PERKINELMER INC
Form 10-K
March 17, 2006
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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, DC 20549**

# Form 10-K

(Mark One)

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

**For the fiscal year ended January 1, 2006**

**or**

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

**Commission file number 001-5075**

# PerkinElmer, Inc.

*(Exact name of registrant as specified in its charter)*

| **Massachusetts**<br>*(State or other jurisdiction of incorporation or organization)* | **04-2052042**<br>*(I.R.S. Employer Identification No.)* |
|---|---|
| **45 William Street, Wellesley, Massachusetts**<br>*(Address of Principal Executive Offices)* | **02481**<br>*(Zip Code)* |

**Registrant s telephone number, including area code:**

**(781) 237-5100**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, $1 Par Value | New York Stock Exchange |

## Securities registered pursuant to Section 12(g) of the Act:

## None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Exchange Act of 1934. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No þ

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 þ No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨

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

The aggregate market value of the common stock, $1 par value per share, held by nonaffiliates of the registrant on July 1, 2005, was $2,308,540,529 based upon the last reported sale of the common stock on that date.

As of March 14, 2006, there were outstanding 126,722,858 million shares of common stock, $1 par value per share.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of PerkinElmer, Inc. s Definitive Proxy Statement for its Annual Meeting of Shareholders to be held on April 25, 2006 are incorporated by reference into Part III of this Form 10-K.

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**PART I**

**Item 1.** ***Business***

**Overview**

We are a leading provider of scientific instruments, consumables and services to the pharmaceutical, biomedical, environmental testing and general industrial markets, commonly referred to as the health sciences and photonics markets. We design, manufacture, market and service products and systems within two businesses, each constituting one reporting segment:

*Life and Analytical Sciences.* We are a leading provider of drug discovery and development, genetic screening, and environmental and chemical analysis tools, including instruments, reagents, consumables and services.

*Optoelectronics.* We provide a broad range of digital imaging, sensor and specialty lighting components used in biomedical, consumer products and other specialty end markets.

The health sciences markets include all of the businesses in our Life and Analytical Sciences reporting segment and the medical imaging business, as well as elements of the medical sensors and lighting businesses in our Optoelectronics reporting segment. The photonics markets include the remaining businesses in our Optoelectronics reporting segment.

In fiscal 2005, we had $1,473.8 million in sales from continuing operations.

We are a Massachusetts corporation, founded in 1947. Our headquarters are in Wellesley, Massachusetts, and we market our products and systems in more than 125 countries. As of January 1, 2006, we had approximately 8,000 employees. Our common stock is listed on the New York Stock Exchange, and we are a component of the S&P 500 Index.

We maintain a website with the address http://www.perkinelmer.com/. We are not including the information contained in our website as part of, or incorporating it by reference into, this annual report on Form 10-K. We make available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file these materials with, or otherwise furnish them to, the Securities and Exchange Commission.

**Significant Developments**

As part of our efforts to focus and grow our core businesses, we have taken the following significant measures in recent years:

*Unsecured Credit Facility*. In October 2005, we entered into a $350 million unsecured senior revolving credit facility with a term of five years. The facility replaced our previous $100 million facility and will be used for general corporate purposes which may include fulfilling working capital needs, refinancing existing indebtedness, making capital expenditures, repurchasing shares, or consummating acquisitions and strategic alliances.

*Tender Offer*. In October 2005, we commenced a cash tender offer and consent solicitation for any and all of our outstanding 8 7/8% senior subordinated notes due 2013 (the Senior Subordinated Notes ). On November 14, 2005, as part of an initial settlement under the tender offer, we repurchased $269.9 million of the $270 million outstanding Senior Subordinated Notes.

*Share Repurchase Program.* On October 21, 2005 our Board of Directors reaffirmed our authority to repurchase up to 10,000,000 shares of our common stock, which we publicly disclosed on November 14, 2005

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(the Program ). This Program will expire on October 21, 2008, unless it is earlier terminated by our Board of Directors. During the fourth quarter of 2005, we repurchased in the open market under this program 1,096,000 shares of our common stock at an aggregate cost of $24.4 million. We believe that the share repurchase program benefits our shareholders by increasing earnings per share by reducing the number of shares outstanding and that we are likely to have adequate financial flexibility to fund additional share repurchases given current cash and debt levels.

*Acquisition of Elcos AG*. In February 2005, we acquired Elcos AG, a leading European designer and manufacturer of custom light emitting diode, or LED, solutions for biomedical and industrial applications. Consideration for the transaction was approximately $15.4 million in cash at the time of closing, $0.3 million of additional payments in 2005 and approximately $1.1 million due through fiscal 2007. Also, we estimate that under an earn out provision in the acquisition agreement we will make an additional cash payment of approximately $3.1 million in 2006 to reflect the performance of the business in 2005, with the potential for additional earn out payments being made in 2007 and 2008 based on the performance of the business in 2006 and 2007, respectively.

*American Jobs Creation Act*. The homeland investment provisions of the American Jobs Creation Act of 2004, enacted on October 22, 2004, provided us with an opportunity during 2005 to repatriate earnings from our foreign subsidiaries at a substantially reduced tax cost and to increase the amount of cash available to fund our operations in the United States. During 2005, we repatriated cash of approximately $535 million of which over $470 million qualified as domestic reinvestment plan repatriations under the homeland investment provisions of the American Jobs Creation Act. While such repatriation carried with it reduced tax costs, it also required that we still recognize incremental tax obligations. It has been a general policy in the past to not provide for taxes on earnings that we did not intend to repatriate; accordingly, any incremental tax would have a negative impact on our current tax rates. In 2005, we recognized $15.5 million of tax expense for qualified repatriation. During 2006 and 2007, we will continue to invest the qualified earnings in permitted uses pursuant to the domestic reinvestment plans approved by our Board.

*Tax Audit*. We are under regular examination by tax authorities in jurisdictions in which we have significant business operations. The tax years under examination vary by jurisdiction. We regularly assess the likelihood of additional assessments in each of the taxing jurisdictions resulting from these examinations. Tax reserves have been established, which we believe to be adequate in relation to the potential for additional assessments. Once established, we adjust these reserves as information becomes available and when an event occurs requiring a change to the reserves. We do not expect the examination process and resolution of tax matters to have a material effect on our consolidated financial position, although future adjustments or settlements could have a material impact on our income tax expense, effective tax rate, cash flow, and consolidated statement of income for a particular future period. As a result of concluding the federal, state and foreign audits during 2005, we recognized a benefit of $27.5 million.

*Restructuring and Integration Charges*. Total restructuring and integration charges for 2005 were $22.1 million. During the second and fourth quarters of 2005, our management approved separate plans to terminate employees in several locations as we shift into geographic regions and product lines that are more consistent with our growth strategy. As a result of these plans of termination, we incurred pre-tax restructuring charges of approximately $9.9 million. Substantially all of this pre-tax restructuring charge will result in cash expenditures that we expect will be paid within the next 12 months. Also, as part of our planned effort to consolidate our Canadian operations, we closed one of our properties in the Montreal area. As a result, we recorded an additional pre-tax restructuring charge during fiscal 2005 of approximately $6.1 million which consisted primarily of an impairment charge related to the facility in Montreal. In addition, due to a soft sublease market, we increased our reserves for our financial obligations under several leases associated with previous restructurings in 2001 and 2002. As a result, we recorded an additional pre-tax restructuring charge during fiscal 2005 of approximately $6.1 million which is expected to be paid through 2014.

*Fluid Sciences Business Segment Divestiture*. In September 2005, our Board of Directors approved a plan to divest our Fluid Sciences business segment to increase our strategic focus on higher growth markets within our

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Life and Analytical Sciences and Optoelectronics businesses. The Fluid Sciences business segment consisted of three businesses Aerospace, Fluid Testing and Semiconductor. We have reflected this segment as a discontinued operation for all periods presented in this annual report on Form 10-K. In November 2005, we sold the Fluid Testing business to Caleb Brett USA Inc. for approximately $34.5 million, resulting in a net pre-tax gain of $30.3 million. In December 2005, we sold the Aerospace business to Eaton Corporation for approximately $333 million, resulting in a net pre-tax gain of $250.6 million. We recognized these gains during fiscal 2005 as gains on the disposition of discontinued operations. We received total cash proceeds in these transactions of approximately $360 million. On February 27, 2006, we sold substantially all of the assets of our Semiconductor business to an entity affiliated with Tara Capital, Inc. for approximately $26.5 million (subject to a net working capital adjustment) plus additional contingent consideration that could bring the total proceeds received to more than $30 million. We are currently in the process of computing the gain on the transaction and will record such amount in the first quarter of 2006.

*Lithography Divestiture and Fiber Optics Test Equipment Shutdown*. In 2005, as part of our continued efforts to focus on higher growth opportunities, our Board of Directors also approved separate plans to sell our Lithography business and to shutdown our Fiber Optics Test Equipment businesses. We have reflected these businesses as discontinued operations for all periods presented in this annual report on Form 10-K. Upon the sale of the Lithography business in December 2005, we received proceeds of $0.5 million and recognized a pre-tax loss of $3.3 million as loss on the disposition of discontinued operations. The shutdown of the Fiber Optics Test Equipment business in June 2005 resulted in a $5.2 million loss related to lease and severance costs and the reduction of fixed assets and inventory to net realizable value. In August 2005, certain assets that were previously written down were subsequently sold resulting in a gain of $0.1 million. We recognized the pre-tax net loss of $5.2 million as a loss on the disposition of discontinued operations.

*Other Operations Classified as Discontinued.* Included in this Form 10-K are the financial results of other operations that were discontinued or sold prior to fiscal 2005. These include our Computer-To-Plate and Electroformed Products businesses which were approved for shutdown by our Board of Directors in September 2004 and June 2004, respectively, and our Ultraviolet Lighting business which was sold in June 2004. These also include our Telecommunications Component and Entertainment Lighting businesses which were approved for shutdown by our Board of Directors in June 2002, our Security and Detection Systems business which was sold in June 2002, and our Technical Services Business which was sold in August 1999. We have reflected these businesses as discontinued operations for all periods presented in this annual report on Form 10-K.

**Life and Analytical Sciences**

Our Life and Analytical Sciences business unit is a leading provider of biopharmaceutical, genetic screening and analytical sciences solutions, including instruments, reagents, software, applications and services. Our instruments are used in daily applications for scientific research and clinical applications. Our research products provide the fundamental tools necessary for a variety of applications that are critical to the development of many of our customers new products and academic projects. In fiscal 2005, our Life and Analytical Sciences business generated sales of $1,081.1 million.

For drug discovery and development, we offer a wide range of systems comprised of instrumentation, software and consumables, including reagents, based on our core expertise in proteomics and genomics, fluorescence, chemiluminescence, radioactive labeling and the detection of nucleic acids and proteins.

For genetic screening and clinical laboratories, we provide instrumentation, software, reagents and analytical tools to test for various inherited disorders in newborns and to monitor risk factors during pregnancy. These clinical screening programs help by identifying women at risk during pregnancy and newborn babies at risk from inherited metabolic or endocrinological disorders. We sell our genetic screening solutions to public health authorities and private health care organizations around the world.

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For environmental and chemical analysis, we offer analytical tools employing technologies such as molecular and atomic spectroscopy, high performance liquid chromatography, gas chromatography and thermal analysis. Our instruments and related application solutions measure a range of substances from biomolecular matter to organic and inorganic chemicals. We sell these products to pharmaceutical manufacturers and customers in the environmental, food and beverage, and chemical markets. These customers use our instruments in various applications to verify the identity, quality or composition of the materials they examine.

For service and support, we offer customers a range of products including service plans, first-year warranties, training, and preventative maintenance. OneSource®, our managed maintenance service plan, helps customers consolidate the essential maintenance and equipment management needs of their laboratory(s).

*Principal Products.* The principal products of our Life and Analytical Sciences business include:

Chemical and biological reagents, such as LANCE and AlphaScreen assay technologies, fluorescent labeled probes and cloned receptors. These reagents are used in and support a broad and flexible range of assays used in high throughput screening for drug discovery, functional genomics, proteomics, and genotyping.

DELFIA® Xpress is a complete solution for prenatal screening. It has a continuous loading system supported by kits for both first and second trimester analytes, and clinically validated LifeCycle software.

The prOTOF 2000 MALDI O-TOF mass spectrometer. This instrument features MALDI-TOF technology for the identification and characterization of proteins.

The LABWORKS v5.9 laboratory information management system (LIMS). This robust information management system enables scientists to store, share and create reports on laboratory data in both small and large laboratory environments.

The EnVision, a multilabel reader used in a wide range of high-throughput screening applications. It features two detectors enabling simultaneous dual wavelength reading, below emission reading, barcode readers, a high speed light source and adjustment of measurement height function. The instrument is fully configurable, accepting microplates from 96 to 1536 wells, and can be integrated into robotic systems.

The UltraVIEW ERS confocal imaging system. This fully automated, high-resolution, live cell imaging system allows for the observation and measurement of cellular and molecular processes.

The Spectrum Spotlight FT-IR imaging system. This system enables rapid extraction and analysis of data on molecular composition from a wide range of materials. The Spectrum s speed and ability to complement other imaging techniques improves problem solving time and extends infrared, or IR, analysis to many applications.

ViewLux. This ultra high throughput microplate imager offers high sensitivity and fast measurement of light from fluorescence polarization, fluorescence intensity, time-resolved fluorescence, luminescence and absorbance assays.

The PerkinElmer® family of inorganic analysis instrumentation, including the AAnalyst series of atomic absorption spectrometers, the Optima family of inductively coupled plasma, or ICP, spectrometers and the ELAN® family of ICP mass spectrometers. These instruments are used in the environmental and chemical industries, among others, to determine the elemental content of a sample.

The Clarus® 500 gas chromatograph, mass spectrometer and TurboMatrix family of sample-handling equipment. These instruments are used for compound identification and quantitation in applications such as environmental, petrochemical, forensics, food, pharmaceutical and semiconductor.

*New Products.* New product releases in 2005 by our Life and Analytical Sciences business include:

The NeoGram MS/MS AAAC *in vitro* diagnostic kit to support detection of metabolic disorders in newborns by tandem mass spectrometry.

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The AutoDELFIA® toxoplasma-screen kit for screening newborns for congenital toxoplasmosis, an infection that can be passed from mother to fetus through the bloodstream.

Evolution precision pipetting platform with Modular Dispense Technology (MDT), a precision dispense and microplate handling system for liquid handling automation. This system provides the ability to automate assay protocols and sample preparation with high-precision pipetting and labware movement.

The JANUS automated workstation, an automation and liquid handling system consisting of a modular platform that enables one pipetting arm with different tip configurations as well as a one-plate movement arm on a single workstation. JANUS is designed for the efficient automation of sample preparation procedures utilized in pharmaceutical, biotech, and research applications.

The BioXPRESSION biomarker discovery platform with Proteomic Signature Technology (PST). This platform gives researchers the ability to screen thousands of samples and obtain accurate results for population segmentation, pre-clinical trials and disease profiling.

The LumiLux cellular screening platform, which enables luminescent ultra-high throughput cellular screening with all types of cells in 1536-well format, and features an integrated cell stirrer.

The Spectrum 100 Series of infrared (IR) spectrometers, which includes a Universal Attenuated Total Reflectance (UATR) accessory, fiber optic near infrared (NIR) probe, and an enhanced version of PerkinElmer s Spectrum and AssureID software packages.

The new family of TurboMatrix thermal desorbers, which provide sample-handling solutions that simplify and speed a wide range of gas chromatography applications, including environmental, occupational health and safety, materials testing, and flavors and fragrances.

Chromera, an application-specific software system that integrates all components of a speciation measurement system. Chromera software features a single-user interface that coordinates operation of an ICP mass spectrometer, control of a liquid chromatograph and quantitative measurements into a single software package.

*Brand Names.* Our Life and Analytical Sciences reporting segment offers additional products under various brand names, including Wallac, Packard, NEN®, OneSource®, Pyris, CellLux, ProXPRESSION, MultiPROBE®, FlashBlue, ScanArray and Victor.

**Optoelectronics**

Our Optoelectronics business unit provides a broad range of digital imaging, sensor and specialty lighting components used in biomedical, consumer products, and other specialty end markets. For fiscal 2005, our Optoelectronics business unit generated sales of $392.7 million.

We are a leading supplier of amorphous silicon digital x-ray detectors, a technology for diagnostic medical imaging and radiation therapy. Amorphous silicon digital x-ray detectors replace film and produce improved image resolution and diagnostic capability for use in radiography, angiography, cardiac and cancer treatment. The amorphous silicon technology is important to medical imaging applications as well as to industrial nondestructive testing for defect recognition within automated manufacturing lines.

We have significant expertise in optical sensor technologies, with products used in a variety of applications. Some of the applications in which our optical sensors are used include sample detection in life sciences instruments, x-ray luggage screening, safety and security applications such as smoke detectors, HVAC controls, document handling/sorting, smart weaponry and non-contact temperature measurements for applications such as ear thermometers and consumer appliances.

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Our specialty lighting technologies include xenon flashtubes, ceramic xenon light sources, intense pulsed light, laser pump sources, and LEDs. These products are used in a variety of applications including mobile phones, digital still and analog cameras, medical endoscopy equipment, home theater projectors, aesthetic applications including hair removal, skin rejuvenation and acne treatment, and laser machine tools.

*Principal Products.* The principal products of our Optoelectronics business include:

Health Sciences

Amorphous silicon digital x-ray detectors, an enabling technology for digital x-ray imaging that replaces film and produces improved image resolution and diagnostic capability in applications such as radiography, cardiology, angiography and cancer treatments.

Cermax® Xenon short arc lamps and fiber optic light sources used in diagnostic and surgical endoscopes, surgical headlamps, microscopes and phototherapy systems.

A wide range of optical detectors and light sources used in analytical instruments, drug discovery tools and clinical diagnostic systems. The detectors include charge coupled devices, avalanche photodiodes, photodiode arrays, channel photo multipliers, and our unique single photon counting module. The light sources include our Cermax® Xenon short arc lamps described above as well as our line of guided arc xenon flash lamps. We also produce ultraviolet-visible range spectrometer sub-systems based on the above components.

Thermopile temperature sensors used in digital ear thermometers.

LED light sources coupled with photodiodes for signal detection, used in sensor modules for hand-held blood glucose meters. The sensing module represents the optical detection unit of the system. An additional product incorporated into the blood glucose meter is an LED-based reflective sensor to read out tracking information on the consumables.

IR-absorption-based real-time gas analyzers for measuring anesthesia gases delivered in operating rooms; digital sidestream benches for measuring $CO_2$ levels in neonatal, pediatric and adult respiration.

Photonics

Xenon flashtubes for use in mobile phone cameras, digital still cameras, 35mm compact cameras and single use cameras.

Optical sensors used in a variety of safety and security applications, including x-ray luggage screening and smoke alarms, consumer applications such as laser printers, copiers, HVAC systems and monitoring of harmful gases in households, various automotive applications, and smart weaponry.

Linear xenon and argon flashlamps used in solid state lasers in machine tools and other industrial applications.

Charge-coupled device cameras, which are used to detect defects in manufacturing processes, pilot vision systems and document sorting.

A range of products used in military and aerospace applications including lighting, detonators, power supplies and other specialty components.

Cermax® Xenon lamps utilized in front projection and rear projection applications for home theater and larger venues such as conference rooms and auditoriums due to Cermax s ability to deliver the required brightness while minimizing sacrifices in color performance.

LED-based products used as light sources in various applications including film scanners, aircraft navigation lights, and specialty and architectural displays.

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*New Products.* New product releases in 2005 by our Optoelectronics business include:

1620 and 1640 AN amorphous silicon flat panel detectors, which offer improved imaging performance and higher frame rates without sacrificing image resolution. The amorphous flat panel detector is a digital x-ray detector using a glass substrate, and is used in image guided radiation therapy product lines and non-destructive industrial testing to deliver advanced, high-quality images.

New amorphous silicon flat panel detectors for General Electric Health Care diagnostic X-Ray systems including the following products: a cardiac detector for improved sensitivity for low dose fluoroscopic applications; a portable radiography detector for bedside patient exams; and a new higher performance radiography detector to support applications such as tomographic 3-D imaging.

CERMAX® Gen 3 , a new generation of Cermax Xenon technology for video projection in home theater applications. Gen 3 offers an improved combination of thermal characteristics, lifetime, price and a higher efficacy for 6500º K color temperature video images.

ACULED (All Color Ultrabright LED), a compact, high power light emitting diode that incorporates multi chip-on-board technology. The RGB platform is designed to provide high brightness for operation in a variety of specialty applications including medical lighting, mood lighting, and architectural lighting.

EPI-Cavity Laser, a new single-chip high power pulse laser which provides reliable high power output from a small beam size in a compact package. The laser is suitable for integration into a variety of range finding applications.

Next generation, further miniaturized photoflash technology High quality and more compact xenon flash lamps and modules are being designed into mobile phones and other digital cameras. The xenon flash technology provides significant improvements over LEDs in increased light output and brightness levels, improved color temperature, reduced shutter speeds and lower cost.

Custom high performance Avalanche Photodiode (APD) modules for use in OEM Molecular Imaging equipment. These optical detection modules are designed into unique Positron Emission Tomography (PET) scanners that generate high resolution images of living subjects for pre-clinical and medical applications.

*Brand Names.* Our Optoelectronics business offers its products under various brand names, including Cermax®, Heimann, ColdBlue, MultiBlue, ACULED, Power Systems, Amorphous Silicon and Reticon®.

**Marketing**

All of our businesses market their products and services directly through their own specialized sales forces. As of January 1, 2006, we employed approximately 2,500 sales and service representatives operating in approximately 35 countries, and marketing products and services in approximately 125 countries. In addition, in geographic regions where we do not have a sales and service presence, we utilize distributors to sell our products.

**Raw Materials and Supplies**

Each of our businesses uses raw materials and supplies that are generally readily available in adequate quantities from domestic and foreign sources. We typically do not have long-term contracts with any of our suppliers. In some cases, we may rely on a single supplier for particular items, although we generally believe that we could obtain these items from alternative suppliers, if necessary.

**Intellectual Property**

We own numerous United States and foreign patents and have patent applications pending in the United States and abroad. We also license intellectual property rights to and from third parties, some of which bear

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royalties and are terminable in specified circumstances. In addition to our patent portfolio, we possess a wide array of unpatented proprietary technology and know-how. We also own numerous United States and foreign trademarks and trade names for a variety of our product names, and have applications for the registration of trademarks and trade names pending in the United States and abroad. We believe that patents and other proprietary rights are important to the development of both of our reporting segments, but we also rely upon trade secrets, know-how, continuing technological innovations and licensing opportunities to develop and maintain the competitive position of both of our reporting segments. We do not believe that the loss of any one patent or other proprietary right would have a material adverse effect on our overall business or on any of our reporting segments.

In some cases, we may participate in litigation or other proceedings to defend against or assert claims of infringement, to enforce our patents or our licensors patents, to protect our trade secrets, know-how or other intellectual property rights, or to determine the scope and validity of our or third parties intellectual property rights. Litigation of this type could result in substantial cost to us and diversion of our resources. An adverse outcome in any litigation or proceeding could subject us to significant liabilities or expenses, require us to cease using disputed intellectual property or cease the sale of a product, or require us to license the disputed intellectual property from third parties. We are currently involved in several lawsuits involving claims of violation of intellectual property rights. See Item 3. Legal Proceedings for a discussion of these matters.

**Backlog**

We believe that backlog is not a meaningful indicator of future business prospects for any of our business units due to the short lead time required on a majority of our sales. Therefore, we believe that backlog information is not material to an understanding of our business.

**Competition**

Because of the wide range of our products and services, we face many different types of competition and competitors. This affects our ability to sell our products and services and the prices at which these products and services are sold. Our competitors range from large foreign and domestic organizations that produce a comprehensive array of goods and services and that may have greater financial and other resources than we do, to small firms producing a limited number of goods or services for specialized market segments.

In our Life and Analytical Sciences reporting segment, we compete on the basis of service level, price, technological innovation, product differentiation, product availability, and quality and reliability. Competitors range from multinational organizations with a wide range of products to specialized firms that in some cases have well-established market niches. We expect the proportion of large competitors in this reporting segment to increase through the continued consolidation of competitors.

We do not believe any single competitor competes directly with our Optoelectronics reporting segment across its full product range. However, we do compete with specialized manufacturing companies in the manufacturing and sale of specialty flashtubes and ultraspecialty lighting sources, photodetectors and photodiodes, and switched power supplies. Competition is based on price, technological innovation, operational efficiency, and product reliability and quality.

We believe we compete effectively in each of the areas in which our businesses experience competition.

**Research and Development**

Research and development expenditures were approximately $87.4 million during fiscal 2005, approximately $82.4 million during fiscal 2004, and approximately $76.8 million during fiscal 2003.

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We directed our research and development efforts in both 2005 and 2004 primarily toward genetic screening, biopharmaceutical, and environmental and chemical end markets within our Life and Analytical Sciences reporting segment, and medical digital imaging and Cermax Lighting within our Optoelectronics reporting segment. In 2003 we directed our research and development efforts toward genetic screening and biopharmaceutical end markets within our Life and Analytical Sciences reporting segment, and medical digital imaging and Cermax Lighting within our Optoelectronics reporting segment.

**Environmental Matters**

Our operations are subject to various foreign, federal, state and local environmental and safety laws and regulations. These requirements include those governing emissions and discharges of hazardous substances, the remediation of contaminated soil and groundwater, the regulation of radioactive materials, and the health and safety of our employees.

We may have liability under the Comprehensive Environmental Response Compensation and Liability Act, and comparable state statutes that impose liability for investigation and remediation of contamination without regard to fault, in connection with materials that we or our former businesses sent to various third-party sites. We have incurred, and expect to incur, costs pursuant to these statutes.

We are conducting a number of environmental investigations and remedial actions at current and former locations and, along with other companies, have been named a potentially responsible party (PRP) for specific waste disposal sites. We accrue for environmental issues in the accounting period in which our responsibility is established and when the cost can be reasonably estimated. We have accrued $3.7 million as of January 1, 2006, representing management s estimate of the total cost for the ultimate disposition of known environmental matters. This amount is not discounted and does not reflect the potential recovery of any amounts through insurance or indemnification arrangements. These cost estimates are subject to a number of variables, including the stage of the environmental investigations, the magnitude of the possible contamination, the nature of the potential remedies, possible joint and several liability, the timeframe over which remediation may occur, and the possible effects of changing laws and regulations. For sites where we are named a PRP, management does not currently anticipate any additional liability to result from the inability of other significant named parties to contribute. We expect that these accrued amounts could be paid out over a period of up to ten years. As assessment and remediation activities progress at each individual site, we review these liabilities and adjust them to reflect additional information as it becomes available. There have been no environmental problems to date that have had or that we expect to have a material effect on our financial position, results of operations or cash flows. While it is reasonably possible that a material loss exceeding the amounts recorded may have been incurred, the potential exposure is not expected to be materially different than the amounts recorded.

We may become subject to new or unforeseen environmental costs or liabilities. Compliance with new or more stringent laws or regulations, stricter interpretations of existing laws, or the discovery of new contamination could cause us to incur additional costs.

**Employees**

As of January 1, 2006, we employed approximately 8,000 employees. Several of our subsidiaries are parties to contracts with labor unions and workers councils. As of January 1, 2006, we employed an aggregate of approximately 1,800 union and workers council employees. We consider our relations with employees to be satisfactory.

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**Financial Information About Reporting Segments**

The table below sets forth sales and operating profit (loss) by reporting segment for the 2005, 2004 and 2003 fiscal years:

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| | | (In thousands) | |
| **Life and Analytical Sciences** | | | |
| Sales | $ 1,081,104 | $ 1,062,767 | $ 1,003,711 |
| Operating profit | 110,228 | 103,609 | 94,745 |
| **Optoelectronics** | | | |
| Sales | 392,727 | 366,322 | 340,829 |
| Operating profit | 58,405 | 59,096 | 52,671 |
| **Other** | | | |
| Operating loss | (27,682) | (25,029) | (20,461) |
| **Continuing operations** | | | |
| Sales | 1,473,831 | 1,429,089 | 1,344,540 |
| Operating profit | 140,951 | 137,676 | 126,955 |

Discontinued operations have not been included in the preceding table.

Additional information relating to our reporting segments for the 2005, 2004, and 2003 fiscal years is as follows:

| | Depreciation and Amortization Expense | | | Capital Expenditures | | |
|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2005 | 2004 | 2003 |
| | | | (In thousands) | | | |
| Life and Analytical Sciences | $ 46,217 | $ 47,645 | $ 47,938 | $ 12,650 | $ 6,747 | $ 9,841 |
| Optoelectronics | 19,712 | 18,717 | 21,177 | 11,798 | 7,556 | 5,353 |
| Other | 1,069 | 1,237 | 1,335 | 603 | 1,515 | 430 |
| Continuing operations | $ 66,998 | $ 67,599 | $ 70,450 | $ 25,051 | $ 15,818 | $ 15,624 |
| Discontinued operations | $ 7,272 | $ 9,506 | $ 9,700 | $ | | |