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BIO-RAD LABORATORIES, INC.

Form 10-Q

August 09, 2018

false--12-31Q220180000012208Large Accelerated FilerBIO-RAD LABORATORIES,  
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**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, 2018

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)

**1000 Alfred Nobel Drive, Hercules, California**

(Address of principal executive offices)

**(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.)

**94-1381833**

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

**94547**

(Zip Code)

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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

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submit files).

Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes  No

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

Title of Class	Shares Outstanding at August 2, 2018
Class A Common Stock, Par Value \$0.0001 per share	24,735,427
Class B Common Stock, Par Value \$0.0001 per share	5,099,623

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BIO-RAD LABORATORIES, INC.

FORM 10-Q JUNE 30, 2018

TABLE OF CONTENTS

<b><u>Part I – Financial Information</u></b>	<u>4</u>
<b><u>Item 1. Financial Statements</u></b>	<u>4</u>
<b><u>Condensed Consolidated Balance Sheets</u></b>	<u>4</u>
<b><u>Condensed Consolidated Statements of <a href="#">Income</a></u></b>	<u>5</u>
<b><u>Condensed Consolidated Statements of Comprehensive Income</u></b>	<u>6</u>
<b><u>Condensed Consolidated Statements of Cash Flows</u></b>	<u>7</u>
<b><u>Notes to Condensed Consolidated Financial Statements</u></b>	<u>8</u>
<b><u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<u>28</u>
<b><u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u></b>	<u>36</u>
<b><u>Item 4. Controls and Procedures</u></b>	<u>36</u>
<b><u>Part II – Other Information</u></b>	<u>37</u>
<b><u>Item 1. Legal Proceedings</u></b>	<u>37</u>
<b><u>Item 1A. Risk Factors</u></b>	<u>38</u>
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	<u>51</u>
<b><u>Item 3. Defaults Upon Senior Securities</u></b>	<u>51</u>
<b><u>Item 4. Mine Safety Disclosures</u></b>	<u>51</u>
<b><u>Item 5. Other Information</u></b>	<u>51</u>
<b><u>Item 6. Exhibits</u></b>	<u>52</u>
<b><u>Signatures</u></b>	<u>53</u>

## **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 negative 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, 2018	December 31, 2017
	(Unaudited)	
<b>ASSETS:</b>		
Cash and cash equivalents	\$403,006	\$383,824
Short-term investments	415,241	371,154
Restricted investments	5,560	5,560
Accounts receivable, less allowance for doubtful accounts of \$21,466 million at 2018 and \$25,549 at 2017	404,091	464,847
Inventories:		
Raw materials	118,999	113,925
Work in process	140,917	142,589
Finished goods	331,517	338,290
Total inventories	591,433	594,804
Other current assets	173,003	156,460
Total current assets	1,992,334	1,976,649
Property, plant and equipment	1,289,367	1,305,150
Less: accumulated depreciation and amortization	(799,118 )	(811,654 )
Property, plant and equipment, net	490,249	493,496
Goodwill, net	500,022	506,069
Purchased intangibles, net	158,035	174,113
Other investments	3,170,820	1,027,736
Other assets	74,763	94,949
Total assets	\$6,386,223	\$4,273,012
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
Accounts payable, accrued payroll and employee benefits	\$261,721	\$306,814
Current maturities of long-term debt and notes payable	1,721	420
Income and other taxes payable	29,585	39,941
Other current liabilities	149,394	155,521
Total current liabilities	442,421	502,696
Long-term debt, net of current maturities	438,776	434,581
Deferred income taxes	686,906	222,209
Other long-term liabilities	179,174	183,276
Total liabilities	1,747,277	1,342,762
Stockholders' equity:		
Class A common stock, shares issued 24,736,009 and 24,679,127 at 2018 and 2017, respectively; shares outstanding 24,735,427 and 24,678,545 at 2018 and 2017, respectively	2	2
Class B common stock, shares issued 5,100,540 and 5,107,674 at 2018 and 2017, respectively; shares outstanding 5,099,623 and 5,106,757 at 2018 and 2017, respectively	1	1
Additional paid-in capital	376,595	361,231

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Class A treasury stock at cost, 582 shares at 2018 and 2017	(128	)	(128	)
Class B treasury stock at cost, 917 shares at 2018 and 2017	(89	)	(89	)
Retained earnings	4,281,275		1,830,439	
Accumulated other comprehensive (loss)/income	(18,710	)	738,794	
Total stockholders' equity	4,638,946		2,930,250	
Total liabilities and stockholders' equity	\$6,386,223		\$4,273,012	

The accompanying notes are an integral part of these condensed consolidated 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,	
	2018	2017	2018	2017
Net sales	\$575,911	\$504,666	\$1,127,430	\$1,004,717
Cost of goods sold	274,244	231,291	523,560	461,279
Gross profit	301,667	273,375	603,870	543,438
Selling, general and administrative expense	210,425	212,489	419,555	406,891
Research and development expense	47,450	62,587	96,877	112,039
Income (loss) from operations	43,792	(1,701 )	87,438	24,508
Interest expense	5,977	6,045	11,759	11,361
Foreign currency exchange (gains) losses, net	(15 )	2,516	1,239	4,305
Change in fair market value of equity securities	(286,398 )	—	(1,102,332 )	—
Other (income) expense, net	(15,858 )	(11,382 )	(27,003 )	(12,425 )
Income before income taxes	340,086	1,120	1,203,775	21,267
(Provision) benefit for income taxes	(72,043 )	3,915	(278,958 )	(3,819 )
Net income	\$268,043	\$5,035	\$924,817	\$17,448
Basic earnings per share:				
Net income per basic share	\$8.99	\$0.17	\$31.03	\$0.59
Weighted average common shares - basic	29,814	29,613	29,801	29,597
Diluted earnings per share:				
Net income per diluted share	\$8.87	\$0.17	\$30.63	\$0.58
Weighted average common shares - diluted	30,219	30,006	30,197	29,962

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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net income	\$268,043	\$5,035	\$924,817	\$17,448
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(124,118 )	41,679	(77,572 )	60,522
Foreign other post-employment benefits adjustments, net of income taxes	1,458	(1,938 )	1,176	(2,053 )
Net holding (loss) gain on equity securities and net unrealized holding (loss) gain on available-for-sale investments, net of income taxes	(135 )	54,564	(1,851 )	134,713
Other comprehensive (loss) income, net of income taxes	(122,795 )	94,305	(78,247 )	193,182
Comprehensive income	\$145,248	\$99,340	\$846,570	\$210,630

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 Cash Flows

(In thousands, unaudited)

	Six Months Ended	
	June 30,	
	2018	2017
Cash flows from operating activities:		
Cash received from customers	\$ 1,160,904	\$ 999,779
Cash paid to suppliers and employees	(1,007,565 )	(968,719 )
Interest paid, net	(11,277 )	(10,865 )
Income tax payments, net	(47,620 )	(19,066 )
Investment proceeds and miscellaneous receipts, net	18,354	13,197
Proceeds from (payments for) forward foreign exchange contracts, net	5,412	(8,029 )
Net cash provided by operating activities	118,208	6,297
Cash flows from investing activities:		
Capital expenditures	(53,897 )	(64,951 )
Proceeds from dispositions of property, plant and equipment	4,100	21
Proceeds from divestiture of a product line	6,919	—
Proceeds from (payments for) acquisitions and long-term investments	266	(73,573 )
Payments for purchases of intangible assets	(3 )	(3,920 )
Payments for purchases of marketable securities and investments	(183,001 )	(142,993 )
Proceeds from sales of marketable securities and investments	34,548	39,362
Proceeds from maturities of marketable securities and investments	88,410	98,379
Net cash used in investing activities	(102,658 )	(147,675 )
Cash flows from financing activities:		
Net payments on line-of-credit arrangements and notes payable	—	(36 )
Payments on long-term borrowings	(1,505 )	(149 )
Payments of contingent consideration	(1,270 )	(3,105 )
Proceeds from issuances of common stock for share-based compensation	3,274	3,778
Payments for purchases of treasury stock	—	(883 )
Net cash provided by (used in) financing activities	499	(395 )
Effect of foreign exchange rate changes on cash	3,053	7,190
Net increase (decrease) in cash, cash equivalents, and restricted cash	19,102	(134,583 )
Cash, cash equivalents, and restricted cash at beginning of period	384,983	457,171
Cash, cash equivalents, and restricted cash at end of period	\$ 404,085	\$ 322,588

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Condensed Consolidated Balance Sheets that agrees to the same amounts shown in the Condensed Consolidated Statements of Cash Flows (in thousands):

	June 30, 2018	June 30, 2017
Cash and cash equivalents	\$ 403,006	\$ 321,584
Restricted cash included in Other current assets	105	561
Restricted cash included in Other assets	974	443
Total cash, cash equivalents, and restricted cash shown in the Condensed Consolidated Statements of Cash Flows	\$ 404,085	\$ 322,588

These restricted cash items are primarily related to performance guarantees.

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

BIO-RAD LABORATORIES, INC

Notes to Condensed Consolidated Financial Statements  
(Unaudited)

***I. 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. Results for the interim period are not necessarily indicative of the results for the entire year. The condensed consolidated balance sheet at December 31, 2017 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, 2017.

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.

**Revenue Recognition**

On January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") 606, "Revenue from Contracts with Customers," using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported under prior revenue guidance ASC 605, "Revenue Recognition."

We recorded a net reduction to opening retained earnings of \$0.1 million as of January 1, 2018 due to the cumulative impact of adopting ASC 606 with the impact primarily related to a customer loyalty program in the United States for which the resulting non-cash consideration is treated as variable consideration under the new revenue recognition accounting standard. The impact to revenue as a result of applying ASC 606 as compared to ASC 605 for the six months ended June 30, 2018 was not significant.

The Company recognizes revenue from operations through the sale of products, services, and rental of instruments. Revenue from contracts with customers is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or

8

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services. We enter into contracts that can include various combinations of products and services, which are generally accounted for as distinct performance obligations. Revenue is recognized net of any taxes collected from customers (sales tax, value added tax, etc.), which are subsequently remitted to government authorities.

Our contracts from customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment and may or may not impact the timing of revenue recognition. Revenue associated with equipment that requires factory installation is not recorded until installation is complete and customer acceptance, if required, has occurred. Certain equipment requires installation due to the fact that the instruments are being operated in a clinical/laboratory environment, and the installation services could result in modification of the equipment in order to ensure that the instruments are working according to specifications of the customer which are subject to validation tests upon completion of the installation. Accordingly, in these cases, the delivery of the equipment and the installation are separate performance obligations. The Company will recognize the transaction price allocated to the equipment only upon customer acceptance, as the transfer of control has occurred in relation to the equipment at that point in time as the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. The transaction price allocated to the installation services is also recognized upon completion of the services because without the completion of the installation services and related customer acceptance the customer cannot receive any of the benefits of the service.

At the time revenue is recognized, a provision is recognized for estimated product returns as this right is considered variable consideration. Accordingly, when product revenues are recognized, the transaction price is reduced to the estimated amount that we expect to receive in exchange for transferring control for those products.

Service revenues on extended warranty contracts are recognized ratably over the life of the service agreement as a stand-ready performance obligation.

In those instances where the timing of revenue recognition differs from the timing of invoicing, we have determined that our contracts generally do not include a significant financing component. The primary purpose of our invoicing terms is to provide customers with simple and predictable methods of purchasing our products and services, not to either provide or receive financing to or from our customers. We record contract liabilities when cash payments are received or due in advance of our performance.

We do not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less and for contracts in which we recognize revenue at the amount to which we have the right to invoice for services performed. Our payment terms vary by the type and location of our customer, and the products and services offered. The term between invoicing and when payment is due is not significant.

#### *Reagent Rental Agreements*

Reagent rental agreements are a diagnostic industry sales method that provides use of an instrument and consumables (reagents) to a customer on a per test basis. These agreements may also include maintenance of the underlying instruments retained at customer locations as well as initial training. The Company has concluded that the use of the instrument and related maintenance services (collectively known as “lease elements”) are not within the guidance of ASC 606 but rather ASC 840 Leases. Accordingly, the Company first allocates the transaction price between the lease elements and the non-lease elements based on relative standalone selling prices. The determination of the transaction price requires judgment and requires consideration of any fixed/minimum payments as well as estimates of variable consideration. After determining what portion of the transaction price should be allocated to the lease elements, any fixed consideration would be considered the minimum lease payment to be amortized straight line over the lease term and any variable consideration would be contingent rent to be recognized monthly as earned.

For the portion of the transaction price allocated to the non-lease elements, which are principally the reagents, the related revenue will be recognized at a point in time when control transfers. Generally, the terms of the

arrangements result in the transfer of control upon either (i) when the consumables are delivered or (ii) when the consumables are consumed by the customer.

Revenue allocated to the lease elements are approximately 5% of total revenue and are included as part of the Net sales in our Condensed Consolidated Statements of Income.

Contract costs:

We apply a practical expedient to expense costs as incurred for costs to obtain a contract when the amortization period would have been one year or less. These costs, recorded within Selling, general and administrative expense, include our internal sales force compensation programs and certain partner sales incentive programs, as we have determined that annual compensation is commensurate with annual selling activities.

Disaggregation of Revenue:

The following table presents our revenues disaggregated by geographic region based primarily on the location of the use of the product or service (in millions, unaudited):

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Europe	\$197.2	\$163.9	\$396.8	\$348.9
Pacific Rim	122.0	107.5	231.4	202.3
United States	221.6	202.5	431.5	389.8
Other (primarily Canada and Latin America)	35.1	30.8	67.7	63.7
Total Net sales	\$575.9	\$504.7	\$1,127.4	\$1,004.7

The disaggregation of our revenue by industry segment sources is presented in our Segment Information footnote (see Note 10).

Deferred revenues represent mostly unrecognized fees billed or collected for extended service arrangements. Deferred revenues are recognized as (or when) the Company performs under the contract which is generally over time during the term of the service contract. A majority of our deferred revenue balance is classified as current with an expected length of one year or less. The increase in our total deferred revenue balance from \$36.7 million at December 31, 2017 to \$41.4 million at June 30, 2018 is primarily driven by cash payments received or due in advance of satisfying our performance obligations, offset by \$22.4 million of revenue recognized that were included in our deferred revenue balance as of December 31, 2017.

We warrant certain equipment against defects in design, materials and workmanship, generally for a period of one year. Upon revenue recognition 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, 2018	\$18.7
Provision for warranty	14.9
Actual warranty costs	(17.5)
June 30, 2018	\$16.1



*Recent Accounting Pronouncements Adopted*

In February 2018, the FASB issued Accounting Standards Update No. ("ASU") 2018-03, "Technical Corrections and Improvements to Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities." ASU 2018-03 amends certain items in ASU 2016-01 (see below) such as equity securities without a readily determinable fair value. ASU 2018-03 clarifies that an entity that uses the measurement alternative for equity securities without readily determinable fair values can change its measurement approach to fair value and once made the election is irrevocable. If an entity measures equity securities without readily determinable fair values at fair value, it must record a cumulative-effect adjustment to Retained earnings as of the beginning of the fiscal year in which the guidance is adopted. We adopted ASU 2018-03 on January 1, 2018 and made an irrevocable election to account for our investment of the ordinary shares of Sartorius AG at fair value (see ASU 2016-01 below).

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." Amendments under ASU 2016-01, among other items, require that all equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) will generally be measured at fair value through earnings. Changes in fair value for equity securities will no longer be reported in other comprehensive income. For equity investments without readily determinable fair values, the cost method is also eliminated. We adopted ASU 2016-01 on January 1, 2018 and record equity investments without readily determinable fair values at cost, less impairment, and plus or minus subsequent adjustments for observable price changes and were valued at \$0.6 million as of June 30, 2018. Changes in the basis of these equity investments are reported in current earnings. For equity securities that are affected by ASU 2016-01 and ASU 2018-03, see Note 2 to the condensed consolidated financial statements, which primarily consists of our investment in Sartorius AG.

The impact of the adoption of ASU 2016-01 and ASU 2018-03 on January 1, 2018 was through a cumulative-effect adjustment of \$864.5 million to Total stockholders' equity by increasing Retained earnings of \$1,543.7 million and decreasing Accumulated other comprehensive income of \$679.2 million, including increasing Deferred income taxes by \$232.9 million and an increase in Other investments of \$1,097.4 million in our Condensed Consolidated Balance Sheet. As a result of ASU 2016-01 and ASU 2018-03 for the three and six months ended June 30, 2018, we recorded \$286.4 million and \$1,102.3 million, respectively, for the Change in fair market value of equity securities in the Condensed Consolidated Statement of Income that resulted in a deferred tax expense for the three and six months ended June 30, 2018 of \$62.6 million and \$243.8 million, respectively.

In March 2017, the FASB issued ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which changed how we present the net periodic benefit cost of our defined benefit pension and/or other postretirement plans. We adopted ASU 2017-07 on January 1, 2018 and applied the practical expedient to estimate amounts for comparative purposes utilizing the information disclosed in Note 12 to the consolidated financial statements in our Form 10-K for the year ended December 31, 2017. The interest costs are recorded in Interest expense, and the other costs are recorded in Other (income) expense, net in the Condensed Consolidated Statements of Income. For the second quarter of 2017 for interest costs and other costs, we reclassified \$0.076 million, \$0.538 million, and \$0.036 million from Costs of goods sold (COGS), Selling, general and administrative expense (SG&A) and Research and development expense (R&D), respectively, to Interest expense of \$0.275 million and Other (income) expense, net of \$0.375 million. For the first six months of 2017 for interest costs and other costs, we reclassified \$0.152 million, \$1.076 million, and \$0.072 million from COGS, SG&A and R&D, respectively, to Interest expense of \$0.550 million and Other (income) expense, net of \$0.750 million.

In November 2016, the FASB issued ASU 2016-18, "Restricted Cash," which required us to cease to present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. We adopted ASU 2016-18 on January 1, 2018 and updated the Condensed Consolidated Statements of Cash Flows to

incorporate restricted cash included in Other current assets and Other assets of \$1.1 million as of June 30, 2018 and \$1.0 million as of June 30, 2017.

In October 2016, the FASB issued ASU 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory," which required immediate recognition of income tax consequences of intercompany asset transfers, other than inventory transfers. We adopted ASU 2016-16 on January 1, 2018 on a modified retrospective basis through a cumulative-effect adjustment by decreasing Retained earnings by \$17.6 million, and decreasing Prepaid taxes by \$22.8 million and increasing Deferred tax assets by \$5.2 million that are both recorded in Other assets in our Condensed Consolidated Balance Sheet.

In August 2016, FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments" and adopted it on January 1, 2018, which did not have an impact to our statement of cash flows presentation.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers ("ASC 606"), an updated standard on revenue recognition. The new standard provides enhancements to the quality and consistency of how revenue is reported under the principle that revenue should be recognized in an amount that reflects the consideration to which the Company expects to be entitled in exchange for the transfer of promised goods or services. We adopted ASC 606 as of January 1, 2018 using the cumulative effect transition method as more fully described above under the caption "Revenue Recognition."

#### *Recent Accounting Pronouncements to be Adopted*

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments." ASU 2016-13 will replace the current incurred loss approach with an expected loss model for instruments measured at amortized cost and require entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount under the current other-than-temporary impairment model. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted for all entities for annual periods beginning after December 15, 2018, and interim periods therein. We are currently evaluating the effect ASU 2016-13 will have on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases," which will require, among other items, lease accounting to recognize most leases as assets and liabilities on the balance sheet. Qualitative and quantitative disclosures will be enhanced to better understand the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, "Targeted Improvements," which gives the option to apply the transition provisions of ASU 2016-02 at its adoption date instead of at the earliest comparative period presented in its financial statements. In addition, ASU 2018-11 provides a practical expedient that permits lessors to not separate nonlease components from the associated lease component if certain conditions are met. Also in July 2018, the FASB issued ASU 2018-10, "Codification Improvements to Topic 842, Leases," which clarifies certain aspects of ASU 2016-02. We will adopt ASU 2016-02 on a modified retrospective basis on its adoption date of January 1, 2019 with practical expedients, instead of at the earliest comparative period presented in our financial statements. We are currently gathering, documenting and analyzing lease agreements related to this ASU and anticipate material additions to the balance sheet for right-of-use assets, offset by the associated liabilities.

## **2. 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

12

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

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

Financial assets and liabilities carried at fair value and measured on a recurring basis as of June 30, 2018 are classified in the hierarchy as follows (in millions):

	Level 1	Level 2	Level 3	Total
<b>Financial Assets Carried at Fair Value:</b>				
<b>Cash equivalents:</b>				
Commercial paper	\$—	\$68.4	\$—	\$68.4
Time deposits	25.7	10.0	—	35.7
Money market funds	30.2	—	—	30.2
Foreign government obligations	—	1.8	—	1.8
U.S. government sponsored agencies	—	6.0	—	6.0
Total cash equivalents (a)	55.9	86.2	—	142.1
Restricted investment	5.6	—	—	5.6
Equity securities (b)	3,196.6	—	—	3,196.6
<b>Available-for-sale investments:</b>				
Corporate debt securities	—	223.6	—	223.6
U.S. government sponsored agencies	—	66.0	—	66.0
Foreign government obligations	—	2.6	—	2.6
Municipal obligations	—	15.6	—	15.6
Asset-backed securities	—	62.9	—	62.9
Total available-for-sale investments (c)	—	370.7	—	370.7
Forward foreign exchange contracts (d)	—	0.6	—	0.6
Total financial assets carried at fair value	\$3,258.1	\$457.5	\$—	\$3,715.6
<b>Financial Liabilities Carried at Fair Value:</b>				
Forward foreign exchange contracts (e)	\$—	\$1.0	\$—	\$1.0
Contingent consideration (f)	—	—	13.0	13.0
Total financial liabilities carried at fair value	\$—	\$1.0	\$13.0	\$14.0

As of first quarter 2018, our equity securities are no longer reported as Available-for-sale investments due to the implementation of ASU 2016-01. Changes in fair value of equity securities are now reported on the Condensed Consolidated Statements of Income rather than Other Comprehensive Income (see Note 1).

Financial assets and liabilities carried at fair value and measured on a recurring basis as of December 31, 2017 are classified in the hierarchy as follows (in millions):

	Level 1	Level 2	Level 3	Total
<b>Financial Assets Carried at Fair Value:</b>				
<b>Cash equivalents:</b>				
Commercial paper	\$—	\$36.0	\$—	\$36.0
Time deposits	43.7	10.0	—	53.7
U.S. government sponsored agencies	—	11.2	—	11.2
Money market funds	3.4	—	—	3.4
Total cash equivalents (a)	47.1	57.2	—	104.3
Restricted investment	5.6	—	—	5.6
<b>Available-for-sale investments:</b>				
Corporate debt securities	—	185.7	—	185.7
U.S. government sponsored agencies	—	67.6	—	67.6
Foreign government obligations	—	3.4	—	3.4
Brokered certificates of deposit	—	0.7	—	0.7
Municipal obligations	—	15.0	—	15.0
Marketable equity securities	973.4	—	—	973.4
Asset-backed securities	—	55.6	—	55.6
Total available-for-sale investments (c)	973.4	328.0	—	1,301.4
Forward foreign exchange contracts (d)	—	0.5	—	0.5
Total financial assets carried at fair value	\$1,026.1	\$385.7	\$—	\$1,411.8
<b>Financial Liabilities Carried at Fair Value:</b>				
Forward foreign exchange contracts (e)	\$—	\$1.6	\$—	\$1.6
Contingent consideration (f)	—	—	16.7	16.7
Total financial liabilities carried at fair value	\$—	\$1.6	\$16.7	\$18.3

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

(b) Equity securities are included in the following accounts in the Condensed Consolidated Balance Sheets (in millions):

	June 30,
	2018
Short-term investments	\$44.7
Other investments	3,151.9
Total	\$3,196.6

The unrealized gains on our equity securities still held as of June 30, 2018 are \$1,102.3 million and are primarily due to our investment in Sartorius AG and is recorded in our Condensed Consolidated Statements of Income due to the adoption of ASU 2016-01 (see Note 1).

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



	June 30, December 31,	
	2018	2017
Short-term investments	\$ 370.5	\$ 371.2
Other investments	0.2	930.2
Total	\$ 370.7	\$ 1,301.4

In accordance with our adoption of ASU 2016-01 January 1, 2018, our investment in Sartorius AG preferred shares, which was reported within marketable equity securities as Available-for-sale as of December 31, 2017, is now reported as an Equity security as of June 30, 2018 (see Note 1 and footnote (b) above).

(d) Forward foreign exchange contracts in an asset position are included in Other current assets in the Condensed Consolidated Balance Sheets.

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

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

	June 30, December 31,	
	2018	2017
Other current liabilities	\$ 2.6	\$ 2.7
Other long-term liabilities	10.4	14.0
Total	\$ 13.0	\$ 16.7

During the first quarter of 2016, we recognized a contingent consideration liability upon our acquisition of a high performance analytical flow cytometer platform from Propel. At the acquisition date, the amount of contingent consideration was determined based on a probability-weighted income approach related to the achievement of sales milestones, ranging from 39% to 20% for the calendar years 2018 through 2020. The sales milestones could potentially range from \$0 to an unlimited amount. In the first quarter of 2018, we paid \$1.3 million per the purchase agreement. Since 2016 we have decreased the cumulative valuation of the sales milestones by \$8.5 million. The contingent consideration was accrued at its estimated fair value of \$13.0 million as of June 30, 2018.

The following table provides a reconciliation of the Level 3 analytical flow cytometer platform contingent consideration liabilities measured at estimated fair value (in millions):

January 1, 2018	\$ 16.7
<u>Analytical flow cytometer platform:</u>	
Payment of sales milestone	(1.3 )
Decrease in estimated fair value of contingent consideration included in Selling, general and administrative expense	(2.4 )
June 30, 2018	\$ 13.0

analytical flow cytometer platform

June 30, 2018

	Valuation Technique	Unobservable Input
Analytical flow cytometer platform	Probability-weighted income approach	<u>Sales</u> <u>milestones:</u>
		Discount rate 11.1 %
		Cost of debt 4.8 %

To estimate the fair value of Level 2 debt securities as of June 30, 2018 and December 31, 2017, our primary pricing provider uses Securities Evaluations as the primary pricing source. Our pricing process allows us to select a hierarchy of pricing sources for securities held. If Securities Evaluations does not price a Level 2 security that we hold, then the pricing provider will utilize our custodian supplied pricing as the secondary pricing source.

For commercial paper as of June 30, 2018 and December 31, 2017, 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 the event that an additional lot of the same commercial paper issue has been purchased within the same account, then the price of all holdings of that issue in that account will be the price of the most recent lot purchased.

Our pricing provider performs daily reasonableness testing of the Securities Evaluations prices. Price changes of 5% or greater are investigated and resolved. In addition, we perform a quarterly comparison of the Securities Evaluations prices to custodian reported prices. Price differences outside a tolerable variance of approximately 1% are investigated and resolved.

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

	June 30, 2018			Estimated
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Short-term investments:				
Corporate debt securities	\$224.9	\$ 0.1	\$ (1.4 )	\$ 223.6
Municipal obligations	15.7	—	(0.1 )	15.6
Asset-backed securities	63.1	—	(0.4 )	62.7
U.S. government sponsored agencies	67.2	—	(1.2 )	66.0
Foreign government obligations	2.6	—	—	2.6
	373.5	0.1	(3.1 )	370.5
Long-term investments:				
Asset-backed securities	0.2	—	—	0.2
	0.2	—	—	0.2
Total	\$373.7	\$ 0.1	\$ (3.1 )	\$ 370.7

The following is a summary of the amortized cost and estimated fair value of our debt securities at June 30, 2018 by contractual maturity date (in millions):

16

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	Amortized Cost	Estimated Fair Value
Mature in less than one year	\$ 156.7	\$ 156.4
Mature in one to five years	170.9	169.3
Mature in more than five years	46.1	45.0
Total	\$ 373.7	\$ 370.7

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

	December 31, 2017			Estimated Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	
Short-term investments:				
Corporate debt securities	\$ 185.9	\$ 0.3	\$ (0.5 )	\$ 185.7
Brokered certificates of deposit	0.7	—	—	0.7
Municipal obligations	15.1	—	(0.1 )	15.0
Asset-backed securities	55.6	—	(0.2 )	55.4
U.S. government sponsored agencies	68.3	—	(0.7 )	67.6
Foreign government obligations	3.4	—	—	3.4
Marketable equity securities	34.4	9.0	—	43.4
	363.4	9.3	(1.5 )	371.2
Long-term investments:				
Marketable equity securities	54.5	875.5	—	930.0
Asset-backed securities	0.2	—	—	0.2
	54.7	875.5	—	930.2
Total	\$ 418.1	\$ 884.8	\$ (1.5 )	\$ 1,301.4

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

	June 30, December 31,	
	2018	2017
Fair value of investments in a loss position 12 months or more	\$ 36.9	\$ 43.9
Fair value of investments in a loss position less than 12 months	\$ 199.4	\$ 168.7
Gross unrealized losses for investments in a loss position 12 months or more	\$ 0.9	\$ 0.7
Gross unrealized losses for investments in a loss position less than 12 months	\$ 2.2	\$ 0.8

The unrealized losses on these securities are due to a number of factors, including changes in interest rates, changes in economic conditions and changes in market outlook for various industries, among others. Because Bio-Rad has the ability and intent to hold these investments with unrealized losses until a recovery of fair value, or for a reasonable period of time sufficient for a forecasted recovery of fair value, which may be maturity, we do not consider these investments to be other-than-temporarily impaired at June 30, 2018 or at December 31, 2017.

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

17

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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, 2018 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, net in the Condensed Consolidated Statements of Income.

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

	June 30, 2018
Contracts maturing in July through September 2018 to sell foreign currency:	
Notional value	\$ 37.8
Unrealized loss	\$ 0.1
Contracts maturing in July through September 2018 to purchase foreign currency:	
Notional value	\$ 327.6
Unrealized loss	\$ 0.5

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, 2018			December 31, 2017		
	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy Level	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy Level
Other investments	—	—		\$91.8	\$ 1,249.4	2
Total long-term debt, excluding leases and current maturities	\$423.4	\$ 439.4	2	\$423.1	\$ 449.8	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 37% of the outstanding voting shares (excluding treasury shares) of Sartorius as of June 30, 2018. 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. As of June 30, 2018, due to the adoption of ASU 2016-01 and ASU 2018-03, we account for this investment at fair market value as determined at period end by a quoted price on an organized exchange (see Note 1).



**3. 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, 2018:			
Goodwill	\$234.7	\$ 324.6	\$559.3
Accumulated impairment losses	(35.9 )	(17.3 )	(53.2 )
Goodwill, net	198.8	307.3	506.1
Divestiture	—	(1.4 )	(1.4 )
Currency fluctuations	(0.2 )	(4.5 )	(4.7 )
Balances as of June 30, 2018:			
Goodwill	234.5	318.7	553.2
Accumulated impairment losses	(35.9 )	(17.3 )	(53.2 )
Goodwill, net	\$198.6	\$ 301.4	\$500.0

In March 2018, we wrote off \$1.4 million of goodwill from our Clinical Diagnostics segment as a result of a divestiture of a product line.

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

	June 30, 2018			
	Average Remaining Life (years)	Purchase Price	Accumulated Amortization	Net Carrying Amount
Customer relationships/lists	1-7	\$ 89.6	\$ (65.7 )	\$ 23.9
Know how	1-8	192.3	(158.6 )	33.7
Developed product technology	3-11			