

Life Technologies Corp
Form 10-Q
November 06, 2012
[Table of Contents](#)

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

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: 0-25317

LIFE TECHNOLOGIES CORPORATION

(Exact name of registrant as specified in its charter)

Edgar Filing: Life Technologies Corp - Form 10-Q

Delaware (State or other jurisdiction of incorporation or organization)	33-0373077 (I.R.S. Employer Identification No.)
5791 Van Allen Way, Carlsbad, CA (Address of principal executive offices)	92008 (Zip Code)
Registrant's telephone number, including area code: (760) 603-7200	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

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

Smaller reporting company ☐

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

As of November 2, 2012, 172,057,029 shares of the Registrant's common stock were outstanding.

Table of Contents

TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>	
<u>ITEM 1. Financial Statements</u>	3
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
<u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u>	34
<u>ITEM 4. Controls and Procedures</u>	35
<u>PART II. OTHER INFORMATION</u>	
<u>ITEM 1. Legal Proceedings</u>	36
<u>ITEM 1A. Risk Factors</u>	36
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
<u>ITEM 3. Defaults Upon Senior Securities</u>	36
<u>ITEM 4. Mine Safety Disclosures</u>	36
<u>ITEM 5. Other Information</u>	36
<u>ITEM 6. Exhibits</u>	36
<u>SIGNATURES</u>	37
<u>INDEX TO EXHIBITS</u>	38

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****LIFE TECHNOLOGIES CORPORATION****CONSOLIDATED BALANCE SHEETS****(In thousands, except par value and share data)**

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 274,161	\$ 838,762
Short-term investments	9,680	26,559
Restricted cash	15,429	16,673
Trade accounts receivable, net of allowance for doubtful accounts of \$12,731 and \$10,200, respectively	644,579	636,998
Inventories, net	400,680	377,866
Deferred income tax assets	107,468	40,079
Prepaid expenses and other current assets	143,692	156,680
Total current assets	1,595,689	2,093,617
Long-term investments	27,560	24,996
Property and equipment, net	817,865	833,678
Goodwill	4,444,257	4,366,584
Intangible assets, net	1,555,745	1,746,701
Deferred income tax assets	23,298	28,805
Other assets	93,621	93,582
Total assets	\$ 8,558,035	\$ 9,187,963
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 253,200	\$ 450,839
Short-term borrowings	140,000	
Accounts payable	158,335	178,374
Deferred compensation and related benefits	173,359	201,689
Deferred revenues and reserves	100,281	113,048
Contingent considerations	18,057	283,098
Accrued expenses and other current liabilities	266,773	269,258
Accrued income taxes	11,663	
Total current liabilities	1,121,668	1,496,306
Long-term debt	2,061,280	2,297,653
Pension liabilities	192,024	190,692
Deferred income tax liabilities	352,600	410,565
Income taxes payable	105,820	102,881
Other long-term obligations	110,142	90,640
Total liabilities	3,943,534	4,588,737

Edgar Filing: Life Technologies Corp - Form 10-Q

Commitments and contingencies		
Stockholders' equity:		
Preferred stock; \$0.01 par value, 6,405,884 shares authorized; no shares issued or outstanding		
Common stock; \$0.01 par value, 400,000,000 shares authorized; 217,286,424 and 211,652,864 shares issued, respectively	2,173	2,117
Additional paid-in-capital	5,670,084	5,441,061
Accumulated other comprehensive income	87,989	64,656
Retained earnings	1,231,840	910,991
Less cost of treasury stock; 45,416,712 shares and 33,100,712 shares, respectively	(2,377,750)	(1,819,599)
Total Life Technologies stockholders' equity	4,614,336	4,599,226
Non-controlling interest	165	
Total equity	4,614,501	4,599,226
Total liabilities and equity	\$ 8,558,035	\$ 9,187,963

See accompanying notes for additional information.

Table of Contents**LIFE TECHNOLOGIES CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME****(In thousands, except per share data)**

(Unaudited)	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Revenues	\$ 911,183	\$ 928,198	\$ 2,799,606	\$ 2,765,227
Cost of revenues	361,571	315,062	1,003,611	955,840
Purchased intangibles amortization	71,126	73,901	219,192	226,527
Gross Profit	478,486	539,235	1,576,803	1,582,860
Operating expenses:				
Selling, general and administrative	270,565	251,832	790,012	759,438
Research and development	84,811	103,856	258,225	287,723
Business integration costs	10,571	23,126	34,266	56,468
Total operating expenses	365,947	378,814	1,082,503	1,103,629
Operating income	112,539	160,421	494,300	479,231
Other income (expense):				
Interest income	436	919	1,715	2,960
Interest expense	(29,291)	(37,992)	(94,266)	(123,911)
Other expense	(2,781)	(3,039)	(11,097)	(7,980)
Total other expense, net	(31,636)	(40,112)	(103,648)	(128,931)
Income before provision for income taxes	80,903	120,309	390,652	350,300
Income tax provision	(15,301)	(24,335)	(70,108)	(65,534)
Net income	65,602	95,974	320,544	284,766
Net loss attributable to noncontrolling interests	255	297	305	658
Net income attributable to Life Technologies	\$ 65,857	\$ 96,271	\$ 320,849	\$ 285,424
Earnings per common share attributable to Life Technologies stockholders:				
Basic	\$ 0.38	\$ 0.54	\$ 1.81	\$ 1.59
Diluted	\$ 0.37	\$ 0.52	\$ 1.78	\$ 1.54
Weighted average shares used in per share calculations:				
Basic	174,044	179,859	177,028	179,751
Diluted	177,258	186,812	180,559	185,946
Total comprehensive income	\$ 98,053	\$ 65,237	\$ 343,878	\$ 314,036
Comprehensive loss attributable to noncontrolling interests	254	509	304	512
Total comprehensive income attributable to Life Technologies	\$ 98,307	\$ 65,746	\$ 344,182	\$ 314,548

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

LIFE TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the nine months ended September 30, 2012 2011 (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 320,544	\$ 284,766
Adjustments to reconcile net income to net cash provided by operating activities, net of effects of businesses acquired and divested:		
Depreciation	93,617	90,988
Amortization of intangible assets	226,807	230,134
Amortization of deferred debt issuance costs	6,952	5,220
Amortization of inventory fair market value adjustments		528
Amortization of deferred revenue fair market value adjustment	835	2,375
Share-based compensation expense	65,276	56,876
Incremental tax benefits from stock options exercised	(7,322)	(10,215)
Deferred income taxes	(122,565)	(60,799)
Loss on disposal of assets	6,017	953
Debt discount amortization and other non-cash interest expense	2,266	38,584
Other noncash adjustments	6,897	7,152
Changes in operating assets and liabilities:		
Trade accounts receivable	(9,364)	(44,812)
Inventories	(13,827)	(71,876)
Prepaid expenses and other current assets	16,888	5,081
Other assets	(398)	25,965
Accounts payable	(8,565)	(9,077)
Accrued expenses and other liabilities	(72,547)	(30,989)
Income taxes	(2,542)	6,679
Currency impact on intercompany settlements	47,816	(34,326)
Net cash provided by operating activities	556,785	493,207
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(8,045)	(10,858)
Proceeds from sale of investments	19,149	2,729
Net cash paid for business combinations	(69,077)	(28)
Net cash paid for asset purchases	(4,106)	(1,061)
Purchases of property and equipment	(68,713)	(65,779)
Net cash paid for divestiture of equity investment	(10,136)	(39,427)
Proceeds from sale of assets	486	
Net cash used in investing activities	(140,442)	(114,424)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term obligations	(450,000)	(350,354)
Principal payments on short-term obligations	(561,015)	
Proceeds from short-term obligations	701,015	
Issuance cost payments on long-term obligations	(2,491)	(1,082)
Cash paid for business combination milestones	(163,995)	

Edgar Filing: Life Technologies Corp - Form 10-Q

Cash contribution from non-controlling interest	469	
Incremental tax benefits from stock options exercised	7,322	10,215
Proceeds from sale of common stock	47,764	102,522
Capital lease payments	(1,442)	(1,625)
Purchase of treasury stock	(558,151)	(360,904)
 Net cash used in financing activities	 (980,524)	 (601,228)
Effect of exchange rate changes on cash	(420)	3,092
 Net decrease in cash and cash equivalents	 (564,601)	 (219,353)
Cash and cash equivalents, beginning of period	838,762	813,569
 Cash and cash equivalents, end of period	 \$ 274,161	 \$ 594,216

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

LIFE TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

Financial Statement Preparation

The unaudited consolidated financial statements have been prepared by Life Technologies Corporation according to the rules and regulations of the Securities and Exchange Commission (SEC) and, therefore, certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted. The Company has evaluated subsequent events through the date the financial statements were issued.

In the opinion of management, the accompanying unaudited consolidated financial statements for the periods presented reflect all adjustments, which are normal and recurring, necessary to fairly state the financial position, results of operations and cash flows. These unaudited consolidated financial statements should be read in conjunction with the audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 filed with the SEC on February 29, 2012.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of Life Technologies Corporation and its majority owned or controlled subsidiaries, collectively referred to as Life Technologies (the Company). All significant intercompany accounts and transactions have been eliminated in consolidation. When there is a portion of equity in an acquired subsidiary not attributable, directly or indirectly, to the parent, the Company records the fair value of the noncontrolling interests at the acquisition date and classifies the amounts attributable to noncontrolling interests separately in equity in the Company's Consolidated Financial Statements. Any subsequent changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary are accounted for as equity transactions.

For purposes of these Notes to Consolidated Financial Statements, gross profit is defined as revenues less cost of revenues and purchased intangibles amortization and gross margin is defined as gross profit divided by revenues. Operating income is defined as gross profit less operating expenses and operating margin is defined as operating income divided by revenues.

Long-Lived Assets

The Company periodically re-evaluates the original assumptions and rationale utilized in the establishment of the carrying value and estimated lives of its long-lived assets. The criteria used for these evaluations include management's estimate of the asset's continuing ability to generate income from operations and positive cash flow in future periods as well as the strategic significance of any intangible asset to the Company's business objectives. If assets are considered to be impaired, the impairment recognized is the amount by which the carrying value of the assets exceeds the fair value of the assets, which is determined by applicable market prices, when available. The Company did not recognize a significant impairment during the period.

Business Combinations

The Company completed acquisitions that were not considered individually or collectively material to the overall consolidated financial statements and the results of the Company's operations. These acquisitions have been included in the consolidated financial statements from the respective dates of the acquisitions. The Company recognizes the assets acquired, liabilities assumed, and any noncontrolling interest at fair value at the date of acquisition. Certain acquisitions contain contingent consideration arrangements that require the Company to assess the acquisition date fair value of the contingent consideration liabilities, which is recorded as part of the purchase consideration of the acquisition. The Company continuously assesses and adjusts the fair value of the contingent consideration liabilities, if necessary, until the settlement or

Edgar Filing: Life Technologies Corp - Form 10-Q

expiration of the contingency occurs. For additional details on the carrying value and potential future obligations under these arrangements, refer to Note 5 of the Consolidated Financial Statements, **Commitments and Contingencies** .

The Company also incurs various costs related to business combination and integration activities. These activities include restructuring and integrating acquired entities, aligning acquired and existing operations through business transformation activities and costs associated with divesting entities. Costs related to these activities are recorded as **Business integration costs** in the Statement of Operations and Comprehensive Income.

Table of Contents***Fair Value of Financial Instruments***

We account for our financial instruments at fair value based on *ASC Topic 820, Fair Value Measurements and Disclosures* and *ASC Topic 815, Derivatives and Hedging*. In determining fair value, we consider both the credit risk of our counterparties and our own creditworthiness. *ASC Topic 820, Fair Value Measurements and Disclosures*, defines fair value and establishes a framework for measuring fair value. The framework requires the valuation of investments using a three tiered approach. The Company reviews and evaluates the adequacy of the valuation techniques periodically. In the current year, there have not been any changes to the Company's valuation methodologies.

A derivative is an instrument whose value is derived from an underlying instrument or index, such as interest rates, equity securities, currencies, commodities or credit spreads. Derivatives include futures, forwards, swaps, or option contracts, or other financial instruments with similar characteristics. Derivative contracts often involve future commitments to exchange interest payment streams or currencies based on a notional or contractual amount (e.g., interest rate swaps or currency forwards).

The accounting for changes in fair value of a derivative instrument depends on the nature of the derivative and whether the derivative qualifies as a hedging instrument in accordance with *ASC Topic 815, Derivatives and Hedging*. Those hedging instruments that qualify for hedge accounting are included as an adjustment to revenue or interest expense, depending upon the nature of the underlying transactions the Company is hedging for. Those hedges that do not qualify for hedge accounting are included in other income (expense).

For details on the assets and liabilities subject to fair value measurements and the related valuation techniques used, and for details on derivative instruments, refer to Note 9 of the Consolidated Financial Statements, Fair Value of Financial Instruments.

Computation of Earnings Per Share

Basic earnings per share was computed by dividing net income attributable to Life Technologies by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect the potential dilution that could occur from the following items:

Convertible senior notes where the effect of those securities is dilutive;

Dilutive contingently issuable shares from business combinations;

Dilutive stock options and restricted stock units; and

Dilutive Employee Stock Purchase Plan (ESPP).

Computations for basic and diluted earnings per share are as follows:

(in thousands, except per share data) (unaudited)	Net Income Attributable to Life Technologies (Numerator)	Shares (Denominator)	Earnings Per Share
Three Months Ended September 30, 2012			
Basic earnings per share:			
Net income attributable to Life Technologies	\$ 65,857	174,044	\$ 0.38
Diluted earnings per share:			
Dilutive stock options and restricted stock units		3,202	
Employee Stock Purchase Plan		12	

Edgar Filing: Life Technologies Corp - Form 10-Q

Net income attributable to Life Technologies plus assumed conversions	\$ 65,857	177,258	\$ 0.37
---	-----------	---------	---------

Potentially dilutive securities not included above since they are antidilutive:

Antidilutive stock options	3,918
----------------------------	-------

Three Months Ended September 30, 2011

Basic earnings per share:

Net income attributable to Life Technologies	\$ 96,271	179,859	\$ 0.54
--	-----------	---------	---------

Diluted earnings per share:

Dilutive stock options and restricted stock units	3,828
---	-------

Employee Stock Purchase Plan	11
------------------------------	----

Business combination contingently issuable shares	618	3,046
---	-----	-------

1 1/2% Convertible Senior Notes due 2024	32	68
--	----	----

Net income attributable to Life Technologies plus assumed conversions	\$ 96,921	186,812	\$ 0.52
---	-----------	---------	---------

Potentially dilutive securities not included above since they are antidilutive:

Antidilutive stock options	5,074
----------------------------	-------

Table of Contents

	Net Income Attributable to Life Technologies (Numerator)	Shares (Denominator)	Earnings Per Share
(in thousands, except per share data) (unaudited)			
Nine Months Ended September 30, 2012			
Basic earnings per share:			
Net income attributable to Life Technologies	\$ 320,849	177,028	\$ 1.81
Diluted earnings per share:			
Dilutive stock options and restricted stock units		3,510	
Employee Stock Purchase Plan		10	
1 1/2% Convertible Senior Notes due 2024	12	11	
Net income attributable to Life Technologies plus assumed conversions	\$ 320,861	180,559	\$ 1.78
Potentially dilutive securities not included above since they are antidilutive:			
Antidilutive stock options		4,003	
Nine Months Ended September 30, 2011			
Basic earnings per share:			
Net income attributable to Life Technologies	\$ 285,424	179,751	\$ 1.59
Diluted earnings per share:			
Dilutive stock options and restricted stock units		4,485	
Employee Stock Purchase Plan		16	
Business combination contingently issuable shares	618	1,015	
1 1/2% Convertible Senior Notes due 2024	98	312	
3 1/4% Convertible Senior Notes due 2025		367	
Net income attributable to Life Technologies plus assumed conversions	\$ 286,140	185,946	\$ 1.54
Potentially dilutive securities not included above since they are antidilutive:			
Antidilutive stock options		3,031	

Share-Based Compensation

Under the Life Technologies Corporation 2009 Equity Incentive Plan (the "2009 Plan"), the Company has the ability to grant stock options, stock appreciation rights, restricted stock units, restricted stock awards, performance awards, and deferred stock awards with 11.0 million shares of the Company's common stock reserved for the granting of new awards. Stock option awards are granted to eligible employees and directors at an exercise price equal to the fair market value of such stock on the date of grant, generally vest over four years, and are exercisable in whole or in installments and expire ten years from the date of grant. Restricted stock awards and restricted stock units are granted to eligible employees and directors and represent rights to receive shares of common stock at a future date, generally vesting over three or four years. An exercise price and monetary payment are not required for receipt or issuance of restricted stock awards and restricted stock units, instead, consideration is furnished in the form of the participant's services to the Company. The compensation cost for these awards is valued based on the estimated fair value of such award on the date of grant.

Under the Company's qualified employee stock purchase plan, all eligible employees of the Company may elect to withhold up to 15% of their compensation to purchase shares of the Company's stock on a quarterly basis at a discounted price equal to 85% of the lower of the employee's offering price or the closing price of the stock on the date of purchase.

The Company uses the Black-Scholes option-pricing model (Black-Scholes model) to value share-based employee stock option and purchase right awards. The determination of fair value of stock-based payment awards using an option-pricing model requires the use of certain estimates and assumptions that affect the reported amount of share-based compensation cost recognized in the Consolidated Statements of Operations and Comprehensive Income. Among these estimates that affect share-based compensation cost recognized are the expected term of options, estimated forfeitures, expected volatility of the Company's stock price, expected dividends and the risk-free interest rate.

Table of Contents

The expected term of share-based awards represents the weighted-average period the awards are expected to remain outstanding and is an input in the Black-Scholes model. In determining the expected term of options, the Company considers various factors including the vesting period of options granted, employees' historical exercise and post-vesting employment termination behavior, expected volatility of the Company's stock and aggregation by homogeneous employee groups. The Company uses a combination of the historical volatility of its stock price and the implied volatility of market-traded options of the Company's stock with terms of up to approximately two years to estimate the expected volatility assumption input to the Black-Scholes model in accordance with *ASC Topic 718, Compensation - Stock Compensation*. The Company's decision to use a combination of historical and implied volatility was based upon the availability of actively traded options of its stock and its assessment that such a combination was more representative of future expected stock price trends. The risk-free interest rate is based upon United States Treasury securities with remaining terms similar to the expected term of the share-based awards. The expected dividend yield assumption is based on the Company's expectation of future dividend payouts. The Company has never declared or paid any cash dividends on its common stock.

Stock Options and Purchase Rights

The underlying assumptions used to value employee stock options and purchase rights granted during the nine months ended September 30, 2012 and 2011 were as follows:

(unaudited)	Nine months ended September 30,	
	2012	2011
Stock Options		
Weighted average risk free interest rate	0.9%	2.1%
Expected term of share-based awards	4.4 yrs	4.3 yrs
Expected stock price volatility	34%	31%
Expected dividend yield	0%	0%
Weighted average fair value of share-based awards granted	\$ 14.14	\$ 15.93
Purchase Rights		
Weighted average risk free interest rate	0.1%	0.4%
Expected term of share-based awards	0.4 yrs	0.9 yrs
Expected stock price volatility	35%	27%
Expected dividend yield	0%	0%
Weighted average fair value of share-based awards granted	\$ 11.26	\$ 10.45

The Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods on a cumulative basis in the period the estimated forfeiture rate changes. The Company considered its historical experience of pre-vesting option forfeitures as the basis to arrive at its estimated annual pre-vesting option forfeiture rate of 6.0% and 6.3% per year for each of the nine months ended September 30, 2012 and 2011, respectively. All option awards, including those with graded vesting, were valued as a single award with a single average expected term and are amortized on a straight-line basis over the requisite service period of the awards, which is generally the vesting period. At September 30, 2012, there was \$23.0 million remaining in unrecognized compensation cost related to employee stock options, which is expected to be recognized over a weighted average period of 1.2 years. No compensation cost was capitalized in inventory during the nine months ended September 30, 2012 as the amounts involved were not material.

Total share-based compensation expense for employee stock options and purchase rights for the three and nine months ended September 30, 2012 and 2011 was comprised of the following:

(in thousands) (unaudited)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Cost of revenues	\$ 569	\$ 646	\$ 1,864	\$ 2,679
Selling, general and administrative	4,444	4,631	14,897	18,531
Research and development	586	779	1,894	3,090
Share-based compensation expense before taxes	5,599	6,056	18,655	24,300
Related income tax benefits	1,876	2,075	5,808	8,494

Edgar Filing: Life Technologies Corp - Form 10-Q

Share-based compensation expense, net of taxes	\$ 3,723	\$ 3,981	\$ 12,847	\$ 15,806
--	----------	----------	-----------	-----------

Table of Contents*Restricted Stock Units*

Restricted stock units represent a right to receive shares of common stock at a future date determined in accordance with the participant's award agreement. An exercise price and monetary payment are not required for receipt of restricted stock units or the shares issued in settlement of the award. Instead, consideration is furnished in the form of the participant's services to the Company. Restricted stock units have either graded vesting terms of four years, or cliff vesting terms which generally vest over three years. Compensation cost for these awards is based on the estimated fair value on the date of grant and recognized as compensation expense on a straight-line basis over the requisite service period. During both the three and nine months ended September 30, 2012, and the three months ended September 30, 2011, the Company estimated pre-vesting forfeitures and applied an annual pre-vesting forfeiture rate of 7.0% and 8.0% for restricted stock units with graded vesting terms and cliff vesting terms, respectively. During the three months ended September 30, 2011, the Company applied the annual pre-vesting forfeiture rate and made an adjustment of \$4.2 million to restricted stock unit compensation expense. At September 30, 2012 there was \$110.7 million remaining in unrecognized compensation cost related to these awards, which is expected to be recognized over a weighted average period of 2.8 years. The weighted average fair value of restricted stock units granted during the nine months ended September 30, 2012 and 2011 was \$48.36 and \$53.08, respectively.

Total share-based compensation expense for restricted stock units for the three and nine months ended September 30, 2012 and 2011 was composed of the following:

(in thousands) (unaudited)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Cost of revenues	\$ 1,418	\$ 732	\$ 4,201	\$ 2,728
Selling, general and administrative	12,226	6,982	37,406	27,505
Research and development	1,527	(51)	4,312	2,101
Share-based compensation expense before taxes	15,171	7,663	45,919	32,334
Related income tax benefits	5,373	2,896	16,202	11,932
Share-based compensation expense, net of taxes	\$ 9,798	\$ 4,767	\$ 29,717	\$ 20,402

Deferred Stock Awards and Restricted Stock Awards

Deferred stock awards are fully vested and expensed when issued, but shares are placed in a deferral account under the Life Technologies Corporation Deferred Compensation Plan (the "Deferred Compensation Plan"), at an eligible employee's or director's discretion, until distributed to the employee or director at a future date. The Deferred Compensation Plan allows eligible directors and employees to defer, on a pre-tax basis, a portion or all of their compensation, bonuses, or director's fees in the form of cash or deferred stock awards. The deferred compensation plan provides matching contributions by the Company to the participants, based on the deferred compensation plan agreement, in the form of restricted stock awards. During the nine months ended September 30, 2012 and 2011, the Company granted restricted stock awards with a total deferred compensation value of \$0.6 million and \$1.4 million, respectively, which will be recognized over the requisite service period of three years with an applicable forfeiture rate. The restricted stock awards, issued but unvested, are held in a deferral account, and are subject to a three year cliff vesting. Refer to Note 9 of the Consolidated Financial Statements, "Fair Value of Financial Instruments" for further information on the fair market valuation of the deferred compensation plan assets.

Recent Accounting Pronouncements

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*, updating ASC Topic 220, *Comprehensive Income*. Under the amended ASC Topic 220, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance eliminates the current option to present other comprehensive income and its components in the Statement of Stockholders' Equity. This guidance does not change the components that are recognized in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for the Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, updating ASC Topic 220, *Comprehensive Income*. This guidance defers changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. The guidance in ASU 2011-05 and ASU 2011-12 is effective for fiscal years, and interim

Edgar Filing: Life Technologies Corp - Form 10-Q

periods within those years, beginning after December 15, 2011, and is to be applied retrospectively. The adoption of the guidance in the fiscal year 2012 did not have an impact on the Company's consolidated financial statements and is not expected to have an impact on the Company's future operating results.

Table of Contents**2. Composition of Certain Financial Statement Items*****Inventories***

Inventories consisted of the following:

	September 30, 2012 (unaudited)	December 31, 2011
(in thousands)		
Raw materials and components	\$ 105,132	\$ 105,628
Work in process (materials, labor and overhead)	99,648	93,738
Finished goods (materials, labor and overhead)	195,900	178,500
Total inventories, net	\$ 400,680	\$ 377,866

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following:

	September 30, 2012 (unaudited)	December 31, 2011
(in thousands)		
Hedge assets	\$ 1,915	\$ 21,340
Prepaid expenses	99,831	61,573
Other current assets	41,946	73,767
Total prepaid expenses and other current assets	\$ 143,692	\$ 156,680

Property and Equipment

Property and equipment consisted of the following:

	Estimated Useful Life (in years)	September 30, 2012 (unaudited)	December 31, 2011
(in thousands)			
Land		\$ 141,093	\$ 140,738
Building and improvements	1-50	470,027	449,124
Machinery and equipment	1-10	481,492	445,880
Internal use software	1-10	259,525	246,520
Construction in process		56,065	63,485
Total gross property and equipment		1,408,202	1,345,747
Accumulated depreciation and amortization		(590,337)	(512,069)
Total property and equipment, net		\$ 817,865	\$ 833,678

Table of Contents

Goodwill and Other Intangible Assets

The \$77.7 million increase in goodwill on the Consolidated Balance Sheet from December 31, 2011 to September 30, 2012 was primarily the result of \$62.8 million from business combinations and \$14.9 million of foreign currency translation adjustments. Intangible assets consisted of the following:

		September 30, 2012			December 31, 2011	
(in thousands)	Weighted average Life	Gross carrying Amount (unaudited)	Accumulated Amortization	Weighted average Life	Gross carrying Amount	Accumulated Amortization
Amortized intangible assets:						
Purchased technology	7 years	\$ 1,259,317	\$ (978,571)	7 years	\$ 1,239,574	\$ (909,246)
Purchased tradenames and trademarks	9 years	324,688	(175,638)	9 years	322,906	(150,840)
Purchased customer base	11 years	1,452,095	(514,285)	11 years	1,441,472	(424,039)
Other intellectual property	6 years	353,471	(235,183)	6 years	336,312	(179,289)
Total intangible assets		\$ 3,389,571	\$ (1,903,677)		\$ 3,340,264	\$ (1,663,414)

Intangible assets not subject to amortization:

Purchased tradenames and trademarks	\$ 7,451	\$ 7,451
In-process research and development	62,400	62,400

Amortization expense related to purchased intangible assets for the three months ended September 30, 2012 and 2011 was \$71.1 million and \$73.9 million, respectively and for the nine months ended September 30, 2012 and 2011 was \$219.2 million and \$226.5 million, respectively. Estimated aggregate amortization expense is expected to be \$75.0 million for the remainder of fiscal year 2012. Estimated aggregate amortization expense for fiscal years 2013, 2014, 2015 and 2016 is \$288.7 million, \$241.2 million, \$221.1 million and \$168.7 million, respectively. During the nine months ended September 30, 2012, there were no material impairments identified.

Acquired in-process research and development assets are accounted for as indefinite life intangible assets subject to annual impairment test, or earlier if an event or circumstance indicates that impairment may have occurred, until completion or abandonment of the acquired projects. Upon reaching the end of the relevant research and development project, the Company will amortize the acquired in-process research and development over its estimated useful life or expense the acquired in-process research and development should the research and development project be unsuccessful with no future alternative use.

Accrued Expenses and Other Current Liabilities

Accrued Expenses and Other Current Liabilities include royalty accruals, hedge liabilities, product warranties, interest accruals, legal accruals, and other current liabilities. At September 30, 2012 and December 31, 2011, legal accruals were \$112.4 million and \$59.3 million, respectively. None of the other liabilities in Accrued Expenses and Other Current Liabilities was individually material at September 30, 2012 and December 31, 2011.

Table of Contents**Reconciliation of Equity**

The following table provides a reconciliation of the beginning and ending carrying amounts of total equity, equity attributable to the Company, and equity attributable to non-controlling interests:

(in thousands) (unaudited)	Total	Common Stock	Additional Paid-in-Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Non-Controlling Interests
Balance at December 31, 2011	\$ 4,599,226	\$ 2,117	\$ 5,441,061	\$ (1,819,599)	\$ 64,656	\$ 910,991	\$
Business combinations	107,553	27	107,526				
Amortization of stock based compensation	65,276		65,276				
Common stock issuance under employee stock plans	48,376	15	48,361				
Net tax benefit on employee stock plans	5,763		5,763				
Redemption of convertible debt	(328)		(328)				
Issuance of restricted shares, net of shares repurchased for minimum tax liability	(23,147)	14	(13)	(23,148)			
Issuance of deferred stock	2,432		2,438	(6)			
Purchase of treasury stock	(534,997)			(534,997)			
Non-controlling interest contribution	469						469
Realized gain on hedging transactions, reclassified into earnings, net of related tax effects	(437)				(437)		
Pension liability, net of deferred taxes	669				669		
Foreign currency translation adjustment, net of related tax effects	23,102				23,101		1
Net income (loss)	320,544					320,849	(305)
Balance at September 30, 2012	\$ 4,614,501	\$ 2,173	\$ 5,670,084	\$ (2,377,750)	\$ 87,989	\$ 1,231,840	\$ 165

3. Long-Term Debt

Long-term debt consisted of the following:

(in thousands)	September 30, 2012 (unaudited)	December 31, 2011
3.375% Senior Notes (principal due 2013), net of unamortized discount	\$ 249,983	\$ 249,953
4.400% Senior Notes (principal due 2015), net of unamortized discount	499,151	498,906
3.500% Senior Notes (principal due 2016), net of unamortized discount	399,567	399,477
6.000% Senior Notes (principal due 2020), net of unamortized discount	748,782	748,686
5.000% Senior Notes (principal due 2021), net of unamortized discount	398,471	398,363
1 1/2% Convertible Senior Notes (principal due 2024), net of unamortized discount		448,304
Capital leases	18,526	4,803
Total debt	2,314,480	2,748,492
Less current portion	(253,200)	(450,839)

Edgar Filing: Life Technologies Corp - Form 10-Q

Total long-term debt	\$ 2,061,280	\$ 2,297,653
----------------------	--------------	--------------

Table of Contents

Senior Notes

During the year 2010, the Company filed a prospectus that allows the Company to issue in one or more offerings, senior or subordinated debt securities covered by the prospectus by filing a prospectus supplement that contains specific information about the securities and specific terms being offered. Under the prospectus, the Company has issued a principal amount of \$2,300.0 million of fixed unsecured and unsubordinated Senior Notes (the "Notes"), of which \$1,500.0 million were offered in February 2010 and \$800.0 million were offered in December 2010. During February 2010, the Company issued \$1,500.0 million of fixed rate unsecured notes which consisted of an aggregate principal amount of \$250.0 million of 3.375% Senior Notes due 2013 (the "2013 Notes") at an issue price of 99.95%, an aggregate principal amount of \$500.0 million of 4.40% Senior Notes due 2015 (the "2015 Notes") at an issue price of 99.67% and an aggregate principal amount of \$750.0 million of 6.00% Senior Notes due 2020 (the "2020 Notes") at an issue price of 99.80%. During December 2010, the Company issued an additional \$800.0 million of fixed rate unsecured notes which consisted of an aggregate principal amount of \$400.0 million of 3.50% Senior Notes due 2016 (the "2016 Notes") at an issue price of 99.84% and an aggregate principal amount of \$400.0 million of 5.00% Senior Notes due 2021 (the "2021 Notes") at an issue price of 99.56%. The effective interest rates, net of hedging transactions, are 3.39%, 4.47%, 3.53%, 6.03%, and 5.06% for the 2013, 2015, 2016, 2020 and 2021 Notes, respectively, with interest payments due semi-annually.

As a result, the Company recorded an aggregate \$5.7 million of debt discounts for the Notes. At September 30, 2012, the unamortized debt discount balance was \$4.0 million. The debt discounts are amortized over the lives of the associated Notes using the effective interest method.

The aggregate net proceeds from the Notes offerings in 2010 were \$2,276.4 million after deducting the debt discounts as well as underwriting discounts of \$17.9 million. Total deferred financing costs associated with the issuances of the Notes were \$21.8 million, including the \$17.9 million of underwriting discounts and \$3.9 million of legal and accounting fees. At September 30, 2012, the unamortized issuance costs for the Notes were \$14.2 million which are expected to be recognized over a weighted average period of 6.0 years.

The Company recognized aggregate contractual interest expense, of \$27.4 million for each of the three months ended September 30, 2012 and 2011, and \$82.2 million for each of the nine months ended September 30, 2012 and 2011.

The Company, at its option, may redeem the Notes (prior to October 15, 2020 for the 2021 Notes) in whole or in part at any time at a redemption price equal to the greater of 100% of the principal amount of the notes to be redeemed or the sum of the present values of the remaining scheduled payments of the notes to be redeemed discounted on a semi-annual basis at a rate equal to the sum of the rate on a comparable United States Treasury note plus 25 basis points for the 2016 Notes, 30 basis points for the 2013 Notes, the 2015 Notes, and the 2021 Notes, and 35 basis points for the 2020 Notes, plus accrued and unpaid interest through the date of redemption, if any. Commencing on October 15, 2020, the Company may redeem the 2021 Notes, in whole or in part, at any time, at a redemption price equal to 100% of the principal amount of the notes being redeemed plus accrued and unpaid interest through the redemption date. Upon the occurrence of a change of control of the Company that results in a downgrade of the notes below an investment grade rating, the indenture requires under certain circumstances that the Company makes an offer to purchase then outstanding Senior Notes equal to 101% of the principal amount plus any accrued and unpaid interest to the date of repurchase.

The indentures governing the Senior Notes contain certain covenants that, among other things, limit the Company's ability to create or incur certain liens and engage in sale and leaseback transactions. In addition, the indenture limits the Company's ability to consolidate, merge, sell, convey, transfer, lease or otherwise dispose of all or substantially all of its property and assets. These covenants are subject to certain exceptions and qualifications.

At September 30, 2012, the Company held the carrying value of \$250.0 million, and the related debt discount, of the 2013 Notes in current liabilities.

Convertible Senior Notes

During January 2012, the Company notified the holders of the 1 1/2% Convertible Senior Note due 2024 (2024 Notes) of its intention to redeem all of the outstanding 2024 Notes on February 15, 2012. During February 2012, the Company redeemed the outstanding 2024 Notes, with no excess of the 2024 Notes' conversion value over par, in \$450.0 million of cash. The Company did not recognize any gain or loss on the settlement of the 2024 Notes. At December 31, 2011, the Company held the then carrying value of \$448.3 million for the 2024 Notes in current liabilities.

During May 2011, the Company notified the holders of the 3 1/4% Convertible Senior Note due 2025 (2025 Notes) of its intention to redeem all of the outstanding 2025 Notes on June 15, 2011 at par value. In response to the Company's announcement and prior to the redemption date, holders of a principal value of \$347.5 million of 2025 Notes exercised their options to convert the Notes based on the conversion prices of

Edgar Filing: Life Technologies Corp - Form 10-Q

\$49.13 and settled the par value in cash and the excess of the 2025 Notes' conversion value over par in 0.4 million shares of the Company's common stock. The remaining outstanding 2025 Notes of approximately \$2.5 million were settled in cash. The Company did not recognize any gain or loss on the settlement of the 2025 Notes.

Table of Contents

The Company recognized total interest cost of \$6.7 million for the three months ended September 30, 2011, and \$2.5 million and \$29.8 million for the nine months ended September 30, 2012, and 2011, respectively, based on the effective interest rates of 6.10% and 5.95% for the 2024 and 2025 Notes, respectively, during the periods these notes were outstanding. The interest expense consisted of \$1.7 million of contractual interest based on the stated coupon rate and \$5.0 million of amortization of the discount on the liability component associated with the bifurcation requirements prescribed by *ASC Topic 470-20, Debt with Conversion and Other Options*, for the three months ended September 30, 2011. The interest expenses consisted of \$0.8 million and \$10.3 million of contractual interest based on the stated coupon rate and \$1.7 million and \$19.5 million of amortization of the discount on the liability component for the nine months ended September 30, 2012 and 2011, respectively.

4. Lines of Credit

In February 2012, the Company entered into a new credit agreement (the Revolving Credit Facility) for \$750.0 million for the purpose of general working capital, capital expenditures, and/or other capital needs. Fees and interest on borrowed amounts vary depending on leverage. The commitment fee for unused funds ranges from 10 to 27.5 basis points and fees for the letter of credit range from 100 to 200 basis points. The interest rate on borrowings is determined using, at the Company's election, either: a) the higher of Bank of America's prime rate or the Federal Funds rate plus 50 basis points, plus a spread ranging from 0 to 100 basis points, depending on leverage; or b) the British Banker's Association LIBOR, plus a spread ranging from 100 to 200 basis points, depending on leverage.

During the nine months ended September 30, 2012, the Company withdrew \$701.0 million on the Revolving Credit Facility and repaid \$561.0 million, for an outstanding balance of \$140.0 million as of September 30, 2012. Additionally, the Company has \$10.4 million of letters of credit outstanding under the Revolving Credit Facility, leaving remaining available credit of \$599.6 million. The applicable borrowing rate was 1.46% for the Revolving Credit Facility at September 30, 2012.

At the same time the Company entered into the Revolving Credit Facility, the Company extinguished the previously existing revolving credit facility of \$500.0 million and as a result recognized a \$3.7 million loss, recorded in interest expense, on unamortized deferred financing costs.

As of September 30, 2012 foreign subsidiaries in Japan, Mexico, India, and China had available bank lines of credit denominated in local currency to meet short-term working capital requirements. Each credit facility would bear interest at a fixed rate or a variable rate indexed to a local interbank offering rate or equivalent, should there be withdrawals. The United States dollar equivalent of these facilities totaled \$8.9 million at September 30, 2012, none of which was outstanding at September 30, 2012.

5. Commitments and Contingencies

Letters of Credit

The Company had outstanding letters of credit totaling \$33.6 million at September 30, 2012, of which \$13.6 million was to support performance bond agreements, \$9.4 million was to support liabilities associated with the Company's self-insured worker's compensation programs, \$6.8 million was to support its building lease requirements, and \$3.8 million was to support duty on imported products.

Executive Employment Agreements

The Company has employment contracts with key executives that provide for the continuation of salary if terminated for reasons other than cause, as defined in those agreements. At September 30, 2012, future employment contract commitments for such key executives were approximately \$33.4 million. In certain circumstances, the employment agreements call for the acceleration of equity vesting. The non-cash financial impact of the acceleration of equity vesting is not reflected in the above information.

Acquisition-Related Contingent Obligations

As a result of contingent consideration arrangements associated with certain business acquisitions, the Company may have future payment obligations which are based on certain technological or operational milestones. In accordance with *ASC Topic 805, Business Combinations*, the Company records these obligations at fair value at the time of acquisition with subsequent fair value adjustments to the contingent consideration reflected in the line items of the Consolidated Statement of Operations and Comprehensive Income commensurate with the nature of the contingent consideration. During the three and nine months ended September 30, 2011, respectively, a fair value adjustment charge to contingent consideration liabilities of \$13.7 million was recorded in research and development expense. Additionally, during the three and nine months ended September 30, 2011, respectively, time value accretion of \$1.5 million and \$6.2 million was recorded in interest expense which was offset by \$0.2 million and \$2.1 million of fair value adjustments recorded in cost of revenues as subsequent fair value adjustments to the contingent considerations liabilities. There were no adjustments made during the nine months ended September 30, 2012.

Table of Contents

At September 30, 2012, the total amount accrued for contingent consideration liabilities was \$31.4 million, of which \$18.1 million was included in current liabilities. At December 31, 2011, the total amount accrued for contingent consideration liabilities was \$284.8 million, of which \$283.1 million was included in current liabilities. During the nine months ended September 30, 2012, \$284.2 million of current contingent consideration liabilities was paid, of which \$282.2 million was a result of the \$300.0 million milestone arrangement related to the Ion Torrent acquisition. The \$300.0 million milestone was achieved during the year ended December 31, 2011 and paid in January 2012 in a combination of \$192.4 million in cash and approximately 2.7 million shares of the Company's common stock or the equivalent of \$107.6 million at the time of settlement. The \$300.0 million was accrued for by an aggregate of \$282.2 million in contingent consideration liabilities together with a \$17.8 million deferred compensation accrual at December 31, 2011.

For more information on contingent consideration valuation, refer Note 9 of the Consolidated Financial Statements, Fair Value of Financial Instruments.

Environmental Liabilities

As a result of previous mergers and acquisitions, the Company assumed certain environmental exposure liabilities. At September 30, 2012, aggregate undiscounted environmental reserves were \$9.1 million, including current reserves of \$4.2 million. Based upon currently available information, the Company believes that it has adequately provided for these environmental exposures and that the outcome of these matters will not have a material adverse effect on its Consolidated Statement of Operations.

Litigation

We are subject to potential liabilities under government regulations and various claims and legal actions that are pending or may be asserted. These matters arise in the ordinary course and conduct of our business, and, at times, as a result of our acquisitions and dispositions. They include, for example, commercial, intellectual property, environmental, securities, and employment matters. Some are expected to be covered, at least partly, by insurance. We intend to continue to defend ourselves vigorously in such matters. We regularly assess contingencies to determine the degree of probability and range of possible loss for potential accrual in our financial statements. An estimated loss contingency is accrued in our financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Based on our assessment, we currently have accrued an immaterial amount in our financial position for contingent liabilities associated with these legal actions and claims. Litigation is inherently unpredictable, and unfavorable resolutions could occur. As a result, assessing contingencies is highly subjective and requires judgment about future events. The amount of ultimate loss may exceed our current accruals, and it is possible that our cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies.

Indemnifications

In the normal course of business, we enter into some agreements under which we indemnify third-parties for intellectual property infringement claims or claims arising from breaches of representations or warranties. In addition, from time to time, we provide indemnity protection to third-parties for claims relating to past performance arising from undisclosed liabilities, product liabilities, environmental obligations, representations and warranties, and other claims. In these agreements, the scope and amount of remedy, or the period in which claims can be made, may be limited. It is not possible to determine the maximum potential amount of future payments, if any, due under these indemnities due to the conditional nature of the obligations and the unique facts and circumstances involved in each agreement. Historically, payments made related to these indemnifications have not been material to our consolidated financial position.

Guarantees

The Company is a guarantor of a pension plan benefit that was assumed in conjunction with the Applied Biosystems merger that is accounted for under *the ASC Topic 460, Guarantees*. As part of the divestiture of the Analytical Instruments business in 1999 by Applied Biosystems, the purchaser of the Analytical Instruments business has agreed to pay for the pension benefits for employees of a former German subsidiary. However, the Company was required to guarantee payment of these pension benefits should the purchaser fail to do so, because these payment obligations were not transferable to the buyer under German law. The guaranteed payment obligation is not expected to have a material adverse effect on the Consolidated Financial Statements.

6. Pension Plans and Postretirement Health and Benefit Program

The Company has several defined benefit pension plans covering its United States employees and employees in several foreign countries.

Table of Contents

The components of net periodic pension cost (benefit) for the Company's pension plans and postretirement benefits plans for the three and nine months ended September 30, 2012 and 2011 were as follows:

(in thousands) (unaudited)	Domestic Plans			
	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Service cost	\$ 385	\$ 261	\$ 1,155	\$ 783
Interest cost	8,919	10,028	26,345	29,944
Expected return on plan assets	(9,384)	(10,749)	(28,150)	(32,345)
Amortization of prior service cost	15	15	45	45
Amortization of actuarial loss	996	471	2,904	1,345
Net periodic pension cost (benefit)	\$ 931	\$ 26	\$ 2,299	\$ (228)

(in thousands) (unaudited)	Postretirement Plans			
	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Service cost	\$ 5	\$ 7	\$ 25	\$ 39
Interest cost	292	330	976	1,232
Expected return on plan assets	(115)	(143)	(345)	(381)
Amortization of prior service credit	(474)	(474)	(1,422)	(1,422)
Amortization of actuarial loss	156	126	462	492
Total periodic pension benefit	\$ (136)	\$ (154)	\$ (304)	\$ (40)

(in thousands) (unaudited)	Foreign Plans			
	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Service cost	\$ 598	\$ 913	\$ 1,810	\$ 2,671
Interest cost	1,176	1,404	3,587	4,154
Expected return on plan assets	(912)	(1,202)	(2,769)	(3,563)
Amortization of actuarial (gain) loss	(11)	46	(31)	141
Settlement gain		(46)		(135)
Net periodic pension cost	\$ 851	\$ 1,115	\$ 2,597	\$ 3,268

7. Income Taxes

Income taxes are determined using an estimated annual effective tax rate applied against income, and then adjusted for the tax impacts of certain significant and discrete items. For the nine months ended September 30, 2012, the Company treated the tax impact related to the following as discrete events for which the tax effect was recognized separately from the application of the estimated annual effective tax rate: benefits and expenses related to return to provision adjustments, changes in tax reserves, changes in domestic and foreign tax rates, disqualifying dispositions of qualified stock grants, and changes in judgment regarding the realization of beginning of the year deferred tax assets. The Company's effective tax rate recorded for the nine months ended September 30, 2012 was 17.9%. Excluding the impact of the discrete items discussed above, the effective tax rate would have been 22.9%.

Edgar Filing: Life Technologies Corp - Form 10-Q

ASC Topic 740, Income Taxes, which prescribes how companies should recognize and disclose uncertain tax positions, requires that tax benefits shall initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions shall initially, and subsequently, be measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the tax authorities, assuming full knowledge of all relevant facts. Disclosure requirements include a discussion of material changes in unrecognized tax benefits.

Table of Contents

The following table summarizes the activity related to our unrecognized tax benefits:

(in thousands)	September 30, 2012 (unaudited)	December 31, 2011
Gross unrecognized tax benefits at January 1	\$ 130,994	\$ 152,697
Increases in tax positions for prior years	7,572	14,038
Decreases in tax positions for prior years	(4,035)	(261)
Increases in tax positions for current year relating to ongoing operations	5,179	11,842
Increases in tax positions as a result in a lapse of statute of limitations		88
Decreases in tax positions as a result in a lapse of statute of limitations	(6,803)	(7,756)
Increases in tax positions for current year relating to acquisitions	1,456	
Increases in tax positions due to settlements with taxing authorities		1,839
Decreases in tax positions due to settlements with taxing authorities	(582)	(41,570)
Increases in tax positions due to changes in currency rates	143	274
Decreases in tax positions due to changes in currency rates	(68)	(197)
Gross unrecognized tax benefits at end of stated period	\$ 133,856	\$ 130,994

Of the \$133.9 million of gross unrecognized tax benefits, \$93.4 million, if recognized, would reduce our income tax expense and effective tax rate.

In accordance with the disclosure requirements as described in *ASC Topic 740, Income Taxes*, the Company has classified uncertain tax positions as non-current income tax liabilities, or a reduction in non-current deferred tax assets, unless expected to be paid in one year. The Company's continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had approximately \$6.0 million for the payment of interest and penalties accrued at September 30, 2012 in the Consolidated Balance Sheets compared to \$7.8 million accrued at December 31, 2011. It is reasonably possible that there will be a reduction to the balance of unrecognized tax benefits up to \$6.2 million in the next twelve months.

The Company is subject to routine compliance reviews on various tax matters around the world in the ordinary course of business. Currently, income tax audits are being conducted in Canada, Italy, the United Kingdom, and the United States. Years open, and therefore subject to tax examination, in the major jurisdictions are 2006 through 2011. The impact on the Consolidated Statement of Operations is not anticipated to be material.

The Company continues to benefit from a tax holiday in Singapore which provides for a zero tax rate on certain manufacturing activities performed in Singapore. This tax holiday continues for certain covered products until June 30, 2019 and for the remaining covered products until December 31, 2021. The impact on the annual effective tax rate was 2.9% and increased earnings per share by approximately \$0.01 for the quarter.

8. Stock Repurchase Programs

In July 2012, the Board of Directors of the Company approved a program (the July 2012 program) authorizing management to repurchase up to \$750.0 million of common stock. During the nine months ended September 30, 2012, the Company repurchased 2.9 million shares of its common stock under this program at a total cost of \$138.0 million. As of September 30, 2012, there was \$612.0 million of authorization remaining under this program.

Edgar Filing: Life Technologies Corp - Form 10-Q

In July 2011, the Board of Directors of the Company approved a program (the July 2011 program) authorizing management to repurchase up to \$200.0 million of common stock. During the nine months ended September 30, 2012, the Company repurchased 4.6 million shares of its common stock under this program at a total cost of \$200.0 million, the maximum amount authorized, thereby completing the July 2011 program.

Table of Contents

In December 2010, the Board of Directors of the Company approved a program (the December 2010 program), authorizing management to repurchase up to \$500.0 million of common stock. During the year ended December 31, 2011, the Company repurchased 6.4 million shares of its common stock under this program at a total cost of \$303.0 million. During the nine months ended September 30, 2012, the Company repurchased an additional 4.3 million shares of its common stock at a total cost of \$197.0 million, thereby completing the December 2010 program by repurchasing an aggregate of 10.7 million shares at a total cost of \$500.0 million, the maximum amount authorized.

In July 2010, the Board of Directors of the Company approved a program (the July 2010 program) authorizing management to repurchase up to \$520.0 million of common stock over the next two years. During the year ended December 31, 2010, the Company repurchased 8.4 million shares at a total cost of \$436.6 million. During the nine months ended September 30, 2011, the Company repurchased an additional 1.5 million shares of its common stock at a total cost of \$83.4 million, thereby completing the July 2010 program by repurchasing an aggregate of 9.9 million shares at a total cost of \$520.0 million, the maximum amount authorized.

In addition, the Company's employee stock plan allows for certain net share settlement of stock awards. The Company accounts for the net share settlement withholding as a treasury share repurchase transaction. The cost of repurchasing shares is included in treasury stock and reported as a reduction in total equity when a repurchase occurs.

9. Fair Value of Financial Instruments

The carrying amounts of financial instruments such as cash equivalents, foreign cash accounts, accounts receivable, prepaid expenses, other current assets, accounts payable, accrued expenses, and other current liabilities approximate the related fair values due to the short-term maturities of these instruments. The Company invests its excess cash into financial instruments which are readily convertible into cash, such as marketable securities, money market funds, corporate notes, government securities, highly liquid debt instruments, time deposits, and certificates of deposit with original maturities of three months or less at the date of purchase. The Company considers all highly liquid investments with maturities of three months or less from the date of purchase to be cash equivalents. The Company has established guidelines to maintain safety and liquidity for our financial instruments, and the cost of securities sold is based on the specific identification method.

Investments consisted of the following:

(in thousands)	September 30, 2012 (unaudited)	December 31, 2011
Short-term		
Bank time deposits	\$ 9,680	\$ 26,559
Total short-term investments	9,680	26,559
Long-term		
Equity securities	27,560	24,996
Total long-term investments	27,560	24,996
Total investments	\$ 37,240	\$ 51,555

ASC Topic 820, *Fair Value Measurements and Disclosures* requires the Company to establish a framework for measuring fair value. The framework requires the valuation of assets and liabilities subject to fair value measurements using a three tiered approach and fair value measurement be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices for similar assets and liabilities in active markets, quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported by little or no market activity).

Table of Contents

The following table represents the financial instruments measured at fair value on a recurring basis on the financial statements of the Company subject to ASC Topic 820, *Fair Value Measurements and Disclosures* and the valuation approach applied to each class of financial instruments:

(in thousands) (unaudited)	Fair Value Measurements at Reporting Date Using			
	Balance at	Quoted Prices in	Significant Other	Significant
Description	September 30, 2012	Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Bank time deposits	\$ 9,680	\$ 9,680	\$	\$
Money market funds	46,934	46,934		
Deferred compensation plan assets-mutual funds	25,689	25,689		
Assets-derivative forward exchange contracts	1,915		1,915	
Total assets	\$ 84,218	\$ 82,303	\$ 1,915	\$
Liabilities-derivative forward exchange contracts	17,509		17,509	
Contingent considerations	31,430			31,430
Total liabilities	\$ 48,939	\$	\$ 17,509	\$ 31,430

At September 30, 2012, the carrying value of the financial instruments measured and classified within level 1 was based on quoted prices and marked to market.

The Company manages the Life Technologies Corporation Deferred Compensation Plan (the Deferred Compensation Plan) which allows eligible directors and employees to defer, on a pre-tax basis, a portion or all of their compensation, bonuses, or director's fees. As of September 30, 2012, the Company held \$25.7 million in deferred compensation plan assets which were invested in mutual funds. The fair market value of the assets held in the Deferred Compensation Plan was based on unadjusted quoted prices in active markets. The Company carries a corresponding deferred compensation liability of \$25.7 million as of September 30, 2012 in other long-term obligations in its Consolidated Balance Sheet.

Exchange traded derivatives are valued using quoted market prices, when available, and classified within level 1 of the fair value hierarchy. Level 2 derivatives include foreign currency forward contracts for which fair value is determined by using observable market spot rates and forward points adjusted by risk-adjusted discount rates. The risk-adjusted discount rate is derived by United States dollar zero coupon yield bonds for the corresponding duration of the maturity of derivatives, then adjusted with a counter party default risk for the value of our derivative assets or our credit risk for the value of our derivative liabilities. Credit risk is derived by observable credit default swaps (CDS) spreads. Because CDS spreads information is not available for our Company, our credit risk is determined by analyzing CDS spreads of similar size public entities in the same industry with similar credit ratings. The value of our derivatives discounted by risk-adjusted discount rates represents the present value of amounts estimated to be received for the assets or paid to transfer the liabilities at the measurement date from a marketplace participant in settlement of these instruments.

Level 3 Fair Value Measurements

Contingent consideration arrangements obligate the Company to pay former owners of an acquired entity if specified future events occur or conditions are met such as the achievement of certain technological milestones or operational milestones. The Company measures such liabilities using level 3 unobservable inputs, applying the income approach, such as the discounted cash flow technique, or the probability-weighted scenario method. The Company used various key assumptions, such as the probability of achievement on the agreed milestones arrangement and the discount rate, to represent the non-performing risk factors and time value when applying the income approach. The Company continuously monitors the fair value of the contingent considerations, with subsequent revisions reflected in the Statement of Operations in the line items commensurate with the underlying nature of milestone arrangements. For further discussion on contingent consideration accounting, refer to Note 5 of the Consolidated Financial Statements, Commitments and Contingencies.

At September 30, 2012, the Company's level 3 liabilities, which represent the estimated fair value of existing contingent consideration agreements, individually or collectively are not considered material to the Company's consolidated financial statements. Reasonable changes in

Edgar Filing: Life Technologies Corp - Form 10-Q

the unobservable inputs would not be expected to have a significant impact on the Company's consolidated financial statements.

Table of Contents

For financial instrument liabilities with significant level 3 inputs, the following table summarizes the activity for the nine months ended September 30, 2012.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Contingent Considerations
(in thousands) (unaudited)	
Beginning balance at January 1, 2012	\$ 284,753
Transfers into Level 3 from business combinations	30,931
Settlements*	(284,224)
Foreign currency translation adjustments	(30)
Ending balance at September 30, 2012	\$ 31,430

Total amount of unrealized losses for the period included in other comprehensive loss attributable to the change in fair market value of related liabilities still held at the reporting date

\$

* Includes \$282.2 million of Ion Torrent milestone payment. Refer to Note 5 of the Consolidated Financial Statements.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Non-financial assets and liabilities are recognized at fair value subsequent to initial recognition when they are deemed to be other-than-temporarily impaired. There were no material non-financial assets and liabilities deemed to be other-than-temporarily impaired and measured at fair value on a nonrecurring basis for the nine months ended September 30, 2012. The Company evaluates its investments in equity and debt securities that are accounted for using the equity method or cost method to determine whether an other-than-temporary impairment or a credit loss exists at period end. At September 30, 2012, the Company held an aggregate \$27.6 million of long-term investments in equity securities that are accounted for under the cost method. The Company assesses these investments for impairment each quarter, but does not calculate a fair value. Due to the nature of these investments, mainly non-public and early stage companies, the Company believes calculating a fair value not to be practicable. In the event the Company identified an indicator of impairment, the assessment of fair value would be based on all available factors, and may include valuation methodologies using level 3 unobservable inputs, which include discounted cash flows, estimates of sales proceeds, net investment values and appraisals, as appropriate. At September 30, 2012, the Company determined that no event or change in circumstances with a significant adverse effect on the fair value of the cost method investments had occurred during the nine months ended September 30, 2012, and, accordingly, no material impairment charges were recorded during the period.

Foreign Currencies and Derivative Financial Instruments

The Company translates the financial statements of its foreign subsidiaries using end-of-period exchange rates for assets and liabilities and average exchange rates during each reporting period for results of operations. Net gains or losses resulting from the translation of foreign financial statements and the effect of exchange rate changes on intercompany receivables and payables of a long-term investment nature are recorded as a separate component of stockholders' equity. These adjustments will affect net income only upon sale or liquidation of the underlying investment in a foreign subsidiary.

Some of the Company's reporting entities conduct a portion of their business in currencies other than the entity's functional currency. These transactions give rise to receivables and payables that are denominated in currencies other than the entity's functional currency. The value of these receivables and payables is subject to changes in currency exchange rates from the point in which the transactions are originated until the settlement in cash. Both realized and unrealized gains and losses in the value of these receivables and payables are included in the determination of net income. Net currency exchange losses recognized on business transactions, net of hedging transactions, were \$1.4 million and \$2.8 million for the three months ended September 30, 2012 and September 30, 2011, respectively, and \$2.6 million and \$6.5 million for the nine months ended September 30, 2012 and September 30, 2011, respectively, and such losses are included in other income/(expense) in the Consolidated Statements of Operations and Comprehensive Income.

Edgar Filing: Life Technologies Corp - Form 10-Q

To manage the foreign currency exposure risk, the Company uses derivatives for activities in entities that have receivables and payables denominated in a currency other than the entity's functional currency. Realized and unrealized gains or losses on the value of financial contracts entered into to hedge the exchange rate exposure of these receivables and payables are also included in the determination of net income as they have not been designated for hedge accounting under *ASC Topic 815, Derivatives and Hedging*. These contracts, which settle in October 2012 through January 2013, effectively fix the exchange rate at which these specific receivables and payables will be settled in, so that gains or losses on the forward contracts offset the gains or losses from changes in the value of the underlying receivables and payables. At September 30, 2012, the Company had a notional principal amount of \$950.0 million in foreign currency forward contracts outstanding to hedge currency risk relative to our foreign receivables and payables.

Table of Contents

The Company's international operating units conduct business in, and have functional currencies that differ from the parent entity, and therefore, the ultimate conversion of these sales to cash in United States dollars is subject to fluctuations in foreign currency. The Company assesses the appropriate risk management strategy, including hedging, to limit this exposure on the Company's Consolidated Statements of Operations and Comprehensive Income and Consolidated Statements of Cash Flows from changes in currency exchange rates. Upon entering derivative transactions, when the United States dollar strengthens significantly against foreign currencies, the decline in the United States dollar value of future foreign currency revenue is offset by gains in the value of the forward contracts designated as hedges. Conversely, when the United States dollar weakens, the opposite occurs. The Company's currency exposures vary, but are primarily concentrated in the euro, British pound, and Japanese yen. At September 30, 2012 and December 31, 2011, the Company did not have any foreign currency forward contracts outstanding to hedge foreign currency revenue risk under *ASC Topic 815, Derivatives and Hedging*. The Company will continuously monitor the impact of foreign currency risk upon the financial results as part of the Company's risk management program and at management's discretion may enter into derivative transactions.

During the nine months ended September 30, 2011, the Company used foreign currency forward contracts to mitigate foreign currency risk on forecasted foreign currency intercompany sales. The change in fair value prior to their maturity was accounted for as a cash flow hedge, and recorded in other comprehensive income, net of tax, in the Consolidated Balance Sheets according to *ASC Topic 815, Derivatives and Hedging*. The Company reclassified deferred gains or losses reported in accumulated other comprehensive income into revenue when the consolidated earnings were impacted, which for intercompany sales were when the inventory was sold to a third-party. For intercompany sales hedging, the Company used an inventory turnover ratio for each international operating unit to align the timing of a hedged item and a hedging instrument to impact the Consolidated Statements of Operations and Comprehensive Income during the same reporting period. During the nine months ended September 30, 2011, the Company did not have any material losses or gains related to the ineffective portion of its hedging instruments in other income/(expense) in the Consolidated Statements of Operations and Comprehensive Income. No hedging relationships were terminated as a result of ineffective hedging or forecasted transactions no longer probable of occurring for foreign currency forward contracts.

During the year ended December 31, 2010, the Company entered into forward interest rate swap agreements for a notional amount totaling \$1,500.0 million for a certain part of Senior Notes issuances. These agreements were to hedge the variability in future probable interest payments attributable to changes in the benchmark interest rate from the date the Company entered into the forward interest rate swap agreements to the date the Company issued the Senior Notes. These agreements effectively hedged a series of semi-annual future interest payments to the fixed interest rates for forecasted debt issuances. The Company recorded total proceeds of \$4.3 million from the forward interest rate swaps in accumulated other comprehensive income, which is reclassified to interest expense in the same period during which the hedged transactions affect interest expense.

The following table summarizes the fair values of derivative instruments at September 30, 2012 and December 31, 2011:

	Asset Derivatives				Liability Derivatives			
	Balance Sheet Location	Fair Value		September 30, 2012	December 31, 2011	Balance Sheet Location	Fair Value	
		September 30, 2012	December 31, 2011				September 30, 2012	December 31, 2011
(in thousands)		(unaudited)	(unaudited)				(unaudited)	(unaudited)
Derivatives instruments not designated as cash flow hedges								
Forward exchange contracts	Other current assets	\$ 1,915	\$ 21,340	Other current liabilities	\$ 17,509	\$ 1,838		
Total derivatives		\$ 1,915	\$ 21,340		\$ 17,509	\$ 1,838		

Table of Contents

The following table summarizes the effect of derivative instruments on the Consolidated Statements of Operations and Comprehensive Income for the three months ended September 30, 2012 and 2011:

	Three months ended September 30, 2012			Three months ended September 30, 2011		
	Amount of (Gain)/Loss Recognized in OCI	Location of Gain/(Loss) Reclassified from AOCI into Income Effective Portion	Amount of Gain/(Loss) Reclassified from AOCI into Income	Amount of (Gain)/Loss Recognized in OCI	Location of Gain/(Loss) Reclassified from AOCI into Income Effective Portion	Amount of Gain/(Loss) Reclassified from AOCI into Income
(in thousands) (unaudited)						
Derivatives instruments designated and qualified as cash flow hedges						
Foreign exchange contracts	\$	Revenue	\$	\$	Revenue	\$ (9,725)
Interest rate swap contracts		Interest expense	146		Interest expense	146
Total derivatives	\$		\$ 146	\$		\$ (9,579)

	Three months ended September 30, 2012		Three months ended September 30, 2011	
	Location of (Gain)/Loss Recognized in Income	Amount of (Gain)/Loss Recognized in Income	Location of (Gain)/Loss Recognized in Income	Amount of (Gain)/Loss Recognized in Income
(in thousands) (unaudited)				
Derivatives instruments not designated as cash flow hedges				
Forward exchange contracts	Other (income) expense	\$ 14,307	Other (income) expense	\$ (20,964)
Total derivatives		\$ 14,307		\$ (20,964)

The following table summarizes the effect of derivative instruments on the Consolidated Statements of Operations and Comprehensive Income for the nine months ended September 30, 2012 and 2011, respectively:

	Nine months ended September 30, 2012			Nine months ended September 30, 2011		
	Amount of (Gain)/Loss Recognized in OCI	Location of Gain/(Loss) Reclassified from AOCI into Income Effective Portion	Amount of Gain/(Loss) Reclassified from AOCI into Income	Amount of (Gain)/Loss Recognized in OCI	Location of Gain/(Loss) Reclassified from AOCI into Income Effective Portion	Amount of Gain/(Loss) Reclassified from AOCI into Income
(in thousands) (unaudited)						
Derivatives instruments designated and qualified as cash flow hedges						
Foreign exchange contracts	\$	Revenue	\$	\$ 19,462	Revenue	\$ (64,116)
Interest rate swap contracts		Interest expense	438		Interest expense	437
Total derivatives	\$		\$ 438	\$ 19,462		\$ (63,679)

Edgar Filing: Life Technologies Corp - Form 10-Q

(in thousands) (unaudited)	Nine months ended September 30, 2012		Nine months ended September 30, 2011	
	Location of (Gain)/Loss Recognized in Income	Amount of (Gain)/Loss Recognized in Income	Location of (Gain)/Loss Recognized in Income	Amount of (Gain)/Loss Recognized in Income
Derivatives instruments not designated as cash flow hedges				
Forward exchange contracts	Other (income) expense	\$ 1,497	Other (income) expense	\$ 17,146
Total derivatives		\$ 1,497		\$ 17,146

Table of Contents*Concentration of Credit Risk*

Financial instruments that potentially subject us to concentrations of credit risk are cash and cash equivalents, investments, and accounts receivable. We attempt to minimize the risks related to cash and cash equivalents and investments by using highly-rated financial institutions that invest in a broad and diverse range of financial instruments. We have established guidelines relative to credit ratings and maturities intended to maintain safety and liquidity. Concentration of credit risk with respect to accounts receivable is limited due to our large and diverse customer base, which is dispersed over different geographic areas. Allowances are maintained for potential credit losses and such losses have historically been within our expectations. The Company does sell to various institutions in Southern Europe, particularly Spain and Italy, which are either partially or directly funded by government institutions. Given the current fiscal environment, the Company is continuously monitoring the credit and economic conditions of our customer base. In certain cases in this region, there have been customers for which days outstanding has increased while payment is pursued. The Company believes its current reserves are appropriate given the current economic condition of its customers. If continued deterioration was to occur in these markets, we may not be able to collect on receivables and our write-offs of uncollectible accounts may increase. The Company's current exposure in this region is immaterial to the Company's overall financial position.

Our investment portfolio is maintained in accordance with our investment policy that defines allowable investments, specifies credit quality standards and limits the credit exposure of any single issuer. We continue to monitor the global economic environment, including that of the Eurozone. We do not believe the current economic uncertainties in several European markets, including Greece, Spain, Italy, and Portugal, will have a material adverse effect on our investment portfolio or future results of operations.

Our derivatives instruments have an element of risk in that the counterparties may be unable to meet the terms of the agreements. We attempt to minimize this risk by limiting the counterparties to a diverse group of highly-rated domestic and international financial institutions. In the event of non-performance by these counterparties, the asset position carrying values of our financial instruments represent the maximum amount of loss we could incur as of September 30, 2012. However, we do not expect to record any losses as a result of counterparty default in the foreseeable future. We do not require and are not required to pledge collateral for these financial instruments. The Company does not use derivative financial instruments for speculation or trading purposes or for activities other than risk management and we are not a party to leveraged derivatives. In addition, we do not carry any master netting arrangements to mitigate the credit risk. The Company continually evaluates the costs and benefits of its hedging program.

Debt Obligations

The Company has certain financial instruments in which the carrying value does not equal the fair value. The estimated fair value of the senior notes and the convertible senior notes was determined by using observable market information (level 1 inputs). The fair value and carrying amounts of the Company's debt obligations were as follows:

	Fair Value		Carrying Amounts	
	September 30, 2012 (unaudited)	December 31, 2011	September 30, 2012 (unaudited)	December 31, 2011
(in thousands)				
3.375% Senior Notes (principal due 2013)	\$ 252,895	\$ 253,813	\$ 249,983	\$ 249,953
4.400% Senior Notes (principal due 2015)	535,080	530,880	499,151	498,906
3.500% Senior Notes (principal due 2016)	424,200	403,896	399,567	399,477
6.000% Senior Notes (principal due 2020)	886,515	847,725	748,782	748,686
5.000% Senior Notes (principal due 2021)	449,184	421,752	398,471	398,363
1 1/2% Convertible Senior Notes (principal due 2024)		450,000		448,304

For details on the carrying amounts of the debt obligations, refer to Note 3 of the Consolidated Financial Statements, Long-Term Debt.

10. Subsequent Events

The Company received an unfavorable verdict in its litigation with Enzo Biochem on November 1, 2012, subsequent to the end of the quarter ended September 30, 2012. The verdict, in accordance with ASC Topic 855, *Subsequent Events*, was based on events that existed as of the balance sheet date. Accordingly, the amount of damages in the verdict, approximately \$48.5 million, was recorded in cost of revenues and accrued expenses and other current liabilities during the quarter ended September 30, 2012. The Company strongly disagrees with the verdict and intends to vigorously challenge it in the trial court and on appeal. The relevant patent expired in 2004, so the verdict does not have any effect on the Company's business going forward.

Table of Contents

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

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Unaudited Consolidated Financial Statements and Notes thereto included elsewhere in this report and the Consolidated Financial Statements and Notes thereto included in our annual report on Form 10-K for the fiscal year ended December 31, 2011.

Forward-looking Statements

Any statements in this Quarterly Report on Form 10-Q about our expectations, beliefs, plans, objectives, prospects, financial condition, assumptions or future events or performance that are not historical facts are forward-looking statements. These statements are often, but not always, made through the use of words or phrases such as believe, anticipate, should, intend, plan, will, expect(s), estimate(s), positioned, strategy, outlook and similar expressions. Additionally, statements concerning future matters, such as the development of new products, enhancements of technologies, sales levels and operating results and other statements regarding matters that are not historical facts are forward-looking statements. Accordingly, all such forward-looking statements involve estimates and assumptions that are subject to risks, uncertainties and other factors that could cause our actual results to differ materially from the results expressed in the statements. Any forward-looking statements are qualified in their entirety by reference to the risk, uncertainties and other factors discussed throughout this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, including those described in Item 1-A Risk Factors of our Annual Report on Form 10-K. Among the key factors that could cause our actual results to differ materially from those projected in our forward-looking statements, include our ability to:

continually develop and offer new products and services that are commercially successful;

successfully compete and maintain the pricing of products and services;

maintain our revenue and profitability during periods of adverse economic and business conditions;

successfully integrate and develop acquired businesses and technologies;

successfully acquire new products, services, and technologies through additional acquisitions;

successfully procure our products and supplies from our existing supply chain;

successfully secure and deploy capital;

satisfy our debt obligations; and

the additional risks and other factors described under the caption Risk Factors under Item 1A of the Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed with the Securities and Exchange Commission on February 29, 2012.

Because the factors referred to above could cause our actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us, you should not place undue reliance on any such forward-looking statements. Further, any forward-looking statement speaks only as of the date of this Quarterly Report on Form 10-Q, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after such date.

OVERVIEW

Edgar Filing: Life Technologies Corp - Form 10-Q

Revenues for the three and nine months ended September 30, 2012 were \$911.2 million and \$2,799.6 million, respectively, with net income attributable to the Company of \$65.9 million and \$320.8 million, respectively. Revenues for the three and nine months ended September 30, 2011 were \$928.2 million and \$2,765.2 million, respectively, with net income attributable to the Company of \$96.3 million and \$285.4 million, respectively.

Our Business

We are a global life sciences company dedicated to helping our customers make scientific discoveries and applying those discoveries to ultimately improve the quality of life. Our systems and reagents enable, simplify and accelerate a broad spectrum of biological research of genes, proteins and cells within academic and life science research and commercial applications. Our scientific expertise assists in making biodiscovery research techniques more effective and efficient for pharmaceutical, biotechnology, agricultural, clinical, government and academic scientific professionals with backgrounds in a wide range of scientific disciplines.

Table of Contents

The Company offers many different products and services, and is continually developing and/or acquiring others. Some of our specific product categories include the following:

Capillary electrophoresis, SOLiD™, and Ion Torrent™ DNA sequencing systems and reagents, which are used to discover sources of genetic and epigenetic variation, to catalog the DNA structure of organisms, to verify the composition of genetic research material, and to apply these genetic analysis discoveries in markets such as forensic human identification and diagnostics.

High-throughput gene cloning and expression technology, which allows customers to clone and expression-test genes on an industrial scale.

Pre-cast electrophoresis products, which improve the speed, reliability and convenience of separating nucleic acids and proteins.

Antibodies, which allow researchers to capture and label proteins, visualize their location through the use of dyes and discern their role in disease.

Magnetic beads, which are used in a variety of settings, such as attachment of molecular labels, nucleic acid purification, and organ and bone marrow tissue type testing.

Molecular Probes fluorescence-based technologies, which facilitate the labeling of molecules for biological research and drug discovery.

Transfection reagents, which are widely used to transfer genetic elements into living cells enabling the study of protein function and gene regulation.

PCR and Real Time PCR systems, reagents and assays, which enable researchers to amplify and detect targeted nucleic acids (DNA and RNA molecules) for a host of applications in molecular biology.

Cell culture media and reagents used in the scale-up and manufacture of biological drugs at cGMP facilities.

RNA Interference reagents, which enable scientists to selectively turn off genes in biology systems to gain insight into biological pathways.

The Company has modified its financial reporting from our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 into three new business groups to better reflect its internal organization and end markets. These business groups are Research Consumables, Genetic Analysis, and Applied Sciences. The Company's internal organization had previously been structured around its technology platforms of Molecular Biology Systems, Genetic Systems and Cell Systems. The Company has reclassified the historically presented business group revenue to conform to the current year presentation. The reclassification had no impact on previously reported consolidated results of operations or financial position.

The Research Consumables business group includes our molecular and cell biology reagents, endpoint PCR and other benchtop instruments and consumables. These products include RNAi, DNA synthesis, sample prep, transfection, cloning and protein expression profiling and protein analysis, cell culture media used in research, stem cells and related tools, cellular imaging products, antibodies and cell therapy related products.

Edgar Filing: Life Technologies Corp - Form 10-Q

The Genetic Analysis business group includes our capillary electrophoresis (also referred to as CE) instruments used for research applications and all CE consumables, real-time and digital qPCR instruments used in research applications and all qPCR consumables and genomic assays, as well as our next generation sequencing systems and reagents for the SOLiD and Ion Torrent systems.

The Applied Sciences business group includes our BioProduction, forensics and animal health and food safety reagent kits, CE and qPCR instruments that are used in applied markets applications and our medical sciences business which includes our molecular medicine products and services and transplant diagnostics.

CRITICAL ACCOUNTING POLICIES

Our critical accounting policies are those that require significant judgment. For additional information on our critical accounting policies, see our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, and for additional information on the recent accounting pronouncements impacting our business, see Note 1 of the Notes to Consolidated Financial Statements.

Table of Contents**RESULTS OF OPERATIONS****Third Quarter of 2012 Compared to the Third Quarter of 2011**

The following table compares revenues and gross profit for the Third quarter of 2012 and 2011:

(in millions) (unaudited)	Three months ended September 30,		\$ Decrease	% Decrease
	2012	2011		
Research Consumables	\$ 384.4	\$ 394.7	\$ (10.3)	(3)%
Genetic Analysis	353.4	357.7	(4.3)	(1)%
Applied Sciences	173.5	174.1	(0.6)	0%
Corporate and other	(0.1)	1.7	(1.8)	NM
Total revenues	\$ 911.2	\$ 928.2	\$ (17.0)	(2)%
Total gross profit	\$ 478.5	\$ 539.2	\$ (60.7)	(11)%
Total gross profit %	52.5%	58.1%		

Revenue

The Company's revenues decreased by \$17.0 million or 2% for the third quarter of 2012 compared to the third quarter of 2011. The decrease in revenue was driven primarily by a decrease of \$30.6 million in unfavorable currency impacts, net of hedging, partially offset by a net increase of \$11.5 million in volume and pricing. Volume and pricing relates to the impact on revenue due to existing and new product total unit sales as well as year over year change in unit pricing and its impact on gross revenue.

The Company operates our business under three business groups—Research Consumables, Genetic Analysis, and Applied Sciences. Revenue for the Research Consumables business group decreased by \$10.3 million or 3% in the third quarter of 2012 compared to the third quarter 2011. This decrease was driven primarily by a decrease of \$13.1 million in unfavorable currency impacts, net of hedging, partially offset by a net increase of \$2.3 million in volume and pricing. Revenue for the Genetic Analysis business group decreased \$4.3 million or 1% for the third quarter of 2012 compared to the third quarter of 2011. This decrease was driven primarily by a decrease of \$11.9 million in unfavorable currency impacts, net of hedging, partially offset by a \$6.4 million net increase from volume and pricing. Revenue for the Applied Sciences business group decreased by \$0.6 million for the third quarter of 2012 compared to the third quarter of 2011. The decrease was primarily driven by a decrease of \$5.6 million in unfavorable currency impacts, net of hedging, partially offset by a \$2.8 million net increase from volume and pricing.

Changes in exchange rates of foreign currencies, especially in the euro, British pound, and Japanese yen, can significantly increase or decrease our reported revenue on sales made in these currencies and could result in a material positive or negative impact on our reported results. In addition to currency exchange rates, we expect that future revenues will be affected by, among other things, new product introductions, competitive conditions, customer research budgets, government research funding, the rate of expansion of our customer base, price increases, product discontinuations, and acquisitions or dispositions of businesses or product lines.

Gross Profit

Gross profit decreased \$60.7 million or 11% in the third quarter of 2012 compared to the third quarter of 2011. The decrease in gross profit was primarily driven by a verdict of \$48.5 million on a case in litigation and \$25.1 million in unfavorable currency impacts, net of hedging, partially offset by an \$8.0 million net increase from price, volume, and product mix.

Operating Expenses

The following table compares operating expenses for the third quarter of 2012 and 2011:

Edgar Filing: Life Technologies Corp - Form 10-Q

(in millions) (unaudited)	Three months ended September 30,					
	2012	As a percentage of revenues	2011	As a percentage of revenues	\$ Increase/ (Decrease)	% Increase/ (Decrease)
Operating Expenses:						
Selling, general and administrative	\$ 270.6	30%	\$ 251.8	27%	\$ 18.8	7%
Research and development	84.8	9%	103.9	11%	(19.1)	(18)%
Business consolidation costs	10.6	1%	23.1	2%	(12.5)	(54)%

Table of Contents

Selling, general and administrative

For the third quarter of 2012, selling, general and administrative expenses increased \$18.8 million or 7% compared to the third quarter of 2011. This increase was driven primarily by an \$11.4 million increase from a legal settlement, a \$5.8 million increase in travel and discretionary spending, primarily due to lower spending in the third quarter of 2011, a \$5.7 million increase of depreciation, amortization, and license fees, a \$2.9 million increase in compensation and benefits, and a \$2.8 million increase in purchased services, partially offset by \$8.2 million of favorable currency impacts. As a percentage of revenue, the costs are up 1% from the prior period when excluding the above mentioned legal settlement.

Research and development

For the third quarter of 2012, research and development expenses decreased \$19.1 million or 18% compared to the third quarter of 2011. The decrease was primarily driven by a \$13.7 million fair value adjustment to the contingent consideration liability that was recognized during the third quarter of 2011, and a \$4.3 million decrease in compensation and benefits. The Company continues to invest in research and development programs, however as a percentage of revenue, the costs are down from the prior year as a result of the activities that have contributed to increased efficiency in research and development spending.

Business Integration Costs

Business integration costs for the third quarter of 2012 were \$10.6 million, compared to \$23.1 million for the third quarter of 2011. The expenses for both periods primarily include costs of integration and restructuring efforts for our acquisitions and divestitures activities.

Other Income (Expense)

Interest Income

Interest income was \$0.4 million for the third quarter of 2012 compared to \$0.9 million for the third quarter of 2011.

Interest income in the future will be affected by changes in short-term interest rates and changes in cash balances, which may materially increase or decrease as a result of operations, acquisitions, debt repayment, stock repurchase programs and other activities.

Interest Expense

Interest expense was \$29.3 million for the third quarter of 2012 compared to \$38.0 million for the third quarter of 2011. The decrease in interest expense was primarily driven by lower debt balances driven by the payoff of the 2024 Convertible Senior Notes in February 2012. The payoff of the 2024 Notes resulted in \$5.1 million lower non-cash interest expense for the three months ended September 30, 2012 which was based on a bifurcation requirement, as prescribed by ASC Topic 470-20, *Debt with Conversion and Other Options*.

Other Expense, Net

Other expense, net, was \$2.8 million for the third quarter of 2012 compared to \$3.0 million for the same period of 2011. Included in the third quarter of 2012 and 2011 were foreign currency losses of \$1.4 million and \$2.8 million, net of hedging activities, respectively, driven by currency fluctuation in major currencies.

Provision for Income Taxes

The provision for income taxes as a percentage of pre-tax income from continuing operations was 18.9% for the third quarter of 2012 compared with 20.2% for the third quarter of 2011. The lower third quarter 2012 effective tax rate was primarily driven by a lower proportion of pretax earnings in high tax jurisdictions offset by the 2012 expiration of the federal research credit. The third quarter 2012 effective tax rate of 18.9% was lower than the estimated rate for the year of 22.9% primarily due to a lower proportion of pre-tax earnings in high tax jurisdictions as a result of a legal verdict recorded in the quarter, offset by an increase in tax reserves.

Table of Contents

First Nine Months of 2012 Compared to the First Nine Months of 2011

The following table compares revenues and gross profit for the first nine months of 2012 and 2011:

(in millions) (unaudited)	Nine months ended September 30,		\$ Increase/ (Decrease)	% Increase/ (Decrease)
	2012	2011		
Research Consumables	\$ 1,207.3	\$ 1,196.6	\$ 10.7	1%
Genetic Analysis	1,062.2	1,065.8	(3.6)	0%
Applied Sciences	528.6	498.3	30.3	6%
Corporate and other	1.5	4.5	(3.0)	NM
Total revenues	\$ 2,799.6	\$ 2,765.2	\$ 34.4	1%
Total gross profit	\$ 1,576.8	\$ 1,582.9	\$ (6.1)	0%
Total gross profit %	56.3%	57.2%		

Revenue

The Company's revenues increased by \$34.4 million or 1% for the first nine months of 2012 compared to the first nine months of 2011. The increase in revenue was driven primarily by a \$50.9 million net increase in volume and pricing, and \$5.0 million associated with acquisitions, partially offset by a decrease of \$10.0 million in unfavorable currency impacts, net of hedging, a \$7.7 million decrease from divestiture activities, and a net decrease of \$5.5 million from royalties including licensing settlements and product discontinuation. Volume and pricing relates to the impact on revenue due to existing and new product total unit sales as well as year over year change in unit pricing and its impact on gross revenue.

The Company operates our business under three business groups: Research Consumables, Genetic Analysis, and Applied Sciences. Revenue for the Research Consumables business group increased by \$10.7 million or 1% in the first nine months of 2012 compared to the first nine months of 2011. This increase was driven primarily by \$8.9 million in net increase from volume and pricing, and an increase of \$5.0 million from royalties including licensing settlements, partially offset by a decrease of \$3.3 million in unfavorable currency impacts, net of hedging. Revenue for the Genetic Analysis business group decreased \$3.6 million for the first nine months of 2012 compared to the first nine months of 2011. This decrease was driven primarily by a net decrease of \$13.7 million from royalties including licensing settlements, and a decrease of \$4.4 million in unfavorable currency impacts, partially offset by a \$14.3 million net increase from volume and pricing. Revenue for the Applied Sciences business group increased by \$30.3 million or 6% for the first nine months of 2012 compared to the first nine months of 2011. This increase was driven primarily by \$27.7 million in net increase from volume and pricing, and \$5.0 million associated with acquisitions, partially offset by a decrease of \$2.4 million in unfavorable currency impacts, net of hedging.

Changes in exchange rates of foreign currencies, especially in the euro, British pound, and Japanese yen, can significantly increase or decrease our reported revenue on sales made in these currencies and could result in a material positive or negative impact on our reported results. In addition to currency exchange rates, we expect that future revenues will be affected by, among other things, new product introductions, competitive conditions, customer research budgets, government research funding, the rate of expansion of our customer base, price increases, product discontinuations, and acquisitions or dispositions of businesses or product lines.

Gross Profit

Gross profit decreased \$6.1 million in the first nine months of 2012 compared to the first nine months of 2011. The decrease in gross profit was primarily driven by a verdict of \$48.5 million on a case in litigation, partially offset by a \$38.7 million net increase from price, volume, and product mix, and a \$7.3 million decrease in purchased intangible amortization.

Operating Expenses

The following table compares operating expenses for the first nine months of 2012 and 2011:

Edgar Filing: Life Technologies Corp - Form 10-Q

(in millions) (unaudited)	Nine months ended September 30,					
	2012	As a percentage of revenues	2011	As a percentage of revenues	\$ Increase/ (Decrease)	% Increase/ (Decrease)
Operating Expenses:						
Selling, general and administrative	\$ 790.0	28%	\$ 759.4	27%	\$ 30.6	4%
Research and development	258.2	9%	287.7	10%	(29.5)	(10)%
Business consolidation costs	34.3	1%	56.5	2%	(22.2)	(39)%

Table of Contents

Selling, general and administrative

For the first nine months of 2012, selling, general and administrative expenses increased \$30.6 million or 4% compared to the first nine months of 2011. This increase was driven primarily by a \$13.8 million increase in compensation and benefits, a \$12.5 million increase in purchased services, an \$11.4 million increase from a legal settlement, and an \$8.5 million increase from travel and discretionary spending, partially offset by \$14.5 million of favorable currency impacts. As a percentage of revenue, the costs are relatively flat compared to the prior year when excluding the above mentioned legal settlement.

Research and development

For the first nine months of 2012, research and development expenses decreased \$29.5 million or 10% compared to the first nine months of 2011. The decrease was primarily driven by a \$14.1 million decrease in compensation and benefits and a \$13.7 million fair value adjustment to the contingent consideration liability that was recognized during the third quarter of 2011. The Company continues to invest in research and development programs, however as a percentage of revenue, the costs are down from the prior year as a result of the activities that have contributed to increased efficiency in research and development spending.

Business Integration Costs

Business integration costs for the first nine months of 2012 were \$34.3 million, compared to \$56.5 million for the first nine months of 2011. The expenses for both periods primarily include costs of integration and restructuring efforts for our acquisitions and divestitures activities.

Other Income (Expense)

Interest Income

Interest income was \$1.7 million for the first nine months of 2012 compared to \$3.0 million for the first nine months of 2011.

Interest income in the future will be affected by changes in short-term interest rates and changes in cash balances, which may materially increase or decrease as a result of operations, acquisitions, debt repayment, stock repurchase programs and other activities.

Interest Expense

Interest expense was \$94.3 million for the first nine months of 2012 compared to \$123.9 million for the first nine months of 2011. The decrease in interest expense was primarily driven by lower debt balances driven by the payoff of the 2024 and 2025 Convertible Senior Notes in February 2012 and June 2011, respectively, partially offset by \$3.7 million charged as a result of the extinguishment of a line of credit during the nine months ended September 30, 2012. The payoff of the 2024 and 2025 Notes resulted in \$17.8 million lower non-cash interest expense for the nine months ended September 30, 2012, which was based on a bifurcation requirement as prescribed by ASC Topic 470-20, *Debt with Conversion and Other Options*.

Other Expense, Net

Other expense, net, was \$11.1 million for the first nine months of 2012 compared to \$8.0 million for the same period of 2011. Included in the first nine months of 2012 was \$5.3 million of charges associated with divestiture related activities and foreign currency losses of \$2.6 million. Included in the first nine months of 2011 were foreign currency losses of \$6.5 million. The foreign currency losses for both periods are net of hedging activities and driven by currency fluctuation in major currencies.

Provision for Income Taxes

The provision for income taxes as a percentage of pre-tax income from continuing operations was 17.9% for the first nine months of 2012 compared with 18.7% for the first nine months of 2011. The first nine months 2012 effective tax rate of 17.9% was lower than the prior year effective tax rate of 18.7% primarily due to tax benefits associated with the Company's election to utilize the single sales factor for apportioning income to California and the release of reserves for uncertain tax positions, offset by the loss of the federal research tax credit in 2012.

Table of Contents

The differences between the U.S. federal statutory tax rate and the Company's effective tax rate without the discrete items are as follows:

Statutory U.S. federal income tax rate	35.0 %
State income tax	0.9
Foreign earnings taxed at non-U.S. rates	(5.8)
Foreign earnings subject to tax holidays	(3.0)
Benefits from intercompany financing	(1.8)
Deemed repatriation of foreign earnings, net of related benefits	(0.7)
Audit settlements	0.5
Credits and incentives	(4.3)
Valuation allowance	0.4
Non-deductible compensation & other adjustments	1.7
Annual effective income tax rate	22.9%

LIQUIDITY AND CAPITAL RESOURCES

Our future capital requirements and the adequacy of our available funds will depend on many factors, including future business acquisitions, debt repayment, share repurchases, scientific progress in our research and development programs and the magnitude of those programs, our ability to establish collaborative and licensing arrangements, the cost involved in preparing, filing, prosecuting, maintaining and enforcing patent claims and competing technological and market developments. We intend to continue our strategic investment activities in new product development, in-licensing technologies and acquisitions that support our platforms.

Our working capital factors, such as inventory turnover and days sales outstanding, are seasonal and, on an interim basis during the year, may require an influx of short-term working capital. We believe our current cash and cash equivalents, investments, cash provided by operations and cash available from bank loans and lines of credit will satisfy our working capital requirements, debt obligations and capital expenditures for the foreseeable future. Future debt repayment, share repurchases, future acquisitions or additional payments for contingent consideration upon the achievement of milestones pertaining to previous acquisitions may be financed by a combination of cash on hand, positive cash flow generation, a revolving credit facility, or an issuance of new debt or stock. In addition, we will continue to monitor the global economic environment, including that of the Eurozone, to ensure that we continue to have adequate available funds to support domestic and international operations.

The Company will continuously assess the most appropriate method of financing the Company's short and long term operations. While conditions of the credit market at any given time may impact our ability to obtain credit, the Company believes that it has the ability to raise funding, if needed, through public and private markets at reasonable rates based on the Company's risk profile, along with its history of strong cash generation and timely debt repayments.

It is the Company's intention to indefinitely reinvest a majority of, if not all, current foreign earnings in order to ensure sufficient working capital and expand existing operations outside the United States. Additionally, the Company intends to use unrepatriated cash held by our foreign subsidiaries to fund future foreign investments, including acquisitions. While the Company has repatriated significant earnings in the past, primarily due to certain debt obligations and covenants which no longer exist, similar repatriation of earnings is no longer expected or required. In addition to cash on hand in the United States, the Company has the ability to raise cash through bank loans, debt obligations or by settling loans with its foreign subsidiaries in order to cover the domestic needs. Accordingly, it is the intention of the Company management to indefinitely reinvest a majority of, if not all, current earnings from foreign operations. For those limited foreign earnings which the Company, in the past, had determined will not be indefinitely reinvested, management has recorded the appropriate tax obligations in the statement of operations. In the event the Company is required to repatriate funds outside of the United States, such repatriation would be subject to local laws and tax consequences.

Cash and cash equivalents were \$274.2 million at September 30, 2012, a decrease of \$564.6 million from December 31, 2011, primarily due to cash used in financing activities of \$980.5 million, cash used in investing activities of \$140.4 million, and the effect of exchange rates on cash of \$0.4 million, offset by cash provided by operating activities of \$556.8 million. Further discussion surrounding the makeup of each cash flow component movement for the first nine months of 2012 is listed below.

Table of Contents

Operating Activities

Operating activities provided net cash of \$556.8 million through the first nine months of 2012 primarily from our net income of \$320.5 million plus net non-cash charges of \$278.8 million, offset by a decrease in cash from operating assets and liabilities of \$42.5 million. Non-cash charges were primarily comprised of amortization of intangibles of \$226.8 million, depreciation of \$93.6 million, stock-based compensation expense of \$65.3 million, amortization of deferred debt issuance costs of \$7.0 million, and other non-cash adjustments of \$6.9 million, offset by a change in deferred income taxes which resulted in a use of cash of \$122.6 million which primarily related to the recapture of interest expense on the redemption of the 2024 Notes, and \$7.3 million of incremental tax benefits from the exercise of stock options. The decrease of \$42.5 million in cash within operating assets and liabilities was mainly due to a \$72.5 million decrease in accrued expenses and other liabilities which was primarily driven by the timing of interest payments and the annual bonus payments, a \$13.8 million increase in inventories, a \$9.4 million increase in trade accounts receivable, and a \$8.6 million decrease in accounts payable. These were partially offset by a \$47.8 million increase from the currency impact related to intercompany settlements, and a \$16.9 million decrease in prepaid expenses and other current assets. The movement in cash as a result of changes in operating assets and liabilities is consistent with normal ongoing operations.

As of September 30, 2012, we had cash and cash equivalents of \$274.2 million, short-term investments of \$9.7 million, and restricted cash of \$15.4 million. Our working capital was \$474.0 million as of September 30, 2012 including restricted cash. Our funds for cash and cash equivalents are currently primarily invested in marketable securities, money market funds, and bank deposits with maturities of less than three months. Cash and cash equivalents held by our foreign subsidiaries at September 30, 2012 was approximately \$254.0 million.

The Company's pension plans and post retirement benefit plans are funded in accordance with local statutory requirements or by voluntary contributions. The funding requirement is based on the funded status, which is measured by using various actuarial assumptions, such as interest rate, rate of compensation increase, or expected return on plan assets. The Company's future contribution may change when new information is available or local statutory requirement is changed. Any large funding requirements would be a reduction to operating cash flow. At the current time, the Company is in compliance with all funding requirements.

Investing Activities

Net cash used in investing activities through the first nine months of 2012 was \$140.4 million. The primary drivers were cash paid for business combinations of \$69.1 million, \$68.7 million for the purchases of property and equipment, partially offset by \$19.1 million in proceeds from the sale of investments, \$10.1 million of cash outflows associated with the divestiture of an equity investment, and \$8.0 million for the purchases of investments.

The Company completed several acquisitions in the past that were not material individually or collectively to the overall consolidated financial statements and its results of operations. The results of operations for these acquisitions were included in the Company's results from the date of acquisition. Pursuant to the purchase agreements for certain acquisitions, the Company could be required to make additional contingent payments in cash or a combination of cash and the Company's common stocks based on certain technological milestones or operational milestones. The Company has sufficient cash on hand, positive cash flow generation and a revolving credit facility to fund such contingent payments if they become due.

For more information on our acquisition related obligations, refer to Note 5 of the Consolidated Financial Statements, Commitments and Contingencies.

Financing Activities

Net cash used in financing activities during the first nine months of 2012 was \$980.5 million. The primary drivers were \$558.2 million for the purchase of treasury stock, \$561.0 million for principal payments of short-term obligations, \$450.0 million for principal payments on long-term obligations, and \$164.0 million for business combination milestone payments, partially offset by proceeds from short-term obligations of \$701.0 million, the exercise of employee stock options and purchase rights of \$47.8 million and \$7.3 million of incremental tax benefits from the exercise of stock options.

During the nine months ended September 30, 2012, the Company settled the \$300.0 million Ion Torrent milestone in a combination of \$192.4 million in cash, and in 2.7 million shares of the Company's common stock or the equivalent of \$107.6 million at the time of settlement. Of the \$192.4 million settled in cash, \$161.4 million was classified as a financing activity and \$31.0 million was classified as an operating activity commensurate with the nature of the payments.

Long-Term Debt

Edgar Filing: Life Technologies Corp - Form 10-Q

During February 2012, the Company redeemed the outstanding balance of the 1 1/2% Convertible Senior Notes (2024 Notes), with no excess of the 2024 Notes' conversion value over par, for \$450.0 million of cash. The settlement was funded by cash on hand including proceeds from the Senior Notes offering made during the fiscal year 2010, and a portion from cash drawn on the \$750.0 million revolving credit facility which the Company secured in February 2012. The redemption of the 2024 Notes triggered increased expected tax payments in 2012 by approximately \$85.0 million, a significant portion of which was paid in the third quarter of 2012 and reflected in operating cash flow activities, with the remaining estimated payment to be made in the fourth quarter of 2012.

Table of Contents

In June 2011, the Company settled the outstanding balance of the 3 1/4% Convertible Senior Notes (the 2025 Notes). Total cash consideration of \$350.0 million and 0.4 million shares of the Company's common stock were issued to settle the par value and the excess of the Notes' conversion value based on a conversion price of \$49.13 per share. The Company funded the repayment of the 2025 Notes by using cash on hand, cash generated from operating activities and a portion of the net proceeds from the Senior Notes offerings made during the fiscal year 2010.

During the fiscal year 2010, the Company filed a prospectus that allows the Company to issue, in one or more offerings, senior or subordinated debt securities covered by the prospectus by filing a prospectus supplement that contains specific information about the securities and specific terms being offered. Under the prospectus, the Company has issued a principal amount of \$2,300.0 million of fixed unsecured and unsubordinated Senior Notes (the Notes). A portion of the net proceeds from the Senior Notes offering was used to retire the Company's \$350.0 million 3 1/4% Convertible Senior Notes (2025 Notes) in June 2011 and the Company's \$450.0 million 1/2% Convertible Senior Notes (2024 Notes) in February 2012.

The Credit Agreement

In February 2012, the Company entered into a new credit agreement (the Revolving Credit Facility) for \$750.0 million for the purpose of general working capital, capital expenditures, and/or other capital needs. During the nine months ended September 30, 2012, the Company withdrew \$701.0 million on the Revolving Credit Facility and repaid \$561.0 million, for an outstanding balance of \$140.0 million as of September 30, 2012. Additionally, the Company has \$10.4 million of letters of credit outstanding under the Revolving Credit Facility and accordingly, the remaining available credit is \$599.6 million. The Company may make additional draws on the Revolving Credit Facility, as deemed necessary. Refer to Note 4 of the Consolidated Financial Statements - Lines of Credit.

During the nine months ended September 30, 2012, the Company extinguished the previously existing revolving credit facility of \$500.0 million. As a result, the Company recognized a \$3.7 million loss, recorded in interest expense, on unamortized deferred financing costs associated with the termination of the \$500.0 million revolving credit facility.

Stock Repurchase Program

In July 2012, the Board of Directors of the Company approved a program (the July 2012 program) authorizing management to repurchase up to \$750.0 million of common stock. During the nine months ended September 30, 2012, the Company repurchased 2.9 million shares of its common stock under this program at a total cost of \$138.0 million. As of September 30, 2012, there was \$612.0 million of authorization remaining under this program.

In July 2011, the Board of Directors of the Company approved a program (the July 2011 program) authorizing management to repurchase up to \$200.0 million of common stock. During the nine months ended September 30, 2012, the Company repurchased 4.6 million shares of its common stock under this program at a total cost of \$200.0 million, the maximum amount authorized, thereby completing the July 2011 program.

In December 2010, the Board of Directors of the Company approved a program (the December 2010 program), authorizing management to repurchase up to \$500.0 million of common stock. During the year ended December 31, 2011, the Company repurchased 6.4 million shares of its common stock under this program at a total cost of \$303.0 million. During the nine months ended September 30, 2012, the Company repurchased an additional 4.3 million shares of its common stock at a total cost of \$197.0 million, thereby completing the December 2010 program by repurchasing an aggregate of 10.7 million shares at a total cost of \$500.0 million, the maximum amount authorized.

In July 2010, the Board of Directors of the Company approved a program (the July 2010 program) authorizing management to repurchase up to \$520.0 million of common stock over the next two years. During the year ended December 31, 2010, the Company completed repurchasing 8.4 million shares at a total cost of \$436.6 million. During the nine months ended September 30, 2011, the Company repurchased an additional 1.5 million shares of its common stock at a total cost of \$83.4 million, thereby completing the July 2010 program by repurchasing an aggregate of 9.9 million shares at a total cost of \$520.0 million, the maximum amount authorized.

In addition, the Company's employee stock plan allows for certain net share settlement of stock awards. The Company accounts for the net share settlement withholding as a treasury share repurchase transaction. The cost of repurchasing shares is included in treasury stock and reported as a reduction in total equity when a repurchase occurs.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any material off balance sheet arrangements. For further discussion on the Company's commitments and contingencies, refer to Note 5 of the Consolidated Financial Statements, Commitments and Contingencies.

Table of Contents

CONTRACTUAL OBLIGATIONS

The Company did not enter into any material contractual obligations during the nine months ended September 30, 2012. The Company has no material contractual obligations not fully recorded on our Consolidated Balance Sheets or fully disclosed in the Notes to our Consolidated Financial Statements.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk related to changes in foreign currency exchange rates, commodity prices and interest rates, and we selectively use financial instruments to manage these risks. We do not enter into financial instruments for speculation or trading purposes. These financial exposures are monitored and managed by us as an integral part of our overall risk management program, which recognizes the unpredictability of financial markets and seeks to reduce potentially adverse effects on our results.

Foreign Currency

We translate the financial statements of each foreign subsidiary with a functional currency other than the United States dollar into the United States dollar for consolidation using end-of-period exchange rates for assets and liabilities and average exchange rates during each reporting period for results of operations. Net gains or losses resulting from the translation of foreign financial statements and the effect of exchange rate changes on intercompany receivables and payables of a long-term investment nature are recorded as a separate component of stockholders equity. These adjustments will affect net income only upon sale or liquidation of the underlying investment in foreign subsidiaries. Net gains and losses resulting from the effect of exchange rate changes on intercompany receivables and payables of a short-term nature are recorded in the results of operations as other income (expense).

Foreign Currency Transactions

We have operations through legal entities in Europe, Asia-Pacific and the Americas. As a result, our financial position, results of operations and cash flows can be affected by fluctuations in foreign currency exchange rates. As of September 30, 2012, the Company had \$421.7 million of accounts receivable and \$30.9 million of accounts payable, respectively, denominated in a foreign currency. These accounts receivables and payables are denominated either in the functional currency of the legal entity or in a currency that differs from the functional currency of the legal entity owning the receivable or payable. For receivables and payables denominated in the legal entity's functional currency, the Company does not have financial statement risk, and therefore does not hedge such transactions. For those receivables and payables denominated in a currency that differs from the functional currency of the legal entity, the Company hedges such transactions to prevent financial statement risk. As a result, a hypothetical movement in foreign currency rates would not be expected to have a material financial statement impact on the settlement of these outstanding receivables and payables.

Both realized and unrealized gains and losses on the value of these receivables and payables were included in other income (expense) in the Consolidated Statements of Operations and Comprehensive Income. Net currency exchange losses recognized on business transactions, net of hedging transactions, were \$1.4 million and \$2.6 million for the three and nine months ended September 30, 2012, respectively. These gains and losses arise from the timing of cash collections compared to the hedged transactions, which can vary based on timing of actual customer payments and intercompany settlements.

The Company's intercompany foreign currency receivables and payables are primarily concentrated in the euro, British pound, and Japanese yen. Historically, the Company has used foreign currency forward contracts to mitigate foreign currency risk on these intercompany foreign currency receivables and payables. At September 30, 2012, the Company had a notional principal amount of \$950.0 million in foreign currency forward contracts outstanding, predominantly to hedge currency risk on specific intercompany receivables and payables denominated in a currency that differs from the legal entity's functional currency. These foreign currency forward contracts, as of September 30, 2012, which settle in October 2012 through January 2013, effectively fix the exchange rate at which these specific receivables and payables will be settled, so that gains or losses on the forward contracts offset the losses or gains from changes in the value of the underlying receivables and payables. At September 30, 2012, the Company does not expect there will be a significant impact from unhedged foreign currency intercompany transactions.

The notional principal amounts provide one measure of the transaction volume outstanding as of period end, but do not represent the amount of our exposure to market loss. In many cases, outstanding principal amounts offset assets and liabilities and the Company's exposure is significantly less than the notional amount. The estimates of fair value are based on applicable and commonly used pricing models using prevailing financial market information. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

Table of Contents

Cash Flow Hedges

The ultimate United States dollar value of future foreign currency sales generated by our reporting units is subject to fluctuations in foreign currency exchange rates. In the past, the Company has used foreign currency forward contracts to mitigate foreign currency risk on forecasted foreign currency sales to limit the exposure from changes in currency exchange rates. At September 30, 2012, the Company did not have foreign currency forward contracts outstanding to hedge foreign currency revenue risk under *ASC Topic 815, Derivatives and Hedging*. The Company will continuously monitor the impact of foreign currency risk upon the financial results as part of the Company's risk management program and at management's discretion may enter into derivative transactions.

Refer to Note 9 of the Consolidated Financial Statements, *Fair Value of Financial Instruments*, for more information on the Company's hedging programs.

Commodity Prices

Our exposure to commodity price changes relates to certain manufacturing operations that utilize certain commodities as raw materials. We manage our exposure to changes in those prices primarily through our procurement and sales practices.

Interest Rates

Our investment portfolio is maintained in accordance with our investment policy that defines allowable investments, specifies credit quality standards and limits the credit exposure of any single issuer. The fair value of our cash equivalents, marketable securities, short-term investments, and derivatives is subject to change as a result of changes in market interest rates and investment risk related to the issuers' credit worthiness or our own credit risk. The Company uses credit default swap spread to derive risk-adjusted discount rate to measure the fair value of some of our financial instruments. At September 30, 2012 we had \$299.3 million in cash, cash equivalents, restricted cash and short-term investments, all of which approximated the fair value. Changes in market interest rates would not be expected to have a material impact on the fair value of these assets as these assets consist of highly liquid securities with short-term maturities. The Company accounts for the \$27.6 million of its long-term investments under the cost method and due to the nature of these investments, mainly non-public and early stage companies, the Company believes calculating a fair value thereon not to be practicable. Thus, changes in market interest rates would not be expected to have an impact on these investments.

As of September 30, 2012, the Company had a carrying value of \$2,296.0 million in debt with fixed interest rates, thus, the variability in market interest rates would not be expected to have a material impact on our scheduled interest payments. The Company will continuously assess the most appropriate method of financing the Company's short and long term operations.

Refer to Note 9 of the Consolidated Financial Statements, *Fair Value of Financial Instruments*, for more information on the Company's financial instruments.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. We are responsible for maintaining disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Disclosure controls and procedures are controls and other procedures designed to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Based on our management's evaluation (with the participation of our Chief Executive Officer and Chief Financial Officer) of our disclosure controls and procedures as required by Rule 13a-15 under the Securities Exchange Act, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to achieve their stated purpose as of September 30, 2012, the end of the period covered by this report.

Table of Contents**PART II. OTHER INFORMATION****ITEM 1. Legal Proceedings**

We are subject to potential liabilities under government regulations and various claims and legal actions that are pending or may be asserted. These matters arise in the ordinary course and conduct of our business, and, at times, as a result of our acquisitions and dispositions. They include, for example, commercial, intellectual property, environmental, securities, and employment matters. Some are expected to be covered, at least partly, by insurance. We intend to continue to defend ourselves vigorously in such matters. We regularly assess contingencies to determine the degree of probability and range of possible loss for potential accrual in our financial statements. An estimated loss contingency is accrued in our financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Based on our assessment, we currently have accrued an immaterial amount in our financial statements for contingent liabilities associated with these legal actions and claims. Litigation is inherently unpredictable, and unfavorable resolutions could occur. As a result, assessing contingencies is highly subjective and requires judgment about future events. The amount of ultimate loss may exceed our current accruals, and it is possible that our cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies.

ITEM 1A. Risk Factors

You should consider the risks and uncertainties described under Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which we filed with the Securities and Exchange Commission on February 29, 2012, together with all other information contained or incorporated by reference in this Quarterly Report on Form 10-Q when evaluating our business and our prospects. The risks and uncertainties described in Item 1A Risk Factors of our Annual Report on Form 10-K have not materially changed. If any of the risks and uncertainties described in our Annual Report on Form 10-K or this Quarterly Report on Form 10-Q actually occurs, our business, financial condition, results of operations and our future growth prospects could be materially and adversely affected.

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

a) None.

b) None.

c) The following table contains information about our purchases of equity securities during the third quarter of 2012:

		(a) Total Number of Shares (or Units) purchased	(b) Average Price Paid per Share	(c) Total Dollar of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 1	July 31	175,920	44.88	7,895,712	\$ 811,994,989
August 1	August 31	3,344,569	46.75	156,372,930	655,622,059
September 1	September 30	907,258	48.08	43,624,683	611,997,376
Total		4,427,747	\$ 46.95	\$ 207,893,325	\$ 611,997,376

Edgar Filing: Life Technologies Corp - Form 10-Q

The Company did not make any share purchases other than through publically announced plans.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

None.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

Exhibits: For a list of exhibits filed with this report, refer to the Index to Exhibits.

Table of Contents

SIGNATURES

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

LIFE TECHNOLOGIES CORPORATION

Date: November 5, 2012

By: /s/ David F. Hoffmeister
David F. Hoffmeister

Chief Financial Officer

(Principal Financial Officer and Authorized
Signatory)

Table of Contents

INDEX TO EXHIBITS

EXHIBIT

NUMBER

DESCRIPTION OF DOCUMENT

3.1	Amended and Restated Certificate of Incorporation of Life Technologies Corporation (1)
3.2	Seventh Amended and Restated Bylaws of Life Technologies Corporation (2)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document (3)
101.SCH	XBRL Taxonomy Extension Schema (3)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase (3)
101.DEF	XBRL Taxonomy Extension Definition Linkbase (3)
101.LAB	XBRL Taxonomy Extension Labels Linkbase (3)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase (3)

- (1) Incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K, filed on April 28, 2011 (File No. 000-25317).
 (2) Incorporated by reference to Exhibit 3.2 to Registrant's Current Report on Form 8-K, filed on April 28, 2011 (File No. 000-25317).
 (3) Furnished, not filed.