Life Technologies Corp
Form 10-Q
November 05, 2013
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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)

Delaware	**33-0373077**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
5791 Van Allen Way, Carlsbad, CA	**92008**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (760) 603-7200

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

LIFE TECHNOLOGIES CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands, except par value and share data)

	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
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
Total current assets	1,746,116	1,625,239
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
Total assets	$ 8,488,236	$ 8,638,065
LIABILITIES AND EQUITY		
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
Total current liabilities	801,304	1,192,351
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
Total liabilities	3,511,460	3,984,602

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)
Total Life Technologies stockholders equity	4,976,561	4,652,681
Non-controlling interest	215	782
Total equity	4,976,776	4,653,463
Total liabilities and equity	$ 8,488,236	$ 8,638,065

See accompanying notes for additional information.

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LIFE TECHNOLOGIES CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In thousands, except per share data)

(Unaudited)	For the three months ended September 30, 2013	2012	For the nine months ended September 30, 2013	2012
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.

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LIFE TECHNOLOGIES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the nine months ended September 30, 2013	2012
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
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
Net cash provided by operating activities	604,421	556,785
CASH FLOWS FROM INVESTING ACTIVITIES:		
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
Net cash used in investing activities	(113,399)	(140,442)
CASH FLOWS FROM FINANCING ACTIVITIES:		
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)

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.

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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 16th 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 16th 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

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.

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.

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

(in thousands, except per share data) (unaudited)	Net Income Attributable to Life Technologies (Numerator)	Shares (Denominator)	Earnings Per Share
Three Months Ended September 30, 2013			
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			
Three Months Ended September 30, 2012			
Basic earnings per share:			
Net income attributable to Life Technologies	$ 65,857	174,044	$ 0.38
Diluted earnings per share:			
Dilutive stock options and restricted stock units		3,202	
Employee Stock Purchase Plan		12	
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	

(in thousands, except per share data) (unaudited)	Net Income Attributable to Life Technologies (Numerator)	Shares (Denominator)	Earnings Per Share
Nine Months Ended September 30, 2013			
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	
Nine Months Ended September 30, 2012			
Basic earnings per share:			
Net income attributable to Life Technologies	$ 320,849	177,028	$ 1.81
Diluted earnings per share:			
Dilutive stock options and restricted stock units		3,510	

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

Share-Based Compensation

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

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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:

(unaudited)	**Nine months ended September 30, 2012**
Stock Options	
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
Purchase Rights	
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.

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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 September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 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 September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 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 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.

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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, 2013 (unaudited)	December 31, 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
Total inventories, net	$ 431,089	$ 403,488

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following:

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

Property and Equipment

Property and equipment consisted of the following:

(in thousands)	Estimated Useful Life (in years)	September 30, 2013 (unaudited)	December 31, 2012

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

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:

	September 30, 2013 (unaudited)			December 31, 2012		
(in thousands)	Weighted average Life	Gross carrying Amount	Accumulated Amortization	Weighted average Life	Gross carrying Amount	Accumulated Amortization
Amortized intangible assets:						
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)
Intangible assets not subject to amortization:						
Purchased tradenames and trademarks		$ 7,451			$ 7,451	
In-process research and development		62,400			62,400	

Amortization expense related to purchased intangible assets for the three months ended September 30, 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.

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Reconciliation of Equity

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

(in thousands) (unaudited)	Total	Common Stock	Additional Paid-in-Capital	Treasury Stock	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Non-Controlling Interests
Balance at December 31, 2012	$ 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, reclassed 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)
Balance at September 30, 2013	$ 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 Hedges	Pension Liabilities	Foreign Currency Translation Adjustments
Balance at December 31, 2012	$ 59,070	$ 1,594	$ (104,787)	$ 162,263
Current-period change	(54,881)	(275)	(9,505)	(45,101)
Balance at September 30, 2013	$ 4,189	$ 1,319	$ (114,292)	$ 117,162

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

	Three months ended September 30, 2013		
(in thousands) (unaudited)	**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
Other comprehensive income	$ 19,978	$ 54	$ 20,032

	Nine months ended September 30, 2013	
(in thousands) (unaudited)	**Before-Tax Amount**	**Tax Benefit**