

CHARLES RIVER LABORATORIES INTERNATIONAL INC
Form 10-Q
April 29, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 27, 2010

OR

o **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 001-15943**

**CHARLES RIVER LABORATORIES
INTERNATIONAL, INC.**

(Exact Name of Registrant as specified in its Charter)

DELAWARE **06-1397316**
(State of Incorporation) (I.R.S. Employer Identification No.)
251 BALLARDVALE STREET, WILMINGTON, MASSACHUSETTS 01887

(Address of Principal Executive Offices) (Zip Code)

781-222-6000

(Registrant's Telephone Number, Including Area Code)

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 ý No o

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a
smaller reporting company)

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

As of April 15, 2010, there were 66,191,029 shares of the registrant's common stock outstanding.

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CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

FORM 10-Q

For the Quarterly Period Ended March 27, 2010

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Special Note on Factors Affecting Future Results

This Quarterly Report on Form 10-Q contains forward-looking statements regarding future events and the future results of Charles River Laboratories International, Inc. that are based on current expectations, estimates, forecasts, and projections about the industries in which Charles River operates and the beliefs and assumptions of our management. Words such as "expect," "anticipate," "target," "goal," "project," "intend," "plan," "believe," "seek," "estimate," "will," "likely," "may," "designed," "would," "future," "can," "could" and other similar expressions that are predictions of or indicate future events and trends or which do not relate to historical matters are intended to identify such forward-looking statements. These statements are based on current expectations and beliefs of Charles River and involve a number of risks, uncertainties, and assumptions that are difficult to predict. For example, we may use forward-looking statements when addressing topics such as: future demand for drug discovery and development products and services, including the outsourcing of these services; present spending trends and other cost reduction activities by our customers (particularly in light of the challenging economic environment); future actions by our management; the outcome of contingencies; changes in our business strategy; changes in our business practices and methods of generating revenue; the development and performance of our services and products; market and industry conditions, including competitive and pricing trends; changes in the composition or level of our revenues; our cost structure; the impact of acquisitions and dispositions; the timing of the opening of new and expanded facilities; our expectations with respect to sales growth and operating synergies (including the impact of specific actions intended to cause related improvements); the impact of specific actions intended to improve overall operating efficiencies and profitability (including without limitation our Sigma Six program, our ERP project, our sales force realignment, and the restructuring of our PCS segment); changes in our expectations regarding future stock option, restricted stock, and other equity grants to employees and directors; changes in our expectations regarding our stock repurchases; expectations with respect to foreign currency exchange; assessing (or changing our assessment of) our tax positions for financial statement purposes; and our cash flow and liquidity. In addition, these statements include the impact of economic and market conditions on our customers; the effects of our 2009 and 2010 cost-saving actions and other actions designed to manage expenses, operating costs and capital spending and to streamline efficiency (including the expected impact of the suspension of our PCS Massachusetts operations); the timing of our repatriation of accumulated income earned outside the United States and the ability of Charles River to withstand the current market conditions. Furthermore, statements are based on current expectations and beliefs of Charles River and WuXi PharmaTech (Cayman) Inc. (WuXi) with respect to the proposed acquisition of WuXi by Charles River, and involve a number of risks and uncertainties that could cause actual results to differ materially from those stated or implied by the forward-looking statements. Those risks and uncertainties include, but are not limited to: 1) the possibility that the companies may be unable to obtain stockholder or regulatory approvals required for the combination; 2) problems may arise in successfully integrating the businesses of the two companies; 3) the acquisition may involve unexpected costs; 4) the combined company may be unable to achieve cost synergies; 5) the businesses may suffer as a result of uncertainty surrounding the acquisition; and 6) the industry may be subject to future regulatory or legislative actions and other risks that are described in Securities and Exchange Commission (SEC) reports filed or furnished by Charles River. You should not rely on forward-looking statements because they are predictions and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document or in the case of statements incorporated by reference, on the date of the document incorporated by reference. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in this Form 10-K for the year ended December 26, 2009 under the section entitled "Our Strategy," the section entitled "Risks Related to Our Business and Industry," the section of this Quarterly Report on Form 10-Q entitled "Management's Discussion and Analysis of

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Financial Condition and Results of Operations" and in our press releases and other financial filings with the Securities and Exchange Commission. We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or risks. New information, future events or risks may cause the forward-looking events we discuss in this report not to occur.

Table of Contents**Part I. Financial Information****Item 1. Financial Statements****CHARLES RIVER LABORATORIES INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)****(dollars in thousands, except per share amounts)**

	Three Months Ended	
	March 27, 2010	March 28, 2009
Net sales related to products	\$ 121,051	\$ 116,910
Net sales related to services	176,294	184,616
Total net sales	297,345	301,526
Costs and expenses		
Cost of products sold	63,723	63,333
Cost of services provided	133,705	129,973
Selling, general and administrative	63,241	62,178
Amortization of intangibles	7,174	6,149
Operating income	29,502	39,893
Other income (expense)		
Interest income	397	629
Interest expense	(6,007)	(5,233)
Other, net	(411)	(262)
Income before income taxes	23,481	35,027
Provision for income taxes	6,481	10,158
Net income	17,000	24,869
Less: Net loss attributable to noncontrolling interests	(382)	(536)
Net income attributable to common shareowners	\$ 17,382	\$ 25,405
Earnings (loss) per common share		
Basic	\$ 0.27	\$ 0.39
Diluted	\$ 0.26	\$ 0.38

See Notes to Condensed Consolidated Interim Financial Statements

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CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(dollars in thousands, except per share amounts)

	March 27, 2010	December 26, 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 222,199	\$ 182,574
Trade receivables, net	219,676	196,947
Inventories	97,578	102,723
Other current assets	74,288	113,357
Total current assets	613,741	595,601
Property, plant and equipment, net	848,322	865,743
Goodwill, net	504,702	508,235
Other intangibles, net	151,830	160,292
Deferred tax asset	14,615	18,978
Other assets	53,661	55,244
Total assets	\$ 2,186,871	\$ 2,204,093
Liabilities and Equity		
Current liabilities		
Current portion of long-term debt and capital leases	\$ 36,343	\$ 35,413
Accounts payable	33,508	31,232
Accrued compensation	43,747	45,522
Deferred revenue	67,813	72,390
Accrued liabilities	49,034	49,997
Other current liabilities	16,773	15,219
Total current liabilities	247,218	249,773
Long-term debt and capital leases	437,911	457,419
Other long-term liabilities	118,054	123,077
Total liabilities	803,183	830,269
Commitments and contingencies		
Shareowners' equity		
Preferred stock, \$0.01 par value; 20,000,000 shares authorized; no shares issued and outstanding		
Common stock, \$0.01 par value; 120,000,000 shares authorized; 77,484,348 issued and 66,177,997 shares outstanding at March 27, 2010 and 77,106,847 issued and 65,877,218 shares outstanding at December 26, 2009	775	771
Capital in excess of par value	2,046,243	2,038,455
Accumulated deficit	(221,111)	(238,493)
	(473,422)	(470,527)

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Treasury stock, at cost, 11,306,351 shares and 11,229,629 shares at March 27, 2010 and December 26, 2009, respectively

Accumulated other comprehensive income	33,276	45,037
Total shareowners' equity	1,385,761	1,375,243
Noncontrolling interests	(2,073)	(1,419)
Total equity	1,383,688	1,373,824
Total liabilities and equity	\$ 2,186,871	\$ 2,204,093

See Notes to Condensed Consolidated Interim Financial Statements

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CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(dollars in thousands)

	Three Months Ended	
	March 27, 2010	March 28, 2009
Cash flows relating to operating activities		
Net income	\$ 17,000	\$ 24,869
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	24,262	21,970
Non-cash compensation	6,904	5,669
Deferred tax	1,290	8,118
Other, net	5,030	4,328
Changes in assets and liabilities:		
Trade receivables	(27,227)	(5,613)
Inventories	3,765	(2,397)
Other assets	(4,386)	(3,278)
Accounts payable	4,703	(2,898)
Accrued compensation	(749)	(12,404)
Deferred revenue	(4,577)	(3,006)
Accrued liabilities	1,163	(2,098)
Other liabilities	1,281	3,855
Net cash provided by operating activities	28,459	37,115
Cash flows relating to investing activities		
Capital expenditures	(9,293)	(24,625)
Purchases of investments	(6,725)	(37,749)
Proceeds from sale of investments	50,151	
Other, net	1,915	69
Net cash provided by (used in) investing activities	36,048	(62,305)
Cash flows relating to financing activities		
Proceeds from long-term debt and revolving credit	1,025	
Payments on long-term debt, capital lease obligation and revolving credit agreement	(22,682)	(8,665)
Purchase of treasury stock	(2,895)	(29,571)
Other	1,314	7
Net cash used in financing activities	(23,238)	(38,229)
Effect of exchange rate changes on cash and cash equivalents	(1,644)	(9,940)
Net change in cash and cash equivalents	39,625	(73,359)
Cash and cash equivalents, beginning of period	182,574	243,592
Cash and cash equivalents, end of period	\$ 222,199	\$ 170,233

Supplemental cash flow information

Capitalized interest	\$	\$	824
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See Notes to Condensed Consolidated Interim Financial Statements

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CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(dollars in thousands)

	Total	Accumulated Deficit	Accumulated Other Comprehensive Income	Common Stock	Capital in Excess of Par	Treasury Stock	Noncontrolling Interest
Balance at December 26 2009	\$ 1,373,824	\$ (238,493)	\$ 45,037	\$ 771	\$ 2,038,455	\$ (470,527)	\$ (1,419)
Components of comprehensive income, net of tax:							
Net income	17,000	17,382					(382)
Foreign currency translation adjustment	(11,849)		(11,847)				(2)
Amortization of pension, net gain/loss and prior service cost	51		51				
Unrealized loss on marketable securities	35		35				
Total comprehensive income	\$ 5,237						\$ (384)
Dividends paid noncontrolling interest	(270)						(270)
Tax detriment associated with stock issued under employee compensation plans	(264)				(264)		
Issuance of stock under employee compensation plans	1,152			4	1,148		
Acquisition of treasury shares	(2,895)					(2,895)	
Stock-based compensation	6,904				6,904		
Balance at March 27, 2010	\$ 1,383,688	\$ (221,111)	\$ 33,276	\$ 775	\$ 2,046,243	\$ (473,422)	\$ (2,073)

See Notes to Condensed Consolidated Interim Financial Statements

Table of Contents**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.****NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****(dollars in thousands, except per share amounts)****1. Basis of Presentation**

The condensed consolidated interim financial statements are unaudited, and certain information and footnote disclosures related thereto normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been omitted in accordance with Rule 10-01 of Regulation S-X. In the opinion of management, the accompanying unaudited condensed consolidated financial statements were prepared following the same policies and procedures used in the preparation of the audited financial statements and reflect all adjustments (consisting of normal recurring adjustments) considered necessary to state fairly the financial position and results of operations of Charles River Laboratories International, Inc. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year. These condensed consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 26, 2009.

2. Restructuring and Contract Termination Costs

We implemented headcount reductions to improve operating efficiency and profitability at various sites including Arkansas during 2009 and Shrewsbury, Massachusetts in the first quarter of 2010. As of March 27, 2010, \$3,693 was included in accrued compensation and \$1,451 in other long-term liabilities on our consolidated balance sheet related to these actions.

During the first quarter of 2010, we recorded severance charges of \$2,672 related to the suspension of operations at our Preclinical Services facility in Shrewsbury, Massachusetts of which \$2,464 is included in cost of sales and \$208 in selling, general and administrative expense. At this time we do not anticipate an asset impairment on the Shrewsbury facility. Additionally, we recorded an impairment related to our Arkansas facility by \$986 in the quarter ending March 27, 2010.

Severance and Retention Costs	Quarter Ended	
	March 27, 2010	March 28, 2009
Beginning balance	\$ 4,496	\$ 639
Expense	2,672	7,133
Payments/utilization	(2,023)	(1,892)
Ending balance	\$ 5,145	\$ 5,880

3. Supplemental Balance Sheet Information

The composition of trade receivables is as follows:

	March 27, 2010	December 26, 2009
Customer receivables	\$ 187,117	\$ 169,354
Unbilled revenue	37,956	32,595
Total	225,073	201,949
Less allowance for doubtful accounts	(5,397)	(5,002)
Net trade receivables	\$ 219,676	\$ 196,947

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CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

(dollars in thousands, except per share amounts)

3. Supplemental Balance Sheet Information (Continued)

The composition of inventories is as follows:

	March 27, 2010		December 26, 2009
Raw materials and supplies	\$ 14,479	\$	15,262
Work in process	17,543		17,178
Finished products	65,556		70,283
Inventories	\$ 97,578	\$	102,723

The composition of other current assets is as follows:

	March 27, 2010		December 26, 2009
Prepaid assets	\$ 25,639	\$	21,182
Deferred tax asset	23,781		21,654
Marketable securities	11,526		56,436
Prepaid income tax	12,890		13,846
Restricted cash	452		239
Other current assets	\$ 74,288	\$	113,357

The composition of net property, plant and equipment is as follows:

	March 27, 2010		December 26, 2009
Land	\$ 39,468	\$	39,402
Buildings	749,024		755,607
Machinery and equipment	312,816		319,912
Leasehold improvements	39,324		38,853
Furniture and fixtures	11,443		11,455
Vehicles	5,492		5,595
Computer hardware and software	103,464		53,654
Construction in progress	41,920		86,272
Total	1,302,951		1,310,750
Less accumulated depreciation	(454,629)		(445,007)
Net property, plant and equipment	\$ 848,322	\$	865,743

Depreciation is calculated using a straight-line method based on estimated useful lives of the assets. Computer hardware and software is depreciated over 3 - 8 years. Depreciation expense for the three months ended March 27, 2010 and March 28, 2009 was \$17,088 and \$15,821, respectively.

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CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

(dollars in thousands, except per share amounts)

3. Supplemental Balance Sheet Information (Continued)

The composition of other assets is as follows:

	March 27, 2010	December 26, 2009
Deferred financing costs	\$ 3,401	\$ 3,679
Cash surrender value of life insurance policies	25,757	25,099
Long-term marketable securities	16,046	16,212
Other assets	8,457	10,254
Other assets	\$ 53,661	\$ 55,244

The composition of other current liabilities is as follows:

	March 27, 2010	December 26, 2009
Accrued income taxes	\$ 13,298	\$ 13,623
Current deferred tax liability	1,093	1,174
Accrued interest and other	2,382	422
Other current liabilities	\$ 16,773	\$ 15,219

The composition of other long-term liabilities is as follows:

	March 27, 2010	December 26, 2009
Deferred tax liability	\$ 40,267	\$ 42,867
Long-term pension liability	30,631	32,516
Accrued Executive Supplemental Life Insurance Retirement Plan and Deferred Compensation Plan	23,177	22,889
Other long-term liabilities	23,979	24,805
Other long-term liabilities	\$ 118,054	\$ 123,077

4. Marketable Securities

The amortized cost, gross unrealized gains, gross unrealized losses and fair value for marketable securities by major security type were as follows:

	March 27, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Time deposits	\$ 11,526	\$	\$	\$ 11,526
Auction rate securities	\$ 17,460	\$	\$ (1,414)	\$ 16,046
	\$ 28,986	\$	\$ (1,414)	\$ 27,572

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CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

(dollars in thousands, except per share amounts)

4. Marketable Securities (Continued)

	December 26, 2009			
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
Time deposits	\$ 9,022	\$	\$	\$ 9,022
Mutual fund	\$ 47,615	\$	\$ (201)	\$ 47,414
Auction rate securities	\$ 17,460	\$	\$ (1,248)	\$ 16,212
	\$ 74,097	\$	\$ (1,449)	\$ 72,648

As of March 27, 2010, we held \$16,046 in auction rate securities which are variable rate debt instruments, which bear interest rates that reset approximately every 7 or 35 days. The auction rate securities owned were rated AAA by a major credit rating agency and are either commercially insured or guaranteed by the Federal Family Education Loan Program (FFELP). The underlying securities have contractual maturities which are generally greater than ten years. The auction rate securities are classified as available for sale and are recorded at fair value. Typically, the carrying value of auction rate securities approximates fair value due to the frequent resetting of the interest rates. We have classified these investments as long-term consistent with the term of the underlying security which are structured with short term interest rate reset dates of generally 7 or 35 days, but with contractual maturities that are long-term.

Maturities of debt securities were as follows:

	March 27, 2010		December 26, 2009	
	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value
Due less than one year	\$ 11,526	\$ 11,526	\$ 9,022	\$ 9,022
Due after one year through five years				
Due after ten years	17,460	16,046	17,460	16,212
	\$ 28,986	\$ 27,572	\$ 26,482	\$ 25,234

5. Fair Value

We hold cash equivalents, investments and certain other assets that are carried at fair value. We generally determine fair value using a market approach based on quoted prices of identical instruments when available. When market quotes of identical instruments are not readily accessible or available, we determine fair value based on quoted market prices of similar instruments.

The valuation hierarchy for disclosure of the inputs used to measure fair value prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, including interest rates, yield curves and credit risks, or inputs that are derived principally from or corroborated by observable market data through correlation. Level 3 inputs are unobservable inputs based on our own assumptions

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CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

(dollars in thousands, except per share amounts)

5. Fair Value (Continued)

used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at March 27, 2010 using				Assets at Fair Value
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Observable Inputs Level 2	Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
Time deposits	\$	\$	11,526	\$	\$ 11,526
Auction rate securities				16,046	16,046
Fair value of life policies			20,604		20,604
Total assets			32,130	16,046	48,176
Contingent consideration				9,400	9,400
Total liabilities				9,400	9,400

	Fair Value Measurements at December 26, 2009 using				Assets at Fair Value
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Observable Inputs Level 2	Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
Time deposits			9,022		9,022
Mutual funds	47,414				47,414
Auction rate securities				16,212	16,212
Fair value of life policies			20,032		20,032
Total assets	47,414		29,054	16,212	92,680
Contingent consideration				9,300	9,300
Total liabilities	\$	\$	\$	9,300	\$ 9,300

Descriptions of the valuation methodologies used for assets and liabilities measured at fair value are as follows:

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Time deposits Valued at their ending balances as reported by the financial institutions that hold our securities, which approximates fair value.

Auction rate securities Valued at fair value by management in part utilizing an independent valuation reviewed by management which used pricing models and discounted cash flow methodologies incorporating assumptions that reflect the assumptions a marketplace participant would use at March 27, 2010.

Table of Contents**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.****NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)**

(dollars in thousands, except per share amounts)

5. Fair Value (Continued)

Life policies Valued at cash surrender value.

Contingent consideration Consists of future payments based on certain agreed upon revenue and technical milestones valued using the income approach. Key assumptions included a discount rate of 18% and probability adjustments ranging from 60% to 85%.

The table below presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the quarters ended March 27, 2010 and March 28, 2009.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Quarter ended	
	March 27, 2010	March 28, 2009
Auction rate securities		
Beginning balance	\$ 16,212	\$ 18,958
Transfers in and/or out of Level 3		
Total gains or losses (realized/unrealized):		
Included in other income (expense)		
Included in other comprehensive income	(166)	21
Purchases, issuances and settlements		
Ending balance	\$ 16,046	\$ 18,979

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Quarter ended	
	March 27, 2010	March 28, 2009
Contingent Consideration		
Beginning balance	\$ 9,300	\$
Transfers in and/or out of Level 3		
Total gains or losses (realized/unrealized):		
Included in other income (expense)	100	
Included in other comprehensive income		
Purchases, issuances and settlements		
Ending balance	\$ 9,400	\$

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CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

(dollars in thousands, except per share amounts)

6. Goodwill and Other Intangible Assets

The following table displays goodwill and other intangible assets not subject to amortization and other intangible assets that continue to be subject to amortization:

	March 27, 2010			December 26, 2009		
	Gross Carrying Amount	Accumulated Amortization & Impairment loss	Net Amount	Gross Carrying Amount	Accumulated Amortization & Impairment loss	Net Amount
Goodwill	\$ 1,217,484	\$ (712,782)	\$ 504,702	\$ 1,221,100	\$ (712,865)	\$ 508,235
Other intangible assets not subject to amortization:						
Research models	3,438		3,438	3,438		3,438
PCS in process R&D	14,000		14,000	14,000		14,000
Other intangible assets subject to amortization:						
Backlog	2,836	(1,989)	847	2,961	(2,011)	950
Customer relationships	310,245	(179,001)	131,244	313,021	(173,707)	139,314
Customer contracts	15,259	(15,259)		15,259	(15,259)	
Trademarks and trade names	5,081	(4,400)	681	5,081	(4,338)	743
Standard operating procedures	657	(647)	10	657	(643)	14
Other identifiable intangible assets	6,906	(5,296)	1,610	6,935	(5,102)	1,833
Total other intangible assets	\$ 358,422	\$ (206,592)	\$ 151,830	\$ 361,352	\$ (201,060)	\$ 160,292

The changes in the gross carrying amount and accumulated amortization of goodwill are as follows:

	Balance at December 26, 2009		Adjustments to Goodwill		Balance at March 27, 2010
			Acquisitions	Foreign Exchange/Other	
Research Models and Services					
Gross carrying amount	\$ 58,734	\$	\$	(655)	\$ 58,079
Accumulated amortization	(4,875)			83	(4,792)
Preclinical Services					
Gross carrying amount	1,162,366			(2,961)	1,159,405
Accumulated impairment loss	(700,000)				(700,000)
Accumulated amortization	(7,990)				(7,990)
Total					
Gross carrying amount	\$ 1,221,100	\$	\$	(3,616)	\$ 1,217,484
Accumulated impairment loss	(700,000)				(700,000)
Accumulated amortization	(12,865)			83	(12,782)

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CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

(dollars in thousands, except per share amounts)

7. Long-Term Debt*Long-Term Debt*

Long-term debt consists of the following:

	March 27, 2010	December 26, 2009
2.25% Senior convertible debentures:		
Principal	\$ 349,995	\$ 349,995
Unamortized debt discount	(45,464)	(48,597)
Net carrying amount of senior convertible debentures	304,531	301,398
Term loan facilities	91,799	100,433
Revolving credit facility	76,000	90,000
Other long-term debt, represents secured and unsecured promissory notes, interest rates ranging from 0% to 5.3% and 0% to 0.5% at March 27, 2010 and December 26, 2009, respectively, maturing between 2010 and 2012	1,763	792
Total debt	474,093	492,623
Capital leases	161	209
Total debt and capital leases	474,254	492,832
Less: current portion of long-term debt and capital leases	(36,343)	(35,413)
Long-term debt and capital leases	\$ 437,911	\$ 457,419

The interest rates applicable to term loans and revolving loans under the credit agreement are, at our option, equal to either the base rate (which is the higher of the prime rate or the federal funds rate plus 0.50%) or the adjusted LIBOR rate plus an interest rate margin based upon our leverage ratio. Based on our leverage ratio, the margin range for LIBOR-based loans is 0.625% to 0.875%. As of March 27, 2010, the interest rate margin was 0.75%. The book value of our term and revolving loans approximates fair value.

We pledged the stock of certain subsidiaries as well as certain U.S. assets for our credit agreements. In addition, credit agreements include certain customary representations and warranties, events of default, notice of material adverse change to our business and negative and affirmative covenants including the ratio of consolidated earnings before interest, taxes, depreciation and amortization to consolidated interest expense, for any period of four consecutive fiscal quarters, of no less than 3.5 to 1.0 as well as the ratio of consolidated indebtedness to consolidated earnings before interest, taxes, depreciation and amortization for any period of four consecutive fiscal quarters, of no more than 3.0 to 1. As of March 27, 2010, we were compliant with all financial covenants specified in the credit agreement. We had \$4,575 outstanding under letters of credit as of March 27, 2010.

Our \$350,000 of 2.25% Convertible Senior Notes (the 2013 Notes) due in June, 2013 with interest payable semi-annually are convertible into cash for the principal amount and shares of our common stock for the conversion premium (or, at our election, cash in lieu of some or all of such common

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CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

(dollars in thousands, except per share amounts)

7. Long-Term Debt (Continued)

stock), if any, based on an initial conversion rate, subject to adjustment, of 20.4337 shares of our common stock per \$1,000 principal amount of notes (which represents an initial conversion price of \$48.94 per share), only in the following circumstances and to the following extent: (1) during any fiscal quarter beginning after July 1, 2006 (and only during such fiscal quarter), if the last reported sale price of our common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is more than 130% of the conversion price on the last day of such preceding fiscal quarter; (2) during the five business-day period after any five consecutive trading-day period, or the measurement period, in which the trading price per note for each day of that measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such day; (3) upon the occurrence of specified corporate transactions, as described in the indenture for the 2013 Notes; and (4) at the option of the holder at any time beginning on the date that is two months prior to the stated maturity date and ending on the close of business on the second trading-day immediately preceding the maturity date. Upon conversion, we will pay cash and shares of our common stock (or, at our election, cash in lieu of some or all of such common stock), if any. If we undergo a fundamental change as described in the indenture for the 2013 Notes, holders will have the option to require us to purchase all or any portion of their notes for cash at a price equal to 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the purchase date.

At March 27, 2010, the fair value of our outstanding Convertible Senior Notes was approximately \$357,870 based on their quoted market value and no conversion triggers were met.

Effective December 28, 2008, we adopted a newly issued accounting standard for our 2013 Notes which specifies that issuers of convertible debt instruments that may be settled in cash upon conversion should separately account for the liability and equity components in a manner that reflects the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. Accordingly, \$261,508 of the total proceeds from our \$350,000 convertible debt was allocated to the liability component, which represents the estimated fair value of similar debt instruments without the conversion option as of June 12, 2006, the date of issuance. The remaining \$88,492 was allocated to the equity component. The debt discount of \$88,492 will be amortized to interest expense over the seven-year period from June 2006 to June 2013, the expected life of the instrument. In addition, \$8,463 of capitalized interest expense was recorded retrospectively and will amortize over a weighted average life of 32 years. Additionally, approximately \$1,903 of deferred financing costs capitalized at the time of issuance was reclassified to equity as equity issuance costs and will not be amortized to interest expense. As a result of the establishment of the debt discount as of the date of issuance, the non-current deferred tax asset relating to the original issue discount has been reduced by \$36,437 as of the date of issuance by offsetting additional paid in capital.

As of March 27, 2010, \$45,464 of debt discount remained and will be amortized over 13 quarters. As of March 27, 2010 and December 26, 2009, the equity component of our convertible debt was \$88,492. Interest expense related to our convertible debt of \$3,132 and \$2,930 for the quarters ended March 27, 2010 and March 28, 2009, respectively yielding an effective interest rate of 6.93% on the liability component. In addition, \$1,969 of contractual interest expense was recognized on our convertible debt during each of the quarters ended March 27, 2010 and March 28, 2009, respectively.

Table of Contents**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.****NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)****(dollars in thousands, except per share amounts)****7. Long-Term Debt (Continued)**

Capitalized interest related to the new accounting treatment for our 2013 Notes was \$507 for the quarter ended March 28, 2009.

Principal maturities of existing debt which excludes unamortized debt discount for the periods set forth in the table below are as follows:

Twelve months ending	
March 2011	\$ 36,283
March 2012	133,280
March 2013	
March 2014	349,994
March 2015	
Total	\$ 519,557

We have capital leases for equipment. These leases are capitalized using interest rates considered appropriate at the inception of each lease. Capital lease obligations amounted to \$161 and \$210 at March 27, 2010 and December 26, 2009, respectively.

8. Equity***Earnings (Loss) per Share***

Basic earnings per share for the three months ended March 27, 2010 and March 28, 2009 were computed by dividing earnings available to common shareowners for these periods by the weighted average number of common shares outstanding in the respective periods adjusted for contingently issuable shares. The weighted average number of common shares outstanding for the three months ended March 27, 2010 and March 28, 2009 has been adjusted to include common stock equivalents for the purpose of calculating diluted earnings per share for these periods.

Options to purchase 4,434,498 shares and 6,316,084 shares were outstanding at March 27, 2010 and March 28, 2009, respectively, but were not included in computing diluted earnings per share because their inclusion would have been anti-dilutive.

Basic weighted average shares outstanding for the three months ended March 27, 2010 and March 28, 2009 excluded the weighted average impact of 1,002,336 and 1,042,659, respectively, of non-vested fixed restricted stock awards.

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