, net of income taxes	(617)	118	424	179
Net unrealized holding gains (losses) on available-for-sale (AFS) investments, net of income taxes	88,152	(23,538)	95,082	2,755
Other comprehensive income (loss), net of income taxes	124,601	(21,313)	113,102	10,568
Comprehensive income	$153,024	$10,318	$159,343	$48,867

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)

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Cash received from customers	$971,616	$1,087,487
Cash paid to suppliers and employees	(898,757)	(925,534)
Interest paid, net	(9,071)	(10,912)
Income tax payments, net	(6,269)	(17,059)
Investment proceeds and miscellaneous receipts, net	8,660	10,283
Excess tax benefits from share-based compensation	(1,258)	(468)
Proceeds from (payments for) forward foreign exchange contracts, net	3,058	(1,355)
Net cash provided by operating activities	67,979	142,442
Cash flows from investing activities:		
Capital expenditures	(59,269)	(53,510)
Proceeds from dispositions of property, plant and equipment	29	338
Payments for acquisitions, net of cash received, and long-term investments	(2,589)	(42,010)
Payments for purchases of intangible assets	(1,321)	(15,382)
Payments for purchases of marketable securities and investments	(111,292)	(99,073)
Proceeds from sales of marketable securities and investments	41,138	44,875
Proceeds from maturities of marketable securities and investments	77,448	70,206
Net cash used in investing activities	(55,856)	(94,556)
Cash flows from financing activities:		
Net payments on line-of-credit arrangements and notes payable	—	(62)
Payments on long-term borrowings	(131)	(118)
Payments of contingent consideration	(2,983)	—
Proceeds from issuance of common stock	4,586	6,473
Payments of debt issuance costs for credit agreement	—	(463)
Excess tax benefits from share-based compensation	1,258	468
Net cash provided by financing activities	2,730	6,298
Effect of foreign exchange rate changes on cash	22,029	(1,065)
Net increase in cash and cash equivalents	36,882	53,119
Cash and cash equivalents at beginning of period	413,251	331,551
Cash and cash equivalents at end of period	$450,133	$384,670
Reconciliation of net income to net cash provided by operating activities:		
Net income	$46,241	$38,299
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	64,409	73,007
Share-based compensation	8,305	7,382
(Gains) losses on dispositions of securities	(72)	316
Excess tax benefits from share-based compensation	(1,258)	(468)
Changes in fair value of contingent consideration	95	(5,339)
Decrease in accounts receivable	9,859	46,070
Increase in inventories	(46,584)	(24,591)
Increase in other current assets	(1,220)	(3,360)
Decrease in accounts payable and other current liabilities	(23,103)	(1,004)

Increase in income taxes payable	16,852	13,548
Net decrease/increase in other long-term assets/liabilities	(5,545)	(1,418)
Net cash provided by operating activities	$67,979	$142,442

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 of 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, 2014 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, 2014.

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 of 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 - Statement of Cash Flows

During the third quarter of 2014, we identified errors in the Consolidated Balance Sheet at December 31, 2013, the Consolidated Statements of Cash Flows for the years ended December 31, 2013 and 2012 (and for all interim periods therein), and in the Unaudited Condensed Consolidated Balance Sheets and Statements of Cash Flows as of and for the six months ended June 30, 2014, all related to the recorded amounts of Inventories and Property, plant and equipment, net. During these periods, we inappropriately reduced Inventories by all of the profit on intercompany transactions related to certain equipment, however, a portion of that profit should have reduced capital additions and been reflected in Property, plant and equipment, net. The equipment is a Bio-Rad product provided to customers under reagent rental agreements, whereby Bio-Rad retains ownership of the equipment and charges the customer for test kits purchased for use with this equipment. Depreciation was calculated correctly, and there was no impact to Net income for any period presented.

The associated reclassification entries within the Statements of Cash Flows were to increase Cash paid to suppliers and employees, and decrease Capital expenditures by $7.4 million for the six months ended June 30, 2014. These reclassifications resulted in a decrease in Net cash provided by operating activities and a decrease in Net cash used in investing activities by $7.4 million for the six months ended June 30, 2014. There was no change to the net increase in Cash and cash equivalents for any period presented.

Management evaluated the materiality of the errors described above from a qualitative and quantitative perspective in accordance with the requirements of the Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 99, Materiality (SAB 99). Based on such evaluation, we have concluded that while these errors were significant to the periods impacted, their correction would not be material to any individual prior period nor did they have an effect on financial results.

Recent Accounting Standards Updates

In July 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. (“ASU”) 2015-11, “Simplifying the Measurement of Inventory.” Under current guidance, an entity subsequently measures inventory at the lower of cost or market, with market defined as replacement cost, net realizable value (NRV), or NRV less a normal profit margin. An entity uses current replacement cost provided that it is not above NRV (i.e., the ceiling) or below NRV less an “approximately normal profit margin” (i.e., the floor). ASU 2015-11 eliminates this analysis and requires entities to measure most inventory “at the lower of cost and NRV.” ASU 2015-11 is effective prospectively for annual periods beginning after December 15, 2016, and interim periods therein. We are currently evaluating the effect ASU 2015-11 will have, if any, on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, “Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." ASU 2015-05 was issued to include specific guidance about a customer's accounting for fees paid in a cloud computing arrangement. The guidance indicates that hosting arrangements that do not meet both the following criteria are service contracts and hence ASU 2015-05 is not applicable. The following criteria must be met to account for fees paid in a cloud computing arrangement as a purchase of, or convey a license to, software: (a) the customer has the contractual right to take possession of the software at any time during the contract period without significant penalty, and (b) it is feasible for the customer to either run the software on its own hardware or contract with another party to host the software. ASU 2015-05 is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted. We have evaluated and concluded that the adoption of ASU 2015-05 will not have any effect on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 was issued to simplify the presentation of debt issuance costs by requiring debt issuance costs to be presented as a deduction from the corresponding debt liability. This will make the presentation of debt issuance costs consistent with the presentation of debt discounts or premiums. Under current U.S. GAAP, debt issuance costs are reported on the balance sheet as assets and amortized as interest expense. Under ASU 2015-03, debt issuance costs will continue to be amortized to interest expense using the effective interest method. ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted. The only impact ASU 2015-03 will have is to reclassify our debt issuance costs from an asset to a contra-liability that will reduce our debt. We do not plan to early adopt.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers,” which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. Generally Accepted Accounting Principles when it becomes effective. On July 9, 2015, the FASB decided to defer the effective date for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period.

Early adoption would be permitted as of the original effective date in ASU 2014-09, which is annual reporting periods beginning after December 15, 2016, including interim reporting periods within the annual periods. The

FASB will issue an ASU to change the effective dates. The new standard is to be applied retrospectively and permits the use of either the retrospective or cumulative effect transition method. We are currently evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures and we have not yet selected a transition method.

2.ACQUISITIONS

GnuBIO, Inc.

In April 2014, we acquired 100% of the issued and outstanding stock of GnuBIO, Inc. (GnuBIO). This acquisition was accounted for as a business combination as GnuBIO represents an integrated set of activities and assets 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 Clinical Diagnostics segment's results of operations from the acquisition date. We believe that 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.

The final fair values of the net assets acquired from GnuBIO as of the acquisition date were determined to be $46.4 million of indefinite-lived intangible assets (specifically in-process research and development or "IPR&D"), $13.5 million of goodwill and $9.5 million of net tangible liabilities. The goodwill recorded will not be deductible for income tax purposes.

The fair value of the consideration as of the acquisition date was $50.4 million, which includes $39.7 million paid in cash at the closing date and $10.7 million in contingent consideration potentially payable to GnuBIO's shareholders. The contingent consideration was based on a probability-weighted income approach that could reach $70.0 million upon the achievement of all development/regulatory and sales milestones. The contingent consideration for the development/regulatory milestones was valued at $10.7 million, based on assumptions regarding the probability of achieving the milestones, with such amounts discounted to present value. The contingent consideration for the sales milestones was determined to be negligible, using the risk-neutral probability of being in the money based on a Black-Scholes framework. In connection with our projected sales that are required under the purchase agreement, there is a low probability of obtaining the thresholds. The contingent consideration estimated value was $10.0 million as of June 30, 2015. See Note 3 for further discussion.

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:

- 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)

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Financial assets and liabilities carried at fair value and measured on a recurring basis as of June 30, 2015 are classified in the hierarchy as follows (in millions):

	Level 1	Level 2	Level 3	Total
Financial Assets Carried at Fair Value:				
Cash equivalents:				
Commercial paper	$—	$12.2	$—	$12.2
Asset-backed securities	—	0.4	—	$0.4
U.S. government sponsored agencies	—	0.2	—	0.2
Foreign time deposits	56.1	—	—	56.1
Money market funds	2.2	—	—	2.2
Total cash equivalents (a)	58.3	12.8	—	71.1
Available-for-sale investments:				
Corporate debt securities	—	132.3	—	132.3
Foreign brokered certificates of deposit	—	5.2	—	5.2
U.S. government sponsored agencies	—	49.6	—	49.6
Foreign government obligations	—	4.2	—	4.2
Municipal obligations	—	6.8	—	6.8
Marketable equity securities	485.3	—	—	485.3
Asset-backed securities	—	45.5	—	45.5
Total available-for-sale investments (b)	485.3	243.6	—	728.9
Forward foreign exchange contracts (c)	—	0.7	—	0.7
Total financial assets carried at fair value	$543.6	$257.1	$—	$800.7
Financial Liabilities Carried at Fair Value:				
Forward foreign exchange contracts (d)	$—	$0.9	$—	$0.9
Contingent consideration (e)	—	—	24.8	24.8
Total financial liabilities carried at fair value	$—	$0.9	$24.8	$25.7

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

	Level 1	Level 2	Level 3	Total
Financial Assets Carried at Fair Value:				
Cash equivalents:				
Commercial paper	$—	$4.0	$—	$4.0
Foreign time deposits	16.5	—	—	16.5
Money market funds	2.2	—	—	2.2
Total cash equivalents (a)	18.7	4.0	—	22.7
Available-for-sale investments:				
Corporate debt securities	—	139.9	—	139.9
Foreign brokered certificates of deposit	—	5.2	—	5.2
U.S. government sponsored agencies	—	47.5	—	47.5
Foreign government obligations	—	4.0	—	4.0
Municipal obligations	—	6.5	—	6.5
Marketable equity securities	334.4	—	—	334.4
Asset-backed securities	—	48.4	—	48.4
Total available-for-sale investments (b)	334.4	251.5	—	585.9
Forward foreign exchange contracts (c)	—	0.6	—	0.6
Total financial assets carried at fair value	$353.1	$256.1	$—	$609.2
Financial Liabilities Carried at Fair Value:				
Forward foreign exchange contracts (d)	$—	$1.7	$—	$1.7
Contingent consideration (e)	—	—	27.7	27.7
Total financial liabilities carried at fair value	$—	$1.7	$27.7	$29.4

(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):

	June 30, 2015	December 31, 2014
Short-term investments	$277.5	$284.4
Other investments	451.4	301.5
Total	$728.9	$585.9

(c) Forward foreign exchange contracts in an asset position are included in 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):

	June 30, 2015	December 31, 2014
Other current liabilities	$16.7	$13.1
Other long-term liabilities	8.1	14.6
Total	$24.8	$27.7

During the third quarter of 2012, we recognized a contingent consideration liability of $44.6 million 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. In the third quarter of 2014, the first sales milestone was reached with cell sorting system purchase orders resulting in payments of $2.4 million and $3.0 million in the fourth quarter of 2014 and the first quarter of 2015, respectively. During the second quarter of 2015, the contingent consideration, based on an amended agreement, was revalued by an increase of $0.3 million to Selling, general and administrative expense to its estimated fair value of $14.8 million as of June 30, 2015.

During the second quarter of 2014, we recognized a contingent consideration liability upon our acquisition of GnuBIO. At the acquisition date, the contingent consideration was based on a probability-weighted income approach that could reach $70.0 million upon the achievement of all development/regulatory and sales milestones. The contingent consideration for the development/regulatory milestones was valued at $10.7 million at the acquisition date based on assumptions regarding the probability of achieving the milestones, with such amounts discounted to present value. The first two development/regulatory milestones were not achieved. The third development/regulatory milestone estimated value as of June 30, 2015 was $10.0 million. The contingent consideration for the sales milestones at the acquisition date and at June 30, 2015 was determined to be negligible, using the risk-neutral probability of being in the money based on a Black-Scholes framework. In connection with our projected sales that are required under the purchase agreement, there is a low probability of obtaining the thresholds.

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 six months ended June 30, 2015 (in millions):

	2015	
January 1	$27.7	
Cell sorting system:		
Payment of sales milestone	(3.0	)
Increase in estimated fair value of contingent consideration included in Selling, general and administrative expense	0.1	
GnuBIO:		
Increase/(decrease) in estimated fair value of contingent consideration included in Selling, general and administrative expense	—	
June 30	$24.8	

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The following table provides quantitative information about Level 3 inputs for fair value measurement of our cell sorting system contingent consideration liability as of June 30, 2015. 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	0.64%	0.91%
		Projected volatility of growth rate	7%	10%
		Market price of risk	1.25%	N/A

To estimate the fair value of Level 2 debt securities as of June 30, 2015 and December 31, 2014, 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 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 June 30, 2015 and December 31, 2014, 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 performs 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):

	June 30, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Short-term investments:				
Corporate debt securities	$132.3	$0.2	$(0.2)	$132.3
Foreign brokered certificates of deposit	5.2	—	—	5.2
Municipal obligations	6.8	—	—	6.8
Asset-backed securities	45.3	—	(0.1)	45.2
U.S. government sponsored agencies	49.5	0.2	(0.1)	49.6
Foreign government obligations	4.2	—	—	4.2
Marketable equity securities	29.3	5.1	(0.2)	34.2
	272.6	5.5	(0.6)	277.5
Long-term investments:				
Marketable equity securities	54.5	396.6	—	451.1
Asset-backed securities	0.3	—	—	0.3
	54.8	396.6	—	451.4
Total	$327.4	$402.1	$(0.6)	$728.9

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	December 31, 2014			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Short-term investments:				
Corporate debt securities	$139.7	$0.4	$(0.2)	$139.9
Foreign brokered certificates of deposit	5.2	—	—	5.2
Municipal obligations	6.5	—	—	6.5
Asset-backed securities	48.2	—	(0.2)	48.0
U.S. government sponsored agencies	47.4	0.1	—	47.5
Foreign government obligations	4.0	—	—	4.0
Marketable equity securities	29.0	4.5	(0.2)	33.3
	280.0	5.0	(0.6)	284.4
Long-term investments:				
Marketable equity securities	54.5	246.6	—	301.1
Asset-backed securities	0.4	—	—	0.4
	54.9	246.6	—	301.5
Total	$334.9	$251.6	$(0.6)	$585.9

The unrealized gains of our long-term marketable equity securities are primarily due to our investment in Sartorius AG preferred shares.

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

	June 30, 2015	December 31, 2014
Fair value of investments in a loss position 12 months or more	$7.2	$8.4
Fair value of investments in a loss position less than 12 months	$74.6	$90.7
Gross unrealized losses for investments in a loss position 12 months or more	$0.1	$0.2
Gross unrealized losses for investments in a loss position less than 12 months	$0.5	$0.4

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 June 30, 2015 or at December 31, 2014.

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 June 30, 2015 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 currency exchange losses (gains), net in the Condensed Consolidated Statements of Income.

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

	June 30, 2015
Contracts maturing in July through September 2015 to sell foreign currency:	
Notional value	$61.9
Unrealized loss	$(0.5)
Contracts maturing in July through September 2015 to purchase foreign currency:	
Notional value	$397.8
Unrealized gain	$0.3

The following is a summary of the amortized cost and estimated fair value of our debt securities at June 30, 2015 by contractual maturity date (in millions):

	Amortized Cost	Estimated Fair Value
Mature in less than one year	$102.4	$102.4
Mature in one to five years	104.7	104.8
Mature in more than five years	36.5	36.4
Total	$243.6	$243.6

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):

	June 30, 2015			December 31, 2014		
	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy Level	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy Level
Other investments	$85.1	$603.7	2	$82.6	$401.1	2
Total long-term debt, excluding leases and current maturities	$423.6	$461.5	2	$423.5	$454.9	2

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 June 30, 2015. 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. As 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 Science	Clinical Diagnostics	Total
Balances as of January 1, 2015:			
Goodwill	$207.7	$320.9	$528.6
Accumulated impairment losses	(27.2)	(1.0)	(28.2)
Goodwill, net	180.5	319.9	500.4
Currency fluctuations	0.1	13.6	13.7
Balances as of June 30, 2015:			
Goodwill	207.8	334.5	542.3
Accumulated impairment losses	(27.2)	(1.0)	(28.2)
Goodwill, net	$180.6	$333.5	$514.1

Information regarding our identifiable purchased intangible assets with definite and indefinite lives is as follows (in millions):

	June 30, 2015			
	Average Remaining Life (years)	Purchase Price	Accumulated Amortization	Net Carrying Amount
Customer relationships/lists	2-10	$90.6	$(46.7)	$43.9
Know how	1-10	190.2	(117.2)	73.0
Developed product technology	4-12	104.8	(47.3)	57.5
Licenses	1-11	39.8	(27.6)	12.2
Tradenames	1-9	3.5	(2.2)	1.3
Covenants not to compete	3-8	4.8	(1.4)	3.4
Total definite-lived intangible assets		433.7	(242.4)	191.3
In-process research and development		46.4	—	46.4
Total purchased intangible assets		$480.1	$(242.4)	$237.7

	December 31, 2014			
	Average Remaining Life (years)	Purchase Price	Accumulated Amortization	Net Carrying Amount
Customer relationships/lists	3-10	$89.4	$(43.0)	$46.4
Know how	1-11	184.7	(102.5)	82.2
Developed product technology	5-12	103.9	(42.8)	61.1
Licenses	1-11	39.4	(26.5)	12.9
Tradenames	1-10	3.6	(2.1)	1.5
Covenants not to compete	3-8	4.9	(1.2)	3.7
Total definite-lived intangible assets		425.9	(218.1)	207.8
In-process research and development		46.4	—	46.4
Total purchased intangible assets		$472.3	$(218.1)	$254.2

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Amortization expense	$9.3	$11.0	$18.5	$21.9

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, 2015	$17.8
Provision for warranty	15.5
Actual warranty costs	(16.4)
June 30, 2015	$16.9

6. LONG-TERM DEBT

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

	June 30, 2015	December 31, 2014
4.875% Senior Notes due 2020, net of discount	$423.6	$423.5
Capital leases and other debt	12.3	12.5
	435.9	436.0
Less current maturities	(0.2)	(0.3)
Long-term debt	$435.7	$435.7

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 at each year end 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.

Credit Agreement

In June 2014, Bio-Rad entered into a $200.0 million unsecured Credit Agreement, replacing the Amended and Restated Credit Agreement of June 2010, which expired on June 21, 2014. Borrowings under the Credit Agreement are on a revolving basis and can be used to make permitted acquisitions, for working capital and for other general corporate purposes. We had no outstanding borrowings under the Credit Agreement as of June 30, 2015, however $5.0 million was utilized for domestic standby letters of credit that reduced our borrowing availability. The Credit Agreement matures in June 2019. If we had borrowed against our Credit Agreement, the borrowing rate would have been 1.53% at June 30, 2015 .

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 and create liens. We were in compliance with all of these ratios and covenants as of June 30, 2015.

7. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Foreign currency translation adjustments	Foreign other post-employment benefits adjustments	Net unrealized holding gains on available-for-sale investments	Total accumulated other comprehensive income
Balances as of January 1, 2015:	$71.2	$ (16.3)	$ 164.0	$218.9
Other comprehensive income, before reclassifications	17.6	0.3	150.8	168.7
Amounts reclassified from Accumulated other comprehensive income	—	(0.1)	(0.3)	(0.4)
Income tax effects	—	0.2	(55.4)	(55.2)
Other comprehensive income, net of income taxes	17.6	0.4	95.1	113.1
Balances as of June 30, 2015:	$88.8	$ (15.9)	$ 259.1	$332.0

	Foreign currency translation adjustments	Foreign other post-employment benefits adjustments	Net unrealized holding gains on available-for-sale investments	Total accumulated other comprehensive income
Balances as of January 1, 2014:	$189.4	$ (8.1)	$ 159.4	$340.7
Other comprehensive income, before reclassifications	7.6	—	4.3	11.9
Amounts reclassified from Accumulated other comprehensive income	—	0.2	—	0.2
Income tax effects	—	—	(1.5)	(1.5)
Other comprehensive income, net of income taxes	7.6	0.2	2.8	10.6
Balances as of June 30, 2014:	$197.0	$ (7.9)	$ 162.2	$351.3

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

	Income before taxes impact (in millions):				
	Three Months Ended June 30,		Six Months Ended June 30,		
Components of Comprehensive income	2015	2014	2015	2014	Location
Amortization of foreign other post-employment benefit items	$0.3	$(0.1)	$0.1	$(0.2)	Selling, general and administrative expense
Net holding gains on available-for-sale investments	$—	$—	$0.3	$—	Other (income) expense, net

Reclassification adjustments are calculated using the specific identification method.

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Basic weighted average shares outstanding	29,136	28,826	29,114	28,809
Effect of potentially dilutive stock options and restricted stock awards	245	266	224	267
Diluted weighted average common shares	29,381	29,092	29,338	29,076
Anti-dilutive shares	57	107	106	94

9. OTHER INCOME AND EXPENSE, NET

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest and investment income	$(7.1)	$(8.5)	$(8.0)	$(9.2)
Net realized gain on investments	—	—	(0.3)	—
Miscellaneous other expense (income) items, net	—	0.1	—	0.2
Other (income) expense, net	$(7.1)	$(8.4)	$(8.3)	$(9.0)

10. INCOME TAXES

Our effective income tax rate was 28% and 35% for the three months ended June 30, 2015 and 2014, respectively. Our effective income tax rate was 30% and 40% for the first half of 2015 and 2014, respectively. The effective income tax rate for the second quarter and first half of 2015 included a tax benefit from the release of U.S. tax liabilities as a result of lapses of statutes of limitation. The effective income tax rate for the second quarter of 2014 was higher primarily due to an increase in income tax liabilities.

Our foreign taxes result primarily from income earned in France and Switzerland. Many jurisdictions in which we operate including Switzerland, Russia, the U.K. and Singapore have statutory tax rates that are significantly lower than the U.S. statutory tax rate of 35%. 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 generation of tax credits.

Our income tax returns are audited by U.S. federal, state and foreign tax authorities. We are currently under examination by many of these tax authorities. 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 evaluate our exposures associated with our tax filing positions on a quarterly basis.

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.

As of June 30, 2015, 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 $3.2 million. Substantially all such amounts will impact our effective income tax rate.

11. SEGMENT INFORMATION

Information regarding industry segments for the three months ended June 30, 2015 and 2014 is as follows (in millions):

		Life Science	Clinical Diagnostics	Other Operations
Segment net sales	2015	$170.6	$332.1	$3.4
	2014	$170.3	$362.9	$3.6
Segment net (loss) profit	2015	$(5.8)	$40.9	$0.1
	2014	$(7.2)	$50.1	$0.1

Information regarding industry segments for the six months ended June 30, 2015 and 2014 is as follows (in millions):

		Life Science	Clinical Diagnostics	Other Operations
Segment net sales	2015	$326.5	$645.7	$6.7
	2014	$331.8	$707.2	$7.2
Segment net (loss) profit	2015	$(8.1)	$76.1	$(0.2)
	2014	$(13.9)	$82.6	$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. During the six months ended June 30, 2014, these expenses included an accrual of $8.0 million associated with the U.S. Securities and Exchange Commission (SEC) and Department of Justice (DOJ) investigations relating to the U.S. Foreign Corrupt Practices Act (FCPA), for which a final settlement was reached in the fourth quarter of 2014. Interest

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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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Total segment profit	$35.2	$43.0	$67.8	$68.8
Foreign currency exchange (losses) gains, net	(2.9)	0.3	(6.7)	(2.5)
Net corporate operating, interest and other income (expense) not allocated to segments	0.1	(2.9)	(3.2)	(12.0)
Other income (expense), net	7.1	8.4	8.3	9.0
Consolidated income before income taxes	$39.5	$48.8	$66.2	$63.3

12. LEGAL PROCEEDINGS

On January 23, 2015, the City of Riviera Beach General Employees' Retirement System filed a new shareholder derivative lawsuit in the Superior Court of Contra Costa County against three of our current directors and one former director. We are also named as a nominal defendant. In the complaint, the plaintiff alleges that our directors breached their fiduciary duty of loyalty by failing to ensure that we had sufficient internal controls and systems for compliance with the FCPA; that we failed to provide adequate training on the FCPA; and that based on these actions, the directors have been unjustly enriched. Purportedly seeking relief on our behalf, the plaintiff seeks an award of restitution and unspecified damages, costs and expenses (including attorneys' fees). We and the individual defendants have filed a demurrer requesting dismissal of the complaint in this case.

On January 30, 2015, we received a demand pursuant to Section 220 of the Delaware General Corporation Law from the law firm of Scott + Scott LLP on behalf of International Brotherhood of Electrical Workers Local 38 Pension Fund to inspect certain of our books and records. The alleged purpose of the demand was to investigate potential wrongdoing, mismanagement, and breach of fiduciary duties by our directors and executive officers in connection with the matters relating to our FCPA settlement with the SEC and DOJ, and alleged lack of internal controls. We objected to the demand on procedural grounds by letter. On May 1, 2015, International Brotherhood of Electrical Workers Local 38 Pension Fund filed an action against us in the Delaware Court of Chancery to compel the inspection of the requested books and records.

On March 13, 2015, we received a demand pursuant to Section 220 of the Delaware General Corporation Law from the law firm of Kirby McInerney LLP on behalf of Wayne County Employees' Retirement System to inspect certain of our books and records. The alleged purpose of the demand was to investigate potential wrongdoing, mismanagement, and breach of fiduciary duties by our directors and executive officers in connection with the matters relating to our FCPA settlement with the SEC and DOJ, and alleged lack of internal controls. We objected to the demand on procedural grounds by letter. On April 21, 2015, Wayne County Employees' Retirement System filed an action against us in the Delaware Court of Chancery to compel the inspection of the requested books and records. On May 26, 2015, the Court consolidated this action with the one filed by International Brotherhood of Electrical Workers Local 38 Pension Fund described above. On June 25, 2015, the parties entered into a settlement agreement regarding the consolidated action, and on July 25, 2015, the parties to the consolidated action filed a stipulation and proposed order of dismissal with prejudice with the Court. On July 27, 2015, the Court granted the proposed order, dismissing the consolidated action with prejudice.

On May 27, 2015, our former general counsel, Sanford S. Wadler, filed a lawsuit in the U.S. District Court, Northern District of California, against us and four of our current directors and one former director. The plaintiff's suit alleges whistleblower retaliation in violation of the Sarbanes-Oxley Act and the Dodd-Frank Act for raising FCPA-related concerns. He also alleges wrongful termination in violation of public policy, non-payment of wages and waiting time penalties in violation of the California Labor Code. The plaintiff seeks back pay, compensatory damages for lost wages, earnings, retirement benefits and other employee benefits, compensation for mental pain and anguish and emotional distress, waiting time penalties, punitive damages, litigation costs (including attorneys' fees) and reinstatement of employment. We believe this lawsuit is without merit, and on July 28, 2015 we filed a motion to dismiss the plaintiff's complaint.

We are vigorously defending against the claims above and believe any potential liability that could result from these claims would not be material. We cannot at this time reasonably estimate a range of exposure, if any, of the potential liability. 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.

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, 2014 and the financial statements for the three and six months ended June 30, 2015.

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 still uncertain as the need to control government social spending by many governments limits opportunities for growth. Approximately 37% of our year-to-date 2015 consolidated net sales are derived from the United States and approximately 63% 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, Chinese 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.

As previously disclosed, in May 2010 we voluntarily disclosed to the U.S. Department of Justice (DOJ) and the Securities and Exchange Commission (SEC) certain likely or potential violations of the U.S. Foreign Corrupt Practices Act (FCPA). Effective November 3, 2014, we entered into a non-prosecution agreement (NPA) with the DOJ and consented to the entry of an Order by the SEC (SEC Order), which actions resolve both the DOJ and SEC investigations. As a result of the settlements with the DOJ and the SEC, during the fourth quarter of 2014 we paid a total of $55.1 million that included a penalty of $14.4 million, $35.1 million in disgorgement, and $5.6 million in interest.

In April 2014, we acquired 100% of the issued and outstanding stock of GnuBIO, Inc. (GnuBIO). This acquisition was accounted for as a business combination and is included in our Clinical Diagnostics segment's results of operations from the acquisition date. The final fair values of the net assets acquired from GnuBIO as of the acquisition date were determined to be $46.4 million of indefinite-lived intangible assets (specifically in-process research and development or "IPR&D"), $13.5 million of goodwill and $9.5 million of net tangible liabilities.

The fair value of the consideration as of the acquisition date was $50.4 million, which included $39.7 million paid in cash at the closing date and $10.7 million in contingent consideration potentially payable to GnuBIO's shareholders. The contingent consideration was based on a probability-weighted income approach that could reach $70.0 million upon the achievement of all development/regulatory and sales milestones. The contingent consideration for the development/regulatory milestones was valued at $10.7 million, based on assumptions regarding the probability of achieving the milestones, with such amounts discounted to present value. The first two development/regulatory milestones were not achieved. The third development/regulatory milestone estimated value as of June 30, 2015 was $10.0 million. The contingent consideration for the sales milestones at the acquisition date and at June 30, 2015 was determined to be negligible, using the risk-neutral probability of being in the money based on a Black-Scholes framework. In connection with our projected sales that are required under the purchase agreement, there is a low probability of obtaining the thresholds.

During the third quarter of 2014, we identified errors in the Consolidated Balance Sheet at December 31, 2013, the Consolidated Statements of Cash Flows for the years ended December 31, 2013 and 2012 (and for all interim periods therein), and in the Unaudited Condensed Consolidated Balance Sheets and Statements of Cash Flows as of and for the six months ended June 30, 2014, all related to the recorded amounts of Inventories and Property, plant and equipment, net. During these periods, we inappropriately reduced Inventories by all of the profit on intercompany transactions related to certain equipment, however, a portion of that profit should have reduced capital additions and been reflected in Property, plant and equipment, net. The equipment is a Bio-Rad product provided to customers under reagent rental agreements, whereby Bio-Rad retains ownership of the equipment and charges the customer for test kits purchased for use with this equipment. Depreciation was calculated correctly, and there was no impact to Net income for any period presented.

The associated reclassification entries within the Statements of Cash Flows were to increase Cash paid to suppliers and employees, and decrease Capital expenditures by $7.4 million for the six months ended June 30, 2014. These reclassifications resulted in a decrease in Net cash provided by operating activities and a decrease in Net cash used in investing activities by $7.4 million for the six months ended June 30, 2014. There was no change to the net increase in Cash and cash equivalents for any period presented.

Management evaluated the materiality of the errors described above from a qualitative and quantitative perspective in accordance with the requirements of the Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 99, Materiality (SAB 99). Based on such evaluation, we have concluded that while these errors were significant to the periods impacted, their correction would not be material to any individual prior period nor did they have an effect on financial results.

During the third quarter of 2012, we recognized a contingent consideration liability of $44.6 million 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. In the third quarter of 2014, the first sales milestone was reached with cell sorting system purchase orders resulting in payments of $2.4 million and $3.0 million in the fourth quarter of 2014 and the first quarter of 2015, respectively. During the second quarter of 2015, the contingent consideration, based on an amended agreement, was revalued by an increase of $0.3 million to Selling, general and administrative expense to its estimated fair value of $14.8 million as of June 30, 2015.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	44.8	44.6	43.8	45.3
Gross profit	55.2	55.4	56.2	54.7
Selling, general and administrative expense	38.1	36.5	39.0	38.1
Research and development expense	9.2	10.4	9.6	10.3
Net income	5.6	5.9	4.7	3.7

Critical Accounting Policies and Estimates

As previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014, 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 and six months ended June 30, 2015 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, 2014. For a full discussion of these policies and estimates, please refer to our Form 10-K for the period ended December 31, 2014 filed with the SEC.

Three Months Ended June 30, 2015 Compared to
Three Months Ended June 30, 2014

Results of Operations -- Sales, Margins and Expenses

Net sales (sales) for the second quarter of 2015 were $506.1 million compared to $536.8 million in the second quarter of 2014, a decrease of 5.7%. Excluding the impact of foreign currency, second quarter 2015 sales increased by approximately 4.2% compared to the same period in 2014. Currency neutral sales growth was primarily in the U.S., Latin America and China, partially offset by decreased sales in Eastern Europe.

The Life Science segment sales for the second quarter of 2015 were $170.6 million, an increase of 0.2% compared to the same period last year. On a currency neutral basis, sales increased 8.6% compared to the second quarter in 2014. The currency neutral sales increase was realized primarily in our Droplet Digital™ PCR, western blotting and cell biology products. The currency neutral sales increase was primarily in the U.S., Europe and China, while sales in Eastern Europe and Asia Pacific, excluding China, declined.

The Clinical Diagnostics segment sales for the second quarter of 2015 were $332.1 million, a decrease of 8.5% compared to the same period last year. On a currency neutral basis, sales increased 2.2% compared to the second quarter in 2014. The Clinical Diagnostics segment had currency neutral sales growth from quality control and immunology products, partially offset by declines in infectious disease and blood typing. Currency neutral sales growth was primarily in North America, Latin America and Asia Pacific, excluding Japan, while European markets are still experiencing consolidation and pricing pressures.

Consolidated gross margins were 55.2% for the second quarter of 2015 compared to 55.4% for the second quarter of 2014. Life Science segment gross margins for the second quarter of 2015 decreased by approximately 2.0 percentage points from the same period last year. Sales mix, lower average selling prices and higher costs including royalties, all contributed to lower margins. Clinical Diagnostics segment gross margins for the second quarter of 2015 increased by approximately 1.0 percentage point from the same period last year. The increase compared to the same period in 2014 was primarily due to the 2014 consolidation and closure of certain facilities, the discontinuation of an underperforming product line, and reduced acquisition intangible amortization.

Selling, general and administrative expenses (SG&A) decreased to $192.8 million or 38.1% of sales for the second quarter of 2015 compared to $195.8 million or 36.5% of sales for the second quarter of 2014. Underlying the overall decrease in SG&A was the impact of foreign currency. Currency neutral increases in SG&A were employee-related expenses, our largest cost, professional fees, and marketing and advertising expense. Other increases in SG&A were $2.6 million of bad debt expense, including an allowance for our Greek entity receivables, a one-time distributor termination cost of $1.9 million and a change of $1.7 million from the revaluations of contingent consideration.

Research and development expense (R&D) decreased to $46.5 million or 9.2% of sales in the second quarter of 2015 compared to $55.7 million or 10.4% of sales in the second quarter of 2014. Underlying the decrease in R&D was the impact of foreign currency. Although R&D has decreased, we estimate that R&D for 2015 could reach near 10% of sales. Life Science segment R&D decreased in the second quarter of 2015 from the prior year due in part to headcount reductions, lower supplies and lower external product development spend. Clinical Diagnostics segment R&D decreased in the second quarter of 2015 from the prior year due in part to the completion of projects, the prior year closing or consolidation of facilities, and the discontinuation of an underperforming product line.

Results of Operations – Non-operating

Interest expense for the second quarter of 2015 decreased by $0.7 million to $4.8 million compared to $5.6 million for the second quarter of 2014 primarily due to a higher capitalization of interest expense associated with the second phase of implementing a global single instance enterprise resource planning ("ERP") platform.

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 was a loss, net for the quarter ended June 30, 2015 compared to a gain, net in the prior year period primarily due to the estimating process inherent in the timing of shipments and payments of intercompany debt.

Other (income) expense, net for the second quarter of 2015 decreased to $7.1 million income compared to $8.4 million income for the second quarter of 2014 mostly due to lower interest and investment income primarily related to a weaker 2015 exchange rate for the ordinary and preferred dividends from our investment in Sartorius AG.

Our effective income tax rate was 28% and 35% for the three months ended June 30, 2015 and 2014, respectively. The effective income tax rate for the second quarter included a tax benefit from the release of U.S. tax liabilities as a result of lapses of statutes of limitation. The effective income tax rate for the second quarter of 2014 was higher primarily due to an increase in income tax liabilities.

Our foreign taxes result primarily from income earned in France and Switzerland. Many jurisdictions in which we operate including Switzerland, Russia, the U.K. and Singapore have statutory tax rates that are significantly lower than the U.S. statutory tax rate of 35%. 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 generation of tax credits.

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Our income tax returns are audited by U.S. federal, state and foreign tax authorities. We are currently under examination by many of these tax authorities. 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 evaluate our exposures associated with our tax filing positions on a quarterly basis.

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.

As of June 30, 2015, 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 $3.2 million. Substantially all such amounts will impact our effective income tax rate.