CHARLES RIVER LABORATORIES INTERNATIONAL INC
Form 10-Q
November 07, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 29, 2018
OR

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

FOR THE TRANSITION PERIOD FROM TO
Commission File No. 001-15943
CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
(Exact Name of Registrant as Specified in Its Charter)

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files. Yes þ No ¨
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨
Smaller reporting company ¨ Emerging growth company ¨
If an emerging growth company, indicate by a check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ
As of October 26, 2018, there were 48,096,420 shares of the Registrant's common stock outstanding.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 29, 2018

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Special Note on Factors Affecting Future Results

This Quarterly Report on Form 10-Q contains forward-looking statements regarding future events and the future results of Charles River Laboratories International, Inc. that are based on our current expectations, estimates, forecasts and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as “expect,” “anticipate,” “target,” “goal,” “project,” “intend,” “plan,” “believe,” “seek,” “estimate,” “will,” “likely,” “ma “future,” “can,” “could,” and other similar expressions which are predictions of, indicate future events and trends or which do not relate to historical matters, are intended to identify such forward-looking statements. These statements are based on our current expectations and beliefs and involve a number of risks, uncertainties and assumptions that are difficult to predict.

For example, we may use forward-looking statements when addressing topics such as: goodwill and asset impairments still under review; future demand for drug discovery and development products and services, including the outsourcing of these services; our expectations regarding stock repurchases, including the number of shares to be repurchased, expected timing and duration, the amount of capital that may be expended and the treatment of repurchased shares; present spending trends and other cost reduction activities by our clients; future actions by our management; the outcome of contingencies; changes in our business strategy, business practices and methods of generating revenue; the development and performance of our services and products; market and industry conditions, including competitive and pricing trends; our strategic relationships with leading pharmaceutical and biotechnology companies, venture capital investments, and opportunities for future similar arrangements; our cost structure; the impact of acquisitions; our expectations with respect to revenue growth and operating synergies (including the impact of specific actions intended to cause related improvements); the impact of specific actions intended to improve overall operating efficiencies and profitability (and our ability to accommodate future demand with our infrastructure), including gains and losses attributable to businesses we plan to close, consolidate, divest or repurpose (including our Maryland research model production site); changes in our expectations regarding future stock option, restricted stock, performance share units, and other equity grants to employees and directors; expectations with respect to foreign currency exchange; assessing (or changing our assessment of) our tax positions for financial statement purposes; and our liquidity. In addition, these statements include the impact of economic and market conditions on us and our clients; the effects of our cost saving actions and the steps to optimize returns to shareholders on an effective and timely basis; and our ability to withstand the current market conditions.

You should not rely on forward-looking statements because they are predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document, or in the case of statements incorporated by reference, on the date of the document incorporated by reference.

Factors that might cause or contribute to such differences include, but are not limited to, those discussed in our Annual Report on Form 10-K for the year ended December 30, 2017, under the sections entitled “Our Strategy,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in our press releases, and other financial filings with the Securities and Exchange Commission. We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or risks. New information, future events, or risks may cause the forward-looking events we discuss in this report not to occur.

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

	Three Months Ended		Nine Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Service revenue	$443,038	$ 326,711	$1,226,948	$ 960,640
Product revenue	142,257	137,521	437,618	418,484
Total revenue	585,295	464,232	1,664,566	1,379,124
Costs and expenses:				
Cost of services provided (excluding amortization of intangible assets)	298,018	219,725	844,130	641,945
Cost of products sold (excluding amortization of intangible assets)	71,077	67,660	206,786	203,655
Selling, general and administrative	113,033	92,428	336,936	277,157
Amortization of intangible assets	18,805	10,357	47,813	30,913
Operating income	84,362	74,062	228,901	225,454
Other income (expense):				
Interest income	230	134	694	497
Interest expense	(17,197)	(7,667)	(47,031)	(22,053)
Other income, net	5,910	6,410	24,069	24,004
Income from continuing operations, before income taxes	73,305	72,939	206,633	227,902
Provision for income taxes	12,403	19,945	39,613	73,272
Income from continuing operations, net of income taxes	60,902	52,994	167,020	154,630
Income (loss) from discontinued operations, net of income taxes	—	(39)	1,506	(114)
Net income	60,902	52,955	168,526	154,516
Less: Net income attributable to noncontrolling interests	534	481	1,818	1,312
Net income attributable to common shareholders	$60,368	$ 52,474	$166,708	$ 153,204
Earnings per common share				
Basic:				
Continuing operations attributable to common shareholders	$1.25	$ 1.11	$3.43	$ 3.23
Discontinued operations	$—	$ —	$0.03	$ —
Net income attributable to common shareholders	$1.25	$ 1.11	$3.47	$ 3.22
Diluted:				
Continuing operations attributable to common shareholders	$1.22	$ 1.09	$3.36	$ 3.17
Discontinued operations	$—	$ —	$0.03	$ —
Net income attributable to common shareholders	$1.22	$ 1.08	$3.39	$ 3.16

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Net income	$60,902	$ 52,955	$168,526	$ 154,516
Other comprehensive income:				
Foreign currency translation adjustment and other	(6,805)	24,570	(14,524)	69,242
Amortization of net loss and prior service benefit included in net periodic cost for pension and other post-retirement benefit plans	615	883	1,864	2,638
Comprehensive income, before income taxes	54,712	78,408	155,866	226,396
Less: Income tax (benefit) expense related to items of other comprehensive income	257	153	(341)	776
Comprehensive income, net of income taxes	54,455	78,255	156,207	225,620
Less: Comprehensive (loss) income related to noncontrolling interests, net of income taxes	(74)	766	886	1,964
Comprehensive income attributable to common shareholders	$54,529	$ 77,489	$155,321	$ 223,656

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	September 29, 2018	December 30, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 138,866	$ 163,794
Trade receivables, net	487,339	430,016
Inventories	125,500	114,956
Prepaid assets	43,764	36,544
Other current assets	42,697	81,315
Total current assets	838,166	826,625
Property, plant and equipment, net	896,901	781,973
Goodwill	1,252,700	804,906
Client relationships, net	545,799	301,891
Other intangible assets, net	83,934	67,871
Deferred tax assets	24,562	22,654
Other assets	154,595	124,002
Total assets	$ 3,796,657	$ 2,929,922
Liabilities, Redeemable Noncontrolling Interest and Equity		
Current liabilities:		
Current portion of long-term debt and capital leases	$ 31,651	$ 30,998
Accounts payable	77,736	77,838
Accrued compensation	112,731	101,044
Deferred revenue	140,760	117,569
Accrued liabilities	109,810	89,780
Other current liabilities	66,911	44,460
Current liabilities of discontinued operations	—	1,815
Total current liabilities	539,599	463,504
Long-term debt, net and capital leases	1,652,733	1,114,105
Deferred tax liabilities	145,331	89,540
Other long-term liabilities	184,954	194,815
Long-term liabilities of discontinued operations	—	3,942
Total liabilities	2,522,617	1,865,906
Commitments and contingencies (Note 15)		
Redeemable noncontrolling interest	17,331	16,609
Equity:		
Preferred stock, $0.01 par value; 20,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.01 par value; 120,000 shares authorized; 88,315 shares issued and 48,094 shares outstanding as of September 29, 2018, and 87,495 shares issued and 47,402 shares outstanding as of December 30, 2017	883	875
Additional paid-in capital	2,625,256	2,560,192
Retained earnings	460,120	288,658
Treasury stock, at cost, 40,221 shares and 40,093 shares as of September 29, 2018 and December 30, 2017, respectively	(1,673,705)	(1,659,914)
Accumulated other comprehensive loss	(159,448)	(144,731)
Total equity attributable to common shareholders	1,253,106	1,045,080
Noncontrolling interest	3,603	2,327

Total equity	1,256,709	1,047,407
Total liabilities, redeemable noncontrolling interest and equity	$ 3,796,657	$ 2,929,922

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	September 29, 2018	September 30, 2017
Cash flows relating to operating activities		
Net income	$168,526	$ 154,516
Less: Income (loss) from discontinued operations, net of income taxes	1,506	(114)
Income from continuing operations, net of income taxes	167,020	154,630
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	120,198	97,675
Stock-based compensation	35,908	32,902
Deferred income taxes	(10,385)	18,176
Gain on venture capital investments	(22,760)	(12,321)
Gain on divestiture	—	(10,577)
Other, net	10,036	1,034
Changes in assets and liabilities:		
Trade receivables, net	(30,318)	(42,712)
Inventories	(10,340)	(9,500)
Accounts payable	(5,322)	(6,160)
Accrued compensation	6,088	(10,548)
Deferred revenue	33,491	(16,849)
Customer contract deposits	34,455	—
Other assets and liabilities, net	(26,904)	(1,912)
Net cash provided by operating activities	301,167	193,838
Cash flows relating to investing activities		
Acquisitions of businesses and assets, net of cash acquired	(822,611)	(22,474)
Capital expenditures	(71,378)	(53,928)
Purchases of investments and contributions to venture capital investments	(20,535)	(42,135)
Proceeds from sale of investments	30,595	6,604
Proceeds from divestiture	—	72,462
Other, net	(118)	(288)
Net cash used in investing activities	(884,047)	(39,759)
Cash flows relating to financing activities		
Proceeds from long-term debt and revolving credit facility	2,392,201	229,255
Proceeds from exercises of stock options	30,228	35,089
Payments on long-term debt, revolving credit facility, and capital lease obligations	(1,832,805)	(309,258)
Payments on debt financing costs	(18,337)	—
Purchase of treasury stock	(13,791)	(106,902)
Other, net	—	(3,650)
Net cash provided by (used in) financing activities	557,496	(155,466)
Discontinued operations		
Net cash used in operating activities from discontinued operations	(3,735)	(1,489)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	4,664	9,135
Net change in cash, cash equivalents, and restricted cash	(24,455)	6,259
Cash, cash equivalents, and restricted cash, beginning of period	166,331	119,894
Cash, cash equivalents, and restricted cash, end of period	$141,876	$ 126,153

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	Nine Months Ended	
	September 29, 2018	September 30, 2017
Supplemental cash flow information:		
Cash and cash equivalents	$138,866	$ 123,618
Restricted cash included in Other current assets	426	591
Restricted cash included in Other assets	2,584	1,944
Cash, cash equivalents, and restricted cash, end of period	$141,876	$ 126,153

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements are unaudited and have been prepared by Charles River Laboratories International, Inc. (the Company) in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The year-end condensed consolidated balance sheet data was derived from the Company’s audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for fiscal year 2017. The unaudited condensed consolidated financial statements, in the opinion of management, reflect all normal and recurring adjustments necessary for a fair statement of the Company’s financial position and results of operations.

The Company has reclassified certain amounts in the unaudited condensed consolidated statements of income for prior periods to conform to the current year presentation. See “Newly Adopted Accounting Pronouncements” below for further discussion and impact on the condensed consolidated financial statements.

Use of Estimates

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

Consolidation

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

The Company’s fiscal year is typically based on 52-weeks, with each quarter composed of 13 weeks ending on the last Saturday on, or closest to, March 31, June 30, September 30, and December 31.

Summary of Significant Accounting Policies

The Company’s significant accounting policies are described in Note 1, “Description of Business and Summary of Significant Accounting Policies,” in the Company’s Annual Report on Form 10-K for fiscal year 2017.

Newly Adopted Accounting Pronouncements

In March 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-05, “Income Taxes (Topic 740) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SAB 118).” This standard amends Accounting Standards Codification 740, Income Taxes (ASC 740) to provide guidance on accounting for the tax effects of U.S. Tax Reform pursuant to SAB 118, which allows companies to complete the accounting under ASC 740 within a one-year measurement period from the enactment date of U.S. Tax Reform. This standard is effective upon issuance and the Company has complied with the amendments. See Note 11, “Income Taxes” for further discussion.

In February 2018, the FASB issued ASU 2018-02, “Income Statement - Reporting Comprehensive Income (Topic 220) Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” The standard allows for reclassification from accumulated other comprehensive income to retained earnings for the stranded tax effects arising from the change in the reduction of the U.S. federal statutory income tax rate to 21% from 35%. The Company elected to early adopt this standard in fiscal year 2018 as permitted on a prospective basis, resulting in a reclassification of

$3.3 million from Accumulated other comprehensive income to Retained earnings as a result of remeasuring the Company’s deferred tax liabilities related to its pension and other post-retirement benefit plan gains and losses. The Company’s policy is to release material stranded tax effects on a specific identification basis.

In March 2017, the FASB issued ASU 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.” The standard requires an employer to disaggregate the service cost component from the other components of net benefit cost and provides explicit guidance on the presentation of the service cost component and the other components of net benefit cost in the statements of income. The Company adopted this standard in fiscal year 2018 and applied the changes retrospectively to the presentation of the service cost component and the other components of net periodic pension cost in the statements of income for all periods presented as required. The adoption of this standard increased Operating income by $0.1 million and $0.7 million during the three and nine months ended September 30, 2017, respectively. In connection with the impact of Operating income to the Company's reportable segments for the three months ended September 30, 2017, Research Models and Services (RMS) decreased by $0.1 million, Discovery and Safety Assessment (DSA) decreased by $0.3 million, Manufacturing Support (Manufacturing) decreased by less than $0.1 million, and Unallocated corporate increased by $0.4 million. For the nine months ended September 30, 2017, Operating income for RMS decreased by $0.1 million, DSA decreased by $1.0 million, Manufacturing decreased by less than $0.1 million, and Unallocated corporate increased by $1.7 million.

In January 2017, the FASB issued ASU 2017-01, "Clarifying the Definition of a Business." The standard clarifies the definition of a business by adding guidance to assist entities in evaluating whether transactions should be accounted for as acquisitions of assets or businesses. The Company's adoption of this standard in fiscal year 2018 did not have a significant impact on the consolidated financial statements and related disclosures.

In October 2016, the FASB issued ASU 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory." The standard requires the immediate recognition of tax effects for an intra-entity asset transfer other than inventory. The Company's adoption of this standard in fiscal year 2018 did not have a significant impact on the consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Liabilities." This standard, including a subsequently issued amendment under ASU 2018-03, "Technical Corrections and Improvements to Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities", requires equity investments that are not accounted for under the equity method of accounting to be measured at fair value with changes recognized in net income, simplifies the impairment assessment of certain equity investments, and updates certain presentation and disclosure requirements. The Company adopted this standard in fiscal year 2018, resulting in an increase of $1.9 million to Other assets with a corresponding increase to Retained earnings and Deferred taxes of $1.4 million and $0.5 million, respectively.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." The standard, including subsequently issued amendments, replaced most existing revenue recognition guidance in U.S. GAAP and permits the use of either a modified retrospective or cumulative effect transition method. The Company elected the modified retrospective transition method. The standard requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The Company adopted this standard in fiscal year 2018. See Note 3, "Revenue From Contracts With Customers" for a discussion of the Company's adoption of this standard and its impact on the consolidated financial statements and related disclosures.

Newly Issued Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-15, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computer Arrangement that is a Service Contract." ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years and will be applied either retrospectively or prospectively. Early adoption is permitted. The Company is still evaluating the impact this standard will have on its consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-14, "Compensation Retirement Benefits - Defined Benefit Plans -General (Subtopic 715-20)." ASU 2018-14 removes the requirements to disclose the amounts in Accumulated other comprehensive income (loss) expected to be recognized as components of net periodic benefit cost over the next fiscal year and the related party disclosures about the amount of future annual benefits covered by insurance contracts. In addition, the ASU adds the requirement to disclose an explanation for any significant gains and losses related to changes in the benefit obligation for the period. The ASU is effective for fiscal years ending after December 15, 2020 and will be applied on a retrospective basis to all periods presented. Early adoption is permitted. The Company is still evaluating the impact this standard will have on its consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820) - Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement.” ASU 2018-13 removes the disclosure requirement for the amount and reasons for transfers between Level 1 and Level 2 fair value measurements as well as the process for Level 3 fair value measurements. In addition, the ASU adds the disclosure requirements for changes in unrealized gains and losses included in Other comprehensive income (loss) for recurring Level 3 fair value measurements held at the end of the reporting period as well as the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years and will be applied on a retrospective basis to all periods presented. Early adoption is permitted. The Company is still evaluating the impact this standard will have on its consolidated financial statements and related disclosures.

In June 2018, the FASB issued ASU 2018-07, “Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting.” ASU 2018-07 aligns the accounting for share-based payment awards issued to employees and nonemployees as well as improves financial reporting for share-based payments to nonemployees. The ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years and will be applied to all new option awards granted after the date of adoption. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements and related disclosures.

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815) Targeted Improvements to Accounting for Hedging Activities.” ASU 2017-12 refines and expands hedge accounting for both financial and commodity risks. It also creates more transparency around how economic results are presented, both on the face of the financial statements and in the disclosures. In addition, this ASU makes certain targeted improvements to simplify the application of hedge accounting guidance. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, and requires the modified retrospective approach. Early adoption is permitted. This update applies to all existing hedging relationships on the date of adoption with the cumulative effect of adoption being reflected as of the beginning of the fiscal year of adoption. The Company is still evaluating the impact this standard will have on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, “Simplifying the Test for Goodwill Impairment.” The standard simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. This standard is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and will be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, “Leases.” The standard, including subsequently issued amendments, established the principles that lessees and lessors will apply to report useful information to users of financial statements about the amount, timing and uncertainty of cash flows arising from a lease. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company formed an implementation team during fiscal year 2017 to oversee adoption of the new standard. The implementation team has completed its initial assessment of the new standard, including a detailed review of the Company’s lease portfolio. The Company continues to assess the impact on the existing lease accounting policies, newly required financial statement disclosures, and executing on the project plan. Currently, the Company is performing contract reviews, evaluating anticipated changes to systems, business processes, and internal controls to support the adoption of the new standard. The Company is still evaluating the full impact this standard will have on its consolidated financial statements and related disclosures, but expects to recognize substantially all of its leases on the balance sheet as of December 30, 2018 (day one of fiscal year 2019, which is the Company’s adoption date) by recording a right-of-use asset and a corresponding lease liability. The Company will adopt this standard using a modified retrospective transition approach to be applied to leases existing as of or entered into after the adoption date.

2. BUSINESS ACQUISITIONS AND DIVESTITURE

MPI Research

On April 3, 2018, the Company acquired MPI Research, a non-clinical contract research organization (CRO) providing comprehensive testing services to biopharmaceutical and medical device companies worldwide. The acquisition enhances the Company’s position as a leading global early-stage CRO by strengthening its ability to partner with clients across the drug discovery and development continuum. The purchase price for MPI Research was $829.7 million in cash, subject to certain post-closing adjustments that may change the purchase price. The acquisition was funded by borrowings on the Company’s $2.3B Credit Facility as well as the issuance of the Company’s Senior Notes. See Note 9, “Long-Term Debt and Capital Lease Obligations.” This business is reported as part of the Company’s DSA reportable segment.

The preliminary purchase allocation of $800.8 million, net of $27.7 million of cash acquired and a final net working capital adjustment of $1.2 million, was as follows:

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

	April 3, 2018 (in thousands)
Trade receivables (contractual amount of $35,073)	$ 35,073
Inventories	4,463
Other current assets (excluding cash)	5,893
Property, plant and equipment	128,403
Goodwill	440,662
Definite-lived intangible assets	309,200
Other long-term assets	1,081
Deferred revenue	(22,600)
Current liabilities	(32,885)
Deferred tax liabilities	(66,277)
Other long-term liabilities	(2,213)
Total purchase price allocation	$ 800,800

The purchase price allocation is subject to change as additional information becomes available concerning the fair value and tax basis of the assets acquired and liabilities assumed, including certain contracts and obligations. Any additional adjustments to the purchase price allocation will be made as soon as practicable but no later than one year from the date of acquisition. From the date of the acquisition through September 29, 2018, the Company recorded measurement-period adjustments related to the acquisition that resulted in an immaterial change to the purchase price allocation on a consolidated basis.

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

	Definite-Lived Intangible Assets (in thousands)	Weighted Average Amortization Life (in years)
Client relationships	$ 264,900	13
Developed technology	23,400	3
Backlog	20,900	2
Total definite-lived intangible assets	$ 309,200	12

The goodwill resulting from the transaction, $4.1 million of which is deductible for tax purposes due to a prior asset acquisition, is primarily attributable to the potential growth of the Company’s DSA business from customers introduced through MPI Research and the assembled workforce of the acquired business.

The Company incurred transaction and integration costs in connection with the acquisition of $0.8 million and $15.3 million for the three and nine months ended September 29, 2018, respectively, which were primarily included in Selling, general and administrative expenses.

MPI Research revenue for the three and nine months ended September 29, 2018 was $70.2 million and $136.8 million, respectively. MPI Research operating income for the three and nine months ended September 29, 2018 was $12.2 million and $20.4 million, respectively.

The following selected pro forma consolidated results of operations are presented as if the MPI Research acquisition had occurred as of the beginning of the period immediately preceding the period of acquisition after giving effect to certain adjustments. For the nine months ended September 29, 2018, these adjustments included additional amortization of intangible assets and depreciation of fixed assets of $11.8 million, additional interest expense on borrowings of $2.8 million, elimination of intercompany activity and other one-time costs, and the tax impacts of these adjustments. For the nine months ended September 30, 2017, these adjustments included additional amortization of intangible assets and depreciation of fixed assets of $17.3 million, additional interest expense on borrowings of

$19.3 million, elimination of intercompany activity and other one-time costs, and the tax impacts of these adjustments.

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	Three Months Ended		Nine Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
	(in thousands)			
Revenue	$585,295	$ 523,948	$1,726,683	$ 1,555,146
Net income attributable to common shareholders	59,297	48,927	168,872	139,258
Earnings per common share				
Basic	$1.23	$ 1.03	$3.51	$ 2.93
Diluted	$1.20	$ 1.01	$3.44	$ 2.87

These pro forma results of operations have been prepared for comparative purposes only, and they do not purport to be indicative of the results of operations that actually would have resulted had the acquisition occurred on the dates indicated or that may result in the future. No effect has been given for synergies, if any, that may be realized through the acquisition.

KWS BioTest Limited

On January 11, 2018, the Company acquired KWS BioTest Limited (KWS BioTest), a CRO specializing in in vitro and in vivo discovery testing services for immuno-oncology, inflammatory and infectious diseases. The acquisition enhances the Company's discovery expertise, with complementary offerings that provide the Company's customers with additional tools in the active therapeutic research areas of oncology and immunology. The purchase price for KWS BioTest was $20.3 million in cash, subject to certain post-closing adjustments that may change the purchase price, and was funded by the Company's various borrowings. In addition to the initial purchase price, the transaction includes aggregate, undiscounted contingent payments of up to £3.0 million (approximately $3.9 million based on recent exchange rates), based on future performance. During the three months ended September 29, 2018, the terms of these contingent payments were amended, resulting in a fixed payment of £2.0 million (approximately $2.6 million based on recent exchange rates), due in the first quarter of fiscal year 2019. The KWS BioTest business is reported as part of the Company's DSA reportable segment.

The preliminary purchase price allocation of $21.5 million, net of $1.0 million of cash acquired and a final net working capital adjustment of $0.4 million, was as follows:

	January 11, 2018 (in thousands)
Trade receivables (contractual amount of $1,309)	$ 1,309
Other current assets (excluding cash)	99
Property, plant and equipment	1,136
Definite-lived intangible assets - client relationships	3,647
Goodwill	17,660
Current liabilities	(1,575)
Deferred revenue	(151)
Long-term liabilities	(596)
Total purchase price allocation	$ 21,529

The purchase price allocation is subject to change as additional information becomes available concerning the fair value and tax basis of the assets acquired and liabilities assumed, including certain contracts and obligations. Any additional adjustments to the purchase price allocation will be made as soon as practicable but no later than one year from the date of acquisition. From the date of the acquisition through September 29, 2018, the Company recorded measurement-period adjustments related to the acquisition that resulted in an immaterial change to the purchase price allocation on a consolidated basis.

The only definite-lived intangible asset relates to client relationships, which will be amortized over a weighted average life of 12 years.

The goodwill resulting from the transaction is primarily attributable to the potential growth of the Company's DSA business from customers introduced through KWS BioTest and the assembled workforce of the acquired business. The goodwill attributable to KWS BioTest is not deductible for tax purposes.

The Company incurred transaction and integration costs of $0.1 million and $0.6 million in connection with the acquisition for the three and nine months ended September 29, 2018, respectively, which were included in Selling, general and administrative expenses, within the unaudited condensed consolidated statements of income.

Pro forma financial information as well as actual revenue and operating income have not been included because KWS

BioTest's financial results are not significant when compared to the Company's consolidated financial results.

Brains On-Line

On August 4, 2017, the Company acquired Brains On-Line, a CRO providing critical data that advances novel therapeutics for the treatment of central nervous system (CNS) diseases. Brains On-Line strategically expands the Company's existing CNS capabilities and establishes the Company as a single-source provider for a broad portfolio of discovery CNS services. The purchase price for Brains On-Line was $21.3 million in cash and was funded by the Company's various borrowings. In addition to the initial purchase price, the transaction includes aggregate, undiscounted contingent payments of up to €6.7 million (approximately $7.8 million based on recent exchange rates), based on future performance. The Brains On-Line business is reported as part of the Company's DSA reportable segment.

The contingent payments become payable based on the achievement of certain revenue and earnings targets. If achieved, the payments become due in the first quarter of fiscal year 2019. The Company estimated the fair value of this contingent consideration based on a probability-weighted set of outcomes.

The purchase price allocation of $20.1 million, net of $0.6 million of cash acquired, was as follows:

	August 4, 2017 (in thousands)
Trade receivables (contractual amount of $1,146)	$ 1,146
Other current assets (excluding cash)	640
Property, plant and equipment	664
Other long-term assets	29
Definite-lived intangible assets	9,300
Goodwill	12,582
Current liabilities	(1,683)
Deferred revenue	(405)
Long-term liabilities	(2,151)
Total purchase price allocation	$ 20,122

From the date of acquisition through June 30, 2018, the Company recorded measurement-period adjustments related to the acquisition that resulted in an immaterial change to the purchase price allocation on a consolidated basis. No further adjustments will be made to the purchase price allocation.

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

	Definite-Lived Intangible Assets (in thousands)	Weighted Average Amortization Life (in years)
Client relationships	$ 7,000	13
Other intangible assets	2,300	10
Total definite-lived intangible assets	$ 9,300	12

The goodwill resulting from the transaction is primarily attributable to the potential growth of the Company's DSA business from customers and technology introduced through Brains On-Line and the assembled workforce of the acquired business. The goodwill attributable to Brains On-Line is not deductible for tax purposes.

No significant integration costs were incurred in connection with the acquisition for the three and nine months ended September 29, 2018. The Company incurred transaction and integration costs in connection with the acquisition of $1.2 million and $2.1 million for the three and nine months ended September 30, 2017, respectively, which were included in Selling, general and administrative expenses, within the unaudited condensed consolidated statements of income.

Pro forma financial information as well as actual revenue and operating income have not been included because Brains On-Line's financial results are not significant when compared to the Company's consolidated financial results.

Contract Manufacturing

On February 10, 2017, the Company sold its CDMO business to Quotient Clinical Ltd., based in London, England, for $75.0 million in proceeds, net of $0.6 million in cash and cash equivalents transferred in conjunction with the sale and $0.3 million of working capital adjustments.

The CDMO business was acquired in April 2016 as part of the acquisition of WIL Research and was reported in the Company's Manufacturing reportable segment. The Company determined that the CDMO business was not optimized within the Company's portfolio at its current scale, and that the capital could be better deployed in other long-term growth opportunities.

During the three months ended April 1, 2017, the Company recorded a gain on the divestiture of the CDMO business of $10.6 million, which was included in Other income, net within the Company's unaudited condensed consolidated statements of income. The carrying amounts of the major classes of assets and liabilities associated with the divestiture of the CDMO business were as follows:

Assets	February 10, 2017 (in thousands)
Current assets	$ 5,505
Property, plant and equipment, net	11,174
Goodwill	35,857
Long-term assets	17,154
Total assets	$ 69,690
Liabilities	
Deferred revenue	$ 4,878
Other current liabilities	1,158
Total liabilities	$ 6,036

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

Adoption of ASC Topic 606, "Revenue from Contracts with Customers" (ASC 606)

ASC 606 became effective for the Company on December 31, 2017 and was adopted using the modified retrospective method for all contracts not completed as of the date of adoption. For contracts that were modified before the effective date, the Company reflected the aggregate effect of all modifications when identifying performance obligations and allocating transaction price in accordance with the practical expedient, which did not have a material effect on the cumulative impact of adopting ASC 606. The reported results for 2018 reflect the application of ASC 606 guidance while the historical results for 2017 were prepared under the guidance of ASC 605, "Revenue Recognition" (ASC 605). The cumulative effect of applying ASC 606 to all contracts with customers that were not completed as of December 30, 2017 was immaterial. There is no material difference in the reporting of revenue for the three and nine months ended September 29, 2018 in accordance with ASC 606 when compared to ASC 605.

Revenue Recognition

Revenue is recognized when, or as, obligations under the terms of a contract are satisfied, which occurs when control of the promised products or services is transferred to customers. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products or services to a customer ("transaction price"). To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price utilizing the amount to which the Company expects to be entitled. Variable consideration is included in the transaction price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of the Company's anticipated performance and all information (historical, current and forecasted) that is reasonably available. Sales, value add, and other taxes collected on behalf of third parties are excluded from revenue.

When determining the transaction price of a contract, an adjustment is made if payment from a customer occurs either significantly before or significantly after performance, resulting in a significant financing component. Generally, the Company does not extend payment terms beyond one year. Applying the practical expedient, the Company does not assess whether a significant financing component exists if the period between when the Company performs its

obligations under the contract and when the customer pays is one year or less. None of the Company’s contracts contained a significant financing component for the nine months ended September 29, 2018.
Contracts with customers may contain multiple performance obligations. For such arrangements, the transaction price is allocated to each performance obligation based on the estimated relative standalone selling prices of the promised products or services underlying each performance obligation. The Company determines standalone selling prices based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions,

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the Company estimates the standalone selling price taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations.

Contracts are often modified to account for changes in contract specifications and requirements. Contract modifications exist when the modification either creates new, or changes existing, enforceable rights and obligations. Generally, when contract modifications create new performance obligations, the modification is considered to be a separate contract and revenue is recognized prospectively. When contract modifications change existing performance obligations, the existing transaction price and measure of progress for the performance obligation to which it relates is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) on a cumulative catch-up basis.

Product revenue is generally recognized when the customer obtains control of the Company's product, which occurs at a point in time, and may be upon shipment or upon delivery based on the contractual shipping terms of a contract. Service revenue is generally recognized over time as the services are delivered to the customer based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment and is based on the nature of the products or services to be provided. Depending on which better depicts the transfer of value to the customer, the Company generally measures its progress using either cost-to-cost (input method) or right-to-invoice (output method). The Company uses the cost-to-cost measure of progress when it best depicts the transfer of value to the customer which occurs as the Company incurs costs on its contract, generally related to fixed fee service contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. The costs calculation includes variables such as labor hours, allocation of overhead costs, research model costs, and subcontractor costs. Revenue is recorded proportionally as costs are incurred. The right-to-invoice measure of progress is generally related to rate per unit contracts, as the extent of progress towards completion is measured based on discrete service or time-based increments, such as samples tested or labor hours incurred. Revenue is recorded in the amount invoiced since that amount corresponds directly to the value of the Company's performance to date.

Disaggregation of Revenue

The following tables disaggregate the Company's revenue by major business line and timing of transfer of products or services for the three and nine months ended September 29, 2018 (in thousands):

Major Products/Service Lines:	Three Months Ended September 29, 2018	Nine Months Ended September 29, 2018
RMS	$ 126,811	$ 391,195
DSA	352,257	958,665
Manufacturing	106,227	314,706
Total revenue	$ 585,295	$ 1,664,566

Timing of Revenue Recognition:	Three Months Ended September 29, 2018	Nine Months Ended September 29, 2018
RMS		
Services and products transferred over time	$ 49,417	$ 146,947
Services and products transferred at a point in time	77,394	244,248
DSA		
Services and products transferred over time	352,203	958,174

Services and products transferred at a point in time	54	491
Manufacturing		
Services and products transferred over time	31,420	92,978
Services and products transferred at a point in time	74,807	221,728
Total revenue	$ 585,295	$ 1,664,566

RMS

The RMS business generates revenue through the commercial production and sale of research models and the provision of services related to the maintenance and monitoring of research models and management of clients' research operations. Revenue from the sale of research models is recognized at a point in time when the customer obtains control of the product, which may be upon shipment or upon delivery based on the shipping terms of a contract. Revenue generated from research

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models services is recognized over time and is typically based on a right-to-invoice measure of progress (output method) as invoiced amounts correspond directly to the value of the Company’s performance to date.

DSA

The Discovery and Safety Assessment business provides a full suite of integrated drug discovery services directed at the identification, screening and selection of a lead compound for drug development and offers a full range of safety assessment services including bioanalysis, drug metabolism, pharmacokinetics, toxicology and pathology. Discovery and Safety Assessment services revenue is generally recognized over time using the cost-to-cost or right to invoice measures of progress, primarily representing fixed fee service contracts and per unit service contracts, respectively.

Manufacturing

The Manufacturing business includes Microbial Solutions, which provides in vitro (non-animal) lot-release testing products, microbial detection products, and species identification services; Biologics Testing Services (Biologics), which performs specialized testing of biologics; and Avian Vaccine Services (Avian), which supplies specific-pathogen-free chicken eggs and chickens. Species identification service revenue is generally recognized at a point in time as identifications are completed by the Company. Biologics service revenue is generally recognized over time using the cost-to-cost measure of progress. Microbial Solutions and Avian product sales are generally recognized at a point in time when the customer obtains control of the product, which may be upon shipment or upon delivery based on the contractual shipping terms of a contract.

Transaction Price Allocated to Future Performance Obligations

ASC 606 requires that the Company disclose the aggregate amount of transaction price that is allocated to performance obligations that have not yet been satisfied as of September 29, 2018. The guidance provides certain practical expedients that limit this requirement and, therefore, the Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which revenue is recognized at the amount to which the Company has the right to invoice for services performed.

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially satisfied) as of September 29, 2018:

	Revenue Expected to be Recognized in Future Periods				
	Less than 1 Year	1 to 3 Years	4 to 5 Years	Beyond 5 Years	Total
	(in thousands)				
DSA	$126,336	$82,192	$3,299	$ 492	$212,319
Manufacturing	10,286	20,245	9,013	68	39,612
Total	$136,622	$102,437	$12,312	$ 560	$251,931

Contract Balances from Contracts with Customers

The timing of revenue recognition, billings and cash collections results in billed receivables (client receivables), contract assets (unbilled revenue), contract liabilities (current and non-current deferred revenue), and customer deposits on the unaudited condensed consolidated balance sheets. The Company’s payment terms are generally 30 days in the United States and consistent with prevailing practice in international markets. A contract asset is recorded when a right to consideration in exchange for goods or services transferred to a customer is conditioned other than the passage of time. Client receivables are recorded separately from contract assets since only the passage of time is required before consideration is due. A contract liability is recorded when consideration is received, or such consideration is unconditionally due, from a customer prior to transferring goods or services to the customer under the terms of a contract. Contract liabilities are recognized as revenue after control of the products or services is transferred to the customer and all revenue recognition criteria have been met. The following table provides information about client receivables, contract assets, and contract liabilities from contracts with customers:

	September 29, 2018	December 30, 2017

		[1]
	(in thousands)	
Balances from contracts with customers only:		
Client receivables	$376,302	$335,839
Contract assets (unbilled revenue)	113,311	96,297
Contract liabilities (current and long-term deferred revenue)	178,331	125,882
Contract liabilities (customer contract deposits)	44,586	—

[1] The beginning balance as of December 30, 2017 is presented under the guidance of ASC 605.

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Under ASC 606, when the Company does not have the unconditional right to advanced billings, both advanced client payments and unpaid advanced client billings are excluded from deferred revenue, with the advanced billings also being excluded from client receivables. As of September 29, 2018, the Company excluded approximately $16 million of unpaid advanced client billings from both client receivables and deferred revenue and approximately $45 million of advanced client payments have been presented as customer contract deposits within other current liabilities in the accompanying unaudited condensed consolidated financial statements.

Other changes in the contract asset and the contract liability balances during the nine months ended September 29, 2018 were as follows:

(i) Changes due to business combinations:

See Note 2. “Business Acquisitions and Divestiture” for client receivables and deferred revenue that were acquired as part of the MPI Research acquisition occurring on April 3, 2018 and the KWS BioTest acquisition occurring on January 11, 2018.

(ii) Cumulative catch-up adjustments to revenue that affect the corresponding contract asset or contract liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction price (including any changes in the assessment of whether an estimate of variable consideration is constrained), or a contract modification:

During the nine months ended September 29, 2018, an immaterial cumulative catch-up adjustment to revenue was recorded.

(iii) A change in the time frame for a right to consideration to become unconditional (that is, for a contract asset to be recorded as a client receivable):

Approximately $88 million of unbilled revenue as of December 30, 2017 was billed during the nine months ended September 29, 2018.

(iv) A change in the time frame for a performance obligation to be satisfied (that is, for the recognition of revenue arising from a contract liability):

Approximately $110 million of contract liabilities as of December 30, 2017 were recognized as revenue during the nine months ended September 29, 2018.

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4. SEGMENT INFORMATION

The Company retrospectively adopted ASU 2017-07 in fiscal year 2018, which impacted segment information. Service cost is reflected in operating income within the unaudited condensed consolidated statements of income while all other components of net periodic cost are recorded in Other income, net within the unaudited condensed consolidated statements of income. See Note 1, "Basis of Presentation." The Company's three reportable segments are Research Models and Services (RMS), Discovery and Safety Assessment (DSA), and Manufacturing Support (Manufacturing).

The following table presents revenue and other financial information by reportable segment:

	Three Months Ended		Nine Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
	(in thousands)			
RMS				
Revenue	$126,811	$ 122,020	$391,195	$ 373,183
Operating income	32,121	30,665	104,893	101,949
Depreciation and amortization	4,811	5,272	14,565	15,309
Capital expenditures	8,166	6,762	18,105	13,769
DSA				
Revenue	$352,257	$ 246,946	$958,665	$ 726,796
Operating income	62,909	46,324	160,391	135,994
Depreciation and amortization	31,433	20,333	83,262	58,667
Capital expenditures	10,800	10,127	34,496	25,552
Manufacturing				
Revenue	$106,227	$ 95,266	$314,706	$ 279,145
Operating income	33,266	31,920	95,904	87,563
Depreciation and amortization	5,709	5,572	17,313	17,321
Capital expenditures	2,709	2,879	12,731	7,111

For the three and nine months ended September 29, 2018 and September 30, 2017, reconciliations of segment operating income, depreciation and amortization, and capital expenditures to the respective consolidated amounts are as follows:

	Operating Income		Depreciation and Amortization		Capital Expenditures	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
	(in thousands)					
Three Months Ended:						
Total reportable segments	$128,296	$ 108,909	$41,953	$ 31,177	$21,675	$ 19,768
Unallocated corporate	(43,934)	(34,847)	1,639	2,288	764	2,243
Total consolidated	$84,362	$ 74,062	$43,592	$ 33,465	$22,439	$ 22,011
Nine Months Ended:						
Total reportable segments	$361,188	$325,506	$115,140	$91,297	$65,332	$46,432
Unallocated corporate	(132,287)	(100,052)	5,058	6,378	6,046	7,496
Total consolidated	$228,901	$225,454	$120,198	$97,675	$71,378	$53,928

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Revenue for each significant product or service offering is as follows:

	Three Months Ended		Nine Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
	(in thousands)			
RMS	$126,811	$ 122,020	$391,195	$ 373,183
DSA	352,257	246,946	958,665	726,796
Manufacturing	106,227	95,266	314,706	279,145
Total revenue	$585,295	$ 464,232	$1,664,566	$ 1,379,124

A summary of unallocated corporate expense consists of the following:

	Three Months Ended		Nine Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
	(in thousands)			
Stock-based compensation	$7,910	$ 7,255	$24,517	$ 20,259
Compensation, benefits, and other employee-related expenses	20,464	11,337	56,375	36,083
External consulting and other service expenses	4,767	6,729	12,711	16,581
Information technology	3,070	3,237	8,723	9,247
Depreciation	1,639	2,288	5,058	6,378
Acquisition and integration	1,122	1,327	15,678	2,539
Other general unallocated corporate	4,962	2,674	9,225	8,965
Total unallocated corporate expense	$43,934	$ 34,847	$132,287	$ 100,052

Other general unallocated corporate expense consists of costs associated with departments such as senior executives, corporate accounting, legal, tax, human resources, treasury, and investor relations.

Revenue by geographic area is as follows:

	U.S.	Europe	Canada	Asia Pacific	Other	Consolidated
	(in thousands)					
Three Months Ended:						
September 29, 2018	$336,811	$159,473	$53,665	$34,062	$1,284	$585,295
September 30, 2017	238,226	141,967	51,864	31,953	222	464,232
Nine Months Ended:						
September 29, 2018	$919,807	$481,955	$153,802	$104,817	$4,185	$ 1,664,566
September 30, 2017	714,460	418,468	152,293	93,094	809	1,379,124

Included in the Asia Pacific category above are operations located in China, Japan, Korea, Australia, Singapore, and India. Included in the Other category above are operations located in Brazil and Israel. Revenue represents sales originating in entities physically located in the identified geographic area.

5. SUPPLEMENTAL BALANCE SHEET INFORMATION

The composition of trade receivables, net is as follows:

	September 29, 2018	December 30, 2017
	(in thousands)	
Client receivables	$376,302	$ 335,839
Unbilled revenue	113,311	96,297
Total	489,613	432,136
Less: Allowance for doubtful accounts	(2,274)	(2,120)
Trade receivables, net	$487,339	$ 430,016

The composition of inventories is as follows:

	September 29, 2018	December 30, 2017
	(in thousands)	
Raw materials and supplies	$20,798	$ 19,858
Work in process	20,231	18,200
Finished products	84,471	76,898
Inventories	$125,500	$ 114,956

The composition of other current assets is as follows:

	September 29, 2018	December 30, 2017
	(in thousands)	
Investments	$5,238	$ 28,489
Prepaid income taxes	36,733	52,234
Restricted cash	426	592
Other	300	—
Other current assets	$42,697	$ 81,315

The composition of other assets is as follows:

	September 29, 2018	December 30, 2017
	(in thousands)	
Life insurance policies	$35,916	$ 34,008
Venture capital investments	95,837	71,101
Restricted cash	2,584	1,945
Other	20,258	16,948
Other assets	$154,595	$ 124,002

The composition of other current liabilities is as follows:

	September 29, 2018	December 30, 2017
	(in thousands)	
Accrued income taxes	$21,387	$ 43,250
Customer contract deposits	44,586	—
Other	938	1,210
Other current liabilities	$66,911	$ 44,460

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

	September 29, 2018	December 30, 2017
	(in thousands)	
U.S. Transition Tax	$52,070	$ 61,038
Long-term pension liability	20,231	52,364
Accrued executive supplemental life insurance retirement plan and deferred compensation plan	38,610	37,582
Long-term deferred revenue	37,571	8,313
Other	36,472	35,518
Other long-term liabilities	$184,954	$ 194,815

6. VENTURE CAPITAL INVESTMENTS

The Company invests in several venture capital funds that invest in start-up companies, primarily in the life sciences industry. The Company's ownership interest in these funds ranges from less than 1% to 12.0%. The Company accounts for the investments in limited partnerships (LPs), which are variable interest entities, under the equity method of accounting. For publicly-held investments in the LPs, the Company adjusts for changes in fair market value based on reported share holdings at the end of each fiscal quarter. The Company is not the primary beneficiary because it has no power to direct the activities that most significantly affect the LPs' economic performance. The Company accounts for the investments in limited liability companies, which are not variable interest entities, under the equity method of accounting.

The Company's total commitment to the venture capital funds as of September 29, 2018 was $114.9 million, of which the Company funded $65.3 million through that date. The Company received dividends totaling $5.6 million and $3.3 million for the three months ended September 29, 2018 and September 30, 2017, respectively. The Company received dividends totaling $14.1 million and $7.7 million for the nine months ended September 29, 2018 and September 30, 2017, respectively. The Company recognized gains of $5.4 million and $5.6 million related to the venture capital investments for the three months ended September 29, 2018 and September 30, 2017, respectively. The Company recognized gains of $22.8 million and $12.3 million related to the venture capital investments for the nine months ended September 29, 2018 and September 30, 2017, respectively. Gains and losses are recorded in Other income, net in the accompanying unaudited condensed consolidated statements of income.

7. FAIR VALUE

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

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

The fair value hierarchy level is determined by asset and liability class based on the lowest level of significant input. The observability of inputs may change for certain assets or liabilities. This condition could cause an asset or liability to be reclassified between levels. The Company recognizes transfers between levels within the fair value hierarchy, if any, at the end of each quarter. During the nine months ended September 29, 2018 and September 30, 2017, there were no transfers between levels.

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

- Cash equivalents - Valued at market prices determined through third-party pricing services;
- Mutual funds - Valued at the unadjusted quoted net asset value of shares held by the Company;
-

Foreign currency forward contracts - Valued using market observable inputs, such as forward foreign exchange points and foreign exchanges rates;

- Life insurance policies - Valued at cash surrender value based on the fair value of underlying investments;

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- Debt instruments - The book value of the Company's term and revolving loans, which are variable rate loans carried at amortized cost, approximates the fair value based on current market pricing of similar debt. The book value of the Company's 5.5% Senior Notes (Senior Notes) due in 2026, which are fixed rate debt carried at amortized cost, approximates fair value based on quoted market prices and on borrowing rates available to the Company; and
- Contingent consideration - Valued based on a probability weighting of the future cash flows associated with the potential outcomes.

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

	September 29, 2018			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Cash equivalents	$—	$18,717	$—	$18,717
Other current assets:				
Foreign currency forward contract		29		29
Other assets:				
Life insurance policies	—	28,193	—	28,193
Total assets measured at fair value	$—	$46,939	$—	$46,939
Other current liabilities:				
Contingent consideration	$—	$—	$3,400	$3,400
Total liabilities measured at fair value	$—	$—	$3,400	$3,400

	December 30, 2017			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Cash equivalents	$—	$21	$—	$21
Other assets:				
Life insurance policies	—	26,358	—	26,358
Total assets measured at fair value	$—	$26,379	$—	$26,379
Other current liabilities:				
Contingent consideration	$—	$—	$298	$298
Total liabilities measured at fair value	$—	$—	$298	$298

Contingent Consideration

The following table provides a rollforward of the contingent consideration related to previous business acquisitions. See Note 2, "Business Acquisitions and Divestiture."

	Nine Months Ended	
	September 29, 2018	September 30, 2017
	(in thousands)	
Beginning balance	$298	$ 3,621
Additions	3,315	296
Payments	—	(3,606)
Foreign currency translation	(213)	—
Reversal of previously recorded contingent liability	—	(15)
Ending balance	$3,400	$ 296

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

Debt Instruments

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

The book value of the Company's Senior Notes, which are a fixed rate obligation carried at amortized cost, approximates the fair value at quoted market prices as well as borrowing rates available to the Company. As the fair value is based on significant other observable outputs, it is deemed to be Level 2 within the fair value hierarchy.

8. GOODWILL AND INTANGIBLE ASSETS

Goodwill

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

	December 30, 2017	Adjustments to Goodwill: Acquisitions	Adjustments to Goodwill: Foreign Exchange	September 29, 2018
	(in thousands)			
RMS	$58,122	$—	$(1,059)	$ 57,063
DSA	605,176	459,228	(9,428)	1,054,976
Manufacturing	141,608	2,551	(3,498)	140,661
Goodwill	$804,906	$461,779	$(13,985)	$ 1,252,700

The increase in goodwill during the nine months ended September 29, 2018 related primarily to the acquisitions of MPI Research and KWS BioTest in the DSA reportable segment, an immaterial acquisition of an Australian business in the Manufacturing reportable segment, and the impact of foreign exchange.

Intangible Assets, Net

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

	September 29, 2018			December 30, 2017		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	(in thousands)					
Backlog	$20,900	$ (12,391)	$8,509	$8,111	$ (8,111)	$ —
Technology	102,794	(39,271)	63,523	81,309	(27,157)	54,152
Trademarks and trade names	8,466	(4,619)	3,847	8,661	(4,562)	4,099
Other	17,532	(9,477)	8,055	17,465	(7,845)	9,620
Other intangible assets	149,692	(65,758)	83,934	115,546	(47,675)	67,871
Client relationships	798,574	(252,775)				