

PERKINELMER INC
Form 10-Q
November 08, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

or

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

Commission File Number 001-5075

PerkinElmer, Inc.

(Exact name of Registrant as specified in its Charter)

Massachusetts
(State of incorporation)

04-2052042
(I.R.S. Employer Identification No.)

940 Winter Street

Waltham, Massachusetts 02451

(Address of principal executive offices)

(781) 663-6900

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject

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to such filing requirements for the past 90 days. Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of November 7, 2007, there were outstanding 118,535,798 shares of common stock, \$1 par value per share.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****PERKINELMER, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED INCOME STATEMENTS****(Unaudited)**

	Three Months Ended October		Nine Months Ended	
	September 30, 2007	1, 2006	September 30, 2007	October 1, 2006
	(In thousands, except per share data)			
Sales	\$ 435,668	\$ 386,917	\$ 1,275,858	\$ 1,119,372
Cost of sales	257,167	230,976	764,689	670,155
Selling, general and administrative expenses	106,406	94,664	317,528	277,172
Research and development expenses	27,691	24,762	82,848	72,640
Restructuring and lease (reversals) charges, net	(1,432)		7,553	(290)
Gains on settlement of insurance claim			(15,346)	
Gains on dispositions, net				(1,505)
In-process research and development charges			1,502	
Operating income from continuing operations	45,836	36,515	117,084	101,200
Interest and other expense (income), net	5,280	(223)	11,476	1,418
Income from continuing operations before income taxes	40,556	36,738	105,608	99,782
Provision for income taxes	9,454	7,823	26,384	22,527
Income from continuing operations	31,102	28,915	79,224	77,255
Loss from discontinued operations, net of income taxes				(1,025)
(Loss) gain on disposition of discontinued operations, net of income taxes	(357)	838	(100)	1,625
Net income	\$ 30,745	\$ 29,753	\$ 79,124	\$ 77,855
Basic earnings (loss) per share:				
Continuing operations	\$ 0.26	\$ 0.23	\$ 0.66	\$ 0.61
Loss from discontinued operations, net of income taxes				(0.01)
(Loss) gain on disposition of discontinued operations, net of income taxes		0.01		0.01
Net income	\$ 0.26	\$ 0.24	\$ 0.66	\$ 0.62
Diluted earnings (loss) per share:				
Continuing operations	\$ 0.26	\$ 0.23	\$ 0.65	\$ 0.61
Loss from discontinued operations, net of income taxes				(0.01)
(Loss) gain on disposition of discontinued operations, net of income taxes		0.01		0.01
Net income	\$ 0.26	\$ 0.24	\$ 0.65	\$ 0.61
Weighted average shares of common stock outstanding:				

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Basic	117,583	124,277	119,393	126,105
Diluted	119,453	125,171	121,135	127,429
Cash dividends per common share	\$ 0.07	\$ 0.07	\$ 0.21	\$ 0.21

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

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PERKINELMER, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2007 (In thousands, except share and per share data)	December 31, 2006
Current assets:		
Cash and cash equivalents	\$ 160,901	\$ 191,059
Accounts receivable, net	287,081	268,459
Inventories, net	210,560	183,260
Other current assets	95,980	101,511
Current assets of discontinued operations	487	477
Total current assets	755,009	744,766
Property, plant and equipment, net:		
At cost	557,712	525,134
Accumulated depreciation	(363,095)	(342,938)
Property, plant and equipment, net	194,617	182,196
Marketable securities and investments	4,658	7,508
Intangible assets, net	406,589	404,021
Goodwill	1,178,008	1,117,724
Other assets, net	51,016	52,502
Long-term assets of discontinued operations	1,461	1,605
Total assets	\$ 2,591,358	\$ 2,510,322
Current liabilities:		
Short-term debt	\$ 935	\$ 1,153
Accounts payable	158,636	152,836
Accrued restructuring and integration costs	3,921	2,731
Accrued expenses	281,800	318,987
Current liabilities of discontinued operations		826
Total current liabilities	445,292	476,533
Long-term debt	246,095	151,781
Long-term liabilities	363,734	304,278
Total liabilities	1,055,121	932,592
Commitments and contingencies (see Note 17)		
Stockholders' equity:		
Preferred stock \$1 par value per share, authorized 1,000,000 shares; none issued or outstanding		
Common stock \$1 par value per share, authorized 300,000,000 shares; issued and outstanding 118,459,000 and 123,255,000 at September 30, 2007 and December 31, 2006, respectively	118,459	123,255
Capital in excess of par value	282,526	407,345

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Retained earnings	1,097,817	1,040,190
Accumulated other comprehensive income	37,435	6,940
Total stockholders equity	1,536,237	1,577,730
Total liabilities and stockholders equity	\$ 2,591,358	\$ 2,510,322

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

Table of Contents**PERKINELMER, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Nine Months Ended	
	September 30,	October 1,
	2007	2006
	(In thousands)	
Operating activities:		
Net income	\$ 79,124	\$ 77,855
Add: loss from discontinued operations, net of income taxes		1,025
Add: loss (gain) on disposition of discontinued operations, net of income taxes	100	(1,625)
Net income from continuing operations	79,224	77,255
Adjustments to reconcile net income from continuing operations to net cash provided by continuing operations:		
Stock-based compensation	10,625	10,629
Restructuring and lease charges (reversals), net	7,553	(290)
Amortization of deferred debt issuance costs	221	218
Depreciation and amortization	57,144	50,937
In-process research and development charges	1,502	
Amortization of acquired inventory revaluation	2,492	
Gains on settlement of insurance claim	(15,346)	
Gains on dispositions, net	(697)	(3,418)
Changes in operating assets and liabilities which provided (used) cash, excluding effects from companies purchased and divested:		
Accounts receivable, net	2,308	12,972
Inventories, net	(8,861)	(13,264)
Accounts payable	(1,949)	(9,976)
Taxes paid on divestitures	(304)	(59,996)
Accrued expenses and other	(23,439)	(21,852)
Net cash provided by operating activities of continuing operations	110,473	43,215
Net cash used in operating activities of discontinued operations	(114)	(862)
Net cash provided by operating activities	110,359	42,353
Investing activities:		
Capital expenditures	(37,988)	(30,999)
Proceeds from dispositions of property, plant and equipment, net	10,787	7,085
Proceeds from surrender of life insurance policies	1,601	3,753
Payments for business development activity	(1,140)	(796)
Proceeds from disposition of businesses and investments, net	1,029	24,039
Payments for acquisitions and investments, net of cash and cash equivalents acquired	(44,016)	(97,576)
Net cash used in investing activities of continuing operations	(69,727)	(94,494)
Net cash provided by investing activities of discontinued operations	800	467
Net cash used in investing activities	(68,927)	(94,027)
Financing activities:		
Payments on debt	(182,431)	(56,565)
Proceeds from borrowing	271,462	
Payment of debt issuance costs	(415)	(741)

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Decrease in other credit facilities	(861)	(812)
Tax benefit from exercise of common stock options	5,987	3,998
Proceeds from issuance of common stock under stock plans	30,223	17,385
Purchases of common stock	(176,031)	(190,121)
Dividends paid	(25,410)	(26,851)
Net cash used in financing activities	(77,476)	(253,707)
Effect of exchange rate changes on cash and cash equivalents	5,886	10,191
Net decrease in cash and cash equivalents	(30,158)	(295,190)
Cash and cash equivalents at beginning of period	191,059	502,264
Cash and cash equivalents at end of period	\$ 160,901	\$ 207,074

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

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PERKINELMER, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by PerkinElmer, Inc. (the Company), without audit, in accordance with the accounting principles generally accepted in the United States (the U.S.) and pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information in the footnote disclosures of these financial statements has been condensed or omitted where it substantially duplicates information provided in the Company's latest audited financial statements in accordance with the rules and regulations of the SEC. These financial statements should be read in conjunction with the Company's financial statements and notes included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2006, filed with the SEC (the 2006 Form 10-K). The balance sheet amounts at December 31, 2006 in this report were derived from the Company's audited 2006 financial statements included in the 2006 Form 10-K. The financial statements reflect all adjustments that, in the opinion of management, are necessary to present fairly the Company's financial position, results of operations and cash flows for the periods indicated. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and classifications of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The results of operations for the three and nine months ended September 30, 2007 and October 1, 2006, respectively, are not necessarily indicative of the results for the entire fiscal year or any future period.

Recently Adopted Accounting Pronouncement

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes* (FIN No. 48). FIN No. 48 was issued to clarify the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. FIN No. 48 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition. The Company adopted FIN No. 48 effective January 1, 2007. In accordance with FIN No. 48, the Company will continue to classify interest and penalties as a component of income tax expense. During the three and nine months ended September 30, 2007, the Company recognized approximately \$1.3 million and \$2.9 million, respectively, in interest and penalties in its total tax provision.

As a result of the adoption of FIN No. 48, the Company adjusted the estimated value of its uncertain tax positions and reduced its accrued liabilities by \$3.6 million, which was accounted for as an increase to retained earnings as of January 1, 2007. As of the adoption date, the Company had gross tax effected unrecognized tax benefits of \$48.5 million. \$36.0 million of unrecognized tax benefits, if recognized, would affect the continuing operations effective tax rate. The remaining amount, if recognized, would affect goodwill and discontinued operations. The Company had accrued interest, net of tax benefits, and penalties related to the unrecognized tax benefits of \$7.3 million, which is not included in the unrecognized tax benefits of \$48.5 million.

As of September 30, 2007 the Company had \$14.9 million of FIN No. 48 accrued tax liabilities, including accrued interest, net of tax benefits, and penalties, which should be resolved within the next year as a result of the completion of various income tax audits. The Company is subject to U.S. federal income tax as well as income

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tax of multiple state and foreign jurisdictions. The Company has substantially concluded all U.S. federal income tax matters for years through 2002. The U.S. federal income tax returns for 2003 through 2005 are currently under examination. In addition, tax years ranging from 1997 through 2006 remain open to examination by various state and foreign tax jurisdictions.

Recently Issued Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability, and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. The Company will be required to adopt SFAS No. 157 in the first quarter of fiscal year 2008. The Company is currently evaluating the requirements of SFAS No. 157 and has not yet determined the impact, if any, of its adoption on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 provides entities with an option to report selected financial assets and liabilities at fair value, with the objective to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The Company will be required to adopt SFAS No. 159 in the first quarter of fiscal year 2008. The Company is currently evaluating the requirements of SFAS No. 159 and has not yet determined the impact, if any, of its adoption on its consolidated financial statements.

In March 2007, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements* (EITF No. 06-10). EITF No. 06-10 provides guidance for determining a liability for the post-retirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. The Company will be required to adopt EITF No. 06-10 in the first quarter of fiscal year 2008. The Company is currently evaluating the requirements of EITF No. 06-10 and has not yet determined the impact, if any, of its adoption on its consolidated financial statements.

Note 2: Acquisitions

Planned

Tender Offer to Acquire ViaCell, Inc. The Company and ViaCell, Inc. (ViaCell), a company specializing in the collection and preservation of umbilical cord blood stem cells, announced the signing of a definitive agreement on October 1, 2007 under which the Company plans to acquire ViaCell. On October 12, 2007, the Company commenced a tender offer to acquire all of the outstanding shares of common stock of ViaCell, par value \$0.01 per share, at a price equal to \$7.25 per share, net to the seller in cash, without interest and subject to any withholding of taxes. The tender offer is made upon the terms and subject to the conditions set forth in the Offer to Purchase dated October 12, 2007, and in the related Letter of Transmittal. Aggregate consideration for this transaction is expected to be approximately \$300.0 million in cash, and the transaction is expected to close in the fourth quarter of fiscal year 2007. The addition of ViaCell's ViaCord product offering for the preservation of umbilical cord blood and its sales and marketing organization are expected to expand the Company's offerings in neonatal and prenatal markets. ViaCell offers experience in the collection, testing, processing and preservation of umbilical cord blood stem cells.

In connection with the anticipated acquisition of ViaCell, the Company is currently in discussion with a potential lending group with respect to an unsecured interim credit facility, pursuant to which the Company would draw some or all of the funds needed to complete the anticipated acquisition of ViaCell. The Company expects that such an interim credit facility would mature on March 31, 2008, at which point all amounts outstanding would be due in full. The Company also expects that the agreement for this interim credit facility would contain affirmative, negative and financial covenants and events of default customary for financings of this type, and consistent with those contained in the credit agreement for the Company's existing credit facility.

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Completed

Acquisition of Agilix Corporation. In February 2006, the Company acquired specified assets of Agilix Corporation (Agilix) for approximately \$8.7 million in cash. Assets acquired primarily relate to Agilix's core technology which centers around labeling technology using isobaric mass tags that allow for the simultaneous quantification of molecules, such as proteins, from multiple samples.

Acquisition of Spectral Genomics, Inc. In April 2006, the Company acquired specified assets and assumed specified liabilities of Spectral Genomics, Inc. (Spectral), a leader in molecular karyotyping technology used to evaluate chromosomal abnormalities. Consideration for the transaction was approximately \$14.0 million in cash plus potential additional contingent consideration, which management expects to be immaterial to the Company. The Company will make royalty payments based on future sales, to license additional intellectual property rights from a third party.

Acquisition of Clinical & Analytical Service Solutions Ltd. In June 2006, the Company acquired the stock of Clinical & Analytical Service Solutions Ltd. (C&A), a scientific equipment asset and managed maintenance company serving the pharmaceutical, biotechnology and healthcare markets. Consideration for the transaction was approximately \$16.0 million in cash plus potential additional contingent consideration, which management expects to be immaterial to the Company.

Acquisition of J.N. Macri Technologies LLC and NTD Laboratories, Inc. In July 2006, the Company acquired specified assets and assumed specified liabilities of J.N. Macri Technologies LLC (Macri) and acquired the stock of NTD Laboratories, Inc. (NTD). The Company acquired Macri's global patents related to free beta Human Chorionic Gonadotropin (free Beta hCG). Free Beta hCG is a peptide hormone produced in the early stage of pregnancy that is widely recognized as an important biomarker for first-trimester prenatal risk assessment. NTD is a laboratory specializing in prenatal risk assessment and offers laboratory-developed and validated testing under the brand name UltraScreen[®], of which free Beta hCG is an important component. Aggregate consideration for these transactions was approximately \$56.65 million in cash.

Acquisition of Avalon Instruments Limited. In September 2006, the Company acquired the stock of Avalon Instruments Limited (Avalon). The acquisition of Avalon expands and complements the Company's molecular spectroscopy product portfolio by adding a family of innovative bench-top dispersive Raman spectrometers. Raman spectroscopy identifies and characterizes the composition of both organic and inorganic materials in a wide range of applications. Consideration for this transaction was approximately \$5.3 million in cash plus potential additional contingent consideration, which management expects to be immaterial to the Company.

Acquisition of Dynamic Mechanical Analysis Product Line from Triton Technology Ltd. In December 2006, the Company acquired specified assets and assumed specified liabilities of the Dynamic Mechanical Analysis (DMA) product line from Triton Technology Ltd. The DMA products offer a thermal analysis tool that is used by scientists in the polymers, pharmaceuticals and food industries for diverse applications ranging from simple quality control to advanced research. Consideration for this transaction was approximately \$2.3 million in cash at the closing, plus additional cash payments of approximately \$1.7 million that were paid during the first six months of 2007.

Acquisition of Evotec Technologies GmbH. In January 2007, the Company acquired the stock of Evotec Technologies GmbH (Evotec). The acquisition is intended to allow the Company to provide its customers in the pharmaceutical, biotechnology and academic arenas with Evotec's high content screening (HCS) instruments and software. These analysis tools determine the composition of cells and cell structure, a critical step in moving potential drug targets quickly through the discovery process. Consideration for this transaction was approximately \$33.0 million in cash, which was paid in fiscal year 2006. During the first nine months of fiscal year 2007, the Company received \$1.2 million for net working capital adjustments.

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Acquisition of Euroscreen Products S.A. In January 2007, the Company acquired the stock of Euroscreen Products S.A. (Euroscreen), a developer of the AequoScreen cellular assay platform. The AequoScreen platform from Euroscreen is based on an innovative luminescence technology that generates higher quality data, while reducing the number of false positives in G protein-coupled receptor screening applications. Consideration for this transaction was approximately \$18.1 million in cash.

Acquisition of Improvision Ltd. In March 2007, the Company acquired the stock of Improvision Ltd. (Improvision), a leading provider of cellular imaging software and integrated hardware solutions used in life sciences research. The Company expects that the addition of Improvision's imaging and analysis software to the Company's high content screening systems will provide customers with powerful imaging solutions for analyzing cellular events from real-time imaging of live cells to rapid high content screening of multiple samples. Consideration for this transaction was approximately \$23.6 million in cash plus potential additional contingent consideration, which management expects to be immaterial to the Company. During the first nine months of fiscal year 2007, the Company paid \$0.6 million for net working capital adjustments.

Acquisition of remaining minority interest of PerkinElmer India Pvt. Ltd. In June 2007, the Company acquired the remaining minority interest in PerkinElmer India Pvt. Ltd. (PKI India), a direct sales, service and marketing operation targeting India's life science and analytical instrumentation markets, from Labindia Instruments Pvt. Ltd. The acquisition establishes PKI India as a wholly owned subsidiary of the Company. Consideration for this transaction was approximately \$1.3 million in cash plus potential additional consideration, which management expects to be immaterial to the Company. The Company accrued approximately \$0.7 million of additional consideration, of which the Company paid \$0.2 million during the third quarter of 2007. The Company expects to pay the remaining \$0.5 million in quarterly installments through March 2008.

The operations for each of these acquisitions are reported within the results of the Company's Life and Analytical Sciences segment from the acquisition date. These acquisitions, individually and in the aggregate, did not have a material effect on the Company's financial position, results of operations or cash flows.

The acquisitions were accounted for in accordance with SFAS No. 141, *Business Combinations*, using the purchase method of accounting. Allocation of the purchase price for the acquisitions was based on estimates of the fair value of the net assets acquired and is subject to adjustment upon finalization of the purchase price allocation. The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques. The excess purchase price over those assigned values was recorded as goodwill. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill will be reviewed at least annually for impairment. Purchased intangibles with finite lives will be amortized on a straight-line basis over their respective estimated useful lives, described in more detail in Note 12.

In-process research and development (IPR&D) charges represent incomplete acquired research and development projects that have not reached technological feasibility and have no alternative future use as of the acquisition date. Technological feasibility is established when an enterprise has completed all planning, designing, coding, and testing activities that are necessary to establish that a product can be produced to meet its design specifications including functions, features, and technical performance requirements. On the date of the acquisitions of Evotec and Euroscreen, there were multiple IPR&D efforts under way at each company for certain current and future product lines. In determining the value of in-process projects, the Company considers, among other factors, the in-process projects' stage of completion, the complexity of the work completed as of the acquisition date, the costs already incurred, the projected costs to complete, the contribution of core technologies and other acquired assets, the expected introduction date and the estimated useful life of the technology. For these acquisitions, the Company utilized the discounted cash flow method to value the IPR&D, using a discount rate equivalent to the relative risk of the asset, including the uncertainty of technological feasibility and

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successful launch. This approach determines fair value by estimating the after-tax cash flows attributable to an in-process project over its useful life and then discounting these after-tax cash flows back to a present value. For both acquisitions, the Company estimated the fair value as of the acquisition date to be \$1.5 million and believes that the estimated purchased research and development amounts so determined represent the fair value at the date of the acquisitions of Evotec and Euroscreen and the amount represents management's best estimate of the amount a third party would pay in the aggregate for the projects.

As of September 30, 2007 the purchase price allocations for the Agilix, Spectral, C&A, Macri, NTD and Avalon acquisitions have been finalized. As of September 30, 2007, the purchase prices and related allocations for the DMA product line, Evotec, Euroscreen, Improvisation and PKI India acquisitions have not been finalized. The Company is not aware of any information that indicates the final purchase price allocations will differ materially from the preliminary estimates, although the Company expects to complete any outstanding asset valuations no later than one year from the date of acquisition.

The components of the preliminary purchase prices and allocations for the acquisitions completed in 2007 are as follows:

	Evotec	Euroscreen	Improvisation	PKI India
	(In thousands)			
Consideration and acquisition costs:				
Cash payments	\$ 32,952	\$ 18,141	\$ 23,573	\$ 1,259
Cash acquired	(2,790)	(1,277)	(901)	
Deferred consideration				680
Working capital adjustments	(1,242)		613	
Transaction costs	671	216	375	50
Total consideration and acquisition costs	\$ 29,591	\$ 17,080	\$ 23,660	\$ 1,989
Allocation of purchase price				
Current assets*	\$ 12,360	\$ 3,224	\$ 4,267	\$
Property, plant and equipment	2,622	61	330	
IPR&D	200	1,302		
Identifiable intangible assets	10,100	10,666	8,845	
Goodwill	17,791	7,149	15,706	1,778
Minority interest				211
Deferred taxes	(4,352)	(4,029)	(2,726)	
Liabilities assumed	(9,130)	(1,293)	(2,762)	
Total	\$ 29,591	\$ 17,080	\$ 23,660	\$ 1,989

* Current assets includes \$0.7 million, \$0.9 million and \$0.2 million of purchase price accounting basis adjustments to inventory, net, to reflect the fair value-based valuation from the Evotec, Euroscreen and Improvisation acquisitions, respectively.

Note 3: Restructuring and Lease Charges (Reversals), Net

The Company has undertaken a series of restructuring actions related to the impact of acquisitions, divestitures and the integration of its business units. Restructuring actions taken since 2002 were recorded in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. Details of these plans are discussed more fully in the 2006 Form 10-K.

The purpose of the restructuring plan approved in the first quarter of 2007, detailed below, was principally to shift resources into geographic regions and product lines that are more consistent with the Company's growth strategy. The pre-tax restructuring activity associated with these plans has been reported as restructuring

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expenses as a component of operating expenses from continuing operations. The Company expects the impact of immediate and future cost savings from these restructuring activities on operating results and cash flows to be negligible as the Company has incurred and will incur offsetting costs.

A description of the restructuring plans and the activity recorded for the nine months ended September 30, 2007 are as follows:

Q1 2007 Plan

During the first quarter of 2007, the Company's management approved a plan to shift resources into product lines that are more consistent with the Company's growth strategy. As a result of this plan, the Company recognized a pre-tax restructuring charge of \$4.4 million during the first quarter of 2007 (the Q1 2007 Plan). The actions within the Q1 2007 Plan related to a workforce reduction resulting from reorganization activities within the Life and Analytical Sciences segment. The Company completed notifying affected employees on March 30, 2007.

The following table summarizes the components of the Q1 2007 Plan activity for the nine months ended September 30, 2007:

	Headcount	Severance (Dollars in thousands)
Balance at December 31, 2006		\$
Provision	60	4,438
Amounts paid	(48)	(3,075)
Balance at September 30, 2007	12	\$ 1,363

The Company anticipates that the remaining payments of \$1.4 million will be completed by the end of the first quarter of fiscal year 2008.

2001 to 2006 Restructuring and Integration Plans

The principal actions of these restructuring plans were workforce reductions related to the integration of the Company's Life Sciences and Analytical Instruments businesses in order to reduce costs and achieve operational efficiencies as well as workforce reductions in both the Life and Analytical Sciences and Optoelectronics segments by shifting resources into geographic regions and product lines that are more consistent with the Company's growth strategy. For the nine months ended September 30, 2007, the Company paid \$0.2 million related to these plans. As of September 30, 2007, the Company had approximately \$2.6 million of remaining liabilities associated with 2001 to 2006 restructuring and integration plans, primarily relating to workforce severance benefits associated with the closure of the Company's European manufacturing facility in the Life and Analytical Sciences segment and remaining lease obligations related to those closed facilities. The remaining terms of these leases vary in length and will be paid through fiscal year 2014. The Company anticipates that the remaining severance payments will be completed by the end of fiscal year 2008.

Lease Costs

To facilitate the sale of a business in 2001, the Company was required to guarantee the obligations that the buyer of the business assumed related to the lease for the building in which the business operates. The lease obligations continue through March 2011. While the Company assigned its interest in the lease to the buyer at the time of the sale of the business, in the event the buyer defaults under the lease, the Company is responsible for all remaining lease payments and certain other building related expenses. As an additional measure to facilitate the sale of the business, the Company obtained a letter of credit as partial security for a loan to the buyer, which could have been drawn upon by the buyer's lender in the event the buyer was delinquent in repayment of the

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loan. During the second quarter of 2007, the lessor of the building began the process to evict the buyer as a result of unpaid lease payments and building expenses and sought reimbursement from the Company. As a result of this action, the Company recorded a charge of \$4.5 million related to payments for this lease obligation and the potential drawdown of the letter of credit. During the third quarter of 2007, the buyer completed a recapitalization of the business with another lender. The proceeds of the recapitalization were used to pay off the remaining balance on the original securitized loan, as well as to make certain payments to the landlord for back rent and other obligations arising under the lease. The Company was also released from its obligation under the letter of credit on the original securitized loan. As a result of these actions, the Company recorded a reversal of \$1.4 million related to payments for this lease obligation and the release of the letter of credit. The remaining accrual of \$3.1 million was calculated based on the remaining lease and building obligations, reduced by estimated sublease rentals reasonably expected to be obtained for the property.

Note 4: Interest and Other Expense (Income), Net

Interest and other expense (income), net consisted of the following:

	Three Months Ended		Nine Months Ended	
	September 30,	October 1,	September 30,	October 1,
	2007	2006	2007	2006
	(In thousands)			
Interest income	\$ (1,077)	\$ (1,919)	\$ (3,381)	\$ (7,654)
Interest expense	4,122	2,152	9,886	6,689
Gains on dispositions of investments, net	(161)	(980)	(697)	(1,913)
Other expense, net	2,396	524	5,668	4,296
Total interest and other expense (income), net	\$ 5,280	\$ (223)	\$ 11,476	\$ 1,418

Note 5: Inventories, net

Inventories consisted of the following:

	September 30, 2007	December 31, 2006
	(In thousands)	
Raw materials	\$ 76,914	\$ 67,014
Work in progress	15,758	10,077
Finished goods	117,888	106,169
Total inventories, net	\$ 210,560	\$ 183,260

Note 6: Debt

Amended Senior Unsecured Credit Facility. On August 13, 2007, the Company entered into an amended and restated senior unsecured revolving credit facility. The agreement for the facility provides for a \$500.0 million committed unsecured revolving credit facility through August 13, 2012, and amends and restates in its entirety the senior credit agreement dated as of October 31, 2005. Letters of credit in the aggregate amount of approximately \$15.0 million were issued under this previous facility, which are treated as issued under this amended facility. The Company uses the amended senior unsecured revolving credit facility for general corporate purposes, which may include working capital, refinancing existing indebtedness, capital expenditures, share repurchases, acquisitions and strategic alliances. The interest rates under the amended senior unsecured revolving credit facility are based on the Eurocurrency rate at the time of borrowing plus a margin or the base rate from time to time. The base rate is the higher of (1) the corporate base rate announced from time to time by Bank of America, N.A. and (2) the Federal Funds rate plus 50 basis points. The Company may allocate all or a portion of its indebtedness under the amended senior unsecured revolving credit facility to interest based upon

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the Eurocurrency rate plus a margin or the base rate. The Eurocurrency margin as of September 30, 2007 was 40 basis points. The weighted average Eurocurrency interest rate as of September 30, 2007 was 5.13%, resulting in a weighted average effective Eurocurrency rate, including the margin, of 5.53%. The Company had drawn down approximately \$246.0 million of borrowings in U.S. Dollars under the facility as of September 30, 2007 with interest based on the above described Eurocurrency rate. The agreement for the facility contains affirmative, negative and financial covenants and events of default customary for financings of this type. The financial covenants include debt-to-capital ratios and a contingent maximum total leverage ratio, applicable if the Company's credit rating is down-graded below investment grade. The Company was in compliance with all applicable covenants as of September 30, 2007.

Note 7: Earnings Per Share

Basic earnings per share was computed by dividing net income by the weighted-average number of common shares outstanding during the period less restricted unvested shares. Diluted earnings per share was computed by dividing net income by the weighted-average number of common shares outstanding plus all potentially dilutive common stock equivalents, primarily shares issuable upon the exercise of stock options using the treasury stock method. The following table reconciles the number of shares utilized in the earnings per share calculations:

	Three Months Ended		Nine Months Ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
	(In thousands)			
Number of common shares basic	117,583	124,277	119,393	126,105
Effect of dilutive securities:				
Stock options	1,816	867	1,680	1,294
Restricted stock	54	27	62	30
Number of common shares diluted	119,453	125,171	121,135	127,429
Number of potentially dilutive securities excluded from calculation due to antidilutive impact	5,422	9,966	6,935	8,577

Antidilutive securities include outstanding stock options with exercise prices and average unrecognized compensation cost in excess of the average fair market value of the Company's common stock for the related period. Antidilutive options were excluded from the calculation of diluted net income per share and could become dilutive in the future.

Note 8: Comprehensive Income

The components of other comprehensive income, net of income taxes, are the following:

	Three Months Ended		Nine Months Ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
	(In thousands)			
Net income	\$ 30,745	\$ 29,753	\$ 79,124	\$ 77,855
Other comprehensive income (loss):				
Foreign currency translation adjustments	22,090	3,877	30,693	21,382
Unrealized net losses on securities, net of income taxes	(9)	(42)	(108)	(106)
	22,081	3,835	30,585	21,276
Comprehensive income, net of income taxes	\$ 52,826	\$ 33,588	\$ 109,709	\$ 99,131

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The components of accumulated other comprehensive income, net of income taxes, consist of the following:

	September 30, 2007	December 31, 2006
	(In thousands)	
Foreign currency translation adjustments	\$ 101,756	\$ 71,063
Pension and other post-retirement benefit liability adjustments, net of income taxes	(64,342)	(64,252)
Unrealized net gains on securities, net of income taxes	21	129
Accumulated other comprehensive income, net of income taxes	\$ 37,435	\$ 6,940

Note 9: Industry Segment Information

The Company follows SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information* (SFAS No. 131). SFAS No. 131 establishes standards for the way public business enterprises report information about operating segments in annual financial statements and in interim reports to shareholders. The method for determining what information to report is based on the way that management organizes the segments within the Company for making operating decisions and assessing financial performance. The Company evaluates the performance of its operating segments based on sales and operating profit. Intersegment sales and transfers are not significant. Based on the guidance in SFAS No. 131, the Company has two operating segments for financial reporting purposes. The operating segments and their principal products and services are:

Life and Analytical Sciences. The Company is a leading provider of drug discovery, genetic screening and environmental and chemical analysis tools, including instruments, reagents, consumables and services.

Optoelectronics. The Company provides a broad range of digital imaging, sensor and specialty lighting components used in biomedical, consumer products and other specialty end markets.

The assets and expenses for the Company's corporate headquarters, such as legal, tax, accounting and finance, human resources, property and insurance management, information technology, treasury and other management and compliance costs, have been included as Corporate below. The Company has a process to allocate and recharge expenses to the reportable segments when such costs are administered or paid by the corporate headquarters based on the extent to which the segment benefited from the expenses. These amounts have been calculated in a consistent manner and are included in the Company's calculations of segment results to internally plan and assess the performance of each segment for all purposes, including determining the compensation of the business leaders for each of the Company's operating segments.

Sales and operating profit by segment, excluding discontinued operations, are shown in the table below:

	Three Months Ended		Nine Months Ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
	(In thousands)			
Life & Analytical Sciences				
Sales	\$ 319,341	\$ 283,527	\$ 945,163	\$ 823,918
Operating income from continuing operations	29,312	25,334	88,781	74,429
Optoelectronics				
Sales	116,327	103,390	330,695	295,454
Operating income from continuing operations	24,570	20,097	53,832	50,209
Corporate				
Operating loss from continuing operations	(8,046)	(8,916)	(25,529)	(23,438)

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Continuing Operations

Sales	\$ 435,668	\$ 386,917	\$ 1,275,858	\$ 1,119,372
Operating income from continuing operations	45,836	36,515	117,084	101,200
Interest and other expense (income), net (Note 4)	5,280	(223)	11,476	1,418
Income from continuing operations before income taxes	\$ 40,556	\$ 36,738	\$ 105,608	\$ 99,782

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As part of its continued efforts to focus on higher growth opportunities, the Company has discontinued certain businesses. The Company has accounted for these businesses as discontinued operations in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and, accordingly, has presented the results of operations and related cash flows as discontinued operations for all periods presented. The assets and liabilities of these businesses have been presented separately and are reflected within the assets and liabilities from discontinued operations in the accompanying consolidated balance sheets as of September 30, 2007 and December 31, 2006.

The Company recorded the following gains and losses, which have been reported as the gain (loss) on dispositions of discontinued operations:

	Three Months Ended		Nine Months Ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
	(In thousands)			
Gain on the sale of Semiconductor business	\$ 1	\$	\$ 87	\$ 3,750
(Loss) gain on the sale of Aerospace business		(11)	267	(1,288)
Gain (loss) on the sale of Fluid Testing business			35	(234)
Loss on the sale of Lithography business	(124)	(1,079)	(544)	(1,481)
Gain on contract settlements associated with Technical Services business		467	884	853
Net gain (loss) on dispositions of other discontinued operations	19	100	(77)	(180)
Net (loss) gain on dispositions of discontinued operations before income taxes	(104)	(523)	652	1,420
Provision for (benefit from) income taxes	253	(1,361)	752	(205)
(Loss) gain on dispositions of discontinued operations, net of income taxes	\$ (357)	\$ 838	\$ (100)	\$ 1,625

In September 2005, the Company's Board of Directors (the Board) approved a plan to divest its Fluid Sciences segment. The Fluid Sciences segment consisted of three businesses—Aerospace, Fluid Testing and Semiconductor. In February 2006, the Company sold substantially all of the assets of its Semiconductor business for approximately \$26.5 million, subject to a net working capital adjustment, plus potential additional contingent consideration. The Company recognized a pre-tax gain of \$3.7 million, exclusive of additional contingent consideration, in the first nine months of 2006. The Company also finalized the net working capital adjustments associated with the sales of these businesses resulting in the recognition of losses of \$1.3 million and \$0.2 million relative to the Aerospace business and the Fluid Testing business, respectively, during the first nine months of 2006. During the first nine months of 2007, the Company settled various commitments related to the divestiture of the Fluid Sciences segment and recognized a pre-tax gain of \$0.4 million.

During the first nine months of 2006, the Company substantially completed the remediation of an environmental matter within the Lithography business, resulting in recognition of a pre-tax loss of \$1.5 million, with an additional loss of \$0.5 million recognized in the first nine months of 2007.

The Company settled various claims under certain long-term contracts and transition services with its Technical Services business, which was sold in August 1999, resulting in recognition of a net pre-tax gain of gain of \$0.9 million in each of the first nine months of 2006 and 2007.

During the first nine months of 2007, the Company settled various commitments related to the divestiture of other discontinued operations and recognized a pre-tax loss of \$0.1 million.

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During the third quarter of 2006 there was a \$1.4 million tax benefit resulting from the inter-period allocation of income tax to the losses from the dispositions of discontinued operations.

Summary operating results of the discontinued operations for the periods prior to disposition were as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
	(In thousands)			
Sales	\$	\$	\$	\$ 8,705
Costs and expenses				9,707
Operating loss from discontinued operations				(1,002)
Other expense, net				396
Loss from discontinued operations before income taxes				(1,398)
Benefit from income taxes				(373)
Loss from discontinued operations, net of income taxes	\$	\$	\$	\$ (1,025)

Note 11: Stock Plans

The Company accounts for stock-based compensation in accordance with SFAS No. 123(R), *Share-Based Payment* (SFAS No. 123(R)), which was adopted January 2, 2006, using the modified prospective transition method. The Company has three stock-based compensation plans where the Company's common stock has been made available for stock option grants, restricted stock awards, performance units and stock grants as part of the Company's compensation programs (the Plans). The Plans are described in more detail in the Company's definitive proxy statement filed with the SEC on March 16, 2007 and Note 19 to the Company's financial statements filed with the 2006 Form 10-K.

For the three and nine months ended September 30, 2007, the total pre-tax stock-based compensation expense for the cost of stock options, restricted stock, restricted stock units, performance units and stock grants was \$5.2 million and \$14.5 million, respectively. For the three and nine months ended October 1, 2006, the total pre-tax stock-based compensation expense for the cost of stock options, restricted stock, restricted stock units, performance units and stock grants was \$4.5 million and \$11.2 million, respectively. The total income tax benefit recognized in the consolidated statements of operations for stock-based compensation was \$1.8 million and \$5.1 million for the three and nine months ended September 30, 2007, respectively. The total income tax benefit recognized in the consolidated statements of operations for stock-based compensation was \$1.4 million and \$3.7 million for the three and nine months ended October 1, 2006, respectively. Stock-based compensation costs capitalized as part of inventory were approximately \$0.3 million and \$0.4 million as of September 30, 2007 and October 1, 2006, respectively.

Stock Options: The fair value of each option grant is estimated using the Black-Scholes option pricing model. The Company's weighted-average assumptions used in the Black-Scholes option pricing model are as follows:

	Three and Nine Months Ended	
	September 30, 2007	October 1, 2006
Risk-free interest rate	4.9%	4.4%
Expected dividend yield	1.2%	1.2%
Expected lives	4 years	4 years
Expected stock volatility	36%	35%

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The following table summarizes stock option activity for the nine months ended September 30, 2007:

	Number of Shares (Shares in thousands)	Weighted- Average Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2006	12,578	\$ 23.25		
Granted	1,637	23.59		
Exercised	(2,035)	14.83		
Canceled	(525)	35.23		
Forfeited	(280)	22.63		
Outstanding at September 30, 2007	11,375	\$ 24.26	3.8	\$ 55.3
Exercisable at September 30, 2007	8,369	\$ 24.84	3.1	\$ 40.3
Vested and expected to vest in the future	9,748	\$ 24.26	3.8	\$ 47.4

The weighted-average grant-date fair values of options granted for the three and nine months ended September 30, 2007 were \$8.57 and \$7.50, respectively. The weighted-average grant-date fair values of options granted for the three and nine months ended October 1, 2006 were \$6.33 and \$6.85, respectively. The total intrinsic value of options exercised for the three and nine months ended September 30, 2007 was \$17.0 million and \$23.5 million, respectively. The total intrinsic value of options exercised for the three and nine months ended October 1, 2006 was \$0.2 million and \$15.2 million, respectively. Cash received from option exercises for the nine months ended September 30, 2007 and October 1, 2006 was \$30.2 million and \$17.4 million, respectively. The related tax benefit classified as a financing cash inflow was \$6.0 million and \$4.0 million for nine months ended September 30, 2007 and October 1, 2006, respectively.

There was \$12.4 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested stock options granted as of September 30, 2007. This cost is expected to be recognized over a weighted-average period of 1.9 fiscal years and will be adjusted for any future changes in estimated forfeitures.

The following table summarizes total compensation recognized related to the stock options, which is a function of current and prior year awards and net of estimated forfeitures, included in the Company's consolidated statement of operations for the three and nine months ended September 30, 2007 and October 1, 2006:

	Three Months Ended		Nine Months Ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
	(In thousands)			
Cost of sales	\$ 378	\$ 535	\$ 928	\$ 837
Research and development expenses	133	154	428	533
Selling, general and administrative and other expenses	1,877	2,406	5,362	5,544
Compensation expense related to stock options	2,388	3,095	6,718	6,914
Less: income tax benefit	(775)	(946)	(2,189)	(2,121)
Net compensation expense related to stock options	\$ 1,613	\$ 2,149	\$ 4,529	\$ 4,793

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Restricted Stock Awards: The following table summarizes the restricted stock award activity for the nine months ended September 30, 2007:

	Number of Shares (Shares in thousands)	Weighted- Average Grant- Date Fair Value
Nonvested at December 31, 2006	417	\$ 21.40
Granted	274	23.78
Vested	(15)	19.75
Forfeited	(72)	21.10
Nonvested at September 30, 2007	604	\$ 22.56

The weighted-average grant-date fair values of restricted stock awards granted during the three and nine months ended September 30, 2007 were \$28.10 and \$23.78, respectively. The weighted-average grant-date fair values of restricted stock awards granted during the three and nine months ended October 1, 2006 were \$18.56 and \$22.78, respectively. The fair value of restricted stock awards vested during the nine months ended September 30, 2007 was \$0.3 million and for the nine months ended October 1, 2006 was \$0.1 million. The total compensation expense recognized related to the restricted stock awards, which is a function of current and prior year awards, was approximately \$0.7 million and \$2.1 million for the three and nine months ended September 30, 2007, respectively. The total compensation expense recognized related to the restricted stock awards, which is a function of current and prior year awards, was approximately \$0.8 million and \$2.2 million for the three and nine months ended October 1, 2006, respectively.

As of September 30, 2007, there was \$9.2 million of total unrecognized compensation cost, net of forfeitures, related to nonvested restricted stock awards. That cost is expected to be recognized over a weighted-average period of 1.6 fiscal years.

Performance Units: The Company granted 209,326 and 208,328 performance units during the nine months ended September 30, 2007 and October 1, 2006, respectively. The weighted-average grant-date fair value of performance units granted during the nine months ended September 30, 2007 and October 1, 2006 was \$23.48 and \$22.74, respectively. The total compensation expense recognized related to these performance units, which is a function of current and prior year awards, was approximately \$2.1 million and \$4.9 million for the three and nine months ended September 30, 2007, respectively. The total compensation expense recognized related to these performance units, which is a function of current and prior year awards, was approximately \$0.5 million and \$1.6 million for the three and nine months ended October 1, 2006, respectively. As of September 30, 2007, there were 615,321 performance units outstanding subject to forfeiture.

Stock Awards: The Company's stock award program provides non-employee directors an annual award of the number of shares of PerkinElmer common stock which has an aggregate fair market value of \$100,000 on the date of the award for awards granted in 2007. Annual awards granted in 2006 were for an aggregate fair market value of \$60,000. The stock award is prorated for non-employee directors who serve for only a portion of the year. The shares are granted following the annual shareholders meeting, on the third business day after the Company's first quarter earnings release. Directors may defer the receipt of shares into the Company's deferred compensation plan. The compensation expense associated with these stock awards is recognized when the stock award is granted. During the nine months ended September 30, 2007 and October 1, 2006, each non-employee director was awarded 4,114 shares and 2,770 shares, respectively. The weighted-average grant-date fair value of stock awards granted during the nine months ended September 30, 2007 and October 1, 2006 was \$24.31 and \$21.67, respectively. The total compensation expense recognized related to these stock awards was approximately \$0.7 million and \$0.5 million for the nine months ended September 30, 2007 and October 1, 2006, respectively.

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Employee Stock Purchase Plan: During the nine months ended September 30, 2007, the Company issued 0.04 million shares of common stock under the Employee Stock Purchase Plan at a weighted-average price of \$24.73 per share. There remain available for sale to employees an aggregate of 1.7 million shares of the Company's common stock out of the 5.0 million shares authorized by shareholders for issuance under this plan.

Stock Repurchase Program: On November 6, 2006, the Company announced that the Board authorized the Company to repurchase up to 10.0 million shares of common stock under a stock repurchase program (the Repurchase Program). The Repurchase Program will expire on October 25, 2010 unless this authorization is terminated earlier by the Board and may be suspended or discontinued at any time. During the nine months ended September 30, 2007, the Company repurchased in the open market approximately 7.1 million shares of common stock at an aggregate cost of \$176.0 million, including commissions, under the Repurchase Program. From October 1, 2007 through November 7, 2007, the Company repurchased approximately 0.3 million shares of its common stock in the open market under the Repurchase Program at an aggregate cost of \$7.9 million, including commissions.

Note 12: Goodwill and Intangible Assets

Goodwill is subject to annual impairment testing using the guidance and criteria described in SFAS No. 142, *Goodwill and Other Intangible Assets*. The impairment test consists of a two-step process. The first step is the comparison of the fair value to the carrying value of the reporting unit to determine if the carrying value exceeds the fair value. The second step measures the amount of an impairment loss, and is only performed if the carrying value exceeds the implied fair value of the reporting unit. The annual impairment assessment is performed by the Company on the later of January 1 or the first day of each fiscal year. This same impairment test will be performed at other times during the course of the year should an event occur which suggests that the recoverability of goodwill should be reconsidered. The Company completed the annual impairment test using a measurement date of January 1, 2007 and concluded based on the first step of the process that there was no goodwill impairment.

The changes in the carrying amount of goodwill for the period ended September 30, 2007 from December 31, 2006 are as follows:

	Life and Analytical Sciences	Optoelectronics (In thousands)	Consolidated
Balance, December 31, 2006	\$ 1,070,143	\$ 47,581	\$ 1,117,724
Foreign currency translation	23,624	1,183	24,807
Acquisitions and earn-outs	35,477		35,477
Balance, September 30, 2007	\$ 1,129,244	\$ 48,764	\$ 1,178,008

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Identifiable intangible asset balances at September 30, 2007 and December 31, 2006 by category were as follows:

	September 30, 2007	December 31, 2006
	(In thousands)	
Patents	\$ 112,622	\$ 110,847
Less: Accumulated amortization	(58,931)	(51,532)
Net patents	53,691	59,315
Licenses	61,538	59,978
Less: Accumulated amortization	(29,454)	(25,767)
Net licenses	32,084	34,211
Core technology	272,998	244,484
Less: Accumulated amortization	(111,348)	(93,153)
Net core technology	161,650	151,331
Net amortizable intangible assets	247,425	244,857
Non-amortizing intangible assets:		
Trade names and trademarks	159,164	159,164
Totals	\$ 406,589	\$ 404,021

Amortization expense related to identifiable intangible assets for the nine months ended September 30, 2007 and October 1, 2006 was \$31.9 million and \$24.2 million, respectively.

Note 13: Warranty Reserves

The Company provides warranty protection for certain products for periods ranging from one to three years beyond the date of sale. The majority of costs associated with warranty obligations include the replacement of parts and the time of service personnel to respond to repair and replacement requests. A warranty reserve is recorded based upon historical results, supplemented by management's expectations of future costs. Warranty reserves are included in Accrued expenses on the condensed consolidated balance sheets. A summary of warranty reserve activity for the three and nine months ended September 30, 2007 and October 1, 2006 is as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
	(In thousands)			
Balance beginning of period	\$ 10,565	\$ 9,883	\$ 10,054	\$ 9,207
Provision charged to income	3,539	3,587	11,048	10,543
Payments	(3,534)	(3,443)	(11,153)	(10,410)
Adjustments to previously provided warranties, net	(230)	(190)	(447)	270
Foreign currency and acquisitions	391	84	1,229	311
Balance end of period	\$ 10,731	\$ 9,921	\$ 10,731	\$ 9,921

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The following table summarizes the components of net periodic benefit cost (credit) for the Company's various defined benefit employee pension and post-retirement plans for the three and nine months ended September 30, 2007 and October 1, 2006:

	Defined Benefit		Post-Retirement	
	Pension Benefits		Medical Benefits	
	Three Months Ended			
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
	(In thousands)			
Service cost	\$ 1,222	\$ 1,254	\$ 25	\$ 24
Interest cost	6,477	5,567	51	60
Expected return on plan assets	(6,273)	(5,576)	(244)	(214)
Amortization of prior service	15	36	(78)	(118)
Recognition of actuarial losses (gains)	1,590	1,492	(106)	(98)
Net periodic benefit cost (credit)	\$ 3,031	\$ 2,773	\$ (352)	\$ (346)

	Defined Benefit		Post-Retirement	
	Pension Benefits		Medical Benefits	
	Nine Months Ended			
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
	(In thousands)			
Service cost	\$ 3,842	\$ 3,864	\$ 71	\$ 72
Interest cost	18,855	16,518	171	180
Expected return on plan assets	(18,424)	(16,560)	(728)	(642)
Amortization of prior service	46	109	(236)	(355)
Recognition of actuarial losses (gains)	4,465	4,440	(298)	(293)
Net periodic benefit cost (credit)	\$ 8,784	\$ 8,371	\$ (1,020)	\$ (1,038)

Note 15: Settlement of Insurance Claim

During the second quarter of 2007 the Company settled an insurance claim resulting from a fire that occurred within its Life and Analytical Sciences facility in Boston, Massachusetts in March 2005. As a result of that settlement, the Company recorded gains of \$15.3 million during the second quarter of 2007. The Company received the final settlement payment of \$21.5 million in June 2007, and had previously received during 2005 and 2006 a total of \$35.0 million in advance payments towards costs incurred and for building, inventory and equipment damages. Of the \$56.5 million in total settlement proceeds received by the Company, \$25.6 million related to reimbursement of costs incurred; \$23.7 million related to damages to the building, inventory and equipment; and \$7.2 million related to business interruption costs which were recorded as reductions to cost of sales and selling, general and administrative expenses.

The building that was damaged by the March 2005 fire is currently not being used for operations and the associated depreciation has ceased. During the second quarter of 2007, the Company accrued \$9.7 million representing its management's estimate of the total cost for decommissioning the building, including environmental matters. The Company paid \$2.6 million during the third quarter of 2007 towards decommissioning the building, and anticipates that the remaining payments of \$7.1 million will be completed by the end of fiscal year 2008.

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Note 16: Leadership Succession Plan

The Company announced on July 26, 2007 that its Board had approved a leadership succession plan. On July 25, 2007, the Board elected Robert F. Friel to the position of President and Chief Operating Officer of the Company, effective August 1, 2007. Mr. Friel had previously served as Vice Chairman of the Company and President of its Life and Analytical Sciences Strategic Business Unit and he remains a director of the Company. It is expected that the Board will elect Mr. Friel Chief Executive Officer in February 2008. Mr. Summe will remain Chief Executive Officer until Mr. Friel is appointed to that position, at which time Mr. Summe will be appointed Executive Chairman. As Executive Chairman, Mr. Summe will continue to work with the Company as directed by the Board at a reduced schedule until the earlier of April 21, 2009 or the date of the Company's 2009 annual meeting of shareholders (the 2009 Meeting Date). The Board intends that Mr. Summe will also remain a director of the Company until the 2009 Meeting Date, at which time Mr. Summe will step down as Chairman and as a member of the Board.

Note 17: Contingencies

The Company is conducting a number of environmental investigations and remedial actions at current and former Company locations and, along with other companies, has been named a potentially responsible party, or PRP, for certain waste disposal sites. The Company accrues for environmental issues in the accounting period that the Company's responsibility is established and when the cost can be reasonably estimated. The Company has accrued \$4.1 million as of September 30, 2007, representing management's estimate of the total cost of ultimate disposition of known environmental matters. Such amount is not discounted and does not reflect the recovery of any amounts through insurance or indemnification arrangements. These cost estimates are subject to a number of variables, including the stage of the environmental investigations, the magnitude of the possible contamination, the nature of the potential remedies, possible joint and several liability, the time period over which remediation may occur and the possible effects of changing laws and regulations. For sites where the Company has been named a PRP, management does not currently anticipate any additional liability to result from the inability of other significant named parties to contribute. The Company expects that the majority of such accrued amounts could be paid out over a period of up to ten years. As assessment and remediation activities progress at each individual site, these liabilities are reviewed and adjusted to reflect additional information as it becomes available. There have been no environmental problems to date that have had or are expected to have a material adverse effect on the Company's financial position, results of operations or cash flows. While it is possible that a loss exceeding the amounts recorded in the consolidated financial statements may be incurred, the potential exposure is not expected to be materially different from those amounts recorded.

In papers dated October 23, 2002, Enzo Biochem, Inc. and Enzo Life Sciences, Inc. (collectively, Enzo) filed a complaint in the United States District Court for the Southern District of New York, Civil Action No. 02- 8448, against Amersham plc, Amersham BioSciences, PerkinElmer, Inc., PerkinElmer Life Sciences, Inc., Sigma-Aldrich Corporation, Sigma Chemical Company, Inc., Molecular Probes, Inc., and Orchid BioSciences, Inc. The complaint alleges that the Company has breached its distributorship and settlement agreements with Enzo, infringed Enzo's patents, engaged in unfair competition and fraud, and committed torts against Enzo by, among other things, engaging in commercial development and exploitation of Enzo's patented products and technology, separately and together with the other defendants. Enzo seeks injunctive and monetary relief. In 2003, the court severed the lawsuit and ordered Enzo to serve individual complaints against the five defendants. The Company subsequently filed an answer and a counterclaim alleging that Enzo's patents are invalid. In July 2006, the court issued a decision regarding the construction of the claims in Enzo's patents that effectively limited the coverage of certain of those claims and, the Company believes, excludes certain of the Company's products from the coverage of Enzo's patents. Summary judgment motions were filed by the defendants in January 2007 and a hearing with oral argument on those motions took place in July 2007, but a decision on those motions has not been rendered and a trial date has not been set.

On October 17, 2003, Amersham Biosciences Corp. filed a complaint, which was subsequently amended, in the United States District Court for New Jersey, Civil Action No. 03-4901, seeking injunctive and monetary

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relief against a subsidiary of the Company and alleging that the Company's ViewLux and certain of its Image FlashPlate products infringe three of Amersham's patents related to high-throughput screening (the NJ case). On August 18, 2004, Amersham plc filed a complaint against two of the Company's United Kingdom-based subsidiaries in the Patent Court of the English High Court of Justice, Case No. 04C02688, alleging that the Company's same products infringe one corresponding Amersham patent in the United Kingdom, which was granted in August 2004 (the UK case). On October 29, 2003, the Company filed a complaint, which was subsequently amended, seeking injunctive and monetary relief against Amersham in the United States District Court for Massachusetts, Civil Action No. 03-12098, alleging that Amersham's IN Cell Analyzer, and LEADseeker Multimodality Imaging system and certain Cyclic AMP and IP3 assays infringe two of the Company's patents related to high-throughput screening (the MA case). After a trial in the UK case in December 2005, the court ruled in February 2006 that Amersham's patent in question was invalid in the United Kingdom and awarded costs to the Company. Amersham initiated an appeal of the ruling in the UK case but withdrew that appeal in January 2007. In May 2006, the court in the NJ case issued a decision regarding the construction of the claims in Amersham's patents that adopted many of Amersham's claim construction positions. Discovery has not yet been completed in either the NJ or MA case, nor has a trial date been set in either case. Mediations occurred in September 2006 and April 2007, but did not result in a resolution of these matters.

The Company believes it has meritorious defenses to these lawsuits and other proceedings, and it is contesting the actions vigorously in all of the above matters. The Company is currently unable, however, to reasonably estimate the amount of loss, if any, that may result from the resolution of these matters or to determine whether resolution of any of these matters will have a material adverse impact on its consolidated financial statements.

During 2005, the Internal Revenue Service concluded its audit of federal income taxes for the years 1999 through 2002. The Company has agreed to the conclusions of the Internal Revenue Service in all matters with the exception of one, and has filed a single issue protest with the Appeals Division of the Internal Revenue Service. The Company expects to resolve the matter in 2007. Regardless of the outcome of the protest, the Company does not expect the final resolution to significantly impact its financial position, results of operations or cash flows.

The Company is under regular examination by tax authorities in the United States and other countries (such as France, Germany and the United Kingdom) in which the Company has significant business operations. The tax years under examination vary by jurisdiction. The Company regularly reviews its tax positions in each significant taxing jurisdiction in the process of evaluating its unrecognized tax benefits as required by FIN No. 48. Adjustments are made to the Company's unrecognized tax benefits when: (i) facts and circumstances regarding a tax position change, causing a change in management's judgment regarding that tax position; (ii) a tax position is ultimately settled with a tax authority; and/or (iii) the statute of limitations expires regarding a tax position. As of September 30, 2007, the Company had \$14.9 million of FIN No. 48 accrued tax liabilities, including interest, net of tax benefits, and penalties, which could be resolved within the next year as a result of the completion of various income tax audits. Depending on the ultimate resolution, the Company estimates that the effect on the continuing operations effective tax rate could be a tax benefit.

The Company is also subject to various other claims, legal proceedings and investigations covering a wide range of matters that arise in the ordinary course of its business activities. Each of these matters is subject to uncertainties, and it is possible that some of these matters may be resolved unfavorably to the Company. The Company has established accruals for potential losses that it believes are probable and reasonably estimable. In the opinion of the Company's management, based on its review of the information available at this time, the total cost of resolving these other contingencies at September 30, 2007, should not have a material adverse effect on the Company's consolidated financial statements.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This quarterly report on Form 10-Q, including the following management's discussion and analysis, contains forward-looking information that you should read in conjunction with the consolidated financial statements and notes to consolidated financial statements that we have included elsewhere in this report. For this purpose, any statements contained in this report that are not statements of historical fact may be deemed to be forward-looking statements. Words such as believes, plans, anticipates, intends, expects, will and similar expressions are intended to identify forward-looking statements. Our actual results may differ materially from the plans, intentions or expectations we disclose in the forward-looking statements we make. We have included important factors below under the heading Risk Factors in Item 1A. that we believe could cause actual results to differ materially from the forward-looking statements we make. We are not obligated to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

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

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

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

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

Recent Developments

Acquisitions:

Planned

Tender Offer to Acquire ViaCell, Inc. We and ViaCell, Inc. (ViaCell), a company specializing in the collection and preservation of umbilical cord blood stem cells, announced the signing of a definitive agreement on October 1, 2007 under which we plan to acquire ViaCell. On October 12, 2007, we commenced a tender offer to acquire all of the outstanding shares of common stock of ViaCell, par value \$0.01 per share, at a price equal to \$7.25 per share, net to the seller in cash, without interest and subject to any withholding of taxes. The tender offer is made upon the terms and subject to the conditions set forth in the Offer to Purchase dated October 12, 2007, and in the related Letter of Transmittal. Aggregate consideration for this transaction is expected to be approximately \$300.0 million in cash, and the transaction is expected to close in the fourth quarter of fiscal year 2007. The agreement includes customary representations, warranties and covenants by the parties, and is subject to customary closing conditions. Following the consummation of the cash tender offer, we expect to acquire the remaining outstanding shares of ViaCell by means of a merger of one of our wholly owned subsidiaries with and into ViaCell, as a result of which ViaCell will become a wholly owned subsidiary of ours. The addition of ViaCell's ViaCord product offering for the preservation of umbilical cord blood and its sales and marketing organization are expected to expand our offerings in neonatal and prenatal markets. ViaCell offers experience in the collection, testing, processing and preservation of umbilical cord blood stem cells.

In connection with the anticipated acquisition of ViaCell, we are currently in discussion with a potential lending group with respect to an unsecured interim credit facility, pursuant to which we would draw some or all

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of the funds needed to complete the anticipated acquisition of ViaCell. We expect that such an interim credit facility would mature on March 31, 2008, at which point all amounts outstanding would be due in full. We also expect that the agreement for this interim credit facility would contain affirmative, negative and financial covenants and events of default customary for financings of this type, and consistent with those contained in the credit agreement for our existing credit facility.

Completed

Agilix Corporation. In February 2006, we acquired specified assets of Agilix Corporation (Agilix) for approximately \$8.7 million in cash. Assets acquired primarily relate to Agilix's core technology which centers around labeling technology using isobaric mass tags that allow for the simultaneous quantification of molecules, such as proteins, from multiple samples.

Spectral Genomics, Inc. In April 2006, we acquired specified assets and assumed specified liabilities of Spectral Genomics, Inc. (Spectral), a leader in molecular karyotyping technology used to evaluate chromosomal abnormalities. Consideration for the transaction was approximately \$14.0 million in cash plus potential additional contingent consideration, which we expect to be immaterial to us. We will make royalty payments based on future sales, to license additional intellectual property rights from a third party.

Clinical & Analytical Service Solutions Ltd. In June 2006, we acquired the stock of Clinical & Analytical Service Solutions Ltd. (C&A), a scientific equipment asset and managed maintenance company serving the pharmaceutical, biotechnology and healthcare markets. Consideration for the transaction was approximately \$16.0 million in cash plus potential additional contingent consideration, which we expect to be immaterial to us.

J.N. Macri Technologies LLC and NTD Laboratories, Inc. In July 2006, we acquired specified assets and assumed specified liabilities of J.N. Macri Technologies LLC (Macri) and acquired the stock of NTD Laboratories, Inc. (NTD). We acquired Macri's global patents related to free beta Human Chorionic Gonadotropin (free Beta hCG). Free Beta hCG is a peptide hormone produced in the early stage of pregnancy that is widely recognized as an important biomarker for first-trimester prenatal risk assessment. NTD is a laboratory specializing in prenatal risk assessment and offers laboratory-developed and validated testing under the brand name UltraScreen®, of which free Beta hCG is an important component. Aggregate consideration for these transactions was approximately \$56.65 million in cash.

Avalon Instruments Limited. In September 2006, we acquired the stock of Avalon Instruments Limited (Avalon). The acquisition of Avalon expands and complements our molecular spectroscopy product portfolio by adding a family of innovative bench-top dispersive Raman spectrometers. Raman spectroscopy identifies and characterizes the composition of both organic and inorganic materials in a wide range of applications. Consideration for this transaction was approximately \$5.3 million in cash plus potential additional contingent consideration, which we expect to be immaterial to us.

Dynamic Mechanical Analysis Product Line from Triton Technology Ltd. In December 2006, we acquired specified assets and assumed specified liabilities of the Dynamic Mechanical Analysis (DMA) product line from Triton Technology Ltd. The DMA products offer a thermal analysis tool that is used by scientists in the polymers, pharmaceuticals and food industries for diverse applications ranging from simple quality control to advanced research. Consideration for this transaction was approximately \$2.3 million in cash at the closing, plus additional cash payments of approximately \$1.7 million that were paid during the first six months of 2007.

Evotec Technologies GmbH. In January 2007, we acquired the stock of Evotec Technologies GmbH (Evotec). The acquisition is intended to allow us to provide our customers in the pharmaceutical, biotechnology and academic arenas with Evotec's high content screening (HCS) instruments and software. These analysis tools determine the composition of cells and cell structure, a critical step in moving potential drug targets quickly through the discovery process. Consideration for this transaction was approximately \$33.0 million in cash, which was paid in fiscal year 2006. During the first nine months of fiscal year 2007, we received \$1.2 million for net working capital adjustments.

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Euroscreen Products S.A. In January 2007, we acquired the stock of Euroscreen Products S.A. (Euroscreen), a developer of the AequoScreen cellular assay platform. The AequoScreen platform from Euroscreen is based on an innovative luminescence technology that generates higher quality data, while reducing the number of false positives in G protein-coupled receptor screening applications. Consideration for this transaction was approximately \$18.1 million in cash.

Improvision Ltd. In March 2007, we acquired the stock of Improvision Ltd. (Improvision), a leading provider of cellular imaging software and integrated hardware solutions used in life sciences research. We expect that the addition of Improvision's imaging and analysis software to our high content screening systems will provide customers with powerful imaging solutions for analyzing cellular events from real-time imaging of live cells to rapid high content screening of multiple samples. Consideration for this transaction was approximately \$23.6 million in cash plus potential additional contingent consideration, which we expect to be immaterial to us. During the first nine months of fiscal year 2007, we paid \$0.6 million for net working capital adjustments.

Remaining minority interest of PerkinElmer India Pvt. Ltd. In June 2007, we acquired the remaining minority interest in PerkinElmer India Pvt. Ltd. (PKI India), a direct sales, service and marketing operation targeting India's life science and analytical instrumentation markets, from Labindia Instruments Pvt. Ltd. The acquisition establishes PKI India as our wholly owned subsidiary. Consideration for this transaction was approximately \$1.3 million in cash plus potential additional consideration, which we expect to be immaterial to us. We accrued approximately \$0.7 million of additional consideration, of which we paid \$0.2 million during the third quarter of 2007. We expect to pay the remaining \$0.5 million in quarterly installments through March 2008.

The operations for each of these acquisitions are reported within the results of our Life and Analytical Sciences segment from the acquisition date. These acquisitions, individually and in the aggregate, did not have a material effect on our financial position, results of operations or cash flows.

Research and Development Expenses:

Research and development expenses were \$84.3 million for the nine months ended September 30, 2007 and \$72.6 million for the nine months ended October 1, 2006, an increase of \$11.7 million, or 16%, including an in-process research and development (IPR&D) charge of \$1.5 million related to the Evotec and Euroscreen acquisitions. We directed research and development efforts during 2007 and 2006 primarily toward genetic screening, biopharmaceutical, and environmental and chemical end markets within our Life and Analytical Sciences segment and medical digital imaging and flash technology within our Optoelectronics segment in order to help accelerate our growth initiatives.

Share Repurchase Program:

On November 6, 2006, we announced that our Board of Directors (the Board) authorized us to repurchase up to 10.0 million shares of our common stock under a stock repurchase program (the Repurchase Program). The Repurchase Program will expire on October 25, 2010 unless this authorization is terminated earlier by our Board and may be suspended or discontinued at any time. During the first nine months of 2007, we repurchased in the open market approximately 7.1 million shares of our common stock at an aggregate cost of \$176.0 million, including commissions, under the Repurchase Program. The repurchased shares have been reflected as additional authorized but unissued shares, with the payments reflected in common stock and capital in excess of par value. From October 1, 2007 through November 7, 2007, we repurchased approximately 0.3 million shares of our common stock in the open market under the Repurchase Program at an aggregate cost of \$7.9 million, including commissions.

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Restructuring Activities:

During the first quarter of 2007, our management approved a plan to shift resources into product lines that are more consistent with our growth strategy. The actions within this plan related to a workforce reduction resulting from reorganization activities within our Life and Analytical Sciences segment. As a result of this plan, we recognized a pre-tax restructuring charge of \$4.4 million during the first quarter of 2007. We completed notifying affected employees on March 30, 2007 and anticipate that the remaining payments of \$1.4 million will be completed by the end of the first quarter of fiscal year 2008.

Leadership Succession Plan:

We announced on July 26, 2007 that the Board had approved a leadership succession plan. On July 25, 2007, the Board elected Robert F. Friel to the position of President and Chief Operating Officer of the Company, effective August 1, 2007. Mr. Friel had previously served as Vice Chairman of the Company and President of our Life and Analytical Sciences Strategic Business Unit and he remains a director of the Company. It is expected that the Board will elect Mr. Friel Chief Executive Officer in February 2008. Mr. Summe will remain Chief Executive Officer until Mr. Friel is appointed to that position, at which time Mr. Summe will be appointed Executive Chairman. As Executive Chairman, Mr. Summe will continue to work with the Company as directed by the Board at a reduced schedule until the earlier of April 21, 2009 or the date of the Company's 2009 annual meeting of shareholders (the 2009 Meeting Date). The Board intends that Mr. Summe will also remain a director of the Company until the 2009 Meeting Date, at which time Mr. Summe will step down as Chairman and as a member of the Board.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to bad debts, inventories, intangible assets, income taxes, restructuring, pensions and other post-retirement benefits, stock-based compensation, warranty costs, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are those policies that affect our more significant judgments and estimates used in the preparation of our consolidated financial statements. We believe our critical accounting policies include our policies regarding revenue recognition, allowances for doubtful accounts, inventory valuation, business combinations, value of long-lived assets, including intangibles, employee compensation and benefits, restructuring activities, gains or losses on dispositions and income taxes. For a more detailed discussion of our critical accounting policies, please refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as filed with the Securities and Exchange Commission (the SEC) (the 2006 Form 10-K).

Consolidated Results of Continuing Operations

Sales

Sales for the three months ended September 30, 2007 were \$435.7 million, versus \$386.9 million for the three months ended October 1, 2006, an increase of \$48.8 million, or 13%. Changes in foreign exchange and acquisitions contributed approximately 4% and 3%, respectively, to the increase in revenue for the three months ended September 30, 2007, as compared to the three months ended October 1, 2006. This total increase in sales reflects a \$35.8 million, or 13%, increase in our Life and Analytical Sciences segment sales, which includes an approximate 4% increase in sales attributable to favorable changes in foreign exchange rates and an approximate 4% increase from acquisitions compared to the three months ended October 1, 2006. Our Optoelectronics segment sales grew \$12.9 million, or 13%, including an approximate 3% increase in sales attributable to favorable changes in foreign exchange rates compared to the three months ended October 1, 2006.

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Sales for the nine months ended September 30, 2007 were \$1,275.9 million, versus \$1,119.4 million for the nine months ended October 1, 2006, an increase of \$156.5 million, or 14%. Changes in foreign exchange and acquisitions each contributed approximately 3% to the increase in revenue for the nine months ended September 30, 2007, as compared to the nine months ended October 1, 2006. This increase in sales reflects a \$121.2 million, or 15%, increase in our Life and Analytical Sciences segment sales, which includes an approximate 5% increase from acquisitions and an approximate 4% increase in sales attributable to favorable changes in foreign exchange rates compared to the nine months ended October 1, 2006. Our Optoelectronics segment sales grew \$35.2 million, or 12%, including an approximate 2% increase in sales attributable to favorable changes in foreign exchange rates compared to the nine months ended October 1, 2006.

Cost of Sales

Cost of sales for the three months ended September 30, 2007 was \$257.2 million, versus \$231.0 million for the three months ended October 1, 2006, an increase of approximately \$26.2 million, or 11%. As a percentage of sales, cost of sales decreased to 59.0% in the three months ended September 30, 2007 from 59.7% in the three months ended October 1, 2006, resulting in an increase in gross margin of 70 basis points to 41.0% in the three months ended September 30, 2007, from 40.3% in the three months ended October 1, 2006. Amortization of intangible assets increased due to the acquisitions completed in 2006 and 2007 and was \$8.5 million for the three months ended September 30, 2007 as compared to \$7.4 million for the three months ended October 1, 2006. The amortization of purchase accounting adjustments to record the inventory from the Euroscreen acquisition was approximately \$0.4 million for the three months ended September 30, 2007. Stock option expense was \$0.4 million and \$0.5 million for the three months ended September 30, 2007 and October 1, 2006, respectively. The increase in gross margin was primarily attributable to net productivity and capacity improvements within both segments, partially offset by an increase in amortization expense and purchase accounting adjustments. Movement in foreign exchange increased cost of sales, but had a minimal impact on gross margin.

Cost of sales for the nine months ended September 30, 2007 was \$764.7 million, versus \$670.2 million for the nine months ended October 1, 2006, an increase of approximately \$94.5 million, or 14%. As a percentage of sales, cost of sales was 59.9% in each of the nine months ended September 30, 2007 and October 1, 2006, resulting in gross margin of 40.1% in each of the nine months ended September 30, 2007 and October 1, 2006. Amortization of intangible assets increased due to the acquisitions completed in 2006 and 2007 and was \$25.6 million for the nine months ended September 30, 2007 as compared to \$21.6 million for the nine months ended October 1, 2006. The amortization of purchase accounting adjustments to record the inventory from the Evotec, Euroscreen and Improvisation acquisitions was approximately \$2.5 million for the nine months ended September 30, 2007. Stock option expense was \$0.9 million and \$0.8 million for the nine months ended September 30, 2007 and October 1, 2006, respectively. Apart from an increase in amortization expense, purchase accounting adjustments and stock option expense, gross margin increased as a result of net productivity and capacity improvements within both segments, partially offset by pressures in our laboratory services business as a result of entering into several large new contracts requiring an increase in start-up investment in the first six months of 2007 and a one-time charge related to flash module contracts in our Optoelectronics segment. Movement in foreign exchange increased cost of sales, but had a minimal impact on gross margin.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended September 30, 2007 were \$106.4 million as compared to \$94.7 million for the three months ended October 1, 2006, an increase of approximately \$11.7 million. As a percentage of sales, selling, general and administrative expenses were 24.4% for the period ended September 30, 2007, compared to 24.5% in the three months ended October 1, 2006. This \$11.7 million increase was primarily the result of increased headcount and employee related expenses to support our sales initiatives, increased sales and marketing expenses to support recent acquisitions, business development expenses, amortization expense related to the acquisitions completed in 2006 and 2007 and foreign exchange, partially offset by a decrease in stock option expense. Amortization of intangible assets was \$1.8 million for the three months ended September 30, 2007 as compared to \$1.1 million for the three months ended October 1, 2006. Stock option expense was \$1.9 million and \$2.4 million for the three months ended September 30, 2007 and October 1, 2006, respectively.

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Selling, general and administrative expenses for the nine months ended September 30, 2007 were \$317.5 million as compared to \$277.2 million for the nine months ended October 1, 2006, an increase of approximately \$40.4 million. As a percentage of sales, selling, general and administrative expenses were 24.9% for the period ended September 30, 2007, compared to 24.8% in the nine months ended October 1, 2006. This \$40.4 million increase was primarily the result of increased headcount and employee related expenses to support our sales initiatives, increased sales and marketing expenses to support recent acquisitions, business development expenses, amortization expense related to the acquisitions completed in 2006 and 2007 and foreign exchange, slightly offset by a decrease in stock option expense. Amortization of intangible assets was \$5.1 million for the nine months ended September 30, 2007 as compared to \$1.6 million for the nine months ended October 1, 2006. Stock option expense was \$5.4 million and \$5.5 million for the nine months ended September 30, 2007 and October 1, 2006, respectively.

Research and Development Expenses

Research and development expenses for the three months ended September 30, 2007 were \$27.7 million versus \$24.8 million for the three months ended October 1, 2006, an increase of \$2.9 million, or 12%. As a percentage of sales, research and development expenses were 6.4% in each of the three months ended September 30, 2007 and October 1, 2006. We directed research and development efforts similarly during 2007 and 2006, primarily toward genetic screening, biopharmaceutical, and environmental and chemical end markets within our Life and Analytical Sciences segment and medical digital imaging and flash technology within our Optoelectronics segment in order to help accelerate our growth initiatives. Amortization of intangible assets was \$0.4 million for the three months ended September 30, 2007 as compared to \$0.5 million for the three months ended October 1, 2006. Research and development expenses also included stock option expense of \$0.1 million and \$0.2 million for the three months ended September 30, 2007 and October 1, 2006, respectively.

Research and development expenses for the nine months ended September 30, 2007 were \$82.8 million versus \$72.6 million for the nine months ended October 1, 2006, an increase of \$10.2 million, or 14%. As a percentage of sales, research and development expenses were 6.5% in each of the nine months ended September 30, 2007 and October 1, 2006. Amortization of intangible assets was \$1.2 million for the nine months ended September 30, 2007 as compared to \$1.0 million for the nine months ended October 1, 2006. Research and development expenses also included stock option expense of \$0.4 million and \$0.5 million for the nine months ended September 30, 2007 and October 1, 2006, respectively.

In-process Research and Development Charge

IPR&D charge for the nine months ended September 30, 2007 was \$1.5 million, which related to the acquisitions of Evotec and Euroscreen. In determining the value of the in-process projects, we considered, among other factors, the in-process projects' stage of completion, the complexity of the work completed as of the acquisition date, the costs already incurred, the projected costs to complete, the contribution of core technologies and other acquired assets, the expected introduction date and the estimated useful life of the technology. We utilized the discounted cash flow method to value the IPR&D, using a discount rate equivalent to the relative risk of the asset, including the uncertainty of technological feasibility and successful launch. This approach determines fair value by estimating the after-tax cash flows attributable to an in-process project over its useful life and then discounting these after-tax cash flows back to a present value. We believe that the estimated purchased research and development amounts so determined represent the fair value at the acquisition date and the amount represents management's best estimate of the amount a third party would pay for the projects.

Gains on Settlement of Insurance Claim

During the second quarter of 2007, we settled an insurance claim resulting from a fire that occurred within our Life and Analytical Sciences facility in Boston, Massachusetts in March 2005. As a result of that settlement, we recorded gains of \$15.3 million during the second quarter of 2007. We received the final settlement payment

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of \$21.5 million in June 2007, and had previously received, during 2005 and 2006, a total of \$35.0 million in advance payments towards costs incurred and for building, inventory and equipment damages. Of the \$56.5 million in total settlement proceeds received, \$25.6 million related to reimbursement of costs incurred; \$23.7 million related to damages to the building, inventory and equipment; and \$7.2 million related to business interruption costs which were recorded as reductions to cost of sales and selling, general and administrative expenses.

The building that was damaged by the March 2005 fire is currently not being used for operations and the associated depreciation has ceased. During the second quarter of 2007, we accrued \$9.7 million representing our management's estimate of the total cost for decommissioning the building, including environmental matters. We paid \$2.6 million during the third quarter of 2007 towards decommissioning the building, and we anticipate that the remaining payments of \$7.1 million will be completed by the end of fiscal year 2008.

Restructuring and Leasing (Reversals) Charges, Net

We have undertaken a series of restructuring actions related to the impact of acquisitions, divestitures and the integration of our business units. Restructuring actions taken since 2002 were recorded in accordance with Statement of Financial Accounting Standards (SFAS) No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. Details of these plans are discussed more fully in the 2006 Form 10-K.

The purpose of the restructuring plan approved in the first quarter of 2007, detailed below, was principally to shift resources into geographic regions and product lines that are more consistent with our growth strategy. The pre-tax restructuring activity associated with these plans has been reported as restructuring expenses as a component of operating expenses from continuing operations. We expect the impact of immediate and future cost savings from these restructuring activities on operating results and cash flows to be negligible as we have incurred and will incur offsetting costs.

A description of the restructuring plans and the activity recorded for the nine months ended September 30, 2007 are as follows:

Q1 2007 Plan

During the first quarter of 2007 we recognized a pre-tax restructuring charge of \$4.4 million, which we refer to as the Q1 2007 Plan. The actions within the Q1 2007 Plan related to a workforce reduction resulting from reorganization activities within the Life and Analytical Sciences segment. We completed notifying affected employees on March 30, 2007.

The following table summarizes the components of the Q1 2007 Plan activity for the nine months ended September 30, 2007:

	Headcount	Severance (Dollars in thousands)
Balance at December 31, 2006		\$
Provision	60	4,438
Amounts paid	(48)	(3,075)
Balance at September 30, 2007	12	\$ 1,363

We anticipate that the remaining payments of \$1.4 million will be completed by the end of the first quarter of fiscal year 2008.

Table of Contents**2001 to 2006 Restructuring and Integration Plans**

The principal actions of these restructuring plans were workforce reductions related to the integration of our Life Sciences and Analytical Instruments businesses in order to reduce costs and achieve operational efficiencies as well as workforce reductions in both the Life and Analytical Sciences and Optoelectronics segments to shift resources into geographic regions and product lines that are more consistent with our growth strategy. For the nine months ended September 30, 2007, we paid \$0.2 million related to these plans. As of September 30, 2007, we had approximately \$2.6 million of remaining liabilities associated with 2001 to 2006 restructuring and integration plans, primarily relating to workforce severance benefits associated with the closure of our European manufacturing facility in the Life and Analytical Sciences segment and remaining lease obligations related to those closed facilities. The remaining terms of these leases vary in length and will be paid through fiscal year 2014. We anticipate that the remaining severance payments will be completed by the end of fiscal year 2008.

Lease Costs

To facilitate the sale of a business in 2001, we were required to guarantee the obligations that the buyer of the business assumed related to the lease for the building in which the business operates. The lease obligations continue through March 2011. While we assigned our interest in the lease to the buyer at the time of the sale of the business, in the event the buyer defaults under the lease, we are responsible for all remaining lease payments and certain other building related expenses. As an additional measure to facilitate the sale of the business, we obtained a letter of credit as partial security for a loan to the buyer, which could have been drawn upon by the buyer's lender in the event the buyer was delinquent in repayment of the loan. During the second quarter of 2007, the lessor of the building began the process to evict the buyer as a result of unpaid lease payments and building expenses and sought reimbursement from us. As a result of this action, we recorded a charge of \$4.5 million related to payments for this lease obligation and the potential drawdown of the letter of credit. During the third quarter of 2007, the buyer completed a recapitalization of the business with another lender. The proceeds of the recapitalization were used to pay off the remaining balance on the original securitized loan, as well as to make certain payments to the landlord for back rent and other obligations arising under the lease. We were also released from our obligation under the letter of credit on the original securitized loan. As a result of these actions, we recorded a reversal of \$1.4 million related to payments for this lease obligation and the release of the letter of credit. The remaining accrual of \$3.1 million was calculated based on the remaining lease and building obligations, reduced by estimated sublease rentals reasonably expected to be obtained for the property.

Interest and Other Expense (Income), Net

Interest and other expense (income), net consisted of the following:

	Three Months Ended		Nine Months Ended	
	September 30,	October 1,	September 30,	October 1,
	2007	2006	2007	2006
	(In thousands)			
Interest income	\$ (1,077)	\$ (1,919)	\$ (3,381)	\$ (7,654)
Interest expense	4,122	2,152	9,886	6,689
Gains on dispositions of investments, net	(161)	(980)	(697)	(1,913)
Other expense, net	2,396	524	5,668	4,296
Total interest and other expense (income), net	\$ 5,280	\$ (223)	\$ 11,476	\$ 1,418

For the three months ended September 30, 2007, interest and other expense (income), net was \$5.3 million of expense versus \$0.2 million of income for the three months ended October 1, 2006, an increase in expense of approximately \$5.5 million. The increase in interest and other expense (income), net, for the three months ended September 30, 2007 as compared to the three months ended October 1, 2006 was primarily due to lower

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outstanding cash balances and higher outstanding debt balances. Interest income decreased \$0.8 million due to lower overall cash balances and interest expense increased \$2.0 million due to higher outstanding debt balances, as well as increased borrowing rates. We also recognized a net gain on dispositions of investments of \$0.2 million associated with the dissolution of certain investments. Other expenses for the three months ended September 30, 2007 as compared to the three months ended October 1, 2006 increased by \$1.9 million, and consisted primarily of expense related to foreign currency translation.

For the nine months ended September 30, 2007, interest and other expense, net was \$11.5 million versus \$1.4 million for the nine months ended October 1, 2006, an increase of \$10.1 million. The increase in interest and other expense, net, for the nine months ended September 30, 2007 as compared to the nine months ended October 1, 2006 was primarily due to the lower outstanding cash balances. Interest income decreased \$4.3 million due to lower overall cash balances and interest expense increased \$3.2 million due to higher outstanding debt balances, as well as increased borrowing rates. We also recognized a net gain on dispositions of investments of \$0.7 million associated with the dissolution of certain investments. Other expenses for the nine months ended September 30, 2007 and October 1, 2006 increased by \$1.4 million, and consisted primarily of expense related to foreign currency translation and business development related costs. A more complete discussion of our liquidity is set forth below under the heading Liquidity and Capital Resources.

Provision for Income Taxes

The provision for income taxes from continuing operations was \$9.5 million for the three months ended September 30, 2007, as compared to a provision of \$7.8 million for the three months ended October 1, 2006. The provision for income taxes from continuing operations was \$26.4 million for the nine months end September 30, 2007, as compared to a provision of \$22.5 million for the nine months ended October 1, 2006. The effective tax rate from continuing operations was 23.3% and 25.0% for the three and nine months ended September 30, 2007, respectively, as compared to 21.3% and 22.6% for the three and nine months ended October 1, 2006, respectively. The higher effective tax rate in 2007 was primarily due to (i) the non-deductible IPR&D charge of \$1.5 million recorded in the nine months ended September 30, 2007; (ii) the discrete accrual of interest expense as a result of the adoption of the Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48 in the nine months ended September 30, 2007; (iii) the accrual of U.S. taxes on the \$15.3 million gains on the settlement of an insurance claim for the nine months ended September 30, 2007; and (iv) changes in our forecasted geographic distribution of earnings.

Discontinued Operations

As part of our continued efforts to focus on higher growth opportunities, we have discontinued certain businesses. We have accounted for these businesses as discontinued operations in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and, accordingly, have presented the results of operations and related cash flows as discontinued operations for all periods presented. The assets and liabilities of these businesses have been presented separately and are reflected within the assets and liabilities from discontinued operations in the accompanying consolidated balance sheets as of September 30, 2007 and December 31, 2006.

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We recorded the following gains and losses, which have been reported as the gain (loss) on dispositions of discontinued operations:

	Three Months Ended		Nine Months Ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
	(In thousands)			
Gain on the sale of Semiconductor business	\$ 1	\$	\$ 87	\$ 3,750
(Loss) gain on the sale of Aerospace business		(11)	267	(1,288)
Gain (loss) on the sale of Fluid Testing business			35	(234)
Loss on the sale of Lithography business	(124)	(1,079)	(544)	(1,481)
Gain on contract settlements associated with Technical Services business		467	884	853
Net gain (loss) on dispositions of other discontinued operations	19	100		