

PERKINELMER INC  
Form 10-Q  
November 07, 2008  
Table of Contents

**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 28, 2008

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)

940 Winter Street

Waltham, Massachusetts 02451

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

Edgar Filing: PERKINELMER INC - Form 10-Q

(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 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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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 4, 2008, there were outstanding 118,107,311 shares of common stock, \$1 par value per share.

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. <u>Financial Statements</u>	3
<u>Condensed Consolidated Income Statements</u>	3
<u>Condensed Consolidated Balance Sheets</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
<u>Overview</u>	28
<u>Recent Developments</u>	28
<u>Critical Accounting Policies and Estimates</u>	30
<u>Consolidated Results of Continuing Operations</u>	30
<u>Reporting Segment Results of Continuing Operations</u>	39
<u>Liquidity and Capital Resources</u>	41
<u>Off-Balance Sheet Arrangements</u>	45
<u>Dividends</u>	45
<u>Contractual Obligations</u>	46
<u>Effects of Recently Adopted Accounting Pronouncements</u>	46
<u>Effects of Recently Issued Accounting Pronouncements</u>	47
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	48
Item 4. <u>Controls and Procedures</u>	49
<b>PART II. OTHER INFORMATION</b>	
Item 1. <u>Legal Proceedings</u>	51
Item 1A. <u>Risk Factors</u>	51
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	59
Item 6. <u>Exhibits</u>	60
<u>Signature</u>	61
<u>Exhibit Index</u>	62

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

	Three Months Ended		Nine Months Ended	
	September 28, 2008	September 30, 2007	September 28, 2008	September 30, 2007
	(In thousands, except per share data)			
<b>Sales</b>	\$ 505,117	\$ 435,668	\$ 1,516,096	\$ 1,275,858
Cost of sales	293,957	257,167	887,719	764,689
Selling, general and administrative expenses	131,118	106,406	406,217	317,528
Research and development expenses	27,526	27,691	86,534	82,848
Restructuring and lease charges (reversals), net	7,214	(1,432)	6,909	7,553
Gains on settlement of insurance claim				(15,346)
In-process research and development charges				1,502
<b>Operating income from continuing operations</b>	45,302	45,836	128,717	117,084
Interest and other expense, net	6,050	5,280	16,308	11,476
Income from continuing operations before income taxes	39,252	40,556	112,409	105,608
(Benefit from) provision for income taxes	(4,506)	9,454	13,482	26,384
<b>Net income from continuing operations</b>	43,758	31,102	98,927	79,224
Loss from discontinued operations, net of income taxes			(4,166)	
Gain (loss) on disposition of discontinued operations, net of income taxes	8,144	(357)	985	(100)
<b>Net income</b>	\$ 51,902	\$ 30,745	\$ 95,746	\$ 79,124
<b>Basic earnings (loss) per share:</b>				
Continuing operations	\$ 0.37	\$ 0.26	\$ 0.84	\$ 0.66
Loss from discontinued operations, net of income taxes			(0.04)	
Gain (loss) on disposition of discontinued operations, net of income taxes	0.07		0.01	
Net income	\$ 0.44	\$ 0.26	\$ 0.81	\$ 0.66
<b>Diluted earnings (loss) per share:</b>				
Continuing operations	\$ 0.37	\$ 0.26	\$ 0.83	\$ 0.65
Loss from discontinued operations, net of income taxes			(0.03)	
Gain (loss) on disposition of discontinued operations, net of income taxes	0.07		0.01	
Net income	\$ 0.43	\$ 0.26	\$ 0.80	\$ 0.65

Edgar Filing: PERKINELMER INC - Form 10-Q

Weighted average shares of common stock outstanding:

Basic	118,347	117,583	117,821	119,393
Diluted	119,609	119,453	119,029	121,135
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.

**Table of Contents**

**PERKINELMER, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

	September 28, 2008	December 30, 2007
	(In thousands, except share and per share data)	
<b>Current assets:</b>		
Cash and cash equivalents	\$ 188,808	\$ 203,348
Accounts receivable, net	345,251	337,659
Inventories, net	218,868	202,394
Other current assets	111,480	98,797
Current assets of discontinued operations	664	750
<b>Total current assets</b>	<b>865,071</b>	<b>842,948</b>
<b>Property, plant and equipment, net:</b>		
At cost	610,034	579,771
Accumulated depreciation	(400,919)	(378,885)
Property, plant and equipment, net	209,115	200,886
Marketable securities and investments	4,141	5,919
Intangible assets, net	466,821	479,209
Goodwill	1,419,010	1,355,656
Other assets, net	55,757	59,451
Long-term assets of discontinued operations	1,343	5,268
<b>Total assets</b>	<b>\$ 3,021,258</b>	<b>\$ 2,949,337</b>
<b>Current liabilities:</b>		
Short-term debt	\$ 40	\$ 562
Accounts payable	184,857	186,388
Accrued restructuring and integration costs	13,416	12,821
Accrued expenses	317,434	346,778
Current liabilities of discontinued operations	5,222	1,049
<b>Total current liabilities</b>	<b>520,969</b>	<b>547,598</b>
Long-term debt	544,050	516,078
Long-term liabilities	321,155	310,384
<b>Total liabilities</b>	<b>1,386,174</b>	<b>1,374,060</b>
Commitments and contingencies (see Note 18)		
<b>Stockholders' equity:</b>		
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 118,084,000 and 117,585,000 shares at September 28, 2008 and December 30, 2007, respectively	118,084	117,585
Capital in excess of par value	256,819	257,850
Retained earnings	1,213,052	1,142,135
Accumulated other comprehensive income	47,129	57,707

Edgar Filing: PERKINELMER INC - Form 10-Q

<b>Total stockholders equity</b>	1,635,084	1,575,277
<b>Total liabilities and stockholders equity</b>	\$ 3,021,258	\$ 2,949,337

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)**

	<b>Nine Months Ended</b>	
	<b>September 28, 2008</b>	<b>September 30, 2007</b>
	<b>(In thousands)</b>	
<b>Operating activities:</b>		
Net income	\$ 95,746	\$ 79,124
Add: loss from discontinued operations, net of income taxes	4,166	
Add: (gain) loss on disposition of discontinued operations, net of income taxes	(985)	100
<b>Net income from continuing operations</b>	<b>98,927</b>	<b>79,224</b>
Adjustments to reconcile net income from continuing operations to net cash provided by continuing operations:		
Restructuring and lease charges, net	6,909	7,553
Depreciation and amortization	67,641	57,144
Stock-based compensation	13,758	10,625
Amortization of deferred debt issuance costs	1,431	221
Gains on settlement of insurance claim		(15,346)
Gains on dispositions, net	(1,158)	(697)
In-process research and development charges		1,502
Amortization of acquired inventory revaluation		2,492
Changes in operating assets and liabilities which (used) provided cash, excluding effects from companies purchased and divested:		
Accounts receivable, net	(440)	2,308
Inventories, net	(15,284)	(8,861)
Accounts payable	(5,003)	(1,949)
Accrued expenses and other	(35,965)	(23,743)
<b>Net cash provided by operating activities of continuing operations</b>	<b>130,816</b>	<b>110,473</b>
Net cash used in operating activities of discontinued operations	(3,547)	(114)
<b>Net cash provided by operating activities</b>	<b>127,269</b>	<b>110,359</b>
<b>Investing activities:</b>		
Capital expenditures	(33,418)	(37,988)
Proceeds from dispositions of property, plant and equipment, net		10,787
Proceeds from surrender of life insurance policies		1,601
Changes in restricted cash balances	334	
Payments for business development activity	(160)	(1,140)
Proceeds from disposition of investments, net	1,158	1,029
Payments for acquisitions and investments, net of cash and cash equivalents acquired	(87,252)	(44,016)
<b>Net cash used in investing activities of continuing operations</b>	<b>(119,338)</b>	<b>(69,727)</b>
Net cash (used in) provided by investing activities of discontinued operations	(68)	800
<b>Net cash used in investing activities</b>	<b>(119,406)</b>	<b>(68,927)</b>
<b>Financing activities:</b>		
Payments on debt	(531,500)	(182,431)
Proceeds from borrowing	409,500	271,462
Proceeds from sale of senior debt	150,000	



Edgar Filing: PERKINELMER INC - Form 10-Q

Payment of debt issuance costs	(1,969)	(415)
Settlement of cash flow hedges	(11,702)	
Decrease in other credit facilities	(511)	(861)
Tax benefit from exercise of common stock options	359	5,987
Proceeds from issuance of common stock under stock plans	43,435	30,223
Purchases of common stock	(57,139)	(176,031)
Dividends paid	(24,805)	(25,410)
<b>Net cash used in financing activities</b>	<b>(24,332)</b>	<b>(77,476)</b>
Effect of exchange rate changes on cash and cash equivalents	1,929	5,886
<b>Net decrease in cash and cash equivalents</b>	<b>(14,540)</b>	<b>(30,158)</b>
Cash and cash equivalents at beginning of period	203,348	191,059
<b>Cash and cash equivalents at end of period</b>	<b>\$ 188,808</b>	<b>\$ 160,901</b>

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

---

**Table of Contents**

**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 30, 2007, filed with the SEC (the 2007 Form 10-K). The balance sheet amounts at December 30, 2007 in this report were derived from the Company's audited 2007 financial statements included in the 2007 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 U.S. Generally Accepted Accounting Principles (GAAP) 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 nine months ended September 28, 2008 and September 30, 2007, respectively, are not necessarily indicative of the results for the entire fiscal year or any future period.

*Recently Adopted Accounting Pronouncements*

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157), which clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability, establishes a fair value hierarchy that prioritizes the information used to develop those assumptions, and expands the related disclosure requirements. Under the standard, fair value measurements are to be separately disclosed by level within the fair value hierarchy. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 defines fair value based upon an exit price model. The FASB also issued FASB Staff Position (FSP) No. 157-2 in February 2008 (FSP No. 157-2). FSP No. 157-2 delays the effective date of the application of SFAS No. 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized at fair value in the financial statements on a nonrecurring basis. The Company adopted SFAS No. 157 as of December 31, 2007, with the exception of the application of the statement to non-recurring nonfinancial assets and nonfinancial liabilities. See Note 17, below, for additional details.

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 financial assets and liabilities differently. Unrealized gains and losses on items for which the fair value option is elected would be reported in earnings. The Company adopted SFAS No. 159 as of December 31, 2007, and to date has not elected to measure any additional financial instruments and other items at fair value. Therefore, material financial assets and liabilities not carried at fair value, such as the Company's short-term and long-term debt obligations and trade accounts receivable and accounts payable, are still reported at their carrying values. Any future transacted financial asset or liability will be evaluated for the fair value election as prescribed by SFAS No. 159.

---

**Table of Contents**

In March 2007, the FASB ratified Emerging Issues Task Force ( EITF ) Issue No. 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements* ( 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 adopted EITF No. 06-10 as of December 31, 2007 and the adoption did not have an impact on its consolidated financial statements.

In June 2007, the FASB ratified EITF Issue No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities* ( EITF No. 07-3 ). EITF No. 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred, capitalized and recognized as an expense as the goods are delivered or the related services are performed. The Company adopted EITF No. 07-3, on a prospective basis, as of December 31, 2007 and the adoption did not have an impact on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ( SFAS No. 162 ). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in accordance with GAAP. With the issuance of this statement, the FASB concluded that the GAAP hierarchy should be directed toward the entity and not its auditor, and reside in the accounting literature established by the FASB as opposed to the American Institute of Certified Public Accountants ( AICPA ) Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. SFAS No. 162 is effective 60 days following the SEC 's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company has evaluated the requirements of SFAS No. 162 and has determined that it will not have a significant impact on its determination or reporting of financial results.

*Recently Issued Accounting Pronouncements*

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ( SFAS No. 141(R) ). SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements significant aspects of a business combination. Under SFAS No. 141(R), acquisition costs will generally be expensed as incurred; noncontrolling interests will be valued at fair value at the acquisition date; in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. SFAS No. 141(R) amends SFAS No. 109, *Accounting for Income Taxes*, such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS No. 141(R) would also apply the provisions of SFAS No. 141(R). SFAS No. 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. Early adoption is not permitted. SFAS No. 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. The Company will be required to adopt SFAS No. 141(R) in the first quarter of fiscal year 2009. The Company is currently evaluating the requirements of SFAS No. 141(R) and has not yet determined the impact of its adoption on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51* ( SFAS No. 160 ). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest,

**Table of Contents**

changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. The Company will be required to adopt SFAS No. 160 in the first quarter of fiscal year 2009. The Company is currently evaluating the requirements of SFAS No. 160 and has not yet determined the impact, if any, of its adoption on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity's derivative instruments and hedging activities and their effects on the entity's financial position, financial performance, and cash flows. SFAS No. 161 applies to all derivative instruments within the scope of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as well as related hedged items, bifurcated derivatives, and nonderivative instruments that are designated and qualify as hedging instruments. SFAS No. 161 establishes principles and requirements for how an entity identifies derivative instruments and related hedged items that affect its financial position, financial performance, and cash flows. SFAS No. 161 also establishes disclosure requirements that the fair values of derivative instruments and their gains and losses are disclosed in a tabular format, that derivative features which are credit-risk related be disclosed to provide clarification to an entity's liquidity and cross-referencing within footnotes. The Company will be required to adopt SFAS No. 161 in the first quarter of fiscal year 2009. The Company is currently evaluating the requirements of SFAS No. 161 and has not yet determined the impact of its adoption on its consolidated financial statements.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP No. 142-3). FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). The objective of FSP No. 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R), and other accounting principles. FSP No. 142-3 applies to all intangible assets, whether acquired in a business combination or otherwise, and early adoption is prohibited. The Company will be required to adopt FSP No. 142-3 in the first quarter of fiscal year 2009. The Company is currently evaluating the requirements of FSP No. 142-3 and has not yet determined the impact of its adoption on its consolidated financial statements.

**Note 2: Acquisitions**

*Acquisition of VaConics Lighting, Inc.* In May 2008, the Company acquired specified assets and assumed specified liabilities of VaConics Lighting, Inc. (VaConics), a leading provider of custom and standard ceramic Xenon arc lamps. This acquisition is expected to expand the Company's Xenon lighting technology by increasing the Company's offerings of lamp operations that include mobile phone cameras, medical endoscopes, surgical headlamps, forensic analyses, video projectors, searchlights, and infrared lighting. Consideration for this transaction was approximately \$3.9 million in cash. During the second quarter of fiscal year 2008, the Company paid VaConics approximately \$0.1 million for net working capital adjustments. The excess of the purchase price over the fair value of the acquired net assets has been allocated to goodwill, all of which is tax deductible. The operations for this acquisition are reported within the results of the Company's Optoelectronics segment from the acquisition date.

*Acquisition of LabMetrix Technologies S.A.* In March 2008, the Company acquired all of the stock of LabMetrix Technologies S.A. (LabMetrix) and acquired specified assets and assumed specified liabilities of LabMetrix Technologies Ltd. and LabMetrix Technologies, Inc., a provider of metrology-based multi-vendor analytical instrument qualification solutions. This acquisition is expected to add technology, tools, processes and compliance expertise to the Company's suite of OneSource® laboratory services by strengthening its support of customers in a wide range of industries including the pharmaceutical, medical device, food, toy and other

**Table of Contents**

consumer goods industries. Consideration for this transaction was approximately \$4.3 million in cash plus potential additional contingent consideration. The Company determined that \$1.9 million of the contingent consideration was probable and recorded the accrual at the date of acquisition. During the third quarter of fiscal year 2008, the Company received approximately \$0.1 million from the former shareholders of LabMetrix for net working capital adjustments. The excess of the purchase price over the fair value of the acquired net assets has been allocated to goodwill. None of the goodwill related to the LabMetrix acquisition is tax deductible and all of the goodwill related to the LabMetrix Technologies Ltd. and LabMetrix Technologies, Inc. acquisitions is tax deductible. The operations for this acquisition are reported within the results of the Company's Life and Analytical Sciences segment from the acquisition date.

*Acquisition of Newborn Metabolic Screening Business from Pediatrix Medical Group, Inc.* In February 2008, the Company acquired the outstanding stock of Pediatrix Screening, Inc., which constituted the newborn metabolic screening business of Pediatrix Medical Group, Inc., and is now known as PerkinElmer Genetics, Inc. ( PKI Genetics ). PKI Genetics provides neonatal screening and consultative services to hospitals, medical groups and various states. This acquisition is expected to expand the Company's capabilities to supply state laboratories and other agencies with comprehensive newborn screening solutions. Consideration for this transaction was approximately \$66.3 million in cash. During the second quarter of fiscal year 2008, the Company received approximately \$0.3 million from Pediatrix Medical Group, Inc. for net working capital adjustments. The excess of the purchase price over the fair value of the acquired net assets has been allocated to goodwill, which may be tax deductible if elected by the Company. The operations for this acquisition are reported within the results of the Company's Life and Analytical Sciences segment from the acquisition date.

*Acquisition of ViaCell, Inc.* In November 2007, the Company completed a tender offer for all of the outstanding shares of common stock of ViaCell, Inc. ( ViaCell ), at a price of \$7.25 per share. ViaCell specializes in the collection, testing, processing and preservation of umbilical cord blood stem cells. The addition of ViaCell's ViaCord® product offering for the preservation of umbilical cord blood, and its sales and marketing organization, has facilitated the expansion of the Company's neonatal and prenatal businesses. Aggregate consideration for this transaction was approximately \$295.8 million in cash, which excludes \$31.8 million in acquired cash. The excess of the purchase price over the fair value of the acquired net assets has been allocated to goodwill, none of which is tax deductible. The operations for this acquisition are reported within the results of the Company's Life and Analytical Sciences segment from the acquisition date.

Following the ViaCell acquisition, the Company committed to a preliminary plan of integration of certain ViaCell activities that included workforce reductions and the partial closure of an excess facility. Through the second quarter of fiscal year 2008, the Company recorded a \$2.4 million liability for severance and the partial closure of an excess facility with a corresponding adjustment to goodwill in accordance with EITF Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination* ( EITF No. 95-3 ). The Company finalized the integration plan and all actions related to this plan as of June 29, 2008.

Following the ViaCell acquisition, the Company's Board of Directors (the Board ) approved a plan to sell the ViaCyt<sup>SM</sup> and Cellular Therapy Technology businesses that were acquired with ViaCell. The ViaCyt<sup>SM</sup> business focused on the development of a proprietary media intended for the cryopreservation of human unfertilized oocytes. The Cellular Therapy Technology business focused on the development and sale of unrestricted somatic stem cell products which are derived from umbilical cord blood. The Company determined that both businesses do not strategically fit with the other products offered by the Life and Analytical Sciences segment. The Company also determined that without investing capital into the operations of both businesses, the Company could not effectively compete with larger companies that focus on the market for such products. After careful consideration, the Company decided in the second quarter of fiscal year 2008 to close the ViaCyt<sup>SM</sup> and Cellular Therapy Technology businesses, recording a pre-tax loss of \$8.3 million for severance and facility closure costs. The Company has classified the results and closure of the ViaCyt<sup>SM</sup> and Cellular Therapy Technology businesses as discontinued operations in the accompanying financial statements. See Note 11, below, for additional details.

**Table of Contents**

The acquisitions were accounted for 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 is reviewed at least annually for impairment. Purchased intangibles with finite lives will be amortized over their respective estimated useful lives. See Note 13, below, for additional details.

In connection with the purchase price and related allocations, the Company estimates the fair value of deferred revenue assumed in connection with these acquisitions. The estimated fair value of deferred revenue is determined by the legal performance obligation at the date of acquisition, and is generally based on the nature of the activities to be performed and the related costs to be incurred after consummation. The fair value of an assumed liability related to deferred revenue is estimated based on the current market cost of fulfilling the obligation, plus a normal profit margin thereon. The estimated costs to fulfill the deferred revenue are based on the historical direct costs related to providing the services. The Company does not include any costs associated with selling efforts, research and development, or the related fulfillment margins on these costs. In most acquisitions, profit associated with selling efforts is excluded because the acquired entities would have concluded the selling effort on the support contracts prior to the acquisition date. The estimated research and development costs are not included in the fair value determination, as these costs are not deemed to represent a legal obligation at the time of acquisition. The sum of the costs and operating income approximates, in theory, the amount that the Company would be required to pay a third-party to assume the obligation. As a result of purchase accounting, the Company recognized the deferred revenue related to the ViaCell acquisition at fair value, and did not recognize \$18.1 million of deferred revenue that would have been otherwise recognized in future periods.

As of September 28, 2008, the purchase price and related allocations for the ViaCell, PKI Genetics, LabMetrix and VaConics acquisitions were preliminary, and may be revised as a result of adjustments made to the purchase price, as well as additional information regarding assets and liabilities assumed, including contingent liabilities, deferred taxes, and revisions of preliminary estimates of fair values made at the date of purchase. The Company is not aware of any information that indicates the final purchase price allocation will differ materially from the preliminary estimates, and the Company expects to complete any outstanding asset valuations no later than one year from the date of acquisition.

**Table of Contents**

As of September 28, 2008, the components of the preliminary purchase price and allocation for the acquisitions completed in fiscal year 2008 were as follows:

	PKI Genetics	LabMetrix (In thousands)	VaConics
Consideration and acquisition costs:			
Cash payments	\$ 66,264	\$ 4,277	\$ 3,882
Cash acquired	(70)	(245)	
Deferred consideration		1,850	
Working capital adjustments	(285)	(61)	66
Transaction costs	741	421	184
<b>Total consideration and acquisition costs</b>	<b>\$ 66,650</b>	<b>\$ 6,242</b>	<b>\$ 4,132</b>
Allocation of purchase price:			
Current assets	\$ 2,735	\$ 1,951	\$ 623
Property, plant and equipment	553	437	255
Other assets	43		
Identifiable intangible assets	22,300	1,800	810
Goodwill	52,392	6,071	3,001
Deferred taxes	(10,589)	(600)	
Liabilities assumed	(784)	(3,417)	(557)
<b>Total</b>	<b>\$ 66,650</b>	<b>\$ 6,242</b>	<b>\$ 4,132</b>

**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 were recorded in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*.

A description of the restructuring plans and the activity recorded for the nine months ended September 28, 2008 is listed below. Details of these plans, particularly those listed under *Previous Restructuring and Integration Plans*, are discussed more fully in Note 3 to the financial statements in the 2007 Form 10-K.

The purpose of the restructuring plans approved in the third quarter of fiscal year 2008 and fourth quarter of fiscal year 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 activities associated with these plans have been reported as restructuring 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.

**Q3 2008 Plan**

During the third quarter of fiscal year 2008, the Company's management approved a plan to shift resources into product lines that are more consistent with the Company's growth strategy (the Q3 2008 Plan). As a result of the Q3 2008 Plan, the Company recognized a \$7.5 million pre-tax restructuring charge in the Life and Analytical Sciences segment related to a workforce reduction from reorganization activities and the closure of excess facilities. The Company also recognized a \$0.3 million pre-tax restructuring charge in the Optoelectronics segment related to a workforce reduction from reorganization activities. All actions related to the Q3 2008 Plan were completed by September 28, 2008.

**Table of Contents**

The following table summarizes the Q3 2008 Plan activity for the nine months ended September 28, 2008:

	<b>Headcount</b>	<b>Severance</b>	<b>Closure of Excess Facilities (Dollars in thousands)</b>	<b>Total</b>
Balance at December 30, 2007		\$	\$	\$
Provision	107	6,506	1,334	7,840
Amounts paid and foreign currency translation	(55)	(1,100)		(1,100)
Balance at September 28, 2008	52	\$ 5,406	\$ 1,334	\$ 6,740

The Company anticipates that the remaining payments of \$5.4 million for workforce reductions will be completed by the end of the fourth quarter of fiscal year 2010, and the remaining payments of \$1.3 million for the closure of the excess facilities will be paid through fiscal year 2011, in accordance with the terms of the applicable leases.

**Q4 2007 Plan**

During the fourth quarter of fiscal year 2007, the Company's management approved a plan to shift resources into geographic regions and product lines that are more consistent with the Company's growth strategy (the Q4 2007 Plan). As a result of the Q4 2007 Plan, the Company recognized a \$4.8 million pre-tax restructuring charge in the Life and Analytical Sciences segment related to a workforce reduction from reorganization activities. The Company also recognized a \$4.8 million pre-tax restructuring charge in the Optoelectronics segment related to a workforce reduction and the partial closure of a facility, which was offset by the recognition of a \$2.2 million deferred gain from the sale-leaseback of that facility during the fiscal year 2001. All actions related to the Q4 2007 Plan were completed by December 30, 2007.

The following table summarizes the Q4 2007 Plan activity for the nine months ended September 28, 2008:

	<b>Headcount</b>	<b>Severance</b>	<b>Partial Closure of Excess Facility (Dollars in thousands)</b>	<b>Total</b>
Balance at December 30, 2007	59	\$ 4,268	\$ 4,328	\$ 8,596
Amounts paid, amortization of deferred gain and foreign currency translation	(59)	(3,251)	(910)	(4,161)
Changes in estimates		(279)	699	420
Balance at September 28, 2008		\$ 738	\$ 4,117	\$ 4,855

During the third quarter of fiscal year 2008, the Company recorded a reversal of \$0.3 million primarily due to lower than expected employee separation costs associated with the Company's Life and Analytical Sciences segment. The Company also recorded an additional charge of \$0.7 million due to higher than expected costs associated with the partial closure of a facility within the Company's Optoelectronics segment. The Company anticipates that the remaining payments of \$0.7 million for workforce reductions will be completed by the end of the first quarter of fiscal year 2009, and the remaining payments of \$4.1 million for the partial closure of the excess facility will be paid through fiscal year 2022, in accordance with the terms of the applicable lease.

**ViaCell Plan**

Following the ViaCell acquisition, the Company committed to a preliminary plan of integration of certain ViaCell activities that included workforce reductions and the partial closure of an excess facility (the ViaCell Plan). Through the second quarter of fiscal year 2008, the Company recorded a \$2.4 million liability for severance and the partial closure of an excess facility with a corresponding adjustment to goodwill in accordance with EITF No. 95-3. The Company finalized the integration plan and all actions related to this plan as of June 29, 2008.





**Table of Contents**

The following table summarizes the ViaCell Plan activity for the nine months ended September 28, 2008:

	Headcount	Severance	Partial Closure of Excess Facility (Dollars in thousands)	Total
Balance at December 30, 2007	5	\$ 1,184	\$	\$ 1,184
Provision	6	419	810	1,229
Amounts paid	(8)	(1,157)	(339)	(1,496)
Balance at September 28, 2008	3	\$ 446	\$ 471	\$ 917

The Company anticipates that the remaining payments of approximately \$0.4 million for workforce reductions will be completed by the end of the second quarter of fiscal year 2009, and the remaining payments of \$0.5 million for the partial closure of the excess facility will be paid through fiscal year 2014, in accordance with the terms of the applicable lease.

***Previous Restructuring and Integration Plans***

The principal actions of the restructuring and integration plans from the fiscal years 2001 through the first quarter of fiscal year 2007 were workforce reductions related to the integration of the Company's Life Sciences and Analytical Instruments businesses, which is now the Company's Life and Analytical Sciences segment, 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. During the nine months ended September 28, 2008, the Company paid \$0.7 million related to these plans. During the third quarter of fiscal year 2008, the Company recorded a reversal of \$1.0 million related to lower than expected costs associated with severance of several of these plans. As of September 28, 2008, the Company had approximately \$1.3 million of remaining liabilities associated with restructuring and integration plans from the fiscal years 2001 through the first quarter of fiscal year 2007, primarily relating to remaining lease obligations related to those closed facilities in the Life and Analytical Sciences segment. The remaining terms of these leases vary in length and will be paid through fiscal year 2011. The Company anticipates that the remaining severance payments will be completed by the end of fiscal year 2009.

***Lease Charges***

To facilitate the sale of a business in fiscal year 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 loan. During the second quarter of fiscal year 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 fiscal year 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 in the third quarter of fiscal year 2007. During the second quarter of fiscal year 2008, the buyer paid all delinquent lease payments and building expenses and as a result, the

**Table of Contents**

Company recorded an additional reversal of \$0.4 million. As of September 28, 2008, the Company was still responsible for the remaining accrual of \$2.7 million, which relates to the remaining lease and building obligations through March 2011, reduced by estimated sublease rentals reasonably expected to be obtained for the property. Beginning in the third quarter of fiscal year 2008, the buyer was delinquent in making both its lease payments and payments for certain building expenses, requiring the Company to make minimum payments to date in the fourth quarter of fiscal year 2008 of \$0.4 million. As a result, the remaining accrual is currently \$2.3 million. The buyer also filed for bankruptcy protection on October 27, 2008.

**Note 4: Interest and Other Expense, net**

Interest and other expense, net consisted of the following:

	Three Months Ended		Nine Months Ended	
	September 28, 2008	September 30, 2007	September 28, 2008	September 30, 2007
	(In thousands)			
Interest income	\$ (1,064)	\$ (1,077)	\$ (3,249)	\$ (3,381)
Interest expense	6,371	4,122	18,435	9,886
Gains on dispositions of investments, net		(161)	(1,158)	(697)
Other expense, net	743	2,396	2,280	5,668
<b>Total interest and other expense, net</b>	<b>\$ 6,050</b>	<b>\$ 5,280</b>	<b>\$ 16,308</b>	<b>\$ 11,476</b>

**Note 5: Inventories, net**

Inventories consisted of the following:

	September 28, 2008	December 30, 2007
	(In thousands)	
Raw materials	\$ 80,068	\$ 75,196
Work in progress	19,796	14,125
Finished goods	119,004	113,073
<b>Total inventories, net</b>	<b>\$ 218,868</b>	<b>\$ 202,394</b>

**Note 6: Income Taxes**

The Company regularly reviews its tax positions in each significant taxing jurisdiction in the process of evaluating its unrecognized tax benefits as required by FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes* (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 effectively settled with a tax authority; and/or (iii) the statute of limitations expires regarding a tax position.

At September 28, 2008, the Company had gross tax effected unrecognized tax benefits of \$34.8 million, of which \$29.2 million, if recognized, would affect the continuing operations effective tax rate. The remaining amount, if recognized, would affect goodwill and discontinued operations. However, upon the Company's adoption of SFAS No. 141(R) in the first quarter of fiscal year 2009, changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense, including those associated with acquisitions that closed prior to the effective date of SFAS No. 141(R).

At September 28, 2008, the Company had \$5.6 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



**Table of Contents**

completion of various audits. A portion of the FIN No. 48 accrued tax liabilities could affect the continuing operations effective tax rate depending on the ultimate resolution; however, the Company cannot quantify an estimated range at this time. The Company is subject to U.S. federal income tax as well as to income tax of numerous state and foreign jurisdictions.

During 2005, the U.S. Internal Revenue Service concluded its audit of the Company's federal income taxes for the years 1999 through 2002. There was a single open issue related to this audit which the Company favorably resolved during the fourth quarter of 2007. During the third quarter of fiscal year 2008, the Company effectively settled several income tax audits worldwide, including Canada, the Netherlands, the U.K. and the U.S. covering various years ranging from 1998 through 2005. The closing of these audits resulted in the recognition of \$15.6 million of income tax benefits in continuing operations and \$8.5 million of income tax benefits in discontinued operations. In addition, tax years ranging from 1997 through 2007 remain open to examination by various state and foreign tax jurisdictions (such as China, Indonesia, the Philippines and the United Kingdom) in which the Company has significant business operations. The tax years under examination vary by jurisdiction.

**Note 7: Debt**

*Amended Senior Unsecured Revolving Credit Facility.* On August 13, 2007, the Company entered into an amended and restated senior unsecured revolving credit facility providing for a facility through August 13, 2012, which amended and restated in its entirety the Company's previous senior revolving credit agreement dated as of October 31, 2005. During the first quarter of fiscal year 2008, the Company exercised its option to increase the amended senior unsecured revolving credit facility to \$650.0 million from \$500.0 million. Letters of credit in the aggregate amount of approximately \$14.0 million were issued under the previous facility, which are treated as issued under the 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 (i) the corporate base rate announced from time to time by Bank of America, N.A. and (ii) 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 the Eurocurrency rate plus a margin or the base rate. The Eurocurrency margin as of September 28, 2008 was 40 basis points. The weighted average Eurocurrency interest rate as of September 28, 2008 was 3.43%, resulting in a weighted average effective Eurocurrency rate, including the margin, of 3.83%. The Company had drawn down approximately \$394.0 million of borrowings in U.S. Dollars under the facility as of September 28, 2008, 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, and which are consistent with those financial covenants contained in the Company's previous senior revolving credit agreement. The financial covenants in the Company's amended and restated senior unsecured revolving credit facility 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 28, 2008.

*Unsecured Interim Credit Facility.* On November 14, 2007, the Company entered into a \$300.0 million unsecured interim credit facility. The Company entered into this unsecured interim credit facility in order to pay the purchase price and transactional expenses of the ViaCell acquisition. This unsecured interim credit facility matured on March 31, 2008, at which point all amounts outstanding were due in full. On March 28, 2008, the Company paid in full the outstanding balance on the unsecured interim credit facility of \$300.0 million. The source of funds for the repayment was comprised of cash and cash equivalents held by the Company, and borrowings under the Company's amended and restated senior unsecured revolving credit facility.

*6% Senior Unsecured Notes.* On May 30, 2008, the Company issued and sold seven-year senior notes at a rate of 6% with a face value of \$150.0 million and received \$150.0 million in gross proceeds from the issuance.

**Table of Contents**

The debt, which matures in May 2015, is unsecured. Interest on the 6% senior notes is payable semi-annually on May 30th and November 30th. The Company may redeem some or all of its 6% senior notes at any time in an amount not less than 10% of the original aggregate principal amount, plus accrued and unpaid interest, plus the applicable make-whole amount. The financial covenants in the Company's 6% senior notes include debt-to-capital ratios which, if the Company's credit rating is down-graded below investment grade, would be replaced by a contingent maximum total leverage ratio. The Company was in compliance with all applicable covenants as of September 28, 2008.

During the fourth quarter of fiscal year 2007, the Company entered into forward interest rate contracts, with notional amounts totaling \$300.0 million and a weighted average interest rate of 4.25%. These contracts are intended to hedge movements in interest rates prior to the Company's forecasted debt issuance, which will need to be completed by the end of fiscal year 2008. The Company had accumulated net derivative losses of \$15.1 million, net of taxes of \$9.9 million, in other comprehensive income as of September 28, 2008 and \$5.3 million, net of taxes of \$3.5 million, as of December 30, 2007, related to these cash flow hedges. The net derivative losses will be amortized into interest expense when the hedged exposure affects interest expense. The Company settled forward interest rate contracts, with notional amounts totaling \$150.0 million, upon the issuance of the 6% senior unsecured notes in May 2008, for a loss of \$8.4 million, net of taxes of \$5.4 million. As of September 28, 2008, \$0.4 million, net of taxes of \$0.3 million, of these derivative losses were amortized into interest expense to coincide with the issuance of the 6% senior unsecured notes in May 2008. The remaining forward interest rate contracts, with notional amounts totaling \$150.0 million, have a future dated settlement to coincide with the Company's additional forecasted debt issuance in fiscal year 2008.

Once established, cash flow hedges are generally not removed until maturity unless an anticipated transaction is no longer likely to occur. Discontinued or redesignated cash flow hedges are immediately settled with counterparties, and the related accumulated derivative gains or losses are recognized into interest expense on the condensed consolidated financial statements. During the nine months ended September 28, 2008, there were no cash flow hedges that were discontinued or redesignated, and the Company did not recognize any ineffectiveness.

**Note 8: 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 28, 2008	September 30, 2007	September 28, 2008	September 30, 2007
	(In thousands)			
Number of common shares basic	118,347	117,583	117,821	119,393
Effect of dilutive securities:				
Stock options	1,182	1,816	1,140	1,680
Restricted stock	80	54	68	62
Number of common shares diluted	119,609	119,453	119,029	121,135
Number of potentially dilutive securities excluded from calculation due to antidilutive impact	4,846	5,422	6,274	6,935

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.

**Table of Contents****Note 9: Comprehensive Income**

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

	Three Months Ended		Nine Months Ended	
	September 28, 2008	September 30, 2007	September 28, 2008	September 30, 2007
	(In thousands)			
Net income	\$ 51,902	\$ 30,745	\$ 95,746	\$ 79,124
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(35,884)	22,090	(1,096)	30,693
Pension and other postretirement benefit liability adjustments, net of income taxes				
Unrealized net losses on securities, net of income taxes	(60)	(9)	(72)	(108)
Unrealized and realized losses on derivatives, net of amortization and income taxes	(1,397)		(9,410)	
	(37,341)	22,081	(10,578)	30,585
Comprehensive income, net of income taxes	\$ 14,561	\$ 52,826	\$ 85,168	\$ 109,709

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

	September 28, 2008	December 30, 2007
		(In thousands)
Foreign currency translation adjustments	\$ 111,076	\$ 112,172
Unrecognized losses and prior service costs, net of income taxes	(49,080)	(49,080)
Unrealized net losses on securities, net of income taxes	(119)	(47)
Unrealized and realized losses on derivatives, net of amortization and income taxes	(14,748)	(5,338)
Accumulated other comprehensive income, net of income taxes	\$ 47,129	\$ 57,707

**Note 10: Industry Segment Information**

The Company evaluates the performance of its operating segments based on sales and operating income. Intersegment sales and transfers are not significant. Based on the guidance in SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*, 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 analysis tools, including instruments, reagents, software, and consumables, to the analytical sciences, genetic screening, bio-discovery and laboratory services markets.

*Optoelectronics.* The Company provides a broad range of medical imaging, optical sensor and specialty lighting components used in medical, 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

## Edgar Filing: PERKINELMER INC - Form 10-Q

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.



**Table of Contents**

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

	Three Months Ended		Nine Months Ended	
	September 28, 2008	September 30, 2007	September 28, 2008	September 30, 2007
(In thousands)				
<b>Life &amp; Analytical Sciences</b>				
Sales	\$ 373,418	\$ 319,341	\$ 1,127,082	\$ 945,163
Operating income from continuing operations	29,610	29,312	88,514	88,781
<b>Optoelectronics</b>				
Sales	131,699	116,327	389,014	330,695
Operating income from continuing operations	25,547	24,570	72,611	53,832
<b>Corporate</b>				
Operating loss from continuing operations	(9,855)	(8,046)	(32,408)	(25,529)
<b>Continuing Operations</b>				
Sales	\$ 505,117	\$ 435,668	\$ 1,516,096	\$ 1,275,858
Operating income from continuing operations	45,302	45,836	128,717	117,084
Interest and other expense, net (see Note 4)	6,050	5,280	16,308	11,476
Income from continuing operations before income taxes	\$ 39,252	\$ 40,556	\$ 112,409	\$ 105,608

**Note 11: Discontinued Operations**

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 28, 2008 and December 30, 2007.

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

	Three Months Ended		Nine Months Ended	
	September 28, 2008	September 30, 2007	September 28, 2008	September 30, 2007
(In thousands)				
Net income (loss) on disposition of ViaCyte <sup>SM</sup> and Cellular Therapy Technology businesses	\$ 113	\$	\$ (8,338)	\$
Net (loss) gain on disposition of other discontinued operations	(300)	(104)	(254)	652
Net (loss) gain on disposition of discontinued operations before income taxes	(187)	(104)	(8,592)	652
(Benefit from) provision for income taxes	(8,331)	253	(9,577)	752
Gain (loss) on disposition of discontinued operations, net of income taxes	\$ 8,144	\$ (357)	\$ 985	\$ (100)

Following the ViaCell acquisition, the Board approved a plan to sell the ViaCyte<sup>SM</sup> and Cellular Therapy Technology businesses that were acquired with ViaCell. The ViaCyte<sup>SM</sup> business focused on the development of a proprietary media intended for the cryopreservation of human unfertilized oocytes. The Cellular Therapy Technology business focused on the development and sale of unrestricted somatic stem cell products which are



**Table of Contents**

derived from umbilical cord blood. The Company determined that both businesses do not strategically fit with the other products offered by the Life and Analytical Sciences segment. The Company also determined that without investing capital into the operations of both businesses, the Company could not effectively compete with larger companies that focus on the market for such products. After careful consideration, the Company decided in the second quarter of fiscal year 2008 to close the ViaCyte<sup>SM</sup> and Cellular Therapy Technology businesses, recording a pre-tax loss of \$8.3 million for severance and facility closure costs. The Company has classified the results and closure of the ViaCyte<sup>SM</sup> and Cellular Therapy Technology businesses as discontinued operations in the accompanying financial statements.

During each of the first nine months of fiscal years 2008 and 2007, the Company settled various commitments related to the divestiture of other discontinued operations and recognized a pre-tax loss of \$0.3 million in fiscal year 2008 and a pre-tax gain of \$0.7 million in fiscal year 2007. The benefit from income taxes of \$9.6 million in the third quarter of fiscal year 2008 includes \$8.5 million of income tax benefits related to the effective settlement of income tax audits during the quarter ended September 28, 2008.

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

	Three Months Ended		Nine Months Ended	
	September 28, 2008	September 30, 2007	September 28, 2008	September 30, 2007
	(In thousands)			
Sales	\$	\$	\$	\$
Costs and expenses			(4,270)	
Operating loss from discontinued operations			(4,270)	
Other expense, net				
Loss from discontinued operations before income taxes			(4,270)	
Benefit from income taxes			(104)	
Loss from discontinued operations, net of income taxes	\$	\$	\$ (4,166)	\$

**Note 12: Stock Plans**

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 14, 2008 and Note 20 to the Company's financial statements filed with the 2007 Form 10-K.

For the three and nine months ended September 28, 2008, 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 \$5.5 million and \$16.4 million, respectively. 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. The total income tax benefit recognized in the condensed consolidated income statements for stock-based compensation was \$1.8 million and \$5.4 million for the three and nine months ended September 28, 2008, respectively. The total income tax benefit recognized in the condensed consolidated income statements for stock-based compensation was \$1.8 million and \$5.1 million for the three and nine months ended September 30, 2007, respectively. Stock-based compensation costs capitalized as part of inventory were approximately \$0.2 million and \$0.3 million as of September 28, 2008 and September 30, 2007, respectively.

**Table of Contents**

**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:

	<b>Three and Nine Months Ended</b>	
	<b>September 28, 2008</b>	<b>September 30, 2007</b>
Risk-free interest rate	2.6%	4.9%
Expected dividend yield	1.2%	1.2%
Expected lives	4 years	4 years
Expected stock volatility	28%	36%

The following table summarizes stock option activity for the nine months ended September 28, 2008:

	<b>Number of Shares (Shares in thousands)</b>	<b>Weighted- Average Price</b>	<b>Weighted-Average Remaining Contractual Term (In years)</b>	<b>Aggregate Intrinsic Value (In millions)</b>
Outstanding at December 30, 2007	11,246	\$ 24.41		
Granted	1,662	25.16		
Exercised	(2,216)	19.60		
Canceled	(726)	36.15		
Forfeited	(390)	24.28		
Outstanding at September 28, 2008	9,576	\$ 24.77	3.7	\$ 39.5
Exercisable at September 28, 2008	6,707	\$ 24.94	2.9	\$ 29.4
Vested and expected to vest in the future	8,105	\$ 24.77	3.7	\$ 33.4

The weighted-average grant-date fair value of options granted for the three and nine months ended September 28, 2008 were \$6.59 and \$5.88, respectively. The weighted-average grant-date fair value of options granted for the three and nine months ended September 30, 2007 were \$8.57 and \$7.50, respectively. The total intrinsic value of options exercised for the three and nine months ended September 28, 2008 was \$11.1 million and \$19.1 million, 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. Cash received from option exercises for the nine months ended September 28, 2008 and September 30, 2007 was \$43.4 million and \$30.2 million, respectively. The related tax benefit classified as a financing cash inflow was \$0.4 million and \$6.0 million for the nine months ended September 28, 2008 and September 30, 2007, respectively.

There was \$10.8 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested stock options granted as of September 28, 2008. This cost is expected to be recognized over a weighted-average period of 1.8 fiscal years and will be adjusted for any future changes in estimated forfeitures.

**Table of Contents**

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 condensed consolidated income statements for the three and nine months ended September 28, 2008 and September 30, 2007:

	Three Months Ended		Nine Months Ended	
	September 28, 2008	September 30, 2007	September 28, 2008	September 30, 2007
	(In thousands)			
Cost of sales	\$ 359	\$ 378	\$ 948	\$ 928
Research and development expenses	32	133	265	428
Selling, general and administrative and other expenses	2,085	1,877	5,010	5,362
Compensation expense related to stock options	2,476	2,388	6,223	6,718
Less: income tax benefit	(764)	(775)	(1,922)	(2,189)
Net compensation expense related to stock options	\$ 1,712	\$ 1,613	\$ 4,301	\$ 4,529

**Restricted Stock Awards:** The following table summarizes restricted stock award activity for the nine months ended September 28, 2008:

	Number of Shares (Shares in thousands)	Weighted- Average Grant- Date Fair Value
Nonvested at December 30, 2007	377	\$ 22.84
Granted	246	25.38
Vested	(12)	20.18
Forfeited	(84)	24.25
Nonvested at September 28, 2008	527	\$ 23.86

The weighted-average grant-date fair value of restricted stock awards granted during the three and nine months ended September 28, 2008 were \$28.23 and \$25.38, respectively. The weighted-average grant-date fair value of restricted stock awards granted during the three and nine months ended September 30, 2007 were \$28.10 and \$23.78, respectively. The fair value of restricted stock awards vested was \$0.2 million and \$0.3 million for the nine months ended September 28, 2008 and 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 \$1.9 million and \$4.5 million for the three and nine months ended September 28, 2008, respectively. The total compensation expense recognized related to the restricted stock awards, which is a function of current and prior year awards, was approximately \$0.7 million and \$2.1 million for the three and nine months ended September 30, 2007, respectively.

As of September 28, 2008, there was \$5.5 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 1.4 fiscal years.

**Performance Units:** The Company granted 131,151 and 209,326 performance units during the nine months ended September 28, 2008 and September 30, 2007, respectively. The weighted-average grant-date fair value of performance units granted during the nine months ended September 28, 2008 and September 30, 2007 were \$24.95 and \$23.48, respectively. The total compensation expense recognized related to these performance units, which is a function of current and prior year awards, was approximately \$1.2 million and \$4.8 million for the

**Table of Contents**

three and nine months ended September 28, 2008, 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. As of September 28, 2008, there were 353,884 performance units outstanding subject to forfeiture.

**Stock Awards:** The Company's stock award program provides non-employee Directors an annual equity award. For awards granted for fiscal years 2008 and 2007, the award equaled the number of shares of the Company's common stock which has an aggregate fair market value of \$100,000 on the date of the award. The stock award is prorated for non-employee Directors who serve for only a portion of the year. The shares are granted in April following the annual meeting of shareholders, and 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 first quarter of fiscal year 2008, a new non-employee Director was awarded 667 shares. During the second quarter of fiscal years 2008 and 2007, each non-employee director was awarded 3,740 and 4,114 shares, respectively. The weighted-average grant-date fair value of stock awards granted during the nine months ended September 28, 2008 and September 30, 2007 was \$26.70 and \$24.31, respectively. The total compensation expense recognized related to these stock awards was approximately \$0.8 million and \$0.7 million for the nine months ended September 28, 2008 and September 30, 2007, respectively.

**Employee Stock Purchase Plan:** During the nine months ended September 28, 2008, the Company issued 85,259 shares of common stock under the Company's Employee Stock Purchase Plan at a weighted-average price of \$25.56 per share. There remains available for sale to employees an aggregate of 1.6 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"). During the third quarter of fiscal year 2008, the Company repurchased 1.9 million shares of common stock in the open market at an aggregate cost of \$56.6 million, including commissions. This activity completed the repurchase of the 10.0 million shares in the aggregate authorized under the Repurchase Program. During the first nine months of fiscal year 2008, the Company repurchased 20,903 shares of common stock in the aggregate to satisfy minimum statutory tax withholding obligations in connection with the vesting of restricted stock awards and restricted stock unit awards granted pursuant to the Company's equity incentive plans. 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. On October 23, 2008, the Company announced that the Board has authorized the Company to repurchase up to 10.0 million additional shares of common stock under a new stock repurchase program (the "New Repurchase Program"). The New Repurchase Program will expire on October 22, 2012 unless this authorization is terminated earlier by the Board, and may be suspended or discontinued at any time. Approximately 10.0 million shares of common stock remain available for repurchase under the New Repurchase Program.

**Note 13: Goodwill and Intangible Assets**

Goodwill is subject to annual impairment testing using the guidance and criteria described in SFAS No. 142. 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 is 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, 2008 and concluded based on the first step of the process that there was no goodwill impairment.

**Table of Contents**

The changes in the carrying amount of goodwill for the period ended September 28, 2008 from December 30, 2007 are as follows:

	<b>Life and Analytical Sciences</b>	<b>Optoelectronics (In thousands)</b>	<b>Consolidated</b>
Balance at December 30, 2007	\$ 1,307,083	\$ 48,573	\$ 1,355,656
Foreign currency translation	(367)	144	(223)
Acquisitions and earn-out adjustments	60,576	3,001	63,577
Balance at September 28, 2008	\$ 1,367,292	\$ 51,718	\$ 1,419,010

Identifiable intangible asset balances at September 28, 2008 and December 30, 2007 by category were as follows:

	<b>September 28, 2008</b>	<b>December 30, 2007</b>
	<b>(In thousands)</b>	
Patents	\$ 125,939	\$ 113,744
Less: Accumulated amortization	(71,895)	(61,421)
Net patents	54,044	52,323
Licenses	64,445	61,649
Less: Accumulated amortization	(34,170)	(30,709)
Net licenses	30,275	30,940
Core technology	370,003	357,066
Less: Accumulated amortization	(146,666)	(120,285)
Net core technology	223,337	236,781
Net amortizable intangible assets	307,656	320,044
Non-amortizing intangible assets:		
Trade names and trademarks	159,165	159,165
Totals	\$ 466,821	\$ 479,209

Total amortization expense related to finite-lived intangible assets for the nine months ended September 28, 2008 and September 30, 2007 was \$42.0 million and \$31.9 million, respectively.

**Table of Contents****Note 14: Warranty Reserves**

The Company provides warranty protection for certain products for periods usually 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 28, 2008 and September 30, 2007 is as follows:

	Three Months Ended		Nine Months Ended	
	September 28, 2008	September 30, 2007	September 28, 2008	September 30, 2007
	(In thousands)			
Balance at beginning of period	\$ 9,974	\$ 10,565	\$ 10,971	\$ 10,054
Provision charged to income	3,474	3,539	10,839	11,048
Payments	(3,035)	(3,534)	(11,086)	(11,153)
Adjustments to previously provided warranties, net	330	(230)	(947)	(447)
Foreign currency translation and acquisitions	(381)	391	585	1,229
Balance at end of period	\$ 10,362	\$ 10,731	\$ 10,362	\$ 10,731

**Note 15: Employee Benefit Plans**

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 28, 2008 and September 30, 2007:

	Defined Benefit Pension Benefits		Post-Retirement Medical Benefits	
	September 28, 2008	September 30, 2007	September 28, 2008	September 30, 2007
	(In thousands)			
Service cost	\$ 1,295	\$ 1,222	\$ 22	\$ 25
Interest cost	6,878	6,477	54	51
Expected return on plan assets	(6,602)	(6,273)	(259)	(244)
Amortization of prior service	(48)	15	(78)	(78)
Recognition of actuarial losses (gains)	955	1,590	(109)	(106)
Net periodic benefit cost (credit)	\$ 2,478	\$ 3,031	\$ (370)	\$ (352)

	Defined Benefit Pension Benefits		Post-Retirement Medical Benefits	
	September 28, 2008	September 30, 2007	September 28, 2008	September 30, 2007
	(In thousands)			
Service cost	\$ 3,802	\$ 3,842	\$ 72	\$ 71
Interest cost	20,524	18,855	168	171
Expected return on plan assets	(20,108)	(18,424)	(776)	(728)
Amortization of prior service	(149)	46	(236)	(236)
Recognition of actuarial losses (gains)	2,475	4,465	(290)	(298)



Edgar Filing: PERKINELMER INC - Form 10-Q

Net periodic benefit cost (credit)	\$ 6,544	\$ 8,784	\$ (1,062)	\$ (1,020)
------------------------------------	----------	----------	------------	------------

**Table of Contents****Note 16: Settlement of Insurance Claim**

During the second quarter of fiscal year 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 fiscal year 2007. The Company received the final settlement payment of \$21.5 million in June 2007, and had previously received during fiscal years 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 Company accrued \$9.7 million representing its management's estimate of the total cost for decommissioning the building, including environmental matters, that was damaged in the fire. The Company paid \$1.0 million during the first nine months of fiscal year 2008 and \$3.9 million during fiscal year 2007 towards decommissioning the building, and anticipates that the remaining payments of \$4.8 million will be completed by the third quarter of fiscal year 2009.

**Note 17: Fair Value Measurements**

The Company adopted SFAS No. 157 as of December 31, 2007, with the exception of the application of the statement to non-recurring nonfinancial assets and nonfinancial liabilities that was delayed by FSP No. 157-2. Non-recurring nonfinancial assets and nonfinancial liabilities for which the Company has not applied the provisions of SFAS No. 157 include those measured at fair value in goodwill and indefinite lived intangible assets for impairment testing, those initially measured at fair value in a business combination, and asset retirement obligations initially measured at fair value.

**Valuation Hierarchy:** SFAS No. 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs, where available. The following summarizes the three levels of inputs required by the standard to measure fair value: Level 1 inputs are quoted prices in active markets for identical assets or liabilities; Level 2 inputs are observable prices that are based on inputs not quoted on active markets, but corroborated by market data; and Level 3 inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities based on the Company's assumptions. A financial asset's or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimizes the use of unobservable inputs to the extent possible.

The following table shows the assets and liabilities carried at fair value measured on a recurring basis at September 28, 2008 classified in one of the three classifications described above:

	Total Carrying Value at September 28, 2008	Fair Value Measurements at September 28, 2008 Using:		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
(In thousands)				
Marketable securities	\$ 1,706	\$ 1,706	\$	\$
Foreign exchange derivative liabilities	(46)		(46)	
Interest rate derivative liabilities	(9,063)		(9,063)	

**Valuation Techniques:** The Company's Level 1 and Level 2 assets and liabilities are comprised of investments in equity and fixed-income securities as well as derivative contracts. For financial assets and liabilities that utilize Level 1 and Level 2 inputs, the Company utilizes both direct and indirect observable price

**Table of Contents**

quotes, including common stock price quotes, foreign exchange forward prices, and bank price quotes. Below is a summary of valuation techniques for Level 1 and Level 2 financial assets and liabilities.

Marketable securities	Include equity and fixed-income securities measured at fair value using the quoted market prices at the reporting date.
Foreign exchange derivative assets	Include foreign exchange derivative contracts that are valued using quoted forward foreign exchange prices at the reporting date.
Interest rate derivative liabilities	Include interest rate derivative contracts that are valued based on a quotation from a third-party bank utilizing observable inputs at the reporting date.

**Note 18: Contingencies**

The Company is conducting a number of environmental investigations and remedial actions at current and former locations of the Company and, along with other companies, has been named a potentially responsible party ( 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 \$4.0 million as of September 28, 2008, which represents management's estimate of the total cost of ultimate disposition of known environmental matters. This 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 condensed consolidated financial statements may be incurred, the potential exposure is not expected to be materially different from those amounts recorded.

Enzo Biochem, Inc. and Enzo Life Sciences, Inc. (collectively, Enzo ) filed a complaint dated October 23, 2002 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.

PharmaStem Therapeutics, Inc. ( PharmaStem ) filed a complaint dated February 22, 2002 against ViaCell, Inc., which is now a wholly owned subsidiary of the Company, and several other defendants in the United States District Court for the District of Delaware, alleging infringement of United States Patents No. 5,004,681 and

**Table of Contents**

No. 5,192,553, relating to certain aspects of the collection, cryopreservation and storage of hematopoietic stem cells and progenitor cells from umbilical cord blood ( PharmaStem I ). After several years of proceedings at the District Court level, the United States Court of Appeals for the Federal Circuit issued a decision in July 2007 that ViaCell did not infringe these two patents and that the two patents are invalid. PharmaStem filed a certiorari petition in January 2008 seeking to have the United States Supreme Court review the appellate court's decision as to the invalidity of the patents, but did not seek any further review of the non-infringement decision. However, the United States Supreme Court denied certiorari in March 2008, so the decision by the United States Court of Appeals for the Federal Circuit in favor of ViaCell is final and non-appealable. PharmaStem had also filed a second complaint against ViaCell and other defendants in July 2004 in the United States District Court for the District of Massachusetts, alleging infringement of United States Patents No. 6,461,645 and 6,569,427, which also relate to certain aspects of the collection, cryopreservation and storage of hematopoietic stem cells and progenitor cells from umbilical cord blood ( PharmaStem II ). The Delaware court granted ViaCell's motion in October 2005 to stay the proceedings in PharmaStem II pending the outcome of PharmaStem I and a decision from the United States Patent and Trademark Office ( U.S. PTO ) on certain patent re-examination issues. On September 2, 2008, the U.S. PTO issued a Re-examination Certificate cancelling all claims of United States Patent No. 6,461,645, and on September 16, 2008, the U.S. PTO issued a Re-examination Certificate cancelling all claims of United States Patent No. 6,569,427. As a result of the cancellation of all patent claims involved in PharmaStem II by the U.S. PTO, the Company will seek a dismissal of all claims for relief set forth by PharmaStem in PharmaStem II.

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 unresolved matters. However, each of these matters is subject to uncertainty, and it is not possible to determine whether or not the resolution of some of these matters could have a material adverse impact on the Company's condensed consolidated financial statements.

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. Although 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 28, 2008 should not have a material adverse effect on the Company's condensed consolidated financial statements. Each of these matters is subject to uncertainties, and it is possible that some of these matters may be resolved unfavorably to the Company.

---

## **Table of Contents**

### **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 condensed consolidated financial statements and notes to condensed 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 Part II, 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 technology, services and solutions to the diagnostics, detection and analysis and photonics markets. We design, manufacture, market and service components, systems and products in two reporting segments:

*Life and Analytical Sciences.* We are a leading provider of analysis tools, including instruments, reagents, software, and consumables, to the analytical sciences, genetic screening, bio-discovery and laboratory services markets.

*Optoelectronics.* We provide a broad range of medical imaging, optical sensor and specialty lighting components used in medical, 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:***

*Acquisition of VaConics Lighting, Inc.* In May 2008, we acquired specified assets and assumed specified liabilities of VaConics Lighting, Inc. ( VaConics ), a leading provider of custom and standard ceramic Xenon arc lamps. This acquisition is expected to expand our Xenon lighting technology by increasing our offerings of lamp operations that include mobile phone cameras, medical endoscopes, surgical headlamps, forensic analyses, video projectors, searchlights, and infrared lighting. Consideration for this transaction was approximately \$3.9 million in cash. During the second quarter of fiscal year 2008, we paid VaConics approximately \$0.1 million for net working capital adjustments. The excess of the purchase price over the fair value of the acquired net assets has been allocated to goodwill, all of which is tax deductible. The operations for this acquisition are reported within the results of our Optoelectronics segment from the acquisition date.

*Acquisition of LabMetrix Technologies S.A.* In March 2008, we acquired all of the stock of LabMetrix Technologies S.A. ( LabMetrix ) and acquired specified assets and assumed specified liabilities of LabMetrix Technologies Ltd. and LabMetrix Technologies, Inc., a provider of metrology-based multi-vendor analytical instrument qualification solutions. This acquisition is expected to add technology, tools, processes and compliance expertise to our suite of OneSource® laboratory services by strengthening our support of customers in a wide range of industries including the pharmaceutical, medical device, food, toy and other consumer goods industries. Consideration for this transaction was approximately \$4.3 million in cash plus potential additional contingent consideration. We determined that \$1.9 million of the contingent consideration was probable and

**Table of Contents**

recorded the accrual at the date of acquisition. During the third quarter of fiscal year 2008, we received approximately \$0.1 million from the former shareholders of LabMetrix for net working capital adjustments. The excess of the purchase price over the fair value of the acquired net assets has been allocated to goodwill. None of the goodwill related to the LabMetrix acquisition is tax deductible and all of the goodwill related to the LabMetrix Technologies Ltd. and LabMetrix Technologies, Inc. acquisitions is tax deductible. The operations for this acquisition are reported within the results of our Life and Analytical Sciences segment from the acquisition date.

*Acquisition of Newborn Metabolic Screening Business from Pediatrix Medical Group, Inc.* In February 2008, we acquired the outstanding stock of Pediatrix Screening, Inc., which constituted the newborn metabolic screening business of Pediatrix Medical Group, Inc., and is now known as PerkinElmer Genetics, Inc. ( PKI Genetics ). PKI Genetics provides neonatal screening and consultative services to hospitals, medical groups and various states. This acquisition is expected to expand our capabilities to supply state laboratories and other agencies with comprehensive newborn screening solutions. Consideration for this transaction was approximately \$66.3 million in cash. During the second quarter of fiscal year 2008, we received approximately \$0.3 million from Pediatrix Medical Group, Inc. for net working capital adjustments. The excess of the purchase price over the fair value of the acquired net assets has been allocated to goodwill, which may be tax deductible if elected by us. The operations for this acquisition are reported within the results of our Life and Analytical Sciences segment from the acquisition date.

*Acquisition of ViaCell, Inc.* In November 2007, we completed a tender offer for all of the outstanding shares of common stock of ViaCell, Inc. ( ViaCell ), at a price of \$7.25 per share. ViaCell specializes in the collection, testing, processing and preservation of umbilical cord blood stem cells. The addition of ViaCell's ViaCord® product offering for the preservation of umbilical cord blood, and its sales and marketing organization, has facilitated the expansion of our neonatal and prenatal businesses. Aggregate consideration for this transaction was approximately \$295.8 million in cash, which excludes \$31.8 million in acquired cash. The excess of the purchase price over the fair value of the acquired net assets has been allocated to goodwill, none of which is tax deductible. The operations for this acquisition are reported within the results of our Life and Analytical Sciences segment from the acquisition date.

Following the ViaCell acquisition, we committed to a preliminary plan of integration of certain ViaCell activities that included workforce reductions and the partial closure of an excess facility. Through the second quarter of fiscal year 2008, we recorded a \$2.4 million liability for severance and the partial closure of an excess facility with a corresponding adjustment to goodwill in accordance with EITF Issue No. 95-3,

*Recognition of Liabilities in Connection with a Purchase Business Combination* ( EITF No. 95-3 ). We finalized the integration plan and all actions related to this plan as of June 29, 2008.

Following the ViaCell acquisition, our Board of Directors (the Board ) approved a plan to sell the ViaCyte<sup>SM</sup> and Cellular Therapy Technology businesses that were acquired with ViaCell. The ViaCyte<sup>SM</sup> business focused on the development of a proprietary media intended for the cryopreservation of human unfertilized oocytes. The Cellular Therapy Technology business focused on the development and sale of unrestricted somatic stem cell products which are derived from umbilical cord blood. We determined that both businesses do not strategically fit with the other products offered by our Life and Analytical Sciences segment. We also determined that without investing capital into the operations of both businesses, we could not effectively compete with larger companies that focus on the market for such products. After careful consideration, we decided in the second quarter of fiscal year 2008 to close the ViaCyte<sup>SM</sup> and Cellular Therapy Technology businesses, recording a pre-tax loss of \$8.3 million for severance and facility closure costs. We have classified the results and closure of the ViaCyte<sup>SM</sup> and Cellular Therapy Technology businesses as discontinued operations in the accompanying financial statements. See Note 11 to our financial statements included in this quarterly report for additional details.

---

## **Table of Contents**

### **Critical Accounting Policies and Estimates**

The preparation of condensed 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 condensed 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 30, 2007, as filed with the Securities and Exchange Commission (the "SEC") (the "2007 Form 10-K").

### **Consolidated Results of Continuing Operations**

#### ***Sales***

Sales for the three months ended September 28, 2008 were \$505.1 million, versus \$435.7 million for the three months ended September 30, 2007, an increase of \$69.4 million, or 16%, which includes an approximate 2% increase in sales attributable to favorable changes in foreign exchange rates and an approximate 5% increase from acquisitions. The analysis in the remainder of this paragraph compares segment sales for the three months ended September 28, 2008 as compared to the three months ended September 30, 2007 and includes the effect of foreign exchange rate fluctuations and acquisitions. The total increase in sales reflects a \$54.1 million, or 17%, increase in our Life and Analytical Sciences segment sales, due to increases in sales to genetic screening customers of \$24.4 million, sales to bio-discovery customers of \$10.8 million, sales to laboratory service customers of \$10.4 million, and sales to analytical sciences customers of \$8.5 million. Our Optoelectronics segment sales grew \$15.4 million, or 13%, primarily due to increases in sales of our specialty lighting products of \$9.2 million and sales of our medical imaging products of \$6.2 million. Sales of our optical sensors were flat for the three months ended September 28, 2008 as compared to the three months ended September 30, 2007.

Sales for the nine months ended September 28, 2008 were \$1,516.1 million, versus \$1,275.9 million for the nine months ended September 30, 2007, an increase of \$240.2 million, or 19%, which includes an approximate 4% increase in sales attributable to favorable changes in foreign exchange rates and an approximate 5% increase from acquisitions. The analysis in the remainder of this paragraph compares segment sales for the nine months ended September 28, 2008 as compared to the nine months ended September 30, 2007 and includes the effect of foreign exchange rate fluctuations and acquisitions. The total increase in sales reflects a \$181.9 million, or 19%, increase in our Life and Analytical Sciences segment sales, due to increases in sales to genetic screening customers of \$82.2 million, sales to analytical sciences customers of \$39.0 million, sales to laboratory service customers of \$36.9 million, and sales to bio-discovery customers of \$23.7 million. Our Optoelectronics segment sales grew \$58.3 million, or 18%, primarily due to increases in sales of our specialty lighting products of \$30.2 million, medical imaging products of \$24.8 million, and optical sensors of \$3.2 million.

#### ***Cost of Sales***

Cost of sales for the three months ended September 28, 2008 was \$294.0 million, versus \$257.2 million for the three months ended September 30, 2007, an increase of approximately \$36.8 million, or 14%. As a percentage of sales, cost of sales decreased to 58.2% in the three months ended September 28, 2008 from 59.0%

---

**Table of Contents**

in the three months ended September 30, 2007, resulting in an increase in gross margin of 83 basis points to 41.8% in the three months ended September 28, 2008, from 41.0% in the three months ended September 30, 2007. Amortization of intangible assets increased due to the acquisitions completed in fiscal years 2008 and 2007 and was \$9.5 million for the three months ended September 28, 2008 as compared to \$8.5 million for the three months ended September 30, 2007. The amortization of purchase accounting adjustments to record the inventory from certain acquisitions completed in fiscal year 2007 was approximately \$0.4 million for the three months ended September 30, 2007. Stock option expense was \$0.4 million for each of the three months ended September 28, 2008 and September 30, 2007. The combined favorable impact of productivity improvements, increased sales volume, and growth in higher gross margin products such as ViaCord® increased gross margin; however, this increase was partially offset by inflation and increased freight costs.

Cost of sales for the nine months ended September 28, 2008 was \$887.7 million, versus \$764.7 million for the nine months ended September 30, 2007, an increase of approximately \$123.0 million, or 16%. As a percentage of sales, cost of sales decreased to 58.6% in the nine months ended September 28, 2008 from 59.9% in the nine months ended September 30, 2007, resulting in an increase in gross margin of 138 basis points to 41.4% in the nine months ended September 28, 2008, from 40.1% in the nine months ended September 30, 2007. Amortization of intangible assets increased due to the acquisitions completed in fiscal years 2008 and 2007 and was \$28.3 million for the nine months ended September 28, 2008 as compared to \$25.6 million for the nine months ended September 30, 2007. The amortization of purchase accounting adjustments to record the inventory from certain acquisitions completed in fiscal year 2007 was approximately \$2.5 million for the nine months ended September 30, 2007. Stock option expense was \$0.9 million for each of the nine months ended September 28, 2008 and September 30, 2007. The combined favorable impact of productivity improvements, increased sales volume, and growth in higher gross margin products such as ViaCord® increased gross margin; however, this increase was partially offset by inflation, increased freight costs and growth in lower gross margin products such as laboratory service and specialty lighting.

***Selling, General and Administrative Expenses***

Selling, general and administrative expenses for the three months ended September 28, 2008 were \$131.1 million as compared to \$106.4 million for the three months ended September 30, 2007, an increase of approximately \$24.7 million, or 23%. As a percentage of sales, selling, general and administrative expenses were 26.0% for the three months ended September 28, 2008, compared to 24.4% in the three months ended September 30, 2007. Amortization of intangible assets was \$4.1 million for the three months ended September 28, 2008 as compared to \$1.8 million for the three months ended September 30, 2007. Stock option expense was \$2.1 million and \$1.9 million for the three months ended September 28, 2008 and September 30, 2007, respectively. Increased sales and marketing expenses to support recent acquisitions, particularly the acquisition of ViaCell, also increased selling, general and administrative expenses.

Selling, general and administrative expenses for the nine months ended September 28, 2008 were \$406.2 million as compared to \$317.5 million for the nine months ended September 30, 2007, an increase of approximately \$88.7 million, or 28%. As a percentage of sales, selling, general and administrative expenses were 26.8% for the nine months ended September 28, 2008, compared to 24.9% in the nine months ended September 30, 2007. Amortization of intangible assets was \$12.1 million for the nine months ended September 28, 2008 as compared to \$5.1 million for the nine months ended September 30, 2007. Stock option expense was \$5.0 million and \$5.4 million for the nine months ended September 28, 2008 and September 30, 2007, respectively. Increased sales and marketing expenses to support recent acquisitions, particularly the acquisition of ViaCell, also increased selling, general and administrative expenses.



---

**Table of Contents**

***Research and Development Expenses***

Research and development expenses for the three months ended September 28, 2008 were \$27.5 million versus \$27.7 million for the three months ended September 30, 2007, a decrease of \$0.2 million, or 1%. As a percentage of sales, research and development expenses decreased to 5.4% in the three months ended September 28, 2008, from 6.4% in the three months ended September 30, 2007. Amortization of intangible assets was \$0.5 million for the three months ended September 28, 2008 as compared to \$0.4 million for the three months ended September 30, 2007. Research and development expenses also included stock option expense of \$0.03 million and \$0.1 million for the three months ended September 28, 2008 and September 30, 2007, respectively. We directed research and development efforts similarly during fiscal years 2008 and 2007, primarily toward genetic screening, bio-discovery, and analytical sciences markets within our Life and Analytical Sciences segment, and medical imaging and photonics within our Optoelectronics segment, in order to help accelerate our growth initiatives.

Research and development expenses for the nine months ended September 28, 2008 were \$86.5 million versus \$82.8 million for the nine months ended September 30, 2007, an increase of \$3.7 million, or 4%. As a percentage of sales, research and development expenses decreased to 5.7% in the nine months ended September 28, 2008, from 6.5% in the nine months ended September 30, 2007. Amortization of intangible assets was \$1.6 million for the nine months ended September 28, 2008 as compared to \$1.2 million for the nine months ended September 30, 2007. Research and development expenses also included stock option expense of \$0.3 million and \$0.4 million for the nine months ended September 28, 2008 and September 30, 2007, respectively.

***Restructuring and Lease Charges (Reversals), 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 were recorded in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*.

A description of the restructuring plans and the activity recorded for the nine months ended September 28, 2008 is listed below. Details of these plans, particularly those listed under *Previous Restructuring and Integration Plans*, are discussed more fully in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2007 Form 10-K.

The purpose of the restructuring plans approved in the third quarter of fiscal year 2008 and fourth quarter of fiscal year 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 activities associated with these plans have 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.

***Q3 2008 Plan***

During the third quarter of fiscal year 2008, our management approved a plan to shift resources into product lines that are more consistent with our growth strategy (the Q3 2008 Plan ). As a result of the Q3 2008 Plan, we recognized a \$7.5 million pre-tax restructuring charge in our Life and Analytical Sciences segment related to a workforce reduction from reorganization activities and the closure of excess facilities. We also recognized a \$0.3 million pre-tax restructuring charge in our Optoelectronics segment related to a workforce reduction from reorganization activities. All actions related to the Q3 2008 Plan were completed by September 28, 2008.

**Table of Contents**

The following table summarizes the Q3 2008 Plan activity for the nine months ended September 28, 2008:

	<b>Headcount</b>	<b>Severance</b>	<b>Closure of Excess Facilities (Dollars in thousands)</b>	<b>Total</b>
Balance at December 30, 2007		\$	\$	\$
Provision	107	6,506	1,334	7,840
Amounts paid and foreign currency translation	(55)	(1,100)		(1,100)
Balance at September 28, 2008	52	\$ 5,406	\$ 1,334	\$ 6,740

We anticipate that the remaining payments of \$5.4 million for workforce reductions will be completed by the end of the fourth quarter of fiscal year 2010, and the remaining payments of \$1.3 million for the closure of the excess facilities will be paid through fiscal year 2011, in accordance with the terms of the applicable leases.

**Q4 2007 Plan**

During the fourth quarter of fiscal year 2007, our management approved a plan to shift resources into geographic regions and product lines that are more consistent with our growth strategy (the Q4 2007 Plan). As a result of the Q4 2007 Plan, we recognized a \$4.8 million pre-tax restructuring charge in our Life and Analytical Sciences segment related to a workforce reduction from reorganization activities. We also recognized a \$4.8 million pre-tax restructuring charge in our Optoelectronics segment related to a workforce reduction and the partial closure of a facility, which was offset by the recognition of a \$2.2 million deferred gain from the sale-leaseback of that facility during the fiscal year 2007. All actions related to the Q4 2007 Plan were completed by December 30, 2007.

The following table summarizes the Q4 2007 Plan activity for the nine months ended September 28, 2008:

	<b>Headcount</b>	<b>Severance</b>	<b>Partial Closure of Excess Facility (Dollars in thousands)</b>	<b>Total</b>
Balance at December 30, 2007	59	\$ 4,268	\$ 4,328	\$ 8,596
Amounts paid, amortization of deferred gain and foreign currency translation	(59)	(3,251)	(910)	(4,161)
Changes in estimates		(279)	699	420
Balance at September 28, 2008		\$ 738	\$ 4,117	\$ 4,855

During the third quarter of fiscal year 2008, we recorded a reversal of \$0.3 million primarily due to lower than expected employee separation costs associated with our Life and Analytical Sciences segment. We also recorded an additional charge of \$0.7 million due to higher than expected costs associated with the partial closure of a facility within our Optoelectronics segment. We anticipate that the remaining payments of \$0.7 million for workforce reductions will be completed by the end of the first quarter of fiscal year 2009, and the remaining payments of \$4.1 million for the partial closure of the excess facility will be paid through fiscal year 2022, in accordance with the terms of the applicable lease.

**ViaCell Plan**

Following the ViaCell acquisition, we committed to a preliminary plan of integration of certain ViaCell activities that included workforce reductions and the partial closure of an excess facility (the ViaCell Plan). Through the second quarter of fiscal year 2008, we recorded a \$2.4 million liability for severance and the partial closure of an excess facility with a corresponding adjustment to goodwill in accordance with EITF No. 95-3. We finalized the integration plan and all actions related to this plan as of June 29, 2008.



**Table of Contents**

The following table summarizes the ViaCell Plan activity for the nine months ended September 28, 2008:

	Headcount	Severance	Partial Closure of Excess Facility (Dollars in thousands)	Total
Balance at December 30, 2007	5	\$ 1,184	\$	\$ 1,184
Provision	6	419	810	1,229
Amounts paid	(8)	(1,157)	(339)	(1,496)
Balance at September 28, 2008	3	\$ 446	\$ 471	\$ 917

We anticipate that the remaining payments of approximately \$0.4 million for workforce reductions will be completed by the end of the second quarter of fiscal year 2009, and the remaining payments of \$0.5 million for the partial closure of the excess facility will be paid through fiscal year 2014, in accordance with the terms of the applicable lease.

**Previous Restructuring and Integration Plans**

The principal actions of the restructuring and integration plans from the fiscal years 2001 through the first quarter of fiscal year 2007 were workforce reductions related to the integration of our Life Sciences and Analytical Instruments businesses, which is now our Life and Analytical Sciences segment, in order to reduce costs and achieve operational efficiencies as well as workforce reductions in both our Life and Analytical Sciences and Optoelectronics segments by shifting resources into geographic regions and product lines that are more consistent with our growth strategy. During the nine months ended September 28, 2008, we paid \$0.7 million related to these plans. During the third quarter of fiscal year 2008, we recorded a reversal of \$1.0 million related to lower than expected costs associated with severance of several of these plans. As of September 28, 2008, we had approximately \$1.3 million of remaining liabilities associated with restructuring and integration plans from the fiscal years 2001 through the first quarter of fiscal year 2007, primarily relating to remaining lease obligations related to those closed facilities in our Life and Analytical Sciences segment. The remaining terms of these leases vary in length and will be paid through fiscal year 2011. We anticipate that the remaining severance payments will be completed by the end of fiscal year 2009.

**Lease Charges**

To facilitate the sale of a business in fiscal year 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 fiscal year 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 fiscal year 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 in the third quarter of fiscal year 2007. During the second quarter of fiscal year 2008, the buyer paid all delinquent lease payments and building expenses and as a result, we recorded an additional reversal of \$0.4 million. As of September 28, 2008, we were still responsible for the remaining accrual of \$2.7 million, which relates to the remaining lease and building obligations through March

**Table of Contents**

2011, reduced by estimated sublease rentals reasonably expected to be obtained for the property. Beginning in the third quarter of fiscal year 2008, the buyer was delinquent in making both its lease payments and payments for certain building expenses, requiring us to make minimum payments to date in the fourth quarter of fiscal year 2008 of \$0.4 million. As a result, the remaining accrual is currently \$2.3 million. The buyer also filed for bankruptcy protection on October 27, 2008.

**Gains on Settlement of Insurance Claim**

During the second quarter of fiscal year 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 fiscal year 2007. We received the final settlement payment of \$21.5 million in June 2007, and had previously received, during fiscal years 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 fiscal year 2007, we accrued \$9.7 million representing our management's estimate of the total cost for decommissioning the building, including environmental matters. We paid \$1.0 million during the first nine months of fiscal year 2008 and \$3.9 million during fiscal year 2007 towards decommissioning the building, and we anticipate that the remaining payments of \$4.8 million will be completed by the third quarter of fiscal year 2009.

**In-process Research and Development Charge**

There was no in-process research and development (IPR&D) charge for each of the three months ended September 28, 2008 and September 30, 2007.

There was no IPR&D charge for the nine months ended September 28, 2008. The IPR&D charge for the nine months ended September 30, 2007 was \$1.5 million, which related to the acquisitions of Evotec Technologies GmbH and Euroscreen Products S.A. in January 2007. We believe that the estimated purchased research and development amounts represent the fair value of each project at the acquisition date, and the amount represents our management's best estimate of the amount a third-party would pay for the projects.

**Interest and Other Expense, Net**

Interest and other expense, net consisted of the following:

	Three Months Ended		Nine Months Ended	
	September 28, 2008	September 30, 2007	September 28, 2008	September 30, 2007
	(In thousands)			
Interest income	\$ (1,064)	\$ (1,077)	\$ (3,249)	\$ (3,381)
Interest expense	6,371	4,122	18,435	9,886
Gains on dispositions of investments, net		(161)	(1,158)	(697)
Other expense, net	743	2,396	2,280	5,668
<b>Total interest and other expense, net</b>	<b>\$ 6,050</b>	<b>\$ 5,280</b>	<b>\$ 16,308</b>	<b>\$ 11,476</b>

Interest and other expense, net for the three months ended September 28, 2008 was \$6.1 million versus \$5.3 million for the three months ended September 30, 2007, an increase of \$0.8 million. The increase in interest and

---

**Table of Contents**

other expense, net, in the three months ended September 28, 2008 as compared to the three months ended September 30, 2007 was primarily due to higher outstanding debt balances, which was partially offset by lower interest rates. Interest income was flat as a result of lower interest rates, which were offset by higher cash balances. Interest expense increased \$2.2 million due to higher outstanding debt balances. Other expenses for the three months ended September 28, 2008 as compared to the three months ended September 30, 2007 decreased by \$1.7 million, and consisted primarily of expenses related to foreign currency translation.

Interest and other expense, net for the nine months ended September 28, 2008 was \$16.3 million versus \$11.5 million for the nine months ended September 30, 2007, an increase of \$4.8 million. The increase in interest and other expense, net, in the nine months ended September 28, 2008 as compared to the nine months ended September 30, 2007 was primarily due to higher outstanding debt balances, which was partially offset by lower interest rates. Interest income decreased \$0.1 million as a result of lower interest rates, which were partially offset by higher cash balances. Interest expense increased \$8.5 million due to higher outstanding debt balances. During the nine months ended September 28, 2008, we also recognized a net gain on dispositions of investments of \$1.2 million associated with the dissolution of certain investments, as compared to the \$0.7 million recognized during the nine months ended September 30, 2007. Other expenses for the nine months ended September 28, 2008 as compared to the nine months ended September 30, 2007 decreased by \$3.4 million, and consisted primarily of expenses related to foreign currency translation. A more complete discussion of our liquidity is set forth below under the heading *Liquidity and Capital Resources*.

***(Benefit from) Provision for Income Taxes***

For the three months ended September 28, 2008, the benefit from income taxes from continuing operations was \$4.5 million, as compared to a provision of \$9.5 million for the three months ended September 30, 2007. The provision for income taxes from continuing operations was \$13.5 million for the nine months ended September 28, 2008, as compared to a provision of \$26.4 million for the nine months ended September 30, 2007. The effective tax rate from continuing operations was a benefit of 11.5% for the three months ended September 28, 2008 and a provision of 12.0% for the nine months ended September 28, 2008, as compared to a provision of 23.3% and 25.0% for the three and nine months ended September 30, 2007, respectively. The lower effective tax rate in fiscal year 2008 was primarily due to (i) the recognition of \$15.6 million of income tax benefits related to the settlement of several income tax audits worldwide, including Canada, the Netherlands, the U.K. and the U.S. covering various years ranging from 1998 through 2005 during the quarter ended September 28, 2008; (ii) the non-deductible IPR&D charge of \$1.5 million recorded in the nine months ended September 30, 2007; and (iii) the accrual of U.S. taxes on the \$15.3 million gains on the settlement of an insurance claim in the nine months ended September 30, 2007.

***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 28, 2008 and December 30, 2007.

**Table of Contents**

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

	Three Months Ended		Nine Months Ended	
	September 28, 2008	September 30, 2007	September 28, 2008	September 30, 2007
	(In thousands)			
Net income (loss) on disposition of ViaCyte <sup>SM</sup> and Cellular Therapy Technology businesses	\$ 113	\$	\$ (8,338)	\$
Net (loss) gain on disposition of other discontinued operations	(300)	(104)	(254)	652
Net (loss) gain on disposition of discontinued operations before income taxes	(187)	(104)	(8,592)	652
(Benefit from) provision for income taxes	(8,331)	253	(9,577)	752
Gain (loss) on disposition of discontinued operations, net of income taxes	\$ 8,144	\$ (357)	\$ 985	\$ (100)

Following the ViaCell acquisition, our Board approved a plan to sell the ViaCyte<sup>SM</sup> and Cellular Therapy Technology businesses that were acquired with ViaCell. The ViaCyte<sup>SM</sup> business focused on the development of a proprietary media intended for the cryopreservation of human unfertilized oocytes. The Cellular Therapy Technology business focused on the development and sale of unrestricted somatic stem cell products which are derived from umbilical cord blood. We determined that both businesses do not strategically fit with the other products offered by our Life and Analytical Sciences segment. We also determined that without investing capital into the operations of both businesses, we could not effectively compete with larger companies that focus on the market for such products. After careful consideration, we decided in the second quarter of fiscal year 2008 to close the ViaCyte<sup>SM</sup> and Cellular Therapy Technology businesses, recording a pre-tax loss of \$8.3 million for severance and facility closure costs. We have classified the results and closure of the ViaCyte<sup>SM</sup> and Cellular Therapy Technology businesses as discontinued operations in the accompanying financial statements.

During each of the first nine months of fiscal years 2008 and 2007, we settled various commitments related to the divestiture of other discontinued operations and recognized a pre-tax loss of \$0.3 million in fiscal year 2008 and a pre-tax gain of \$0.7 million in fiscal year 2007. The benefit from income taxes of \$9.6 million in the third quarter of fiscal year 2008 includes \$8.5 million of income tax benefits related to the effective settlement of income tax audits during the quarter ended September 28, 2008.

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

	Three Months Ended		Nine Months Ended	
	September 28, 2008	September 30, 2007	September 28, 2008	September 30, 2007
	(In thousands)			
Sales	\$	\$	\$	\$
Costs and expenses			(4,270)	
Operating loss from discontinued operations			(4,270)	
Other expense, net				
Loss from discontinued operations before income taxes			(4,270)	
Benefit from income taxes			(104)	
Loss from discontinued operations, net of income taxes	\$	\$	\$ (4,166)	\$

**Table of Contents*****Contingencies, Including Tax Matters***

We are conducting a number of environmental investigations and remedial actions at our current and former locations and, along with other companies, have been named a potentially responsible party ( PRP ) for certain waste disposal sites. We accrue for environmental issues in the accounting period that our responsibility is established and when the cost can be reasonably estimated. We have accrued \$4.0 million as of September 28, 2008, which represents our management's estimate of the total cost of ultimate disposition of known environmental matters. This 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 we have been named a PRP, our management does not currently anticipate any additional liability to result from the inability of other significant named parties to contribute. We expect 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 our financial position, results of operations, or cash flows. While it is possible that a loss exceeding the amounts recorded in the condensed consolidated financial statements may be incurred, the potential exposure is not expected to be materially different from those amounts recorded.

Enzo Biochem, Inc. and Enzo Life Sciences, Inc. (collectively, Enzo ) filed a complaint dated October 23, 2002 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 we have breached our 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. We 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, we believe, excludes certain of our 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.

PharmaStem Therapeutics, Inc. ( PharmaStem ) filed a complaint dated February 22, 2002 against ViaCell, Inc., which is now our wholly owned subsidiary, and several other defendants in the United States District Court for the District of Delaware, alleging infringement of United States Patents No. 5,004,681 and No. 5,192,553, relating to certain aspects of the collection, cryopreservation and storage of hematopoietic stem cells and progenitor cells from umbilical cord blood ( PharmaStem I ). After several years of proceedings at the District Court level, the United States Court of Appeals for the Federal Circuit issued a decision in July 2007 that ViaCell did not infringe these two patents and that the two patents are invalid. PharmaStem filed a certiorari petition in January 2008 seeking to have the United States Supreme Court review the appellate court's decision as to the invalidity of the patents, but did not seek any further review of the non-infringement decision. However, the United States Supreme Court denied certiorari in March 2008, so the decision by the United States Court of Appeals for the Federal Circuit in favor of ViaCell is final and non-appealable. PharmaStem had also filed a second complaint against ViaCell and other defendants in July 2004 in the United States District Court for the District of Massachusetts, alleging infringement of United States Patents No. 6,461,645 and 6,569,427, which also relate to certain aspects of the collection, cryopreservation and storage of hematopoietic stem cells and progenitor cells from umbilical cord blood ( PharmaStem II ). The Delaware court granted ViaCell's motion in October 2005 to stay the proceedings in PharmaStem II pending the outcome of PharmaStem I and a decision



---

**Table of Contents**

from the United States Patent and Trademark Office ( U.S. PTO ) on certain patent re-examination issues. On September 2, 2008, the U.S. PTO issued a Re-examination Certificate cancelling all claims of United States Patent No. 6,461,645, and on September 16, 2008, the U.S. PTO issued a Re-examination Certificate cancelling all claims of United States Patent No. 6,569,427. As a result of the cancellation of all patent claims involved in PharmaStem II by the U.S. PTO, we will seek a dismissal of all claims for relief set forth by PharmaStem in PharmaStem II.

We believe we have meritorious defenses to these lawsuits and other proceedings, and we are contesting the actions vigorously in all of the above unresolved matters. However, each of these matters is subject to uncertainty, and it is not possible to determine whether or not the resolution of some of these matters could have a material adverse impact on our condensed consolidated financial statements.

During 2005, the U.S. Internal Revenue Service concluded its audit of our federal income taxes for the years 1999 through 2002. There was a single open issue related to this audit which we favorably resolved during the fourth quarter of fiscal year 2007. In addition, tax years ranging from 1997 through 2007 remain open to examination by various state and foreign tax jurisdictions (such as China, Indonesia, the Philippines and the United Kingdom) in which we have significant business operations. The tax years under examination vary by jurisdiction. During the third quarter of fiscal year 2008, we effectively settled several income tax audits worldwide, including Canada, the Netherlands, the U.K. and the U.S. covering various years ranging from 1998 through 2005. We regularly review our tax positions in each significant taxing jurisdiction in the process of evaluating our unrecognized tax benefits as required by Financial Accounting Standards Board ( FASB ) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ( FIN No. 48 ), which we adopted as of January 1, 2007. Adjustments are made to our 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 effectively settled with a tax authority; and/or (iii) the statute of limitations expires regarding a tax position.

We are also subject to various other claims, legal proceedings and investigations covering a wide range of matters that arise in the ordinary course of our business activities. Although we have established accruals for potential losses that we believe are probable and reasonably estimable, in the opinion of our management, based on its review of the information available at this time, the total cost of resolving these other contingencies at September 28, 2008 should not have a material adverse effect on our condensed consolidated financial statements. Each of these matters is subject to uncertainties, and it is possible that some of these matters may be resolved unfavorably to us.

**Reporting Segment Results of Continuing Operations**

***Life and Analytical Sciences***

Sales for the three months ended September 28, 2008 were \$373.4 million, versus \$319.3 million for the three months ended September 30, 2007, an increase of \$54.1 million, or 17%, which includes an approximate 7% increase from acquisitions and an approximate 2% increase in sales attributable to favorable changes in foreign exchange rates. The following analysis in the remainder of this paragraph compares selected sales by market and product type for the three months ended September 28, 2008, as compared to the three months ended September 30, 2007, and includes the effect of acquisitions and foreign exchange rate fluctuations. Sales to genetic screening customers increased by \$24.4 million, sales to bio-discovery customers increased by \$10.8 million, sales to laboratory service customers increased by \$10.4 million, and sales to analytical sciences customers increased by \$8.5 million.

Sales for the nine months ended September 28, 2008 were \$1,127.1 million, versus \$945.2 million for the nine months ended September 30, 2007, an increase of \$181.9 million, or 19%, which includes an approximate 6% increase from acquisitions and an approximate 5% increase in sales attributable to favorable changes in foreign exchange rates. The following analysis in the remainder of this paragraph compares selected sales by

**Table of Contents**

market and product type for the nine months ended September 28, 2008, as compared to the nine months ended September 30, 2007, and includes the effect of acquisitions and foreign exchange rate fluctuations. Sales to genetic screening customers increased by \$82.2 million, sales to analytical sciences customers increased by \$39.0 million, sales to laboratory service customers increased by \$36.9 million, and sales to bio-discovery customers increased by \$23.7 million.

Operating income for the three months ended September 28, 2008 was \$29.6 million, as compared to \$29.3 million for the three months ended September 30, 2007, a increase of \$0.3 million, or 1%. Amortization of intangible assets increased due to the acquisitions completed in 2008 and 2007 and was \$13.3 million for the three months ended September 28, 2008, as compared to \$10.1 million for the three months ended September 30, 2007. Restructuring and lease charges were \$6.5 million for the three months ended September 28, 2008 as a result of our Q3 2008 Plan. Amortization of purchase accounting adjustments to record inventory and the IPR&D charge from certain acquisitions completed in the three months ended September 30, 2007 was \$0.4 million. Stock option expense was \$0.8 million for each of the three months ended September 28, 2008 and September 30, 2007. The combined favorable impact of productivity improvements and increased sales volume increased operating income, which was partially offset by inflation, increased freight costs, and increased sales and marketing expenses to support recent acquisitions, particularly the acquisition of ViaCell.

Operating income for the nine months ended September 28, 2008 was \$88.5 million, as compared to \$88.8 million for the nine months ended September 30, 2007, a decrease of \$0.3 million, or 0.3%. Amortization of intangible assets increased due to the acquisitions completed in 2008 and 2007 and was \$39.6 million for the nine months ended September 28, 2008, as compared to \$29.9 million for the nine months ended September 30, 2007. The gains on the settlement of the insurance claim for the fire in our Boston, Massachusetts facility in March 2005 was \$15.3 million for the three months ended September 30, 2007. Restructuring and lease charges were \$6.6 million for the nine months ended September 28, 2008 as a result of our Q3 2008 Plan, and restructuring and lease charges were \$4.4 million for the nine months ended September 30, 2007 as a result of our Q1 2007 Plan. Amortization of purchase accounting adjustments to record inventory and the IPR&D charge from certain acquisitions completed in the nine months ended September 30, 2007 was \$2.5 million and \$1.5 million, respectively. Stock option expense was \$2.4 million and \$2.3 million for the nine months ended September 28, 2008 and September 30, 2007, respectively. The combined favorable impact of productivity improvements and increased sales volume increased operating income, which was partially offset by inflation, increased freight costs, and increased sales and marketing expenses to support recent acquisitions, particularly the acquisition of ViaCell.

***Optoelectronics***

Sales for the three months ended September 28, 2008 were \$131.7 million, versus \$116.3 million for the three months ended September 30, 2007, an increase of \$15.4 million, or 13%, which includes an approximate 1% increase from acquisitions and an approximate 2% increase in sales attributable to favorable changes in foreign exchange rates. The analysis in the remainder of this paragraph compares selected sales by product type for the three months ended September 28, 2008, as compared to the three months ended September 30, 2007, and includes the effect of acquisitions and foreign exchange fluctuations. The increase in sales was primarily a result of an increase in sales of our specialty lighting products of \$9.2 million, primarily due to the performance of photoflash products, particularly in our mobile phone camera modules, and an increase of \$6.2 million in sales of our medical imaging products due to the performance of our amorphous silicon business. Sales of our optical sensors were flat for the three months ended September 28, 2008 as compared to the three months ended September 30, 2007.

Sales for the nine months ended September 28, 2008 were \$389.0 million, versus \$330.7 million for the nine months ended September 30, 2007, an increase of \$58.3 million, or 18%, which includes an approximate 3% increase in sales attributable to favorable changes in foreign exchange rates. The analysis in the remainder of this paragraph compares selected sales by product type for the nine months ended September 28, 2008, as compared

---

## **Table of Contents**

to the nine months ended September 30, 2007, and includes the effect of acquisitions and foreign exchange fluctuations. The increase in sales was primarily a result of an increase in sales of our specialty lighting products of \$30.2 million, primarily due to the performance of photoflash products, particularly in our mobile phone camera modules, an increase of \$24.8 million in sales of our medical imaging products due to the performance of our amorphous silicon business, and an increase in sales of our optical sensors of \$3.2 million.

Operating income for the three months ended September 28, 2008 was \$25.5 million, versus \$24.6 million for the three months ended September 30, 2007, an increase of \$1.0 million, or 4%. Restructuring and lease charges were \$0.7 million for the three months ended September 28, 2008 as a result of our Q3 2008 Plan, and restructuring and lease reversals were \$1.4 million for the three months ended September 30, 2007 as a result of lease costs associated with the sale of a business from 2001. Amortization of intangible assets was \$0.8 million and \$0.7 million for the three months ended September 28, 2008 and September 30, 2007, respectively. Stock option expense was \$0.4 million for each of the three months ended September 28, 2008 and September 30, 2007. Increased sales volume and capacity and productivity improvements made within our amorphous silicon business increased operating income, which was partially offset by inflation.

Operating income for the nine months ended September 28, 2008 was \$72.6 million, versus \$53.8 million for the nine months ended September 30, 2007, an increase of \$18.8 million, or 35%. Restructuring and lease reversals were \$0.3 million for the nine months ended September 28, 2008 as a result of our Q3 2008 Plan, and restructuring and lease charges were \$3.1 million for the nine months ended September 30, 2007 as a result of lease costs associated with the sale of a business from 2001. Amortization of intangible assets was \$2.4 million and \$2.0 million for the nine months ended September 28, 2008 and September 30, 2007, respectively. Stock option expense was \$1.0 million and \$1.1 million for the nine months ended September 28, 2008 and September 30, 2007, respectively. Increased sales volume and capacity and productivity improvements made within our amorphous silicon business increased operating income, which was partially offset by inflation.

## **Liquidity and Capital Resources**

We require cash to pay our operating expenses, make capital expenditures, service our debt and other long-term liabilities, repurchase shares of our common stock and pay dividends on our common stock. Our principal sources of funds are from our operations and the capital markets, particularly the debt markets. In the near term, we anticipate that our operations will generate sufficient cash to fund our operating expenses, capital expenditures, interest payments on our debt and dividends on our common stock. In the long term, we expect to use internally generated funds and external sources to satisfy our debt and other long-term liabilities.

Principal factors that could affect the availability of our internally generated funds include:

deterioration of sales due to weakness in markets in which we sell our products and services, and

changes in our working capital requirements.

Principal factors that could affect our ability to obtain cash from external sources include:

financial covenants contained in the financial instruments controlling our borrowings that limit our total borrowing capacity,

increases in interest rates applicable to our outstanding variable rate debt,

a ratings downgrade that would limit our ability to borrow under our accounts receivable and amended and restated senior unsecured revolving credit facility and our overall access to the corporate debt market,

increases in interest rates or credit spreads, as well as limitations on the availability of credit, that affect our ability to borrow under future potential facilities on a secured or unsecured basis,



---

**Table of Contents**

a decrease in the market price for our common stock, and

volatility in the public debt and equity markets.

On November 6, 2006, we announced that our Board authorized us to repurchase up to 10.0 million shares of our common stock under a stock repurchase program (the Repurchase Program ). During the third quarter of fiscal year 2008, we repurchased 1.9 million shares of our common stock in the open market at an aggregate cost of \$56.6 million, including commissions. This activity completed our repurchase of the 10.0 million shares in the aggregate authorized under the Repurchase Program. During the first nine months of fiscal year 2008, we repurchased 20,903 shares of our common stock in the aggregate to satisfy minimum statutory tax withholding obligations in connection with the vesting of restricted stock awards and restricted stock unit awards granted pursuant to our equity incentive plans. 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. On October 23, 2008, we announced that our Board has authorized us to repurchase up to 10.0 million additional shares of our common stock under a new stock repurchase program (the New Repurchase Program ). The New Repurchase Program will expire on October 22, 2012 unless this authorization is terminated earlier by our Board, and may be suspended or discontinued at any time. The timing and amount of any shares repurchased will be determined based on our evaluation of market conditions and other factors. Approximately 10.0 million shares of our common stock remain available for repurchase under the New Repurchase Program. Any repurchased shares will be available for use in connection with corporate programs. If we continue to repurchase shares, the repurchase program will be funded using our existing financial resources, including cash and cash equivalents, and our existing amended senior unsecured revolving credit facility.

At September 28, 2008, we had cash and cash equivalents of approximately \$188.8 million and an amended senior unsecured revolving credit facility with \$242.0 million available for additional borrowing. In May 2008, we finalized an issuance of 6% seven-year senior unsecured notes with proceeds of approximately \$150.0 million. The proceeds from this debt issuance were used to repay existing borrowings under our amended senior unsecured revolving credit facility.

In connection with the settlement of an insurance claim resulting from a fire that occurred within our Life and Analytical Sciences facility in Boston, Massachusetts in March 2005, we accrued \$9.7 million during the second quarter of fiscal year 2007, representing our management's estimate of the total cost for decommissioning the building, including environmental matters, that was damaged in the fire. We paid \$1.0 million during the first nine months of fiscal year 2008 and \$3.9 million during fiscal year 2007 towards decommissioning the building, and we anticipate that the remaining payments of \$4.8 million will be completed by the third quarter of fiscal year 2009.

Our businesses have not been materially affected by conditions in the global financial markets and the economy in general. However, recent distress in these markets has adversely impacted a number of financial conditions by severely diminishing liquidity and credit availability, creating extreme volatility in security prices, increasing interest rates and/or widening credit spreads, and decreasing valuations of certain investments. The increasing or high interest rates and/or widening credit spreads may create a less favorable environment for certain of our businesses and may affect the fair value of financial instruments that we issue or hold. Increases in interest rates or credit spreads, as well as limitations on the availability of credit, could affect our ability to borrow under future potential facilities on a secured or unsecured basis, which may adversely affect our liquidity and results of operations. Our pension plans have not experienced any significant impact on liquidity or counterparty exposure due to the volatility in the credit markets; however, as a result of losses experienced in global equity markets, our pension funds are likely to have a negative return for fiscal year 2008, which in turn would create increased pension costs in fiscal year 2009 and potentially in additional future periods. We cannot predict how long these conditions will exist or how our businesses may be affected. In difficult global financial markets, we may be forced to fund our operations at a higher cost, or we may be unable to raise as much funding as we need to support our business activities.

---

**Table of Contents****Cash Flows**

*Operating Activities.* Net cash provided by continuing operations was \$130.8 million for the nine months ended September 28, 2008, compared to net cash provided by continuing operations of \$110.5 million for the nine months ended September 30, 2007, an increase of \$20.3 million. The increase in cash provided by operating activities for the nine months ended September 28, 2008 was driven by income from continuing operations of \$98.9 million, depreciation and amortization of \$67.6 million and restructuring and lease charges of \$6.9 million. These amounts were partially offset by a net increase in working capital of \$20.7 million. Contributing to the net increase in working capital for the nine months ended September 28, 2008, excluding the effect of foreign exchange rate fluctuations, was an increase in inventory of \$15.3 million, an increase in accounts payable of \$5.0 million and an increase in accounts receivable of \$0.4 million. The increase in inventory was primarily the result of expanding the amount of inventory held at sales locations within our Life and Analytical Sciences segment to improve timing of sales. The increase in accounts payable was a result of the timing of disbursements during the third quarter of fiscal year 2008. There was no incremental use of our accounts receivable securitization facility during fiscal year 2007 or the first nine months in fiscal year 2008, which totaled \$45.0 million at both September 28, 2008 and September 30, 2007. Changes in accrued expenses, other assets and liabilities and other items, net, totaled \$21.9 million in the nine months ended September 28, 2008, and primarily related to tax audit settlements and the timing of payments for tax, restructuring, and salary and benefits.

*Investing Activities.* Net cash used in continuing operations investing activities was \$119.3 million for the nine months ended September 28, 2008, compared to \$69.7 million of cash used in continuing operations investing activities for the nine months ended September 30, 2007. For the nine months ended September 28, 2008, we used \$74.8 million of net cash for acquisitions and used \$12.5 million in related transaction costs, earn-out payments, acquired licenses and other costs in connection with these and other transactions. Capital expenditures for the nine months ended September 28, 2008 were \$33.4 million, mainly in the areas of tooling and other capital equipment purchases, in addition to improvements in our amorphous silicon facility within our Optoelectronics segment. Also included were payments of \$0.2 million related to business development costs. These cash outflows were partially offset by \$1.2 million from the sale of investments and \$0.3 million related to the release of restricted cash balances.

*Financing Activities.* Net cash used in continuing operations financing activities was \$24.3 million for the nine months ended September 28, 2008, as compared to \$77.5 million of cash used in continuing operations financing activities for the nine months ended September 30, 2007. In the nine months ended September 28, 2008, we repurchased approximately 2.0 million shares of our common stock, including \$0.4 million shares to satisfy minimum statutory tax withholding obligations in connection with the vesting of restricted stock awards, for a total cost of \$57.1 million. This compares to repurchases of approximately 7.1 million shares of our common stock in the open market for the nine months ended September 30, 2007 for an aggregate of \$176.0 million, including commissions. This use of cash was offset by proceeds from common stock option exercises of \$43.4 million and the related tax benefit of \$0.4 million for the nine months ended September 28, 2008. During the nine months ended September 28, 2008, debt borrowings from our amended senior unsecured revolving credit facility totaled \$409.5 million, proceeds from the issuance of our seven-year senior notes at a rate of 6% totaled \$150.0 million, which was offset by debt reductions to our credit facilities, with aggregate payments of \$531.5 million. This compares to debt reductions in the nine months ended September 30, 2007 of \$182.4 million. We also paid \$11.7 million to settle forward interest rate contracts, with notional amounts totaling \$150.0 million and a weighted average interest rate of 4.25% and \$2.0 million for debt issuance costs during the nine months ended September 28, 2008. In addition, we paid \$24.8 million in dividends for the nine months ended September 28, 2008.

**Borrowing Arrangements**

*Amended Senior Unsecured Revolving Credit Facility.* On August 13, 2007, we entered into an amended and restated senior unsecured revolving credit facility providing for a facility through August 13, 2012, which amended and restated in its entirety our previous senior revolving credit agreement dated as of October 31, 2005.

---

**Table of Contents**

During the first quarter of fiscal year 2008, we exercised our option to increase the amended senior unsecured revolving credit facility to \$650.0 million from \$500.0 million. Letters of credit in the aggregate amount of approximately \$14.0 million were issued under the previous facility, which are treated as issued under the amended facility. We use 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 (i) the corporate base rate announced from time to time by Bank of America, N.A. and (ii) the Federal Funds rate plus 50 basis points. We may allocate all or a portion of our indebtedness under the amended senior unsecured revolving credit facility to interest based upon the Eurocurrency rate plus a margin or the base rate. The Eurocurrency margin as of September 28, 2008 was 40 basis points. The weighted average Eurocurrency interest rate as of September 28, 2008 was 3.43%, resulting in a weighted average effective Eurocurrency rate, including the margin, of 3.83%. We had drawn down approximately \$394.0 million of borrowings in U.S. Dollars under the facility as of September 28, 2008, 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, and which are consistent with those financial covenants contained in our previous senior revolving credit agreement. The financial covenants in our amended and restated senior unsecured revolving credit facility include debt-to-capital ratios and a contingent maximum total leverage ratio, applicable if our credit rating is down-graded below investment grade. We were in compliance with all applicable covenants as of September 28, 2008.

*Unsecured Interim Credit Facility.* On November 14, 2007, we entered into a \$300.0 million unsecured interim credit facility. We entered into this unsecured interim credit facility in order to pay the purchase price and transactional expenses of the ViaCell acquisition. This unsecured interim credit facility matured on March 31, 2008, at which point all amounts outstanding were due in full. On March 28, 2008, we paid in full the outstanding balance on the unsecured interim credit facility of \$300.0 million. The source of funds for the repayment was comprised of our cash and cash equivalents, and borrowings under our amended and restated senior unsecured revolving credit facility.

*6% Senior Unsecured Notes.* On May 30, 2008, we issued and sold seven-year senior notes at a rate of 6% with a face value of \$150.0 million and received \$150.0 million in gross proceeds from the issuance. The debt, which matures in May 2015, is unsecured. Interest on the 6% senior notes is payable semi-annually on May 30th and November 30th. We may redeem some or all of our 6% senior notes at any time in an amount not less than 10% of the original aggregate principal amount, plus accrued and unpaid interest, plus the applicable make-whole amount. The financial covenants in our 6% senior notes include debt-to-capital ratios which, if our credit rating is down-graded below investment grade, would be replaced by a contingent maximum total leverage ratio. We were in compliance with all applicable covenants as of September 28, 2008.

During the fourth quarter of fiscal year 2007, we entered into forward interest rate contracts, with notional amounts totaling \$300.0 million and a weighted average interest rate of 4.25%. These contracts are intended to hedge movements in interest rates prior to our forecasted debt issuance, which will need to be completed by the end of fiscal year 2008. We had accumulated net derivative losses of \$15.1 million, net of taxes of \$9.9 million, in other comprehensive income as of September 28, 2008 and \$5.3 million, net of taxes of \$3.5 million, as of December 30, 2007, related to these cash flow hedges. The net derivative losses will be amortized into interest expense when the hedged exposure affects interest expense. We settled forward interest rate contracts, with notional amounts totaling \$150.0 million, upon the issuance of our 6% senior unsecured notes in May 2008, for a loss of \$8.4 million, net of taxes of \$5.4 million. As of September 28, 2008, \$0.4 million, net of taxes of \$0.3 million, of these derivative losses were amortized into interest expense to coincide with the issuance of the 6% senior unsecured notes in May 2008. The remaining forward interest rate contracts, with notional amounts totaling \$150.0 million, have a future dated settlement to coincide with our additional forecasted debt issuance in fiscal year 2008.

---

**Table of Contents**

Once established, cash flow hedges are generally not removed until maturity unless an anticipated transaction is no longer likely to occur. Discontinued or redesignated cash flow hedges are immediately settled with counterparties, and the related accumulated derivative gains or losses are recognized into interest expense on the condensed consolidated financial statements. During the nine months ended September 28, 2008, there were no cash flow hedges that were discontinued or redesignated, and we did not recognize any ineffectiveness.

**Off-Balance Sheet Arrangements**

***Receivables Securitization Facility***

During fiscal year 2001, we established a wholly owned consolidated subsidiary to maintain a receivables purchase agreement with a third-party financial institution. Under this arrangement, we sold, on a revolving basis, certain of our accounts receivable balances to the consolidated subsidiary which simultaneously sold an undivided percentage ownership interest in designated pools of receivables to a third-party financial institution. As collections reduce the balance of sold accounts receivable, new receivables are sold. Our consolidated subsidiary retains the risk of credit loss on the receivables. Accordingly, the full amount of the allowance for doubtful accounts has been provided for on our balance sheet. The amount of receivables sold and outstanding with the third-party financial institution may not exceed \$65.0 million. Under the terms of this arrangement, our consolidated subsidiary retains collection and administrative responsibilities for the balances. The aggregate amount of receivables sold to the consolidated subsidiary was \$70.9 million as of September 28, 2008 and \$79.0 million as of December 30, 2007. At each of September 28, 2008 and December 30, 2007, an undivided interest of \$45.0 million in the receivables had been sold to the third-party financial institution under this arrangement. The remaining interest in receivables of \$25.9 million and \$34.0 million that were sold to and held by the consolidated subsidiary were included in accounts receivable in the condensed consolidated financial statements at September 28, 2008 and December 30, 2007, respectively.

The agreement requires the third-party financial institution to be paid interest during the period from the date the receivable is sold to its maturity date. At September 28, 2008, the effective interest rate was LIBOR plus approximately 40 basis points. The servicing fees received constitute adequate compensation for services performed. No servicing asset or liability is therefore recorded. The agreement also includes conditions that require us to maintain a senior unsecured credit rating of BB or above, as defined by Standard & Poor's Rating Services, and Ba2 or above, as defined by Moody's Investors Service. At September 28, 2008, we had a senior unsecured credit rating of BBB, with a stable outlook from Standard & Poor's Rating Services, and of Baa3, with a stable outlook from Moody's Investors Service. In January 2008, our consolidated subsidiary entered into an agreement to extend the term of the accounts receivable securitization facility to January 23, 2009.

**Dividends**

Our Board declared regular quarterly cash dividends of seven cents per share in the first three quarters of fiscal year 2008 and in each quarter of fiscal year 2007.



**Table of Contents****Contractual Obligations**

The following table summarizes our contractual obligations as of September 28, 2008:

	Operating Leases	Amended Sr. Unsecured Revolving Credit Facility Maturing 2012 <sup>(1)</sup>	6.0% Sr. Notes Maturing 2015 <sup>(2)</sup> (In thousands)	Other Revolving Debt Facilities <sup>(1)</sup>	Employee Benefit Plans	FIN No. 48 Liability <sup>(3)</sup>	Total
2008	\$ 11,409	\$	\$	\$ 40	\$ 6,190	\$ 5,622	\$ 23,261
2009	34,175				26,390		60,565
2010	26,783			50	26,601		53,434
2011	20,560				27,081		47,641
2012	17,770	394,000			27,747		439,517
Thereafter	115,458		150,000		152,875		418,333
<b>Total</b>	<b>\$ 226,155</b>	<b>\$ 394,000</b>	<b>\$ 150,000</b>	<b>\$ 90</b>	<b>\$ 266,884</b>	<b>\$ 5,622</b>	<b>\$ 1,042,751</b>

- (1) The credit facility borrowings carry variable interest rates; the amounts do not contemplate interest obligations.
- (2) For the purposes of this table, the obligation has been calculated without interest obligations.
- (3) The FIN No. 48 amount includes accrued interest, net of tax benefits, and penalties. We have excluded \$34.7 million, including accrued interest, net of tax benefits, and penalties, from the amount related to our uncertain tax positions as we cannot make a reasonably reliable estimate of the amount and period of related future payments.

**Effects of Recently Adopted Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ), which clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability, establishes a fair value hierarchy that prioritizes the information used to develop those assumptions, and expands the related disclosure requirements. Under the standard, fair value measurements are to be separately disclosed by level within the fair value hierarchy. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 defines fair value based upon an exit price model. The FASB also issued FASB Staff Position ( FSP ) No. 157-2 in February 2008 ( FSP No. 157-2 ). FSP No. 157-2 delays the effective date of the application of SFAS No. 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized at fair value in the financial statements on a nonrecurring basis. We adopted SFAS No. 157 as of December 31, 2007, with the exception of the application of the statement to non-recurring nonfinancial assets and nonfinancial liabilities. See Note 17 to our financial statements included in this quarterly report for additional details.

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 financial assets and liabilities differently. Unrealized gains and losses on items for which the fair value option is elected would be reported in earnings. We adopted SFAS No. 159 as of December 31, 2007, and to date have not elected to measure any additional financial instruments and other items at fair value. Therefore, material financial assets and liabilities not carried at fair value, such as our short-term and long-term debt obligations and trade accounts receivable and accounts payable, are still reported at their carrying values. Any future transacted financial asset or liability will be evaluated for the fair value election as prescribed by SFAS No. 159.

---

## **Table of Contents**

In March 2007, the FASB ratified EITF Issue No. 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements* ( 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. We adopted EITF No. 06-10 as of December 31, 2007 and the adoption did not have an impact on our consolidated financial statements.

In June 2007, the FASB ratified EITF Issue No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities* ( EITF No. 07-3 ). EITF No. 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred, capitalized and recognized as an expense as the goods are delivered or the related services are performed. We adopted EITF No. 07-3, on a prospective basis, as of December 31, 2007 and the adoption did not have an impact on our consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ( SFAS No. 162 ). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in accordance with GAAP. With the issuance of this statement, the FASB concluded that the U.S. Generally Accepted Accounting Principles ( GAAP ) hierarchy should be directed toward the entity and not its auditor, and reside in the accounting literature established by the FASB as opposed to the American Institute of Certified Public Accountants ( AICPA ) Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. We have evaluated the requirements of SFAS No. 162 and have determined that it will not have a significant impact on our determination or reporting of financial results.

### **Effects of Recently Issued Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ( SFAS No. 141(R) ). SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements significant aspects of a business combination. Under SFAS No. 141(R), acquisition costs will generally be expensed as incurred; noncontrolling interests will be valued at fair value at the acquisition date; IPR&D will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. SFAS No. 141(R) amends SFAS No. 109, *Accounting for Income Taxes*, such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS No. 141(R) would also apply the provisions of SFAS No. 141(R). SFAS No. 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. Early adoption is not permitted. SFAS No. 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. We will be required to adopt SFAS No. 141(R) in the first quarter of fiscal year 2009. We are currently evaluating the requirements of SFAS No. 141(R) and have not yet determined the impact of its adoption on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51* ( SFAS No. 160 ). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a

**Table of Contents**

subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. We will be required to adopt SFAS No. 160 in the first quarter of fiscal year 2009. We are currently evaluating the requirements of SFAS No. 160 and have not yet determined the impact, if any, of its adoption on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133* ( SFAS No. 161 ). SFAS No. 161 is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity's derivative instruments and hedging activities and their effects on the entity's financial position, financial performance, and cash flows. SFAS No. 161 applies to all derivative instruments within the scope of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as well as related hedged items, bifurcated derivatives, and nonderivative instruments that are designated and qualify as hedging instruments. SFAS No. 161 establishes principles and requirements for how an entity identifies derivative instruments and related hedged items that affect its financial position, financial performance, and cash flows. SFAS No. 161 also establishes disclosure requirements that the fair values of derivative instruments and their gains and losses are disclosed in a tabular format, that derivative features which are credit-risk related be disclosed to provide clarification to an entity's liquidity and cross-referencing within footnotes. We will be required to adopt SFAS No. 161 in the first quarter of fiscal year 2009. We are currently evaluating the requirements of SFAS No. 161 and have not yet determined the impact of its adoption on our consolidated financial statements.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets* ( FSP No. 142-3 ). FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* ( SFAS No. 142 ). The objective of FSP No. 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R), and other accounting principles. FSP No. 142-3 applies to all intangible assets, whether acquired in a business combination or otherwise, and early adoption is prohibited. We will be required to adopt FSP No. 142-3 in the first quarter of fiscal year 2009. We are currently evaluating the requirements of FSP No. 142-3 and have not yet determined the impact of its adoption on our consolidated financial statements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**  
**Market Risk**

*Market Risk.* We are exposed to market risk, including changes in interest rates and currency exchange rates. To manage the volatility relating to these exposures, we enter into various derivative transactions pursuant to our policies to hedge against known or forecasted market exposures. We briefly describe several of the market risks we face below. The following disclosure is not materially different from the disclosure provided under the heading, Item 7A. Quantitative and Qualitative Disclosure About Market Risk, in our 2007 Form 10-K.

*Foreign Exchange Risk.* The potential change in foreign currency exchange rates poses a substantial risk to us, as approximately 63% of our business is conducted outside of the United States, generally in foreign currencies. Our risk management strategy currently uses forward contracts to mitigate certain balance sheet foreign currency transaction exposures. The intent is to offset gains and losses that occur on the underlying exposures, with gains and losses resulting from the forward contracts that hedge these exposures. In addition, we are able to partially mitigate the impact that fluctuations in currencies have on our net income as a result of our manufacturing facilities located in countries outside the United States, material sourcing and other spending which occur in countries outside the United States, resulting in a natural hedge.

Principal hedged currencies include the British Pound (GBP), Canadian Dollar (CAD), Euro (EUR), Japanese Yen (JPY), and Singapore Dollar (SGD). We held forward foreign exchange contracts with U.S.

---

**Table of Contents**

equivalent notional amounts totaling \$107.8 million and \$156.5 million as of September 28, 2008 and September 30, 2007, respectively. The approximate fair value of these foreign currency derivative contracts was insignificant. The gains and losses realized on foreign currency derivative contracts are not material and the duration of these contracts was generally 30 days during both fiscal years 2008 and 2007.

We do not enter into foreign currency derivative contracts for trading or other speculative purposes, nor do we use leveraged financial instruments. Although we attempt to manage our foreign currency exchange risk through the above activities, when the U.S. Dollar weakens against other currencies in which we transact business, generally sales and net income will be positively but not proportionately impacted.

*Foreign Currency Risk Value-at-Risk Disclosure.* We continue to measure foreign currency risk using the Value-at-Risk model described in Item 7A. Quantitative and Qualitative Disclosure About Market Risk, of our 2007 Form 10-K. The measures for our Value-at-Risk analysis have not changed materially.

*Interest Rate Risk.* As described above, our debt portfolio includes variable rate instruments. Fluctuations in interest rates can therefore have a direct impact on both our short-term cash flows, as they relate to interest, and our earnings. To manage the volatility relating to these exposures, we enter into various derivative transactions pursuant to our policies to hedge against known or forecasted interest rate exposures.

During the fourth quarter of fiscal year 2007, we entered into forward interest rate contracts, with notional amounts totaling \$300.0 million, and a weighted average interest rate of 4.25%. These contracts are intended to hedge movements in interest rates prior to our forecasted debt issuance, which will need to be completed by the end of fiscal year 2008. We had accumulated net derivative losses of \$15.1 million, net of taxes of \$9.9 million, in other comprehensive income as of September 28, 2008 and \$5.3 million, net of taxes of \$3.5 million, as of December 30, 2007, related to these cash flow hedges. The net derivative losses will be amortized into interest expense when the hedged exposure affects interest expense. We settled forward interest rate contracts, with notional amounts totaling \$150.0 million, upon the issuance of our 6% senior unsecured notes in May 2008, for a loss of \$8.4 million, net of taxes of \$5.4 million. As of September 28, 2008, \$0.4 million, net of taxes of \$0.3 million, of these derivative losses were amortized into interest expense to coincide with the issuance of our 6% senior unsecured notes in May 2008. The remaining forward interest rate contracts, with notional amounts totaling \$150.0 million, have a future dated settlement to coincide with our additional forecasted debt issuance in fiscal year 2008.

Once established, cash flow hedges are generally not removed until maturity unless an anticipated transaction is no longer likely to occur. Discontinued or dedesignated cash flow hedges are immediately settled with counterparties, and the related accumulated derivative gains or losses are recognized into interest expense on the condensed consolidated financial statements. During the nine months ended September 28, 2008, there were no cash flow hedges that were discontinued or dedesignated, and no ineffectiveness was recognized.

*Interest Rate Risk Sensitivity.* Our 2007 Form 10-K presents sensitivity measures for our interest rate risk. The measures for our sensitivity analysis have not changed materially. We refer to Item 7A. Quantitative and Qualitative Disclosure About Market Risk, in our 2007 Form 10-K for our sensitivity disclosure.

**Item 4. Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and our Acting Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of our quarter ended September 28, 2008. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure

**Table of Contents**

controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on their evaluation of our disclosure controls and procedures as of the end of our quarter ended September 28, 2008, our Chief Executive Officer and our Acting Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended September 28, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

---

**Table of Contents**

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

PharmaStem Therapeutics, Inc. ( PharmaStem ) filed a complaint dated February 22, 2002 against ViaCell, Inc., which is now our wholly owned subsidiary, and several other defendants in the United States District Court for the District of Delaware, alleging infringement of United States Patents No. 5,004,681 and No. 5,192,553, relating to certain aspects of the collection, cryopreservation and storage of hematopoietic stem cells and progenitor cells from umbilical cord blood ( PharmaStem I ). After several years of proceedings at the District Court level, the United States Court of Appeals for the Federal Circuit issued a decision in July 2007 that ViaCell did not infringe these two patents and that the two patents are invalid. PharmaStem filed a certiorari petition in January 2008 seeking to have the United States Supreme Court review the appellate court's decision as to the invalidity of the patents, but did not seek any further review of the non-infringement decision. However, the United States Supreme Court denied certiorari in March 2008, so the decision by the United States Court of Appeals for the Federal Circuit in favor of ViaCell is final and non-appealable. PharmaStem had also filed a second complaint against ViaCell and other defendants in July 2004 in the United States District Court for the District of Massachusetts, alleging infringement of United States Patents No. 6,461,645 and 6,569,427, which also relate to certain aspects of the collection, cryopreservation and storage of hematopoietic stem cells and progenitor cells from umbilical cord blood ( PharmaStem II ). The Delaware court granted ViaCell's motion in October 2005 to stay the proceedings in PharmaStem II pending the outcome of PharmaStem I and a decision from the United States Patent and Trademark Office ( U.S. PTO ) on certain patent re-examination issues. On September 2, 2008, the U.S. PTO issued a Re-examination Certificate cancelling all claims of United States Patent No. 6,461,645, and on September 16, 2008, the U.S. PTO issued a Re-examination Certificate cancelling all claims of United States Patent No. 6,569,427. As a result of the cancellation of all patent claims involved in PharmaStem II by the U.S. PTO, we will seek a dismissal of all claims for relief set forth by PharmaStem in PharmaStem II.

We believe we have meritorious defenses to these lawsuits and other proceedings, and we are contesting the actions vigorously in all of the above unresolved matters. However, each of these matters is subject to uncertainty, and it is not possible to determine whether or not the resolution of some of these matters could have a material adverse impact on our condensed consolidated financial statements.

We are also subject to various other claims, legal proceedings and investigations covering a wide range of matters that arise in the ordinary course of our business activities. Although we have established accruals for potential losses that we believe are probable and reasonably estimable, in the opinion of our management, based on its review of the information available at this time, the total cost of resolving these other contingencies at September 28, 2008 should not have a material adverse effect on our condensed consolidated financial statements. Each of these matters is subject to uncertainties, and it is possible that some of these matters may be resolved unfavorably to us.

**Item 1A. Risk Factors**

The following important factors affect our business and operations generally or affect multiple segments of our business and operations:

*If we do not introduce new products in a timely manner, we may lose market share and be unable to achieve revenue growth targets.*

We sell many of our products in industries characterized by rapid technological change, frequent new product and service introductions, and evolving customer needs and industry standards. Many of the businesses competing with us in these industries have significant financial and other resources to invest in new technologies, substantial intellectual property portfolios, substantial experience in new product development, regulatory expertise, manufacturing capabilities, and the distribution channels to deliver products to customers. Our

## Table of Contents

products could become technologically obsolete over time, or we may invest in technology that does not lead to revenue growth, or continue to sell products for which the demand from our customers is declining, in which case we may lose market share or not achieve our revenue growth targets. The success of our new product offerings will depend upon several factors, including our ability to:

accurately anticipate customer needs,

innovate and develop new technologies and applications,

successfully commercialize new technologies in a timely manner,

price our products competitively, and manufacture and deliver our products in sufficient volumes and on time, and

differentiate our offerings from our competitors' offerings.

Many of our products are used by our customers to develop, test and manufacture their products. We must anticipate industry trends and consistently develop new products to meet our customers' expectations. In developing new products, we may be required to make significant investments before we can determine the commercial viability of the new product. If we fail to accurately foresee our customers' needs and future activities, we may invest heavily in research and development of products that do not lead to significant sales. We may also suffer a loss in market share and potential sales revenue if we are unable to commercialize our technology in a timely and efficient manner.

In addition, some of our licensed technology is subject to contractual restrictions, which may limit our ability to develop or commercialize products for some applications.

***We may not be able to successfully execute acquisitions or license technologies, integrate acquired businesses or licensed technologies into our existing businesses, or make acquired businesses or licensed technologies profitable.***

We have in the past, and may in the future, supplement our internal growth by acquiring businesses and licensing technologies that complement or augment our existing product lines, such as ViaCell, Inc., acquired in November 2007, the Newborn Metabolic Screening Business from Pediatrix Medical Group, Inc., acquired in February 2008, LabMetrix Technologies S.A., acquired in March 2008, and VaConics Lighting, Inc., acquired in May 2008. However, we may be unable to identify or complete promising acquisitions or license transactions for many reasons, including:

competition among buyers and licensees,

the high valuations of businesses and technologies,

the need for regulatory and other approval, and

our inability to raise capital to fund these acquisitions.

Some of the businesses we may seek to acquire may be unprofitable or marginally profitable. Accordingly, the earnings or losses of acquired businesses may dilute our earnings. For these acquired businesses to achieve acceptable levels of profitability, we would have to improve their management, operations, products and market penetration. We may not be successful in this regard and may encounter other difficulties in integrating acquired businesses into our existing operations, such as incompatible management, information or other systems, cultural

## Edgar Filing: PERKINELMER INC - Form 10-Q

differences or difficulties in predicting financial results. As a result, our financial results may differ from our forecasts or the expectations of the investment community in a given quarter or over the long term.

To finance our acquisitions, we may have to raise additional funds, either through public or private financings. We may be unable to obtain such funds or may be able to do so only on terms unacceptable to us. We



## **Table of Contents**

may also incur expenses in evaluating possible acquisitions that we ultimately do not acquire, which expenses then may adversely impact our profitability.

***If the markets into which we sell our products decline, or do not grow as anticipated due to a decline in general economic conditions or uncertainties surrounding the approval of government or industrial funding proposals, we may see an adverse effect on the results of our business operations.***

Our customers include pharmaceutical and biotechnology companies, laboratories, academic and research institutions, public health authorities, private healthcare organizations, doctors and government agencies. Our quarterly sales and results of operations are highly dependent on the volume and timing of orders received during the quarter. In addition, our revenues and earnings forecasts for future quarters are often based on the expected trends in our markets. However, the markets we serve do not always experience the trends that we may expect. Negative fluctuations in our customers' markets, the inability of our customers to secure credit or funding, general economic conditions or cuts in government funding would likely result in a reduction in demand for our products and services. In addition, government funding is subject to economic conditions and the political process, which is inherently fluid and unpredictable. Our revenues may be adversely affected if our customers delay or reduce purchases as a result of uncertainties surrounding the approval of government or industrial funding proposals. Such declines could harm our consolidated financial position, results of operations, cash flows and trading price of our common stock, and could limit our ability to sustain profitability.

***Our growth is subject to global economic and political risks.***

We have operations in many parts of the world. The health of the global economy has a significant impact on our business. For example, the current tightening of credit in the financial markets may make it more difficult for customers to obtain financing for their operations, resulting in a material decrease in the orders we receive. Our business is also affected by local economic environments, including inflation, recession, financial liquidity and currency volatility. Political changes, some of which may be disruptive, could interfere with our supply chain, our customers and all of our activities in a particular location. While some of these risks can be hedged using financial instruments and some are insurable, such attempts to mitigate these risks are costly and not always successful. In addition, our ability to engage in such mitigation has decreased or become even more costly as a result of recent market developments.

***We may not be successful in adequately protecting our intellectual property.***

Patent and trade secret protection is important to us because developing new products, processes and technologies gives us a competitive advantage, although it is time-consuming and expensive. We own many United States and foreign patents and intend to apply for additional patents. Patent applications we file, however, may not result in issued patents or, if they do, the claims allowed in the patents may be narrower than what is needed to protect fully our products, processes and technologies. Similarly, applications to register our trademarks may not be granted in all countries in which they are filed. For our intellectual property that is protected by keeping it secret, such as trade secrets and know-how, we may not use adequate measures to protect this intellectual property.

Third parties may also challenge the validity of our issued patents, may circumvent or design around our patents and patent applications, or may claim that our products, processes or technologies infringe their patents. In addition, third parties may assert that our product names infringe their trademarks. We may incur significant expense in legal proceedings to protect our intellectual property against infringement by third parties or to defend against claims of infringement by third parties. Claims by third parties in pending or future lawsuits could result in awards of substantial damages against us or court orders that could effectively prevent us from manufacturing, using, importing or selling our products in the United States or other countries.

## **Table of Contents**

***If we are unable to renew our licenses or otherwise lose our licensed rights, we may have to stop selling products or we may lose competitive advantage.***

We may not be able to renew our existing licenses, or licenses we may obtain in the future, on terms acceptable to us, or at all. If we lose the rights to a patented or other proprietary technology, we may need to stop selling products incorporating that technology and possibly other products, redesign our products or lose a competitive advantage. Potential competitors could in-license technologies that we fail to license and potentially erode our market share.

Our licenses typically subject us to various economic and commercialization obligations. If we fail to comply with these obligations, we could lose important rights under a license, such as the right to exclusivity in a market. In some cases, we could lose all rights under the license. In addition, rights granted under the license could be lost for reasons out of our control. For example, the licensor could lose patent protection for a number of reasons, including invalidity of the licensed patent, or a third-party could obtain a patent that curtails our freedom to operate under one or more licenses.

***If we do not compete effectively, our business will be harmed.***

We encounter aggressive competition from numerous competitors in many areas of our business. We may not be able to compete effectively with all of these competitors. To remain competitive, we must develop new products and periodically enhance our existing products. We anticipate that we may also have to adjust the prices of many of our products to stay competitive. In addition, new competitors, technologies or market trends may emerge to threaten or reduce the value of entire product lines.

***Our quarterly operating results could be subject to significant fluctuation, and we may not be able to adjust our operations to effectively address changes we do not anticipate, which could increase the volatility of our stock price and potentially cause losses to our shareholders.***

Given the nature of the markets in which we participate, we cannot reliably predict future sales and profitability. Changes in competitive, market and economic conditions may require us to adjust our operations, and we may not be able to make those adjustments or make them quickly enough to adapt to changing conditions. A high proportion of our costs are fixed, due in part to our research and development and manufacturing costs. Thus, small declines in sales could disproportionately affect our operating results in a quarter. Factors that may affect our quarterly operating results include:

demand for and market acceptance of our products,

competitive pressures resulting in lower selling prices,

adverse changes in the level of economic activity in regions in which we do business,

decline in general economic conditions or government funding,

adverse income tax audit settlements,

differing tax laws and changes in those laws, or changes in the countries in which we are subject to tax,

adverse changes in industries, such as pharmaceutical and biomedical,

Edgar Filing: PERKINELMER INC - Form 10-Q

changes in the portions of our sales represented by our various products and customers,

delays or problems in the introduction of new products,

our competitors' announcement or introduction of new products, services or technological innovations,

increased costs of raw materials, energy or supplies, and

changes in the volume or timing of product orders.

## **Table of Contents**

***A significant disruption in third-party package delivery and import/export services, or significant increases in prices for those services, could interfere with our ability to ship products, increase our costs and lower our profitability.***

We ship a significant portion of our products to our customers through independent package delivery and import/export companies, including UPS and Federal Express in the United States, TNT, UPS and DHL in Europe and UPS in Asia. We also ship our products through other carriers, including national trucking firms, overnight carrier services and the U.S. Postal Service. If one or more of the package delivery or import/export providers experiences a significant disruption in services or institutes a significant price increase, the delivery of our products could be prevented or delayed. Such events could cause us to incur increased shipping costs that could not be passed on to our customers, negatively impacting our profitability and our relationships with certain of our customers.

***Disruptions in the supply of raw materials and supplies from our limited or single source suppliers could have an adverse effect on the results of our business operations, and could damage our relationships with customers.***

The production of our products requires a wide variety of raw materials and supplies that are generally available from alternate sources of supply. However, certain critical raw materials and supplies required for the production of some of our principal products are available from limited or single sources of supply. We generally have multi-year contracts with no minimum purchase requirements with these suppliers, but those contracts may not fully protect us from a failure by certain suppliers to supply critical materials or from the delays inherent in being required to change suppliers and, in some cases, validate new raw materials. Such raw materials and supplies could usually be obtained from alternative sources with the potential for an increase in price, decline in quality or delay in delivery. A prolonged inability to obtain certain raw materials or supplies is possible and could have an adverse effect on our business operations, and could damage our relationships with customers.

***If we are unable to produce an adequate quantity of products to meet our customers' demands, our revenue growth may be adversely affected.***

We have an established global manufacturing base with facilities in multiple locations around the world. Each of these facilities faces risks to its production capacity that may relate to natural disasters, labor relations or regulatory compliance. In addition, in any of these facilities, we may not manage the manufacturing or production processes at expected levels, we may fail to anticipate or act on the need to increase the production capacity, or we may be unable to quickly resolve technical manufacturing issues that arise from time to time. Any of these risks could cause our revenue growth to be adversely affected.

***The manufacture and sale of products may expose us to product liability claims for which we could have substantial liability.***

We face an inherent business risk of exposure to product liability claims if our products or product candidates are alleged or found to have caused injury, damage or loss. We may in the future be unable to obtain insurance with adequate levels of coverage for potential liability on acceptable terms or claims of this nature may be excluded from coverage under the terms of any insurance policy that we can obtain. If we are unable to obtain such insurance or the amounts of any claims successfully brought against us substantially exceed our coverage, then our business could be adversely impacted.

***If we fail to maintain satisfactory compliance with the regulations of the United States Food and Drug Administration and other governmental agencies, we may be forced to recall products and cease their manufacture and distribution, and we could be subject to civil or criminal penalties.***

Some of the products produced by our Life and Analytical Sciences segment are subject to regulation by the United States Food and Drug Administration and similar agencies internationally. These regulations govern a

---

**Table of Contents**

wide variety of product activities, from design and development to labeling, manufacturing, promotion, sales, resales and distribution. If we fail to comply with those regulations or those of similar international agencies, we may have to recall products, cease their manufacture and distribution, and may be subject to fines or criminal prosecution. Other aspects of our operations are subject to regulation by different government agencies in the United States and other countries. If we fail to comply with those regulations, we could be subject to fines, penalties, criminal prosecution or other sanctions.

*Changes in governmental regulations may reduce demand for our products or increase our expenses.*

We compete in markets in which we or our customers must comply with federal, state, local and foreign regulations, such as environmental, health and safety, and food and drug regulations. We develop, configure and market our products to meet customer needs created by these regulations. Any significant change in these regulations could reduce demand for our products or increase our costs of producing these products.

*The healthcare industry is highly regulated and if we fail to comply with its extensive system of laws and regulations, we could suffer fines and penalties or be required to make significant changes to our operations which could have a significant adverse effect on the results of our business operations.*

The healthcare industry, including our genetic screening business, is subject to extensive and frequently changing international and United States federal, state and local laws and regulations. In addition, legislative provisions relating to healthcare fraud and abuse, patient privacy violations and misconduct involving government insurance programs provide federal enforcement personnel with substantial powers and remedies to pursue suspected violations. We believe that our business will continue to be subject to increasing regulation as the federal government continues to strengthen its position on healthcare matters, the scope and effect of which we cannot predict. If we fail to comply with applicable laws and regulations, we could suffer civil and criminal damages, fines and penalties, exclusion from participation in governmental healthcare programs, and the loss of various licenses, certificates and authorizations necessary to operate our business, as well as incur liabilities from third-party claims, all of which could have a significant adverse effect on our business.

*Economic, political and other risks associated with foreign operations could adversely affect our international sales and profitability.*

Because we sell our products worldwide, our businesses are subject to risks associated with doing business internationally. Our sales originating outside the United States represented the majority of our total sales in the fiscal quarter ended September 28, 2008. We anticipate that sales from international operations will continue to represent a substantial portion of our total sales. In addition, many of our manufacturing facilities, employees and suppliers are located outside the United States. Accordingly, our future results of operations could be harmed by a variety of factors, including:

changes in foreign currency exchange rates,

changes in a country's or region's political or economic conditions, particularly in developing or emerging markets,

longer payment cycles of foreign customers and timing of collections in foreign jurisdictions,

trade protection measures and import or export licensing requirements,

differing tax laws and changes in those laws, or changes in the countries in which we are subject to tax,

adverse income tax audit settlements,

differing business practices associated with foreign operations,

difficulty in staffing and managing widespread operations,

differing labor laws and changes in those laws,

---

**Table of Contents**

differing protection of intellectual property and changes in that protection, and

differing regulatory requirements and changes in those requirements.

***If we do not retain our key personnel, our ability to execute our business strategy will be limited.***

Our success depends to a significant extent upon the continued service of our executive officers and key management and technical personnel, particularly our experienced engineers, and on our ability to continue to attract, retain, and motivate qualified personnel. The competition for these employees is intense. The loss of the services of one or more of our key personnel could have a material adverse effect on our operating results. In addition, there could be a material adverse effect on us should the turnover rates for engineers and other key personnel increase significantly or if we are unable to continue to attract qualified personnel. We do not maintain any key person life insurance policies on any of our officers or employees.

Our success also depends on our ability to execute leadership succession plans. The inability to successfully transition key management roles could have a material adverse effect on our operating results.

***Restrictions in our credit facility may limit our activities.***

Our amended senior unsecured revolving credit facility and 6% senior unsecured notes contain, and future debt instruments to which we may become subject may contain, restrictive covenants that limit our ability to engage in activities that could otherwise benefit our company. These debt instruments include restrictions on our ability and the ability of our subsidiaries to:

pay dividends on, redeem or repurchase our capital stock,

sell assets,

incur obligations that restrict their ability to make dividend or other payments to us,

guarantee or secure indebtedness,

enter into transactions with affiliates, and

consolidate, merge or transfer all or substantially all of our assets and the assets of our subsidiaries on a consolidated basis.

We are also required to meet specified financial ratios under the terms of our debt instruments. Our ability to comply with these financial restrictions and covenants is dependent on our future performance, which is subject to prevailing economic conditions and other factors, including factors that are beyond our control such as foreign exchange rates, interest rates, changes in technology and changes in the level of competition.

Our failure to comply with any of these restrictions in our amended senior unsecured revolving credit facility and 6% senior unsecured notes may result in an event of default under either or both of these debt instruments, which could permit acceleration of the debt under either or both debt instruments, and require us to prepay that debt before its scheduled due date.

***Our results of operations will be adversely affected if we fail to realize the full value of our intangible assets.***

As of September 28, 2008, our total assets included \$1.9 billion of net intangible assets. Net intangible assets consist principally of goodwill associated with acquisitions and costs associated with securing patent rights, trademark rights and technology licenses, net of accumulated amortization. We test certain of these items specifically all of those that are considered non-amortizing at least on an annual basis for potential

## Edgar Filing: PERKINELMER INC - Form 10-Q

impairment by comparing the carrying value to the fair market value of the reporting unit to which they are assigned. All of our amortizing intangible assets are evaluated for impairment should discrete events occur that call into question the recoverability of the intangible assets.



**Table of Contents**

Adverse changes in our business or the failure to grow our Life and Analytical Sciences segment may result in impairment of our intangible assets, which could adversely affect our results of operations.

***Our share price will fluctuate.***

Over the last several quarters, stock markets in general and our common stock in particular have experienced significant price and volume volatility. Both the market price and the daily trading volume of our common stock may continue to be subject to significant fluctuations due not only to general stock market conditions but also to a change in sentiment in the market regarding our operations and business prospects. In addition to the risk factors discussed above, the price and volume volatility of our common stock may be affected by:

operating results that vary from the expectations of securities analysts and investors;

the financial performance of the major end markets that we target;

the operating and securities price performance of companies that investors consider to be comparable to us;

announcements of strategic developments, acquisitions and other material events by us or our competitors; and

changes in global financial markets and global economies and general market conditions, such as interest or foreign exchange rates, commodity and equity prices and the value of financial assets.

**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds  
Stock Repurchase Program**

The following table provides information with respect to the shares of common stock repurchased by us for the periods indicated.

Period		Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid Per Share	Issuer Repurchases of Equity Securities Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
June 30, 2008	July 27, 2008	0	\$ 0.00	0	1,949,208
July 28, 2008	August 24, 2008	1,000,000	\$ 29.34	1,000,000	949,208
August 25, 2008	September 28, 2008	952,562	\$ 28.71	949,208	0
Activity for quarter ended September 28, 2008		1,952,562	\$ 29.03	1,949,208	0

- (1) On November 6, 2006, we announced that our Board authorized us to repurchase up to 10.0 million shares of our common stock under a stock repurchase program (the "Repurchase Program"). During the third quarter of fiscal year 2008, we repurchased 1.9 million shares of our common stock in the open market at an aggregate cost of \$56.6 million, including commissions. This activity completed our repurchase of the 10.0 million shares in the aggregate authorized under the Repurchase Program. On October 23, 2008, we announced that our Board has authorized us to repurchase up to 10.0 million additional shares of our common stock under a new stock repurchase program (the "New Repurchase Program"). The New Repurchase Program will expire on October 22, 2012 unless this authorization is terminated earlier by our Board, and may be suspended or discontinued at any time. Approximately 10.0 million shares of our common stock remain available for repurchase under the New Repurchase Program.
- (2) We repurchased 17,549 shares of our common stock during the first quarter of fiscal year 2008 and 3,354 shares of our common stock during the second quarter of fiscal year 2008 to satisfy minimum statutory tax withholding obligations in connection with the vesting of restricted stock awards and restricted stock unit awards granted pursuant to our equity incentive plans.

**Table of Contents**

**Item 6. Exhibits**

- 10.1 The Omnibus Assignment and Assumption Agreement, dated as of October 1, 2008, to the Receivables Sale Agreement, dated as of December 21, 2001, by and among PerkinElmer Receivables Company, as Seller, PerkinElmer, Inc., as Initial Collection Agent, the Committed Purchasers, Windmill Funding Corporation, and Royal Bank of Scotland, PLC, as agent for the Purchasers.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Acting Chief Financial Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer and Acting Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**Table of Contents**

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PERKINELMER, INC.

By: /s/ MICHAEL L. BATTLES  
Michael L. Battles

**Acting Chief Financial Officer**

**(Principal Financial Officer)**

**Vice President, Corporate Controller and**

**Chief Accounting Officer**

**(Principal Accounting Officer)**

November 7, 2008

**Table of Contents**

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Exhibit Name</b>
10.1	The Omnibus Assignment and Assumption Agreement, dated as of October 1, 2008, to the Receivables Sale Agreement, dated as of December 21, 2001, by and among PerkinElmer Receivables Company, as Seller, PerkinElmer, Inc., as Initial Collection Agent, the Committed Purchasers, Windmill Funding Corporation, and Royal Bank of Scotland, PLC, as agent for the Purchasers.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Acting Chief Financial Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Acting Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.