BIO RAD LABORATORIES INC
Form 10-K
March 18, 2014

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

FORM 10-K
(Mark One)

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

For the year ended December 31, 2013
OR

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

For the transition period from _____ to _____

Commission file number 1-7928

BIO-RAD LABORATORIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	94-1381833
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1000 Alfred Nobel Drive, Hercules, California	94547
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (510) 724-7000
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock Par Value $0.0001 per share	New York Stock Exchange
Class B Common Stock Par Value $0.0001 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
ý Yes ¨ No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
¨ Yes ý No
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. ý 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 during the preceding 12 months (or for such shorter period
that the registrant was required to submit and post such files). ý Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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

Large accelerated filer	ý		Accelerated filer	¨
Non-accelerated file	¨	(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 Exchange Act). ¨ Yes ý No

As of June 30, 2013, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the Registrant's Class A Common Stock held by non-affiliates was approximately $2,226,524,962 and the aggregate market value of the registrant's Class B Common Stock held by non-affiliates was approximately $37,350,568.

As of March 5, 2014, there were 23,702,410 shares of Class A Common Stock and 5,091,990 of Class B Common Stock outstanding.

Documents Incorporated by Reference

	Document	Form 10-K Parts
(1)	Definitive Proxy Statement to be mailed to stockholders in connection with the registrant's 2014 Annual Meeting of Stockholders (specified portions)	III

BIO-RAD LABORATORIES, INC.

FORM 10-K DECEMBER 31, 2013

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PART I.

ITEM 1. BUSINESS

General

Founded in 1952 and incorporated in 1957, Bio-Rad Laboratories, Inc. (referred to in this report as “Bio-Rad,” “we,” “us,” and “our”) was initially engaged in the development and production of specialty chemicals used in biochemical, pharmaceutical and other life science research applications. We entered the field of clinical diagnostics with the development of our first test kit based on separation techniques and materials developed for life science research. Through internal research and development efforts and acquisitions we have expanded into various markets. Today, Bio-Rad manufactures and supplies the life science research, healthcare, analytical chemistry and other markets with a broad range of products and systems used to separate complex chemical and biological materials and to identify, analyze and purify their components.

As we broadened our product lines, we also expanded our geographical market. We have direct distribution channels in over 35 countries outside the United States through subsidiaries whose focus is sales, customer service and product distribution. In some regions, sales efforts are supplemented by distributors and agents.

Description of Business

Business Segments

Today, Bio-Rad operates in two industry segments designated as Life Science and Clinical Diagnostics. Both segments operate worldwide. Our Life Science segment and our Clinical Diagnostics segment generated 33% and 66%, respectively, of our net sales for the year ended December 31, 2013. We generated approximately 32% of our consolidated net sales for the year ended December 31, 2013 from U.S. sales and approximately 68% from sales in our remaining worldwide markets.

For a description of business and financial information on industry and geographic segments, see Note 14 of Item 8 of Part II of this report.

Life Science Segment

Our Life Science segment is at the forefront of discovery, creating advanced tools to answer complex biological questions. We are a market leader in the life sciences market, developing, manufacturing and marketing a range of more than 5,000 reagents, apparatus and laboratory instruments that serve a global customer base. Many of our products are used in established research techniques, biopharmaceutical production processes and food testing regimes. These techniques are typically used to separate, purify and identify biological materials such as proteins, nucleic acids and bacteria within a laboratory or production setting. We focus on selected segments of the life sciences market in proteomics (the study of proteins), genomics (the study of genes), biopharmaceutical production, cell biology and food safety. We currently estimate that the worldwide market for products in these selected segments was approximately $7 billion. Our principal life science customers include universities and medical schools, industrial research organizations, government agencies, pharmaceutical manufacturers, biotechnology researchers, food producers and food testing laboratories.

Clinical Diagnostics Segment

Our Clinical Diagnostics segment designs, manufactures, sells and supports test systems, informatics systems, test kits and specialized quality controls that serve clinical laboratories in the global diagnostics market. Our products currently address specific niches within the in vitro diagnostics (IVD) test market, and we seek to focus on the higher margin, higher growth segments of this market.

We supply more than 3,000 different products that cover more than 300 clinical diagnostic tests to the IVD test market. We currently estimate that the worldwide sales for products in the markets we serve were approximately $10 billion. IVD tests are conducted outside the human body and are used to identify and measure substances in a patient's tissue, blood or urine. Our products consist of reagents, instruments and software, typically provided to our customers as an integrated package to allow them to generate reproducible test results. Revenue in this business is highly recurring, as laboratories typically standardize test methodologies, which are dependent on a particular supplier's equipment, reagents and consumable products. An installed base of diagnostic test systems therefore typically creates an ongoing source of revenue through the sale of test kits for each sample analyzed on an installed system. Our principal clinical diagnostic customers include hospital laboratories, reference laboratories, transfusion laboratories and physician office laboratories.

Raw Materials and Components

We utilize a wide variety of chemicals, biological materials, electronic components, machined metal parts, optical parts, minicomputers and peripheral devices. Most of these materials and components are available from numerous sources and we have not experienced difficulty in securing adequate supplies.

Patents and Trademarks

We own numerous U.S. and international patents and trademarks. We also pay royalties on the sales of certain products under several patent license agreements. We view these patents, trademarks and license agreements as valuable assets; however, we believe that our ability to develop and manufacture our products depends primarily on our knowledge, technology and special skills rather than our patent and trademark positions.

Seasonal Operations and Backlog

Our business is not inherently seasonal. However, the European custom of concentrating vacation during the summer months usually tempers third quarter sales volume and operating income.

For the most part, we operate in markets characterized by short lead times and the absence of significant backlogs. Management has concluded that backlog information is not material to our business as a whole.

Sales and Marketing

We conduct our worldwide operations through an extensive direct sales force and service network, employing approximately 1,000 sales and service people around the world. Our sales force typically consists of experienced industry practitioners with scientific training, and we maintain a separate specialist sales force for each of our segments. We believe that this direct sales approach allows us to sell a broader range of our products and have more direct contact with our customers; however, we also use distributors and agents, particularly in many of our international markets.

Our customer base is broad and diversified. Our worldwide customer base includes (1) prominent university and research institutions, providing us access to more than 150,000 scientists in the U.S. alone; (2) hospital, public health and commercial laboratories; (3) other leading diagnostic manufacturers; and (4) leading companies in the biotechnology, pharmaceutical, chemical and food industries. In 2013, no single customer accounted for more than two percent of our total net sales. Our sales are affected by a number of external factors. For example, a number of our customers, particularly in the Life Science segment, are substantially dependent on government grants and research contracts for their funding. A significant reduction of government funding has in the past and will in the future have a detrimental effect on the results of this segment.

Most of our international sales are generated by our wholly-owned subsidiaries and their branch offices. Certain of these subsidiaries also have manufacturing facilities. Bio-Rad's international operations are subject to certain risks common to foreign operations in general, such as changes in governmental regulations, import restrictions and

foreign exchange fluctuations. However, our international operations are principally in developed nations, which we regard as presenting no significantly greater risks to our operations than are present in the United States.

Competition

The markets served by our product groups are highly competitive. Our competitors range in size from start-ups to large multinational corporations with significant resources and reach. We seek to compete primarily in market segments where our products and technology offer customers specific advantages over the competition.

Because of the breadth of its product lines, our Life Science segment does not face the same competitors for all of its products. Competitors in this market include GE Biosciences, Life Technologies, Merck Millipore and Thermo Fisher Scientific. We compete primarily based on meeting performance specifications and offering complete solutions.

Major competitors of our Clinical Diagnostics segment include Roche, Abbott Laboratories (Diagnostic Division), Siemens Medical Diagnostics Solutions, Danaher, Thermo Fisher, Becton Dickinson, bioMérieux, Ortho Clinical Diagnostics, Tosoh, Immucor and DiaSorin.

Research and Development

We conduct extensive research and development activities in all areas of our business, employing approximately 820 people worldwide in these activities. Research and development have played a major role in Bio-Rad's growth and are expected to continue to do so in the future. Our research teams are continuously developing new products and new applications for existing products. In our development of new products and applications, we interact with scientific and medical professionals at universities, hospitals and medical schools, and within our industry. We spent approximately $211.0 million, $209.2 million and $177.6 million on research and development activities in 2013, 2012 and 2011, respectively.

Regulatory Matters

The development, testing, manufacturing, marketing, post-market surveillance, distribution, advertising and labeling of certain of our products (primarily diagnostic products) are subject to regulation in the United States by the Center for Devices and Radiological Health of the United States Food and Drug Administration (FDA) and in other jurisdictions by state and foreign government authorities. FDA regulations require that some new products have pre-marketing clearance or approval by the FDA and require certain products to be manufactured in accordance with FDA's “good manufacturing practice” regulations, to be extensively tested and to be properly labeled to disclose test results and performance claims and limitations. After a product that is subject to FDA regulation is placed on the market, numerous regulatory requirements apply, including, for example, the requirement that we comply with recordkeeping and reporting requirements, such as the FDA’s medical device reporting regulations and reporting of corrections and removals. The FDA enforces these requirements by inspection and market surveillance. The FDA has authority to take various administrative and legal actions against us for our, or our products', failure to comply with relevant legal or regulatory requirements, including issuing warning letters, initiating product seizures, requesting or requiring product recalls or withdrawals, and other civil or criminal sanctions, among other things.

We are also subject to additional healthcare regulation and enforcement by the federal government and by authorities in the states and foreign jurisdictions in which we conduct our business. Such laws include, without limitation, state and federal anti-kickback, fraud and abuse, false claims, privacy and security and physician sunshine laws and regulations. If our operations are found to be in violation of any of such laws or any other governmental regulations that apply to us, we may be subject to penalties, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of our operations, exclusion from participation in federal and state healthcare

programs and imprisonment, any of which could adversely affect our ability to operate our business and our financial results.

Sales of our products will depend, in part, on the extent to which our products or diagnostic tests using our products will be covered by third-party payors, such as government health care programs, commercial insurance and managed healthcare organizations. These third-party payors are increasingly reducing reimbursements for certain medical products and services. In addition, the U.S. government, state legislatures and foreign governments have continued implementing cost containment programs, including price controls and restrictions on reimbursement. Adoption of price controls and cost-containment measures, and adoption of more restrictive policies in jurisdictions with existing controls and measures, could further limit our net revenue and results. Decreases in third-party reimbursement for our products or diagnostic tests using our products, or a decision by a third-party payor to not cover our products could reduce or eliminate utilization of our products and have a material adverse effect on our sales, results of operations and financial condition. In addition, state and federal healthcare reform measures have been and will be adopted in the future, any of which could limit the amounts that federal and state governments will pay for healthcare products and services, which could result in reduced demand for our products or additional pricing pressures.

As a multinational manufacturer and distributor of sophisticated instrumentation, we must meet a wide array of electromagnetic compatibility and safety compliance requirements to satisfy regulations in the United States, the European Community and other jurisdictions.

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

These regulatory requirements vary widely among countries.

Employees

At December 31, 2013, Bio-Rad had approximately 7,750 employees. Approximately seven percent of Bio-Rad's approximately 3,000 U.S. employees are covered by a collective bargaining agreement, which will expire on November 8, 2016. Many of Bio-Rad's non-U.S. full-time employees, especially in France, are covered by collective bargaining agreements. We consider our employee relations in general to be good.

Available Information

Bio-Rad files annual, quarterly, and current reports, proxy statements, and other documents with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, as amended. The public may read and copy any materials that we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers, including Bio-Rad, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at http://www.sec.gov.

Bio-Rad’s website address is www.bio-rad.com. We make available, free of charge through our website, our Form 10-Ks, 10-Qs and 8-Ks, and any amendments to these forms, as soon as reasonably practicable after filing with the SEC. The information on our website is not part of this Annual Report on Form 10-K.

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ITEM 1A. RISK FACTORS

The following risk factors should be read carefully in connection with evaluating our business and the forward-looking information contained in this Annual Report on Form 10-K. We believe that any of the following risks could have a material effect on our business, operations, industry, financial position or our future financial performance. While we believe that we have identified and discussed below the key risk factors affecting our business, there may be additional risks and uncertainties that are not presently known or that are not currently believed to be significant that may adversely affect our business, operations, industry, financial position and financial performance in the future.

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

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

The DOJ and SEC investigations are continuing and we are presently unable to predict the duration, scope or results of these investigations or whether either agency will commence any legal actions. The DOJ and the SEC have a broad range of civil and criminal sanctions under the FCPA and other laws and regulations including, but not limited to, injunctive relief, disgorgement, fines, penalties, modifications to business practices including the termination or modification of existing business relationships, the imposition of compliance programs and the retention of a monitor to oversee compliance with the FCPA. We are engaged in discussions with the DOJ and SEC concerning a resolution of these matters, but we are unable to estimate the outcome of these discussions or whether we will be able to reach mutually acceptable settlements. At this point, we are unable to estimate a range of reasonably possible outcomes of this matter that differs from our Estimated loss contingency recorded in the latter half of 2013 of $35.0 million, including $5.0 million of accrued interest. However, the imposition of any of these sanctions or remedial measures could have a material adverse effect on our business, including our results of operations, cash balance and credit rates. We have not to date determined whether any of the activities in question violated the laws of the foreign jurisdictions in which they took place.

On April 13, 2011, a shareholder derivative lawsuit was filed against each of our directors in the Superior Court for Contra Costa County, California. The case, which also names the Company as a nominal defendant, is captioned City of Riviera Beach General Employees' Retirement System v. David Schwartz, et al., Case No. MSC11-00854. In the complaint, the plaintiff alleges that our directors breached their fiduciary duties by failing to ensure that we had sufficient internal controls and systems for compliance with the FCPA. Purportedly seeking relief on our behalf, the plaintiff seeks an award of unspecified compensatory and punitive damages, costs and expenses (including attorneys' fees), and a declaration that our directors have breached their fiduciary duties. We and the individual defendants filed a demurrer requesting dismissal of the complaint in this case, as well as a motion to stay this matter pending resolution of the above-referenced investigations by the DOJ and SEC. Following a hearing on September 30, 2011, the court sustained our demurrer and dismissed the complaint, without prejudice, and granted the plaintiff additional time to file an amended complaint. The court denied our motion to stay this matter because it dismissed the complaint. The

parties have agreed to a stipulated dismissal of this case, without prejudice, and to a tolling of the statute of limitations pending the resolution of the DOJ and SEC investigations.

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

Maintaining effective internal control over financial reporting is necessary for us to produce reliable financial statements. In connection with our assessment of the effectiveness of internal control over financial reporting and the preparation of our financial statements for the year ended December 31, 2013, we identified a material weakness in the design of monitoring controls over operations at certain of our locations both within the United States and overseas, as well as a lack of documentation required to operate these controls appropriately. As a result there is a reasonable possibility that a material misstatement to our annual or interim consolidated financial statements could occur and not be detected or prevented. See Item 9A. “Controls and Procedures”.

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

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

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

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

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

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

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

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

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

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

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

As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many private sector investors to reduce and, in some cases, cease to provide credit to governments, businesses and consumers. These factors have led to depressed spending by some governments, businesses and consumers. Our customers and suppliers may experience cash flow concerns and, as a result, customers may modify, delay or cancel plans to purchase our products and suppliers may increase their prices, reduce their output or change terms of sales. Additionally, if customers' or suppliers' operating and financial performance deteriorates, or if they are unable to make scheduled payments or obtain credit, customers may not be

able to pay, or may delay payment of, amounts owed to us. Sovereign nations either delaying payment for goods and services or renegotiating their debts could impact our liquidity. The situation in these sovereign nations is continuously evolving and we have no greater knowledge of the situation other than what is publicly reported. As of December 31, 2013 and December 31, 2012, we had accounts receivable, net of allowance for doubtful accounts, in Spain, Italy, Greece and Portugal of $66.0 million and $64.8 million, respectively.

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

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

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

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

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

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

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

The life science and clinical diagnostics markets are each highly competitive. Some of our competitors have consolidated, and some of our competitors have greater financial resources than we do and are less leveraged than we are, making them better equipped to license technologies and intellectual property from third parties or to fund research and development, manufacturing and marketing efforts. Moreover, competitive and regulatory conditions in many markets in which we operate restrict our ability to fully recover, through price increases, higher costs of acquired goods and services resulting from inflation and other drivers of cost increases. Our competitors can be

expected to continue to improve the design and performance of their products and to introduce new products with competitive price and performance characteristics. Maintaining these advantages will require us to continue to invest in research and development, sales and marketing and customer service and support. We cannot assure you

that we will have sufficient resources to continue to make such investments or that we will be successful in maintaining such advantages.

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

A significant portion of our sales are made outside of the United States. Our foreign subsidiaries generated 68% of our net sales in 2013. Our international operations are subject to risks common to foreign operations, such as general economic and market conditions in the countries in which we operate, changes in governmental regulations, political instability, import restrictions, additional scrutiny over certain financial instruments and currency exchange rate risks. In particular, political unrest in Southeast Asia, the Middle East and Eastern Europe may affect our sales in those regions. In addition, we have a dispersed international sales team, and we use distributors and agents in many of our international operations. This structure makes it more difficult for us to ensure that our international selling operations comply with our global policies and procedures. In addition, changes to the distributors and agents we use could have an impact on our sales and access to our customers. We cannot assure you that shifts in currency exchange rates, especially significant strengthening of the U.S. dollar compared to the Euro and Swiss Franc, will not have a material adverse effect on our operating results and financial condition.

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

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

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

In the United States, there have been, and we expect there will continue to be, a number of legislative and regulatory changes to the healthcare system that could affect our revenues and profitability and the revenues and profitability of our customers. Our business is impacted by the level of reimbursement available for clinical tests from Medicare, Medicaid, other governmental payors and commercial third party payors. Payment for many diagnostic tests furnished to Medicare fee-for-service beneficiaries is made based on the Medicare Clinical Laboratory Fee Schedule (CLFS), a fee schedule established and adjusted from time to time by the Centers for Medicare and Medicaid Services (CMS). In recent years, payments under the CLFS have decreased and may decrease further in future years. Some commercial payors are guided by the CLFS in establishing their reimbursement rates. Clinicians may decide not to order clinical diagnostic tests if third party payments are inadequate, and we cannot predict whether third party payors will offer adequate reimbursement for tests utilizing our products to make them commercially attractive.

Moreover, in March 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or collectively, the PPACA, impose significant new programs and responsibilities affecting U.S. pharmaceutical and medical device industries. The PPACA, among other things, establishes annual

fees and taxes on manufacturers of certain medical devices, including our devices, and promotes programs that increase the federal government's comparative effectiveness research, which may be used to evaluate the selection of medical services by clinicians and others. PPACA also mandates a reduction in payments for clinical laboratory services paid under the CLFS of 1.75% for the years 2011 through 2015. In addition, a productivity adjustment is made to the CLFS payment amount, further reducing payment rates. These changes in payments apply to some or all of the clinical laboratory test services we furnish to Medicare beneficiaries.
In addition, other legislative changes have been proposed and adopted in the United States since the PPACA was enacted. On August 2, 2011, the Budget Control Act of 2011, among other things, created measures for spending reductions by Congress. A Joint Select Committee on Deficit Reduction, tasked with recommending a targeted deficit reduction of at least $1.2 trillion for the years 2013 through 2021, was unable to reach required goals, thereby triggering the legislation's automatic reduction to several government programs. This includes aggregate reductions to Medicare payments to providers of 2% per fiscal year, which went into effect on April 1, 2013. On January 2, 2013, the American Taxpayer Relief Act of 2012, or the ATRA, was signed into law, which, among other things, further reduced Medicare payments to several providers, including hospitals, imaging centers and cancer treatment centers, and increased the statute of limitations period for the government to recover overpayments to providers from three to five years.

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

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

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

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

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

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

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

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

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

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

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

Some of our products (primarily diagnostic products), production processes and marketing are subject to federal, state, local and foreign regulation, including by the FDA and its foreign counterparts. The FDA regulates our diagnostic products as medical devices pursuant to the Federal Food, Drug and Cosmetic Act. Unless an exemption applies, each medical device marketed in the United States must first receive either clearance of a 510(k) premarket notification or approval of a premarket approval application (PMA) from the FDA, depending on the risk classification of the device. Medical devices can be marketed only for the indications for which they are cleared or approved. The FDA has also generally chosen to not enforce applicable regulations, including premarket requirements, with respect to certain diagnostic products referred to as laboratory developed tests, which are tests developed by a single laboratory for use only in that laboratory. However, the FDA has indicated, since 2010, that it intends to reconsider its policy regarding enforcement and to begin drafting an oversight framework for such tests. After a device receives 510(k) clearance, any modification that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, requires a new 510(k) clearance or could require a PMA approval. After a device is placed on the market, regardless of the classification or pre-market pathway, it remains subject to significant regulatory requirements, including, for example, recordkeeping and reporting requirements, such as the FDA’s medical device reporting regulations and reporting of corrections and removals. The FDA has broad regulatory and enforcement powers. If the FDA determines that we have failed to comply with applicable regulatory requirements, it can impose a variety of enforcement actions ranging from public warning letters, fines, injunctions, consent decrees and civil penalties to suspension or delayed issuance of approvals, seizure or recall of our products, total or partial shutdown of

production, withdrawal of approvals or clearances already granted, and criminal prosecution. The FDA can also require us to repair, replace or refund the cost of devices that we manufactured or distributed.

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

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

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

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

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

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

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

- the federal Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology for Economic and Clinical Health Act, which governs the conduct of certain electronic healthcare

transactions and protects the security and privacy of protected health information; and

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

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

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

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

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

On August 22, 2012, the SEC adopted a rule requiring disclosures by public companies of their use of specified minerals (tantalum, tin, tungsten and gold) that are necessary to the functionality or production of products manufactured or contracted to be manufactured. The rule, which is effective for 2013 and requires a disclosure report to be filed by May 31, 2014, requires companies to perform due diligence, disclose and report whether or not the specified minerals originated from the Democratic Republic of Congo or an adjoining country and directly or indirectly financed or benefited armed groups in that region. We have incurred, and will continue to incur, additional costs in order to comply with the disclosure requirements of this rule, such as costs related to determining the source of the specified minerals used in our products. In addition, we might incur additional costs due to possible changes to our products, processes, or sources of supply as a consequence of our due diligence activities. As our supply chain is complex, we may not be able to sufficiently verify the origins of the specified minerals used in our products through our due diligence procedures, which may harm our reputation. In addition, we may encounter challenges to satisfy those customers who require that all of the components of our products be certified as conflict-free, which could place us at a competitive disadvantage if we do not do so.

We are currently subject to environmental regulations and enforcement proceedings.

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

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

Loss of key personnel could hurt our business.

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

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

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

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

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

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

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

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

We have positions in a variety of financial instruments including asset backed securities and other similar instruments. Financial markets are quite volatile and the markets for these securities can be illiquid. The value of these securities will continue to be impacted by external market factors including default rates, changes in the value of the underlying property, such as residential or commercial real estate, rating agency actions, the prices at which observable market transactions occur and the financial strength of various entities, such as financial guarantors who provide insurance for the securities. Should we need to convert these positions to cash, we may not be able to sell these instruments without significant losses due to current debtor financial conditions or other market considerations.

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

As of December 31, 2013 we and our subsidiaries had approximately $437.4 million of outstanding indebtedness.

The following chart shows certain important credit statistics.

	At December 31, 2013 (dollars in millions)
Total debt	$437.4
Bio-Rad’s stockholders’ equity	$2,186.7
Debt to equity ratio	0.2

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

- make it more difficult for us to satisfy our financial obligations, including those relating to our outstanding notes;
- require us to dedicate a substantial portion of our cash flow from operations to the payment of interest and principal due under our debt, including our outstanding notes, which will reduce funds available for other business purposes;
- increase our vulnerability to general adverse economic and industry conditions;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;

- place us at a competitive disadvantage compared with some of our competitors that have less debt; and
- limit our ability to obtain additional financing required to fund working capital and capital expenditures and for other general corporate purposes.

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own our corporate headquarters located in Hercules, California. The principal manufacturing and research locations for each segment are as follows:

Segment	Location	Owned/Leased
Life Science	Richmond, California	Owned/Leased
	Hercules, California	Owned/Leased
	Pleasanton, California	Leased
	Singapore	Leased
	Shanghai, China	Leased
	Oxford, England	Leased
Clinical Diagnostics	Hercules, California	Owned/Leased
	Benicia, California	Leased
	Irvine, California	Leased
	Greater Seattle area, Washington	Leased
	Lille, France	Owned
	Greater Paris area, France	Leased
	Nazareth-Eke, Belgium	Leased
	Cressier, Switzerland	Owned/Leased
	Dreieich, Germany	Owned/Leased

Most manufacturing and research facilities also house administration, sales and distribution activities. In addition, we lease office and warehouse facilities in a variety of locations around the world. The facilities are used principally for sales, service, distribution and administration for both segments.

ITEM 3. LEGAL PROCEEDINGS

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

The DOJ and SEC investigations are continuing and we are presently unable to predict the duration, scope or results of these investigations or whether either agency will commence any legal actions. The DOJ and the SEC have a broad range of civil and criminal sanctions under the FCPA and other laws and regulations including, but not

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limited to, injunctive relief, disgorgement, fines, penalties, modifications to business practices including the termination or modification of existing business relationships, the imposition of compliance programs and the retention of a monitor to oversee compliance with the FCPA. While we have been engaged in discussions with the DOJ and SEC concerning a resolution of these matters, we are unable to estimate a range of reasonably possible outcomes of this matter that differs from our Estimated loss contingency recorded in the latter half of 2013 of $35.0 million, including $5.0 million of accrued interest. The imposition of any of these sanctions or remedial measures could have a material adverse effect on our business or financial condition. We have not to date determined whether any of the activities in question violated the laws of the foreign jurisdictions in which they took place.

On April 13, 2011, a shareholder derivative lawsuit was filed against each of our directors in the Superior Court for Contra Costa County, California. The case, which also names the Company as a nominal defendant, is captioned City of Riviera Beach General Employees' Retirement System v. David Schwartz, et al., Case No. MSC11-00854. In the complaint, the plaintiff alleges that our directors breached their fiduciary duties by failing to ensure that we had sufficient internal controls and systems for compliance with the FCPA. Purportedly seeking relief on our behalf, the plaintiff seeks an award of unspecified compensatory and punitive damages, costs and expenses (including attorneys' fees), and a declaration that our directors have breached their fiduciary duties. We and the individual defendants filed a demurrer requesting dismissal of the complaint in this case, as well as a motion to stay this matter pending resolution of the above-referenced investigations by the DOJ and SEC. Following a hearing on September 30, 2011, the court sustained our demurrer and dismissed the complaint, without prejudice, and granted the plaintiff additional time to file an amended complaint. The court denied our motion to stay this matter because it dismissed the complaint. The parties have agreed to a stipulated dismissal of this case, without prejudice, and to a tolling of the statute of limitations pending the resolution of the DOJ and SEC investigations.

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II.

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Information Concerning Common Stock

Bio-Rad’s Class A and Class B Common Stock are listed on the New York Stock Exchange with the symbols BIO and BIO.B, respectively. The following sets forth, for the periods indicated, the high and low intraday sales prices for our Class A and Class B Common Stock.

	Class A		Class B	
	High	Low	High	Low
2013				
Fourth Quarter	$125.00	$115.25	$124.41	$115.59
Third Quarter	126.98	111.49	122.95	114.00
Second Quarter	127.17	110.02	125.50	110.75
First Quarter	126.50	106.10	125.00	106.75
2012				
Fourth Quarter	$109.93	$99.00	$110.26	$99.72
Third Quarter	109.62	91.52	109.50	92.10
Second Quarter	118.00	95.05	115.38	95.63
First Quarter	106.91	96.19	105.25	96.26

On February 14, 2014, we had 331 holders of record of Class A Common Stock and 135 holders of record of Class B Common Stock. Bio-Rad has never paid a cash dividend and has no present plans to pay cash dividends.

See Item 12 of Part III of this report for the security ownership of certain beneficial owners and management and for securities authorized for issuance under equity compensation plans.

Stock Performance Graph

The following graph compares the cumulative stockholder returns over the past five years for our Class A Common Stock, the S&P 400 MidCap Index and a selected peer group, assuming $100 invested on December 31, 2008, and reinvestment of dividends if paid:

(1) The Peer Group consists of the following public companies: Danaher, Becton Dickinson, Thermo Fisher Scientific, Meridian Bioscience, PerkinElmer and Life Technologies. Companies in our peer group reflect our participation in two different markets: life science research products and clinical diagnostics. No single public or private company has a comparable mix of products which serve the same markets. In many cases, only one division of a peer group company competes in the same market as we do. Collectively, however, our peer group reflects products and markets similar to those of Bio-Rad.

This stock performance graph shall not be deemed incorporated by reference by any general statement incorporating by reference into any filing under the Securities Act or the Exchange Act, and shall not otherwise be deemed filed under these Acts.

ITEM 6. SELECTED FINANCIAL DATA

BIO-RAD LABORATORIES, INC.
Selected Financial Data
(in thousands, except per share data)

	Year Ended December 31,				
	2013	2012	2011	2010	2009
Net sales	$2,132,694	$2,069,235	$2,073,529	$1,927,118	$1,784,244
Cost of goods sold	954,216	914,077	894,700	835,310	783,871
Gross profit	1,178,478	1,155,158	1,178,829	1,091,808	1,000,373
Selling, general and administrative expense	798,070	681,778	695,984	634,413	600,708
Research and development expense	210,952	209,204	177,604	166,486	154,130
Impairment losses on goodwill and long-lived assets	—	—	—	—	3,802
Interest expense	61,271	51,112	53,135	63,717	47,024
Foreign exchange losses, net	8,566	5,040	13,842	3,884	5,003
Other (income) expense, net	(12,766)	(21,883)	(7,583)	(3,875)	(6,871)
Income before income taxes and noncontrolling interests	112,385	229,907	245,847	227,183	196,577
Provision for income taxes	(34,574)	(64,361)	(67,034)	(39,533)	(46,597)
Net (income) loss attributable to noncontrolling interests	(21)	(69)	200	(1,445)	(4,545)
Net income attributable to Bio-Rad	$77,790	$165,477	$179,013	$186,205	$145,435
Basic earnings per share	$2.72	$5.85	$6.39	$6.73	$5.31
Diluted earnings per share	$2.69	$5.78	$6.29	$6.61	$5.23
Cash dividends paid per common share	$—	$—	$—	$—	$—
Total assets	$3,388,790	$3,443,503	$3,099,743	$3,064,914	$2,537,288
Long-term debt, net of current maturities	$435,615	$732,414	$731,698	$731,100	$737,919

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion should be read in conjunction with the information contained in our consolidated financial statements and the accompanying notes which are an integral part of the statements.

Other than statements of historical fact, statements made in this Annual Report include forward looking statements, such as statements with respect to our future financial performance, operating results, plans and objectives that

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

forward looking statements, whether as a result of new information, future events, or otherwise except as required by Federal Securities law.

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

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

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

We are impacted by the support of many governments for both research and healthcare. The current global economic outlook is becoming increasingly uncertain as the need to control government social spending by many governments limits opportunities for growth. Approximately 32% of our 2013 consolidated net sales are derived from the United States and approximately 68% are derived from international locations, with Europe being our largest region overall. The international sales are largely denominated in local currencies such as the Euro, Swiss Franc, Japanese Yen, China Yuan and British Sterling. As a result, our consolidated net sales expressed in dollars benefit when the U.S. dollar weakens and suffer when the dollar strengthens. When the U.S. dollar strengthens, we benefit from lower cost of sales from our own international manufacturing sites as well as non-U.S. suppliers and from lower international operating expenses.

During the latter half of 2013, we accrued an aggregate of $35.0 million associated with our initial efforts to resolve the investigations by the U.S. Department of Justice (DOJ) and Securities and Exchange Commission (SEC) relating to the United States Foreign Corrupt Practices Act (FCPA), of which $30.0 million was expensed to Selling, general and administrative expenses and $5.0 was expensed to Interest expense.

In September 2013, we redeemed all of our $300.0 million 8.0% Senior Subordinated Notes for $312.0 million, including a call premium of $12.0 million, and expensed the remaining original issuance bond discount of $2.5 million and unamortized bond issuance costs of $1.1 million, all of which are included in Interest expense in our Condensed Consolidated Statements of Income.

During the third quarter of 2013, we identified errors in the consolidated financial statements for the years 2011 and 2012 (and for all interim periods therein) and in the unaudited interim condensed consolidated financial statements for the three month periods ended March 31, 2013 and June 30, 2013, related to the valuation of finished goods inventory in our Life Science segment. We were inappropriately expensing inventory in amounts greater than actual costs for non-sales transactions, primarily related to inventory being used for demonstration purposes and product samples that are recorded to Selling, general and administrative expense. In addition, the Life Science segment inventory error affected cost of goods sold as we relieved inventory at a higher cost than incurred on limited sales to third parties produced in a non-U.S. manufacturing facility. The effect of correcting these errors in the 2011 and 2012 consolidated financial statements were increases to net income of $0.8 million and $1.7 million, respectively.

During the third quarter of 2013, we revised the classification of one item for all periods presented from “Provision for income taxes” to “Research and development expense” in our Consolidated Statements of Income to conform to the

current year presentation. The item reclassified pertains to a refundable French R&D tax credit, which after the reclassification reduces Research and development expense. We believe this presentation is appropriate as we are not required to have taxable income in order to earn the credits. The effect of the reclassifications from Provision

for income taxes to Research and development expense for 2011 and 2012 was $8.8 million and $4.8 million, respectively.

Management evaluated the materiality of all the errors described above from a qualitative and quantitative perspective. Based on such evaluation, we have concluded that while the accumulation of these errors was significant to the three months ended September 30, 2013, their correction would not be material to any individual prior period, nor did they have an effect on the trend of financial results, taking into account the requirements of the SEC Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). Accordingly, we are correcting these errors in every affected period in the 2013 Consolidated Financial Statements included in this Form 10-K.

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

In August 2012, we acquired from Propel Labs, Inc. a new cell sorting system, an automated, easy-to-use, benchtop cell sorting flow cytometer. This asset acquisition was accounted for as a business combination and is included in our Life Science segment's results of operations from the acquisition date. The fair value of the consideration as of the acquisition date was $49.6 million, which included $5.0 million paid in cash at the closing date and $44.6 million in contingent consideration related to the achievement of certain development and sales milestones valued at $19.9 million and $24.7 million, respectively, that could potentially be payable to Propel Labs' shareholders. The development milestones have been achieved and payments totaling $20 million were made in 2013. The contingent consideration was revalued by a net reduction of $3.8 million in 2013 to Selling, general and administrative expense to its estimated fair value of $20.8 million as of December 31, 2013. The fair values of the net assets acquired from Propel Labs, Inc. as of the acquisition date were determined to be $17.4 million of goodwill, $32.1 million of definite-lived intangible assets and $0.1 million of net tangible assets. The acquired cell sorting system fits well into Bio-Rad's existing Life Science segment product offerings.

In July 2012, we acquired all of the outstanding shares of DiaMed Benelux for 4.6 million Euros (approximately $5.6 million) in cash. This acquisition was accounted for as a business combination and is included in our Clinical Diagnostics segment's results of operations from the acquisition date. We acquired net liabilities with a fair value of $2.3 million and the fair values of the assets acquired as of the acquisition date were determined to be $3.0 million of goodwill and $4.9 million of definite-lived intangible assets. DiaMed Benelux became the exclusive distributor of certain Bio-Rad immunohematology products in the Benelux market as a result of our 2007 acquisition of DiaMed Holding AG. This distributor acquisition is consistent with our stated objective to control the distribution of our own products and services.

In January 2012, we purchased, for cash, certain assets from a raw material supplier for approximately $12.5 million. This asset acquisition was accounted for as a business combination and is included in our Clinical Diagnostics segment's results of operations from the acquisition date. The fair value of the assets acquired at the acquisition date was determined to be $6.3 million of net tangible assets, $5.1 million of intangible assets and $1.1 million of goodwill. In addition, we paid $2.0 million for employment agreements as an incentive to certain employees of the acquired business to remain with Bio-Rad. Such amount was expensed over two years from the date of acquisition. We believe this acquisition will allow us to secure the supply of critical raw materials and lower our overall costs in

the Clinical Diagnostics segment.

During the first quarter of 2012, we identified an error in the consolidated financial statements for the years 2007 through 2011, related to a foreign supplemental tax associated with social benefits. We incorrectly interpreted and

applied the local statutes to our circumstances. We accrued $6.1 million for these foreign supplemental taxes, including penalties and interest, during the first quarter of 2012, all of which has been paid. The foreign supplemental tax, and the related penalties and interest, were not deductible for income tax purposes, and as such this error did not have an impact on Bio-Rad's provision for income taxes.

We evaluated the materiality of the error from a qualitative and quantitative perspective. Based on such evaluation, we concluded that while the accumulation of the error was significant to the three-month period ended March 31, 2012, the correction was not material to any individual prior period or for the year ended December 31, 2012, nor did it have an effect on the trend of financial results, taking into account the requirements of SAB 108.

During the fourth quarter of 2011 we recognized a contingent consideration liability upon our acquisition of QuantaLife related to potential future payments due upon the achievement of certain sales and development milestones. The contingent consideration was initially recognized at its estimated fair value of $24.1 million, based on a probability-weighted income approach. As of the acquisition date of October 4, 2011, total contingent consideration could have originally reached a maximum of $48 million upon the achievement of all sales milestones and a development milestone. The development milestone was met as of December 31, 2012, resulting in a payment of $6.0 million in January 2013. During 2012, the first three short-term sales milestones were not met and therefore the fair value of the contingent consideration was lowered by $16.1 million and credited to Selling, general and administrative expense. During 2013, we did not expect that any of the remaining sales milestones would be met and therefore $2.0 million of the remaining contingent consideration liability was credited to Selling, general and administrative expense.

Critical Accounting Policies and Estimates

The accompanying discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingencies as of the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. We evaluate our estimates on an on-going basis. We base our estimates on historical experience and on other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. However, future events may cause us to change our assumptions and estimates, which may require adjustment. Actual results could differ from these estimates. We have determined that for the periods reported in this Annual Report on Form 10-K the following accounting policies and estimates are critical in understanding our financial condition and results of operations.

Accounting for Income Taxes. Management is required to make estimates related to our income tax provision in each of the jurisdictions in which we operate. This process involves estimating our current tax exposures, as well as making judgments regarding the recoverability of deferred tax assets in each jurisdiction. Deferred tax assets and liabilities reflect the tax effects of losses, credits, and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Management assesses the likelihood that the deferred tax assets will be recovered from future taxable income and to the extent management believes that recovery is not likely, a valuation allowance must be established. To the extent management establishes a valuation allowance or increases this allowance in a period, an increase to expense within the Provision for income taxes in the Consolidated Statements of Income may result.

We have recorded a valuation allowance of $64.0 million and $52.9 million as of December 31, 2013 and 2012, respectively, due to uncertainties related to our ability to utilize some of the deferred tax assets, primarily consisting of

certain foreign net operating losses carried forward. The valuation allowance is based on management's current estimates of taxable income for the jurisdictions in which we operate and the period over which the deferred tax assets will be recoverable. In the event that actual results differ from these estimates, or these estimates are

adjusted in future periods, an additional valuation allowance may need to be established, which would increase the tax provision, lowering income and impacting our financial position. Should realization of these deferred tax assets for which a valuation allowance has been provided occur, the provision for income taxes may decrease, raising income and positively impacting Bio-Rad's financial position.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements on a particular tax position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. The amount of unrecognized tax benefits is adjusted as appropriate for changes in facts and circumstances, such as significant amendments to existing tax law, new regulations or interpretations by the taxing authorities, new information obtained during a tax examination, or resolution of an examination. We recognize both accrued interest and penalties, where appropriate, related to unrecognized tax benefits in income tax expense. Our overall effective tax rate is subject to fluctuations because of changes in the geographic mix of earnings, changes to statutory tax rates and tax laws, and because of the impact of various tax audits and assessments, as well as generation of tax credits.

Valuation of Goodwill and Long-lived Assets. Goodwill represents the excess of the cost over the fair value of net tangible and identifiable intangible assets of acquired businesses. Goodwill amounts are assigned to reporting units at the time of acquisition and are adjusted for any subsequent significant transfers of business between reporting units. We assess the impairment of goodwill annually in the fourth quarter or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We perform the impairment tests of goodwill at our reporting unit level, which is one level below our operating segments. The goodwill impairment test consists of a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit to its carrying value, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test is not required. The second step, if required, compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. The fair value of a reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. If the carrying amount of the reporting unit's goodwill exceeds its implied fair value, an impairment charge is recognized in an amount equal to that excess.

We use a projected discounted cash flow model to determine the fair value of a reporting unit. This discounted cash value method for determining goodwill may be different from the fair value that would result from an actual transaction between a willing buyer and a willing seller. Projections such as discounted cash flow models are inherently uncertain and accordingly, actual future cash flows may differ materially from projected cash flows. Management judgment is required in developing the assumptions for the discounted cash flow model. These assumptions include revenue growth rates, profit margins, future capital expenditures, working capital needs, expected foreign currency rates, discount rates and terminal values. We estimate future cash flows using current and longer-term high level financial forecasts. These forecasts take into account the current economic environment. The discount rates used are compiled using independent sources, current trends in similar businesses and other observable market data. Changes to these rates might result in material changes in the valuation and determination of the recoverability of goodwill. For example, an increase in the discount rate used to discount cash flows will decrease the computed fair value. In order to evaluate the sensitivity of the fair value calculations on the goodwill impairment test, we apply a 10% decrease to the fair value of each reporting unit.

To validate the reasonableness of the reporting unit fair values, we reconcile the aggregate fair values of the reporting units to the enterprise market capitalization including an implied control premium. In performing the reconciliation we may, depending on the volatility of the market value of our stock price, use either the stock price on the valuation date

or the average stock price over a range of dates around the valuation date. We compare the implied control premium to premiums paid in observable recent transactions of comparable companies to determine if the accumulated fair values of all the reporting units are reasonable.

For purposes of recognition and measurement of an impairment loss, a long-lived asset or assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. We assess the impairment of long-lived assets (including identifiable intangibles) whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that we consider important that could trigger an impairment review include:

- significant under-performance relative to expected, historical or projected future operating results;
- significant changes in the manner of use of the long-lived assets, intangible assets or the strategy for our overall business;
- a current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of before the end of its previously estimated useful life; and
- significant negative industry, legal, regulatory or economic trends.

When management determines that the carrying value of long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we test for any impairment based on a projected undiscounted cash flow method. Projected future operating results and cash flows of the asset or asset group are used to establish the fair value used in evaluating the carrying value of long-lived and intangible assets. We estimate the future cash flows of the long-lived assets using current and long-term financial forecasts. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If this is the case, an impairment loss would be recognized. The impairment loss recognized is the amount by which the carrying amount exceeds the fair value. There were no impairment losses recorded in 2013, 2012 and 2011.

Valuation of Inventories. We value inventory at the lower of the actual cost to purchase and/or manufacture the inventory, or the current estimated net realizable value of the inventory. We review inventory quantities on hand and reduce the cost basis of excess and obsolete inventory based primarily on an estimated forecast of product demand, production requirements and the quality, efficacy and potency of raw materials. This review is done on a quarterly basis or, if warranted by the circumstances, more frequently. In addition, our industry is characterized by technological change, frequent new product development and product obsolescence that could result in an increase in the amount of obsolete inventory quantities on hand. Our estimates of future product demand may prove to be inaccurate, and if too high, we may have overstated the carrying value of our inventory. In the future, if inventory is determined to be overvalued, we would be required to write down the value of inventory to market and recognize such costs in our cost of goods sold at the time of such determination. Therefore, although we make efforts to ensure the accuracy of our forecasts of future product demand and perform procedures to safeguard overall inventory quality, any significant unanticipated changes in demand, technological developments, regulations, storage conditions, or other economic or environmental factors affecting biological materials, could have a significant impact on the value of our inventory and reported results of operations.

Valuation of Investments. We regularly review our investments for factors that may indicate that a decline in the fair value of an investment below its carrying value is other-than-temporary. Some factors considered in evaluating whether or not a decline in fair value is other-than-temporary include our ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value, the duration and extent to which the fair value has been less than cost and the financial condition and prospects of the issuer. Such reviews are inherently uncertain in that the value of the investment may not fully recover or may decline further in future periods resulting in realized losses.

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

reserve and it is adjusted if necessary. The warranty reserve is based on actual experience and expected future costs to be incurred. Should realized costs be higher than expected costs, cost of goods sold would be lower in the period of estimation and higher when realized.

Allowance for Doubtful Accounts. We maintain an allowance for doubtful accounts for estimated losses resulting from the collectability of our customer accounts. The amount of the allowance is determined by analyzing known uncollectible accounts, the age of our receivables, economic conditions in the customers' country or industry, historical losses and our customers' general credit-worthiness. Amounts later determined and specifically identified to be uncollectible are charged or written off against this allowance. Uncertainty in the current economic environment, if prolonged, could result in greater amounts becoming uncollectible in the future. Should the estimates of losses be higher than the actual uncollectible accounts, we would report lower profitability when the estimates are made and higher profitability when the receivable is collected.

Litigation Accruals. We record as liabilities in our Consolidated Balance Sheets estimated amounts for claims that are probable and can be reasonably estimated. The likelihood of a material change in these estimated liabilities is dependent on the possible outcome of settlement negotiations, regulatory or judicial review and the development of facts and circumstances in extended litigation which could change claims or assessments when both the amount and range of loss on some outstanding litigation is uncertain. We disclose in the footnotes of the financial statements when we are unable to make a reasonable estimate of a material liability that could result from unfavorable outcomes in litigation. As events occur, we will assess the potential liability related to our pending litigation and revise our estimates. Such revisions could materially impact our results of operations.

Results of Operations - Sales, Gross Margins and Expenses

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

	Year Ended December 31,					
	2013		2012		2011	
Net sales	100.0	%	100.0	%	100.0	%
Cost of goods sold	44.7		44.2		43.1	
Gross profit	55.3		55.8		56.9	
Selling, general and administrative expense	37.4		32.9		33.6	
Research and development expense	9.9		10.1		8.6	
Net income attributable to Bio-Rad	3.6		8.0		8.6	

Net sales

Net sales (sales) in 2013 were $2.13 billion compared to $2.07 billion in 2012. Excluding the impact of foreign currency, 2013 sales increased by approximately 3.9% compared to 2012. Currency neutral sales growth was reflected in most regions, primarily in the Americas, the emerging markets of Eastern Europe and the Pacific Rim, while currency neutral sales in Western Europe decreased.

The Life Science segment sales in 2013 were $710.0 million, an increase of 3.1% compared to 2012. On a currency neutral basis, sales increased 4.5% compared to 2012. The sales increase was primarily driven by sales from the newly acquired AbD Serotec, our Droplet Digital™ PCR and cell biology product lines. Currency neutral sales increased in Europe and the Americas, while Asia declined. A government austerity program has slowed Japanese market growth.

The Clinical Diagnostics segment sales in 2013 were $1.41 billion, an increase of 3.1% compared to 2012. On a currency neutral basis, sales increased 3.6% compared to 2012. Clinical Diagnostics had growth across most product lines on a currency neutral basis, most notably from quality controls, diabetes and BioPlex® 2200 system. Currency neutral sales growth was primarily in Eastern Europe, China, Asia Pacific and the Americas, while currency neutral sales in Western Europe declined.

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Sales in 2012 were relatively unchanged at $2.07 billion compared to 2011. Excluding the impact of foreign currency, 2012 sales increased by approximately 3.6% compared to 2011. Currency neutral sales growth was achieved in all regions, however Europe grew by less than 1% percent.

The Life Science segment sales in 2012 were $688.4 million, a decrease of 0.9% compared to 2011. On a currency neutral basis, sales increased 1.5% compared to 2011. The currency neutral sales increase was primarily in laboratory separation and process chromatography, as well as increased sales from the droplet digital PCR product line associated with the QuantaLife acquisition. The Life Science segment currency neutral sales increased in North America, Latin America, Europe and Asia.

The Clinical Diagnostics segment sales in 2012 were $1.37 billion, an increase of 0.1% compared to 2011. On a currency neutral basis, sales increased 4.7% compared to 2011. Clinical Diagnostics product lines generating growth were quality controls, diabetes, microbiology, blood virus and BioPlex® 2200 system. In 2011, sales were impacted by a one-time blood typing equipment sale of approximately $8 million. Currency neutral sales growth was achieved in the Pacific Rim, the Americas and the emerging markets, while currency neutral sales declined in western Europe.

Gross margin

Beginning in 2013, the Patient Protection and Affordable Health Care and the Health Care and Education Reconciliation Acts of 2010, among other initiatives, provided for a 2.3% annual excise tax on the sales of certain medical devices in the U.S. Bio-Rad was required to pay this excise tax on most of our U.S. Clinical Diagnostic sales, which we accounted for as a period cost in Cost of goods sold.

Consolidated gross margins were 55.3% in 2013 compared to 55.8% in 2012. Life Science segment gross margins in 2013 increased from 2012 by approximately 0.5 percentage points primarily due to an incremental royalty accrual related to a dispute with a third party, as well as a $3.8 million soil remediation expense associated with a manufacturing plant, both of which occurred in 2012. The increase was partially offset by an increase in costs related to inventory sold with a higher cost due to purchase accounting, and an increase in purchased intangibles amortization expense of $6.1 million primarily related to the AbD Serotec and cell sorting system acquisitions. Clinical Diagnostics segment gross margins in 2013 decreased from 2012 by approximately 1.2 percentage points primarily due to some large low margin government tenders, a less favorable product mix, and an increase in obsolescence charges. Gross margins also decreased by approximately 0.36% due to the excise tax on the sales of certain medical devices in the U.S. that went into effect in 2013. Clinical Diagnostics segment lower gross margins were partially offset by a foreign supplemental tax associated with social benefits of $4.1 million that occurred in 2012, and a $0.6 million French Competitiveness Tax Credit that was recorded in 2013.

Consolidated gross margins were 55.8% in 2012 compared to 56.9% in 2011. Life Science segment gross margins in 2012 decreased from 2011 by approximately 3.2 percentage points primarily due to amortization expense of $10.0 million related to the droplet digital PCR products and cell sorting system acquisitions, an incremental royalty accrual related to a dispute with a third party, as well as a $3.8 million soil remediation expense associated with a manufacturing plant. Clinical Diagnostics segment gross margins in 2012 were relatively unchanged from 2011, reflecting an increase of 0.1 percentage points.

Selling, general and administrative expense

Consolidated selling, general and administrative expenses (SG&A) represented 37.4% of sales in 2013 compared to 32.9% of sales in 2012. Increases in SG&A expense relative to sales were primarily driven by:

- an increase of $43.6 million of employee-related expenses, our largest cost, associated with an increase in headcount that included acquisitions,
- an accrual of $30.0 million in connection with our initial efforts to resolve the SEC and DOJ investigations relating to the FCPA that was recorded in the latter half of 2013,

- an increase in professional services of $21.7 million primarily related to the first phase of a global single instance ERP system being placed in service, and legal and accounting services,
- the favorable impact of a 2012 revaluation to the fair value of the QuantaLife contingent consideration of $16.1 million,
- an increase of $9.6 million in software amortization primarily due to the first phase of the ERP platform being placed in service,
- an increase of $6.5 million in facilities primarily due to an expansion at our southern California facility and our acquisition of AbD Serotec,
- an increase of $5.7 million as 2012 benefited from lower bad debt expense, primarily in Spain due to a large sum of payments by public agencies, causing us to revise our estimate for the allowance for doubtful accounts, partially offset by
- a decrease in the valuation of the cell sorting system contingent consideration of $3.8 million in 2013.

Consolidated selling, general and administrative expenses (SG&A) represented 32.9% of sales in 2012 compared to 33.6% of sales in 2011. Decreases in SG&A relative to sales were primarily driven by the 2012 adjustments to the fair value of the QuantaLife contingent consideration of $16.1 million, a decline in third party commissions compared to 2011, and a lower bad debt expense provision compared to 2011, primarily in Spain of approximately $8.6 million associated with large payments made in June 2012 by public agencies that represented Spanish balances that were significantly past due, partially offset by an increase in incentive compensation and professional fees compared to 2011. The decrease in the contingent consideration liability for QuantaLife was primarily due to not achieving the first three short-term milestones as a result of recent weakening in funding to the research and development markets and a longer sales cycle for this new technology, causing a revision in sales forecasts for the remaining sales milestone contractual period ending in March 2014.

Research and development expense

Research and development expense increased to $211.0 million or 9.9% of sales in 2013 compared to $209.2 million or 10.1% of sales in 2012. Life Science segment research and development expense decreased in 2013 from 2012 primarily due to projects nearing completion. Clinical Diagnostics segment research and development expense increased in 2013 from 2012 primarily due to lower refundable French R&D tax credits, and a broadening of on-going development across a wider range of products.

Research and development expense increased to $209.2 million or 10.1% of sales in 2012 compared to $177.6 million or 8.6% of sales in 2011, primarily in the Life Science segment. Life Science segment research and development expense increased in 2012 from 2011 primarily related to the droplet digital PCR products and cell sorting system acquisitions, which had high research and development costs relative to sales for these new products. Clinical Diagnostics segment research and development expense increased in 2012 from 2011 primarily due to increased investment in enhanced product offerings in blood typing, quality controls, diabetes and blood virus product lines.

Results of Operations – Non-operating

Interest expense

Interest expense in 2013 increased 19.9% to $61.3 million compared to 2012 primarily due to the early redemption of our 8.0% Notes on September 30, 2013, resulting in a $15.6 million expense. The redemption included a call premium of $12.0 million, the expensing of $2.5 million of the remaining original issuance bond discount and the expensing of unamortized debt issuance costs of $1.1 million. In addition, Interest expense included an expense of $5.0 million of

interest expense associated with our initial efforts to resolve the DOJ and SEC investigations relating to the FCPA that was recorded in the latter half of 2013. The increase was partially offset by estimated interest expense of $1.2 million included in the first quarter of 2012 that was associated with a foreign supplemental tax related to social benefits, and interest on back royalties in 2012.

Interest expense in 2012 decreased 3.8% to $51.1 million compared to 2011 primarily due to the refinancing of a portion of our debt that was completed in January 2011, lowering our overall borrowing costs.

Foreign currency exchange gains and losses

Foreign currency exchange gains and losses consist of foreign currency transaction gains and losses on intercompany net receivables and payables and the change in fair value of our forward foreign exchange contracts used to manage our foreign currency exchange risk. Net foreign currency exchange losses for 2013, 2012 and 2011 were $8.6 million, $5.0 million and $13.8 million, respectively. The 2013, 2012 and 2011 net foreign currency exchange losses were attributable to market volatility, increasing costs to hedge and the result of the estimating process inherent in the timing of shipments and payments of intercompany debt. In addition, approximately $4.6 million of the 2011 loss was attributable to entering into a larger forward foreign exchange contract than required. All years are affected by the economic hedging program we employ to hedge our intercompany receivables and payables.

Other income and expense, net

Other income and expense, net includes investment and dividend income, generally interest income on our cash and cash equivalents, short-term investments and long term marketable securities. Other (income) expense, net in 2013 decreased to $12.8 million income compared to $21.9 million income in 2012. The decrease was primarily due to higher realized gains associated with the sale of equity investments in 2012 compared to realized losses in 2013, and a 2012 gain of $4.3 million on the sale of a building in our Clinical Diagnostics segment. Sales of investments in 2013 were used to provide cash to redeem all of the $300.0 million 8.0% Senior Subordinated Notes.

Other (income) expense, net in 2012 increased to $21.9 million income compared to $7.6 million income in 2011. The increase was primarily due to higher realized gains on the sale of equity investments in 2012 of $8.0 million compared to 2011 and a 2012 gain of $4.3 million on the sale of a building in our Clinical Diagnostics segment.

Effective tax rate

Our effective tax rate was 31%, 28% and 27% in 2013, 2012 and 2011, respectively. The effective tax rate for 2013 included a significant tax benefit related to the 2012 U.S. federal research credit, which was retroactively reinstated on January 2, 2013. The effective tax rate for 2013 was higher than 2012 primarily due to an increase in tax liabilities and audit settlements in our foreign jurisdictions, and a lower domestic production activities deduction as a result of lower U.S. taxable income in 2013. The effective tax rates for 2013 and 2012 reflected tax benefits related to adjustments to the fair value of the QuantaLife contingent consideration. The effective tax rate for 2011 reflected tax benefits from nontaxable dividend income and the release of tax liabilities.

The effective tax rates for all three periods were lower than the U.S. statutory rate primarily due to tax benefits from differences between U.S. and foreign statutory tax rates, and research and development tax credits. Our foreign income is earned primarily in France and Switzerland. Switzerland's statutory tax rate is significantly lower than our U.S. statutory tax rate of 35%. Our effective tax rates are also significantly reduced by French tax incentives related to our research and development activities.

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

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Liquidity and Capital Resources

Bio-Rad operates and conducts business globally, primarily through subsidiary companies established in the markets in which we trade. Goods are manufactured in a small number of locations, and are then shipped to local distribution facilities around the world. Our product mix is diversified, and certain products compete largely on product efficacy, while others compete on price. Gross margins are generally sufficient to exceed normal operating costs, and funding for research and development of new products, as well as routine outflows of capital expenditure, interest and taxes. In addition to the annual positive cash flow from operating activities, additional liquidity is readily available via the sale of short-term investments and access to our $200.0 million Amended and Restated Credit Agreement (Credit Agreement) that we entered into in June 2010. Borrowings under the Credit Agreement are on a revolving basis and can be used to make acquisitions, for working capital and for other general corporate purposes. We had no outstanding borrowings under the Credit Agreement as of December 31, 2013. The Credit Agreement expires on June 21, 2014.

At December 31, 2013, we had available $608.9 million in cash, cash equivalents and short-term investments, of which approximately 39% was held in our foreign subsidiaries. We believe that our holdings of cash, cash equivalents and short-term investments in the U.S. and in our foreign subsidiaries are sufficient to meet both the current and long-term needs of our global operations. The amount of funds held in the United States can fluctuate due to the timing of receipts and payments in the ordinary course of business and due to other reasons, such as business-development activities. As part of our ongoing liquidity assessments, we regularly monitor the mix of domestic and foreign cash flows (both inflows and outflows). Repatriation of overseas funds will result in additional U.S. federal and state income tax payments. In general, it is our practice and intention to reinvest the cash generated by our foreign subsidiaries in our foreign subsidiaries' operations.

Under domestic and international lines of credit, we had $218.8 million available for borrowing as of December 31, 2013, of which $8.2 million is reserved for standby letters of credit issued by our banks to guarantee our obligations, mostly to meet the deductible amount under insurance policies for our benefit. Management believes that this availability, together with cash flow from operating activities, will be adequate to meet our current objectives for operations, research and development, capital additions for manufacturing and distribution, plant and equipment, information technology systems and an acquisition of reasonable proportion to our existing total available capital.

The continuing slow economic growth in developed nations, including sequestration in the U.S., may adversely affect our future results of operations. Demand for our products and services could change more dramatically than in previous years based on activity, funding, reimbursement constraints and support levels from government, universities, hospitals and private industry, including diagnostic laboratories. The need for certain sovereign nations with large annual deficits to curtail spending could lead to slower growth of, or even a decline in, our business. Sovereign nations either delaying payment for goods and services or renegotiating their debts could impact our liquidity. The situation in these sovereign nations is continuously evolving and we have no greater knowledge of the situation other than what is publicly reported. As of December 31, 2013 and December 31, 2012, we had accounts receivable, net of allowance for doubtful accounts, in Spain, Italy, Greece and Portugal of $66.0 million and $64.8 million, respectively.

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

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Cash Flows from Operations

Net cash provided by operations was $175.5 million, $276.0 million and $262.7 million in 2013, 2012, and 2011, respectively. The net decrease between 2013 and 2012 of $100.5 million primarily resulted from:

- higher cash paid to employees, mostly due to an increase in headcount that included acquisitions,
- an increase in outside services as we placed in service during the second quarter of 2013 the first phase of a global single instance Enterprise Resource Planning (ERP) platform, moving to expense in the post-implementation/operation stage from capitalizing in the application development stage in the prior year period,
- 2012 benefited from an approximately $21 million payment for multiple years of Spanish receivables,
- an increase in interest paid primarily due to the early redemption of the $300.0 million of 8.0% Senior Subordinated Notes on September 30, 2013, and
- a payment settlement for a royalties audit of $12 million in the second quarter of 2013,
- slightly offset by lower income tax payments and higher customer receipts.

In 2014 we have begun another phase of the global single instance ERP platform in which we will be in the application development stage and therefore expect to have lower associated expenses than in 2013 as qualified expenses are capitalized. Capitalized expenses are reflected in cash flows from investing activities.

The net increase between 2012 and 2011 of $13.3 million primarily represented higher cash received from customers that in part reflected improved payments in 2012 from Southern European customers, and a decline in interest paid due to the refinancing of a portion of our debt that was completed in January 2011, partially offset by higher income tax payments as 2011 included an income tax refund of approximately $25 million. Also affecting cash flows from operations was the Enterprise Resource Planning (ERP) project that was considered in the preliminary project stage in 2011, which requires internal labor costs to be expensed, whereas in 2012 we were in the application development stage," which requires internal labor costs to be capitalized and is currently included in cash flows from investing activities. We continue to focus on cash flow improvements as a global company-wide goal.

We regularly review past due receivables to assess the allowance for doubtful accounts and believe net accounts receivable are fully realizable. We also routinely review inventory for the impact of obsolescence and changes in market prices caused by the introduction of new products, technologies and in government reimbursement policies. We expect the first quarter of 2014 cash flows from operations to be lower than the fourth quarter of 2013 as Bio-Rad historically has made larger payments for royalties, fourth quarter sales commissions to third parties and annual employee bonuses during this period.

Cash Flows from Investing Activities

Net cash used in investing activities, including capital expenditures, was $5.4 million, $409.9 million and $386.3 million for 2013, 2012 and 2011, respectively. Capital expenditures in 2013 totaled $113.0 million, compared to $152.4 million and $102.9 million in 2012 and 2011, respectively. Capital expenditures represent the addition and replacement of production machinery and research equipment, ongoing manufacturing and facility additions for expansion, regulatory, environmental and compliance. Also included in capital expenditures are investments in business systems and data communication upgrades and enhancements. All periods include payments made for equipment placed with Clinical Diagnostics segment customers who then contract to purchase our reagents for use. Capital expenditures were lower in 2013 compared to 2012 as we placed in service the first phase of a global single instance ERP platform in 2013 and began to expense costs capitalized during the application development stage in 2012. Capital expenditures were higher in 2012 than in 2011 as the first phase of the global single instance ERP platform was nearing completion in 2012. However, as we continue to implement more phases of the ERP platform and expand our e-commerce platform, we expect capital expenditures to increase and continue to remain historically

higher for the next four years or more. The current estimated global implementation cost for the single instance ERP platform could exceed $250 million and is estimated to take approximately four or more years to fully implement.

Purchases for marketable securities and investments in 2013 were lower than 2012 and 2011 primarily due to reallocating funds. Proceeds from the sale of marketable securities and investments was higher in 2013 than prior years primarily to provide cash to redeem all of the $300.0 million 8.0% Senior Subordinated Notes.

Our investment objective is to maintain liquidity to meet anticipated operational and other corporate requirements, consistent with our risk tolerance level.

Payments for acquisitions, net of cash received, and long-term investments was higher than the prior year period primarily due to the following:

- in January 2013, we acquired 100% of the outstanding shares of AbD Serotec, a division of MorphoSys AG, for total consideration of $62.2 million (net of cash received of $7.3 million),
- in August 2012, we acquired from Propel Labs, Inc. a new cell sorting system that included $5.0 million in cash at the closing date,
- in July 2012, we acquired all of the outstanding shares of DiaMed Benelux for 4.6 million Euros (approximately $5.6 million) in cash,
- in January 2012, we purchased, for cash, certain assets from a raw material supplier for approximately $12.5 million,
- in October 2011, we acquired all the issued and outstanding stock of QuantaLife that included $150.3 million in cash at the closing date,
- in June 2011, we acquired the remaining outstanding shares of DiaMed S.E.A. Limited (DiaMed Thailand) from multiple noncontrolling shareholders for approximately $0.2 million in cash, and
- in February 2011, we acquired an additional 39% of Distribuidora de Analitica para Medicina Ibérica S.A. (DiaMed Spain) from multiple noncontrolling shareholders, increasing our ownership in DiaMed Spain to 90% for approximately 2.5 million Euros, or approximately $3.4 million in cash.

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

Cash Flows from Financing Activities

Net cash used in financing activities was $311.7 million and $213.6 million in 2013 and 2011, respectively, and net cash provided by financing activities was $12.6 million in 2012. Net cash used in financing activities in 2013 was primarily due to the early redemption of the $300.0 million of 8.0% Senior Subordinated Notes on September 30, 2013. Also in 2013, $20.0 million was paid to Propel Labs' shareholders in contingent consideration, of which $19.9 million was associated with the valuation as of the 2012 acquisition date and the remainder was recognized in cash flows from operations. Additionally in 2013, $6.0 million was paid to QuantaLife in contingent consideration, of which $5.6 million was associated with the valuation as of the 2011 acquisition date and the remainder was recognized in cash flows from operations. Net cash provided in 2012 was primarily from proceeds from issuance of our common stock. Net cash used in 2011 was attributable to the redemption in January 2011 of $225.0 million 7.5% Senior Subordinated Notes, including a call premium of $2.8 million that was recorded in Interest expense in the Consolidated Statements of Income. We have outstanding Senior Notes of $425.0 million, which are not due until 2020.

The Credit Agreement that was entered into in June 2010 is secured by substantially all of our personal property assets, the assets of our domestic subsidiaries and 65% of the capital stock of certain foreign subsidiaries. It is guaranteed by all of our existing and future material domestic subsidiaries and expires in June 2014. We are currently evaluating our options on renewing the Credit Agreement or similar arrangements.

The Board of Directors has authorized the repurchase of up to $18.0 million of Bio-Rad's common stock, of which $3.3 million has yet to be repurchased as of December 31, 2013. The Credit Agreement limits our ability to

repurchase our stock. In accordance with the terms of awards under the 2007 Incentive Award Plan, in June 2012, we withheld 122 shares of our Class A common stock and 917 shares of our Class B common stock to satisfy tax obligations due upon the vesting of restricted stock of certain of our employees, which is considered a repurchase of our stock. All of the restricted stock has vested as of December 31, 2013 and therefore we do not anticipate any repurchasing of shares for this purpose. We had no other repurchases of our stock during 2013, 2012 or 2011.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have had or are reasonably likely to have a current or future material effect on our financial condition, results of operations or liquidity.

Contractual Obligations

The following summarizes certain of our contractual obligations as of December 31, 2013 and the effect such obligations are expected to have on our cash flows in future periods (in millions):

	Payments Due by Period				
Contractual Obligations	Total	Less Than One Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt, including current portion (1)	$437.4	$1.8	$0.4	$0.5	$434.7
Interest payments (1)	144.0	20.7	41.4	41.4	40.5
Operating lease obligations (2)	161.6	39.1	54.1	32.8	35.6
Purchase obligations (3)	65.4	57.4	7.6	0.4	—
Long-term liabilities (4)	99.0	—	32.3	7.3	59.4

(1) These amounts represent expected cash payments, including capital lease obligations and notes payable, which are included in our December 31, 2013 Consolidated Balance Sheets. Our debt is fixed and primarily consists of the 4.875% Notes. See Note 5 of the Consolidated Financial Statements for additional information about our debt.

(2) Operating lease obligations are described in Note 12 of the Consolidated Financial Statements.

(3) Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding to Bio-Rad and that specify all significant terms. Purchase obligations exclude agreements that are cancelable without penalty.

(4) Excluded from this table is our liability for income taxes payable, including uncertain tax positions, in the amount of $17.8 million. We are not able to reasonably estimate the timing of future cash flows of these tax liabilities, therefore, our income tax obligations are excluded from the table above. See Note 6 of the Consolidated Financial Statements for additional information about our income taxes.

Also excluded from this table is our $35.0 million accrual related to the United States Foreign Corrupt Practices Act (FCPA). We are not able to reasonably estimate the timing of payments related to this accrual. See Note 13 of the Consolidated Financial Statements for additional information about this accrual.

ITEM 7A. QUANTITIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial Risk Management

The main goal of Bio-Rad's financial risk management program is to reduce the variance in expected cash flows arising from unexpected foreign exchange rate and interest rate changes. Financial exposures are managed through operational means and by using various financial instruments, including cash and liquid resources, borrowings, and forward and spot foreign exchange contracts. No derivative financial instruments are entered into for the purpose of trading or speculation. Company policy requires that all derivative positions are undertaken to manage the risks arising from underlying business activities. These derivative transactions do not qualify for hedge accounting treatment. Derivative instruments used in these transactions are valued at fair value and changes in fair value are included in reported earnings.

Foreign Exchange Risk. We operate and conduct business in many countries and are exposed to movements in foreign currency exchange rates. We face transactional currency exposures that arise when we enter into transactions denominated in currencies other than U.S. dollars. Additionally, our consolidated net equity is impacted by the conversion of the net assets of our international subsidiaries for which the functional currency is not the U.S. dollar.

Foreign currency exposures are managed on a centralized basis. This allows for the netting of natural offsets and lowers transaction costs and net exposures. Where possible, we seek to manage our foreign exchange risk in part through operational means, including matching same-currency revenues to same-currency costs, and same-currency assets to same-currency liabilities. Moreover, weakening in one currency can often be offset by strengthening in another currency. Foreign exchange risk is also managed through the use of forward foreign exchange contracts. Positions are primarily in Euro, Swiss Franc, British Sterling, Singapore Dollar, Brazilian Real and Japanese Yen. The majority of forward contracts are for periods of 90 days or less. We record the change in value of our foreign currency receivables and payables as a Foreign exchange (gain) loss on our Consolidated Statements of Income along with the change in fair market value of the forward exchange contract used as an economic hedge of those assets or liabilities.

Our forward contract holdings at year-end were analyzed to determine their sensitivity to fluctuations in foreign currency exchange rates. All other variables were held constant. Market risk associated with derivative holdings is the potential change in fair value of derivative positions arising from an adverse movement in foreign exchange rates. A decline of 10% on quoted foreign exchange rates would result in an approximate net-present-value loss of $46 million on our derivative position as of December 31, 2013. This impact of a change in exchange rates excludes the offset derived from the change in value of the underlying assets and liabilities, which could reduce the adverse effect significantly.

Interest Rate Risk of Debt Instruments. Bio-Rad centrally manages the short-term cash surpluses and shortfalls of its subsidiaries. Our holdings of variable rate debt instruments at year-end were analyzed to determine their sensitivity to movements in interest rates. Due to the relatively small amount of short-term variable rate debt we have outstanding, there would not be a material impact to earnings or cash flows if interest rates moved adversely by 10%. Our long-term debt consists primarily of fixed-rate instruments, and is thus insulated from interest rate changes. As of December 31, 2013, the overall interest rate risk associated with our debt was not significant.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders
Bio Rad Laboratories, Inc.:

We have audited the accompanying consolidated balance sheet of Bio Rad Laboratories, Inc. and subsidiaries (the Company) as of December 31, 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year ended December 31, 2013. In connection with our audit of the consolidated financial statements, we also have audited the financial statement schedule. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bio Rad Laboratories, Inc. and subsidiaries as of December 31, 2013, and the results of their operations and their cash flows for the year ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Bio Rad Laboratories, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 17, 2014 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

San Francisco, California
March 17, 2014

Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders
Bio Rad Laboratories, Inc.:

We have audited Bio-Rad Laboratories, Inc.'s (the Company) internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Bio-Rad Laboratories, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting (Item 9A(b)). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness related to the design of monitoring controls over operations at certain of the Company's locations both within the United States and overseas and the completeness and timeliness of communication between locations, as well as the precision at which these controls are designed and documented, has been identified and included in management's assessment. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet and consolidated statements of income, comprehensive income, stockholders' equity, cash flows, and financial statement schedule of Bio-Rad Laboratories, Inc. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2013 consolidated financial statements, and this report does not affect our audit opinion dated March 17, 2014, which expressed an unqualified opinion on those consolidated financial statements.

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In our opinion, because of the effect of the aforementioned material weakness on the achievement of the objectives of the control criteria, Bio-Rad Laboratories, Inc. has not maintained effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ KPMG LLP

San Francisco, California
March 17, 2014

REPORT OF ERNST & YOUNG LLP - INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders of Bio-Rad Laboratories, Inc.

We have audited the accompanying consolidated balance sheet of Bio-Rad Laboratories, Inc. as of December 31, 2012, and the related consolidated statements of income, comprehensive income, cash flows, and changes in stockholders' equity for the two years ended December 31, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15(a)2. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bio-Rad Laboratories, Inc. at December 31, 2012, and the consolidated results of its operations and its cash flows for the two years ended December 31, 2012 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Redwood City, California
March 18, 2013, except for the section in Note 1 entitled ‘Correction of Immaterial Errors, and Reclassification of Certain Amounts’, as to which the date is March 17, 2014

BIO-RAD LABORATORIES, INC.
Consolidated Balance Sheets
(In thousands)

	December 31, 2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	$331,551	$463,388
Short-term investments	277,369	457,685
Accounts receivable, less allowance for doubtful accounts of $32,471 at 2013 and $29,202 at 2012	422,660	398,739
Inventories:		
Raw materials	105,708	93,009
Work in process	129,894	124,737
Finished goods	265,689	237,374
Total inventories	501,291	455,120
Prepaid expenses	135,969	92,490
Other current assets	79,016	69,260
Total current assets	1,747,856	1,936,682
Property, plant and equipment:		
Land and improvements	19,066	18,898
Buildings and leasehold improvements	284,299	268,217
Equipment	783,950	724,919
Total property, plant and equipment	1,087,315	1,012,034
Less: accumulated depreciation and amortization	(657,960)	(595,096)
Property, plant and equipment, net	429,355	416,938
Goodwill, net	517,770	495,418
Purchased intangibles, net	266,188	260,939
Other investments	377,870	293,613
Other assets	49,751	39,913
Total assets	$3,388,790	$3,443,503

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

BIO-RAD LABORATORIES, INC.
Consolidated Balance Sheets
(continued)
(In thousands, except share data)

	December 31, 2013	2012
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$148,510	$130,867
Accrued payroll and employee benefits	130,658	135,955
Notes payable and current maturities of long-term debt	1,786	1,750
Income and other taxes payable	33,555	34,779
Accrued royalties	19,556	29,718
Deferred revenue	26,390	26,288
Estimated loss contingency	30,000	—
Other current liabilities	97,017	113,043
Total current liabilities	487,472	472,400
Long-term debt, net of current maturities	435,615	732,414
Deferred income taxes	162,110	115,054
Other long-term liabilities	116,871	108,095
Total liabilities	1,202,068	1,427,963
Commitments and contingent liabilities		
Stockholders' equity:		
Bio-Rad stockholders' equity:		
Preferred stock, $0.0001 par value, 7,500,000 shares authorized; issued and outstanding - none	—	—
Class A common stock, $0.0001 par value; 80,000,000 shares authorized; shares issued - 23,680,749 and 23,332,532 at 2013 and 2012, respectively; shares outstanding - 23,680,627 and 23,332,410 at 2013 and 2012, respectively	2	2
Class B common stock, $0.0001 par value; 20,000,000 shares authorized; shares issued - 5,096,780 and 5,149,771 at 2013 and 2012, respectively; shares outstanding - 5,095,863 and 5,148,854 at 2013 and 2012, respectively	1	1
Additional paid-in capital	239,986	212,244
Class A treasury stock at cost, 122 shares at 2013 and 2012	(12)	(12)
Class B treasury stock at cost, 917 shares at 2013 and 2012	(89)	(89)
Retained earnings	1,606,117	1,528,327
Accumulated other comprehensive income	340,717	274,532
Total Bio-Rad stockholders' equity	2,186,722	2,015,005
Noncontrolling interests	—	535
Total stockholders' equity	2,186,722	2,015,540
Total liabilities and stockholders' equity	$3,388,790	$3,443,503

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

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

	Year Ended December 31,		
	2013	2012	2011
Net sales	$2,132,694	$2,069,235	$2,073,529
Cost of goods sold	954,216	914,077	894,700
Gross profit	1,178,478	1,155,158	1,178,829
Selling, general and administrative expense	798,070	681,778	695,984
Research and development expense	210,952	209,204	177,604
Income from operations	169,456	264,176	305,241
Interest expense	61,271	51,112	53,135
Foreign exchange losses, net	8,566	5,040	13,842
Other (income) expense, net	(12,766)	(21,883)	(7,583)
Income before income taxes	112,385	229,907	245,847
Provision for income taxes	(34,574)	(64,361)	(67,034)
Net income including noncontrolling interests	77,811	165,546	178,813
Net (income) loss attributable to noncontrolling interests	(21)	(69)	200
Net income attributable to Bio-Rad	$77,790	$165,477	$179,013
Basic earnings per share:			
Net income per basic share attributable to Bio-Rad	$2.72	$5.85	$6.39
Weighted average common shares - basic	28,586	28,290	28,031
Diluted earnings per share:			
Net income per diluted share attributable to Bio-Rad	$2.69	$5.78	$6.29
Weighted average common shares - diluted	28,906	28,642	28,468

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

BIO-RAD LABORATORIES, INC.
Consolidated Statements of Comprehensive Income
(In thousands)

	Year Ended December 31,		
	2013	2012	2011
Net income including noncontrolling interests	$77,811	$165,546	$178,813
Other comprehensive income:			
Foreign currency translation adjustments	16,682	23,668	(12,494)
Reclassification of realized portion of cumulative translation adjustments due to liquidation, net of tax of $0.	(20)	70	(1,055)
Other post-employment benefits adjustments, net of tax of $0.2 million, $2.8 million and ($0.4) million for 2013, 2012, and 2011, respectively.	(510)	(8,531)	1,286
Reclassification adjustments for net periodic other post-employment benefit cost, net of tax of ($0.2) million, ($0.1) million, and ($0.1) million for 2013, 2012, and 2011, respectively.	546	253	355
Net unrealized holding gains on available-for-sale investments, net of tax of ($28.8) million, ($38.1) million and ($7.4) million for 2013, 2012, and 2011, respectively.	49,459	65,448	12,663
Reclassification adjustments for gains (losses) included in Net income including noncontrolling interests, net of tax of ($0.1) million, $2.9 million, and ($0.1) million for 2013, 2012, and 2011, respectively.	192	(5,045)	104
Other comprehensive income, net of tax	66,349	75,863	859
Comprehensive income	144,160	241,409	179,672
Comprehensive (income) loss attributable to noncontrolling interests	(185)	(90)	11
Comprehensive income attributable to Bio-Rad	$143,975	$241,319	$179,683

Reclassification adjustments are calculated using the specific identification method.
The accompanying notes are an integral part of these consolidated financial statements.

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

	Year Ended December 31,		
	2013	2012	2011
Cash flows from operating activities:			
Cash received from customers	$2,090,030	$2,063,805	$2,018,755
Cash paid to suppliers and employees	(1,797,688)	(1,654,943)	(1,639,848)
Interest paid	(61,233)	(46,369)	(56,859)
Income tax payments	(71,144)	(93,697)	(68,750)
Investment proceeds and miscellaneous receipts, net	16,760	12,991	9,686
Excess tax benefits from share-based compensation	(2,720)	(2,889)	(3,168)
Proceeds from (payments for) forward foreign exchange contracts, net	1,471	(2,870)	2,919
Net cash provided by operating activities	175,476	276,028	262,735
Cash flows from investing activities:			
Capital expenditures	(112,998)	(152,417)	(102,888)
Proceeds from dispositions of property, plant and equipment	1,214	6,325	234
Payments for acquisitions, net of cash received, and long-term investments	(72,054)	(39,443)	(158,538)
Payments for purchases of intangible assets	(700)	(1,780)	(436)
Payments for purchases of marketable securities and investments	(386,714)	(680,966)	(509,310)
Proceeds from sales of marketable securities and investments	289,779	131,295	48,825
Proceeds from maturities of marketable securities and investments	276,052	327,052	335,781
Net cash used in investing activities	(5,421)	(409,934)	(386,332)
Cash flows from financing activities:			
Net payments on line-of-credit arrangements and notes payable	48	(191)	(3,900)
Payments on long-term borrowings	(300,228)	(620)	(226,835)
Proceeds from issuance of common stock	11,237	10,611	14,249
Payments of contingent consideration	(25,474)	—	—
Debt issuance costs on long-term borrowings	—	—	(242)
Purchase of treasury stock	—	(101)	—
Excess tax benefits from share-based compensation	2,720	2,889	3,168
Net cash (used in) provided by financing activities	(311,697)	12,588	(213,560)
Effect of foreign exchange rate changes on cash	9,805	10,475	4,837
Net decrease in cash and cash equivalents	(131,837)	(110,843)	(332,320)
Cash and cash equivalents at beginning of year	463,388	574,231	906,551
Cash and cash equivalents at end of year	$331,551	$463,388	$574,231

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

BIO-RAD LABORATORIES, INC.
Consolidated Statements of Changes in Stockholders' Equity
(In thousands)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Bio-Rad Stockholders' Equity	Non-controlling Interests	Total Stockholders' Equity
Balance at December 31, 2010	$ 3	$ 156,986	$ —	$ 1,181,687	$ 198,020	$ 1,536,696	$ 3,823	$ 1,540,519
Adjustment - see Note 1	—	—	—	2,150	—	2,150	—	2,150
Net income	—	—	—	179,013	—	179,013	(200)	178,813
Other comprehensive income, net of tax	—	—	—	—	670	670	189	859
Issuance of common stock	—	14,249	—	—	—	14,249	—	14,249
Stock compensation expense	—	10,738	—	—	—	10,738	—	10,738
Tax benefit-exercise stock options	—	3,582	—	—	—	3,582	—	3,582
Purchase of additional controlling interests and other	—	(221)	—	—	—	(221)	(3,367)	(3,588)
Balance at December 31, 2011	3	185,334	—	1,362,850	198,690	1,746,877	445	1,747,322
Net income	—	—	—	165,477	—	165,477	69	165,546
Other comprehensive income, net of tax	—	—	—	—	75,842	75,842	21	75,863
Issuance of common stock	—	10,611	—	—	—	10,611	—	10,611
Stock compensation expense	—	12,936	—	—	—	12,936	—	12,936
Tax benefit-exercise stock options	—	3,363	—	—	—	3,363	—	3,363
Purchase of treasury stock	—	—	(101)	—	—	(101)	—	(101)
Balance at December 31, 2012	3	212,244	(101)	1,528,327	274,532	2,015,005	535	2,015,540
Net income	—	—	—	77,790	—	77,790	21	77,811
Other comprehensive income, net of tax	—	—	—	—	66,185	66,185	164	66,349
Issuance of common stock	—	11,237	—	—	—	11,237	—	11,237
Stock compensation expense	—	13,657	—	—	—	13,657	—	13,657
Tax benefit-exercise stock options	—	3,135	—	—	—	3,135	—	3,135
	—	(287)	—	—	—	(287)	(720)	(1,007)

Purchase of additional controlling interests and other								
Balance at December 31, 2013	$ 3	$ 239,986	$ (101)	$ 1,606,117	$ 340,717	$ 2,186,722	$ —	$ 2,186,722

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

BIO-RAD LABORATORIES, INC.
Notes to Consolidated Financial Statements

1.SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of Bio-Rad Laboratories, Inc. and all of our wholly and majority owned subsidiaries (referred to in this report as “Bio-Rad,” “we,” “us” and “our”) after elimination of intercompany balances and transactions. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments with original maturities of three months or less which are readily convertible into cash. Cash equivalents are stated at cost, which approximates fair value.

Available-for-Sale Investments

Available-for-sale investments consist of corporate obligations, municipal securities, asset backed securities, U.S. government sponsored agencies and marketable equity securities. Management classifies investments at the time of purchase and reevaluates such classification at each balance sheet date. Investments with maturities beyond one year may be classified as short-term based on their liquid nature and because such marketable securities represent the investment of cash that is available for current operations. Available-for-sale investments are reported at fair value based on quoted market prices and other observable market data. Unrealized gains and losses are reported as a component of other comprehensive income, net of any related tax effect. Unrealized losses are charged against income when a decline in the fair value of an individual security is determined to be other-than-temporary. We review our available-for-sale investments for other-than-temporary losses on a quarterly basis. Realized gains and losses and other-than-temporary impairments on investments are included in Other (income) expense, net (see Note 10).

Concentration of Credit Risk

Financial instruments that potentially subject us to concentration of credit risk consist primarily of cash and cash equivalents, investments, foreign exchange contracts and trade accounts receivable. Cash and cash equivalents and investments are placed with various highly rated major financial institutions located in different geographic regions. Bio-Rad has not sustained significant losses from instruments held at financial institutions.

The forward contracts used in managing our foreign currency exposures 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 carrying values of our financial instruments represent the maximum

amount of loss we would have incurred as of our fiscal year-end. However, we do not expect to record any losses as a result of counterparty default.

We perform credit evaluation procedures related to our trade receivables and with the exception of certain developing countries, generally do not require collateral. As a result of increased risk in certain developing countries, some Bio-Rad sales are subject to collateral letters of credit from our customers. Credit risk for trade accounts receivable is generally limited due to the large number of customers and their dispersion across many geographic areas. However, a significant amount of trade receivables are with national healthcare systems in countries within the European Union.

Accounts Receivable

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The amount of the allowance is determined by analyzing known uncollectible accounts, aged receivables, economic conditions in the customers' country or industry, historical losses and our customers' credit-worthiness. Amounts later determined and specifically identified to be uncollectible are charged or written off against this allowance.

Inventory

Inventories are valued at the lower of actual cost or market (net realizable value) and include material, labor and overhead costs. The first-in, first-out method is used to relieve inventory for products sold.

Property, Plant and Equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and amortization. Included in property, plant and equipment are buildings and equipment acquired under capital lease arrangements, reagent rental equipment and capitalized software, including costs for software developed or obtained for internal use. Property, plant and equipment are assessed for impairment quarterly or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. Buildings and leasehold improvements are amortized over 15-30 years or the term of the leases or life of the improvements, whichever is shorter. With the exception of reagent rental equipment, which is amortized over a 1-5 year period, equipment and capitalized software is depreciated over 3-12 years.

Goodwill

Goodwill represents the excess of the cost over the fair value of net tangible and identifiable intangible assets of acquired businesses. Goodwill is assessed for impairment by applying fair value based tests annually in the fourth quarter or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. We perform impairment tests of goodwill at our reporting unit level, which is one level below our operating segments. Our reporting units are identified as components for which discrete financial information is available and is regularly reviewed by management. Goodwill amounts are assigned to reporting units at the time of acquisition.

The goodwill impairment test consists of a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit to its carrying value, including goodwill. We use a projected discounted cash flow model to determine the fair value of a reporting unit. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test is not required. The second step, if required, compares the implied fair value of the

reporting unit goodwill with the carrying amount of that goodwill. The fair value of a reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire

the reporting unit. If the carrying amount of the reporting unit's goodwill exceeds its implied fair value, an impairment charge is recognized in an amount equal to that excess.

Long-Lived Assets

For purposes of recognition and measurement of an impairment loss, a long-lived asset or assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. We assess the impairment of long-lived assets (including identifiable intangible assets) quarterly or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that we consider important that could trigger an impairment review include:

- significant under-performance relative to expected, historical or projected future operating results;
- significant changes in the manner of use of the long-lived assets, intangible assets or the strategy for our overall business;
- a current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of at a loss before the end of its previously estimated useful life; and
- significant negative industry, legal, regulatory or economic trends.

When management determines that the carrying value of long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we test for any impairment based on a projected undiscounted cash flow method. Projected future operating results and cash flows of the asset or asset group are used to establish the fair value used in evaluating the carrying value of long-lived and intangible assets. We estimate the future cash flows of the long-lived assets using current and long-term financial forecasts. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If this is the case, an impairment loss would be recognized. The impairment loss recognized is the amount by which the carrying amount exceeds the fair value.

Income Taxes

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities reflect the tax effects of losses, credits, and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. They are determined using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. To the extent we determine that we are able to realize our deferred income tax assets in the future in excess of their net recorded amount, we make an adjustment to the valuation allowance which may reduce the provision for income taxes. When we establish or reduce the valuation allowance against our deferred tax assets, our provision for income taxes will increase or decrease, respectively, in the period that determination to change the valuation allowance is made.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements on a particular tax position are measured based on the largest benefit that has a

greater than a 50% likelihood of being realized upon settlement. The amount of unrecognized tax benefits is adjusted as appropriate for changes in facts and circumstances, such as significant amendments to existing tax law, new regulations or interpretations by the taxing authorities, new information obtained during a tax examination, or resolution of an examination. We recognize both accrued interest and penalties, where appropriate, related to unrecognized tax benefits in the provision for income taxes.

Revenue Recognition

Revenue is recognized when pervasive evidence of an arrangement exists, the price to the buyer is fixed or determinable, collectability is reasonably assured and title has passed to the customer or product has been delivered absent specific contractual specifications. Revenue associated with equipment that requires factory installation is not recorded until installation is complete and customer acceptance, if required contractually, has occurred. At the time revenue is recognized, a provision is recognized for estimated product returns. Service revenues on extended warranty contracts are recognized ratably over the life of the service agreement, or as services are performed if not under contract.

Reagent agreements are a diagnostic industry sales method that provides use of an instrument and consumables (reagents) to a customer on a per test basis. We evaluate our reagent agreements and account for these contracts under the guidance pertaining to accounting for revenue arrangements with multiple deliverables. Our reagent agreements represent one unit of accounting as the instrument and consumables are interdependent in producing a diagnostic result that neither has a stand-alone value with respect to these agreements. All revenues that we earn under our reagent agreements are recognized pursuant to the terms of each agreement and are based and entirely contingent upon either (i) when the consumables to conduct a fixed number of tests are delivered or (ii) as reported by the customer on a per test basis.

Shipping and Handling

We classify all freight costs billed to customers as Net sales. Related freight costs are included in Cost of goods sold.

Warranty

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

Changes in the warranty accrual, included in Other current liabilities and Other long-term liabilities, were as follows (in millions):

	2013	2012
January 1	$16.4	$16.4
Provision for warranty	15.6	19.8
Actual warranty costs	(16.4)	(19.8)
December 31	$15.6	$16.4

Research and Development

Internal research and development costs are expensed as incurred. Third-party research and development costs are expensed when the contracted work has been performed.

Foreign Currency

Balance sheet accounts of international subsidiaries are translated at the current exchange rates as of the end of each accounting period. Income statement items are translated at average exchange rates for the period. The resulting translation adjustments are recorded as a separate component of stockholders' equity.

Foreign currency transaction gains and losses are included in Foreign exchange losses, net in the Consolidated Statements of Income. Transaction gains and losses result primarily from fluctuations in exchange rates when

intercompany receivables and payables are denominated in currencies other than the functional currency of our subsidiary that recorded the transaction.

Forward Foreign Exchange Contracts

As part of distributing our products, we regularly enter into intercompany transactions. We enter into forward foreign exchange contracts to manage foreign exchange risk of future movements in exchange rates that affect foreign currency denominated intercompany receivables and payables. We do not use derivative financial instruments for speculative or trading purposes, nor do we seek hedge accounting treatment for any of our contracts. As a result, these contracts, generally with maturity dates of 90 days or less and denominated primarily in currencies of industrial countries, are recorded as an asset or liability measured at their fair value at each balance sheet date. The resulting gains or losses offset exchange gains or losses, on the related receivables and payables, all of which are recorded as Foreign exchange losses, net in the Consolidated Statements of Income.

Noncontrolling Interests

A noncontrolling interest in a subsidiary is an ownership interest in a consolidated entity that is reported as equity in the consolidated financial statements and separate from Bio-Rad’s equity. In addition, net income (loss) attributable to noncontrolling interests is reported separately from net income attributable to Bio-Rad in the consolidated financial statements. Our consolidated statements presented the full amount of assets, liabilities, income and expenses of all of our consolidated subsidiaries, with a partially offsetting amount shown in noncontrolling interests for the portion of assets and liabilities that were not controlled by us.

In February 2013, we acquired the remaining outstanding shares of Distribuidora de Analitica para Medicina Iberica S.A. (DiaMed Spain) from the remaining noncontrolling shareholder for approximately 0.6 million Euros or $0.9 million in cash. This acquisition was accounted for as an equity transaction, which reduced Bio-Rad's noncontrolling interests and additional paid-in capital by $0.6 million and $0.3 million, respectively, and therefore there are no noncontrolling interests in Bio-Rad.

Share-Based Compensation Plans

Stock-based compensation expense for all share-based payment awards granted is determined based on the grant-date fair value. We recognize these compensation costs net of estimated forfeitures over the requisite service period of the award, which is generally the vesting term of the share-based payment awards. We estimated the forfeiture rate based on our historical experience. These plans are described more fully in Note 9.

Earnings Per Share

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

Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of earnings per share (EPS) pursuant to the two-class method. As our unvested restricted shares qualify as participating securities, we have included these

shares in the computation of EPS.

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

	Year Ended December 31,		
	2013	2012	2011
Basic weighted average shares outstanding	28,586	28,290	28,031
Effect of potentially dilutive stock options and restricted stock awards	320	352	437
Diluted weighted average common shares	28,906	28,642	28,468
Anti-dilutive stock options and restricted stock awards excluded from the computation of diluted EPS	107	83	63

Fair Value of Financial Instruments

For certain financial instruments, including cash and cash equivalents, short-term investments, accounts receivable, marketable securities, notes payable, accounts payable and foreign exchange contracts, the carrying amounts approximate fair value.

The estimated fair value of financial instruments is based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) using available market information or other appropriate valuation methodologies in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Estimates are not necessarily indicative of the amounts that could be realized in a current market exchange as considerable judgment is required in interpreting market data used to develop estimates of fair value. The use of different market assumptions or estimation techniques could have a material effect on the estimated fair value (see Note 3).

CORRECTION OF IMMATERIAL ERRORS, AND RECLASSIFICATION OF CERTAIN AMOUNTS

Inventory Costing

During the third quarter of 2013, we identified errors in the consolidated financial statements for the years 2011 and 2012 (and for all interim periods therein) and in the unaudited interim condensed consolidated financial statements for the three month periods ended March 31, 2013 and June 30, 2013, related to the valuation of finished goods inventory in our Life Science segment. We were inappropriately expensing inventory in amounts greater than actual costs for non-sales transactions, primarily related to inventory being used for demonstration purposes and product samples that are recorded to Selling, general and administrative expense. In addition, the Life Science segment inventory error affected cost of goods sold as we relieved inventory at a higher cost than incurred on limited sales to third parties produced in a non-U.S. manufacturing facility. The effect of correcting these errors in the 2011 and 2012 consolidated financial statements were increases to net income of $0.8 million and $1.7 million, respectively.

Research and Development (R&D) Tax Credit

During the third quarter of 2013, we revised the classification of one item for all periods presented from “Provision for income taxes” to “Research and development expense” in our Consolidated Statements of Income to conform to the current year presentation. The item reclassified pertains to a refundable French R&D tax credit, which after the reclassification reduces Research and development expense. We believe this presentation is appropriate as we are not required to have taxable income in order to earn the credits. The effect of the reclassifications from Provision for income taxes to Research and development expense for 2011 and 2012 was $8.8 million and $4.8 million, respectively.

The impact of the immaterial error correction, and the reclassification, both described above on our Consolidated Balance Sheet and Consolidated Statements of Income for the periods presented is as follows (in thousands, except

per share data):

	December 31, 2012		
	As reported	Adjustment	As revised
Inventories: finished goods	$230,624	$6,750	$237,374
Total inventories	448,370	6,750	455,120
Total current assets	1,929,932	6,750	1,936,682
Total assets	3,436,753	6,750	3,443,503
Income and other taxes payable	32,299	2,480	34,779
Total current liabilities	469,920	2,480	472,400
Total liabilities	1,425,483	2,480	1,427,963
Total stockholders' equity	2,011,270	4,270	2,015,540
Total liabilities and stockholders' equity	$3,436,753	$6,750	$3,443,503

	Year ended December 31,					
	2012			2011		
	As reported	Adjustment	As revised	As reported	Adjustment	As revised
Cost of goods sold	$915,097	$(1,020)	$914,077	$895,640	$(940)	$894,700
Gross profit	1,154,138	1,020	1,155,158	1,177,889	940	1,178,829
Selling, general and administrative expense	682,898	(1,120)	681,778	696,294	(310)	695,984
Research and development expense	214,040	(4,836)	209,204	186,439	(8,835)	177,604
Income from operations	257,200	6,976	264,176	295,156	10,085	305,241
Income before income taxes	222,931	6,976	229,907	235,762	10,085	245,847
Provision for income taxes	59,084	5,277	64,361	57,739	9,295	67,034
Net income including noncontrolling interests	163,847	1,699	165,546	178,023	790	178,813
Net income attributable to Bio-Rad	$163,778	$1,699	$165,477	$178,223	$790	$179,013
Net income per basic share attributable to Bio-Rad	$5.79	$0.06	$5.85	$6.36	$0.03	$6.39
Net income per diluted share attributable to Bio-Rad	$5.72	$0.06	$5.78	$6.26	$0.03	$6.29

Presentation and Disclosure of the Statements of Comprehensive Income

During the first quarter of 2013, we identified errors in the Consolidated Statements of Comprehensive Income for 2012, 2011 and 2010, and in the unaudited interim Condensed Consolidated Statements of Comprehensive Income for all three quarters of 2012, which affected two line items within this financial statement. Specifically, we incorrectly calculated the 1) net unrealized holding gains on available-for-sale (AFS) investments, net of tax, and 2) reclassification adjustments for net holding gains/losses on AFS investments included in net income including noncontrolling interests, net of tax.

Following are the amounts in thousands that should have been reported for the Consolidated Statements of Comprehensive Income giving effect to the errors described above:

	Year Ended December 31,	
	2012	2011
Net unrealized holding gains on AFS investments, net of income tax, understated by $10,090 for the year ended 2012, and overstated by $208 for the year ended 2011.	$65,448	$12,663
Income taxes on net unrealized holding gains on AFS investments, understated by $5,874 for the year ended 2012, and overstated by $121 for the year ended 2011.	$38,108	$7,373
Reclassification adjustments for net holding (gains) losses on AFS investments included in Net income including noncontrolling interests, net of income tax, understated by $10,090 for the year ended 2012, and overstated by $208 for the year ended 2011.	$(5,045)	$104
Income taxes on reclassification adjustments for net holding gains/losses on AFS investments included in Net income including noncontrolling interests, understated by $5,874 for the year ended 2012, and overstated by $121 for the year ended 2011.	$(2,937)	$61

Management evaluated the materiality of all the errors described above from a qualitative and quantitative perspective. Based on such evaluation, we have concluded that while the accumulation of these errors was significant to the year ended December 31, 2013, their correction would not be material to any individual prior period, nor did they have an effect on the trend of financial results, taking into account the requirements of the Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). Accordingly, we are correcting these errors in every affected period in the 2013 Consolidated Financial Statements included in this Form 10-K.

Recent Accounting Standards Updates

In February 2013, the Financial Accounting Standards Board (FASB) issued guidance requiring that companies present either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. If a component is not required to be reclassified to net income in its entirety, companies would instead cross reference to the related footnote for additional information. We adopted this guidance as of January 1, 2013 and present it in a single note. This guidance is related to disclosure only and therefore did not have an impact on our consolidated financial position, results of operations or cash flows.

2. ACQUISITIONS

In January 2013, we acquired 100% of the outstanding shares of AbD Serotec, a division of MorphoSys AG, for total consideration of $62.2 million (net of cash received of $7.3 million). This acquisition was accounted for as a business combination as AbD Serotec represented an integrated set of activities and assets that was capable of being conducted and managed for the purpose of providing a return and therefore constitutes a business in accordance with GAAP. The amount of acquisition-related costs was minimal as Bio-Rad primarily represented itself during the acquisition process. This business acquisition is included in our Life Science segment's results of operations from the acquisition

date. We believe that with AbD Serotec's comprehensive catalog of antibodies, we are able to

offer our customers total assay solutions that can be validated on many of our research platforms for western blotting, multiplex protein expression, ELISA and cell sorting.

During the second quarter of 2013, we finalized the determination of fair values of certain acquired intangible assets and adjusted the preliminary carrying values of goodwill and certain other assets and liabilities to include final information received, and an update to the weighted average tax rate applied to our valuation model and changes in the determination of fair values of certain assets acquired and liabilities assumed. These factors that existed as of the acquisition date resulted in an overall increase to intangible assets of $1.7 million, a reduction of goodwill of $2.1 million and an increase to net tangible assets of $0.4 million. These measurement period adjustments did not have a material impact on our previously reported condensed consolidated financial statements and, therefore, we have not retrospectively adjusted those financial statements.

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

We do not consider this business combination to be material and therefore have not disclosed the pro forma results of operations as required for material business combinations.

In August 2012, we acquired from Propel Labs, Inc. a new cell sorting system, an automated, easy-to-use, benchtop cell sorting flow cytometer. The new system will be sold exclusively under the Bio-Rad brand as the S3™ Cell Sorter. This asset acquisition was accounted for as a business combination as the new cell sorting system represented an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return and therefore constitutes a business in accordance with GAAP. The amount of acquisition-related cost was minimal as Bio-Rad primarily represented itself during the acquisition process. This business acquisition is included in our Life Science segment's results of operations from the acquisition date.

The fair value of the consideration as of the acquisition date was $49.6 million, which included $5.0 million paid in cash at the closing date and $44.6 million in contingent consideration potentially payable to Propel Labs' shareholders. The contingent consideration was based on a probability-weighted income approach related to the achievement of certain development and sales milestones. The contingent consideration for the development milestones was valued at $19.9 million, based on assumptions regarding the probability of achieving the milestones, with such amounts discounted to present value. The contingent consideration for the sales milestones was valued at $24.7 million, based on a statistically significant number of simulations for each potential outcome. The contingent consideration was recognized at its estimated fair value of $20.8 million as of December 31, 2013. (See Note 3 for further discussion of the contingent consideration valuation and underlying assumptions.)

The fair values of the net assets acquired from Propel Labs, Inc. as of the acquisition date were determined to be $17.4 million of goodwill, $32.1 million of definite-lived intangible assets and $0.1 million of net tangible assets. We expect the goodwill recorded to be deductible for income tax purposes. The acquired cell sorting system fits well into Bio-Rad's existing Life Science segment product offerings.

In July 2012, we acquired 100% of the outstanding shares of DiaMed Benelux for 4.6 million Euros (approximately $5.6 million) in cash. This acquisition was accounted for as a business combination as DiaMed Benelux represented an integrated set of activities and assets that was capable of being conducted and managed for the purpose of providing a return and therefore constitutes a business in accordance with GAAP. The amount of acquisition-related cost was minimal as Bio-Rad primarily represented itself during the acquisition process. This business acquisition is included in our Clinical Diagnostics segment's results of operations from the acquisition date.

We acquired net liabilities with a fair value of $2.3 million and the fair values of the assets acquired as of the acquisition date were determined to be $3.0 million of goodwill and $4.9 million of definite-lived intangible assets. The goodwill recorded will not be deductible for income tax purposes. DiaMed Benelux became the exclusive

distributor of certain Bio-Rad immunohematology products in the Benelux market as a result of our 2007 acquisition of DiaMed Holding AG. This distributor acquisition is consistent with our stated objective to control the distribution of our own products and services.

In January 2012, we purchased, for cash, certain assets from a raw material supplier for approximately $12.5 million. This asset acquisition was accounted for as a business combination as the certain assets acquired represented an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return and therefore constitutes a business in accordance with GAAP. The amount of acquisition-related cost was minimal as Bio-Rad primarily represented itself during the acquisition process. This business acquisition is included in the Clinical Diagnostics segment's results of operations from the acquisition date. The fair value of the assets acquired at the acquisition date was determined to be $6.3 million of net tangible assets, $5.1 million of intangible assets and $1.1 million of goodwill. We expect the goodwill recorded to be deductible for income tax purposes. In addition, we paid $2.0 million for employment agreements as an incentive to certain employees of the acquired business to remain with Bio-Rad. Such amount was expensed over two years from the date of acquisition. We believe this acquisition will allow us to secure the supply of critical raw materials and lower our overall costs in the Clinical Diagnostics segment.

3. FAIR VALUE MEASUREMENTS

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

- Level 1: Quoted prices in active markets for identical instruments
- Level 2: Other significant observable inputs (including quoted prices in active markets for similar instruments)
- Level 3: Significant unobservable inputs (including assumptions in determining the fair value of certain investments)

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

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

Financial assets and liabilities carried at fair value and measured on a recurring basis as of December 31, 2012 are classified in the hierarchy as follows (in millions):

	Level 1	Level 2	Level 3	Total
Financial Assets Carried at Fair Value:				
Cash equivalents (a):				
Commercial paper	$—	$52.8	—	$52.8
Foreign time deposits	10.1	—	—	10.1
U.S. government sponsored agencies	—	1.3	—	1.3
Money market funds	5.5	—	—	5.5
Total cash equivalents	15.6	54.1	—	69.7
Available-for-sale investments (b):				
Corporate debt securities	—	240.6	—	240.6
Foreign brokered certificates of deposit	—	0.4	—	0.4
U.S. government sponsored agencies	—	92.7	—	92.7
Foreign government obligations	—	5.6	—	5.6
Municipal obligations	—	12.1	—	12.1
Marketable equity securities	242.1	—	—	242.1
Asset-backed securities	—	82.2	—	82.2
Total available-for-sale investments	242.1	433.6	—	675.7
Forward foreign exchange contracts (c)	—	1.1	—	1.1
Total financial assets carried at fair value	$257.7	$488.8	—	$746.5
Financial Liabilities Carried at Fair Value:				
Forward foreign exchange contracts (d)	$—	$0.8	—	$0.8
Contingent consideration (e)	—	—	52.6	52.6
Total financial liabilities carried at fair value	$—	$0.8	$52.6	$53.4

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

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

	December 31, 2013	December 31, 2012
Short-term investments	$277.4	$457.7
Other investments	293.5	218.0
Total	$570.9	$675.7

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

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

(e) The contingent consideration liability is included in the following accounts in the Consolidated Balance Sheet (in millions):

	December 31, 2013	December 31, 2012
Other current liabilities	$6.1	$27.3
Other long-term liabilities	14.7	25.3

Total	$20.8	$52.6

During the fourth quarter of 2011, we recognized a contingent consideration liability upon our acquisition of QuantaLife related to potential future payments due upon the achievement of certain sales and development milestones. The contingent consideration was initially recognized at its estimated fair value of $24.1 million, based on a probability-weighted income approach. As of the acquisition date of October 4, 2011, total contingent consideration could have originally reached a maximum of $48 million upon the achievement of all sales milestones and a development milestone. The development milestone was met as of December 31, 2012, resulting in a payment of $6.0 million in January 2013. During 2012, the first three short-term sales milestones were not met and therefore the fair value of the contingent consideration was lowered by $16.1 million and credited to Selling, general and administrative expense. During 2013, we did not expect that any of the remaining sales milestones would be met and therefore $2.0 million of the remaining contingent consideration liability was credited to Selling, general and administrative expense.

During the third quarter of 2012, we recognized a contingent consideration liability upon our acquisition of a new cell sorting system from Propel Labs, Inc. The fair value of the contingent consideration was based on a probability-weighted income approach related to the achievement of certain development and sales milestones and was recorded at $44.6 million in 2012. The development milestones have been achieved and payments totaling $20.0 million were made in 2013. Based on the most recent valuation, the sales milestones could potentially range from $0 to a maximum of 60.0%, 51.32% and 50.38% of annual cell sorting system purchase orders, with payment to occur upon the anniversary of the completion of a certain number of cell sorting systems for three consecutive years, respectively. These maximum payout ratios begin at annual cell sorting system purchase orders in excess of $20 million, $30 million and $45 million for the three consecutive years, respectively. The contingent consideration was revalued by a net reduction of $3.8 million in 2013 to Selling, general and administrative expense to its estimated fair value of $20.8 million as of December 31, 2013.

The following table provides a reconciliation of the Level 3 contingent consideration liabilities measured at estimated fair value based on original valuations and updated quarterly for the year ended December 31, 2013 (in millions):

	2013
January 1	$52.6
Payment of development milestone - QuantaLife	(6.0)
Payment of development milestone - Cell sorting system	(20.0)
Decrease in fair value of contingent consideration included in Selling, general and administrative expense - QuantaLife	(2.0)
Net decrease in estimated fair value of contingent consideration included in Selling, general and administrative expense - Cell sorting system	(3.8)
December 31	$20.8

The following table provides quantitative information about Level 3 inputs for fair value measurement of our contingent consideration liabilities as of December 31, 2013. Significant increases or decreases in these inputs in isolation could result in a significantly lower or higher fair value measurement.

			Range	
	Valuation Technique	Unobservable Input	From	To
Cell sorting system	Probability-weighted income approach	Sales milestone:		
		Credit adjusted discount rates	0.97%	1.93%
		Projected volatility of growth rates	13.0%	15.0%
		Market price of risk	1.0%	N/A

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

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

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

To estimate the fair value of Level 2 debt securities as of December 31, 2012, our primary pricing service relied on inputs from multiple industry-recognized pricing sources to determine the price for each investment. In addition, our pricing service performed reasonableness testing of their prices on a daily basis by comparing them to the prices reported by our custodians as well as prior day prices. If the price difference fell outside of predetermined tolerable levels, they investigated the cause and resolved the pricing issue. Based on a review of the results of this analysis, we utilized our primary pricing service for all Level 2 debt securities as none of these securities tested outside of the tolerable levels.

As of December 31, 2012, our primary pricing service inputs for Level 2 U.S. government sponsored agencies, municipal obligations, corporate and foreign government bonds, asset-backed securities and related cash equivalents consisted of market prices from a variety of industry standard data providers, security master files from large financial institutions and other third-party sources. These multiple market prices were used by our primary pricing service as inputs into a distribution-curve based algorithm to determine the daily market value.

As of December 31, 2012, our primary pricing service inputs for Level 2 corporate debt securities (commercial paper), bank deposits and related cash equivalents consisted of dynamic and static security characteristics information obtained from several independent sources of security data. The dynamic inputs such as credit rating, factor and variable-rate, were updated daily. The static characteristics included inputs such as day count and first coupon upon initial security creation. These securities were typically priced utilizing mathematical calculations reliant on these observable inputs. Other available-for-sale foreign government obligations were based on indicative bids from market participants.

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

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	December 31, 2013			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Short-term investments:				
Corporate debt securities	$132.6	$0.3	$(0.4	