CHARLES RIVER LABORATORIES INTERNATIONAL INC
Form 10-Q
October 30, 2014

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 SEPTEMBER 27, 2014
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 October 16, 2014, there were 46,921,688 shares of the Registrant's common stock outstanding.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
FORM 10-Q
For the Quarterly Period Ended September 27, 2014
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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, and VivoPath see Note 2, "Business Acquisitions" and ChanTest, see Note 16, "Subsequent Events"); 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 28, 2013 under the sections entitled “Our Strategy,” “Risks Related to Our Business and Industry,” "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		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Product revenue	$122,816	$116,732	$380,015	$364,877
Service revenue	204,751	175,397	588,099	511,423
Total revenue	327,567	292,129	968,114	876,300
Costs and expenses:				
Cost of products sold	65,246	70,294	199,423	202,954
Cost of services provided	144,053	121,909	415,976	366,639
Selling, general and administrative	64,476	54,903	196,999	167,021
Amortization of intangible assets	7,620	4,180	18,813	12,892
Operating income	46,172	40,843	136,903	126,794
Other income (expense):				
Interest income	376	143	803	476
Interest expense	(2,997)	(2,319)	(9,171)	(18,143)
Other income, net	331	4,059	8,874	6,094
Income from continuing operations, before income taxes	43,882	42,726	137,409	115,221
Provision for income taxes	11,582	11,390	36,021	29,331
Income from continuing operations, net of income taxes	32,300	31,336	101,388	85,890
Income (loss) from discontinued operations, net of income taxes	52	(113)	(862)	(1,183)
Net income	32,352	31,223	100,526	84,707
Less: Net income attributable to noncontrolling interests	(316)	(356)	(994)	(978)
Net income attributable to common shareholders	$32,036	$30,867	$99,532	$83,729
Earnings per common share				
Basic:				
Continuing operations attributable to common shareholders	$0.70	$0.65	$2.15	$1.77
Discontinued operations	$—	$—	$(0.02)	$(0.02)
Net income attributable to common shareholders	$0.70	$0.64	$2.13	$1.75
Diluted:				
Continuing operations attributable to common shareholders	$0.68	$0.64	$2.11	$1.75
Discontinued operations	$—	$—	$(0.02)	$(0.02)
Net income attributable to common shareholders	$0.68	$0.64	$2.09	$1.72

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		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net income	$32,352	$31,223	$100,526	$84,707
Foreign currency translation adjustment	(31,635)	16,371	(23,751)	(9,653)
Defined benefit plan gains and prior service costs not yet recognized as components of net periodic pension cost:				
Amortization of prior service costs and net gains and losses (Note 11)	291	752	871	2,249
Comprehensive income, before tax	1,008	48,346	77,646	77,303
Income tax expense (benefit) related to items of other comprehensive income (Note 10)	$125	$(326)	$273	$874
Comprehensive income, net of tax	883	48,672	77,373	76,429
Less: comprehensive income related to noncontrolling interests	(712)	(454)	(852)	(1,260)
Comprehensive income attributable to common shareholders	$171	$48,218	$76,521	$75,169

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	September 27, 2014	December 28, 2013
Assets		
Current assets:		
Cash and cash equivalents	$130,747	$155,927
Trade receivables, net	275,024	220,630
Inventories	92,695	89,396
Other current assets	106,718	85,847
Current assets of discontinued businesses	835	750
Total current assets	606,019	552,550
Property, plant and equipment, net	671,244	676,182
Goodwill, net	289,356	230,701
Other intangibles, net	167,545	84,537
Deferred tax asset	21,215	23,671
Other assets	83,873	61,964
Long-term assets of discontinued businesses	3,106	3,151
Total assets	$1,842,358	$1,632,756
Liabilities and Equity		
Current liabilities:		
Current portion of long-term debt and capital leases	$31,917	$21,437
Accounts payable	27,547	31,770
Accrued compensation	69,616	58,461
Deferred revenue	66,920	54,177
Accrued liabilities	69,516	56,712
Other current liabilities	15,508	22,546
Current liabilities of discontinued businesses	2,059	1,931
Total current liabilities	283,083	247,034
Long-term debt and capital leases	754,799	642,352
Other long-term liabilities	98,219	70,632
Long-term liabilities of discontinued businesses	7,876	8,080
Total liabilities	1,143,977	968,098
Commitments and contingencies (Notes 8, 10, and 13)		
Redeemable noncontrolling interest	24,550	20,581
Shareholders' 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; 83,942,118 issued and 46,766,227 shares outstanding at September 27, 2014 and 82,522,905 issued and 47,553,841 shares outstanding at December 28, 2013	839	825
Additional paid-in capital	2,276,279	2,206,155
Accumulated deficit	(165,941)	(265,473)
Treasury stock, at cost, 37,175,891 shares and 34,969,064 shares at September 27, 2014 and December 28, 2013, respectively	(1,423,227)	(1,305,880)
Accumulated other comprehensive income	(17,654)	5,357
Total shareholders' equity	670,296	640,984
Noncontrolling interests	3,535	3,093
Total shareholder's equity, including noncontrolling interests	698,381	664,658

Total liabilities and equity	$1,842,358	$1,632,756

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	September 27, 2014	September 28, 2013
Cash flows relating to operating activities		
Net income	$100,526	$84,707
Less: Loss from discontinued operations	(862)	(1,183)
Income from continuing operations	101,388	85,890
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	70,435	67,336
Amortization of debt issuance costs and discounts	1,298	9,124
Stock-based compensation	23,132	18,231
Deferred income taxes	1,140	8,675
Gain on investments in limited partnerships	(7,377)	(4,832)
Other, net	(1,546)	2,336
Changes in assets and liabilities:		
Trade receivables	(40,961)	(22,663)
Inventories	(4,573)	1,445
Other assets	(15,055)	(7,917)
Accounts payable	(1,779)	(7,688)
Accrued compensation	10,795	10,500
Deferred revenue	8,826	(2,289)
Accrued liabilities	13,355	3,285
Taxes payable and prepaid taxes	(3,953)	(9,557)
Other liabilities	(2,842)	(5,326)
Net cash provided by operating activities	152,283	146,550
Cash flows relating to investing activities		
Acquisition of businesses and assets, net of cash acquired	(183,151)	(24,218)
Capital expenditures	(29,907)	(25,319)
Purchases of investments	(18,171)	(15,341)
Proceeds from sale of investments and distributions from investments in limited partnerships	15,964	10,437
Other, net	(1,924)	108
Net cash used in investing activities	(217,189)	(54,333)
Cash flows relating to financing activities		
Proceeds from long-term debt and revolving credit agreement	247,920	467,804
Proceeds from exercises of stock options	46,741	58,986
Payments on long-term debt, capital lease obligations and revolving credit agreement	(132,431)	(502,241)
Purchase of treasury stock	(121,985)	(91,703)
Other, net	4,051	(1,176)
Net cash provided by (used in) financing activities	44,296	(68,330)
Discontinued operations		
Net cash used in operating activities	(570)	(1,533)
Net cash used in discontinued operations	(570)	(1,533)
Effect of exchange rate changes on cash and cash equivalents	(4,000)	(1,585)
Net change in cash and cash equivalents	(25,180)	20,769
Cash and cash equivalents, beginning of period	155,927	109,685

Cash and cash equivalents, end of period	$130,747	$130,454

See Notes to Unaudited Condensed Consolidated Financial Statements.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY AND NONCONTROLLING INTERESTS (UNAUDITED)
(in thousands)

	Total	Accumulated Deficit	Accumulated Other Comprehensive Income	Common Stock	Additional Paid-in Capital	Treasury Stock	Non-controlling Interests
December 28, 2013	$664,658	$ (265,473)	$ 5,357	$825	$2,206,155	$(1,305,880)	$ 23,674
Components of comprehensive income, net of tax:							
Net income	100,526	99,532	—	—	—	—	994
Other comprehensive loss	(23,153)	—	(23,011)	—	—	—	(142)
Total comprehensive income	77,373	—	—	—	—	—	852
Adjustment of redeemable noncontrolling interest to fair value	—	—	—	—	(3,559)	—	3,559
Tax benefit associated with stock issued under employee compensation plans	3,751	—	—	—	3,751	—	—
Issuance of stock under employee compensation plans	46,814	—	—	14	46,800	—	—
Acquisition of treasury shares	(117,347)	—	—	—	—	(117,347)	—
Stock-based compensation	23,132	—	—	—	23,132	—	—
September 27, 2014	$698,381	$ (165,941)	$ (17,654)	$839	$2,276,279	$(1,423,227)	$ 28,085

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 condensed consolidated interim financial statements of Charles River Laboratories International, Inc. (the Company) 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 (U.S. GAAP) 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 Company's financial position and results of operations. 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 the Company's Annual Report on Form 10-K for the year ended December 28, 2013. Certain reclassifications have been made to prior periods' financial statements to conform with the current period presentation.

During the quarter ended June 28, 2014, the Company revised its reportable segments to ensure alignment with the Company's view of the business following its acquisition of the contract research organization (CRO) services division of Galapagos N.V. (Early Discovery). The Company reviewed the new and existing markets addressed by the business, the recently revised go-to-market strategy, long-term operating margins, the discrete financial information available to its Chief Operating Decision Maker (CODM) and considered how its businesses aggregate based on these qualitative and quantitative factors. Based on this review, the Company identified three reportable segments: Research Models and Services (RMS), Discovery and Safety Assessment (DSA) and Manufacturing Support (Manufacturing). The Company reported segment results on this basis beginning in the quarter ended June 28, 2014 and retrospectively for all comparable prior periods.

The revised reportable segments are as follows:

Research Models and Services	Discovery and Safety Assessment	Manufacturing Support
Research Models	Discovery Services (1)	Endotoxin and Microbial Detection
Research Model Services (2)	Safety Assessment	Avian Vaccine Services
		Biologics Testing Solutions

(1) Discovery Services includes the Early Discovery businesses, which were acquired on April 1, 2014.

(2) Research Model Services include Genetically Engineered Models and Services (GEMS), Research Animal Diagnostic Services (RADS), and Insourcing Solutions (IS).

Prior to recasting the reportable segments, the businesses were reported in two segments as follows:

Research Models and Services	Preclinical Services
Research Models (3)	Discovery Services
Research Model Services (4)	Safety Assessment
Endotoxin and Microbial Detection	Biologics Testing Solutions

(3) Research Models included Avian Vaccine Services.

(4) Research Model Services included GEMS, RADS, IS and Discovery Research Services.

Use of Estimates

The preparation of condensed consolidated financial statements in accordance with U.S. GAAP requires that the Company makes 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, including those related to revenue recognition, impairment of long-lived assets, purchase accounting for acquired businesses, equity investments, income taxes including the valuation allowance for deferred tax assets, defined benefit pension plans, contingencies and share-based compensation. 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.

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 2013 Annual Report on Form 10-K.

Consolidation

The Company's condensed consolidated financial statements reflect its financial statements, those of its wholly-owned subsidiaries and those of certain variable interest entities where the Company is the primary beneficiary. 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 condensed 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.

In determining whether the Company is the primary beneficiary of an entity and therefore required to consolidate, the Company applies a qualitative approach that determines whether it has both (1) the power to direct the economically significant activities of the entity and (2) the obligation to absorb losses of, or the right to receive benefits from, the entity that could potentially be significant to that entity. The Company continuously assesses whether it is the primary beneficiary of a variable interest entity as changes to existing relationships or future transactions may result in the Company consolidating or deconsolidating certain of its variable interest entities.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU 2014-08 changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. The ASU is effective for annual and interim periods beginning after December 15, 2014. The Company does not expect the impact of the adoption of this standard to be material to its consolidated financial statements.

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. Early adoption is not permitted. The ASU is effective for annual and interim periods beginning after December 15, 2016. 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

Early Discovery

On April 1, 2014, the Company acquired Early Discovery consisting of (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 CRO, with integrated in vitro and in vivo capabilities from target discovery through preclinical development. The preliminary purchase price of the acquisition is $191.3 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 includes payment for estimated

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

working capital, which is subject to final adjustment based on the actual working capital of the acquired business. The businesses are reported in the Company's DSA segment.

The contingent consideration is a one-time payment that could become payable based on the achievement of a revenue target for the twelve-month period following the acquisition. If achieved, the payment would become due in the second quarter of 2015. The aggregate, undiscounted amount of contingent consideration that the Company would pay is €5.0 million ($6.3 million as of September 27, 2014). The Company estimated the fair value of this contingent consideration based on a probability-weighted set of outcomes.

The preliminary purchase price allocation of $183.1 million, net of $8.2 million of cash acquired, is as follows:

	April 1, 2014 (in thousands)
Current assets (excluding cash)	$31,257
Property, plant and equipment	21,008
Other long term assets	11,549
Definite-lived intangible assets	104,270
Goodwill	66,330
Current liabilities	(14,299)
Long term liabilities	(36,973)
Total purchase price allocation	$183,142

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 third quarter of 2014, we recorded measurement period adjustments related to the Early Discovery 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:

	April 1, 2014 (in thousands)	Weighted average amortization life
Client relationships	$94,000	18 years
Backlog	5,700	1 year
Trademark and trade names	1,170	3 years
Leasehold interests	1,000	13 years
Other intangible assets	2,400	19 years
Total definite-lived intangible assets	$104,270	

The goodwill resulting from the transaction is primarily attributed to the potential growth in the Company's DSA businesses from customers introduced through the Early Discovery business, 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 $0.5 million and $5.4 million during the three and nine months ended September 27, 2014, respectively, which are included in selling, general and administrative expenses.

The following selected unaudited pro forma consolidated results of operations are presented as if the Early Discovery 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 are for informational purposes only and do not necessarily reflect the results of operations had the

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

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		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
	(in thousands)			
Revenue	$327,567	$313,460	$993,223	$935,693
Net income	32,036	29,098	101,029	76,705
Earnings per common share				
Basic	$0.70	$0.61	$2.16	$1.60
Diluted	$0.68	$0.60	$2.12	$1.58

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. Early Discovery revenue and operating loss for the three months ended September 27, 2014 are $23.3 million and $0.4 million, respectively. Early Discovery revenue and operating loss for the nine months ended September 27, 2014 are $46.8 million and $0.4 million, respectively.

VivoPath

In June 2014, the Company acquired substantially all of the assets of VivoPath, LLC, a discovery service company specializing in the rapid, in vivo compound evaluation of molecules in the therapeutic areas of metabolism, inflammation and oncology. The preliminary 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 the next three years based on the achievement of revenue growth targets. 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 segment.

3. RESTRUCTURING AND ASSET IMPAIRMENTS

Facilities

RMS Japan

In the second quarter of 2014, the Company committed to a plan to consolidate certain research model operations in Japan. As a result, the Company adjusted the carrying value of certain facilities impacted by the consolidation plan. During the three and nine months ended September 27, 2014, the Company recorded $1.3 million and $1.7 million of accelerated depreciation, respectively. Additional accelerated depreciation for 2014 will amount to approximately $1.2 million.

RMS North America

In the first quarter of 2014, the Company committed to a plan to close its research model production facility located in Michigan by the end of 2014 and to reassign the sourcing of research models to other facilities in the United States (U.S.). As a result of these actions, the Company reviewed the long-lived assets of this asset group, consisting of land improvements, building and equipment, for potential impairment based on the undiscounted cash flows of the group and considered the potential redeployment and future utilization of the facility's machinery and equipment. During the three and nine months ended September 27, 2014, the Company recorded $0.3 million and $1.3 million of asset impairments and other charges, respectively, as well as $0.3 million and $0.9 million of accelerated depreciation, respectively. Additional accelerated depreciation for 2014 will amount to approximately $0.2 million.

RMS Europe

In 2012, the Company commenced a consolidation of certain research model operations in Europe. As a result, the Company adjusted the carrying value of certain facilities impacted by the consolidation plan to fair value through an asset impairment charge in 2012. During the second quarter of 2014, the Company recorded an additional impairment charge of $0.3 million related to certain facilities and also recorded a gain of $1.1 million on the sale of another facility.

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

Staffing Reductions

The Company has periodically implemented staffing reductions to improve operating efficiency and profitability at various sites. As a result of these actions, for the nine months ended September 27, 2014 and September 28, 2013, the Company recorded severance and retention charges as shown below. As of September 27, 2014, $2.4 million was included in accrued compensation and $0.9 million in other long-term liabilities on the Company's consolidated balance sheet.

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

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
	(in thousands)			
Balance, beginning of period	$3,823	$2,917	$2,782	$3,636
Expense	574	476	5,363	1,058
Payments/Utilization	(1,117)	(783)	(4,865)	(2,084)
Balance, end of period	$3,280	$2,610	$3,280	$2,610

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

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
	(in thousands)			
Severance charges included in cost of revenue	$367	$476	$3,121	$989
Severance charges included in selling, general and administrative expense	207	—	2,242	69
Total expense	$574	$476	$5,363	$1,058

The following table presents severance and retention cost by segment:

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
	(in thousands)			
Research models and services	$379	$32	$3,974	$301
Discovery and safety assessment	69	398	1,118	711
Manufacturing support	126	46	150	46
Corporate	—	—	121	—
Total expense	$574	$476	$5,363	$1,058

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

4. SUPPLEMENTAL BALANCE SHEET INFORMATION

The composition of trade receivables, net is as follows:

	September 27, 2014	December 28, 2013
	(in thousands)	
Client receivables	$ 229,366	$ 190,423
Unbilled revenue	50,670	35,184
Total	280,036	225,607
Less allowance for doubtful accounts	(5,012)	(4,977)
Trade receivables, net	$ 275,024	$ 220,630

The composition of inventories is as follows:

	September 27, 2014	December 28, 2013
	(in thousands)	
Raw materials and supplies	$ 15,583	$ 15,028
Work in process	12,053	11,715
Finished products	65,059	62,653
Inventories	$ 92,695	$ 89,396

The composition of other current assets is as follows:

	September 27, 2014	December 28, 2013
	(in thousands)	
Prepaid assets	$ 31,466	$ 20,058
Deferred tax asset	31,636	29,139
Time deposits	14,577	11,158
Prepaid income tax	25,747	25,247
Restricted cash	3,292	245
Other current assets	$ 106,718	$ 85,847

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

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

	September 27, 2014	December 28, 2013
	(in thousands)	
Land	$ 39,452	$ 40,157
Buildings	701,160	694,074
Machinery and equipment	385,222	367,244
Leasehold improvements	40,150	37,959
Furniture and fixtures	23,796	24,013
Vehicles	3,836	3,859
Computer hardware and software	117,889	112,328
Construction in progress [1]	31,862	42,075
Total	1,343,367	1,321,709
Less accumulated depreciation	(672,123)	(645,527)
Property, plant and equipment, net	$ 671,244	$ 676,182

[1] Includes the leased facility under construction. See Note 8, "Long-Term Debt and Capital Lease Obligations."

Depreciation expense for the three months ended September 27, 2014 and September 28, 2013 was $18.4 million and $22.7 million, respectively. Depreciation expense for the nine months ended September 27, 2014 and September 28, 2013 was $51.6 million and $54.4 million, respectively.

The composition of other assets is as follows:

	September 27, 2014	December 28, 2013
	(in thousands)	
Deferred financing costs	$ 5,828	$ 7,126
Cash surrender value of life insurance policies	27,267	26,507
Investments in limited partnerships	23,432	17,911
Other assets	27,346	10,420
Other assets	$ 83,873	$ 61,964

The composition of other current liabilities is as follows:

	September 27, 2014	December 28, 2013
	(in thousands)	
Accrued income taxes	$ 13,667	$ 18,773
Current deferred tax liability	1,652	1,960
Accrued interest and other	189	1,813
Other current liabilities	$ 15,508	$ 22,546

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

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

	September 27, 2014	December 28, 2013
	(in thousands)	
Deferred tax liability	$ 30,764	$ 14,988
Long-term pension liability	14,822	16,219
Accrued Executive Supplemental Life Insurance Retirement Plan and Deferred Compensation Plan	30,559	28,708
Other long-term liabilities	22,074	10,717
Other long-term liabilities	$ 98,219	$ 70,632

5. INVESTMENTS IN LIMITED PARTNERSHIPS

The Company has invested in several venture capital limited partnerships that invest in start-up companies in the life sciences industry. The Company's total commitment to these entities as of September 27, 2014 was $55.0 million, of which the Company has funded $18.0 million through the third quarter of 2014. During the three and nine months ended September 27, 2014, the Company received dividends in cash and in securities totaling $0 and $7.4 million, respectively. The Company's ownership interest in these limited partnerships ranges from 3.8% to 12.1%. These limited partnerships prepare quarterly financial statements following investment company accounting guidelines, whereby investments are adjusted to fair value with resulting gains and losses recorded in earnings. These entities estimate the fair value of non-publicly traded investments based on all available information, including value implied by the pricing of subsequent preferred share offerings and the net present value of future cash flows.

The Company accounts for these investments under the equity-method, whereby the Company records its portion of the investment gains and losses as reported in the fund's financial statements on a quarterly lag each reporting period. In addition, the Company adjusts the carrying value of these investments to reflect its estimate of changes to fair value since the fund's financial statements based information from the fund's management team, market prices of known public holdings of the fund and other information.

The Company's investments in these limited partnerships are subject to a high degree of volatility and are generally higher risk relative to other investments the Company may hold. The Company reports gains and losses from its limited partnership investments in other income, net. The Company recognized gains (losses) related to these investments of $(0.8) million and $3.5 million for the three months ended September 27, 2014 and September 28, 2013, respectively. The Company recognized gains related to these investments of $7.4 million and $4.8 million for the nine months ended September 27, 2014 and September 28, 2013, respectively. As of September 27, 2014 and December 28, 2013, these investments had a carrying value of $23.4 million and $17.9 million, respectively, which is reported in other assets on the condensed consolidated balance sheets.

6. FAIR VALUE

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.
- 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. Significant assumptions include a discount rate of 17.5% and a long-term pretax operating margin of 32%.
- Contingent consideration—Valued based on a probability-weighting of the future cash flows associated with the potential outcomes.

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

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. During the periods ended September 27, 2014, there were no transfers between levels.

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

	Fair Value Measurements at September 27, 2014			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Assets and Liabilities at Fair Value
	(in thousands)			
Cash equivalents	$—	$ 1,851	$—	$ 1,851
Life insurance policies	—	20,193	—	20,193
Total assets measured at fair value	$—	$ 22,044	$—	$ 22,044
Redeemable noncontrolling interest	—	—	24,550	24,550
Contingent consideration	—	—	2,548	2,548
Total liabilities measured at fair value	$—	$—	$ 27,098	$ 27,098

	Fair Value Measurements at December 28, 2013			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Assets and Liabilities at Fair Value
	(in thousands)			
Cash equivalents	$—	$ 1,851	$—	$ 1,851
Life insurance policies	—	19,534	—	19,534
Total assets measured at fair value	$—	$ 21,385	$—	$ 21,385
Redeemable noncontrolling interest	—	—	20,581	20,581
Total liabilities measured at fair value	$—	$—	$ 20,581	$ 20,581

The book value of the Company's term and revolving loans, which are variable rate loans carried at amortized cost, approximates 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.

Concurrent with the acquisition of Vital River in 2013, the Company entered into a joint venture agreement with the noncontrolling interest holders that provides it 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 to purchase for cash the remaining 25% interest, the Company classifies the carrying amount of the noncontrolling interest above the equity section and below liabilities on the consolidated balance sheet and adjusts the carrying amount to fair value each quarter end. Adjustments to fair value, which is deemed to be Level 3 as the fair value is based on unobservable inputs, are recorded through additional paid-in capital.

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

	Redeemable Noncontrolling Interest (Liability)	
	Nine Months Ended	
	September 27, 2014	September 28, 2013
	(in thousands)	
Beginning balance	$ 20,581	$ —
Additions	—	8,963
Total gains or losses (realized/unrealized):		
Net income attributable to noncontrolling interest	523	476
Foreign currency translation	(113)	233
Change in fair value, included in additional paid-in capital	3,559	4,905
Ending balance	$ 24,550	$ 14,577

As part of the Company's acquisitions of Early Discovery and VivoPath, it agreed to make cash payments upon the satisfaction of certain future financial measures. The carrying amount of these obligations is adjusted to fair value each quarter end. As the fair value is based on unobservable inputs, it is deemed to be Level 3.

	Contingent Consideration (Liability)	
	Nine Months Ended	
	September 27, 2014	September 28, 2013
	(in thousands)	
Beginning balance	$ —	$ —
Additions	2,428	—
Total gains or losses (realized/unrealized):		
Change in fair value	120	—
Ending balance	$ 2,548	$ —

The significant unobservable inputs used in the fair value measurement of the Company's contingent consideration are the probabilities of successful achievement of certain revenue 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.

The Company enters into derivative instruments to hedge foreign currency exchange risk to reduce the impact of changes to foreign currency rates on its financial statements. During both three and nine months ended September 27, 2014, the Company recognized $0.7 million of net hedge losses associated with forward currency contracts. During the three and nine months ended September 28, 2013, the Company recognized $(0.5) million and $0.3 million of hedge (gains) losses associated with forward currency contracts, respectively. As of September 27, 2014 and September 28, 2013, there were no open forward currency contracts.

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

7. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table displays the gross carrying amount and accumulated amortization of definite-lived intangible assets by major class:

	September 27, 2014		December 28, 2013	
	Gross Carrying Amount	Accumulated Amortization & Impairment Loss	Gross Carrying Amount	Accumulated Amortization & Impairment Loss
	(in thousands)			
Backlog	$ 8,391	$ (5,309)	$ 2,916	$ (2,507)
Client relationships	395,221	(243,004)	311,507	(238,002)
Trademarks and trade names	6,521	(5,214)	5,399	(4,997)
Standard operating procedures	2,748	(1,934)	2,754	(1,498)
Other identifiable intangible assets	13,675	(6,988)	10,432	(4,905)
Total other intangible assets	$ 426,556	$ (262,449)	$ 333,008	$ (251,909)

Additionally, as of both September 27, 2014 and December 28, 2013, other intangible assets, net, included $3.4 million of indefinite-lived intangible assets.

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

		Adjustments to Goodwill			
	December 28, 2013	Acquisitions	Transfers	Foreign Exchange	September 27, 2014
	(in thousands)				
Research Models and Services					
Gross carrying amount	$ 83,551	$ —			