CHARLES RIVER LABORATORIES INTERNATIONAL INC
Form 10-Q
July 30, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 27, 2015
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 No. 001-15943
CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	06-1397316 (I.R.S. Employer Identification No.)
251 Ballardvale Street Wilmington, Massachusetts (Address of Principal Executive Offices)	01887 (Zip Code)

(Registrant’s telephone number, including area code): (781) 222-6000

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 Website, 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

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.

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý
As of July 15, 2015, there were 46,779,186 shares of the Registrant’s common stock outstanding.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

FORM 10-Q

For the Quarterly Period Ended June 27, 2015

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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 our current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as “expect,” “anticipate,” “target,” “goal,” “project,” “intend,” “plan,” “believe,” “seek,” “estimate,” “may,” “designed,” “would,” “future,” “can,” “could” and other similar expressions that are predictions of or indicate future ev and trends or which do not relate to historical matters are intended to identify such forward-looking statements. These statements are based on our current expectations and beliefs 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: goodwill and asset impairments still under review; future demand for drug discovery and development products and services, including the outsourcing of these services; our expectations regarding stock repurchases, including the number of shares to be repurchased, expected timing and duration, the amount of capital that may be expended and the treatment of repurchased shares; present spending trends and other cost reduction activities by our clients; future actions by our management; the outcome of contingencies; changes in our business strategy, 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; our strategic relationships with venture capital limited partnerships and leading pharmaceutical companies and opportunities for future similar arrangements; our cost structure; the impact of acquisitions (including Argenta and BioFocus, VivoPath, ChanTest, Sunrise and Celsis); our expectations with respect to revenue 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 (and our ability to accommodate future demand with our infrastructure) including gains and losses attributable to businesses we plan to close, consolidate or divest; changes in our expectations regarding future stock option, restricted stock, performance share units and other equity grants to employees and directors; expectations with respect to foreign currency exchange; assessing (or changing our assessment of) our tax positions for financial statement purposes; and our liquidity. In addition, these statements include the impact of economic and market conditions on our clients; the effects of our cost-saving actions and the steps to optimize returns to shareholders on an effective and timely basis and our ability to withstand the current market conditions. 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 our Annual Report on Form 10-K for the year ended December 27, 2014 under the sections entitled “Our Strategy,” “Risk Factors,” “Management’s Discussion and Analysis of 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.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Service revenue	$214,380	$211,003	$411,160	$383,348
Product revenue	125,193	130,176	248,827	257,199
Total revenue	339,573	341,179	659,987	640,547
Costs and expenses:				
Cost of services provided	144,143	147,954	280,449	271,923
Cost of products sold	62,647	67,591	127,095	134,177
Selling, general and administrative	71,331	67,756	142,728	132,523
Amortization of intangible assets	5,717	6,853	10,975	11,193
Operating income	55,735	51,025	98,740	90,731
Other income (expense):				
Interest income	297	222	581	427
Interest expense	(4,376)	(3,373)	(7,400)	(6,174)
Other income (expense), net	8,672	2,667	359	8,543
Income from continuing operations, before income taxes	60,328	50,541	92,280	93,527
Provision for income taxes	11,076	14,081	11,407	24,439
Income from continuing operations, net of income taxes	49,252	36,460	80,873	69,088
Loss from discontinued operations, net of income taxes	(7)	(644)	(14)	(914)
Net income	49,245	35,816	80,859	68,174
Less: Net income attributable to noncontrolling interests	(736)	(552)	(809)	(678)
Net income attributable to common shareholders	$48,509	$35,264	$80,050	$67,496
Earnings (loss) per common share				
Basic:				
Continuing operations attributable to common shareholders	$1.04	$0.76	$1.71	$1.46
Discontinued operations	$—	$(0.01)	$—	$(0.02)
Net income attributable to common shareholders	$1.04	$0.75	$1.71	$1.44
Diluted:				
Continuing operations attributable to common shareholders	$1.02	$0.75	$1.68	$1.43
Discontinued operations	$—	$(0.01)	$—	$(0.02)
Net income attributable to common shareholders	$1.02	$0.74	$1.68	$1.41

See Notes to Unaudited Condensed Consolidated Financial Statements.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(in thousands)

	Three Months Ended		Six Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Net income	$49,245	$35,816	$80,859	$68,174
Foreign currency translation adjustment and other	17,953	12,902	(14,716)	7,884
Cumulative translation adjustment related to intercompany loan forgiveness	—	—	(2,341)	—
Pension and other post-retirement benefit plans:				
Amortization of net loss and prior service benefit included in net periodic pension cost	761	291	1,490	580
Comprehensive income, before income taxes	67,959	49,009	65,292	76,638
Income tax expense related to items of other comprehensive income (Note 10)	263	129	480	148
Comprehensive income, net of income taxes	67,696	48,880	64,812	76,490
Less: Comprehensive income related to noncontrolling interests	805	489	878	140
Comprehensive income attributable to common shareholders	$66,891	$48,391	$63,934	$76,350

See Notes to Unaudited Condensed Consolidated Financial Statements.

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CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(in thousands, except per share amounts)

	June 27, 2015	December 27, 2014
Assets		
Current assets:		
Cash and cash equivalents	$150,807	$160,023
Trade receivables, net	277,398	257,991
Inventories	90,037	89,043
Prepaid assets	36,952	26,900
Other current assets	74,453	72,941
Total current assets	629,647	606,898
Property, plant and equipment, net	680,565	676,797
Goodwill	317,414	321,077
Other intangible assets, net	172,376	178,875
Deferred tax asset	22,699	23,193
Other assets	63,216	72,951
Total assets	$1,885,917	$1,879,791
Liabilities, Redeemable Noncontrolling Interest and Equity		
Current liabilities:		
Current portion of long-term debt and capital leases	$17,993	$31,904
Accounts payable	32,967	33,815
Accrued compensation	57,400	71,569
Deferred revenue	77,382	78,124
Accrued liabilities	76,030	67,380
Other current liabilities	12,564	11,079
Current liabilities of discontinued operations	2,196	2,299
Total current liabilities	276,532	296,170
Long-term debt, net and capital leases	754,777	740,557
Other long-term liabilities	111,256	130,361
Long-term liabilities of discontinued operations	7,547	8,357
Total liabilities	1,150,112	1,175,445
Commitments and contingencies		
Redeemable noncontrolling interest	29,976	28,419
Equity:		
Preferred stock, $0.01 par value; 20,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.01 par value; 120,000 shares authorized; 85,373 shares issued and 46,850 shares outstanding at June 27, 2015 and 84,503 shares issued and 47,327 shares outstanding at December 27, 2014	853	845
Additional paid-in capital	2,372,685	2,307,640
Accumulated deficit	(58,725)	(138,775)
Treasury stock, at cost, 38,523 shares and 37,176 shares at June 27, 2015 and December 27, 2014, respectively	(1,522,747)	(1,423,260)
Accumulated other comprehensive loss	(90,363)	(74,247)
Total equity attributable to common shareholders	701,703	672,203
Noncontrolling interests	4,126	3,724
Total equity and redeemable noncontrolling interest	735,805	704,346
Total liabilities, equity and redeemable noncontrolling interest	$1,885,917	$1,879,791

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Six Months Ended	
	June 27, 2015	June 28, 2014
Cash flows relating to operating activities		
Net income	$80,859	$68,174
Less: Loss from discontinued operations	(14)	(914)
Income from continuing operations	80,873	69,088
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	45,516	44,352
Amortization of debt issuance costs	1,572	868
Stock-based compensation	19,873	14,881
Deferred income taxes	934	6,643
Gain on investments in limited partnerships	(364)	(8,180)
Gain on bargain purchase	(9,878)	—
Other, net	(198)	517
Changes in assets and liabilities:		
Trade receivables, net	(24,574)	(31,161)
Inventories	(1,662)	(2,502)
Other assets	5,871	(14,928)
Accounts payable	1,752	4,404
Accrued compensation	(12,757)	(1,229)
Deferred revenue	422	1,942
Accrued liabilities	8,795	10,012
Taxes payable and prepaid taxes	(6,696)	(6,802)
Other liabilities	(11,873)	(2,467)
Net cash provided by operating activities	97,606	85,438
Cash flows relating to investing activities		
Acquisition of businesses and assets, net of cash acquired	(10,680)	(183,151)
Capital expenditures	(24,556)	(20,505)
Purchases of investments	(15,174)	(9,734)
Proceeds from sale of investments and distributions from investments in limited partnerships	11,356	12,818
Other, net	2,566	(1,926)
Net cash used in investing activities	(36,488)	(202,498)
Cash flows relating to financing activities		
Proceeds from long-term debt and revolving credit agreement	294,213	237,920
Proceeds from exercises of stock options	35,641	36,534
Payments on long-term debt, capital lease obligations and revolving credit agreement	(301,283)	(98,404)
Purchase of treasury stock	(99,486)	(101,609)
Other, net	7,188	3,771
Net cash provided by (used in) financing activities	(63,727)	78,212
Discontinued operations		
Net cash used in operating activities from discontinued operations	(927)	(689)
Effect of exchange rate changes on cash and cash equivalents	(5,680)	622
Net change in cash and cash equivalents	(9,216)	(38,915)
Cash and cash equivalents, beginning of period	160,023	155,927

Cash and cash equivalents, end of period	$150,807	$117,012

See Notes to Unaudited Condensed Consolidated Financial Statements.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements are unaudited and have been prepared by Charles River Laboratories International, Inc. (the Company) in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and pursuant to Rule 10-01 of Regulation S-X. The year-end condensed consolidated balance sheet data was derived from the Company’s audited financial statements, but does not include all disclosures required by U.S. GAAP. These interim condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 27, 2014. The condensed consolidated financial statements, in the opinion of management, reflect all normal and recurring adjustments necessary for a fair statement of our financial position and results of operations. Certain reclassifications have been made to prior year amounts to conform to the current year presentation. The Company’s fiscal year is the twelve-month period ending the last Saturday in December.

Use of Estimates

The preparation of condensed consolidated financial statements in accordance with U.S. GAAP requires that the Company make estimates and judgments that may affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, judgments and methodologies. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. Changes in estimates are reflected in reported results in the period in which they become known.

Consolidation

The Company’s consolidated financial statements reflect its financial statements and those of its subsidiaries in which the Company holds a controlling financial interest. For consolidated entities in which the Company owns or is exposed to less than 100% of the economics, the Company records net income (loss) attributable to noncontrolling interests in its consolidated statements of income equal to the percentage of the economic or ownership interest retained in such entities by the respective noncontrolling parties. Intercompany balances and transactions are eliminated in consolidation.

Summary of Significant Accounting Policies

The Company’s significant accounting policies are described in Note 1, “Description of Business and Summary of Significant Accounting Policies,” in the 2014 Annual Report on Form 10-K.

Newly Adopted Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, “Simplifying the Presentation of Debt Issuance Costs,” which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of debt discounts or premiums. The ASU is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. During the three months ended June 27, 2015, the Company elected early adoption of this standard and applied the changes retrospectively to all prior periods presented in its consolidated financial statements.

The Company historically presented deferred debt issuance costs, or fees related to directly issuing debt, as assets on the consolidated balance sheets. As of June 27, 2015 and December 27, 2014, the adoption of this standard has resulted in the reclassification of $7.7 million and $5.4 million, respectively, from other assets to long-term debt, net and capital leases. These costs will continue to be amortized as interest expense over the term of the corresponding debt issuance.

Newly Issued Accounting Pronouncements

In April 2015, FASB issued ASU 2015-04, “Practical Expedient for the Measurement Date of an Employer’s Defined Benefit Obligation and Plan Assets” to provide a practical expedient related to the measurement date of the defined benefit plan assets and obligations. The practical expedient allows employers with fiscal year-end dates that do not coincide with a calendar month end to measure pension and post-retirement benefit plan assets and obligations as of

the calendar month-end date closest to the fiscal year end. The standard requires entities that elect the practical expedient to adjust the measurement of benefit plan assets and obligations for contributions or significant events between the month-end measurement date and the entity fiscal year end. The ASU is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. The Company is still evaluating the impact the election of the practical expedient would have on its consolidated financial statements and related disclosures.
In February 2015, the FASB issued ASU 2015-02, "Amendments to the Consolidation Analysis," which amends existing consolidation requirements. The guidance affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the guidance amends (i) the identification of variable interests (fees paid to a decision maker or service provider), (ii) the variable interest entity characteristics for a limited partnership or similar entity and (iii) the primary beneficiary determination. The ASU is effective for fiscal years beginning after December 15, 2015, and interim periods within

those fiscal years. Early adoption is permitted. The adoption of this standard is not expected to have a significant impact on the Company's financial position or results of operations.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." The standard requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. The ASU was originally effective for annual and interim periods beginning after December 15, 2016; however, on July 9, 2015, the FASB decided to defer by one year the effective date of the ASU. As a result, the standard will be effective for annual and interim periods beginning after December 15, 2017. The Company has not yet selected a transition method and is evaluating the impact the adoption will have on its consolidated financial statements and related disclosures.

2. BUSINESS ACQUISITIONS

Sunrise

On May 5, 2015, the Company acquired Sunrise Farms, Inc. (Sunrise), a producer of specific pathogen free fertile chicken eggs and chickens for the manufacture of live viruses. The purpose of this business acquisition was to expand the capabilities of the Company's existing Avian Vaccine Services business. The preliminary purchase price of the acquisition was $9.6 million and included payments for estimated working capital, which is subject to final adjustment based on the actual working capital of the acquired business as of the closing date. The acquisition was funded by cash on hand and borrowings on the Company's revolving credit facility. The business is reported in the Company's Manufacturing Support (Manufacturing) reportable segment.

The Company recorded a bargain purchase gain of $9.9 million, which represents the excess of the estimated fair value of the net assets acquired over the preliminary purchase price. The bargain purchase gain was recorded in other income (expense), net in the Company's consolidated statement of income and was not recognized for tax purposes. The Company believes there were several factors that contributed to this transaction resulting in a bargain purchase gain, including the highly specialized nature of Sunrise's business falling outside of the seller's core activities and a limited pool of potential buyers.

Before recognizing the gain from the bargain purchase, the Company reassessed its initial identification and valuation of assets acquired and liabilities assumed to validate that all assets and liabilities that the Company is able to identify at the acquisition date are properly recognized.

The preliminary purchase price allocation of $9.6 million, net of less than $0.1 million of cash acquired, is as follows:

	May 5, 2015 (in thousands)	
Accounts receivable, net	$981	
Inventory	1,518	
Other current assets (excluding cash)	318	
Property, plant and equipment	13,866	
Definite-lived intangible assets	3,400	
Current liabilities	(397	)
Long-term liabilities	(250	)
Fair value of net assets acquired	19,436	
Bargain purchase gain	(9,878	)
Total purchase price allocation	$9,558	

The purchase price allocations were prepared on a preliminary basis and are subject to change as additional information becomes available concerning the fair value and tax basis of the assets acquired and liabilities assumed. Any additional adjustments to the purchase price allocation will be made as soon as practicable but no later than one year from the date of acquisition.

The identifiable definite-lived intangible assets acquired represent the client relationships intangible, which is being amortized over the estimated useful life of approximately 15 years.

The Company incurred transaction and integration costs in connection with the acquisition of $0.3 million and $0.6 million during the three and six months ended June 27, 2015, respectively, which were included in selling, general and administrative expenses.

ChanTest

In October 2014, the Company acquired ChanTest Corporation (ChanTest), a leading provider of ion channel testing services to the pharmaceutical and biotech industry. The acquisition augments the Company's early discovery capabilities and enhances the Company's ability to support clients' target discovery and lead optimization efforts. The preliminary purchase price of the acquisition was $59.3 million, including $0.3 million in contingent consideration. The aggregate, undiscounted amount of contingent consideration that could become payable is a maximum of $2.0 million. The Company estimated the fair value of this contingent consideration based on a probability-weighted set of outcomes. The purchase price is subject to an adjustment based on the final determined net working capital as of the closing date. The business is reported in the Company's Discovery and Safety Assessment (DSA) reportable segment.

The preliminary purchase price allocation of $52.1 million, net of $7.2 million in cash acquired, is as follows:

	October 29, 2014	
	(in thousands)	
Current assets (excluding cash)	$4,648	
Property, plant and equipment	1,579	
Definite-lived intangible assets	23,920	
Goodwill	34,927	
Current liabilities	(3,515	)
Long-term liabilities	(9,486	)
Total purchase price allocation	$52,073	

The purchase price allocations were prepared on a preliminary basis and are subject to change as additional information becomes available concerning the fair value and tax basis of the assets acquired and liabilities assumed. During the six months ended June 27, 2015, the Company recorded measurement period adjustments related to the ChanTest acquisition that resulted in an immaterial change to the purchase price allocation. Any additional adjustments to the purchase price allocation will be made as soon as practicable but no later than one year from the date of acquisition.

The breakout of definite-lived intangible assets acquired is as follows:

	October 29, 2014	Weighted average amortization life
	(in thousands)	(in years)
Client relationships	$19,000	13
Other intangible assets	4,920	9
Total definite-lived intangible assets	$23,920	

The definite-lived intangibles are largely attributed to the expected cash flows related to client relationships existing at the acquisition closing date. The goodwill resulting from the transaction is primarily attributed to the potential growth of the business and is not deductible for tax purposes.

VivoPath

In June 2014, the Company acquired substantially all of the assets of VivoPath LLC (VivoPath), a discovery services company specializing in the rapid, in vivo compound evaluation of molecules in the therapeutic areas of metabolism, inflammation and oncology. The purchase price was $2.3 million, including $1.6 million in contingent consideration, and was allocated primarily to the intangible assets acquired. The aggregate, undiscounted amount of contingent consideration that could become payable is a maximum of $2.4 million, payable over three years based on the achievement of revenue growth targets. During the three

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months ended June 27, 2015, the first-year tranche of the contingent consideration of $0.6 million was earned. The Company estimated the fair value of this contingent consideration based on a probability-weighted set of outcomes. The business is reported in the Company's DSA reportable segment.

Argenta and BioFocus

On April 1, 2014, the Company acquired (1) 100% of the shares of the United Kingdom (U.K.) based entities Argenta and BioFocus, and (2) certain Dutch assets. These businesses have formed the core of the Company's Early Discovery business. With this acquisition, the Company has enhanced its position as a full service, early-stage contract research organization, with integrated in vitro and in vivo capabilities from target discovery through preclinical development. The purchase price of the acquisition was $191.8 million, including $0.9 million in contingent consideration. The acquisition was funded by cash on hand and borrowings on the Company's revolving credit facility. The purchase price included payment for estimated working capital, which was subject to final adjustment based on the actual working capital of the acquired business. The businesses are reported in the Company's DSA reportable segment.

The contingent consideration earn-out period ended on April 1, 2015. As a result, the related contingent consideration liability, as adjusted for subsequent changes in fair value, was reversed and a gain of $0.8 million was recorded in selling, general, and administrative expenses during the three months ended March 28, 2015, as no payments are expected to be made. The contingent consideration was a one-time payment that could have become payable in the second quarter of 2015 based on the achievement of a certain revenue target for the twelve-month period following the acquisition. The aggregate, undiscounted amount of contingent consideration that the Company could have paid was €5.0 million ($5.6 million as of June 27, 2015). The Company estimated the fair value of this contingent consideration based on a probability-weighted set of outcomes.

The purchase price allocation of $183.6 million, net of $8.2 million of cash acquired, was as follows (in thousands):

Current assets (excluding cash)	$31,682
Property, plant and equipment	21,008
Other long term assets	11,140
Definite-lived intangible assets	104,470
Goodwill	65,235
Current liabilities	(13,139)
Long term liabilities	(36,802)
Total purchase price allocation	$183,594

The breakout of definite-lived intangible assets acquired was as follows:

	Definite-Lived Intangible Assets (in thousands)	Weighted Average Amortization Life (in years)
Client relationships	$94,000	18
Backlog	5,900	1
Trademark and trade names	1,170	3
Leasehold interests	1,000	13
Other intangible assets	2,400	19
Total definite-lived intangible assets	$104,470	

The goodwill resulting from the transaction is primarily attributed to the potential growth of the Company's DSA businesses from clients introduced through Argenta and BioFocus, the assembled workforce of the acquired businesses and expected cost synergies. The goodwill attributable to Argenta and BioFocus is not deductible for tax purposes. The Company incurred transaction and integration costs in connection with the acquisition of less than $0.1 million during the three and six months ended June 27, 2015 and of $1.6 million and $4.9 million during the three and six months ended June 28, 2014, respectively, which were included in selling, general and administrative expenses.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Argenta and BioFocus revenue and operating loss for the three months ended June 27, 2015 are $20.1 million and $1.7 million, respectively. Argenta and BioFocus revenue and operating loss for the six months ended June 27, 2015 are $40.7 million and $1.4 million, respectively. Argenta and BioFocus revenue and operating income for both three and six months ended June 28, 2014 are $23.5 million and less than $0.1 million, respectively, since Argenta and BioFocus were acquired on April 1, 2014.

The following selected pro forma consolidated results of operations are presented as if the Argenta and BioFocus acquisition had occurred as of the beginning of the period immediately preceding the period of acquisition after giving effect to certain adjustments, including amortization of intangible assets and depreciation of fixed assets of $3.7 million and other one-time costs. These pro forma consolidated results of operations are for informational purposes only and do not necessarily reflect the results of operations had the companies operated as one entity during the periods reported. No effect has been given for synergies, if any, that may have been realized through the acquisition.

	Three Months Ended		Six Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
	(in thousands)			
Revenue	$339,573	$341,179	$659,987	$665,656
Net income attributable to common shareholders	48,509	35,264	80,050	65,688
Earnings per common share				
Basic	$1.04	$0.75	$1.71	$1.40
Diluted	$1.02	$0.74	$1.68	$1.38

These pro forma results of operations have been prepared for comparative purposes only, and they do not purport to be indicative of the results of operations that actually would have resulted had the acquisition occurred on the date indicated or that may result in the future.

3. RESTRUCTURING

The Company periodically implements staffing reductions to improve operating efficiency at various sites.

The following table rolls forward the Company's severance and retention cost liability:

	December 27, 2014	Expense	Payments and Adjustments	June 27, 2015
	(in thousands)			
Severance and retention cost liability	$2,666	$1,835	$(2,765)	$1,736
Total	$2,666	$1,835	$(2,765)	$1,736

As of June 27, 2015 and December 27, 2014, $1.4 million and $2.2 million of severance and retention costs liabilities, respectively, were included in accrued compensation and $0.3 million and $0.5 million, respectively, were included in other long-term liabilities on the Company's consolidated balance sheets.

The following table presents severance and retention costs by classification on the income statement:

	Three Months Ended		Six Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
	(in thousands)			
Severance charges included in cost of revenue	$137	$1,072	$667	$2,754
Severance charges included in selling, general and administrative	568	1,817	1,168	2,035
Total expense	$705	$2,889	$1,835	$4,789

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
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The following table presents severance and retention cost by reportable segment:

	Three Months Ended		Six Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
	(in thousands)			
Research models and services	$80	$2,011	$999	$3,595
Discovery and safety assessment	456	854	475	1,049
Manufacturing support	118	24	295	24
Corporate	51	—	66	121
Total expense	$705	$2,889	$1,835	$4,789

4. SUPPLEMENTAL BALANCE SHEET INFORMATION

The composition of trade receivables, net is as follows:

	June 27, 2015	December 27, 2014
	(in thousands)	
Client receivables	$233,569	$219,118
Unbilled revenue	49,016	43,780
Total	282,585	262,898
Less: Allowance for doubtful accounts	(5,187)	(4,907)
Trade receivables, net	$277,398	$257,991

The composition of inventories is as follows:

	June 27, 2015	December 27, 2014
	(in thousands)	
Raw materials and supplies	$13,885	$15,416
Work in process	12,023	11,802
Finished products	64,129	61,825
Inventories	$90,037	$89,043

The composition of other current assets is as follows:

	June 27, 2015	December 27, 2014
	(in thousands)	
Deferred tax asset	23,058	27,644
Investments	18,074	16,167
Prepaid income tax	31,537	26,287
Restricted cash	100	2,552
Other	1,684	291
Other current assets	$74,453	$72,941

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	June 27, 2015	December 27, 2014
	(in thousands)	
Land	$42,796	$40,314
Buildings [1]	711,943	682,495
Machinery and equipment	380,871	384,713
Leasehold improvements	36,955	37,270
Furniture and fixtures	21,237	22,577
Vehicles	4,101	3,967
Computer hardware and software	122,050	119,474
Construction in progress	21,844	40,970
Total	1,341,797	1,331,780
Less: Accumulated depreciation	(661,232)	(654,983)
Property, plant and equipment, net	$680,565	$676,797

[1] The balance as of June 27, 2015 includes capital lease assets. See Note 8, "Long Term Debt and Capital Lease Obligations."

Depreciation expense for both three months ended June 27, 2015 and June 28, 2014 was $17.4 million. Depreciation expense for the six months ended June 27, 2015 and June 28, 2014 was $34.5 million and $33.2 million, respectively.

The composition of other assets is as follows:

	June 27, 2015	December 27, 2014
	(in thousands)	
Life insurance policies	28,237	27,603
Investments in limited partnerships	29,141	27,047
Other	5,838	18,301
Other assets	$63,216	$72,951

The composition of other current liabilities is as follows:

	June 27, 2015	December 27, 2014
	(in thousands)	
Accrued income taxes	$10,906	$9,362
Current deferred tax liability	1,302	1,484
Accrued interest and other	356	233
Other current liabilities	$12,564	$11,079

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

	June 27, 2015	December 27, 2014
	(in thousands)	
Deferred tax liability	$25,550	$30,816
Long-term pension liability	40,531	45,135
Accrued executive supplemental life insurance retirement plan and deferred compensation plan	33,424	33,007
Other long-term liabilities	11,751	21,403
Other long-term liabilities	$111,256	$130,361

5. INVESTMENTS IN LIMITED PARTNERSHIPS AND MARKETABLE SECURITIES

Investments in Limited Partnerships

The Company invests in several venture capital limited partnerships that invest in start-up companies primarily in the life sciences industry. The Company’s ownership interest in these limited partnerships ranges from 3.8% to 12.0%. The Company accounts for such investments under the equity method of accounting. The Company’s total commitment to these entities as of June 27, 2015 is $65.0 million, of which the Company has funded $23.5 million through June 27, 2015.

During the three and six months ended June 27, 2015 the Company received dividends totaling $2.1 million. During the three and six months ended June 28, 2014, the Company received dividends totaling $0.9 million and $7.4 million, respectively. The Company recognized a loss of $0.9 million and a gain of $2.1 million related to these investments for the three months ended June 27, 2015 and June 28, 2014, respectively.

Marketable Securities

The following is a summary of the Company's marketable securities, all of which are classified as available-for-sale:

	June 27, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Mutual fund	$4,650	$—	$(89)	$4,561
Total	$4,650	$—	$(89)	$4,561

There were no sales of available-for-sale securities during the six months ended June 27, 2015.

6. FAIR VALUE

The Company has certain financial assets and liabilities recorded at fair value which have been classified as Level 1, 2, or 3 within the fair value hierarchy:

- Level 1 - Fair values are determined utilizing quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access;
- Level 2 - Fair values are determined by utilizing quoted prices for identical or similar assets and liabilities in active markets or other market observable inputs such as interest rates, yield curves, and foreign currency spot rates;
- Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The fair value hierarchy level is determined by asset and liability class based on the lowest level of significant input. The observability of inputs may change for certain assets or liabilities. This condition could cause an asset or liability to be reclassified between levels. The Company recognizes transfers between levels within the fair value hierarchy, if any, at the end of each quarter. During the six months ended June 27, 2015 and June 28, 2014, there were no transfers between levels.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Valuation methodologies used for assets and liabilities measured or disclosed at fair value are as follows:

- Cash equivalents - Valued at quoted market prices determined through third-party pricing services.
- Mutual funds - Valued at the unadjusted quoted net asset value of shares held by the Company.
- Investments in life insurance policies - Valued at cash surrender value based on fair value of underlying investments.
- Redeemable noncontrolling interest - Valued primarily using the income approach based on estimated future cash flows of the underlying business based on the Company’s projected financial data discounted by a weighted average cost of capital.
- Contingent consideration- Valued based on a probability weighting of the future cash flows associated with the potential outcomes.

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

	June 27, 2015			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Cash equivalents	$—	$129	$—	$129
Marketable securities	4,561	—	—	4,561
Life insurance policies	—	21,152	—	21,152
Total assets measured at fair value	$4,561	$21,281	$—	$25,842
Redeemable noncontrolling interest	$—	$—	$29,976	$29,976
Contingent consideration	—	—	2,831	2,831
Total liabilities measured at fair value	$—	$—	$32,807	$32,807

	December 27, 2014			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Cash equivalents	$—	$1,934	$—	$1,934
Life insurance policies	—	20,520	—	20,520
Total assets measured at fair value	$—	$22,454	$—	$22,454
Redeemable noncontrolling interest	$—	$—	$28,419	$28,419
Contingent consideration	—	—	2,828	2,828
Total liabilities measured at fair value	$—	$—	$31,247	$31,247

Redeemable Noncontrolling Interest

The Company’s redeemable noncontrolling interest resulted from the acquisition of a 75% ownership interest in Vital River. Concurrent with the acquisition, the Company entered into a joint venture agreement with the noncontrolling interest holders that provides the Company with the right to purchase the remaining 25% of the entity for cash at its then appraised value beginning in January 2016. Additionally, the noncontrolling interest holders were granted the right to require the Company to purchase the remaining 25% of the entity at its then appraised value beginning in January 2016 for cash. These rights are accelerated in certain events. As the noncontrolling interest holders can require the Company purchase the remaining 25%

interest, the noncontrolling interest is classified in the mezzanine section of the consolidated balance sheet, which is above the equity section and below liabilities.

The following table provides a rollforward of the fair value of the Company's redeemable noncontrolling interest:

	Six Months Ended	
	June 27, 2015	June 28, 2014
	(in thousands)	
Beginning balance	$28,419	$20,581
Additions	—	—
Total gains or losses (realized/unrealized):		
Net income attributable to noncontrolling interest	364	372
Foreign currency translation	112	(462)
Change in fair value, included in additional paid-in capital	1,081	2,992
Ending balance	$29,976	$23,483

The significant unobservable inputs used in the fair value measurement of the Company's redeemable noncontrolling interest are the estimated future cash flows based on projected financial data and a discount rate of 19.0%. Significant changes in the timing or amounts of the estimated future cash flows would result in a significantly higher or lower fair value measurement. Significant increases or decreases in the discount rate would result in a significantly lower or higher fair value measurement, respectively.

Contingent Consideration

The following table provides a rollforward of the contingent consideration related to the acquisitions of Argenta, BioFocus, VivoPath and ChanTest. See Note 2, "Business Acquisitions."

	Six Months Ended	
	June 27, 2015	June 28, 2014
	(in thousands)	
Beginning balance	$2,828	$—
Additions	675	2,428
Total gains or losses (realized/unrealized):		
Reversal of previously recorded contingent liability and change in fair value	(672)	(8)
Ending balance	$2,831	$2,420

The significant unobservable inputs used in the fair value measurement of the Company's contingent consideration are the probabilities of successful achievement of certain financial targets and a discount rate. Significant increases or decreases in any of the probabilities of success would result in a significantly higher or lower fair value measurement, respectively. Significant increases or decreases in the discount rate would result in a significantly lower or higher fair value measurement, respectively.

Debt Instruments

The book value of the Company's term and revolving loans, which are variable rate loans carried at amortized cost, approximates their fair value based on current market pricing of similar debt. As the fair value is based on significant other observable inputs, including current interest and foreign currency exchange rates, it is deemed to be Level 2.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The following table provides a rollforward of the Company's goodwill:

	December 27, 2014	Adjustments to Goodwill Acquisitions	Foreign Exchange	June 27, 2015
	(in thousands)			
Research Models and Services	$59,196	$—	$(253)	$58,943
Discovery and Safety Assessment	229,302	(624)	(1,533)	227,145
Manufacturing Support	32,579	187	(1,440)	31,326
Total	$321,077	$(437)	$(3,226)	$317,414

Other Intangible Assets, net

The following table displays other intangible assets, net by major class:

	June 27, 2015			December 27, 2014		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	(in thousands)					
Backlog	$8,903	$(8,538)	$365	$8,728	$(6,636)	$2,092
Client relationships	375,465	(219,111)	156,354	379,339	(217,938)	161,401
Trademarks and trade names	6,599	(5,584)	1,015	6,603	(5,314)	1,289
Standard operating procedures	2,303	(1,844)	459	2,309	(1,642)	667
Other identifiable intangible assets	16,408	(5,663)	10,745	16,334	(6,346)	9,988
Total definite-lived intangible assets	409,678	(240,740)	168,938	413,313	(237,876)	175,437
Indefinite-lived intangibles assets			3,438			3,438
Total other intangibles assets, net			$172,376			$178,875

8. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

Long-Term Debt

Long-term debt, net consists of the following:

	June 27, 2015	December 27, 2014
	(in thousands)	
Term loans	$400,000	$378,000
Revolving credit facility	342,888	375,536
Other long-term debt	196	214
Total debt	743,084	