

Life Technologies Corp  
Form 10-Q  
November 05, 2013  
[Table of Contents](#)

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 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: 0-25317**

# LIFE TECHNOLOGIES CORPORATION

(Exact name of registrant as specified in its charter)

Edgar Filing: Life Technologies Corp - Form 10-Q

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of November 4, 2013, 172,828,374 shares of the Registrant's common stock were outstanding.

**Table of Contents**

**TABLE OF CONTENTS**

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

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

|  | <b>September 30,<br/>2013<br/>(Unaudited)</b> | <b>December 31,<br/>2012</b> |
|--|---|------------------------------|
| <b>ASSETS</b>  |   |                              |
| Current assets:  |   |                              |
| Cash and cash equivalents  | \$ 336,389                                    | \$ 255,547                   |
| Short-term investments   | 17,798  | 5,726                        |
| Restricted cash  | 14,065  | 15,096                       |
| Trade accounts receivable, net of allowance for doubtful accounts of \$16,523 and \$14,336, respectively | 653,525                                       | 697,228                      |
| Inventories, net   | 431,089                                       | 403,488                      |
| Deferred income tax assets   | 111,093                                       | 105,422                      |
| Prepaid expenses and other current assets  | 182,157                                       | 142,732                      |
| <b>Total current assets</b>  | <b>1,746,116</b>                              | <b>1,625,239</b>             |
| Long-term investments  | 28,465  | 26,677                       |
| Property and equipment, net  | 773,711                                       | 844,692                      |
| Goodwill   | 4,500,208                                     | 4,503,392                    |
| Intangible assets, net   | 1,321,174                                     | 1,525,823                    |
| Deferred income tax assets   | 20,505  | 23,008                       |
| Other assets   | 98,057  | 89,234                       |
| <b>Total assets</b>  | <b>\$ 8,488,236</b>                           | <b>\$ 8,638,065</b>          |
| <b>LIABILITIES AND EQUITY</b>  |   |                              |
| Current liabilities:   |   |                              |
| Current portion of long-term debt  | \$ 4,157                                      | \$ 253,214                   |
| Short-term borrowings  |   | 100,000                      |
| Accounts payable   | 182,199                                       | 186,569                      |
| Deferred compensation and related benefits   | 194,488                                       | 194,489                      |
| Deferred revenues and reserves   | 118,149                                       | 114,558                      |
| Accrued expenses and other current liabilities   | 268,715                                       | 314,642                      |
| Accrued income taxes   | 33,596  | 28,879                       |
| <b>Total current liabilities</b>   | <b>801,304</b>                                | <b>1,192,351</b>             |
| Long-term debt   | 2,067,587                                     | 2,060,855                    |
| Pension liabilities  | 205,272                                       | 209,607                      |
| Deferred income tax liabilities  | 266,862                                       | 287,423                      |
| Income taxes payable   | 33,934  | 106,419                      |
| Other long-term obligations  | 136,501                                       | 127,947                      |
| <b>Total liabilities</b>   | <b>3,511,460</b>                              | <b>3,984,602</b>             |

## Edgar Filing: Life Technologies Corp - Form 10-Q

### Commitments and contingencies

#### Stockholders' equity:

Preferred stock; \$0.01 par value, 6,405,884 shares authorized; no shares issued or outstanding

Common stock; \$0.01 par value, 400,000,000 shares authorized; 222,891,343 and 218,741,855 shares issued, respectively

|  |              |              |
|--|--------------|--------------|
|  | 2,229        | 2,187        |
| Additional paid-in-capital   | 5,897,194    | 5,731,568    |
| Accumulated other comprehensive income   | 4,189        | 59,070       |
| Retained earnings  | 1,707,928    | 1,341,846    |
| Less cost of treasury stock; 50,155,759 shares and 47,503,208 shares, respectively | (2,634,979)  | (2,481,990)  |
| <br>   |              |              |
| Total Life Technologies stockholders' equity                                       | 4,976,561    | 4,652,681    |
| Non-controlling interest   | 215          | 782          |
| Total equity   | 4,976,776    | 4,653,463    |
| <br>   |              |              |
| Total liabilities and equity   | \$ 8,488,236 | \$ 8,638,065 |

See accompanying notes for additional information.

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

| <b>(Unaudited)</b>  | <b>For the three months<br/>ended September 30,</b> |             | <b>For the nine months<br/>ended September 30,</b> |              |
|---|---|-------------|--|--------------|
|   | <b>2013</b>   | <b>2012</b> | <b>2013</b>  | <b>2012</b>  |
| Revenues  | \$ 935,090  | \$ 911,183  | \$ 2,843,410                                       | \$ 2,799,606 |
| Cost of revenues  | 319,546   | 361,571     | 964,185  | 1,003,611    |
| Purchased intangibles amortization  | 70,641  | 71,126      | 213,886  | 219,192      |
| Gross profit  | 544,903   | 478,486     | 1,665,339  | 1,576,803    |
| Operating expenses:   |   |             |  |              |
| Selling, general and administrative                                       | 268,839   | 270,565     | 816,455  | 790,012      |
| Research and development  | 82,978  | 84,811      | 255,083  | 258,225      |
| Business integration costs  | 26,922  | 10,571      | 81,921   | 34,266       |
| Total operating expenses  | 378,739   | 365,947     | 1,153,459  | 1,082,503    |
| Operating income  | 166,164   | 112,539     | 511,880  | 494,300      |
| Other income (expense):   |   |             |  |              |
| Interest income   | 400   | 436         | 1,617  | 1,715        |
| Interest expense  | (27,092)  | (29,291)    | (84,106)   | (94,266)     |
| Other expense   | (5,182)   | (2,781)     | (9,570)  | (11,097)     |
| Total other expense, net  | (31,874)  | (31,636)    | (92,059)   | (103,648)    |
| Income before provision for income taxes                                  | 134,290   | 80,903      | 419,821  | 390,652      |
| Income tax provision  | (16,310)  | (15,301)    | (54,316)   | (70,108)     |
| Net income  | 117,980   | 65,602      | 365,505  | 320,544      |
| Net loss attributable to noncontrolling interests                         | 266   | 255         | 577  | 305          |
| Net income attributable to Life Technologies                              | \$ 118,246  | \$ 65,857   | \$ 366,082   | \$ 320,849   |
| Earnings per common share attributable to Life Technologies stockholders: |   |             |  |              |
| Basic   | \$ 0.68   | \$ 0.38     | \$ 2.13  | \$ 1.81      |
| Diluted   | \$ 0.67   | \$ 0.37     | \$ 2.09  | \$ 1.78      |
| Weighted average shares used in per share calculations:                   |   |             |  |              |
| Basic   | 172,892   | 174,044     | 172,072  | 177,028      |
| Diluted   | 175,901   | 177,258     | 175,314  | 180,559      |
| Total comprehensive income  | \$ 138,012  | \$ 98,053   | \$ 310,634   | \$ 343,878   |
| Comprehensive loss attributable to noncontrolling interests               | 264   | 254         | 567  | 304          |
| Total comprehensive income attributable to Life Technologies              | \$ 138,276  | \$ 98,307   | \$ 311,201   | \$ 344,182   |

See accompanying notes to unaudited consolidated financial statements.



**Table of Contents****LIFE TECHNOLOGIES CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

|   | <b>For the nine months<br/>ended September 30,<br/>2013                      2012<br/>(Unaudited)</b> |                  |
|---|---|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |   |                  |
| Net income  | \$ 365,505  | \$ 320,544       |
| Adjustments to reconcile net income to net cash provided by operating activities, net of effects of businesses acquired and divested: |   |                  |
| Depreciation  | 91,976  | 93,617           |
| Amortization of intangible assets   | 224,468   | 226,807          |
| Amortization of deferred debt issuance costs, debt discount, and other non-cash interest  | 3,132   | 10,053           |
| Share-based compensation expense  | 54,374  | 65,276           |
| Incremental tax benefits from stock options exercised and restricted stock distributions  | (18,934)  | (7,322)          |
| Deferred income taxes   | (97,634)  | (122,565)        |
| Loss on disposal of assets  | 31,198  | 6,017            |
| Other noncash adjustments   | (16,702)  | 6,897            |
| Changes in operating assets and liabilities:  |   |                  |
| Trade accounts receivable   | 47,172  | (9,364)          |
| Inventories   | (37,953)  | (13,827)         |
| Prepaid expenses and other current assets   | (27,461)  | 16,888           |
| Other assets  | (9,008)   | (398)            |
| Accounts payable  | (239)   | (8,565)          |
| Accrued expenses and other liabilities  | (14,328)  | (72,547)         |
| Income taxes  | 16,083  | (2,542)          |
| Currency impact on intercompany settlements   | (7,228)   | 47,816           |
| <b>Net cash provided by operating activities</b>  | <b>604,421</b>  | <b>556,785</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |   |                  |
| Purchases of investments  | (18,446)  | (8,045)          |
| Proceeds from sale of investments   | 1,000   | 19,149           |
| Net cash paid for business combinations   | (54,076)  | (69,077)         |
| Net cash paid for asset purchases   | (7,427)   | (4,106)          |
| Purchases of property and equipment   | (71,179)  | (68,713)         |
| Net cash paid for divestiture of equity investment  |   | (10,136)         |
| Proceeds from sales of assets   | 36,729  | 486              |
| <b>Net cash used in investing activities</b>  | <b>(113,399)</b>  | <b>(140,442)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |   |                  |
| Principal payments on long-term obligations   | (250,000)   | (450,000)        |
| Principal payments on short-term obligations  | (759,000)   | (561,015)        |
| Proceeds from short-term obligations  | 659,000   | 701,015          |
| Issuance cost payments on long-term obligations   |   | (2,491)          |
| Cash paid for business combination milestones   | (7,597)   | (163,995)        |
| Cash contribution from non-controlling interest   |   | 469              |
| Incremental tax benefits from stock options exercised and restricted stock distributions  | 18,934  | 7,322            |
| Proceeds from sale of common stock  | 83,175  | 47,764           |
| Capital lease payments  | (2,822)   | (1,442)          |



## Edgar Filing: Life Technologies Corp - Form 10-Q

|  |            |            |
|--|------------|------------|
| Purchase of treasury stock                           | (147,757)  | (558,151)  |
| Net cash used in financing activities                | (406,067)  | (980,524)  |
| Effect of exchange rate changes on cash              | (4,113)    | (420)      |
| Net increase (decrease) in cash and cash equivalents | 80,842     | (564,601)  |
| Cash and cash equivalents, beginning of period       | 255,547    | 838,762    |
| Cash and cash equivalents, end of period             | \$ 336,389 | \$ 274,161 |

See accompanying notes to unaudited consolidated financial statements.

---

**Table of Contents**

**LIFE TECHNOLOGIES CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Pending Merger with Thermo Fisher Scientific Inc.**

On April 14, 2013, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) with Thermo Fisher Scientific Inc., a Delaware corporation (Thermo Fisher), and Polpis Merger Sub Co., a Delaware corporation and a wholly owned subsidiary of Thermo Fisher (Merger Sub), providing for, subject to the satisfaction or waiver of specified conditions, the acquisition of the Company by Thermo Fisher at a price of \$76 per share in cash, subject to adjustment as described below. Subject to the terms and conditions of the Merger Agreement, the closing of the merger is expected to occur early in 2014. If the merger does not close by January 14, 2014 by reason of the failure to obtain certain required antitrust approvals or the issuance or enactment by a governmental authority of an order or law prohibiting or restraining the merger (and such prohibition or restraint is in respect of an antitrust law), the cash price per share will increase by \$0.0062466 per day during the period commencing on, and including, January 14, 2014, and ending on, and including, the closing date. On August 21, 2013, the Company's stockholders voted to adopt the Merger Agreement. For additional information related to the Merger Agreement, please refer to the Current Report on Form 8-K filed with the SEC on April 16, 2013 (the April 16<sup>th</sup> 8-K) and the definitive proxy statement related to the merger filed by the Company on July 22, 2013. The foregoing description of the Merger Agreement is qualified in its entirety by reference to the full text of the Merger Agreement attached as Exhibit 2.1 to the April 16<sup>th</sup> 8-K.

**2. Basis of Presentation**

***Financial Statement Preparation***

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

In the opinion of management, the accompanying unaudited consolidated financial statements for the periods presented reflect all adjustments, which are normal and recurring, necessary to fairly state the financial position, results of operations and cash flows. These unaudited consolidated financial statements should be read in conjunction with the audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 filed with the SEC on February 28, 2013.

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

***Principles of Consolidation***

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

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

***Long-Lived Assets***

## Edgar Filing: Life Technologies Corp - Form 10-Q

The Company periodically re-evaluates the original assumptions and rationale utilized in the establishment of the carrying value and estimated lives of its long-lived assets. The criteria used for these evaluations include management's estimate of the asset's continuing ability to generate income from operations and positive cash flow in future periods as well as the strategic significance of any intangible asset to the Company's business objectives. If assets are considered to be impaired, the impairment recognized is the amount by which the carrying value of the assets exceeds the fair value of the assets, which is determined by applicable market prices, when available. The Company did not recognize a significant impairment during the period other than that of the property sold which resulted in \$28.3 million loss during the nine months ended September 30, 2013. The loss was recognized as a result of the Company making the decision to move out of existing acquired facilities into a new facility in the current year.

---

## **Table of Contents**

### ***Business Combinations***

The Company has completed acquisitions that were not considered individually or collectively material to the overall consolidated financial statements and the results of the Company's operations. These acquisitions have been included in the consolidated financial statements from the respective dates of the acquisitions. The Company recognizes the assets acquired, liabilities assumed, and any noncontrolling interest at fair value at the date of acquisition. Certain acquisitions contain contingent consideration arrangements that require the Company to assess the acquisition date fair value of the contingent consideration liabilities, which is recorded as part of the purchase consideration of the acquisition. The Company continuously assesses and adjusts the fair value of the contingent consideration liabilities, if necessary, until the settlement or expiration of the contingency occurs. For additional details on the carrying value and potential future obligations under these arrangements, refer to Note 6 of the Consolidated Financial Statements, *Commitments and Contingencies*.

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

### ***Fair Value of Financial Instruments***

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

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

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

For details on the assets and liabilities subject to fair value measurements and the related valuation techniques used, and for details on derivative instruments, refer to Note 10 of the Consolidated Financial Statements, *Fair Value of Financial Instruments*.

### ***Computation of Earnings Per Share***

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

Dilutive stock options and restricted stock units;

Dilutive Employee Stock Purchase Plan (ESPP); and

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

**Table of Contents**

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

| (in thousands, except per share data) (unaudited)                               | Net Income<br>Attributable to<br>Life<br>Technologies<br>(Numerator) | Shares<br>(Denominator) | Earnings<br>Per Share |
|---|--|-------------------------|-----------------------|
| <b>Three Months Ended September 30, 2013</b>                                    |  |                         |                       |
| Basic earnings per share:   |  |                         |                       |
| Net income attributable to Life Technologies                                    | \$ 118,246   | 172,892                 | \$ 0.68               |
| Diluted earnings per share:   |  |                         |                       |
| Dilutive stock options and restricted stock units                               |  | 3,009                   |                       |
| Net income attributable to Life Technologies plus assumed conversions           | \$ 118,246   | 175,901                 | \$ 0.67               |
| Potentially dilutive securities not included above since they are antidilutive: |  |                         |                       |
| Antidilutive stock options  |  |                         |                       |
| <b>Three Months Ended September 30, 2012</b>                                    |  |                         |                       |
| Basic earnings per share:   |  |                         |                       |
| Net income attributable to Life Technologies                                    | \$ 65,857  | 174,044                 | \$ 0.38               |
| Diluted earnings per share:   |  |                         |                       |
| Dilutive stock options and restricted stock units                               |  | 3,202                   |                       |
| Employee Stock Purchase Plan  |  | 12                      |                       |
| Net income attributable to Life Technologies plus assumed conversions           | \$ 65,857  | 177,258                 | \$ 0.37               |
| Potentially dilutive securities not included above since they are antidilutive: |  |                         |                       |
| Antidilutive stock options  |  | 3,918                   |                       |
| <br>  |  |                         |                       |
| (in thousands, except per share data) (unaudited)                               | Net Income<br>Attributable to<br>Life<br>Technologies<br>(Numerator) | Shares<br>(Denominator) | Earnings<br>Per Share |
| <b>Nine Months Ended September 30, 2013</b>                                     |  |                         |                       |
| Basic earnings per share:   |  |                         |                       |
| Net income attributable to Life Technologies                                    | \$ 366,082   | 172,072                 | \$ 2.13               |
| Diluted earnings per share:   |  |                         |                       |
| Dilutive stock options and restricted stock units                               |  | 3,242                   |                       |
| Net income attributable to Life Technologies plus assumed conversions           | \$ 366,082   | 175,314                 | \$ 2.09               |
| Potentially dilutive securities not included above since they are antidilutive: |  |                         |                       |
| Antidilutive stock options  |  | 9                       |                       |
| <b>Nine Months Ended September 30, 2012</b>                                     |  |                         |                       |
| Basic earnings per share:   |  |                         |                       |
| Net income attributable to Life Technologies                                    | \$ 320,849   | 177,028                 | \$ 1.81               |
| Diluted earnings per share:   |  |                         |                       |
| Dilutive stock options and restricted stock units                               |  | 3,510                   |                       |

## Edgar Filing: Life Technologies Corp - Form 10-Q

|   |            |         |         |
|---|------------|---------|---------|
| Employee Stock Purchase Plan  |            | 10      |         |
| 1 1/2% Convertible Senior Notes due 2024  | 12         | 11      |         |
| Net income attributable to Life Technologies plus assumed conversions           | \$ 320,861 | 180,559 | \$ 1.78 |
| Potentially dilutive securities not included above since they are antidilutive: |            |         |         |
| Antidilutive stock options  |            | 4,003   |         |
| <b><i>Share-Based Compensation</i></b>  |            |         |         |

Effective April 24, 2013, the Company adopted the Life Technologies Corporation 2013 Equity Incentive Plan (the 2013 Plan), effectively replacing the Life Technologies Corporation 2009 Equity Incentive Plan. Under the 2013 Plan, the Company has the ability to grant stock options, stock appreciation rights, restricted stock units, restricted stock awards, performance awards, and deferred stock awards with 13.0 million shares of the Company's common stock reserved for the granting of new awards. Stock option awards are

**Table of Contents**

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

Under the Company's qualified employee stock purchase plan (the 2010 ESPP Plan), all eligible employees of the Company may elect to withhold up to 15% of their compensation to purchase shares of the Company's stock on a quarterly basis at a discounted price equal to 85% of the lower of the employee's offering price or the closing price of the stock on the date of purchase. Effective immediately after the October 31, 2012 purchase, the Company suspended the 2010 ESPP Plan to all employees. No shares will be purchased under the 2010 ESPP Plan unless and until reinstated by the Company.

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

*Stock Options and Purchase Rights*

The Company did not grant any employee stock options or purchase rights during the nine months ended September 30, 2013. The underlying assumptions used to value employee stock options and purchase rights granted during the nine months ended September 30, 2012 were as follows:

| <b>(unaudited)</b>  | <b>Nine months ended<br/>September 30,<br/>2012</b> |
|---|---|
| <b>Stock Options</b>                                      |   |
| Weighted average risk free interest rate                  | 0.9%  |
| Expected term of share-based awards                       | 4.4 yrs   |
| Expected stock price volatility                           | 34%   |
| Expected dividend yield                                   | 0%  |
| Weighted average fair value of share-based awards granted | \$ 14.14  |
| <b>Purchase Rights</b>                                    |   |
| Weighted average risk free interest rate                  | 0.1%  |
| Expected term of share-based awards                       | 0.4 yrs   |
| Expected stock price volatility                           | 35%   |
| Expected dividend yield                                   | 0%  |
| Weighted average fair value of share-based awards granted | \$ 11.26  |

The Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods on a cumulative basis in the period the estimated forfeiture rate changes. The Company considered its historical experience of pre-vesting option forfeitures as the basis to arrive at its estimated annual pre-vesting option forfeiture rate of 7.6% and 6.0% per year for each of the nine months ended September 30, 2013 and 2012, respectively. All option awards, including those with graded vesting, were valued as a single award with a single average expected term and are amortized on a straight-line basis over the requisite service period of the awards, which is generally the vesting period. At September 30, 2013, there was \$8.9 million remaining in unrecognized compensation cost related to employee stock options, which is expected to be recognized over a weighted average period of 1.0 years. No compensation cost was capitalized in inventory during the nine months ended September 30, 2013 as the amounts involved were not material.

**Table of Contents**

Total share-based compensation expense for employee stock options and purchase rights for the three and nine months ended September 30, 2013 and 2012 was comprised of the following:

| (in thousands) (unaudited)                     | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |           |
|--|-------------------------------------|----------|------------------------------------|-----------|
|  | 2013                                | 2012     | 2013                               | 2012      |
| Cost of revenues                               | \$ 170                              | \$ 569   | \$ 611                             | \$ 1,864  |
| Selling, general and administrative            | 2,366                               | 4,444    | 7,514                              | 14,897    |
| Research and development                       | 172                                 | 586      | 545                                | 1,894     |
| Share-based compensation expense before taxes  | 2,708                               | 5,599    | 8,670                              | 18,655    |
| Related income tax benefits                    | 1,080                               | 1,876    | 4,111                              | 5,808     |
| Share-based compensation expense, net of taxes | \$ 1,628                            | \$ 3,723 | \$ 4,559                           | \$ 12,847 |

*Restricted Stock Units*

Restricted stock units represent a right to receive shares of common stock at a future date determined in accordance with the participant's award agreement. An exercise price and monetary payment are not required for receipt of restricted stock units or the shares issued in settlement of the award. Instead, consideration is furnished in the form of the participant's services to the Company. Restricted stock units have either graded vesting terms of four years, or cliff vesting terms which generally vest over three years. Compensation cost for these awards is based on the estimated fair value on the date of grant and recognized as compensation expense on a straight-line basis over the requisite service period. During the nine months ended September 30, 2013 and 2012, the Company estimated pre-vesting forfeitures and applied an annual pre-vesting forfeiture rate of 7.0% and 8.0% for restricted stock units with graded vesting terms and cliff vesting terms, respectively. Performance based restricted stock units have three year cliff vesting terms whereby vesting is based on the completion of the requisite service and the ultimate issuance amount is determined by the Company's total shareholder return over the same three year period. Share payout levels range from zero to two hundred percent for each granted unit relative to total shareholder return. At September 30, 2013 there was \$121.4 million remaining in unrecognized compensation cost related to restricted stock units, which is expected to be recognized over a weighted average period of 2.7 years. The weighted average fair value of restricted stock units granted during the nine months ended September 30, 2013 and 2012 was \$68.04 and \$48.36, respectively. The grants during the nine months ended September 30, 2013 include performance based restricted stock units.

Total share-based compensation expense for restricted stock units for the three and nine months ended September 30, 2013 and 2012 was composed of the following:

| (in thousands) (unaudited)                     | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |           |
|--|-------------------------------------|----------|------------------------------------|-----------|
|  | 2013                                | 2012     | 2013                               | 2012      |
| Cost of revenues                               | \$ 1,181                            | \$ 1,418 | \$ 3,415                           | \$ 4,201  |
| Selling, general and administrative            | 12,926                              | 12,226   | 38,645                             | 37,406    |
| Research and development                       | 1,121                               | 1,527    | 3,287                              | 4,312     |
| Share-based compensation expense before taxes  | 15,228                              | 15,171   | 45,347                             | 45,919    |
| Related income tax benefits                    | 4,531                               | 5,373    | 13,325                             | 16,202    |
| Share-based compensation expense, net of taxes | \$ 10,697                           | \$ 9,798 | \$ 32,022                          | \$ 29,717 |

*Deferred Stock Awards and Restricted Stock Awards*

Deferred stock awards are fully vested and expensed when issued, but shares are placed in a deferral account under the Deferred Compensation Plan, at an eligible employee's or director's discretion, until distributed to the employee or director at a future date. The Deferred Compensation Plan allows eligible directors and employees to defer, on a pre-tax basis, a portion or all of their compensation, bonuses, or director's fees in the form of cash or deferred stock awards. The deferred compensation plan provides matching contributions by the Company to the participants, based on the deferred compensation plan agreement, in the form of restricted stock awards. During the nine months ended September 30, 2013



## Edgar Filing: Life Technologies Corp - Form 10-Q

and 2012, the Company granted restricted stock awards with a total deferred compensation value of \$0.8 million and \$0.6 million, respectively, which will be recognized over the requisite service period of three years with an applicable forfeiture rate. The restricted stock awards, issued but unvested, are held in a deferral account, and are subject to a three year cliff vesting. Refer to Note 10 of the Consolidated Financial Statements, Fair Value of Financial Instruments for further information on the fair market valuation of the deferred compensation plan assets.

**Table of Contents****Recent Accounting Pronouncements**

In February 2013, the FASB issued ASU 2013-02, *Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income*, updating *ASC Topic 220, Comprehensive Income*. Under the amended *ASC Topic 220*, an entity is required to present, either on the face of the statement where net income is presented or in the notes to the financial statements, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional details of those amounts. The guidance does not impact the components of other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The adoption of the guidance in the fiscal year 2013 did not have an impact on the Company's Consolidated Financial Statements and is not expected to have an impact on the Company's future operating results.

**3. Composition of Certain Financial Statement Items****Inventories**

Inventories consisted of the following:

| (in thousands)  | September 30,<br>2013<br>(unaudited) | December 31,<br>2012 |
|---|--------------------------------------|----------------------|
| Raw materials and components                                  | \$ 94,884                            | \$ 101,370           |
| Work in process (materials, labor and overhead)               | 63,220                               | 96,725               |
| Finished goods (materials, labor and overhead)                | 272,985                              | 204,639              |
| Adjustments to write up acquired finished goods to fair value |                                      | 754                  |
| <b>Total inventories, net</b>                                 | <b>\$ 431,089</b>                    | <b>\$ 403,488</b>    |

**Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets consisted of the following:

| (in thousands)   | September 30,<br>2013<br>(unaudited) | December 31,<br>2012 |
|--|--------------------------------------|----------------------|
| Forward exchange contracts                             | \$ 7,047                             | \$ 1,597             |
| Prepaid expenses                                       | 117,607                              | 99,039               |
| Other current assets                                   | 57,503                               | 42,096               |
| <b>Total prepaid expenses and other current assets</b> | <b>\$ 182,157</b>                    | <b>\$ 142,732</b>    |

**Property and Equipment**

Property and equipment consisted of the following:

| (in thousands) | Estimated<br>Useful Life<br>(in years) | September 30, 2013<br>(unaudited) | December 31, 2012 |
|----------------|--|-----------------------------------|-------------------|
|----------------|--|-----------------------------------|-------------------|

## Edgar Filing: Life Technologies Corp - Form 10-Q

|   |      |            |            |
|---|------|------------|------------|
| Land                                      |      | \$ 118,800 | \$ 139,889 |
| Building and improvements                 | 1-50 | 453,234    | 479,194    |
| Machinery and equipment                   | 1-10 | 520,579    | 497,370    |
| Internal use software                     | 1-10 | 263,948    | 263,376    |
| Construction in process                   |      | 94,189     | 78,064     |
| Total gross property and equipment        |      | 1,450,750  | 1,457,893  |
| Accumulated depreciation and amortization |      | (677,039)  | (613,201)  |
| Total property and equipment, net         |      | \$ 773,711 | \$ 844,692 |

**Table of Contents****Goodwill and Other Intangible Assets**

The \$3.2 million decrease in goodwill on the Consolidated Balance Sheet from December 31, 2012 to September 30, 2013 was primarily the result of \$17.5 million of foreign currency translation adjustments offset by \$14.3 million from business combinations.

Intangible assets consisted of the following:

| (in thousands)  | September 30, 2013 (unaudited) |                       |                          | December 31, 2012     |                       |                          |
|---|--------------------------------|-----------------------|--------------------------|-----------------------|-----------------------|--------------------------|
|   | Weighted average Life          | Gross carrying Amount | Accumulated Amortization | Weighted average Life | Gross carrying Amount | Accumulated Amortization |
| <b>Amortized intangible assets:</b>                   |                                |                       |                          |                       |                       |                          |
| Purchased technology                                  | 7 years                        | \$ 1,273,962          | \$ (1,066,260)           | 7 years               | \$ 1,270,012          | \$ (1,003,531)           |
| Purchased tradenames and trademarks                   | 9 years                        | 327,052               | (206,247)                | 9 years               | 329,588               | (184,272)                |
| Purchased customer base                               | 11 years                       | 1,466,709             | (634,288)                | 11 years              | 1,464,042             | (544,736)                |
| Other intellectual property                           | 6 years                        | 386,629               | (296,234)                | 6 years               | 375,164               | (250,295)                |
| Total intangible assets                               |                                | \$ 3,454,352          | \$ (2,203,029)           |                       | \$ 3,438,806          | \$ (1,982,834)           |
| <b>Intangible assets not subject to amortization:</b> |                                |                       |                          |                       |                       |                          |
| Purchased tradenames and trademarks                   |                                | \$ 7,451              |                          |                       | \$ 7,451              |                          |
| In-process research and development                   |                                | 62,400                |                          |                       | 62,400                |                          |

Amortization expense related to purchased intangible assets for the three months ended September 30, 2013 and 2012 was \$70.6 million and \$71.1 million, respectively, and, for the nine months ended September 30, 2013 and 2012, was \$213.9 million and \$219.2 million, respectively. Estimated aggregate amortization expense is expected to be \$71.3 million for the remainder of fiscal year 2013. Estimated aggregate amortization expense for fiscal years 2014, 2015, 2016 and 2017 is \$250.8 million, \$230.8 million, \$178.3 million and \$163.2 million, respectively. During the nine months ended September 30, 2013, there were no material impairments identified.

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

**Accrued Expenses and Other Current Liabilities**

Accrued Expenses and Other Current Liabilities consist of royalty accruals, hedge liabilities, product warranties, interest accruals, legal accruals, contingent considerations and other current liabilities.

In February 2012, the Company received an unfavorable verdict in its litigation with Promega Corporation that resulted in charges to cost of revenues and a legal accrual of \$52.0 million, which was recorded in the December 31, 2011 financial statements and remained recorded as a liability as of September 30, 2013 and December 31, 2012. A federal judge reversed the verdict in September 2012 and entered judgment in favor of the Company. Promega responded by filing various motions to reinstate the verdict and for a new trial. The Company challenged Promega's motions, and the judge denied them all in April 2013. The case is now on appeal and the Company is vigorously defending its position.

In November 2012, the Company received an unfavorable verdict in its litigation with Enzo Biochem, resulting in charges to cost of revenues and a legal accrual of \$60.9 million, which was recorded in the December 31, 2012 financial statements and remains recorded as a liability as of September 30, 2013. The Company strongly disagrees with the verdict and intends to vigorously challenge it in the trial court and on appeal.

None of the other liabilities in Accrued Expenses and Other Current Liabilities was individually material at September 30, 2013 and December 31, 2012.



**Table of Contents**

**Reconciliation of Equity**

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

| (in thousands) (unaudited)  | Total        | Common<br>Stock | Additional<br>Paid-in-Capital | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Income<br>(loss) | Retained<br>Earnings | Non-<br>Controlling<br>Interests |
|---|--------------|-----------------|-------------------------------|-------------------|---|----------------------|----------------------------------|
| <b>Balance at December 31, 2012</b>   | \$ 4,653,463 | \$ 2,187        | \$ 5,731,568                  | \$ (2,481,990)    | \$ 59,070   | \$ 1,341,846         | \$ 782                           |
| Amortization of stock based compensation  | 54,374       |                 | 54,374                        |                   |   |                      |                                  |
| Common stock issuance under employee stock plans  | 84,998       | 23              | 85,292                        | (317)             |   |                      |                                  |
| Net tax benefit on employee stock plans   | 17,413       |                 | 17,413                        |                   |   |                      |                                  |
| Issuance of restricted shares, net of shares repurchased for minimum tax liability            | (42,348)     | 18              | (18)                          | (42,348)          |   |                      |                                  |
| Issuance of deferred stock  | 3,130        | 1               | 8,565                         | (5,436)           |   |                      |                                  |
| Purchase of treasury stock  | (104,888)    |                 |                               | (104,888)         |   |                      |                                  |
| Realized gain on hedging transactions, reclassified into earnings, net of related tax effects | (275)        |                 |                               |                   | (275)   |                      |                                  |
| Pension liability, net of deferred taxes  | (9,505)      |                 |                               |                   | (9,505)   |                      |                                  |
| Foreign currency translation adjustment, net of related tax effects                           | (45,091)     |                 |                               |                   | (45,101)  |                      | 10                               |
| Net income (loss)   | 365,505      |                 |                               |                   |   | 366,082              | (577)                            |
| <b>Balance at September 30, 2013</b>  | \$ 4,976,776 | \$ 2,229        | \$ 5,897,194                  | \$ (2,634,979)    | \$ 4,189  | \$ 1,707,928         | \$ 215                           |

**Accumulated Other Comprehensive Income and Components of Other Comprehensive Income**

Accumulated other comprehensive income includes unrealized gains and losses that are excluded from the Consolidated Statements of Operations. The unrealized gains and losses include foreign currency translation adjustments, cash flow hedge adjustments, and pension liabilities adjustments, net of tax.

Accumulated other comprehensive income, net of taxes, attributable to Life Technologies, consists of the following at September 30, 2013:

| (in thousands) (unaudited)           | Total     | Cash Flow<br>Hedges | Pension<br>Liabilities | Foreign Currency<br>Translation<br>Adjustments |
|--------------------------------------|-----------|---------------------|------------------------|--|
| <b>Balance at December 31, 2012</b>  | \$ 59,070 | \$ 1,594            | \$ (104,787)           | \$ 162,263                                     |
| Current-period change                | (54,881)  | (275)               | (9,505)                | (45,101)                                       |
| <b>Balance at September 30, 2013</b> | \$ 4,189  | \$ 1,319            | \$ (114,292)           | \$ 117,162                                     |

**Table of Contents**

The components of other comprehensive income (loss) for the three and nine months ended September 30, 2013 were as follows:

| (in thousands) (unaudited)                                    | Three months ended September 30, 2013 |              |                   |
|---|---------------------------------------|--------------|-------------------|
|   | Before-Tax Amount                     | Tax Benefit  | Net-of-Tax Amount |
| Realized gain on cash flow hedges, reclassified into earnings | (146)                                 | 54           | (92)              |
| Foreign currency translation adjustments                      | 20,124                                |              | 20,124            |
| <b>Other comprehensive income</b>                             | <b>\$ 19,978</b>                      | <b>\$ 54</b> | <b>\$ 20,032</b>  |

| (in thousands) (unaudited)                                    | Nine months ended September 30, 2013 |                 |                    |
|---|--------------------------------------|-----------------|--------------------|
|   | Before-Tax Amount                    | Tax Benefit     | Net-of-Tax Amount  |
| Curtailed gain on pension plans, reclassified into earnings   | \$ (15,264)                          | \$ 5,759        | \$ (9,505)         |
| Realized gain on cash flow hedges, reclassified into earnings | (438)                                | 163             | (275)              |
| Foreign currency translation adjustments                      | (45,091)                             |                 | (45,091)           |
| <b>Other comprehensive income (loss)</b>                      | <b>\$ (60,793)</b>                   | <b>\$ 5,922</b> | <b>\$ (54,871)</b> |

The details about reclassifications out of accumulated other comprehensive income into net income for the three and nine months ended September 30, 2013 were as follows:

| (in thousands) (unaudited)                | Three months ended September 30, 2013 |   |
|---|---------------------------------------|---|
|   | Amount Reclassified from AOCI         | Affected Line Item in Statement of Operations |
| <b>(Gains)/losses on cash flow hedges</b> |                                       |   |
| Forward interest rate swap contracts      | \$ (146)                              | Interest expense                              |
|   | (146)                                 | Total before tax                              |
|   | 54                                    | Income tax provision                          |
|   | \$ (92)                               | Net of tax                                    |

| (in thousands) (unaudited)                | Nine months ended September 30, 2013 |   |
|---|--------------------------------------|---|
|   | Amount Reclassified from AOCI        | Affected Line Item in Statement of Operations |
| <b>(Gains)/losses on cash flow hedges</b> |                                      |   |
| Forward interest rate swap contracts      | \$ (438)                             | Interest expense                              |
|   | (438)                                | Total before tax                              |
|   | 163                                  | Income tax provision                          |

Edgar Filing: Life Technologies Corp - Form 10-Q

|   |             |                            |
|---|-------------|----------------------------|
|   | \$ (275)    | Net of tax                 |
| <b>Defined benefit pension plan items</b> |             |                            |
| Curtailed gain                            | \$ (15,264) | Business integration costs |
|   | (15,264)    | Total before tax           |
|   | 5,759       | Income tax provision       |
|   | \$ (9,505)  | Net of tax                 |
| <b>Total reclassifications</b>            | \$ (9,780)  | Net of tax                 |



**Table of Contents****4. Long-Term Debt**

Long-term debt consisted of the following:

| (in thousands)  | September 30,<br>2013<br>(unaudited) | December 31,<br>2012 |
|---|--------------------------------------|----------------------|
| 3.375% Senior Notes (principal due 2013), net of unamortized discount | \$                                   | \$ 249,993           |
| 4.400% Senior Notes (principal due 2015), net of unamortized discount | 499,491                              | 499,235              |
| 3.500% Senior Notes (principal due 2016), net of unamortized discount | 399,692                              | 399,598              |
| 6.000% Senior Notes (principal due 2020), net of unamortized discount | 748,916                              | 748,815              |
| 5.000% Senior Notes (principal due 2021), net of unamortized discount | 398,623                              | 398,508              |
| Capital leases  | 25,022                               | 17,920               |
| <b>Total debt</b>   | <b>2,071,744</b>                     | <b>2,314,069</b>     |
| Less current portion  | (4,157)                              | (253,214)            |
| <b>Total long-term debt</b>   | <b>\$ 2,067,587</b>                  | <b>\$ 2,060,855</b>  |

*Senior Notes*

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

As a result, the Company has recorded an aggregate \$5.7 million of debt discounts for the Notes. At September 30, 2013, the unamortized debt discount balance was \$3.3 million. The debt discounts are amortized over the lives of the associated Notes using the effective interest method.

The aggregate net proceeds from the Note offerings in 2010 were \$2,276.4 million after deducting the debt discounts as well as underwriting discounts of \$17.9 million. Total deferred financing costs associated with the issuances of the Notes were \$21.8 million, including the \$17.9 million of underwriting discounts and \$3.9 million of legal and accounting fees. At September 30, 2013, the unamortized issuance costs for the Notes were \$11.1 million which are expected to be recognized over a weighted average period of 5.4 years. The Company recognized aggregate contractual interest expense of \$25.3 million and \$27.4 million for the three months ended September 30, 2013 and 2012, respectively, and \$77.3 million and \$82.2 million for the nine months ended September 30, 2013 and 2012, respectively.

During March 2013, the Company used cash on hand and proceeds from the line of credit to pay off the entire outstanding balance of the 3.375% Senior Notes of \$250.0 million, plus accrued interest due on the date of repayment. The Company did not recognize any gain or loss associated with the repayment of the 2013 Notes. At December 31, 2012, the Company held the carrying value of \$250.0 million, and the related debt discount, of the 2013 Notes in current liabilities. For details on the revolving credit facility, refer to Note 5 Lines of Credit .

The Company, at its option, may redeem outstanding Notes (prior to October 15, 2020 for the 2021 Notes) in whole or in part at any time at a redemption price equal to the greater of 100% of the principal amount of the notes to be redeemed or the sum of the present values of the remaining scheduled payments of the notes to be redeemed discounted on a semi-annual basis at a rate equal to the sum of the rate on a comparable United States Treasury note plus 25 basis points for the 2015 Notes, the 2016 Notes, and the 2021 Notes, and 35 basis points for the 2020 Notes, plus accrued and unpaid interest through the date of redemption, if any. Commencing on October 15, 2020, the Company may

## Edgar Filing: Life Technologies Corp - Form 10-Q

redeem the 2021 Notes, in whole or in part, at any time, at a redemption price equal to 100% of the principal amount of the notes being redeemed plus accrued and unpaid interest through the redemption date. Upon the occurrence of a change of control of the Company that results in a downgrade of the notes below an investment grade rating, the indenture requires under certain circumstances that the Company makes an offer to purchase then outstanding Notes equal to 101% of the principal amount plus any accrued and unpaid interest to the date of repurchase.

---

## **Table of Contents**

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

### *Convertible Senior Notes*

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

The Company recognized total interest cost of \$2.5 million for the nine months ended September 30, 2012 based on the effective interest rate of 6.10% for the 2024 Notes. The interest expense consisted of \$0.8 million of contractual interest based on the stated coupon rate and \$1.7 million of amortization of the discount on the liability component associated with the bifurcation requirements prescribed by *ASC Topic 470-20, Debt with Conversion and Other Options*, for the nine months ended September 30, 2012.

## **5. Lines of Credit**

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

During the nine months ended September 30, 2013, the Company withdrew \$659.0 million on the Revolving Credit Facility and repaid \$759.0 million. The Company had an outstanding balance of zero and \$100.0 million as of September 30, 2013 and December 31, 2012, respectively. Additionally, the Company has issued \$10.1 million of letters of credit under the Revolving Credit Facility, and accordingly, the remaining available credit is \$739.9 million. The applicable borrowing rate was 1.43% for the Revolving Credit Facility at September 30, 2013.

At the same time the Company entered into the Revolving Credit Facility in February 2012, the Company extinguished the previously existing revolving credit facility of \$500.0 million and as a result recognized a \$3.7 million loss, recorded in interest expense, on unamortized deferred financing costs.

As of September 30, 2013 foreign subsidiaries in Mexico and India had available bank lines of credit denominated in local currency to meet short-term working capital requirements. Each credit facility would bear interest at a fixed rate or a variable rate indexed to a local interbank offering rate or equivalent, should there be withdrawals. The United States dollar equivalent of these facilities totaled \$3.4 million at September 30, 2013, none of which was outstanding at September 30, 2013.

## **6. Commitments and Contingencies**

### *Letters of Credit*

The Company had outstanding letters of credit totaling \$30.6 million at September 30, 2013, of which \$13.1 million was to support performance bond agreements, \$9.5 million was to support liabilities associated with the Company's self-insured worker's compensation programs, \$5.0 million was to support its building lease requirements, and \$3.0 million was to support duty on imported products.

### *Executive Employment Agreements*

The Company has employment contracts with key executives that provide for the continuation of salary if terminated for reasons other than cause, as defined in those agreements. At September 30, 2013, future employment contract commitments for such key executives were approximately \$39.4 million. In certain circumstances, the employment agreements call for the acceleration of equity vesting. The non-cash financial impact of the acceleration of equity vesting is not reflected in the above information.

*Acquisition-Related Contingent Obligations*

As a result of contingent consideration arrangements associated with certain business acquisitions, the Company may have future payment obligations which are based on certain technological or operational milestones. In accordance with *ASC Topic 805*,

---

## **Table of Contents**

*Business Combinations*, the Company records these obligations at fair value at the time of acquisition with subsequent fair value adjustments to the contingent consideration reflected in the line items of the Consolidated Statement of Operations commensurate with the nature of the contingent consideration.

At September 30, 2013, the total amount accrued for contingent consideration liabilities was \$36.1 million, of which \$14.2 million was included in current liabilities. At December 31, 2012, the total amount accrued for contingent consideration liabilities was \$44.3 million, of which \$16.7 million was included in current liabilities. During the nine months ended September 30, 2013, \$8.0 million of contingent consideration liabilities were paid. During the nine months ended September 30, 2012, \$284.2 million of contingent consideration was paid, of which \$282.2 million was a result of a \$300.0 million milestone arrangement related to the Ion Torrent acquisition. The milestone was achieved during the year ended December 31, 2011 and paid in January 2012 in a combination of \$192.4 million in cash and 2.7 million shares of the Company's common stock or the equivalent of \$107.6 million at the time of settlement.

The Company could be required to make additional contingent payments based on currently existing purchase agreements through 2022. For more information on contingent consideration valuation, refer to Note 10 of the Consolidated Financial Statements, Fair Value of Financial Instruments .

### ***Environmental Liabilities***

As a result of previous mergers and acquisitions, the Company assumed certain environmental exposure liabilities. At September 30, 2013, aggregate undiscounted environmental reserves were \$8.0 million, including current reserves of \$2.9 million. Based upon currently available information, the Company believes that it has adequately provided for these environmental exposures and that the outcome of these matters will not have a material adverse effect on its Consolidated Statement of Operations.

### ***Litigation***

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

### ***Indemnifications***

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

### ***Guarantees***

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

effect on the Consolidated Financial Statements.

**Table of Contents**

**7. Pension Plans and Postretirement Health and Benefit Program**

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

The net periodic pension cost for nine months ended September 30, 2013 includes a curtailment gain of \$20.2 million. During the nine months ended September 30, 2013 the Company spun off an employee and retiree grouping of the Applied Biosystems, Inc. Retiree Welfare Plan and no longer offered retiree medical coverage to these participants. The Company accounted for the termination of benefits to both active and retired employees a plan curtailment and recorded the corresponding gain in the current period in accordance with *ASC Topic 715, Compensation Retirement Benefits*. The Applied Biosystems, Inc. Retiree Welfare Plan still retained certain retirees who will continue to receive benefits under the provisions of the plan.

**Table of Contents**

The components of net periodic pension cost or (benefit) for the Company's pension plans and postretirement benefits plans for the three and nine months ended September 30, 2013 and 2012 were as follows:

| (in thousands) (unaudited)         | Domestic Plans     |                    |                    |                    |
|------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                    | Three months ended |                    | Nine months ended  |                    |
|                                    | September 30, 2013 | September 30, 2012 | September 30, 2013 | September 30, 2012 |
| Service cost                       | \$ 413             | \$ 385             | \$ 1,238           | \$ 1,155           |
| Interest cost                      | 7,816              | 8,919              | 23,227             | 26,345             |
| Expected return on plan assets     | (9,213)            | (9,384)            | (27,644)           | (28,150)           |
| Amortization of prior service cost | 15                 | 15                 | 43                 | 45                 |
| Amortization of actuarial loss     | 1,360              | 996                | 3,917              | 2,904              |
| Net periodic pension cost          | \$ 391             | \$ 931             | \$ 781             | \$ 2,299           |

| (in thousands) (unaudited)                  | Postretirement Plans |                    |                    |                    |
|---|----------------------|--------------------|--------------------|--------------------|
|   | Three months ended   |                    | Nine months ended  |                    |
|   | September 30, 2013   | September 30, 2012 | September 30, 2013 | September 30, 2012 |
| Service cost (benefit)                      | \$ (2)               | \$ 5               | \$ 0               | \$ 25              |
| Interest cost (benefit)                     | (120)                | 292                | 71                 | 976                |
| Expected return on plan assets              | (130)                | (115)              | (389)              | (345)              |
| Amortization of prior service cost (credit) | 591                  | (474)              | (94)               | (1,422)            |
| Amortization of actuarial loss              | 181                  | 156                | 446                | 462                |
| Curtailement gain                           |                      |                    | (20,240)           |                    |
| Total periodic pension cost (benefit)       | \$ 520               | \$ (136)           | \$ (20,206)        | \$ (304)           |

| (in thousands) (unaudited)            | Foreign Plans      |                    |                    |                    |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                       | Three months ended |                    | Nine months ended  |                    |
|                                       | September 30, 2013 | September 30, 2012 | September 30, 2013 | September 30, 2012 |
| Service cost                          | \$ 644             | \$ 598             | \$ 1,978           | \$ 1,810           |
| Interest cost                         | 1,213              | 1,176              | 3,666              | 3,587              |
| Expected return on plan assets        | (837)              | (912)              | (2,531)            | (2,769)            |
| Amortization of actuarial (gain) loss | 195                | (11)               | 586                | (31)               |
| Net periodic pension cost             | \$ 1,215           | \$ 851             | \$ 3,699           | \$ 2,597           |

**8. Income Taxes**

Income taxes are determined using an estimated annual effective tax rate applied against income, and then adjusted for the tax impacts of certain significant and discrete items. For the nine months ended September 30, 2013, the Company treated the tax impact related to the following as discrete events for which the tax effect was recognized separately from the application of the estimated annual effective tax rate: the impact of new tax legislation, foreign earnings distributions, adjustments in certain tax reserves, and disqualifying dispositions of qualified stock grants. The Company's effective tax rate recorded for the nine months ended September 30, 2013 was 12.9%. Excluding the impact of the discrete items discussed above, the effective tax rate would have been 22.2%.



## Edgar Filing: Life Technologies Corp - Form 10-Q

In accordance with the disclosure requirements as described in ASC Topic 740, Income Taxes, the Company has classified unrecognized tax benefits as non-current income tax liabilities, or a reduction in non-current deferred tax assets, unless expected to be paid within one year. The Company's continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. For the nine months ended September 30, 2013 and 2012, the Company recognized approximately \$(3.3) million and \$(0.2) million, respectively, in interest and penalties as income tax expense (benefit) in the Consolidated Statement of Operations. The Company had approximately \$2.9 million accrued for the payment of interest and penalties as of September 30, 2013 in the Consolidated Balance Sheets compared to \$6.1 million as of December 31, 2012.

The Company believes it is reasonably possible that approximately \$4.2 million of unrecognized tax benefits, each of which are individually insignificant, may be recognized within the next 12 months due to possible settlements with federal, state and foreign taxing authorities or as statutes expire.

**Table of Contents**

The Company is subject to routine compliance reviews on various tax matters around the world in the ordinary course of business. Currently, income tax audits are being conducted in Canada, India, Italy, United Kingdom, and the United States. Years open, and therefore subject to tax examination, in the major jurisdictions are 2006 through 2012. Management believes that adequate provisions have been recorded for adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs. Should an adjustment be required, the impact on the Consolidated Statement of Operations is not anticipated to be material.

The Company continues to benefit from reduced tax rates in Singapore and Israel. Singapore's taxing authority granted the Company pioneer company status that provides an incentive encouraging companies to undertake activities that have the effect of promoting economic or technological development in Singapore. This incentive equates to a tax exemption on earnings associated with most of the Company's manufacturing activities in Singapore and continues through December 31, 2021. The Company qualifies for an incentive tax benefit in Israel that provides for a reduced 3.5% tax rate on earnings from its subsidiary in Israel. This incentive has been granted for an indefinite period given minimum sales and investment levels are maintained. The impact of these tax holidays decreased the annual effective tax rate by 3.0% and increased earnings per share by approximately \$0.02 for the three months ended September 30, 2013 and \$0.07 for the nine months ended September 30, 2013.

**9. Stock Repurchase Programs**

In July 2012, the Board of Directors of the Company approved a program (the July 2012 program) authorizing management to repurchase up to \$750.0 million of common stock. During the year ended December 31, 2012, the Company repurchased 4.9 million shares of its common stock under this program at a total cost of \$238.0 million. During the nine months ended September 30, 2013, the Company repurchased 2.0 million shares of its common stock under this program at a total cost of \$104.9 million. As of September 30, 2013, there was \$407.1 million of authorization remaining under this program. The Company is not currently anticipating repurchasing any stock under this program due to the pending Thermo Fisher merger transaction.

In July 2011, the Board of Directors of the Company approved a program (the July 2011 program) authorizing management to repurchase up to \$200.0 million of common stock. During the year ended December 31, 2012, the Company repurchased 4.6 million shares of its common stock under this program at a total cost of \$200.0 million, the maximum amount authorized, thereby completing the July 2011 program.

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

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

**10. Fair Value of Financial Instruments**

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

**Table of Contents**

Investments consisted of the following:

| (in thousands)                      | September 30,<br>2013<br>(unaudited) | December 31,<br>2012 |
|-------------------------------------|--------------------------------------|----------------------|
| <b>Short-term</b>                   |                                      |                      |
| Bank time deposits                  | \$ 17,798                            | \$ 5,726             |
| <b>Total short-term investments</b> | <b>17,798</b>                        | <b>5,726</b>         |
| <b>Long-term</b>                    |                                      |                      |
| Equity securities                   | 28,465                               | 26,677               |
| <b>Total long-term investments</b>  | <b>28,465</b>                        | <b>26,677</b>        |
| <b>Total investments</b>            | <b>\$ 46,263</b>                     | <b>\$ 32,403</b>     |

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

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

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

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

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

| (in thousands) (unaudited)                        | Fair Value Measurements at Reporting Date Using Quoted Prices in |  |   |  |
|---|--|--|---|--|
|   | Balance at<br>September 30,<br>2013                              | Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Observable Inputs<br>(Level 2) | Other<br>Significant<br>Unobservable Inputs<br>(Level 3) |
| <b>Description</b>                                |  |  |   |  |
| Bank time deposits                                | \$ 17,798  | \$ 17,798  | \$  | \$   |
| Money market funds                                | 37,182   | 37,182   |   |  |
| Deferred compensation plan assets-mutual funds    | 27,057   | 27,057   |   |  |
| Assets-derivative forward exchange contracts      | 7,047  |  | 7,047   |  |
| <b>Total assets</b>                               | <b>\$ 89,084</b>   | <b>\$ 82,037</b>                                       | <b>\$ 7,047</b>                               | <b>\$</b>  |
| Liabilities-derivative forward exchange contracts | 13,808   |  | 13,808  |  |
| Contingent considerations                         | 36,138   |  |   | 36,138   |
| <b>Total liabilities</b>                          | <b>\$ 49,946</b>   | <b>\$</b>  | <b>\$ 13,808</b>                              | <b>\$ 36,138</b>   |

At September 30, 2013, the carrying value of the financial instruments measured and classified within level 1 was based on quoted prices and marked to market.

## Edgar Filing: Life Technologies Corp - Form 10-Q

The Company manages the Life Technologies Corporation Deferred Compensation Plan (the Deferred Compensation Plan) which allows eligible directors and employees to defer, on a pre-tax basis, a portion or all of their compensation, bonuses, or director's fees. As of September 30, 2013, the Company held \$27.1 million in deferred compensation plan assets in other assets in its Consolidated Balance Sheet which were invested in mutual funds. The fair market value of the assets held in the Deferred Compensation Plan was based on unadjusted quoted prices in active markets. The Company carries a corresponding deferred compensation liability of \$27.1 million as of September 30, 2013 in other long-term obligations in its Consolidated Balance Sheet.

Exchange traded derivatives are valued using quoted market prices, when available, and classified within level 1 of the fair value hierarchy. Level 2 derivatives include foreign currency forward contracts for which fair value is determined by using observable market spot rates and forward points adjusted by risk-adjusted discount rates. The risk-adjusted discount rate is derived by United States dollar zero coupon yield bonds for the corresponding duration of the maturity of derivatives, then adjusted with a counter party

**Table of Contents**

default risk for the value of our derivative assets or our credit risk for the value of our derivative liabilities. Credit risk is derived by observable credit default swaps (CDS) spreads. Because CDS spreads information is not available for our Company, our credit risk is determined by analyzing CDS spreads of similar size public entities in the same industry with similar credit ratings. The value of our derivatives discounted by risk-adjusted discount rates represents the present value of amounts estimated to be received for the assets or paid to transfer the liabilities at the measurement date from a marketplace participant in settlement of these instruments.

*Level 3 Fair Value Measurements*

Contingent consideration arrangements obligate the Company to pay former owners of an acquired entity if specified future events occur or conditions are met such as the achievement of certain technological milestones or operational milestones. The Company measures such liabilities using level 3 unobservable inputs, applying the income approach, such as the discounted cash flow technique, or the probability-weighted scenario method. The Company used various key assumptions, such as the probability of achievement on the agreed milestones arrangement and the discount rate, to represent the non-performing risk factors and time value when applying the income approach. The Company continuously monitors the fair value of the contingent considerations, with subsequent revisions reflected in the Statement of Operations in the line items commensurate with the underlying nature of milestone arrangements. For further discussion on contingent consideration accounting, refer to Note 6 of the Consolidated Financial Statements, Commitments and Contingencies .

At September 30, 2013, the Company's level 3 liabilities, which represent the estimated fair value of existing contingent consideration agreements, individually or collectively are not considered material to the Company's consolidated financial statements. Reasonable changes in the unobservable inputs would not be expected to have a significant impact on the Company's consolidated financial statements.

For financial instrument liabilities with significant level 3 inputs, the following table summarizes the activity for the nine months ended September 30, 2013:

| <b>(in thousands) (unaudited)</b>          | <b>Fair Value Measurements<br/>Using Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)<br/>Contingent<br/>Considerations</b> |
|--|--|
| Beginning balance at January 1, 2013       | \$ 44,323  |
| Settlements                                | (8,081)  |
| Transfers in from business combinations    | 3,192  |
| Total unrealized gain included in earnings | (6,508)  |
| Total unrealized loss included in earnings | 3,057  |
| Foreign currency translation adjustments   | 155  |
| Ending balance at September 30, 2013       | \$ 36,138  |

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

*Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis*

Non-financial assets and liabilities are recognized at fair value subsequent to initial recognition when they are deemed to be other-than-temporarily impaired. There were no material non-financial assets and liabilities deemed to be other-than-temporarily impaired and measured at fair value on a nonrecurring basis for the nine months ended September 30, 2013 other than that of a property sold which resulted in a \$28.3 million loss. The Company evaluates its investments in equity and debt securities that are accounted for using the equity method or cost method to determine whether an other-than-temporary impairment or a credit loss exists at period end. At September 30, 2013, the Company held an aggregate \$28.5 million of long-term investments in equity securities that are accounted for under the cost and equity methods. The Company assesses these investments for impairment each quarter, but does not calculate a fair value. Due to the nature of these investments, mainly non-public and early stage companies, the Company believes calculating a fair value not to be practicable. In the event the Company identified an indicator of impairment, the assessment of fair value would be based on all available factors, and may include valuation methodologies using level 3 unobservable inputs, which include discounted cash flows, estimates of sales proceeds, net investment values and

## Edgar Filing: Life Technologies Corp - Form 10-Q

appraisals, as appropriate. At September 30, 2013, the Company determined that no event or change in circumstances with a significant adverse effect on the fair value of the investments had occurred during the nine months ended September 30, 2013, and, accordingly, no material impairment charges were recorded during the period.

**Table of Contents***Foreign Currencies and Derivative Financial Instruments*

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

Some of the Company's reporting entities conduct a portion of their business in currencies other than the entity's functional currency. These transactions give rise to receivables and payables that are denominated in currencies other than the entity's functional currency. The value of these receivables and payables is subject to changes in currency exchange rates from the point in which the transactions are originated until the settlement in cash. Both realized and unrealized gains and losses in the value of these receivables and payables are included in the determination of net income. Net currency exchange losses recognized on business transactions, net of hedging transactions, were \$3.8 million and \$1.4 million for the three months ended September 30, 2013 and September 30, 2012, respectively, and \$5.2 million and \$2.6 million for nine months ended September 30, 2013 and September 30, 2012, respectively, and such losses are included in other income/(expense) in the Consolidated Statements of Operations and Comprehensive Income.

To manage the foreign currency exposure risk, the Company uses derivatives for activities in entities that have receivables and payables denominated in a currency other than the entity's functional currency. Realized and unrealized gains or losses on the value of financial contracts entered into to hedge the exchange rate exposure of these receivables and payables are also included in the determination of net income as they have not been designated for hedge accounting under *ASC Topic 815, Derivatives and Hedging*. These contracts, which settle in October 2013 through January 2014, effectively fix the exchange rate at which these specific receivables and payables will be settled in, so that gains or losses on the forward contracts offset the gains or losses from changes in the value of the underlying receivables and payables. At September 30, 2013, the Company had a notional principal amount of \$1,053.7 million in foreign currency forward contracts outstanding to hedge currency risk relative to our foreign receivables and payables. The Company's currency exposures vary, but are primarily concentrated in the euro, British pound, and Japanese yen.

During the year ended December 31, 2010, the Company entered into forward interest rate swap agreements for a notional amount totaling \$1,500.0 million for a certain part of Notes issuances. These agreements were to hedge the variability in future probable interest payments attributable to changes in the benchmark interest rate from the date the Company entered into the forward interest rate swap agreements to the date the Company issued the Notes. These agreements effectively hedged a series of semi-annual future interest payments to the fixed interest rates for forecasted debt issuances. The Company recorded total proceeds of \$4.3 million from the forward interest rate swaps in accumulated other comprehensive income, which is reclassified to interest expense in the same period during which the hedged transactions affect interest expense. For further information related to interest expense on the Notes, refer to Note 4 of the Consolidated Financial Statements, "Long-Term Debt".

The following table summarizes the fair values of derivative instruments at September 30, 2013 and December 31, 2012:

|  | Asset Derivatives      |                    |                   | Liability Derivatives     |                    |                   |
|--|------------------------|--------------------|-------------------|---------------------------|--------------------|-------------------|
|  | Balance Sheet Location | Fair Value         |                   | Balance Sheet Location    | Fair Value         |                   |
| (in thousands)   |                        | September 30, 2013 | December 31, 2012 |                           | September 30, 2013 | December 31, 2012 |
|  |                        | (unaudited)        |                   |                           | (unaudited)        |                   |
| Derivatives instruments not designated as cash flow hedges |                        |                    |                   |                           |                    |                   |
| Forward exchange contracts                                 | Other current assets   | \$ 7,047           | \$ 1,597          | Other current liabilities | \$ 13,808          | \$ 9,436          |
| Total derivatives  |                        | \$ 7,047           | \$ 1,597          |                           | \$ 13,808          | \$ 9,436          |

**Table of Contents**

The following table summarizes the effect of derivative instruments on the Consolidated Statements of Operations and Comprehensive Income for the three months ended September 30, 2013 and 2012:

|   | Three months ended September 30, 2013   |  |  | Three months ended September 30, 2012   |  |  |
|---|---|--|--|---|--|--|
|   | Amount of (Gain)/Loss Recognized in OCI | Location of Gain/(Loss) Reclassified from AOCI into Income Effective Portion | Amount of Gain/(Loss) Reclassified from AOCI into Income | Amount of (Gain)/Loss Recognized in OCI | Location of Gain/(Loss) Reclassified from AOCI into Income Effective Portion | Amount of Gain/(Loss) Reclassified from AOCI into Income |
| <b>(in thousands) (unaudited)</b>   |   |  |  |   |  |  |
| <b>Derivatives instruments designated and qualified as cash flow hedges</b> |   |  |  |   |  |  |
| Forward interest rate swap contracts  | \$                                      | Interest expense   | \$ 146   | \$                                      | Interest expense   | \$ 146   |
| <b>Total derivatives</b>  | <b>\$</b>                               |  | <b>\$ 146</b>  | <b>\$</b>                               |  | <b>\$ 146</b>  |

|   | Three months ended September 30, 2013        |  | Three months ended September 30, 2012        |  |
|---|--|--|--|--|
|   | Location of (Gain)/Loss Recognized in Income | Amount of (Gain)/Loss Recognized in Income | Location of (Gain)/Loss Recognized in Income | Amount of (Gain)/Loss Recognized in Income |
| <b>(in thousands) (unaudited)</b>                                 |  |  |  |  |
| <b>Derivatives instruments not designated as cash flow hedges</b> |  |  |  |  |
| Forward exchange contracts  | Other (income) expense                       | \$ 6,661                                   | Other (income) expense                       | \$ 14,307                                  |
| <b>Total derivatives</b>  |  | <b>\$ 6,661</b>                            |  | <b>\$ 14,307</b>                           |

The following table summarizes the effect of derivative instruments on the Consolidated Statements of Operations for the nine months ended September 30, 2013 and 2012, respectively:

|   | Nine months ended September 30, 2013    |  |  | Nine months ended September 30, 2012    |  |  |
|---|---|--|--|---|--|--|
|   | Amount of (Gain)/Loss Recognized in OCI | Location of Gain/(Loss) Reclassified from AOCI into Income Effective Portion | Amount of Gain/(Loss) Reclassified from AOCI into Income | Amount of (Gain)/Loss Recognized in OCI | Location of Gain/(Loss) Reclassified from AOCI into Income Effective Portion | Amount of Gain/(Loss) Reclassified from AOCI into Income |
| <b>(in thousands) (unaudited)</b>   |   |  |  |   |  |  |
| <b>Derivatives instruments designated and qualified as cash flow hedges</b> |   |  |  |   |  |  |
| Forward interest rate swap contracts  | \$                                      | Interest expense   | \$ 438   | \$                                      | Interest expense   | \$ 438   |
| <b>Total derivatives</b>  | <b>\$</b>                               |  | <b>\$ 438</b>  | <b>\$</b>                               |  | <b>\$ 438</b>  |

|                                   | Nine months ended September 30, 2013         |  | Nine months ended September 30, 2012         |  |
|-----------------------------------|--|--|--|--|
|                                   | Location of (Gain)/Loss Recognized in Income | Amount of (Gain)/Loss Recognized in Income | Location of (Gain)/Loss Recognized in Income | Amount of (Gain)/Loss Recognized in Income |
| <b>(in thousands) (unaudited)</b> |  |  |  |  |



## Edgar Filing: Life Technologies Corp - Form 10-Q

| Derivatives instruments not designated as cash flow hedges |                        |    |        |                        |          |
|--|------------------------|----|--------|------------------------|----------|
| Forward exchange contracts                                 | Other (income) expense | \$ | 11,296 | Other (income) expense | \$ 1,497 |
| Total derivatives  |                        | \$ | 11,296 |                        | \$ 1,497 |

### *Concentration of Credit Risk*

Financial instruments that potentially subject us to concentrations of credit risk are cash and cash equivalents, investments, and accounts receivable. We attempt to minimize the risks related to cash and cash equivalents and investments by using highly-rated financial institutions that invest in a broad and diverse range of financial instruments. We have established guidelines relative to credit ratings and maturities intended to maintain safety and liquidity. Concentration of credit risk with respect to accounts receivable is

**Table of Contents**

limited due to our large and diverse customer base, which is dispersed over different geographic areas. Allowances are maintained for potential credit losses and such losses have historically been within our expectations. The Company does sell to various institutions in Southern Europe, particularly Spain and Italy, which are either partially or directly funded by government institutions. Given the current fiscal environment, the Company is continuously monitoring the credit and economic conditions of our customer base. The Company believes its current reserves are appropriate given the current economic condition of its customers. If continued deterioration was to occur in these markets, we may not be able to collect on receivables and our write-offs of uncollectible accounts may increase. The Company's current exposure in this region is immaterial to the Company's overall financial position.

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

Our derivatives instruments have an element of risk in that the counterparties may be unable to meet the terms of the agreements. We attempt to minimize this risk by limiting the counterparties to a diverse group of highly-rated domestic and international financial institutions. In the event of non-performance by these counterparties, the asset position carrying values of our financial instruments represent the maximum amount of loss we could incur as of September 30, 2013. However, we do not expect to record any losses as a result of counterparty default in the foreseeable future. We do not require and are not required to pledge collateral for these financial instruments. The Company does not use derivative financial instruments for speculation or trading purposes or for activities other than risk management and we are not a party to leveraged derivatives. In addition, we do not carry any master netting arrangements to mitigate the credit risk. The Company continually evaluates the costs and benefits of its hedging program.

*Debt Obligations*

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

| (in thousands)                           | Fair Value                           |                      | Carrying Amounts                     |                      |
|--|--------------------------------------|----------------------|--------------------------------------|----------------------|
|  | September 30,<br>2013<br>(unaudited) | December 31,<br>2012 | September 30,<br>2013<br>(unaudited) | December 31,<br>2012 |
| 3.375% Senior Notes (principal due 2013) | \$                                   | \$ 251,320           | \$                                   | \$ 249,993           |
| 4.400% Senior Notes (principal due 2015) | 522,180                              | 533,965              | 499,491                              | 499,235              |
| 3.500% Senior Notes (principal due 2016) | 416,444                              | 421,864              | 399,692                              | 399,598              |
| 6.000% Senior Notes (principal due 2020) | 846,615                              | 895,590              | 748,916                              | 748,815              |
| 5.000% Senior Notes (principal due 2021) | 423,168                              | 454,912              | 398,623                              | 398,508              |

For details on the carrying amounts of the debt obligations, refer to Note 4 of the Consolidated Financial Statements, Long-Term Debt.

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

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Unaudited Consolidated Financial Statements and Notes thereto included elsewhere in this report and the Consolidated Financial Statements and Notes thereto included in our annual report on Form 10-K for the fiscal year ended December 31, 2012.

**Forward-looking Statements**

Any statements in this Quarterly Report on Form 10-Q about our expectations, beliefs, plans, objectives, prospects, financial condition, assumptions or future events or performance that are not historical facts are forward-looking statements. These statements are often, but not always, made through the use of words or phrases such as believe, anticipate, should, intend, plan, will, expect(s), estimate(s), positioned, strategy, outlook and similar expressions. Additionally, statements concerning future matters, such as the development of new products, enhancements of technologies, sales levels and operating results and other statements regarding matters that are not historical facts are forward-looking statements. Accordingly, all such forward-looking statements involve estimates and assumptions that are subject to risks,

## Edgar Filing: Life Technologies Corp - Form 10-Q

uncertainties and other factors that could cause our actual results to differ materially from the results expressed in the statements. Any forward-looking statements are qualified in their entirety by reference to the risk, uncertainties and other factors discussed throughout this Quarterly Report on Form 10-Q and in our

## **Table of Contents**

Annual Report on Form 10-K for the fiscal year ended December 31, 2012, including those described in Item 1-A Risk Factors of our Annual Report on Form 10-K and in our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2013, including those described in Part II Item 1-A, Risk Factors of our Quarterly Report on Form 10-Q. Among the key factors that could cause our actual results to differ materially from those projected in our forward-looking statements, include our ability to:

successfully complete our proposed merger transaction with Thermo Fisher, which is dependent and/or may be affected by a number of factors, including, without limitation the timely receipt of the regulatory approvals required for the transaction;

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

successfully compete and maintain the pricing of products and services;

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

successfully integrate and develop acquired businesses and technologies;

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

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

successfully secure and deploy capital;

satisfy our debt obligations; and

the additional risks and other factors described under the caption Risk Factors under Item 1A of the Annual Report on Form 10-K for the fiscal year ended December 31, 2012, filed with the Securities and Exchange Commission on February 28, 2013 and under Part II Item 1-A of the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2013, filed with the Securities and Exchange Commission on May 2, 2013.

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

## **OVERVIEW**

Revenues for the three and nine months ended September 30, 2013 were \$935.1 million and \$2,843.4 million, respectively, with net income attributable to the Company of \$118.2 million and \$366.1 million, respectively. Revenues for the three and nine months ended September 30, 2012 were \$911.2 million and \$2,799.6 million, respectively, with net income attributable to the Company of \$65.9 million and \$320.8 million, respectively.

## **Proposed Acquisition by Thermo Fisher**

## Edgar Filing: Life Technologies Corp - Form 10-Q

On April 14, 2013, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) with Thermo Fisher Scientific Inc., a Delaware corporation (Thermo Fisher), and Polpis Merger Sub Co., a Delaware corporation and a wholly owned subsidiary of Thermo Fisher (Merger Sub), providing for, subject to the satisfaction or waiver of specified conditions, the acquisition of the Company by Thermo Fisher at a price of \$76 per share in cash, subject to adjustment as described below. Subject to the terms and conditions of the Merger Agreement, the closing of the merger is expected to occur early in 2014. If the merger does not close by January 14, 2014 by reason of the failure to obtain certain required antitrust approvals or the issuance or enactment by a governmental authority of an order or law prohibiting or restraining the merger (and such prohibition or restraint is in respect of an antitrust law), the cash price per share will increase by \$0.0062466 per day during the period commencing on, and including, January 14, 2014, and ending on, and including, the closing date. On August 21, 2013, the Company's stockholders voted to adopt the Merger Agreement.

Additional information about the merger and the terms of the Merger Agreement can be found in the Current Report on Form 8-K filed by the Company under Item 1.01 of that Form 8-K on April 16, 2013, including the full text of the Merger Agreement filed as Exhibit 2.1 to that Form 8-K, and the definitive proxy statement related to the merger filed by the Company on July 22, 2013. Stockholders of the Company are urged to read all relevant documents filed with the SEC, including Life Technologies' definitive proxy statement, because they contain important information about the proposed transaction. Investors and security holders are able to obtain the documents free of charge at the SEC's web site, <http://www.sec.gov>, or for free from the Company by contacting (760) 603-7208 or [ir@lifetech.com](mailto:ir@lifetech.com).

### **Our Business**

We are a global life sciences company dedicated to helping our customers make scientific discoveries and ultimately improve the quality of life. Our systems, reagents, and services enable scientific researchers to accelerate scientific exploration, driving to discoveries and developments that make life better. Life Technologies customers do their work across the biological spectrum, working to advance genomic medicine, regenerative science, molecular diagnostics, agricultural and environmental research, and forensics.

## **Table of Contents**

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

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

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

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

Antibodies, which allow researchers to capture and label proteins, visualize their location through use of Molecular Probes<sup>®</sup> dyes and discern their role in disease.

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

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

Fluorescence microscopy instrumentation, which facilitates monitoring and measuring cell density and morphology as well as quick detection and verification of fluorescently labeled cells through imaging.

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

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

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

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

Food safety and animal health products, which are used to for pathogen detection, molecular testing for production animals, crop testing and environmental testing products.

## Edgar Filing: Life Technologies Corp - Form 10-Q

A lab developed test, which is used within our CLIA certified lab to help physicians stratify the risk of recurrence for their patients with early-stage, non-squamous, non-small cell lung cancer.

The Company aligns our products and services into three business groups: Research Consumables, Genetic Analysis and Applied Sciences.

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

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

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

### **CRITICAL ACCOUNTING POLICIES**

Our critical accounting policies are those that require significant judgment. For additional information on our critical accounting policies, see our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, and for additional information on the recent accounting pronouncements impacting our business, see Note 2 of the Notes to Consolidated Financial Statements.

**Table of Contents****RESULTS OF OPERATIONS****Third Quarter of 2013 Compared to the Third Quarter of 2012**

The following table compares revenues and gross profit for the third quarter of 2013 and 2012:

| (in millions) (unaudited) | Three months ended<br>September 30, |                 | \$ Increase/<br>(Decrease) | % Increase/<br>(Decrease) |
|---------------------------|-------------------------------------|-----------------|----------------------------|---------------------------|
|                           | 2013                                | 2012            |                            |                           |
| Research Consumables      | \$ 404.2                            | \$ 384.4        | \$ 19.8                    | 5%                        |
| Genetic Analysis          | 337.9                               | 353.4           | (15.5)                     | (4)%                      |
| Applied Sciences          | 193.6                               | 173.5           | 20.1                       | 12%                       |
| Corporate and other       | (0.6)                               | (0.1)           | (0.5)                      | NM                        |
| <b>Total revenues</b>     | <b>\$ 935.1</b>                     | <b>\$ 911.2</b> | <b>\$ 23.9</b>             | <b>3%</b>                 |
| Total gross profit        | \$ 544.9                            | \$ 478.5        | \$ 66.4                    | 14%                       |
| Total gross profit %      | 58.3%                               | 52.5%           |                            |                           |

**Revenue**

The Company's revenues increased by \$23.9 million or 3% for the third quarter of 2013 compared to the third quarter of 2012. The increase in revenue was driven primarily by a \$28.5 million increase in volume and pricing and a \$12.7 million increase as a result of acquisitions, partially offset by \$10.4 million in unfavorable currency impacts and a \$6.5 million decrease from royalties including licensing settlements. Volume and pricing relates to the impact on revenue due to existing and new product total unit sales as well as year over year change in unit pricing and its impact on gross revenue.

The Company operates our business under three business groups: Research Consumables, Genetic Analysis, and Applied Sciences. Revenue for the Research Consumables business group increased by \$19.8 million or 5% in the third quarter of 2013 compared to the third quarter of 2012. This increase was driven primarily by a \$13.3 million net increase in volume and pricing and \$9.5 million from acquisitions, partially offset by \$3.8 million in unfavorable currency impacts. Revenue for the Genetic Analysis business group decreased \$15.5 million or 4% for the third quarter of 2013 compared to the third quarter of 2012. This decrease was driven primarily by an \$8.5 million decrease from royalties including licensing settlements and \$4.6 million in unfavorable currency impacts. Revenue for the Applied Sciences business group increased by \$20.1 million or 12% for the third quarter of 2013 compared to the third quarter of 2012. The increase was primarily driven by a \$17.6 million net increase in volume and pricing and \$3.1 million from acquisitions.

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

**Gross Profit**

Gross profit increased \$66.4 million or 14% in the third quarter of 2013 compared to the third quarter of 2012. The increase in gross profit was primarily attributable to a \$48.5 million verdict on a case in litigation charged to expense during the third quarter of 2012, and a \$28.3 million net increase from price, volume, and product mix, partially offset by a \$6.5 million decrease from royalties including licensing settlements, and \$4.6 million in unfavorable currency impacts.

**Operating Expenses**

The following table compares operating expenses for the third quarter of 2013 and 2012:



Edgar Filing: Life Technologies Corp - Form 10-Q

| (in millions) (unaudited)           | Three months ended September 30,<br>2013 |                                   | Three months ended September 30,<br>2012 |                                   | \$ Increase/<br>(Decrease) | % Increase/<br>(Decrease) |
|-------------------------------------|--|-----------------------------------|--|-----------------------------------|----------------------------|---------------------------|
|                                     | Operating<br>expense                     | As a<br>percentage of<br>revenues | Operating<br>expense                     | As a<br>percentage of<br>revenues |                            |                           |
| <b>Operating Expenses:</b>          |  |                                   |  |                                   |                            |                           |
| Selling, general and administrative | \$ 268.8                                 | 29%                               | \$ 270.6                                 | 30%                               | \$ (1.8)                   | (1)%                      |
| Research and development            | 83.0                                     | 9%                                | 84.8                                     | 9%                                | (1.8)                      | (2)%                      |
| Business integration costs          | 26.9                                     | 3%                                | 10.6                                     | 1%                                | 16.3                       | NM                        |

**Table of Contents**

***Selling, General and Administrative***

For the third quarter of 2013, selling, general and administrative expenses decreased \$1.8 million or 1% compared to the third quarter of 2012. This decrease was driven primarily by an \$11.4 million decrease due to a legal settlement recognized in the third quarter of 2012 and \$2.1 million of favorable currency impacts, partially offset by a \$13.5 million increase in compensation and benefits.

***Research and Development***

For the third quarter of 2013, research and development expenses decreased \$1.8 million or 2% compared to the third quarter of 2012. The Company continues to invest in research and development programs, and as a percentage of revenue, costs are comparable period to period.

***Business Integration Costs***

Business integration costs for the third quarter of 2013 were \$26.9 million, compared to \$10.6 million for the third quarter of 2012. The expenses for both periods primarily include costs of integration and restructuring efforts for our acquisitions and divestitures activities. The third quarter of 2013 also includes costs related to the proposed acquisition by Thermo Fisher.

***Other Income (Expense)***

***Interest Income***

Interest income was \$0.4 million for the third quarter of 2013 compared to \$0.4 million for the third quarter of 2012.

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

***Interest Expense***

Interest expense was \$27.1 million for the third quarter of 2013 compared to \$29.3 million for the third quarter of 2012. The decrease in interest expense was primarily driven by lower debt balances caused by the payoff of the 2013 Notes in March 2013.

***Other Expense, Net***

Other expense, net, was \$5.2 million for the third quarter of 2013 compared to \$2.8 million for the same period of 2012. Included in the third quarter of 2013 and 2012 were foreign currency losses of \$3.8 million and \$1.4 million, net of hedging activities, respectively, driven by currency fluctuation in major currencies.

***Provision for Income Taxes***

The provision for income taxes as a percentage of pre-tax income from continuing operations was 12.1% for the three months ended September 30, 2013 compared with 18.9% for the three months ended September 30, 2012. The lower 2013 effective tax rate was primarily driven by tax credits on the repatriation of certain foreign earnings and the reinstatement of the U.S. federal research tax credit. The 2013 effective tax rate of 12.1% was lower than the statutory federal income tax rate of 35% due primarily to tax credits on repatriation of certain foreign earnings, earnings taxed at lower rates in foreign jurisdictions and research and manufacturing incentives.

**First Nine Months of 2013 Compared to the First Nine Months of 2012**

The following table compares revenues and gross profit for the first nine months of 2013 and 2012:

| (in millions) (unaudited) | Nine months ended     |      | \$ Increase/<br>(Decrease) | % Increase/<br>(Decrease) |
|---------------------------|-----------------------|------|----------------------------|---------------------------|
|                           | September 30,<br>2013 | 2012 |                            |                           |

Edgar Filing: Life Technologies Corp - Form 10-Q

|                             |                   |                   |                |           |
|-----------------------------|-------------------|-------------------|----------------|-----------|
| Research Consumables        | \$ 1,218.6        | \$ 1,207.3        | \$ 11.3        | 1%        |
| Genetic Analysis            | 1,043.1           | 1,062.2           | (19.1)         | (2)%      |
| Applied Sciences            | 580.2             | 528.6             | 51.6           | 10%       |
| Corporate and other         | 1.5               | 1.5               |                | 0%        |
| <b>Total revenues</b>       | <b>\$ 2,843.4</b> | <b>\$ 2,799.6</b> | <b>\$ 43.8</b> | <b>2%</b> |
| <b>Total gross profit</b>   | <b>\$ 1,665.3</b> | <b>\$ 1,576.8</b> | <b>\$ 88.5</b> | <b>6%</b> |
| <b>Total gross profit %</b> | <b>58.6%</b>      | <b>56.3%</b>      |                |           |

**Table of Contents****Revenue**

The Company's revenues increased by \$43.8 million or 2% for the first nine months of 2013 compared to the first nine months of 2012. The increase in revenue was driven primarily by an increase of \$38.8 million in volume and pricing, a \$35.2 million increase as a result of acquisitions, and a \$10.6 million increase from royalties including licensing settlements, partially offset by \$42.6 million in unfavorable currency impacts. Volume and pricing relates to the impact on revenue due to existing and new product total unit sales as well as year over year changes in unit pricing and its impact on gross revenue.

Revenue for the Research Consumables business group increased by \$11.3 million or 1% in the first nine months of 2013 compared to the first nine months of 2012. This increase was driven primarily by \$23.5 million as a result of acquisitions, and a \$6.3 million increase in volume and pricing, partially offset by \$15.3 million in unfavorable currency impacts, and a \$3.3 million decrease from royalties including licensing settlements. Revenue for the Genetic Analysis business group decreased \$19.1 million or 2% for the first nine months of 2013 compared to the first nine months of 2012. This decrease was driven primarily by \$17.8 million in unfavorable currency impacts. Revenue for the Applied Sciences business group increased by \$51.6 million or 10% for the first nine months of 2013 compared to the first nine months of 2012. The increase was primarily driven by a \$36.7 million net increase in volume and pricing, an increase of \$11.7 million as a result of acquisitions, and an increase of \$12.6 million from royalties including licensing settlements, partially offset by \$9.5 million in unfavorable currency impacts.

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

**Gross Profit**

Gross profit increased \$88.5 million or 6% in the first nine months of 2013 compared to the first nine months of 2012. The increase in gross profit was primarily driven by a \$48.9 million net increase from price, volume, and product mix, a \$48.5 million verdict on a case in litigation charged to expense during the third quarter of 2012, a \$10.6 million increase from royalties including licensing settlements, and a \$5.3 million decrease in intangible amortization related to business combinations, partially offset by \$26.7 million in unfavorable currency impacts.

**Operating Expenses**

The following table compares operating expenses for the first nine months of 2013 and 2012:

| (in millions) (unaudited)                  | Nine months ended September 30, |                                   | Nine months ended September 30, |                                   | \$ Increase/<br>(Decrease) | % Increase/<br>(Decrease) |
|--|---------------------------------|-----------------------------------|---------------------------------|-----------------------------------|----------------------------|---------------------------|
|  | 2013                            | As a<br>percentage of<br>revenues | 2012                            | As a<br>percentage of<br>revenues |                            |                           |
| <b>Operating Expenses:</b>                 |                                 |                                   |                                 |                                   |                            |                           |
| Selling, general and administrative        | \$ 816.5                        | 29%                               | \$ 790.0                        | 28%                               | \$ 26.5                    | 3%                        |
| Research and development                   | 255.1                           | 9%                                | 258.2                           | 9%                                | (3.1)                      | (1)%                      |
| Business integration costs                 | 81.9                            | 3%                                | 34.3                            | 1%                                | 47.6                       | NM                        |
| <b>Selling, General and Administrative</b> |                                 |                                   |                                 |                                   |                            |                           |

For the first nine months of 2013, selling, general and administrative expenses increased \$26.5 million or 3% compared to the first nine months of 2012. This increase was driven primarily by a \$47.0 million increase in compensation and benefits, and as a result, the costs are slightly up from the prior year as a percentage of revenues. The increase in compensation and benefits was partially offset by a decrease of \$11.4 million from a legal settlement expense in the third quarter of 2012, and an \$8.9 million decrease in purchased services.

**Research and Development**

## Edgar Filing: Life Technologies Corp - Form 10-Q

For the first nine months of 2013, research and development expenses decreased \$3.1 million or 1% compared to the first nine months of 2012. The Company continues to invest in research and development programs, and as a percentage of revenue, costs are comparable period to period.

### ***Business Integration Costs***

Business integration costs for the first nine months of 2013 were \$81.9 million, compared to \$34.3 million for the first nine months of 2012. The expenses for both periods primarily include costs of integration and restructuring efforts for our acquisitions and

## **Table of Contents**

divestitures activities. Included in the nine months ended September 30, 2013 is a loss of \$28.3 million related to the sale of assets which were obtained from a previous acquisition, offset by a \$17.7 million curtailment gain as a result of a plan change of a postretirement medical plan. The nine months ended September 30, 2013 also include charges related to the proposed acquisition by Thermo Fisher.

### ***Other Income (Expense)***

#### ***Interest Income***

Interest income was \$1.6 million for the first nine months of 2013 compared to \$1.7 million for the first nine months of 2012.

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

#### ***Interest Expense***

Interest expense was \$84.1 million for the first nine months of 2013 compared to \$94.3 million for the first nine months of 2012. The decrease in interest expense was primarily driven by lower debt balances caused by the payoff of the 2013 Notes in March 2013 and the 2024 Convertible Senior Notes in February 2012, and a \$3.7 million charge as a result of the extinguishment of a line of credit during the nine months ended September 30, 2012.

#### ***Other Expense, Net***

Other expense, net, was \$9.6 million for the first nine months of 2013 compared to \$11.1 million for the same period of 2012. Included in the first nine months of 2012 were \$5.3 million of charges associated with divestiture related activities. Included in the first nine months of 2013 and 2012 were foreign currency losses of \$5.2 million and \$2.6 million, net of hedging activities, respectively, driven by currency fluctuation in major currencies.

#### ***Provision for Income Taxes***

The provision for income taxes as a percentage of pre-tax income from continuing operations was 12.9% for the nine months ended September 30, 2013 compared with 17.9% for the nine months ended September 30, 2012. The lower 2013 effective tax rate was primarily driven by tax benefits associated with the 2013 reinstatement of the 2012 and 2013 federal research and development tax credit, tax credits on the repatriation of foreign earnings and the settlement of the tax audits. The 2013 effective tax rate of 12.9% was lower than the statutory federal income tax rate of 35% due primarily to tax credits on the repatriation of foreign earnings, earnings taxed at lower rates in foreign jurisdictions, audit settlements, and research and manufacturing incentives.

## **LIQUIDITY AND CAPITAL RESOURCES**

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

Our working capital factors, such as inventory turnover and days sales outstanding, are seasonal and, on an interim basis during the year, may require an influx of short-term working capital. We believe our current cash and cash equivalents, investments, cash provided by operations and cash available from bank loans and lines of credit will satisfy our working capital requirements, debt obligations and capital expenditures for the foreseeable future. In addition, we will continue to monitor the global economic environment, including that of the eurozone, to ensure that we continue to have adequate available funds to support domestic and international operations.

The Company has, and expects to be able to, continue to generate positive cash flow from operations. Future debt repayment, share repurchases, pension funding, future acquisitions or additional payments for contingent consideration upon the achievement of milestones pertaining to previous acquisitions may be financed by a combination of cash on hand, our positive cash flow generation, a revolving credit facility, or an issuance of new debt or stock.

## Edgar Filing: Life Technologies Corp - Form 10-Q

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

It is the Company's intention to indefinitely reinvest a majority of current foreign earnings in order to ensure sufficient foreign working capital and to expand its existing operations outside the United States. Additionally, the Company intends to use such

**Table of Contents**

unrepatriated cash held by its foreign subsidiaries to fund future foreign investments, including acquisitions. In addition to cash on hand in the United States, the Company has the ability to raise cash through bank loans, debt obligations or by settling loans with its foreign subsidiaries in order to cover its domestic needs. Notwithstanding management's intention, circumstances may arise that require the repatriation of earnings previously identified as indefinitely reinvested. During the third quarter, management decided to distribute earnings from certain subsidiaries that were previously indefinitely reinvested where such distributions could be accomplished in a tax efficient manner. This reversal of our assertion reflected changes in expected cash needs in light of the pending merger with Thermo Fisher, but does not impact the Company's prior assertion regarding other foreign earnings. For those limited foreign earnings that the Company, in the past, had determined will not be indefinitely reinvested, the Company has recorded the appropriate tax obligations in the statement of operations. When the Company is required to repatriate funds from outside of the United States, such repatriation will be subject to local laws and taxes. The Company does not anticipate any period in which the Company would repatriate all funds held outside of the United States. The Company does not believe these tax obligations will materially alter the Company's future cash flows. For more information on income taxes, refer to Note 8 of the Consolidated Financial Statements, *Income Taxes*.

Cash and cash equivalents were \$336.4 million at September 30, 2013, an increase of \$80.8 million from December 31, 2012, primarily due to cash provided by operating activities of \$604.4 million, offset by cash used in financing activities of \$406.1 million, cash used in investing activities of \$113.4 million, and the effect of exchange rates on cash of \$4.1 million. Further discussion surrounding the makeup of each cash flow component movement for the first nine months of 2013 is listed below.

**Operating Activities**

Operating activities provided net cash of \$604.4 million through the first nine months of 2013 primarily from our net income of \$365.5 million plus net non-cash charges of \$271.9 million, offset by a decrease in cash from operating assets and liabilities of \$33.0 million. Non-cash charges were primarily comprised of amortization of intangibles of \$224.5 million, depreciation of \$92.0 million, stock-based compensation expense of \$54.4 million, and loss on sales and disposal of assets of \$31.2 million, partially offset by a change in deferred income taxes of \$97.6 million, \$18.9 million of incremental tax benefits from the exercise of stock options and restricted stock distributions, and other non-cash adjustments of \$16.7 million. The decrease of \$33.0 million in cash within operating assets and liabilities was mainly due to a \$38.0 million increase in inventories, a \$27.5 million increase in prepaid expenses and other current assets, a decrease of \$14.3 million in accrued expenses and other liabilities, a \$9.0 million increase in other assets, and a \$7.2 million decrease from the currency impact related to intercompany settlements. These were partially offset by a \$47.2 million decrease in trade accounts receivable and a \$16.1 million increase in current income tax liabilities. The movement in cash as a result of changes in operating assets and liabilities is consistent with normal ongoing operations.

As of September 30, 2013, we had cash and cash equivalents of \$336.4 million, short-term investments of \$17.8 million, and restricted cash of \$14.1 million. Our working capital including restricted cash was \$944.8 million as of September 30, 2013. Our funds for cash and cash equivalents are currently primarily invested in marketable securities, money market funds, and bank deposits with maturities of less than three months. Cash and cash equivalents held by our foreign subsidiaries at September 30, 2013 was approximately \$276.8 million.

The Company's pension plans and post retirement benefit plans are funded in accordance with local statutory requirements and supplemented by voluntary contributions. The funding requirement is based on the funded status, which is measured by using various actuarial assumptions, such as interest rate, rate of compensation increase and expected return on plan assets. The Company's qualified pension plans are funded in line with regulatory requirements at December 31, 2012. The Company funds its pensions in accordance with pension funding rules, which often have different funded status requirements than the funded positions reported under accounting disclosure rules. Accordingly, the Company acknowledges that under accounting disclosure, the plans appear to be underfunded. However, under pension funding regulations, the Company's plans are nearly fully funded and the Company has excess contribution credits which it could apply to future funding requirements. The difference between accounting and funding requirements is driven by discount rates and various other actuarial assumptions which are applied in assessing the current balance. Accordingly, based on the level of the Company's contributions to the qualified pension plans and the qualified post retirement medical benefit plan during previous and current fiscal years, we do not expect to have to significantly fund these pension plans in fiscal year 2013 in order to meet minimum statutory funding requirements. The Company will assess future funding needs based on asset performance, prevailing interest rates and regulatory requirements of the next actuarial valuation.

**Investing Activities**

Net cash used in investing activities through the first nine months of 2013 was \$113.4 million. The primary drivers were \$71.2 million for the purchases of property and equipment, cash paid for business combinations of \$54.1 million, and \$18.4 million for the purchases of investments, partially offset by \$36.7 million in proceeds from the sale of assets.

The Company completed several acquisitions in the past that were not material individually or collectively to the overall consolidated financial statements and its results of operations. The results of operations for these acquisitions were included in the Company's results from the date of



acquisition. Pursuant to the purchase agreements for certain acquisitions, the Company could be

---

## **Table of Contents**

required to make additional contingent payments based on certain technological, commercial or operational milestones. The Company has sufficient cash on hand, positive cash flow generation and a revolving credit facility to fund such contingent payments if they become due.

For more information on our acquisition related obligations, refer to Note 6 of the Consolidated Financial Statements, Commitments and Contingencies .

### **Financing Activities**

Net cash used in financing activities during the first nine months of 2013 was \$406.1 million. The primary drivers were \$759.0 million for principal payments of short-term obligations, \$250.0 million for principal payments on long-term obligations, and \$147.8 million for the purchase of treasury stock, partially offset by proceeds from short-term obligations of \$659.0 million, the exercise of employee stock options of \$83.2 million and \$18.9 million of incremental tax benefits from the exercise of stock options and restricted stock distributions.

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

#### *Senior Notes*

During March 2013, the Company used cash on hand and proceeds from the line of credit facility to pay off the entire outstanding balance of the 3.375% Senior Notes of \$250.0 million, plus accrued interest due on the date of repayment. The Company did not recognize any gain or loss associated with the repayment of the 2013 Notes. At December 31, 2012, the Company held the carrying value of \$250.0 million, and the related debt discount, of the 2013 Notes in current liabilities.

#### *The Credit Agreement*

In February 2012, the Company entered into a credit agreement (the Revolving Credit Facility) for \$750.0 million for the purpose of general working capital, capital expenditures, and/or other capital needs, as deemed necessary. During the nine months ended September 30, 2013, the Company withdrew \$659.0 million on the Revolving Credit Facility and repaid \$759.0 million. The Company had an outstanding balance of zero and \$100.0 million as of September 30, 2013 and December 31, 2012, respectively. Additionally, the Company has issued \$10.1 million of letters of credit under the Revolving Credit Facility, and accordingly, the remaining available credit is \$739.9 million as of September 30, 2013. The Company may make additional draws on the Revolving Credit Facility. Refer to Note 5 of the Consolidated Financial Statements Lines of Credit .

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

#### *Convertible Senior Notes*

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

#### *Stock Repurchase Program*

In July 2012, the Board of Directors of the Company approved a program (the July 2012 program) authorizing management to repurchase up to \$750.0 million of common stock. During the year ended December 31, 2012, the Company repurchased 4.9 million shares of its common stock under this program at a total cost of \$238.0 million. During the nine months ended September 30, 2013, the Company repurchased 2.0 million shares of its common stock under this program at a total cost of \$104.9 million. As of September 30, 2013, there was \$407.1 million of authorization remaining under this program. The Company is not currently anticipating repurchasing any stock under this program due to the pending Thermo Fisher merger transaction.

## Edgar Filing: Life Technologies Corp - Form 10-Q

In July 2011, the Board of Directors of the Company approved a program (the July 2011 program) authorizing management to repurchase up to \$200.0 million of common stock. During the year ended December 31, 2012, the Company repurchased 4.6 million shares of its common stock under this program at a total cost of \$200.0 million, the maximum amount authorized, thereby completing the July 2011 program.

---

## **Table of Contents**

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

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

### **OFF BALANCE SHEET ARRANGEMENTS**

The Company does not have any material off balance sheet arrangements. For further discussion on the Company's commitments and contingencies, refer to Note 6 of the Consolidated Financial Statements, Commitments and Contingencies.

### **CONTRACTUAL OBLIGATIONS**

The Company did not enter into any material contractual obligations during the nine months ended September 30, 2013. The Company has no material contractual obligations not fully recorded on our Consolidated Balance Sheets or fully disclosed in the Notes to our Consolidated Financial Statements.

### **ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

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

#### **Foreign Currency**

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

#### *Foreign Currency Transactions*

We have operations through legal entities in Europe, Asia-Pacific and the Americas. As a result, our financial position, results of operations and cash flows can be affected by fluctuations in foreign currency exchange rates. At September 30, 2013, the Company had \$430.4 million of accounts receivable and \$32.3 million of accounts payable, respectively, denominated in a foreign currency. These accounts receivables and payables are denominated either in the functional currency of the legal entity or in a currency that differs from the functional currency of the legal entity owning the receivable or payable. For receivables and payables denominated in the legal entity's functional currency, the Company does not have financial statement risk, and therefore does not hedge such transactions. For those receivables and payables denominated in a currency that differs from the functional currency of the legal entity, the Company hedges such transactions to prevent financial statement risk. As a result, a hypothetical movement in foreign currency rates would not be expected to have a material financial statement impact on the settlement of these outstanding receivables and payables.

Both realized and unrealized gains and losses on the value of these receivables and payables were included in other income (expense) in the Consolidated Statements of Operations and Comprehensive Income. Net currency exchange losses recognized on business transactions, net of hedging transactions, were \$3.8 million and \$5.2 million for the three and nine months ended September 30, 2013, respectively. These gains and losses arise from the timing of cash collections compared to the hedged transactions, which can vary based on timing of actual customer payments and intercompany settlements.



---

## **Table of Contents**

The Company's intercompany foreign currency receivables and payables are primarily concentrated in the euro, British pound, and Japanese yen. Historically, the Company has used foreign currency forward contracts to mitigate foreign currency risk on these intercompany foreign currency receivables and payables. At September 30, 2013, the Company had a notional principal amount of \$1,053.7 million in foreign currency forward contracts outstanding, predominantly to hedge currency risk on specific intercompany receivables and payables denominated in a currency that differs from the legal entity's functional currency. These foreign currency forward contracts, as of September 30, 2013, which settle in October 2013 through January 2014, effectively fix the exchange rate at which these specific receivables and payables will be settled, so that gains or losses on the forward contracts offset the losses or gains from changes in the value of the underlying receivables and payables. At September 30, 2013, the Company does not expect there will be a significant impact from unhedged foreign currency intercompany transactions.

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

Refer to Note 10 of the Consolidated Financial Statements, "Fair Value of Financial Instruments", for more information on the Company's hedging programs.

### **Commodity Prices**

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

### **Interest Rates**

Our investment portfolio is maintained in accordance with our investment policy that defines allowable investments, specifies credit quality standards and limits the credit exposure of any single issuer. The fair value of our cash equivalents, marketable securities, short-term investments, and derivatives is subject to change as a result of changes in market interest rates and investment risk related to the issuers' credit worthiness or our own credit risk. The Company uses credit default swap spread to derive risk-adjusted discount rate to measure the fair value of some of our financial instruments. At September 30, 2013 we had \$368.3 million in cash, cash equivalents, restricted cash and short-term investments, all of which approximated the fair value. Changes in market interest rates would not be expected to have a material impact on the fair value of these assets as these assets consist of highly liquid securities with short-term maturities. The Company accounts for the \$28.5 million of its long-term investments under the cost and equity methods and due to the nature of these investments, mainly non-public and early stage companies, the Company believes calculating a fair value thereon not to be practicable. Thus, changes in market interest rates would not be expected to have an impact on these investments.

As of September 30, 2013, the Company had a carrying value of \$2,046.7 million in debt and \$25.0 million in capital leases with fixed interest rates, thus, the variability in market interest rates would not be expected to have a material impact on our scheduled interest payments.

As of September 30, 2013, the Company had zero outstanding short-term borrowings under its revolving credit facility. The interest rate on borrowings is determined using, at the Company's election, either: a) the higher of Bank of America's prime rate or the Federal Funds rate plus 50 basis points, plus a spread ranging from 0 to 100 basis points, depending on leverage; or b) the British Bankers' Association LIBOR, plus a spread ranging from 100 to 200 basis points, depending on leverage. Given the short-term nature of the rate that can be elected, variability in the rate is not expected to have a material impact on our short-term borrowings. Refer to Note 5 of the Consolidated Financial Statements, "Line of Credits", for more information on our short-term borrowings.

The Company will continuously assess the most appropriate method of financing the Company's short and long term operations. Refer to Note 10 of the Consolidated Financial Statements, "Fair Value of Financial Instruments", for more information on the Company's financial instruments.

### **ITEM 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures.** We are responsible for maintaining disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Disclosure controls and procedures are controls and other procedures designed to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's

## Edgar Filing: Life Technologies Corp - Form 10-Q

rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

## **Table of Contents**

Based on our management's evaluation (with the participation of our Chief Executive Officer and Chief Financial Officer) of our disclosure controls and procedures as required by Rule 13a-15 under the Securities Exchange Act, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to achieve their stated purpose as of September 30, 2013, the end of the period covered by this report.

## **PART II. OTHER INFORMATION**

### **ITEM 1. Legal Proceedings**

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

### **ITEM 1A. Risk Factors**

You should consider the risks and uncertainties described under Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, which we filed with the Securities and Exchange Commission on February 28, 2013 and Item 1A of Part II of our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2013, which we filed with the Securities and Exchange Commission on May 2, 2013, together with all other information contained or incorporated by reference in this Quarterly Report on Form 10-Q when evaluating our business and our prospects. There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 and our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2013. If any of the risks and uncertainties described in our Annual Report on Form 10-K, our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2013, or this Quarterly Report on Form 10-Q actually occurs, our business, financial condition, results of operations and our future growth prospects could be materially and adversely affected.

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

- a) None.
  
- b) None.
  
- c) None.

### **ITEM 3. Defaults Upon Senior Securities**

None.



**ITEM 4. Mine Safety Disclosures**

Not applicable.

**ITEM 5. Other Information**

None.

**ITEM 6. Exhibits**

Exhibits: For a list of exhibits filed with this report, refer to the Index to Exhibits, which is incorporated herein by reference.

**Table of Contents**

**SIGNATURES**

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

Date: November 5, 2013

**LIFE TECHNOLOGIES CORPORATION**

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

Chief Financial Officer

(Principal Financial Officer and

Authorized Signatory)

**Table of Contents**

**INDEX TO EXHIBITS**

**EXHIBIT**

**NUMBER**

**DESCRIPTION OF DOCUMENT**

|         |  |
|---------|--|
| 2.1     | Agreement and Plan of Merger, dated as of April 14, 2013, among Life Technologies Corporation, Thermo Fisher Scientific Inc. and Polpis Merger Sub Co. (1) |
| 3.1     | Amended and Restated Certificate of Incorporation of Life Technologies Corporation (2)   |
| 3.2     | Seventh Amended and Restated Bylaws of Life Technologies Corporation (3)   |
| 31.1    | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 31.2    | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 32.1    | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |
| 32.2    | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |
| 101.INS | XBRL Instance Document   |
| 101.SCH | XBRL Taxonomy Extension Schema   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase   |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase  |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase  |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase  |

- (1) Incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K, filed on April 16, 2013 (File No. 000-25317).
- (2) Incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K, filed on April 28, 2011 (File No. 000-25317).
- (3) Incorporated by reference to Exhibit 3.2 to Registrant's Current Report on Form 8-K, filed on April 28, 2011 (File No. 000-25317).