

INVITROGEN CORP
Form 10-Q
November 08, 2005

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, 2005

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: 000-25317

INVITROGEN CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

33-0373077
(I.R.S. Employer Identification No.)

1600 Faraday Avenue, Carlsbad, CA
(Address of principal executive offices)

92008
(Zip Code)

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

Edgar Filing: INVITROGEN CORP - Form 10-Q

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 is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes or No .

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

As of October 25, 2005, there were 52,851,639 shares of the registrant's Common Stock, par value \$.01 per share, outstanding.

PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****INVITROGEN CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS***(in thousands, except par value and share data)*

	September 30, 2005	December 31, 2004
	<u> </u>	<u> </u>
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 600,145	\$ 198,396
Short-term investments	355,358	779,279
Restricted cash and investments	6,132	5,706
Trade accounts receivable, net of allowance for doubtful accounts of \$5,903 and \$5,242, respectively	185,071	165,754
Inventories	152,105	122,787
Deferred income tax assets	25,510	31,866
Prepaid expenses and other current assets	27,697	28,440
	<u> </u>	<u> </u>
Total current assets	1,352,018	1,332,228
Long-term investments	5,183	109,088
Property and equipment, net	266,486	222,193
Goodwill	1,741,752	1,424,671
Intangible assets, net	496,608	440,182
Deferred income tax assets	1,240	1,051
Other assets	86,777	84,922
	<u> </u>	<u> </u>
Total assets	<u>\$ 3,950,064</u>	<u>\$ 3,614,335</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 2,403	\$ 12,390
Accounts payable	73,972	64,261
Accrued expenses and other current liabilities	104,358	119,024
Income taxes	14,728	510
	<u> </u>	<u> </u>
Total current liabilities	195,461	196,185
Long-term debt	1,525,934	1,319,315
Pension liabilities	17,001	15,307
Deferred income tax liabilities	169,842	153,716
Other long-term liabilities	15,285	16,561
	<u> </u>	<u> </u>
Total liabilities	<u>1,923,523</u>	<u>1,701,084</u>
Commitments and contingencies (Note 8)		

Edgar Filing: INVITROGEN CORP - Form 10-Q

Stockholders' equity:

Preferred stock; \$0.01 par value, 6,405,884 shares authorized; no shares issued or outstanding		
Common stock; \$0.01 par value, 125,000,000 shares authorized; 58,155,723 and 56,274,648 shares issued, respectively	582	562
Additional paid-in-capital	2,147,669	2,029,222
Deferred compensation	(15,086)	(14,887)
Accumulated other comprehensive income	24,219	72,214
Retained earnings	90,178	4,331
Less cost of treasury stock; 5,331,562 and 4,831,562 shares, respectively	(221,021)	(178,191)
	<u> </u>	<u> </u>
Total stockholders' equity	2,026,541	1,913,251
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$ 3,950,064	\$ 3,614,335
	<u> </u>	<u> </u>

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

INVITROGEN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

	For the three months		For the nine months	
	ended September 30,		ended September 30,	
	2005	2004	2005	2004
	(unaudited)		(unaudited)	
Revenues	\$ 289,639	\$ 256,328	\$ 873,176	\$ 761,616
Cost of revenues	116,515	99,123	351,347	316,393
Gross profit	173,124	157,205	521,829	445,223
Operating expenses:				
Sales and marketing	52,644	45,614	157,418	134,329
General and administrative	31,142	27,596	93,145	80,825
Research and development	26,400	19,214	71,904	53,116
Purchased intangibles amortization	29,509	25,004	85,276	81,539
Purchased in-process research and development			13,886	728
Total operating expenses	139,695	117,428	421,629	350,537
Operating income	33,429	39,777	100,200	94,686
Other income (expense):				
Interest income	7,593	6,417	18,543	17,837
Interest expense	(9,129)	(7,401)	(24,163)	(24,602)
Gain (loss) on early retirement of debt			139	(6,775)
Other income (expense), net	1,553	(315)	27,396	(315)
Total other income (expense), net	17	(1,299)	21,915	(13,855)
Income before provision for income taxes	33,446	38,478	122,115	80,831
Income tax provision	(9,579)	(10,315)	(36,268)	(22,470)
Net income	\$ 23,867	\$ 28,163	\$ 85,847	\$ 58,361
Earnings per common share:				
Basic	\$ 0.45	\$ 0.54	\$ 1.65	\$ 1.13
Diluted	\$ 0.42	\$ 0.51	\$ 1.52	\$ 1.08
Weighted average shares used in per share calculation:				
Basic	52,622	51,748	52,051	51,876
Diluted	60,704	59,939	60,465	54,904

Edgar Filing: INVITROGEN CORP - Form 10-Q

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

INVITROGEN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For the nine months	
	ended September 30,	
	2005	2004
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 85,847	\$ 58,361
Adjustments to reconcile net income to net cash provided by operating activities, net of effects of businesses acquired:		
Depreciation	28,583	27,254
Amortization of intangible assets	88,323	84,007
Amortization of deferred debt issue costs	2,423	2,601
Amortization of premiums on investments, net of accretion of discounts	2,871	6,086
Amortization of deferred compensation	5,395	3,206
Deferred income taxes	(27,413)	(28,940)
In-process research and development	13,886	728
Other non-cash adjustments	20,356	9,607
Changes in operating assets and liabilities:		
Trade accounts receivable	(7,932)	(23,275)
Inventories	13,000	11,206
Prepaid expenses and other current assets	19,174	4,771
Other assets	(5,589)	(204)
Accounts payable	5,202	(13,020)
Accrued expenses and other liabilities	(34,888)	6,666
Income taxes	9,003	20,408
Net cash provided by operating activities	<u>218,241</u>	<u>169,462</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of available-for-sale securities	705,032	764,994
Purchases of available-for-sale securities	(186,357)	(877,401)
Net cash paid for acquired businesses	(500,180)	(491,380)
Purchases of property and equipment	(51,009)	(19,703)
Proceeds from sale of property and equipment		1,329
Payments for intangible assets	(7,198)	(1,599)
Net cash used in investing activities	<u>(39,712)</u>	<u>(623,760)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances from lines of credit	124,485	
Principal payments on lines of credit	(124,000)	
Proceeds from long-term obligations	350,608	440,738
Principal payments on long-term obligations	(153,283)	(180,326)

Edgar Filing: INVITROGEN CORP - Form 10-Q

Proceeds from sale of common stock	94,690	49,232
Purchase of treasury stock	(42,829)	(81,337)
	<u> </u>	<u> </u>
Net cash provided by financing activities	249,671	228,307
	<u> </u>	<u> </u>
Effect of exchange rate changes on cash	(26,451)	871
	<u> </u>	<u> </u>
Net increase (decrease) in cash and cash equivalents	401,749	(225,120)
Cash and cash equivalents, beginning of period	198,396	588,678
	<u> </u>	<u> </u>
Cash and cash equivalents, end of period	\$ 600,145	\$ 363,558
	<u> </u>	<u> </u>

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

INVITROGEN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Basis of Presentation

Financial Statement Preparation

The unaudited condensed consolidated financial statements have been prepared by Invitrogen 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 condensed or omitted.

In the opinion of management, the accompanying unaudited condensed 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 condensed 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, 2004, filed with the SEC on February 23, 2005.

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 and liabilities and 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 condensed consolidated financial statements include the accounts of Invitrogen Corporation and its majority owned or controlled subsidiaries collectively referred to as Invitrogen (the Company). All significant intercompany accounts and transactions have been eliminated.

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.

Computation of Earnings Per Share

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

Convertible subordinated notes and contingently convertible notes where the effect of those securities is dilutive;

Dilutive stock options; and

Unvested restricted stock

Edgar Filing: INVITROGEN CORP - Form 10-Q

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

	Income	Shares	Earnings
	(numerator)	(denominator)	per share
<i>(in thousands, except per share data)</i>			
Three months ended September 30, 2005			
Basic earnings per share:			
Net income	\$ 23,867	52,622	\$ 0.45
Diluted earnings per share:			
Dilutive stock options		1,727	
Unvested restricted stock		133	
2 1/4% Convertible Subordinated Notes due 2006	1,574	4,355	
2% Convertible Senior Notes due 2023	158	1,492	
1 1/2% Convertible Senior Notes due 2024	93	375	
Net income plus assumed conversions	\$ 25,692	60,704	\$ 0.42
Potentially dilutive securities not included above since they are antidilutive:			
Antidilutive stock options		78	
Three months ended September 30, 2004			
Basic earnings per share:			
Net income	\$ 28,163	51,748	\$ 0.54
Diluted earnings per share:			
Dilutive stock options		964	
Unvested restricted stock		175	
2 1/4% Convertible Subordinated Notes due 2006	2,094	5,807	
2% Convertible Senior Notes due 2023	189	868	
1 1/2% Convertible Senior Notes due 2024	92	377	
Net income plus assumed conversions	\$ 30,538	59,939	\$ 0.51
Potentially dilutive securities not included above since they are antidilutive:			
Antidilutive stock options		4,528	

Edgar Filing: INVITROGEN CORP - Form 10-Q

	Income	Shares	Earnings
	(numerator)	(denominator)	per share
<i>(in thousands, except per share data)</i>			
Nine months ended September 30, 2005			
Basic earnings per share:			
Net income	\$ 85,847	52,051	\$ 1.65
Diluted earnings per share:			
Dilutive stock options		1,596	
Unvested restricted stock		203	
2 1/4% Convertible Subordinated Notes due 2006	5,410	4,983	
2% Convertible Senior Notes due 2023	537	1,255	
1 1/2% Convertible Senior Notes due 2024	278	377	
Net income plus assumed conversions	\$ 92,072	60,465	\$ 1.52
Potentially dilutive securities not included above since they are antidilutive:			
Antidilutive stock options		494	
Nine months ended September 30, 2004			
Basic earnings per share:			
Net income	\$ 58,361	51,876	\$ 1.13
Diluted earnings per share:			
Dilutive stock options		1,549	
Unvested restricted stock		171	
2% Convertible Senior Notes due 2023	566	991	
1 1/2% Convertible Senior Notes due 2024	230	317	
Net income plus assumed conversions	\$ 59,157	54,904	\$ 1.08
Potentially dilutive securities not included above since they are antidilutive:			
Antidilutive stock options		2,158	
2 1/4% Convertible Subordinated Notes due 2006		5,807	
5 1/2% Convertible Subordinated Notes due 2007		556	

Accounting for Stock-Based Compensation

The Company accounts for its employee stock option plans and employee stock purchase plan under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and has adopted the disclosure only provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123). Accordingly, no compensation cost has been recognized for the fixed stock option plans or stock purchase plan under the fair value recognition provisions of SFAS 123. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation.

	For the three months ended September 30,		For the nine months ended September 30,	
	2005	2004	2005	2004
<i>(in thousands, except per share data)</i>				
Net income, as reported	\$ 23,867	\$ 28,163	\$ 85,847	\$ 58,361

Edgar Filing: INVITROGEN CORP - Form 10-Q

Add: Stock-based compensation expense included in reported net income, net of related tax effects	1,468	935	3,808	2,304
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(10,256)	(10,541)	(31,562)	(29,740)
Pro forma net income	\$ 15,079	\$ 18,557	\$ 58,093	\$ 30,925
Basic earnings per share:				
As reported	\$ 0.45	\$ 0.54	\$ 1.65	\$ 1.13
Pro forma	\$ 0.29	\$ 0.36	\$ 1.12	\$ 0.60

Edgar Filing: INVITROGEN CORP - Form 10-Q

	For the three months ended September 30,		For the nine months ended September 30,	
	2005	2004	2005	2004
<i>(in thousands, except per share data)</i>				
Net income used in calculation of diluted earnings per share ⁽¹⁾	\$ 24,117	\$ 28,444	\$ 86,662	\$ 58,927
Add: Stock-based compensation expense included in reported net income, net of related tax effects	1,468	935	3,808	2,304
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(10,256)	(10,541)	(31,562)	(29,740)
Pro forma net income	\$ 15,329	\$ 18,838	\$ 58,908	\$ 31,491
Diluted earnings per share ⁽¹⁾ :				
As reported	\$ 0.42	\$ 0.51	\$ 1.52	\$ 1.08
Pro forma	\$ 0.27	\$ 0.35	\$ 1.06	\$ 0.58

⁽¹⁾ For the three and nine months ended September 30, 2005, net income and diluted earnings per share, as reported, are adjusted due to the 2 1/4% Convertible Subordinated Notes due 2006 being considered dilutive for reporting purposes and antidilutive for pro forma reporting purposes.

Comprehensive Income (Loss)

The components of comprehensive income consist of the following:

	For the three months ended September 30,		For the nine months ended September 30,	
	2005	2004	2005	2004
<i>(in thousands)</i>				
Net income, as reported	\$ 23,867	\$ 28,163	\$ 85,847	\$ 58,361
Unrealized gain (loss) on investments, Net of related tax effects	289	1,955	(290)	(1,435)
Unrealized gain (loss) on hedging transactions, net of related tax effects	(1,215)	(1,145)	8,694	833
Minimum pension liability adjustment, net of related tax effects	1		5	
Foreign currency translation adjustment	(2,204)	1,010	(56,404)	888
Total comprehensive income	\$ 20,738	\$ 29,983	\$ 37,852	\$ 58,647

Recent Accounting Pronouncements

In March 2005, the SEC released Staff Accounting Bulletin (SAB) No. 107, Share-Based Payment (SAB 107). SAB 107 provides the SEC staff position regarding the application of SFAS No. 123R. SAB 107 contains interpretive guidance related to the interaction between SFAS

Edgar Filing: INVITROGEN CORP - Form 10-Q

No. 123R and certain SEC rules and regulations, as well as provides the Staff's views regarding the valuation of share-based payment arrangements for public companies. SAB 107 also highlights the importance of disclosures made related to the accounting for share-based payment transactions. The Company is currently reviewing the effect of SAB 107 on its condensed consolidated financial statements as it prepares to adopt SFAS 123R.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R), which is a revision of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123). SFAS 123R supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends Statement of Financial Accounting Standards No. 95, Statement of Cash Flows (SFAS 95). Generally, the approach in SFAS 123R is similar to the approach described in SFAS 123. However, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. SFAS 123R must be adopted no later than January 1, 2006. Early adoption will be permitted in periods in which financial statements have not yet been issued. The Company will adopt SFAS 123R on January 1, 2006.

As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using Opinion 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS 123R's fair value method will have a significant impact on our results of

operations, although it will have no impact on our overall financial position. Determining the exact impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future and the assumptions for the variables which impact the computation. However, had the Company adopted SFAS 123R in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share elsewhere in Note 1 of the Company's condensed consolidated financial statements. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce the Company's net operating cash flows and increase net financing cash flows in periods after adoption.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153, *Exchanges of Nonmonetary Assets—An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions* (SFAS 153). SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for the fiscal periods beginning after June 15, 2005 and is required to be adopted by the Company beginning January 1, 2006. The Company is currently evaluating the effect that adoption of SFAS 153 will have on its consolidated results of operations and financial condition but does not expect it to have a material impact.

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, *Inventory Costs*, an amendment of ARB No. 43, Chapter 4 (SFAS 151). This statement amends the guidance in ARB No. 43 Chapter 4, *Inventory Pricing*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) that may be incurred. This statement requires that these items be recognized as current-period charges and clarifies that fixed production overhead costs be allocated to inventory based on normal production capacity. The provisions of this statement will be effective for inventory costs during the fiscal years beginning January 1, 2006. The Company does not believe that the adoption of this statement will have a material impact on its financial condition or consolidated results of operations.

In December 2004, the FASB issued FASB Staff Position No. FAS 109-1, *Application of FASB Statement No. 109, Accounting for Income Taxes, for the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004* (FSP FAS 109-1). FSP FAS 109-1 clarifies that the deduction will be treated as a special deduction as described in Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. As such, the special deduction has no effect on deferred tax assets and liabilities existing at the date of enactment. The impact of the deduction will be reported in the period in which the deduction is claimed.

On October 22, 2004, the American Jobs Creation Act (AJCA) was signed into law. The AJCA includes a special one-time 85 percent dividends received deduction for certain foreign earnings that are repatriated. In December 2004, the FASB issued FASB Staff Position No. FAS 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004* (FSP FAS 109-2). FSP FAS 109-2 provides accounting and disclosure guidance for this repatriation provision. FSP FAS 109-2 requires the Company to disclose certain information regarding its evaluation of the AJCA repatriation provisions (see Note 10 of the Notes to Condensed Consolidated Financial Statements).

In May 2004, the FASB issued FASB Staff Position No. 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (FSP 106-2). FSP 106-2 provides guidance on the accounting for the effects of the Act for employers that sponsor postretirement health care plans that provide prescription drug benefits. This FSP also requires those employers to provide certain disclosures regarding the effect of the federal subsidy provided by the Act (the Subsidy). The guidance in FSP 106-2 related to the accounting for the Subsidy applies only to the sponsor of a single-employer defined benefit postretirement health care plan for which (a) the employer has concluded that prescription drug benefits available under the plan to some or all the participants for some or all future years are actuarially equivalent to Medicare Part D and thus qualify for the Subsidy under the Act and (b) the expected Subsidy will offset or reduce the employer's share of the cost of the underlying postretirement prescription drug coverage on which the Subsidy is based. This FSP also provides guidance for the disclosures about the effects of the Subsidy for an employer that sponsors a postretirement health care benefit plan that provides prescription drug coverage, but for which the employer has not yet been able to determine actuarial equivalency. This FSP is effective for the first interim period beginning after June 15, 2004. The Company is investigating the impact of FSP 106-2's initial recognition, measurement and

Edgar Filing: INVITROGEN CORP - Form 10-Q

disclosure provisions on its Dexter Postretirement Health and Benefit Program, but is currently unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D. As a result, measurement of the accumulated plan benefit

obligation and net periodic postretirement benefit cost does not reflect the effects of the Act on the Company's postretirement benefit plan. The Company does not expect FSP 106-2 to have a material impact on its consolidated financial statements.

2. Composition of Certain Financial Statement Items

Investments

Investments consist of the following:

	September 30,	December 31,
	2005	2004
<i>(in thousands)</i>		
Short-term		
Corporate obligations	\$ 153,417	\$ 221,492
U.S. Treasury and Agency obligations	185,793	212,657
Municipal obligations	3,354	27,179
Commercial paper	12,794	82,249
Auction rate securities		235,702
	<u> </u>	<u> </u>
Total short-term investments	\$ 355,358	\$ 779,279
	<u> </u>	<u> </u>
Long-term		
Corporate obligations	\$ 172	\$ 56,676
U.S. Treasury and Agency obligations	5,011	46,033
Municipal obligations		2,327
Equity securities		4,052
	<u> </u>	<u> </u>
Total long-term investments	\$ 5,183	\$ 109,088
	<u> </u>	<u> </u>
Total investments	\$ 360,541	\$ 888,367
	<u> </u>	<u> </u>

Inventories

Inventories consist of the following:

	September 30,	December 31,
	2005	2004
<i>(in thousands)</i>		
Raw materials and components	\$ 20,968	\$ 17,934
	<u> </u>	<u> </u>

Edgar Filing: INVITROGEN CORP - Form 10-Q

Work in process (materials, labor and overhead)	18,262	10,791
Adjustment to write up acquired work in process inventory to fair value	11,430	
	<u> </u>	<u> </u>
Total work in process	29,692	10,791
	<u> </u>	<u> </u>
Finished goods (materials, labor and overhead)	100,181	94,062
Adjustment to write up acquired finished goods inventory to fair value	1,264	
	<u> </u>	<u> </u>
Total finished goods	101,445	94,062
	<u> </u>	<u> </u>
	\$ 152,105	\$ 122,787
	<u> </u>	<u> </u>

Property and Equipment

Property and equipment consist of the following:

	Estimated	September 30,	December 31,
	Useful life		
	(in years)	2005	2004
<i>(in thousands)</i>			
Land		\$ 22,992	\$ 19,449
Building and improvements	1-50	155,935	134,912
Machinery and equipment	3-13	201,732	157,423
Construction in process		36,934	17,538
		<u>417,593</u>	<u>329,322</u>
Accumulated depreciation and amortization		(151,107)	(107,129)
		<u>\$ 266,486</u>	<u>\$ 222,193</u>

Goodwill and Other Intangible Assets

The \$317.1 million increase in goodwill on the consolidated balance sheets from December 31, 2004 to September 30, 2005, was the result of a \$331.7 million increase due to current year acquisitions, offset by \$5.3 million in adjustments for prior acquisitions and \$9.3 million in currency translation adjustments.

Intangible assets consist of the following:

	September 30, 2005			December 31, 2004		
	Weighted			Weighted		
	average	carrying	Accumulated	average	carrying	Accumulated
	life	amount	amortization	life	amount	amortization
<i>(in thousands)</i>						
Amortized intangible assets:						
Purchased technology	7 years	\$ 723,172	\$ (351,897)	7 years	\$ 634,200	\$ (282,098)
Purchased tradenames and trademarks	7 years	89,669	(43,188)	5 years	54,074	(33,796)
Purchased customer base	11 years	69,023	(25,149)	13 years	54,018	(12,749)
Other intellectual properties	4 years	40,050	(12,523)	7 years	34,980	(15,898)
		<u>\$ 921,914</u>	<u>\$ (432,757)</u>		<u>\$ 777,272</u>	<u>\$ (344,541)</u>

Edgar Filing: INVITROGEN CORP - Form 10-Q

Intangible assets not subject to amortization:

Purchased tradenames and trademarks	\$ 7,451	\$ 7,451
-------------------------------------	----------	----------

Amortization expense related to amortizable intangible assets for the three months ended September 30, 2005 and 2004 was \$30.6 million and \$26.0 million, respectively, and \$88.3 million and \$84.0 million for the nine months ended September 30, 2005 and 2004, respectively.

Estimated aggregate amortization expense is expected to be \$29.5 million for the remainder of 2005, and \$114.5 million, \$97.0 million, \$61.5 million and \$55.8 million for the years ending December 31, 2006, 2007, 2008 and 2009, respectively.

3. Other Income (Expense), Net

Other income (expense), net consists of the following:

	For the three months		For the nine months	
	ended September 30,		ended September 30,	
	2005	2004	2005	2004
<i>(in thousands)</i>				
Gain on forward contract	\$	\$	\$ 21,003	\$
Sale of equity investment			2,796	
Foreign currency gain on short-term intercompany loan			2,200	
Other	1,553	(315)	1,397	(315)
	<u>\$ 1,553</u>	<u>\$ (315)</u>	<u>\$ 27,396</u>	<u>\$ (315)</u>

4. Business Combinations

Dynal Acquisition

On April 1, 2005, the Company acquired all of the outstanding shares of common stock and stock options of Dynal Biotech Holding AS (Dynal). Based in Oslo, Norway, Dynal is the industry leader in magnetic bead technologies used in cell separation and purification, cell stimulation, protein research, nucleic acid research and microbiology. The primary reason for the acquisition was to leverage Dynal's technologies across the Company's broad product portfolio. This combination has applications in numerous areas of research, including stem cell and cell therapy applications, as well as in products that support molecular diagnostics, and other key areas of research. The Company has continued Dynal's operations as part of its BioDiscovery business segment.

The results of operations have been included in the accompanying condensed consolidated financial statements from the date of acquisition.

The total cost of the acquisition was as follows:

<i>(in thousands)</i>	
Cash paid for common stock	\$ 347,308
Cash paid to extinguish debt as a result of acquisition	53,057
Direct costs	2,194
	<hr/>
Total purchase price	\$ 402,559
	<hr/>

As of September 30, 2005, the purchase price allocation is shown below:

<i>(in thousands)</i>	
Fair value of net tangible assets acquired	\$ 20,002
Fair value of purchased in-process research and development costs acquired	12,800
Fair value of identifiable intangible assets acquired	104,100
Goodwill	265,657
	<hr/>
	\$ 402,559
	<hr/>

Purchased intangibles are being amortized over a weighted average life of 8 years. An established client list, a history of operating margins and profitability, a strong scientific employee base and operations in an attractive market niche were among the factors that contributed to a purchase price resulting in the recognition of goodwill. The Company believes none of the intangible assets and goodwill recognized will be deductible for federal income tax purposes.

As part of the integration of the business, the Company has established a preliminary reserve for the termination and relocation of certain employees to other sites. The Company is currently evaluating additional integration opportunities of the business. At September 30, 2005, the

Edgar Filing: INVITROGEN CORP - Form 10-Q

Company had \$1.3 million remaining in accrued expenses and other current liabilities in the Condensed Consolidated Balance Sheets related to this integration. For the nine months ended September 30, 2005, the Company paid \$0.3 million in cash related to severance charges that had been accrued for acquisition and business integration costs.

BioReliance Acquisition

On February 6, 2004, the Company acquired all of the outstanding shares of common stock and stock options of BioReliance Corporation (BioReliance). Based in Rockville, Maryland, BioReliance is a contract service organization, providing testing and manufacturing services for biotech and research companies that are involved in early preclinical product development through licensed production. The primary reason for the acquisition was to improve the Company's drug discovery offering, by helping to create a system for drug discovery, development and production. The Company has continued BioReliance's operations as part of its BioProduction business segment.

Edgar Filing: INVITROGEN CORP - Form 10-Q

The results of operations have been included in the accompanying condensed consolidated financial statements from the date of acquisition.

The total cost of the acquisition was as follows:

<i>(in thousands)</i>	
Cash paid for common stock	\$ 404,793
Cash paid for outstanding common stock options	28,505
Debt assumed as a result of acquisition	70,436
Direct costs	3,322
Total purchase price	\$ 507,056

The final purchase price allocation is shown below:

<i>(in thousands)</i>	
Fair value of net tangible assets acquired	\$ 122,958
Fair value of debt assumed	(70,436)
Fair value of identifiable intangible assets acquired	44,300
Goodwill	410,234
	\$ 507,056

Purchased intangibles are being amortized over a weighted average life of 4 years. An established client list, a history of operating margins and profitability, a strong scientific employee base and operations in an attractive market niche were among the factors that contributed to a purchase price resulting in the recognition of goodwill. The Company believes none of the intangible assets and goodwill recognized will be deductible for federal income tax purposes, although a portion of the purchase price will be deductible for certain state tax purposes.

As a result of the integration of the business and the Company's implementation of a decision made by the Board of Directors of BioReliance to close duplicate facilities in Worcester, Massachusetts, prior to the acquisition, the Company terminated 76 employees and relocated 8 employees to other sites. At September 30, 2005, the Company had \$0.5 million remaining in accrued expenses and other current liabilities in the Condensed Consolidated Balance Sheets related to this integration. Activity for accrued acquisition and business integration costs for the nine months ended September 30, 2005, is as follows:

	Balance at December 31, 2004	Adjustments to Goodwill	Amounts paid in cash	Balance at September 30, 2005
<i>(in thousands)</i>				
Stock options	\$ 102	\$	\$ (102)	\$
Severance charges	741	(268)	(473)	
Change-in-control agreements	350		(107)	243
Other costs to close facilities	250			250

Edgar Filing: INVITROGEN CORP - Form 10-Q

	<u>\$ 1,443</u>	<u>\$ (268)</u>	<u>\$ (682)</u>	<u>\$ 493</u>
--	-----------------	-----------------	-----------------	---------------

Pro Forma Information

The following unaudited pro forma information assumes that the April 2005 acquisition of Dynal and the February 2004 acquisition of BioReliance occurred at the beginning of the periods presented. The unaudited pro forma information excludes the Company's other acquisitions in 2005 and 2004, as the effects of those acquisitions were not material to the overall condensed consolidated financial statements. These unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would have actually resulted had the acquisitions been in effect as of the periods indicated above, or of future results of operations. The unaudited pro forma results for the three and nine months ended September 30, 2005 and 2004, were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2005	2004	2005	2004
<i>(in thousands, except per share data)</i>				
Revenues	\$ 289,639	\$ 277,632	\$ 895,068	\$ 832,420
Net income ⁽¹⁾	26,454	24,223	100,881	33,400
Earnings per share:				
Basic	\$ 0.50	\$ 0.47	\$ 1.94	\$ 0.64
Diluted	\$ 0.47	\$ 0.44	\$ 1.77	\$ 0.62

⁽¹⁾ Includes, on a pre-tax basis, nonrecurring charges of \$0.9 million and \$5.0 million for the three months ended September 30, 2005 and 2004, and \$3.0 million and \$36.6 million for the nine months ended September 30, 2005 and 2004, respectively, of increased cost of revenues for the estimated sale of inventory written up to fair market value under purchase accounting rules; and \$0 million for the three months ended September 30, 2005 and 2004, and \$1.3 million and \$13.3 million for the nine months ended September 30, 2005 and 2004, for the write-off of purchased in-process research and development costs.

Immaterial Acquisitions

During the nine months ended September 30, 2005, the Company completed four acquisitions that were not material to the overall condensed consolidated financial statements. The results of operations have been included in the accompanying condensed consolidated financial statements from the respective dates of the acquisitions.

The aggregate purchase price of the 2005 acquisitions was \$103.7 million, consisting of \$99.6 million in cash (including acquisition costs of \$1.0 million) and \$4.1 million in notes payable. The excess of purchase price over the acquired net tangible assets was \$87.5 million at September 30, 2005, of which \$38.1 million has been allocated to identifiable intangible assets amortized over a weighted average life of 8 years, \$61.2 million has been allocated to goodwill and \$1.3 million has been expensed as in-process research and development costs for the nine months ended September 30, 2005. The Company has recorded a deferred tax liability on the fair value of identifiable intangible assets of \$13.1 million.

5. Segment Information

The Company has two reportable segments: BioDiscovery and BioProduction.

Edgar Filing: INVITROGEN CORP - Form 10-Q

The BioDiscovery product segment includes functional genomics, cell biology and drug discovery product lines. Functional genomics encompasses products from the initial cloning and manipulation of DNA, to examining RNA levels and regulating gene expression in cells, to capturing, separating and analyzing proteins. These include the research tools used in reagent and kit form that simplify and improve gene acquisition, gene cloning, gene expression, and gene analysis techniques. This segment also includes a full range of enzymes, nucleic acids, other biochemicals and reagents. These biologics are manufactured to the highest research standards and are matched in a gene specific, validated manner (gene, orf, rna, protein, antibodies, etc.) to ensure researchers the highest purity and scientific relevance for their experimentation. The Company also offers software that enables more efficient, accelerated analysis and interpretation of genomic, proteomic and other biomolecular data for application in pharmaceutical, therapeutic and diagnostic development. The recent acquisitions of Zymed Laboratories, Inc. (Zymed), Caltag Laboratories (Caltag) and Dynal have introduced and will continue to enable the Company to offer new technology and products, such as antibodies and proteins (Zymed and Caltag) and magnetic beads used for biological separation (Dynal), which is the first step in almost every biologic investigative or diagnostic process. See Note 4 of the Notes to Condensed Consolidated Financial Statements.

The BioProduction product segment includes all of our cell culture products and biological testing services business. Products include sera, cell and tissue culture media, reagents used in both life sciences research and in processes to grow cells in the laboratory, and to produce pharmaceuticals and other materials made by cultured cells. BioProduction services include testing to ensure that biologics are free of disease-causing agents or do not cause adverse effects, characterization of products chemical structures, development of formulations for long-term stability, and validation of purification processes under regulatory guidelines. The Company also manufactures biologics on behalf of clients both for use in clinical trials and for the worldwide commercial market.

Edgar Filing: INVITROGEN CORP - Form 10-Q

The Company has no intersegment revenues that are material to the overall condensed consolidated financial statements. In addition, the Company does not currently segregate assets by segment as a majority of the Company's total assets are shared or considered non-segment assets. As a result, the Company has determined it is not useful to assign its shared assets to individual segments.

Edgar Filing: INVITROGEN CORP - Form 10-Q

Segment information is as follows:

	<u>BioDiscovery</u>	<u>BioProduction</u>	<u>Unallocated⁽¹⁾</u>	<u>Total</u>
<i>(dollars in thousands)</i>				
Three months ended September 30, 2005				
Revenues	\$ 181,985	\$ 107,654	\$	\$ 289,639
Gross profit	127,222	51,124	(5,222)	173,124
Gross margin	70%	47%		60%
Selling and administrative	59,454	24,259	73	83,786
Research and development	23,078	3,106	216	26,400
Purchased intangibles amortization and in-process research and development			29,509	29,509
Operating income (loss)	\$ 44,690	\$ 23,759	\$ (35,020)	\$ 33,429
Operating margin	25%	22%		12%
Three months ended September 30, 2004				
Revenues	\$ 146,742	\$ 109,586	\$	\$ 256,328
Gross profit	102,886	54,397	(78)	157,205
Gross margin	70%	50%		61%
Selling and administrative	49,299	23,833	78	73,210
Research and development	16,577	2,438	199	19,214
Purchased intangibles amortization and in-process research and development			25,004	25,004
Operating income (loss)	\$ 37,010	\$ 28,126	\$ (25,359)	\$ 39,777
Operating margin	25%	26%		16%
Nine months ended September 30, 2005				
Revenues	\$ 529,758	\$ 343,418	\$	\$ 873,176
Gross profit	374,467	164,530	(17,168)	521,829
Gross margin	71%	48%		60%
Selling and administrative	175,147	75,199	217	250,563
Research and development	62,519	8,738	647	71,904
Purchased intangibles amortization and in-process research and development			99,162	99,162
Operating income (loss)	\$ 136,801	\$ 80,593	\$ (117,194)	\$ 100,200
Operating margin	26%	23%		11%
Nine months ended September 30, 2004				
Revenues	\$ 442,415	\$ 319,201	\$	\$ 761,616

Edgar Filing: INVITROGEN CORP - Form 10-Q

Gross profit	310,803	152,253	(17,833)	445,223
Gross margin	70%	48%		58%
Selling and administrative	146,268	68,662	224	215,154
Research and development	45,539	6,934	643	53,116
Purchased intangibles amortization and in-process research and development			82,267	82,267
Operating income (loss)	\$ 118,996	\$ 76,657	\$ (100,967)	\$ 94,686
Operating margin	27%	24%		12%

- (1) Unallocated items for the three months ended September 30, 2005 and 2004, include costs for purchase accounting inventory revaluations of \$5.2 million and \$0 million, amortization of purchased intangibles of \$29.5 million and \$25.0 million and amortization of deferred compensation of \$0.4 million and \$0.4 million, respectively. Unallocated items for the nine months ended September 30, 2005 and 2004, include costs for purchase accounting inventory revaluations of \$17.0 million and \$17.6 million, amortization of purchased intangibles of \$85.3 million and \$81.5 million, in-process research and development of \$13.9 million and \$0.7 million and amortization of deferred compensation of \$1.1 million and \$1.1 million, respectively. These items are not allocated by management for purposes of analyzing the operations since they are principally non-cash or other costs resulting primarily from business restructuring or purchase accounting that are separate from ongoing operations.

6. Long-Term Debt

Long-term debt consists of the following:

	September 30,	December 31,
	2005	2004
<i>(in thousands)</i>		
3 1/4% Convertible Senior Notes (principal due 2025)	\$ 350,000	\$
1 1/2% Convertible Senior Notes (principal due 2024)	450,000	450,000
2% Convertible Senior Notes (principal due 2023)	350,000	350,000
2 1/4% Convertible Subordinated Notes (principal due 2006)	374,931	500,000
Note payable, due September 30, 2006, interest accruing at 4.8% per annum and pledged restricted cash		12,584
Loan payable, campus purchase, due and payable prior to December 31, 2005, imputed interest of 2%		11,081
Capital lease obligations	1,113	6,424
Other	2,293	1,616
	<u>1,528,337</u>	<u>1,331,705</u>
Less current portion	(2,403)	(12,390)
	<u>\$ 1,525,934</u>	<u>\$ 1,319,315</u>

During the nine months ended September 30, 2005, the Company assumed \$0.8 million in long-term obligations in conjunction with its acquisitions. The long-term obligations acquired consist of \$0.6 million classified as current portion, and \$0.2 million as long-term. In addition, during the nine months ended September 30, 2005, the Company sold its obligation under a build out and capital lease obligation to an unrelated third party. A total of \$5.2 million in long-term obligations was removed from the Company's Condensed Consolidated Balance Sheets.

On June 20, 2005, the Company sold 3 1/4% Convertible Senior Notes due 2025 (Notes) to certain qualified institutional investors at par value. Including the exercise of the over-allotment option, the total size of the offering was \$350 million. After expenses, the net proceeds to Company was \$343 million.

Interest is payable on the Notes semi-annually in arrears beginning December 15, 2005. In addition to the coupon interest of 3.25%, additional interest of 0.225% of the market value of the Notes may be required to be paid per six month period beginning June 15, 2011, if the market value of the Notes during a specified period is 120% or more of the Notes' principal value. The Notes may be redeemed, in whole or in part, at the Company's option on or after June 15, 2011, at 100% of the principal amount plus any accrued and unpaid interest. In addition, the holders of the Notes may require the Company to repurchase all or a portion of the Notes for 100% of the principal amount, plus any accrued and unpaid interest, on June 15, 2011, 2015, and 2020 or upon the occurrence of certain fundamental changes. Prepayment of amounts due under the Notes will be accelerated in the event of bankruptcy or insolvency, and may be accelerated by the trustee or holders of 25% of the Notes' principal value upon default of payment of principal or interest when due for over thirty days, the Company's default on its conversion or repurchase obligations, failure of the Company to comply with any of its other agreements in the Notes or indenture, or upon cross-default by the Company or a significant subsidiary for failure to make a payment at maturity or the acceleration of other debt of the Company or a significant subsidiary, in either case exceeding \$50 million.

Edgar Filing: INVITROGEN CORP - Form 10-Q

The terms of the Notes require the Company to settle the par value of such Notes in cash and deliver shares only for the differential between the stock price on the date of conversion and the base conversion price (initially approximately \$98.25 per share).

During the nine months ended September 30, 2005, the Company repurchased \$125 million of its 2 1/4% convertible subordinated notes due December 15, 2006, for less than par value. The Company recorded a gain of \$1.2 million on the repurchase and a loss of \$1.1 million related to the write-off of unamortized deferred financing costs during the nine months ended September 30, 2005.

7. Lines of Credit

As of September 30, 2005, the Company's U.S. operations along with several foreign subsidiaries had available bank lines of credit denominated in local currency to meet short-term working capital requirements. The credit facilities bear interest at fixed rates, the respective bank's prime rate, the London LIBOR rate and the Japan TIBOR rate (a weighted average rate of 2.19 % at September 30, 2005). The U.S. dollar equivalent of these credit facilities totaled \$12.2 million, of which \$1.4 million was outstanding at September 30, 2005. There are no parent company guarantees associated with these facilities.

On April 27, 2005, the Company entered into a secured line of credit that provides up to \$250 million in borrowings at LIBOR plus 0.15%. On April 28, 2005 the Company borrowed \$124 million to repurchase \$125 million of its 2 1/4% convertible subordinated notes due December 15, 2006, for less than par value. On June 20, 2005, the Company sold \$350 million of its 3 1/4% Convertible Senior Notes due 2025 (see Note 6) to certain qualified institutional investors at par value. A portion of the proceeds was used to pay down the secured line of credit. The secured credit facility was collateralized by investments and expired on September 30, 2005.

8. Commitments and Contingencies

Operating Leases

During the nine months ended September 30, 2005, the Company assumed several operating leases in conjunction with its acquisitions. The operating leases, which expire at various times through the year 2018, require the Company to make payments of \$0.9 million for the remainder of 2005, \$3.6 million for 2006, \$3.0 million for 2007, \$2.8 million for 2008, \$2.6 million for 2009, \$1.8 million for 2010, with \$7.5 million required for the remaining portion of the leases through 2018. Future minimum lease payments were reduced by \$2.9 million as of September 30, 2005, due to the sublease of property associated with the acquisition of Informax during December 2002.

Letters of Credit

The Company had outstanding letters of credit totaling \$9.4 million at September 30, 2005, of which \$4.8 million was to support liabilities associated with the Company's self-insured worker's compensation programs and \$4.6 million was to support its building lease requirements.

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, 2005, future employment contract commitments for such key executives were approximately \$4.7 million for the remainder of fiscal year 2005 and approximately \$2.0 million, \$2.5 million and \$0.2 million for fiscal years 2006, 2007 and 2008, respectively.

Contingent Acquisition Obligations

Pursuant to the purchase agreements for certain acquisitions, the Company could be required to make additional contingent cash payments based on the achievement of certain operating results of the companies. Payments aggregating a maximum of \$87.3 million and certain other payments based upon future gross sales could be required through the fourth quarter of fiscal year 2007. Additional payments totaling \$27.0 million could be required of the Company based upon the achievement of certain research and development milestones through the second quarter of fiscal year 2006. As of September 30, 2005, \$3.0 million of contingent payments have been earned and paid for research and development milestones. No contingent payments have been earned for operating results to date.

Environmental Liabilities

The Company assumed certain environmental exposures as a result of its merger with Dexter Corporation in 2000 and recorded reserves to cover estimated environmental clean-up costs. The environmental reserves, which are not discounted, were \$7.8 million at September 30, 2005, and included current reserves of \$0.8 million, which are estimated to be paid during the next twelve months, and long-term reserves of \$7.0 million. In addition, the Company has an insurance policy for these assumed environmental exposures. Based on 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 results of operations.

Intellectual Properties

The Company is involved in various claims and legal proceedings of a nature considered normal to its business, including protection of its owned and licensed intellectual property. The Company accrues for such contingencies when it is probable that a liability is incurred and the amount can be reasonably estimated. These accruals are adjusted periodically as assessments change or additional information becomes available. Specific royalty liabilities related to acquired businesses have also been recorded on the condensed consolidated financial statements at September 30, 2005.

Litigation

The Company is subject to potential liabilities under government regulations and various claims and legal actions that are pending or may be asserted. These matters have arisen in the ordinary course and conduct of the Company's business, as well as through acquisitions, and some are expected to be covered, at least partly, by insurance. Claim estimates that are probable and can be reasonably estimated are reflected as liabilities of the Company. The ultimate resolution of these matters is subject to many uncertainties. It is reasonably possible that some of the matters that are pending or may be asserted could be decided unfavorably to the Company. Although the amount of liability at September 30, 2005, with respect to these matters cannot be ascertained, the Company believes that any resulting liability should not materially affect its condensed consolidated financial statements.

9. Pension Plans and Postretirement Health and Benefit Program

The Company has several defined benefit pension plans covering its U.S. employees and employees in several foreign countries. The Company also administers the Dexter Postretirement Health and Benefit Program, which provides benefits to certain participants who are not employees of the Company but were employees of Dexter Corporation prior to the sale of its businesses and its merger with the Company. The acquisition of Dynal increased the Company's net periodic pension cost by \$0.4 million and \$0.7 million for the three and nine months ended September 30, 2005, respectively.

The components of net periodic pension cost for the Company's pension plans and postretirement health and benefit program for the three and nine months ended September 30, 2005 and 2004, were as follows:

	Domestic Plans			
	For the three months ended September 30,		For the nine months ended September 30,	
	2005	2004	2005	2004
<i>(in thousands)</i>				
Interest cost	\$ 828	\$ 983	\$ 2,482	\$ 2,605
Expected return on plan assets	(1,332)	(1,352)	(3,994)	(3,602)
Amortization of prior service cost	60	72	180	72
Amortization of actuarial loss	406	556	1,217	1,528
Net periodic pension cost (benefit)	\$ (38)	\$ 259	\$ (115)	\$ 603

	Foreign Plans			
	For the three months ended September 30,		For the nine months ended September 30,	
	2005	2004	2005	2004
<i>(in thousands)</i>				
Service cost	\$ 919	\$ 559	\$ 2,247	\$ 1,727
Interest cost	469	411	1,215	1,277
Expected return on plan assets	(432)	(427)	(1,154)	(1,329)
Amortization of actuarial loss	33	18	85	56
Net periodic pension cost	\$ 989	\$ 561	\$ 2,393	\$ 1,731

10. Income Taxes

Income taxes are determined using an estimated annual effective tax rate. The provision for income taxes is less than the 35% U.S. federal statutory rate primarily due to lower tax rates in certain non-U.S. jurisdictions, export incentives and research and development tax credits available in the United States. The Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities.

On October 22, 2004, the American Jobs Creation Act (AJCA) was enacted. The AJCA includes a one-time opportunity allowing US multinational corporations to repatriate foreign earnings at a reduced rate of tax. Subject to meeting certain conditions and restrictions, 85% of qualifying repatriated foreign earnings, as defined by the AJCA, can be excluded from US taxable income. The Company expects to repatriate approximately \$115 million of earnings prior to the end of the year. The repatriation pursuant to the AJCA will allow the company to reduce the previously recorded U.S. tax liability arising from the repatriation, resulting in a net tax benefit of approximately \$10 million to be recorded in the fourth quarter of 2005. In addition to the potential income tax benefit resulting from repatriation, the subsidiaries from which earnings are being repatriated will then be liquidated. As a result of the liquidation of these subsidiaries, the company will also record currency gains of approximately \$28 million.

11. Repurchase of Invitrogen Common Stock

In 2005, the Company's Board of Directors authorized the repurchase of up to 500,000 shares of common stock not to exceed \$50 million. During the nine months ended September 30, 2005, the Company repurchased 500,000 shares of common stock at a total cost of approximately \$42.8 million, which is reported as a reduction in stockholders' equity as treasury stock.

12. Subsequent Events

On October 6, 2005, the Company acquired all of the outstanding shares of common stock of Quantum Dot Corporation and publicly held broad-based life sciences company BioSource International (NASDAQ: BIOI) for approximately \$26 million and \$130 million, respectively, in cash. The results of operations will be included in the Company's future financial statements from the respective date of acquisition.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Unaudited Condensed 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.

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 are not historical facts and are forward-looking statements as that term is defined under the Federal Securities Laws. These statements are often, but not always, made through the use of words or phrases such as believe, anticipate, should, intend, plan, will, expects, estimates, projects, positioned, strategy, outlook, and similar words. You should read statements that types of words carefully. Such forward-looking statements are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what is expressed or implied in such forward-looking statements. There may be events in the future that we are not able to predict accurately or over which we have no control. Potential risks and uncertainties include, but are not limited to, those discussed below under Risk Factors That May Affect Future Results and elsewhere in this Quarterly Report as well as other risks and uncertainties detailed in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 23, 2005. We do not undertake any obligation to release publicly any revisions to such forward-looking statements to reflect events or uncertainties after the date hereof or to reflect the occurrence of unanticipated events.

Overview

Revenues for the nine months ended September 30, 2005 were \$873.2 million, with net income of \$85.8 million. On February 14, 2005, we acquired Zymed Laboratories Inc. (Zymed), a producer of pathology products, cancer and cell biology reagents and biomarkers, and general immunochemical reagents for the life sciences research and clinical diagnostics markets. On April 1, 2005, we acquired Dynal Biotech Holding AS (Dynal), based in Oslo, Norway. Dynal is the industry leader in magnetic bead technologies that are used in cell separation and purification, cell stimulation, protein research, nucleic acid research and microbiology. On May 23, 2005, we acquired Caltag Laboratories (Caltag), a privately held immunological assay manufacturer which develops, manufactures and markets antibodies and reagents to biotechnology and pharmaceutical companies, private and university hospitals and research laboratories. These acquisitions will enhance our ability to offer new technology and products in our BioDiscovery segment.

On October 6, 2005, the Company acquired all of the outstanding shares of common stock of publicly held broad-based life sciences company BioSource International (NASDAQ: BIOI) in an all cash transaction for approximately \$130 million. BioSource International develops, manufactures and markets products, new therapies and medical diagnostics for understanding disease. Its products include a wide collection of proteins, primary and secondary antibodies, reagents and assay development for immunology, signal transduction and multiplex screening.

Our Business and Operating Segments

We are a leading developer, manufacturer and marketer of research tools in reagent, kit and high throughput application forms to customers engaged in life sciences research, drug discovery, diagnostics and the commercial manufacture of biological products. Additionally we are a leading supplier of sera, cell and tissue culture media and reagents used in life sciences research, as well as in processes to grow cells in the laboratory and produce pharmaceuticals and other high valued proteins.

We conduct our business through two principal segments:

BioDiscovery. Our BioDiscovery product segment includes our functional genomics, cell biology and drug discovery product lines. Functional genomics encompasses products from the initial cloning and manipulation of DNA, to examining RNA levels and regulating gene expression in cells, to capturing, separating and analyzing proteins. These include the research tools used in reagent and kit form that simplify and improve gene acquisition, gene cloning, gene expression, and gene analysis techniques. This segment also includes a full range of enzymes, nucleic acids, other biochemicals and reagents. These biologics are manufactured to the highest research standards and are matched in a gene specific, validated manner (gene, orf, rna, protein,

antibodies, etc.) to ensure researchers the highest purity and scientific relevance for their experimentation. We also offer software through this segment that enables more efficient, accelerated analysis and interpretation of genomic, proteomic and other biomolecular data for application in pharmaceutical, therapeutic and diagnostic development. The acquisitions of Zymed, Caltag and Dynal will enhance our ability to offer new technology and products, such as antibodies and proteins (Zymed and Caltag) and magnetic beads used for biological separation (Dynal), which is the first step in almost every biologic investigative or diagnostic process.

BioProduction. Our BioProduction product segment includes all of our cell culture products and biological testing services business. Products include sera, cell and tissue culture media, reagents used in both life sciences research and in processes to grow cells in the laboratory, and to produce pharmaceuticals and other materials made through cultured cells. BioProduction services include testing to ensure that biologics are free of disease-causing agents or do not cause adverse effects, characterization of products' chemical structures, development of formulations for long-term stability, and validation of purification processes under regulatory guidelines. We also manufacture biologics on behalf of clients both for use in clinical trials and for the worldwide commercial market.

Our BioDiscovery and BioProduction products are used for research purposes, and their use by our customers generally is not regulated by the United States Food and Drug Administration (FDA) or by any comparable international organization, with several limited exceptions. Some of our BioProduction products and manufacturing sites, including some of our BioReliance subsidiary's sites, are subject to FDA regulation and oversight and are required to comply with the Quality System Regulations. Additionally, some of these same sites and products are intended to comply with certain voluntary quality programs such as ISO 9001.

Except for our oligonucleotide, genomics services, biologics testing, specialized manufacturing, and cell culture production businesses, which are make-to-order businesses, we principally manufacture products for inventory and ship products shortly after the receipt of orders, and anticipate that we will continue to do so in the future. We do not currently have a significant backlog and do not anticipate building a material backlog in the future. In addition, we rely on third-party manufacturers to supply many of our raw materials, product components, and in some cases, entire products.

Outlook

In 2005, we expect continued overall revenue growth of 16%, including an organic growth rate of approximately 6%. We believe gross margins will be affected by sales mix and volume, the addition of acquired businesses, competitive conditions, royalty payments on licensed technologies, the cost of raw materials, changes in average selling prices, our ability to make productivity improvements, and foreign currency rates. We expect to see continued productivity gains in our sales and marketing expenditures as we add product specialists to support our existing customer account managers, allowing us to increase the effectiveness of our direct selling organization as we expand our product portfolio. We are implementing programs and actions to improve our efficiency in the general and administrative area. These programs will focus in the areas of process improvement and automation. We expect over time that these actions will reduce our general and administrative expenses as a percent of revenues. We expect to continue to invest in research and development efforts as we expand our capabilities to accelerate innovation and ramp up research and development of recently acquired businesses. You should also refer to the Risk Factors section included in this Form 10-Q for further discussion of risks related to our business.

RESULTS OF OPERATIONS**Third Quarter of 2005 Compared to Third Quarter of 2004**

The following table compares revenues and gross margin by segment for the third quarter of 2005 and 2004:

	For the three months			
	ended September 30,			
<i>(in millions)(unaudited)</i>	2005	2004	Increase	% Increase
BioDiscovery revenues	\$ 182.0	\$ 146.7	\$ 35.3	24%
BioProduction revenues	107.6	109.6	(2.0)	(2%)
Total revenues	\$ 289.6	\$ 256.3	\$ 33.3	13%
BioDiscovery gross margin	70%	70%		
BioProduction gross margin	47%	50%		
Total gross margin	60%	61%		

Revenues

Revenues increased by \$33.3 million or 13% for the third quarter of 2005 compared to the third quarter of 2004. Acquisitions and foreign currency translation accounted for \$30.3 million or 12%. The remaining \$3.0 million or 1% of growth was mainly due to increased volume, partially offset by lower average selling prices.

Gross Margin

Gross margin in the third quarter of 2005 compared to the third quarter of 2004 decreased by one percentage point. Included in gross margin for the third quarter of 2005 was approximately \$5.2 million of costs associated with the write-up of acquired inventory to fair market value as a result of a business combination. In accordance with purchase accounting rules, this acquired inventory was written-up to fair market value and subsequently expensed as the inventory was sold. The impact of this inventory revaluation decreased our gross margin by two percentage points in the third quarter of 2005 compared to the third quarter of 2004. The remaining one percentage point increase was mainly due to productivity improvements and product mix, partially offset by lower average selling prices.

Operating Expenses

Edgar Filing: INVITROGEN CORP - Form 10-Q

The following table compares operating expenses by segment for the third quarter of 2005 and 2004:

	For the three months ended September 30,					
	2005		2004		\$ Increase (decrease)	% Increase (decrease)
	Operating expense	As a percentage of segment revenues	Operating expense	As a percentage of segment revenues		
<i>(in millions)(unaudited)</i>						
BioDiscovery segment:						
Sales and marketing	\$ 38.0	21%	\$ 31.7	22%	\$ 6.3	20%
General and administrative	21.5	12%	17.5	12%	4.0	23%
Research and development	23.1	13%	16.6	11%	6.5	39%
BioProduction segment:						
Sales and marketing	\$ 14.5	13%	\$ 13.8	13%	\$ 0.7	5%
General and administrative	9.7	9%	10.0	9%	(0.3)	(3%)
Research and development	3.1	3%	2.4	2%	0.7	29%
Unallocated:						
Sales and marketing	\$ 0.1		\$ 0.1		\$	
General and administrative			0.1		(0.1)	
Research and development	0.2		0.2			
Consolidated:						
Sales and marketing	\$ 52.6	18%	\$ 45.6	18%	\$ 7.0	15%
General and administrative	31.2	11%	27.6	11%	3.6	13%
Research and development	26.4	9%	19.2	8%	7.2	38%

Sales and Marketing. For the third quarter of 2005, sales and marketing expenses increased \$7.0 million or 15% compared to the third quarter of 2004. Acquisitions and foreign currency accounted for \$5.4 million and \$0.6 million, respectively, of incremental expenses in 2005. The remaining \$1.0 million increase was mainly due to \$3.0 million as a result of increased salaries and headcount, partially offset by \$0.9 million associated with the write-off of certain product management software in the prior year, \$0.7 million in decreased promotional and marketing activities and \$0.4 due to reduced incentive compensation. Overall, sales and marketing expenses as a percentage of revenues remained constant.

General and Administrative. For the third quarter of 2005, general and administrative expenses increased \$3.6 million or 13% compared to the third quarter of 2004. Acquisitions and foreign currency accounted for \$3.2 million and \$0.2 million, respectively, of incremental expenses in 2005. The remaining \$0.2 million increase was mainly due to \$2.7 million as a result of increased headcount, offset by \$2.5 million in reduced incentive compensation and other cost reductions as a result of the implementation of various cost improvement activities. Overall, general and administrative expenses as a percentage of revenues remained constant.

Research and Development. Research and development expenses for the third quarter of 2005 increased \$7.2 million or 38% compared to the third quarter of 2004. Acquisitions accounted for \$3.5 million in incremental research and development expenses in 2005. The remaining \$3.7 million increase was mainly due to increased headcount and other costs associated with the increased number of new product development projects undertaken in the third quarter of 2005 compared to the same period in 2004.

Purchased Intangibles Amortization. Amortization expense related to purchased intangible assets acquired in our business combinations was \$29.5 million for the third quarter of 2005 compared to \$25.0 million for the third quarter of 2004. The \$4.5 million increase is primarily due to intangible assets acquired through acquisitions, partially offset by certain intangible assets being fully amortized during 2004.

Interest Income. Interest income was \$7.6 million for the third quarter of 2005, compared to \$6.4 million for the third quarter of 2004. The \$1.2 million increase is mainly due to an increase in the average yield of our investments held during the quarter ended 2005 versus 2004. 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 acquisitions and other financing activities.

Interest Expense. Interest expense was \$9.1 million for the third quarter of 2005 compared to \$7.4 million for the third quarter of 2004. The \$1.7 million increase was mainly due to the issuance of our 3¹/₄% convertible notes in June 2005, slightly offset by the partial redemption of our 2¹/₄% convertible notes in April 2005.

Provision for Income Taxes. The effective tax rate as a percentage of pre-tax income was 28.6% for the third quarter of 2005 compared with 26.8% for the third quarter of 2004. The increase in the effective tax rate is mainly due to the proportion of income earned in jurisdictions having higher tax rates.

First Nine Months of 2005 Compared to First Nine Months of 2004

The following table compares revenues and gross margin by segment for the first nine months of 2005 and 2004:

For the nine months

Edgar Filing: INVITROGEN CORP - Form 10-Q

	ended September 30,		Increase	% Increase
	2005	2004		
<i>(in millions)(unaudited)</i>				
BioDiscovery revenues	\$ 529.8	\$ 442.4	\$ 87.4	20%
BioProduction revenues	343.4	319.2	24.2	8%
Total revenues	\$ 873.2	\$ 761.6	\$ 111.6	15%
BioDiscovery gross margin	71%	70%		
BioProduction gross margin	48%	48%		
Total gross margin	60%	58%		

Revenues

Revenues increased by \$111.6 million or 15% for the first nine months of 2005 compared to the first nine months of 2004. Acquisitions and foreign currency translation accounted for \$70.2 million or 9% and \$12.1 million or 2%, respectively. The remaining \$29.3 million or 4% of growth was mainly due to increased volume and royalty revenues, partially offset by lower average selling prices.

Gross Margin

Gross margin for the first nine months of 2005 compared to the first nine months of 2004 increased two percentage points. Included in gross margin for the first nine months of 2005 and 2004 was approximately \$17.0 million and \$17.6 million, respectively, of costs associated with the write-up of acquired inventory to fair market value as a result of business combinations. In accordance with purchase accounting rules, this acquired inventory was written-up to fair market value and subsequently expensed as the inventory was sold. The impact of these inventory revaluations increased our gross margin by one percentage point for the first nine months of 2005 compared to the first nine months of 2004. The remaining one percentage point increase was the result of productivity improvements, product mix, increased royalties and favorable currency exchange rates, partially offset by lower average selling prices.

Operating Expenses

The following table compares operating expenses by segment for the first nine months of 2005 and 2004:

	For the nine months ended September 30,					
	2005		2004		\$ Increase (decrease)	% Increase (decrease)
	Operating expense	As a percentage of segment revenues	Operating expense	As a percentage of segment revenues		
<i>(in millions)(unaudited)</i>						
BioDiscovery segment:						
Sales and marketing	\$ 111.3	21%	\$ 94.4	21%	\$ 16.9	18%
General and administrative	63.8	12%	51.8	12%	12.0	23%
Research and development	62.5	12%	45.6	10%	16.9	37%
BioProduction segment:						
Sales and marketing	\$ 45.9	13%	\$ 39.7	12%	\$ 6.2	16%
General and administrative	29.3	9%	28.9	9%	0.4	1%
Research and development	8.7	3%	6.9	2%	1.8	26%
Unallocated:						
Sales and marketing	\$ 0.2		\$ 0.2		\$	
General and administrative			0.1		(0.1)	
Research and development	0.7		0.6		0.1	
Consolidated:						
Sales and marketing	\$ 157.4	18%	\$ 134.3	18%	\$ 23.1	17%
General and administrative	93.1	11%	80.8	11%	12.3	15%

Edgar Filing: INVITROGEN CORP - Form 10-Q

Research and development	71.9	8%	53.1	7%	18.8	35%
--------------------------	------	----	------	----	------	-----

Sales and Marketing. For the first nine months of 2005, sales and marketing expenses increased \$23.1 million or 17% compared to the first nine months of 2004. Acquisitions and foreign currency accounted for \$12.4 million and \$2.8 million, respectively, of incremental expenses in 2005. The remaining \$7.9 million increase was mainly due to \$7.4 million as a result of increased salaries and headcount and \$1.7 million in increased promotional and marketing activities, partially offset by \$1.2 million of lower incentive compensation. Overall, sales and marketing expenses as a percentage of revenues remained constant.

General and Administrative. For the first nine months of 2005, general and administrative expenses increased \$12.3 million or 15% compared to the first nine months of 2004. Acquisitions and foreign currency accounted for \$8.3 million and \$1.2 million, respectively, of incremental expenses in 2005. The remaining \$2.8 million increase was mainly due to \$4.5 million as a result of increased headcount, partially offset by \$1.7 million of lower incentive compensation and other cost reductions as a result of the implementation of various cost improvement activities. Overall, general and administrative expenses as a percentage of revenues remained constant.

Research and Development. Research and development expenses for the first nine months of 2005 increased \$18.8 million or 35% compared to the first nine months of 2004. Acquisitions and foreign currency accounted for \$10.3 million and \$0.5 million, respectively, of incremental expenses in 2005. The remaining \$8.0 million increase was mainly due to increased headcount and other costs associated with the increased number of new product development projects undertaken during the first nine months of 2005 compared to the same period in 2004.

Purchased Intangibles Amortization. Amortization expense related to purchased intangible assets acquired in our business combinations was \$85.3 million for the first nine months of 2005 compared to \$81.5 million for the first nine months of 2004. The \$3.8 million increase is mainly due to intangible assets recently acquired through acquisitions, partially offset by certain intangible assets being fully amortized during 2004.

Purchased In-Process Research and Development. In conjunction with our acquisitions during the first nine months of 2005, we purchased in process research and development projects valued at \$13.9 million that was expensed upon the acquisition date.

Interest Income. Interest income was \$18.5 million for the first nine months of 2005, compared to \$17.8 million for the first nine months of 2004. The \$0.7 million increase is mainly due to an increase in the average yield of our investments held during the first nine months of 2005 versus 2004. 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 acquisitions and other financing activities.

Interest Expense. Interest expense was \$24.2 million for the first nine months of 2005 compared to \$24.6 million for the first nine months of 2004. The \$0.4 million decrease was mainly due to the redemption of our 5 1/2% convertible notes in March 2004 and the partial redemption of our 2 1/4% convertible notes in April 2005, partially offset by the issuance of our 3 1/4% convertible notes in June 2005.

Other Income (Expense). Other income for the nine months ended September 30, 2005 includes a \$21.0 million gain on the settlement of a forward contract related to the acquisition of Dynal. Also included in other income was a \$2.8 million gain on the sale of an equity investment. Net foreign currency transaction gains were \$0.1 million for the nine months ended September 30, 2005.

Provision for Income Taxes. The estimated annual effective tax rate as a percentage of pre-tax income was 29.7% for the first nine months of 2005 compared with 27.8% for the first nine months of 2004. The increase in the effective tax rate is mainly due to the proportion of income earned in jurisdictions having higher tax rates.

Segment Results for the Third Quarter of 2005 Compared to the Third Quarter of 2004

BioDiscovery Segment. BioDiscovery revenues for the third quarter of 2005 increased \$35.3 million or 24% compared to the third quarter of 2004. The increase mainly consisted of 3% volume growth, 1% favorable foreign currency and 20% impact from acquisitions. BioDiscovery gross margin for the third quarter of 2005 remained constant at 70% compared to the same period in 2004. Operating margin also remained constant at 25% for the third quarter of 2005 compared to the third quarter of 2004.

BioProduction Segment. BioProduction revenue for the third quarter of 2005 decreased \$2.0 million or 2% compared to the third quarter of 2004. The decrease was mainly due to lower sales in our biological testing services business. BioProduction gross margin for the third quarter of 2005 decreased three percentage points to 47% compared to the third quarter of 2004, mainly due to the lower sales in our biological testing services business. Operating margin decreased by four percentage points to 22% compared to the third quarter of 2004, mainly due to the

decrease in gross margin and an increase in sales and marketing and general and administrative expenses as a percentage of revenues.

Segment Results for the First Nine Months of 2005 Compared to the First Nine Months of 2004

BioDiscovery Segment. BioDiscovery revenues for the first nine months of 2005 increased \$87.4 million or 20% compared to the first nine months of 2004. The increase mainly consisted of 14% impact from acquisitions, 4% volume growth and 2% favorable foreign currency exchange rates. BioDiscovery gross margin for the first nine months of 2005 improved one percentage point to 71% compared to the same period in 2004, mainly due to improved productivity, higher royalty revenue and favorable currency rates, offset by lower average selling prices. Operating margin for the first nine months of 2005 was 26% or one percentage point lower than the first nine months of 2004 mainly due to an increase in research and development expenses as a percentage of revenues.

BioProduction Segment. BioProduction revenue for the first nine months of 2005 increased \$24.2 million or 8% over the first nine months of 2004. The increase was mainly due to volume growth, acquisitions and favorable changes in foreign currency exchange rates of 4%, 3% and 1%, respectively. BioProduction gross margin for the first nine months of 2005 remained constant at 48% compared to the first nine months of 2004. Operating margin decreased one percentage point to 23% for the first nine months of 2005 compared to the first nine months of 2004, mainly due to an increase in sales and marketing and research and development expenses as a percentage of revenues.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$600.1 million at September 30, 2005, an increase of \$401.7 million from December 31, 2004. Due to increases in short-term interest rates, the flattening of the yield curve on maturities up to two years and a belief that further short-term interest rate increases are likely in the near term, we have been reinvesting proceeds of maturing securities into investments having shorter terms, which has resulted in an increase to cash and cash equivalents of \$518.7 million, in addition to net loan proceeds of \$197.8 million (net of \$153.3 million payments on long-term obligations), cash provided by operations of \$218.2 million and proceeds from the issuance of common stock under our stock option and employee stock purchase plans of \$94.7 million. These increases were offset by \$500.2 million in cash paid to acquire businesses, \$51.0 million in capital expenditures, \$42.8 million to repurchase of common stock, payments for intangible assets of \$7.2 million and unfavorable exchange rates on cash held in currencies other than the United States dollar of \$26.5 million.

Excluding balances from acquired businesses on the date of acquisition, changes in operating assets and liabilities consisted of the following: Accounts receivable increased \$7.9 million during the first nine months of 2005 primarily due to the increase in sales. Inventories decreased by \$13.0 million primarily due to better inventory management. Net accounts payable and other current liabilities decreased \$29.7 million mainly due to timing of when payments were made. Changes in prepaid expenses and other current assets and income taxes payable were due to timing of payments versus when the expenses are incurred. As a result of working capital improvement programs currently being developed we expect to utilize our working capital more efficiently in the future resulting in higher inventory turnover and lower days sales outstanding. 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.

As of September 30, 2005, the Company's U.S. operations along with several foreign subsidiaries had available bank lines of credit denominated in local currency to meet short-term working capital requirements. The U.S. dollar equivalent of these facilities totaled \$12.2 million, of which \$1.4 million was outstanding at September 30, 2005.

On April 27, 2005, the Company entered into a secured line of credit that provides up to \$250 million in borrowings at LIBOR plus 0.15%. On April 28, 2005 the Company borrowed \$124 million to repurchase \$125 million of its 2 1/4% convertible subordinated notes due December 15, 2006, for less than par value. On June 20, 2005, the Company sold its 3 1/4% Convertible Senior Notes due 2025 (2025 Notes) (see Note 6) to certain qualified institutional investors at par value. Including the exercise of the over-allotment option, the total size of the offering of the Notes was \$350 million. After expenses, the net proceeds to Company was \$343 million. A portion of the proceeds was used to pay down the secured line of credit. The secured credit facility was collateralized by investments and expired on September 30, 2005.

We believe our current cash and cash equivalents, investments, cash provided by operations and interest income earned thereon will satisfy our working capital requirements for the foreseeable future. Our future capital requirements and the adequacy of our available funds will depend on many factors, including future business acquisitions, future stock or note repayment or 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.

Edgar Filing: INVITROGEN CORP - Form 10-Q

We intend to continue our strategic investment activities in new product development, in-licensing technologies and acquisitions that support our BioDiscovery and BioProduction platforms. In the event additional funding needs arise, we may obtain cash through new debt or stock issuance, or a combination of sources.

CONTRACTUAL OBLIGATIONS

During the nine months ended September 30, 2005 we assumed approximately \$26.8 million in operating lease obligations from several acquisitions. Our contractual obligations were reduced by approximately \$2.9 million during the nine months ended September 30, 2005, as a result of the sublease of our property in Bethesda, Maryland. We have no off-balance sheet arrangements as defined in S-K 303(a)(4)(ii).

CRITICAL ACCOUNTING POLICIES

There were no significant changes in critical accounting policies or estimates from those at December 31, 2004. For information on the recent accounting pronouncements impacting our business, see Note 1 of the Notes to Condensed Consolidated Financial Statements included in Item 1.

RISK FACTORS THAT MAY AFFECT FUTURE RESULTS

You should carefully consider the following risks, together with other matters described in this Form 10-Q or incorporated herein by reference in evaluating our business and prospects. If any of the following risks occurs, our business, financial condition or operating results could be harmed. In such case, the trading price of our securities could decline, in some cases significantly. The risks described below are not the only ones we face. Additional risks not presently known to us, or that we currently deem immaterial, may also impair our business operations. Certain statements in this Form 10-Q (including certain of the following factors) constitute forward-looking statements. Please refer to the section entitled "Forward-Looking Statements" on this Form 10-Q for important limitations on these forward-looking statements.

Risks Related to the Growth of Our Business

We must continually offer new products and technologies.

Our success depends in large part on continuous, timely development and introduction of new products that address evolving market requirements and are attractive to customers. For example, prepackaged kits to perform research in particular cell lines and already-isolated genetic material only recently have come into widespread use among researchers. We also believe that because of the initial time investment required by our customers to purchase a new product, once a customer purchases a product from a competitor, it is very difficult to regain that customer.

These facts have led us to focus significant efforts and resources on the development and identification of new technologies and products. As a result, we have a very broad product line and are continually looking to develop, license or acquire new technologies and products to further broaden it. If we fail to develop, license or otherwise acquire new technologies, our customers will likely purchase products from our competitors, significantly harming our business. Once we have developed or obtained the technology, to the extent that we fail to timely introduce new and innovative products that are accepted by our markets, we could fail to obtain an adequate return on our research and development, licensing and acquisition investments and could lose market share to our competitors, which would be difficult or impossible to regain and could seriously damage our business. Some of the factors affecting market acceptance of our products include:

availability, quality and price as compared to competitive products;

the functionality of new and existing products;

the timing of introduction of our products as compared to competitive products;

Edgar Filing: INVITROGEN CORP - Form 10-Q

scientists and customers' opinions of the product's utility and our ability to incorporate their feedback into future products;

citation of the products in published research; and

general trends in life sciences research and life science informatics software development.

Failure to integrate acquired businesses into our operations successfully could adversely affect our business.

As part of our strategy to develop and identify new products and technologies, we have made several acquisitions, and are likely to make more. Our integration of the operations of acquired businesses requires significant efforts, including the coordination of information technologies, research and development, sales and marketing, operations, manufacturing and finance. These efforts result in additional expenses and involve significant amounts of management's time that cannot then be dedicated to other projects. Our failure to manage successfully and coordinate the growth of the combined company could also have an adverse impact on our business. In addition, there is no guarantee that some of the businesses we acquire will become profitable or remain so. If our acquisitions

do not reach our initial expectations, we may record unexpected impairment charges. Factors that will affect the success of our acquisitions include:

presence or absence of adequate internal controls and/or significant fraud in the financial systems of acquired companies;

any decrease in customer loyalty and product orders caused by dissatisfaction with the combined companies' product lines and sales and marketing practices, including price increases;

our ability to retain key employees;

the ability of the combined company to achieve synergies among its constituent companies, such as increasing sales of the combined company's products, achieving cost savings and effectively combining technologies to develop new products.

Risks Related to Our Sales

We face significant competition.

The markets for our products are very competitive and price sensitive. Our competitors, which could include certain of our customers such as large pharmaceutical companies, have significant financial, operational, sales and marketing resources and experience in research and development. Our competitors could develop new technologies that compete with our products or even render our products obsolete. If a competitor develops superior technology or cost-effective alternatives to our kits and other products, our business could be seriously harmed.

The markets for certain of our products, such as electrophoresis products, custom primers, amplification products, and fetal bovine serum, are also subject to specific competitive risks. These markets are highly price competitive. Our competitors have competed in the past by lowering prices on certain products. If they did so again we may be forced to respond by lowering our prices. This would reduce revenues and profits. Conversely, failure to anticipate and respond to price competition may hurt our market share.

We believe that customers in our markets display a significant amount of loyalty to their initial supplier of a particular product. Therefore, it may be difficult to generate sales to potential customers who have purchased products from competitors. Additionally, instead of using kits, there are numerous scientists making materials themselves. To the extent we are unable to be the first to develop and supply new products, customers may buy from our competitors or make materials themselves, causing our competitive position to suffer.

There has been an increasing trend toward industry consolidation in our markets. We expect this trend toward industry consolidation to continue as companies attempt to strengthen or hold their market positions in an evolving industry and as companies are acquired or are unable to continue operations. We believe that industry consolidation may result in stronger competitors that are better able to compete as sole-source vendors for customers. For example, in March 2005, Sigma-Aldrich Corporation acquired the JRH Biosciences division of CSL Limited, a producer of sera, cell culture media used in the production of therapeutic proteins, reagent growth factors and biological material containers. Industry consolidation could lead to more variability in operating results and could have a material adverse effect on our business.

Reduction in research and development budgets and government funding may affect sales.

Our customers include researchers at pharmaceutical and biotechnology companies, academic institutions, government laboratories and private foundations. Fluctuations in the research and development budgets of these researchers and their organizations could have a significant effect on the demand for our products. Research and development budgets fluctuate due to changes in available resources, mergers of pharmaceutical and biotechnology companies, spending priorities, general economic conditions and institutional and governmental budgetary policies. Our business could be seriously damaged by any significant decrease in life sciences research and development expenditures by pharmaceutical and biotechnology companies, academic institutions, government laboratories or private foundations. In particular a significant portion of our sales have been to researchers whose funding is dependent upon grants from government agencies such as the U.S. National Institutes of Health (NIH). Although the level of research funding increased significantly during the years of 1999 through 2003, increases for fiscal 2004 and 2005 were significantly lower. Government funding of research and development is subject to the political process, which is inherently fluid and unpredictable. Other programs, such as homeland security or defense, or general efforts

to reduce the federal budget deficit could be viewed by the U.S. government as a higher priority. Past proposals to reduce budget deficits have included reduced NIH and other research and development allocations. Any shift away from the funding of life sciences research and development or delays surrounding the approval of government budget proposals may cause our customers to delay or forego purchases of our products, which could seriously damage our business.

In recent years, the pharmaceutical industry has undergone consolidation. Additional mergers or corporate consolidations in the pharmaceutical industry could cause us to lose customers, which could have a harmful effect on our business.

Our customers generally receive funds from approved grants at particular times of the year, for example; as determined by the U.S. federal government. In the past, such grants have been frozen for extended periods or have otherwise become unavailable to various institutions without advance notice. The timing of the receipt of grant funds affects the timing of purchase decisions by our customers and, as a result, can cause fluctuations in our sales and operating results.

Changing purchasing arrangements with our customers could reduce our profit margins.

Certain of our customers have developed purchasing initiatives to reduce the number of vendors from which they purchase in order to lower their supply costs. In some cases these accounts have established agreements with large distributors, which include discounts and the distributors direct involvement with the purchasing process. These activities may force us to supply the large distributors with our products at a discount to reach those customers. For similar reasons many larger customers, including the U.S. government, have requested and may in the future request, special pricing arrangements, including blanket purchase agreements. These agreements may limit our pricing flexibility, which could have an adverse impact on our business, financial condition and results of operations. Our pricing flexibility could particularly be affected with respect to our price-sensitive products, such as electrophoresis products, custom oligonucleotides (primers), amplification products, and fetal bovine serum. For a limited number of customers we have made sales, at the customer's request, through third-party Internet vendors, to whom we are required to pay commissions. If our Internet sales grow, it could have a negative impact on our gross margins.

Sales of biological and chemical defense materials subject us to certain risks.

We have launched a biodefense initiative, which depends upon the acceptance of our products by the U.S. government and its defense contractors.

We have developed products for use in detecting exposure to biological pathogens and have begun marketing those products to the U.S. government and several defense contractors. If our products do not perform well, or the U.S. government changes its priorities with respect to defense against biological and chemical weapons, our sales growth could be affected. In addition, some third parties could object to our development of biological defense products, which could have a negative impact on our company.

Risks Related to the Development and Manufacturing of Our Products

Failure to license new technologies could impair our new product development.

Edgar Filing: INVITROGEN CORP - Form 10-Q

We believe our ability to in-license new technologies from third parties is and will continue to be critical to our ability to offer new products and therefore our business. A significant portion of our current revenues is from products manufactured or sold under licenses from third parties. Our ability to gain access to technologies that we need for new products and services depends in part on our ability to convince inventors and their agents or assignees that we can successfully commercialize their inventions. We cannot assure you that we will be able to continue to identify new technologies of interest to our customers, which are developed by others. Even if we are able to identify new technologies of interest, we may not be able to negotiate a license on acceptable terms, or at all.

Loss of licensed rights could hurt our business.

A small number of our licenses do not run for the length of the underlying patent. We may not be able to renew our existing licenses on favorable terms, or at all. If we lose the rights to a patented technology, we may need to stop selling these products and possibly other products, redesign our products or lose a competitive advantage. While most of our licenses are exclusive to us in certain markets, potential competitors could also in-license technologies that we fail to exclusively license and potentially erode our market share for these and other products. Our licenses also

typically subject us to various economic and commercialization obligations. If we fail to comply with these obligations we could lose important rights under a license, such as exclusivity. In some cases, we could lose all rights under a license. Loss of such rights could, in some cases, harm our business.

In addition, certain rights granted under the license could be lost for reasons out of our control. For example, the licensor could lose patent protection for a number of reasons, including invalidity of the licensed patent, or a third party could obtain a patent that curtails our freedom to operate under one or more licenses. We do not receive indemnification from a licensor against third-party claims of intellectual property infringement.

Fluctuation in the price and supply of raw FBS could affect our business.

The supply of raw fetal bovine serum, or FBS, is sometimes limited because serum collection tends to be cyclical. In addition, any additional discovery of bovine spongiform encephalopathy, or BSE (popularly referred to as mad cow disease) in the U.S. may cause a decline in the demand for FBS supplied from the United States. These factors can cause the price of raw FBS to fluctuate. The profit margins we achieve on finished FBS, one of our major products, have been unstable in the past because of the fluctuations in the price of raw FBS, and any increase in the price could adversely affect those profit margins. In addition, if we are unable to obtain an adequate supply of FBS, or if we are unable to meet demand for FBS from supplies outside the U.S., we may lose market share.

Violation of government regulations or voluntary quality programs could result in loss of revenues and additional expense.

Certain of our products and test services are regulated by the U.S. Food and Drug Administration or the FDA, as medical devices, pharmaceuticals, or biologics. As a result we must register with the FDA as both a medical device manufacturer and a manufacturer of drug products and comply with all required regulations. Failure to comply with these regulations can lead to sanctions by the FDA such as written observations made following inspections, warning letters, product recalls, fines, product seizures and consent decrees. Test data for use in client submissions with the FDA could be disqualified. If the FDA were to take such actions, the FDA's sanctions would be available to the public. Such publicity could adversely affect our ability to sell these regulated products.

Additionally, some of our customers use our products and services in the manufacturing process for their drug and medical device products, and such end products are regulated by the FDA under Quality System Regulations, or QSR. Although the customer is ultimately responsible for QSR compliance for their products, it is also the customer's expectation that the materials sold to them will meet QSR requirements. We could lose sales and customers, and incur product liability claims, if our products do not meet QSR requirements.

ISO is an internationally recognized voluntary quality standard that requires compliance with a variety of quality requirements somewhat similar to the QSR requirements. The operations of our BioProduction segments and Eugene, Oregon facilities are intended to comply with ISO 9001. Failure to comply with this voluntary standard can lead to observations of non-compliance or even suspension of ISO certification by the certifying unit. If we lose ISO certification, this loss could cause some customers to purchase products from other suppliers.

If we violate a government mandated or voluntary quality program, we may incur additional expense to comply with the government mandated or voluntary standards. That expense may be material, and we may not have anticipated that expense in our financial forecasts. Our financial results could suffer as a result of these increased expenses.

Risks Related to Our Intellectual Property

Inability to protect our technologies could affect our ability to compete.

Our success depends to a significant degree upon our ability to develop proprietary products and technologies. When we develop such technologies, we routinely seek patent protection in the United States and abroad to the extent permitted by law. However, we cannot assure you that patents will be granted on any of our patent applications or that the scope of any of our issued patents will be sufficiently broad to offer meaningful protection. We only have patents issued in selected countries. Therefore, third parties can make, use, and sell products covered by our patents in any country in which we do not have patent protection. In addition, our issued patents or patents we license could be successfully challenged, invalidated or circumvented so that our patent rights would not create an effective competitive barrier. We provide our customers the right to use our products under label licenses that are for research purposes only. The validity of the restrictions contained in these licenses could be contested, and we cannot assure

you that we would either be aware of an unauthorized use or be able to enforce the restrictions in a cost-effective manner. Additionally, the value of our patents could be negatively impacted as a result of judicial decisions or legislative changes.

If a third party claimed an intellectual property right to technology we use, we might need to discontinue an important product or product line, alter our products and processes, defend our right to use such technology in court or pay license fees. Although we might under these circumstances attempt to obtain a license to such intellectual property, we may not be able to do so on favorable terms, or at all. Additionally, if our products are found to infringe on a third party's intellectual property, we may be required to pay damages for past infringement, and lose the ability to sell certain products or receive licensing revenues.

Disclosure of trade secrets could aid our competitors.

We attempt to protect our trade secrets by entering into confidentiality agreements with third parties and with our employees and consultants. However, these agreements can be breached and, if they are, there may not be an adequate remedy available to us. If our trade secrets become known we may lose our competitive position.

Intellectual property litigation and other litigation could harm our business.

Litigation regarding patents and other intellectual property rights is extensive in the biotechnology industry. We are aware that patents have been applied for and, in some cases, issued to others claiming technologies that are closely related to ours. We are currently a defendant in several court actions involving our intellectual property. As a result, and in part due to the ambiguities and evolving nature of intellectual property law, we periodically receive notices of potential infringement of patents held by others. We may not be able to resolve these types of claims successfully in the future.

We are currently enforcing our intellectual property rights through patent litigation in several court actions. We have incurred substantial costs, and are currently incurring substantial costs, in enforcing our intellectual property rights, primarily relating to H minus reverse transcriptase, which is the basis for our Superscript and related product lines, and we expect to incur such costs in the future for Superscript and other technologies. In the event of additional intellectual property disputes, we may be involved in further litigation. In addition to court actions, patent litigation could involve proceedings before the U.S. Patent and Trademark Office or the International Trade Commission. Intellectual property litigation can be extremely expensive, and such expense, as well as the consequences should we not prevail, could seriously harm our business. If we do not prevail in our pending patent litigation relating to H minus reverse transcriptase, we may be unable to prevent third parties from using this technology in the commercial marketplace. This could have a seriously harmful effect on our business.

Risks Related to Our Operations

Litigation may harm our business or otherwise distract our management.

Substantial, complex or extended litigation could cause us to incur large expenditures and distract our management. For example, lawsuits by employees, stockholders, collaborators, distributors, customers, or end-users of our products or services or in connection with our acquisitions could be very costly and substantially disrupt our business. Disputes from time to time with such companies or individuals are not uncommon, and we cannot assure you that we will always be able to resolve such disputes out of court or on terms favorable to us. Unexpected results could

cause our financial exposure in these matters to exceed stated reserves and insurance, requiring us to allocate additional funds and other resources to address these liabilities.

Loss of key personnel could hurt our business.

Our products and services are highly technical in nature. In general, only highly qualified and trained scientists have the necessary skills to develop and market our products and provide our services. In addition, some of our manufacturing positions are highly technical as well. We face intense competition for these professionals from our competitors, customers, marketing partners and other companies throughout our industry. We do not generally enter into employment agreements requiring these employees to continue in our employment for any period of time. Any failure on our part to hire, train, and retain a sufficient number of qualified professionals would seriously damage our business. Additionally, integration of acquired companies and businesses can be disruptive, causing key employees to leave. Further, we use stock options, restricted stock, and restricted stock units/awards to provide incentive to these individuals to stay with us and to build long-term stockholder value. If our stock price fluctuates below the exercise

price of these options or reduces the value of restricted stock and restricted stock units/awards, a key employee's incentive to stay is lessened. If we were to lose a sufficient number of our key employees, including research and development scientists, and were unable to replace them or satisfy our needs for research and development through outsourcing, these losses could seriously damage our business.

We have a significant amount of debt, which could adversely affect our financial condition.

We have \$375 million of subordinated convertible notes that are due in 2006, \$350 million of senior convertible notes that are due in 2023, \$450 million of senior convertible notes due in 2024, and \$350 million of senior convertible notes due in 2025. In addition, the holders of our \$350 million of senior convertible notes due in 2023 have the option to require us to redeem the notes for cash at par value in August of 2010, 2013 or 2018. The holders of our \$450 million senior convertible notes have the option to require us to redeem the notes for cash at par value in February of 2012, 2017 or 2022. The holders of the \$350 million senior convertible notes due in 2025 have the option to require us to redeem the notes for cash at par value in June of 2011, 2015 or 2020. If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments on these notes, we will be in default under the terms of the loan agreements or indentures, which could, in turn, cause defaults under the remainder of these existing and any future debt obligations.

Even if we are able to meet our debt service obligations, the amount of debt we have could adversely affect us in a number of ways, including by:

limiting our ability to obtain any necessary financing in the future for working capital, capital expenditures, debt service requirements, or other purposes;

limiting our flexibility in planning for, or reacting to, changes in our business;

placing us at a competitive disadvantage relative to our competitors who have lower levels of debt;

making us more vulnerable to a downturn in our business or the economy generally;

subjecting us to the risk of being forced to refinance these amounts when due at higher interest rates; and

requiring us to use a substantial portion of our cash to pay principal and interest on our debt, instead of contributing those funds to other purposes such as working capital and capital expenditures.

We could lose the tax deduction on certain of our notes under certain circumstances.

We could lose some or all of the tax deduction for interest expense associated with our Convertible Senior Notes due 2023, the Convertible Senior Notes due in 2024 and the Convertible Senior Notes due in 2025, under certain circumstances, the foregoing notes are not subject to the special Treasury Regulations governing contingent payment debt instruments or the exchange of these notes is deemed to be a taxable exchange. We also could lose the tax deduction for interest expense associated with the foregoing notes if we were to invest in non-taxable investments.

Risks Related to Our International Operations

International unrest or foreign currency fluctuations could adversely affect our results.

Including subsidiaries and distributors, our products are currently marketed in approximately 70 countries throughout the world. Our international revenues, which include revenues from our non-U.S. subsidiaries and export sales from the U.S., represented 49% of our product revenues in 2004, 48% of our product revenues in 2003, and 44% of our product revenues in 2002. We expect that international revenues will continue to account for a significant percentage of our revenues for the foreseeable future. There are a number of risks arising from our international business, including those related to:

foreign currency exchange rate fluctuations, potentially reducing the U.S. Dollars we receive for sales denominated in foreign currency;

the possibility that unfriendly nations or groups could boycott our products;

general economic and political conditions in the markets in which we operate;

potential increased costs associated with overlapping tax structures;

potential trade restrictions and exchange controls;

more limited protection for intellectual property rights in some countries;

difficulties and costs associated with staffing and managing foreign operations;

unexpected changes in regulatory requirements;

the difficulties of compliance with a wide variety of foreign laws and regulations;

longer accounts receivable cycles in certain foreign countries, whether cultural, due to exchange rate fluctuation or other factors;

import and export licensing requirements; and

changes to our distribution networks.

A significant portion of our business is conducted in currencies other than the U.S. dollar, which is our reporting currency. Our recent acquisition of Dynal Biotech Holding AS substantially increases the portion of our business that is conducted in Norwegian kroner and the associated currency translation risk. While we attempt to hedge cash flows in these currencies, this program relies in part on forecasts of these cash flows and the expected range of fluctuations. As a result, we cannot assure you this program will adequately protect our operating results from the full effects of exchange rate fluctuations. As a result, fluctuations between the currencies in which we do business have caused and will continue to cause foreign currency transaction gains and losses. We cannot predict the effects of currency exchange rate fluctuations upon our future operating results because of the number of currencies involved, the variability of currency exposures, and the volatility of currency exchange rates.

Risks Related to the Market for Our Securities

Our operating results and the market price of our stock and convertible notes could be volatile.

Our operating results and stock price have in the past been, and will continue to be, subject to quarterly fluctuations as a result of a number of factors, including those listed in this section of this Quarterly Report and those we have failed to foresee. Our stock price and the price of our convertible notes could also be affected by any inability to meet analysts' expectations, general fluctuations in the stock market or the stocks of companies in our industry or those of our customers. Such volatility has had a significant effect on the market prices of many companies' securities for reasons unrelated to their operating performance, and has in the past led to securities class action litigation. Securities litigation against us could result in substantial costs and a diversion of our management's attention and resources, which could have an adverse effect on our business.

Risks Related to Environmental Issues

We are subject to risks related to handling of hazardous materials and other regulations governing environmental safety.

Our operations are subject to complex and stringent environmental, health, safety and other governmental laws and regulations that both public officials and private individuals may seek to enforce. Our activities that are subject to these regulations include, among other things, our use of hazardous and radioactive materials and the generation, transportation and storage of waste. While we believe we are in material compliance with these laws and regulations, we could discover that we or an acquired business is not in material compliance. Existing laws and regulations may also be revised or reinterpreted, or new laws and regulations may become applicable to us, whether retroactively or prospectively, that may have a negative effect on our business and results of operations. It is also impossible to completely eliminate the risk of accidental environmental contamination or injury to individuals. In such an event, we could be liable for any damages that result, which could adversely affect our business. Additionally, although unlikely, a catastrophic incident could partially or completely shut down our research and manufacturing facilities and operations.

Furthermore, in acquiring Dexter, we assumed certain of Dexter's environmental liabilities, including clean-up of several hazardous waste sites listed on the National Priority List under federal Superfund law. Unexpected results related to the investigation and clean-up of these sites could cause our financial exposure in these matters to exceed stated reserves and insurance, requiring us to allocate additional funds and other resources to address our environmental liabilities, which could cause a material adverse effect on our business.

Potential product liability claims could affect our earnings and financial condition.

We face a potential risk of liability claims based on our products or services. We carry product liability insurance coverage, which is limited in scope and amount. We cannot assure you, however, that we will be able to maintain this insurance at a reasonable cost and on reasonable terms. We also cannot assure you that this insurance will be adequate to protect us against a product liability claim, should one arise.

Some of our services include the manufacture of biologic products to be tested in human clinical trials. We could be held liable for errors and omissions in connection with these services. In addition, we formulate, test and manufacture products intended for use by the public. These activities could expose us to risk of liability for personal injury or death to persons using such products, although we do not commercially market or sell the products to end users. We seek to reduce our potential liability through measures such as contractual indemnification provisions with clients (the scope of which may vary from client-to-client, and the performances of which are not secured), insurance maintained by clients and conducting certain of these businesses through subsidiaries. Notwithstanding, we could be materially and adversely affected if we were required to pay damages or incur defense costs in connection with a claim that is outside the scope of the indemnification agreements, if the indemnity, although applicable, is not performed in accordance with its terms or if our liability exceeds the amount of applicable insurance or indemnity. In addition, we could be held liable for errors and omissions in connection with the services we perform. We currently maintain product liability and errors and omissions insurance with respect to these risks. There can be no assurance that our insurance coverage will be adequate or that insurance coverage will continue to be available on terms acceptable to us.

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 Transactions. We have operations 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. Many of our 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 exchange rates because they may become worth more or less than they were worth at the time we entered into the transaction due to changes in currency exchange rates. Both realized and unrealized gains or losses on the value of these receivables and payables are included in the determination of net income. Realized and unrealized gains or losses on the value of financial contracts entered into to hedge the currency exchange rate exposure of these receivables and payables are also included in the determination of net income. Net currency exchange gains recognized on business transactions, net of hedging transactions, were \$23.3 million for the nine months ended September 30, 2005 and are included in other income and expense in the Condensed Consolidated Statements of Income. Transaction gains during the nine months ended September 30, 2005 include a \$21.0 million gain on a foreign currency forward contract to buy Norwegian kroner, executed in anticipation of the Dynal acquisition, and a \$2.2 million gain on a short-term intercompany loan.

Our currency exposures vary, but are primarily concentrated in the euro, British pound sterling, Norwegian kroner and Japanese yen. Historically, we have used foreign currency forward contracts to mitigate foreign currency risk on foreign currency receivables and payables. At September 30, 2005, we had \$7.8 million in foreign currency forward contracts outstanding to hedge currency risk on specific receivables and

Edgar Filing: INVITROGEN CORP - Form 10-Q

payables. These contracts, which all settle in October 2005, 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 losses or gains from changes in the value of the underlying receivables and payables.

As part of our foreign currency-hedging program, we hedge forecasted foreign currency cash flows. At September 30, 2005, the value of our executed forward contracts to hedge forecasted foreign currency cash flows

totaled \$28.7 million. The contracts mature on various dates through 2005. The contracts' increase or decrease in value prior to their maturity will be accounted for as cash flow hedges and recorded in other comprehensive income in the Condensed Consolidated Balance Sheets. To the extent any portion of the forward contracts is determined to not be an effective hedge, the increase or decrease in value prior to the maturity will be recorded in other income and expense in our statement of income.

Based on the cash flow hedge contracts outstanding as of September 30, 2005, a 10% decrease in the value of the dollar relative to the currencies under contract would result in an approximate \$2.8 million unrealized loss. Conversely, a 10% increase in the value of the dollar relative to the currencies under contract would result in a \$2.8 million unrealized gain. Consistent with the nature of the economic hedge provided by these foreign exchange contracts, such unrealized gains or losses would be offset by corresponding decreases or increases, respectively, in the dollar value of the future foreign currency cash flows.

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 and marketable securities is subject to change as a result of changes in market interest rates and investment risk related to the issuers' credit worthiness. We do not utilize financial contracts to manage our exposure in our investment portfolio to changes in interest rates. At September 30, 2005, we had \$966.8 million in cash, cash equivalents and marketable securities, all of which are stated at fair value. Changes in market interest rates would not be expected to have a material impact on the fair value of \$600.1 million of our cash and cash equivalents at September 30, 2005, as these consisted of securities with maturities of less than three months. A 100 basis point increase or decrease in interest rates would, however, decrease or increase, respectively, the remaining \$366.7 million of our investments by approximately \$2.0 million. While changes in interest rates may affect the fair value of our investment portfolio, any gains or losses will not be recognized in our statement of income until the investment is sold or if the reduction in fair value was determined to be a permanent impairment.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act in 1934, as amended (the Exchange Act)) that are designed to ensure that information required to be disclosed in the Company's reports filed under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report (the Evaluation Date), an evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the Evaluation Date. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer have concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of the Evaluation Date.

In addition, the Principal Executive Officer and Principal Financial Officer have concluded that there have been no changes to the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the last fiscal quarter, that has materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION**Item 1. Legal Proceedings**

We are engaged in various legal actions arising in the ordinary course of our business and believe that the ultimate outcome of these actions will not have a material adverse effect on our business or financial condition.

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

a) During the third quarter of 2005, we entered into several transactions to exchange previously-outstanding convertible senior notes with substantially similar rights in an equal principal amounts. No additional consideration was given or received. Specifically, on August 8, 2005, we issued \$14,000,000 of our 2.00% Convertible Senior Notes due 2023 in exchange for \$14,000,000 in principal amount of notes with substantially similar rights. On August 23, 2005, September 12, 2005 and September 14, 2005, we exchanged \$957,000, \$7,635,000 and \$23,000, respectively, of our 2.00% Convertible Senior Notes due 2023 for securities with substantially similar rights. On September 15, 2005, we entered into an exchange of \$1,000,000 principal amount of our 1.50% Convertible Senior Notes due 2024 for securities with substantially similar rights. Each of the exchanges was made with qualified institutional buyers who held the original securities, and was made pursuant to the exemption in section 3(a)(9) of the Securities Act of 1933. The exchange of securities was made exclusively with a small number of qualified institutional buyers that held the previously-issued notes, only notes of the same principal amounts were exchanged, and no commission or other remuneration paid or furnished for the solicitation of the exchange. The terms of the issued securities, including the conversion rights, are incorporated by reference to our Current Report on Form 8-K filed June 20, 2005.

b) None.

c)

Period	(a) Total Number of Shares (or Units) purchased	(b) Average Price Paid per Share	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 1 July 31				
August 1 August 31	500,000	\$ 85.63		
September 1 September 30				
Total	500,000	\$ 85.63		

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

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

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.

INVITROGEN CORPORATION

Date: November 7, 2005

By: /s/ David F. Hoffmeister
David F. Hoffmeister
Chief Financial Officer
(Principal Financial Officer and Authorized Signatory)

INDEX TO EXHIBITS

EXHIBIT

NUMBER	DESCRIPTION OF DOCUMENT
3.1	Restated Certificate of Incorporation of Invitrogen, as amended.(1)
3.2	Amended and Restated Bylaws of Invitrogen.(2)
3.3	Certificate of Correction to the Restated Certificate of Incorporation of Invitrogen, dated February 21, 2001.(3)
4.1	Specimen Common Stock Certificate.(4)
4.2	5 1/2% Convertible Subordinated Notes Due 2007, Registration Rights Agreement, by and among Invitrogen, and Donaldson, Lufkin & Jenrette Securities Corporation et al., as Initial Purchasers, dated March 1, 2000.(5)
4.3	Indenture, by and between Invitrogen and State Street Bank and Trust Company of California, N.A., dated March 1, 2000.(5)
4.4	2 1/4% Convertible Subordinated Notes due 2006, Registration Rights Agreement, by and among Invitrogen and Credit Suisse First Boston Corporation et al., as Initial Purchasers, dated December 11, 2001.(6)
4.5	Indenture, by and between Invitrogen and State Street Bank and Trust Company of California, N.A. and Table of Contents of Indenture, including Cross-Reference Table to the Trust Indenture Act of 1989, dated December 11, 2001.(6)
4.6	2% Convertible Senior Notes Due 2023, Registration Rights Agreement, by and among Invitrogen, and UBS Securities LLC and Credit Suisse First Boston LLC, as Initial Purchasers, dated August 1, 2003.(7)
4.7	Indenture, by and between Invitrogen and U.S. Bank National Association, dated August 1, 2003.(7)
4.8	1 1/2% Convertible Senior Notes Due 2024, Registration Rights Agreement, by and among Invitrogen, and UBS Securities LLC and Bear Stearns & Co Inc., as Initial Purchasers, dated February 19, 2004.(8)
4.9	Indenture, by and between Invitrogen and U.S. Bank National Association, dated February 19, 2004.(8)
4.10	Indenture, by and between Invitrogen and U.S. Bank National Association, dated as of December 14, 2004. (9)
4.11	Indenture, by and between Invitrogen and U.S. Bank National Association, dated as of December 14, 2004. (9)
4.12	3.25% Convertible Senior Notes Due 2025, Registration Rights Agreement, by and among Invitrogen, and UBS Securities LLC and Banc of America Securities LLC., as Initial Purchasers, dated June 20, 2005. (10)
4.13	3.25% Convertible Senior Notes Due 2025, Indenture, by and between Invitrogen and U.S. Bank National Association, dated June 20, 2005.(10)
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32.1	Certification of Chief Executive Officer
32.2	Certification of Chief Financial Officer

(1) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the Quarterly Period Ended September 30, 2000 (File No. 000-25317).

(2) The Amended and Restated Bylaws are incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-68665). A further amendment to the Bylaws adopted by a Resolution of the Board of Directors dated July 19, 2001 is incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the Quarterly Period Ended June 30, 2001 (File No. 000-25317).

Edgar Filing: INVITROGEN CORP - Form 10-Q

- (3) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2001 (File No. 000-25317).
- (4) Incorporated by reference to Registrant's Registration Statement on Form S-1 (File No. 333-68665).
- (5) Incorporated by reference to the Registrant's Registration Statement on Form S-3 (File No. 333-37964).
- (6) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the Year Ended December 31, 2001 (File No. 000-25317), as amended.

Edgar Filing: INVITROGEN CORP - Form 10-Q

- (7) Incorporated by reference to Registrant's Registration Statement on Form S-3 (File No. 333-110060).
- (8) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the Quarterly Period ended March 31, 2004 (File No. 000-25317).
- (9) Incorporated by reference to Registrant's Quarterly Report on Form 10-K for the year period ended December 31, 2004. (File No. 000-25317).
- (10) Incorporated by reference to Registrant's Current Report on Form 8-K, filed on June 24, 2005 (File No. 000-25317).