

CHARLES RIVER LABORATORIES INTERNATIONAL INC  
Form 10-K  
February 25, 2014

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

---

FORM 10-K

(Mark  
One)

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

FOR THE FISCAL YEAR ENDED DECEMBER 28, 2013

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission File No. 001-15943

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of  
Incorporation or Organization)

251 Ballardvale Street

Wilmington, Massachusetts

(Address of Principal Executive Offices)

06-1397316

(I.R.S. Employer  
Identification No.)

01887

(Zip Code)

---

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, \$0.01 par value

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller

reporting company" in Rule 12b-2 of the Exchange Act.

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

On June 29, 2013, the aggregate market value of the Registrant's voting common stock held by non-affiliates of the Registrant was approximately \$2,012,149,235. As of February 16, 2014, there were 47,659,400 shares of the Registrant's common stock outstanding, \$0.01 par value per share.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Definitive Proxy Statement for its 2014 Annual Meeting of Shareholders scheduled to be held on May 6, 2014, which will be filed with the Securities and Exchange Commission not later than 120 days after December 28, 2013, are incorporated by reference into Part III of this Annual Report on Form 10-K. With the exception of the portions of the 2013 Proxy Statement expressly incorporated into this Annual Report on Form 10-K by reference, such document shall not be deemed filed as part of this Form 10-K.

---

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.  
 ANNUAL REPORT ON FORM 10-K  
 TABLE OF CONTENTS

| Item |   | Page      |
|------|---|-----------|
|      | PART I  |           |
| 1    | <u>Business</u>   | <u>1</u>  |
| 1A   | <u>Risk Factors</u>   | <u>13</u> |
| 1B   | <u>Unresolved Staff Comments</u>  | <u>22</u> |
| 2    | <u>Properties</u>   | <u>22</u> |
| 3    | <u>Legal Proceedings</u>  | <u>23</u> |
| 4    | Mine Safety Disclosure  | <u>23</u> |
|      | <u>Supplementary Item. Executive Officers of the Registrant pursuant to Instruction 3 to Item 401 (b) of Regulation S-K</u> | <u>23</u> |
|      | PART II   |           |
| 5    | <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>         | <u>25</u> |
| 6    | <u>Selected Consolidated Financial Data</u>   | <u>28</u> |
| 7    | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                                | <u>29</u> |
| 7A   | <u>Quantitative and Qualitative Disclosures About Market Risk</u>   | <u>42</u> |
| 8    | <u>Financial Statements and Supplementary Data</u>  | <u>44</u> |
| 9    | <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>                                 | <u>89</u> |
| 9A   | <u>Controls and Procedures</u>  | <u>89</u> |
| 9B   | <u>Other Information</u>  | <u>90</u> |
|      | PART III  |           |
| 10   | <u>Directors, Executive Officers and Corporate Governance</u>   | <u>90</u> |
| 11   | <u>Executive Compensation</u>   | <u>91</u> |
| 12   | <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters</u>                      | <u>91</u> |
| 13   | <u>Certain Relationships and Related Transactions, and Director Independence</u>  | <u>91</u> |
| 14   | <u>Principal Accountant Fees and Services</u>   | <u>91</u> |
|      | PART IV   |           |
| 15   | <u>Exhibits and Financial Statement Schedules</u>   | <u>91</u> |

## PART I

### Item 1. Business

#### General

This Annual Report on Form 10-K contains forward-looking statements regarding future events and the future results of Charles River Laboratories International, Inc. that are based on our current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as “expect,” “anticipate,” “target,” “goal,” “project,” “intend,” “plan,” “believe,” “seek,” “estimate,” “will,” “likely,” “may,” “future,” “can,” “could” and other similar expressions that are predictions of or indicate future events and trends or which do not relate to historical matters are intended to identify such forward-looking statements. These statements are based on our current expectations and beliefs and involve a number of risks, uncertainties, and assumptions that are difficult to predict. For example, we may use forward-looking statements when addressing topics such as: the pursuit of our initiatives to optimize returns for shareholders, including efforts to improve our operating margins, improve free cash flow, invest in growth businesses and return value to shareholders; goodwill and asset impairments still under review; future demand for drug discovery and development products and services, and in particular non-regulated discovery, including the outsourcing of these services and spending trends by our clients; our expectations regarding stock repurchases, including the number of shares to be repurchased, expected timing and duration, the amount of capital that may be expended and the treatment of repurchased shares; present spending trends and other cost reduction activities by our clients; future actions by our management; the outcome of contingencies; changes in our business strategy; changes in our business practices and methods of generating revenue; the development and performance of our services and products; market and industry conditions, including competitive and pricing trends; our strategic relationships with leading pharmaceutical companies and opportunities for future similar arrangements; changes in the composition or level of our revenues; our cost structure; the impact of acquisitions and dispositions; our expectations with respect to sales growth and operating synergies (including the impact of specific actions intended to cause related improvements); the impact of specific actions intended to improve overall operating efficiencies and profitability (and our ability to accommodate future demand with our infrastructure) including gains and losses attributable to businesses we plan to close, consolidate or divest; changes in our expectations regarding future stock option, restricted stock, performance share units and other equity grants to employees and directors; expectations with respect to foreign currency exchange; assessing (or changing our assessment of) our tax positions for financial statement purposes; and our cash flow and liquidity. In addition, these statements include the impact of economic and market conditions on our clients; the effects of our cost-saving actions and the steps to optimize returns to shareholders on an effective and timely basis and our ability to withstand the current market conditions. You should not rely on forward-looking statements because they are predictions and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document or in the case of statements incorporated by reference, on the date of the document incorporated by reference. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in this Form 10-K under the section entitled “Our Strategy,” the section entitled “Risks Related to Our Business and Industry,” the section entitled “Management's Discussion and Analysis of Financial Condition and Results of Operations” and in our press releases and other financial filings with the Securities and Exchange Commission. We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or risks. New information, future events or risks may cause the forward-looking events we discuss in this report not to occur.

#### Corporate History

We began operating in 1947 and since then, we have undergone several changes to our business structure. Charles River Laboratories International, Inc. was incorporated in 1994 and in 2000 we completed our initial public offering. Our stock is traded on the New York Stock Exchange under the symbol “CRL” and is included in the Standard & Poor's

MidCap 400 and Composite 1500 indices, the Dow Jones US Biotechnology Index, the NYSE Composite and Healthcare Sector indices, and many of the Russell indices, among others. We are headquartered in Wilmington, Massachusetts. Our headquarters mailing address is 251 Ballardvale Street, Wilmington, MA, 01887, and the telephone number at that location is (781) 222-6000. Our Internet site is [www.criver.com](http://www.criver.com). Material contained on our Internet site is not incorporated by reference into this Form 10-K. Unless the context otherwise requires, references in this Form 10-K to "Charles River," "we," "us" or "our" refer to Charles River Laboratories International, Inc. and its subsidiaries.

This Form 10-K, as well as all other reports filed with the Securities and Exchange Commission, are available free of charge through the Investor Relations section of our Internet site as soon as practicable after we electronically file such material with, or furnish it to, the SEC. You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. In addition, you may obtain information on the operation of the Public Reference

Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

#### Overview

We are a leading global provider of solutions that accelerate the early-stage drug discovery and development process. The focus of our business is in vivo biology; our portfolio includes research models and services required to enable in vivo drug discovery and development.

Discovery represents the earliest stages of research in the life sciences, directed at the identification, screening and selection of a lead compound for future drug development. Discovery activities typically extend anywhere from 4-6 years in conventional pharmaceutical research and development timelines.

Development activities, which follow, and which can take up to 7-10 years, are directed at demonstrating the safety, tolerability and clinical efficacy of the selected drug candidates. During the preclinical stage of the development process, a drug candidate is tested in vitro (typically on a cellular or sub-cellular level in a test tube or multi-well petri plate) and in vivo (in research models) to support planned or on-going human trials.

The development of new drugs requires the steadily increasing investment of time and money. Various studies and reports estimate that it takes between 10-15 years, up to \$2.0 billion, and exploration of more than 10,000 drug compounds to produce a single FDA-approved drug. We are positioned to leverage our core competency in in vivo biology in an efficient and cost-effective way to aid our clients in bringing their drugs to market faster. Our clients reduce their costs, increase their speed and improve their productivity and effectiveness in early-stage discovery and development by using our broad portfolio of products and services.

For over 65 years, we have been in the business of providing the research models required in research and development of new drugs, devices and therapies. Over this time, we have built upon our core competency of in vivo biology to develop a diverse and expanding portfolio of products and services. Our client base includes global pharmaceutical companies, biotechnology companies, government agencies and leading hospitals and academic institutions around the world. We currently operate approximately 68 facilities in 16 countries worldwide. Our products and services, supported by our global infrastructure and deep scientific expertise, enable our clients to meet many of the challenges of early-stage life sciences research. In 2013, our net sales from continuing operations were \$1.2 billion and our operating income from continuing operations was \$151.4 million.

We have two reporting segments: Research Models and Services (RMS) and Preclinical Services (PCS).

Through our RMS segment, we have been supplying research models to the drug development industry since 1947.

With over 150 different strains, we continue to maintain our position as the global leader in the production and sale of the most widely used rodent research model strains, principally genetically and microbiologically defined purpose-bred rats and mice. We also provide a variety of related services that are designed to assist our clients in supporting the use of research models in drug discovery and development. With multiple facilities located on three continents (North America, Europe and Asia), we maintain production centers, including barrier rooms and/or isolator facilities. In 2013, RMS accounted for 60.7% of our total net sales from continuing operations and approximately 52% of our employees, including approximately 108 science professionals with advanced scientific degrees.

Our PCS business segment provides services that enable our clients to outsource their critical, regulatory-required safety assessment and related drug development activities to us. The demand for these services has historically been driven by the needs of large global pharmaceutical companies that exceeded their internal capacity and by the needs of biotechnology companies who traditionally outsourced all of their development programs. Global pharmaceutical and biotechnology companies choose to outsource their development activities because a significant investment in personnel, facilities and other capital resources is required to efficiently and effectively conduct these required scientific studies. Outsourcing allows them to focus on their core competencies of innovation, early drug discovery, promotion and market distribution.

We are one of the two largest providers of preclinical (including both discovery and development) services worldwide and offer particular expertise in the design, execution and reporting of safety assessment studies, especially those

dealing with large molecule (biologics) and other innovative therapies. We currently provide preclinical services at multiple facilities located in the United States, Canada, and Europe. Our PCS segment represented 39.3% of our total net sales from continuing operations in 2013 and employed 44% of our employees including approximately 365 science professionals with advanced scientific degrees.

We provide discovery services in both our RMS and PCS business segments. The biopharmaceutical industry continues to reduce infrastructure and search for more efficient and cost-effective models of drug discovery and development. In particular, large pharmaceutical and biotechnology companies are outsourcing drug discovery research, an area they historically considered a core competency. These services, which are generally non-regulated, are used by sponsors to screen molecules and make earlier “go-no go” decisions as to which molecules should be selected for continued investment.

In recent years, we have focused our efforts on unifying our businesses and improving the efficiency of our global operations to enhance our ability to support our key clients. Our key pharmaceutical and biotechnology clients are increasingly seeking full service, “one-stop” global partners to whom they can outsource more of their drug discovery and development efforts. It is estimated that the market for regulated safety assessment services is approximately 40% to 50% outsourced, while emerging growth areas such as in vivo discovery and certain research model services are currently believed to be less outsourced.

**Research Models and Services (RMS).** Our RMS segment is comprised of (1) Research Models, (2) Research Model Services and (3) Endotoxin and Microbial Detection.

**Research Models.** Our Research Models business is comprised of the production and sale of research models and avian vaccine services.

**Research Models.** A significant portion of this business is comprised of the commercial production and sale of research models, principally purpose-bred rats and mice for use by researchers. We provide our rodent models to numerous clients around the world, including most pharmaceutical companies, a broad range of biotechnology companies, many government agencies, and leading hospitals and academic institutions. We have a global footprint with production facilities strategically located in 8 countries, in close proximity to our clients. Our research models include both standard strains and disease models such as those with compromised immune systems, which are in demand as early-stage research tools. The United States Food and Drug Administration (FDA) and foreign regulatory bodies typically require that the safety and efficacy of new drug candidates be tested on research models like ours prior to testing in humans. As a result, our research models are an essential part of the drug discovery and development process.

Our rodent species have been, and continue to be, some of the most extensively used research models in the world, largely as a result of our continuous commitment to innovation and quality. Our research models are bred and maintained in controlled environments which are designed to ensure that the models are free of specific viral and bacterial agents and other contaminants that can disrupt research operations and distort results. With our barrier room production capabilities, we are able to deliver consistently high-quality research models worldwide.

Our research models include:

- outbred, which are purposefully bred for heterogeneity;
- inbred, which are bred to be genetically identical;
- spontaneous mutant, which contain a naturally occurring genetic mutation (such as immune deficiency);
- hybrid, which are the offspring of two different inbred parents; and
- other genetically modified research models, including knock-out models with one or more disabled genes and transgenic models.

Certain of our research models are proprietary, disease-specific mouse and rat models used to find new treatments for diseases such as diabetes, obesity, cardiovascular and kidney disease. We are presently focusing our disease model program on five areas of research: oncology, central nervous system, metabolic, cardiovascular and renal diseases. We are also a premier provider of high quality, purpose bred, specific-pathogen-free (SPF) large research models to the biomedical research community.

**Avian Vaccine Services** We are the global leader for the supply of SPF fertile chicken eggs and chickens. SPF chicken embryos are used by animal health companies as self-contained “bioreactors” for the manufacture of live viruses. These viruses are used as a raw material primarily in poultry as well as human and veterinary vaccine applications. The production of SPF eggs is performed under biosecure conditions, similar in many ways to our research model production. We have a worldwide presence, with several SPF egg production facilities in the United States, contracted production capabilities in Hungary, and franchise operations in India. We also operate a specialized



avian laboratory in the United States, which provides in-house quality control testing of the SPF flocks, offers testing services to vaccine companies and commercial poultry operations, and manufactures poultry diagnostics and bulk antigens for poultry vaccines.

3

---

Research Model Services. RMS also offers a variety of services designed to support our clients' use of research models in screening drug candidates. These services capitalize on the technologies and relationships developed through our research model business, and address the need among pharmaceutical and biotechnology companies to outsource the non-core aspects of their drug discovery activities. These services include those which are related to the maintenance and monitoring of research models, and those which are designed to implement efficacy screening protocols to improve the client's drug evaluation process. We currently offer four major categories of research models services-Genetically Engineered Models and Services, Insourcing Solutions, Discovery Research Services and Research Animal Diagnostic Services.

Genetically Engineered Models and Services (GEMS). We breed and maintain research models purchased or purposefully created by our clients for biomedical research activities. The creation of a genetically engineered model (GEM) is a critical scientific event, but it is only the first step in the discovery process. Productive utilization of GEMs requires significant additional technical expertise in order to properly support early discovery research. Our team of project managers is supported by a technologically advanced internet based colony management system that allows for real time data exchange. We also provide breeding expertise and colony development, quarantine, health and genetic monitoring, germplasm cryopreservation, and rederivation including assisted reproduction. We provide these services to clients around the world from pharmaceutical and biotechnology companies to hospitals and universities.

Insourcing Solutions (IS). We manage research operations (including recruitment, training, staffing and management services) for government entities, academic organizations and commercial clients. Research institutions prefer to outsource staffing and management while retaining certain elements of their research in-house thus driving demand for our services. We believe that our expertise in in vivo biology, and in particular research model care, scientific and technical support, facility operations, and discovery and development services, enhances the productivity and quality of our clients' research programs.

Discovery Research Services (DRS). DRS represents the earliest stages of research in the life sciences, directed at the identification, screening and selection of a lead compound for future drug development. DRS activities typically extend anywhere from 4-6 years in conventional pharmaceutical research and development timelines. We offer research and development expertise, capabilities, and services globally to accelerate our clients' drug discovery pipelines from lead generation to candidate selection. We complement clients' capabilities and expertise to improve their decision-making, increase their flexibility, and reduce their internal costs and product development timelines. We support a variety of therapeutic areas including oncology, CNS, bone and musculoskeletal, inflammation, metabolic diseases, respiratory, cardiovascular and ophthalmology. In addition, we provide in vitro and in vivo assays in support of lead optimization to candidate selection activities. Examples of this include early pharmacokinetic and pharmacodynamic studies and in vitro and in vivo assays to assess mechanism, bioavailability, metabolism, and safety pharmacology. As we look forward, we believe there are emerging opportunities to assist our clients in a variety of drug discovery applications and platforms from target validation to candidate selection. Sites that perform only discovery research services are reported in our RMS segment.

Research Animal Diagnostic Services (RADS). We monitor and analyze the health profiles of the research models and cell lines of our clients. We developed this capability internally by building upon the scientific foundation created by the diagnostic needs of our research model business. We are able to serve as our clients' sole-source testing laboratory, or as an alternative source supporting our clients internal laboratory capabilities. We believe we are the reference laboratory of choice for health testing of laboratory research models and an industry leader in the field of animal diagnostics. We also offer non-GLP biomarker assay platforms and services to support early stage discovery studies. Across these platforms, we can provide both standard as well as customized biomarker testing, including serum and urine chemistries.

Endotoxin and Microbial Detection (EMD) (f/k/a In Vitro). Our EMD business provides non-animal, or in vitro, methods for lot release testing of medical devices and injectable drugs for endotoxin contamination. Our Accugenix subsidiary provides state-of-the-art microbial identification services for manufacturing in the biopharmaceutical, medical device, nutraceutical and consumer care industries.

Endotoxin testing uses a processed extract from the blood of the horseshoe crab, known as limulus amoebocyte lysate (LAL). The LAL test is the first and most successful FDA-validated alternative to an animal model test to date. The extraction of blood does not harm the crabs, which are subsequently returned to their natural ocean environment. Our EMD business produces and distributes endotoxin testing kits, reagents, software, accessories, instruments and associated services to pharmaceutical and biotechnology companies worldwide. We are a market leader in endotoxin testing products and services, which are used for FDA-required quality control testing of injectable drugs and medical devices, their components and the processes by which they are manufactured.

The growth in our EMD business is driven by our FDA approved line of next-generation endotoxin testing products, which are based on the Endosafe Portable Testing System (Endosafe®-PTS™) technology that allows rapid endotoxin testing in the

central laboratory or manufacturing environment. In recent years, we expanded the PTS product portfolio to include a multiple sample testing system known as the Endosafe®-MCS™ (multi cartridge system) to satisfy the demand of our clients who have higher volumes of tests to perform. We anticipate our clients' demand for rapid methods of testing will increase as they respond to the FDA's Process Analytical Technology (PAT) Initiative. In 2012, we introduced the first fully automated robotic system developed specifically for high-volume endotoxin testing, Endosafe®-Nexus™, which we launched in 2013. We expect to see expanded use of this rapid endotoxin testing technology in non-traditional areas such as renal dialysis, nuclear and compounding pharmacies, and cellular therapy. Our Accugenix subsidiary is the premier global provider of cGMP- compliant contract microbial identification testing. Accugenix is an acknowledged industry leader in species-level identification and strain typing of bacteria and fungi that are recovered from manufacturing facilities. Utilizing state-of-the-art and proprietary in vitro technologies, coupled with scientific expertise and analysis, Accugenix excels in providing accurate, timely and cost-effective microbial identification services required to meet internal quality standards and government regulations.

#### Preclinical Services (PCS)

We currently offer preclinical services, both regulated and non-regulated, in which we include both in vivo and in vitro studies, supporting laboratory services, and strategic preclinical consulting and program management to support product development. Sites that perform a variety of services in addition to discovery research services are reported in our PCS segment.

**Safety Assessment.** We offer a full range of preclinical studies required for regulatory submission on a global basis. **Bioanalysis, Pharmacokinetics, and Drug Metabolism.** In support of preclinical drug safety testing, our clients are required to demonstrate appropriate exposure, stability in the collected sample, kinetics of their drug or compound in circulation, the presence of metabolites, and, with biologics, the presence or absence of anti-drug antibodies. We have scientific depth in the sophisticated bioanalytical techniques required to satisfy these requirements for a number of drug classes. After performing sample analysis in support of preclinical studies, we have the opportunity to capture the benefits of bridging the preclinical bioanalysis with subsequent clinical development. Once the analysis is complete, our scientists evaluate the data to provide information on the pharmacokinetics and/or toxicokinetics of the drug, and complete an evaluation of the distribution of the drug or metabolites. Pharmacokinetics refers to understanding what the body does to a drug or compound once administered, including the process by which the drug is absorbed, distributed in the body, metabolized, and excreted (ADME); toxicokinetics refers to the same understanding as applied at higher doses that may result in adverse effects. These studies are required for the full preclinical assessment of the disposition of the drug and the results are used in the final preclinical safety evaluation of the compound.

**Toxicology.** Toxicology is one of our core preclinical competencies and a competitive strength. We have expertise in the design and execution of development programs in support of both traditional, “small molecule” pharmaceuticals and biotechnology-derived pharmaceuticals. Once a lead molecule is selected, toxicology studies are required to support clinical trials in humans. These toxicology studies focus on assessing the safety of the molecule to determine if administration of the molecules to humans might cause any unintended harmful effects. These studies are typically performed in research models to identify any potential adverse effects that a compound has on an organism over a variety of doses and over various time periods. Our toxicology services feature:

- all the standard protocols for general toxicity testing (genotoxicity, safety pharmacology, acute, sub-acute, chronic toxicity and carcinogenicity bioassays) required for regulatory submissions supporting “first-in-human” to “first-to-the-market” strategies;

- expertise in specialty routes of administration and modes of administration (e.g., infusion, intravitreal, intrathecal, and inhalation), which are important not only for the testing of potential pharmaceuticals and biopharmaceuticals, but also for the safety testing of medical devices, industrial chemicals, food additives, agrochemicals, biocides, nutraceuticals, animal health products and other materials;

- expertise in the conduct and assessment of reproductive and developmental toxicology studies (in support of larger scale and later-stage human clinical trials);

-

services in important specialty areas such as ocular, bone, juvenile/neonatal, immuno-toxicity, photobiology and dermal testing;

• expertise in all major therapeutic areas;

• study design and strategic advice to our clients based on our wealth of experience and scientific expertise in support of drug development; and

• a strong history of assisting our clients in achieving their regulatory or internal milestones for safety testing, including studies addressing stem cell therapies, DNA vaccines, protein biotherapeutics, small molecules and medical devices.

Our preclinical facilities comply with Good Laboratory Practices (GLPs) to the extent required by the FDA as well as other international regulatory bodies. Our facilities are regularly inspected by U.S. and other regulatory compliance monitoring authorities, our clients' quality assurance departments and our own internal quality assessment program. Pathology Services. The ability to identify and characterize clinical and anatomic pathologic changes is critical in determining the safety of potential new therapeutics. Key “go/no-go” decisions regarding continued product development are typically dependent on the identification, characterization and evaluation of gross and microscopic pathology changes that our experts identify and interpret for our clients. We employ a large number of highly trained veterinary anatomic and clinical pathologists and other scientists who use state-of-the-art techniques to identify potential test article-related changes within tissues, fluids and cells. In addition to all standard anatomic and clinical pathology techniques, we provide specialized evaluations such as immunohistochemistry evaluations that are often required in the development of monoclonal antibodies.

Biologics Testing Solutions (f/k/a Biopharmaceutical Services). We perform specialized testing of biologics and devices frequently outsourced by global pharmaceutical and biotechnology companies. Our laboratories in the United States, Germany, Scotland and Ireland provide timely and compliant molecular biology, virology, bioanalysis, immunochemistry, microbiology and related services. We confirm that biological processes and the drug candidates produced are consistent, correctly defined, stable and essentially contaminant free. This testing is required by the FDA and other international regulatory authorities for our clients to obtain new drug approvals, to maintain government licensed manufacturing facilities and to release approved therapeutic products for patient treatment.

Our manufacturing services group grows and stores well-characterized early-stage client cell lines for later development or manufacture of therapeutic proteins and vaccines for clinical trials. We further design and provide viral clearance projects for Phase I, II and III studies in our German and US facilities.

#### Our Strategy

Our objective is to be the preferred strategic global partner for our clients. We drive our growth by providing our clients superior, flexible and tailored solutions to help them accelerate and enhance the efficiency of their drug research and development efforts. Our strategy is to deliver a comprehensive and integrated portfolio of early-stage/drug discovery and development products, services, and solutions to support our clients' goal to maintain the flexible infrastructure that they require to bring new and improved therapies to market faster and more cost effectively. We believe we have certain competitive advantages in executing this strategy, as a result of our continuing focus on the following:

**Integrated Early-Stage Portfolio.** We are the only large, global contract research organization (CRO) with a portfolio of products, services, and solutions that focuses almost exclusively on early-stage drug discovery and preclinical development. We provide research models and associated services, discovery research studies and services, and comprehensive safety assessment and toxicology studies in both regulated and non-regulated environments. As such, we are able to collaborate with clients from early lead generation through candidate selection. When critical decisions are made regarding which therapies will progress or remain in development, we continue to work alongside them as the drug candidates move downstream through the preclinical development process and post-candidate selection. Our recognized expertise in in vivo biology and pharmacology provides us with a competitive advantage. We understand our clients' therapies, and the challenges they face during the discovery and development process, including mechanism of action, efficacy, drug metabolism and safety assessment and toxicological testing critical for making “go/no-go” decisions.

**Deep Scientific Expertise.** We provide a breadth and depth of scientific expertise which may be too costly for our clients to build and/or maintain in-house. We provide essential capabilities that our clients demand but are not perceived as strategic differentiators for their businesses. These include biomarkers, biologics, pharmacology, immunology, pathology and other specialty areas that have high infrastructure costs or are cost-prohibitive for clients to maintain in-house. We continue to increase our portfolio in key therapeutic and pharmacology areas to align with our clients' internal drug discovery and development areas of focus. These areas of focus and expertise include oncology, metabolism and obesity, immunology, respiratory, bone and musculoskeletal, diabetes, cardiovascular,

infectious disease and central nervous system.

**Commitment to Animal Welfare.** We are committed to being the worldwide leader in the humane care of laboratory animals. As animal caregivers and researchers, we are responsible to our clients and the public for the health and well-being of the animals in our care. We work hand-in-hand with the scientific community to understand how living conditions, handling procedures and reduction of stress play an important role in the quality and efficiency of research.

**Superior Quality and Client Support.** We maintain scientific rigor and high quality standards through management of key performance indicators and an intense focus on biosecurity. These standards allow clients to access our global

portfolio of products and services with the confidence that they will obtain consistent results no matter where they choose to obtain their products or conduct their research.

Flexible and Customized Environment to Provide the Right Solutions. All of our clients are different. Each has unique needs and specific requirements. We understand the importance of flexibility and we can deliver customized work based upon the breadth and depth of our capabilities, expertise and services. We help clients improve their workload and staffing requirements by drawing upon the higher utilization and streamlined efficiencies of our facilities. This allows our clients to reduce internal capacity and/or staff. We leverage the expertise embedded in our integrated early-stage portfolio to provide customized solutions tailored to fit the specific need or therapeutic area for a particular client. We provide enhanced value to clients who use us as a full-service integrated partner over a longer period of time.

Large, Global Partner. We believe there is a particular advantage in being a full service, high-quality provider of discovery and preclinical in vivo products and services on a global scale. Many of our clients, especially large biopharmaceutical companies, have decided to limit the number of suppliers with which they work. Their preference is to partner with Tier 1 CROs who can bring experience in project management to a portfolio of projects. Large CROs, like Charles River, can present clients with access to greater value through economies of scale and scope. This includes extensive scientific, technical and therapeutic area expertise, real-time access to data through secure portals, a global footprint, and streamlined and simplified processes and communications including professional project and relationship management. We are focused on leveraging our competitive advantages to ensure we are recognized as the premier preferred provider by building and expanding broader and deeper long-term strategic relationships with our clients.

Global biopharmaceutical companies are continuing to make the decision to outsource more significant tranches of their drug discovery and development processes. For example, over the past few years we have entered into strategic relationships with leading global pharmaceutical companies and we have expanded existing preferred provider agreements with other leading global pharmaceutical companies. For some of these partners, we provide a broad suite of our research models and preclinical services and for others we provide a customized and select array of preclinical services and /or research models. Utilizing our capabilities enables our clients to create a flexible research platform to deliver innovative health solutions.

We believe it is critical to participate in that process now, because these relationships are likely to extend for lengthy periods of time, from three to five years. Furthermore, both the client and the CRO invest heavily in the initial phases of the relationship to successfully transfer work streams and establish governance processes. Given this investment, clients are less likely to change CROs at the conclusion of the initial relationship. Our goal is to prevail in the majority of these opportunities. To do this, we are positioning ourselves as the preferred partner for outsourced early-stage drug discovery and development products and services.

We developed this strategy and focus in recognition of our clients' needs. Biopharmaceutical companies continue to face increasing pressure to innovate and to better manage their pipelines. Accordingly, our clients have reduced their infrastructure while simultaneously they search for improved ways to identify and develop innovative new therapies. Clients are reducing historical fixed costs in favor of a more flexible business model, with an aim to accelerate their discovery and development activities. As a consequence, our pharmaceutical and biotechnology clients have been looking to outsource these services to high quality, full-service providers like us. Our business prospects are driven primarily by this trend towards the virtualization and externalization of our clients through partnering and outsourcing. Client spending is not just influenced by the levels of research and development at these pharmaceutical and biotechnology companies, but also by spending of all the sponsors including federal and state governments and other non-profit organizations. By providing clients with an outsourced suite of robust services from drug discovery to post-IND, we allow them to concentrate their internal expertise and resources on areas that provide true differentiation and advance their pipelines. This creates opportunities for us to help optimize our clients' pipelines and be a true partner in accelerating their drug discovery and development process.

In recent years, the pharmaceutical and biotechnology industries have faced a collection of challenges. This involves scientific, public-perception, economic and regulatory challenges that all have negatively affected demand (and



pricing) for outsourced discovery and preclinical development services. These challenges included:

- patent expirations of “blockbuster” therapies;
- intensified actions designed to reduce costs and improve research and development innovation and productivity, including cost-cutting, workforce reductions, rationalization of capacity and other efficiency initiatives;
- rationalization of drug pipelines to focus on a smaller number of programs and high-potential therapeutic areas;

changes to government healthcare policies and funding;  
a stronger emphasis on delivering later-stage programs to accelerate drugs in clinical trials to market;  
increased pharmaceutical merger activity and the associated integration issues;  
fluctuations in the biotech funding environment; and  
the uncertain global economy.

As a result, there have been fundamental changes in our clients' research and development needs, particularly with regard to the large pharmaceutical industry. First, these clients are increasingly emphasizing studies that have greater translation to the clinic so that they can make appropriate decisions regarding the progression of potential therapeutic entities earlier in the development process. This has reduced the number of compounds moving into preclinical and clinical development and results in fewer molecules undergoing regulated safety assessment. The result is a greater focus on discovery research services, including in vivo pharmacology studies consisting of efficacy and non-regulated DMPK (drug metabolism and pharmacokinetics) studies. Second, these clients are choosing to outsource additional discovery research services in order to increase the efficiency and effectiveness of their drug research decision processes.

We believe that this changing environment will provide enhanced outsourcing opportunities for us in the future. We remain optimistic that our clients are increasingly receptive to partnering with CROs as a means to meeting their discovery program needs. With the stabilization of factors addressed above, as well as the successful launch of new therapies and the need to advance early-stage pipelines, we believe outsourcing by the pharmaceutical industry will continue to be a positive driver.

We also believe that larger biopharmaceutical companies will increasingly focus on efficiencies and execution. They will continue to reassess what are core differentiators from research and development to commercialization. We expect they will also continue to be conservative in re-building infrastructure and expertise. This should lead to more opportunities for strategic outsourcing as clients choose to utilize external resources rather than invest in internal infrastructure. In the aggregate, we believe that the evolving large biopharmaceutical research and development business model will make our essential products and services even more relevant to our clients, and allow them to leverage our integrated offerings and expertise to drive their research and development efficiency and cost effectiveness.

To address the challenging market conditions that have persisted over the last few years, we have taken significant steps to better support our clients, identify new strategies to enhance client satisfaction, improve operating efficiency, and generally strengthen our business model:

Our sales force is aligned to enhance our ability to support our clients and to focus on three particular client segments: global biopharmaceutical companies, mid-tier biopharmaceutical companies, and academic/government institutions. Our PCS business is also aligned along functional lines to continue the process of standardizing and harmonizing our procedures. This has enabled clients to place work with us at multiple locations with the knowledge that procedures are consistently performed and data delivered in standard formats.

In 2011, we integrated our businesses by unifying each of RMS and PCS globally. We did this to strengthen the linkage between the businesses, which enables us to offer clients more seamless access to our broad portfolio and scientific expertise. Most recently in late 2013, we announced a number of organizational changes designed to continue to improve our operating efficiency across our global portfolio and to enhance our ability to meet the needs of our clients.

Dr. Jorg Geller, previously Corporate Executive Vice President and President, European & Asian Operations, is now directly overseeing a global initiative to enhance efficiency and drive increased productivity across all of our businesses worldwide. In his new role of Corporate Executive Vice President, Global Productivity and Efficiency, Dr. Geller leads a cross-functional team of our staff and business-unit leaders tasked with the critical initiative to drive increased productivity and efficiency at an accelerated pace.

In conjunction with Dr. Geller assuming this new role, Dr. Davide Molho, previously Corporate Executive Vice President and President, North American Operations, has assumed a broader range of responsibilities with global

oversight of the RMS and PCS businesses. In his revised role of Corporate Executive Vice President and President, Global Research Models & Services and Preclinical Services Operations, Dr. Molho

8

---

is responsible for transitioning from the unified, regional business alignment, which was implemented in 2011, to a more fully integrated, global organizational structure across North America, Europe and Asia.

In addition to these actions, over the past few years we have taken decisive actions to reduce costs and improve operating efficiency, such as Lean Six Sigma, the Profit Improvement Program and enhanced focus on procurement, general and administrative expenses and operations. These actions were designed to streamline and optimize our operating processes and infrastructure to allow us to support our clients more efficiently and at a lower cost. We have an intensified focus on four key initiatives designed to allow us to drive profitable growth and maximize value for shareholders, and thus better position ourselves to operate successfully in the current and future business environment. We have continued to make progress in 2013 on these key initiatives which include (1) improving our consolidated operating margin, (2) improving our free cash flow generation, (3) investing in those businesses with the greatest potential for growth and (4) returning value to shareholders.

We believe that we are well positioned to exploit both existing and new outsourcing opportunities in light of our actions and intensified focus. As clients, particularly larger pharmaceutical companies, increase their outsourcing, we believe that our expertise allows us to provide a more flexible, efficient and cost-effective alternative for them. We are able to build and maintain expertise and achieve economies of scale that are difficult for our clients to match within their internal infrastructures because these products and services are the core of our business.

We intend to continue to broaden the scope of the products and services we provide across the early-stage drug discovery and development continuum primarily through internal development, and, as needed, through focused acquisitions and alliances. Acquisitions are an integral part of our growth strategy, but we are committed to a disciplined approach that seeks to target businesses that are a sound strategic fit and that offer the prospect of enhancing shareholder value, typically including the achievement of a hurdle rate on return on invested capital above our weighted cost of capital.

This strategy may include geographic as well as strategic expansion of existing core services. For example, in January 2013, we acquired 75% ownership of Vital River, the premier commercial provider of research models and related services in China. As a result of this acquisition, we now provide more of our high-quality research models and associated services to emerging Asian markets for drug discovery and development. Our strategy also includes strengthening the depth and expanding the breadth of our core capabilities and services in a related or adjacent business, such as the Accugenix acquisition in 2012.

We are also partnering with a limited number of venture capital firms investing in life sciences, health care and technology companies with an emphasis on early stage emerging growth companies. Through these partnerships and leveraging our core competencies, we are able to promote contract research services for discovery and preclinical services to these companies. This offers us the opportunity to establish ourselves as a provider of choice for a unique client group which has emerged as biopharmaceutical companies rationalize and prioritize their development pipelines.

#### Customers

We maintain a three-pronged sales organization with a focus on:

- global biopharmaceutical companies;
- small and mid-sized pharmaceutical companies and biotechnology companies; and
- academic and government institutions.

Our clients continue to consist primarily of all of the major pharmaceutical companies, many biotechnology companies, contract research organizations, agricultural and chemical companies, life science companies, veterinary medicine companies, contract manufacturing organizations, medical device companies, diagnostic and other commercial entities, as well as leading hospitals, academic institutions, and government agencies. We have stable, long-term relationships with many of our clients. During 2013, no single commercial client accounted for more than 5% of our total net sales.

We continue to pursue a goal of expanding our relationships with our large biopharmaceutical clients, and with many of our larger mid-tier clients. These relationships take different forms, from preferred provider arrangements to strategic partnerships. These structured relationships incentivize clients to purchase more products and services across our early-stage portfolio, and in total, the strategic relationships in which we are now engaged represent slightly more than 25% of our total revenues. This provides us with better visibility than in the past, and because of the strength of these relationships, better insight into our clients' planning processes. For information regarding net sales and long-lived assets attributable to both of our business segments for the last three fiscal years, please see Note 11 included in the Notes to Consolidated Financial Statements included elsewhere in this Form 10-K. For information regarding net sales and long-lived assets attributable to operations in the United

States, Europe, Canada, Japan and other countries for each of the last three fiscal years, please review Note 11 included in the Notes to Consolidated Financial Statements included elsewhere in this Form 10-K.

#### Sales, Marketing and Customer Support

We have designated dedicated sales people for each of our three client segments (i.e. global biopharmaceutical, small and mid-sized pharmaceutical and biotechnology companies, and academic and government institutions). This enhances our ability to meet client needs by offering customized, tailored solutions across our entire portfolio. In addition, our mid-market pharmaceutical and biotechnology clients benefit by additional support from a combination of account managers with broad portfolio knowledge and specialists with specific scientific expertise. This allows us to provide comprehensive coverage of all of the market segments among our diverse client population.

We sell our products and services principally through our direct sales force and account management teams who work in North America, Europe and the Asia-Pacific countries. In addition to interactions with our direct sales force, our primary promotional activities include organizing scientific symposia, publishing scientific papers and newsletters, webinars and making presentations at, and participating in, scientific conferences and trade shows in North America, Europe and Asia. We supplement these scientifically based marketing activities with internet-based marketing, advertising and direct mail. In certain areas, our direct sales force is supplemented by international distributors and agents, particularly with respect to our EMD and Biologics Testing Solutions businesses.

Our internal marketing/product management teams support the field sales staff and account management teams while developing and implementing programs to create close working relationships with clients in the biomedical research industry. We maintain customer service, technical assistance and consulting service departments (in addition to project managers for our service businesses), which address both our clients' routine and more specialized needs and generally serve as a scientific resource for them. We frequently assist our clients in solving problems related to animal husbandry, health and genetics, biosecurity, preclinical study design, regulatory consulting, protocol development and other areas in which our expertise is widely recognized as a valuable resource by our clients.

Our marketing efforts are focused on stimulating demand for further outsourcing across our entire portfolio. We believe that our ability to provide solutions that address all aspects of in vivo biology are increasingly attractive to our clients, and we continue to design and market our commercial activities to deliver flexible, customized programs designed by segment to meet our clients' global and site-specific needs.

#### Competition

Our goal is to be a leader in each of the markets in which we participate. We compete in the marketplace on the basis of our therapeutic and scientific expertise in in vivo biology, quality, reputation, flexibility, responsiveness, pricing, innovation and global capabilities. We are able to offer a unique portfolio of early-stage products and services to support drug discovery and development.

The competitive landscape for our two business segments varies.

For RMS, our main competitors include three smaller companies in North America (each of whom has a global scope), and several smaller competitors in Europe and in Japan. Of our main U.S. competitors, two are privately held businesses and the third is a government funded, not-for-profit institution. We believe that none of these competitors compares to us in global reach, financial strength, breadth of product and services offerings, technical expertise or pharmaceutical and biotechnology industry relationships.

For PCS, we believe we are one of the two largest providers of preclinical services in the world, based on net service revenue. Our commercial competitors for preclinical services consist of both publicly held and privately owned companies, and it is estimated that the top ten participants (including us) account for a significant portion of the global outsourced preclinical market, with the rest of the market remaining highly fragmented. Our PCS segment also competes with in-house departments of pharmaceutical and biotechnology companies, universities and teaching hospitals.

We believe that the barriers to entry in a majority of our business units are generally high and present a significant impediment for new market participants, particularly in those areas which require substantial capital expenditures, trained and specialized personnel, and mandate GLP-compliant practices.

### Industry Support and Animal Welfare

One of our core values is a concern for, and commitment to, animal welfare. We have been in the forefront of animal welfare improvements in our industry, and continue to show our commitment with special recognition programs for employees who demonstrate an extraordinary commitment in this critical aspect of our business. We created our own Humane Care Initiative, which is directed by our Animal Welfare and Training Group. The goal of the initiative is to assure that we continue as a worldwide leader in the humane care of laboratory animals. Laboratory animals are an important resource that further our knowledge of living systems and contribute to the discovery of life-saving drugs and procedures. We work hand-in-hand with the scientific community to understand how living conditions, handling procedures and stress play a role in the quality and efficiency of research. As animal caregivers and researchers, we are responsible to our clients and the public for the health and well-being of the animals in our care.

We are firmly committed to the 3Rs (Replacement, Reduction, and Refinement) and help to reduce the number of animals used by emphasizing health and genetic integrity to decrease study data variability. We also partner with customers to develop study designs decreasing the number of animals needed and suggesting pilot studies where appropriate.

We support a wide variety of organizations and individuals working to further animal welfare as well as the interests of the biomedical research community. We fund scholarships to laboratory animal training programs, provide financial support to non-profit institutions that educate the public about the benefits of animal research and provide awards and prizes to outstanding leaders in the laboratory animal medicine field.

### Employees

As of December 28, 2013, we had approximately 7,700 employees (including approximately 660 professionals with advanced scientific degrees, including Ph.D.s, D.V.M.s, and M.D.s). Our employees are not unionized in the United States, although employees are unionized at some of our European facilities, consistent with local customs for our industry. We believe we have good relationships with our employees, based on a number of factors including employee retention and employee surveys.

### Backlog

Our backlog for our PCS business segment from continuing operations was \$213.8 million at December 28, 2013, as compared to \$213.9 million at December 29, 2012. Our preclinical services are performed over varying durations, from short to extended periods of time, which may be as long as several years. We maintain an order backlog to track anticipated revenue from studies and projects that either have not started, but are anticipated to begin in the near future, or are in process and have not been completed. We only recognize a study or project in backlog after we have received written evidence of a client's intention to proceed. We do not recognize verbal orders as backlog. Canceled studies or projects are removed from backlog. We do not report backlog for our RMS business segment because turnaround time from order placement to fulfillment, both for products and services, is rapid.

We believe our aggregate backlog as of any date is not necessarily a meaningful indicator of our future results for a variety of reasons. First, studies vary in duration (i.e., some studies that are included in 2013 backlog may be completed in 2014, while others may be completed in later years). Second, the scope of studies may change, which may either increase or decrease their value. Third, studies included in backlog may be subject to bonus or penalty payments. Fourth, studies may be terminated or delayed at any time by the client or regulatory authorities for a number of reasons, including the failure of a drug to satisfy safety and efficacy requirements or a sponsor making a strategic decision that a study or service is no longer necessary. Delayed contracts remain in our backlog until a determination of whether to continue, modify or cancel the study has been made. We cannot provide any assurance that we will be able to realize all or most of the net revenues included in backlog or estimate the portion to be filled in the current year.

### Regulatory Matters

As our business operates in a number of distinct operating environments and in a variety of locations worldwide, we are subject to numerous, and sometimes overlapping, regulatory environments.



The Animal Welfare Act (AWA) governs the care and use of certain species of animals used for research in the United States other than laboratory rats, mice and chickens. As a result, most of our U.S. small animal research models activities and our avian vaccine services operations are not subject to regulation under the AWA. For regulated species, the AWA and the associated Animal Care regulations require producers and users of regulated species to provide veterinary care and to utilize specific husbandry practices such as cage size, shipping conditions, sanitation and, for certain species, environmental enrichment to assure the welfare of these animals. Separately, facilities using live vertebrate animals in research funded by the U.S. Public Health Service (PHS) must also adhere to the PHS Policy on Humane Care and Use of Laboratory Animals and follow the Guide for the Care and Use of Laboratory Animals produced by the Institute for Laboratory Animal Research (ILAR).

We comply with licensing and registration requirement standards set by the United States Department of Agriculture (USDA) and similar agencies in other countries such as the European Union, China, Japan and Canada for the care and use of regulated species. Our animal production facilities in the U.S. and Canada and our preclinical facilities in the U.S. and Canada are accredited by the Association for Assessment and Accreditation of Laboratory Animal Care International (AAALAC), a private, nonprofit, international organization that promotes the humane treatment of animals in science through voluntary accreditation and assessment programs.

Our import and export of animals and our operations in foreign countries are subject to international agreements and conventions, as well as a variety of national, regional, and local laws and regulations, which establish the standards for the humane treatment, care, handling and transport of animals by dealers and research facilities.

We conduct nonclinical safety assessment studies to support the submissions for approval or licensing of our clients' products throughout the world. Many of these studies must comply with national statutory or regulatory requirements for Good Laboratory Practice (GLP). GLP regulations describe a quality system for the organizational process and the conditions under which nonclinical studies are planned, performed, monitored, recorded, reported and archived. GLP compliance is required by such regulatory agencies as the FDA, United States Environmental Protection Agency, European Medicines Agency (EMA), Medicines and Healthcare Products Regulatory Agency (MHRA) in the United Kingdom, Health Canada and other similar agencies in the countries we operate. GLP requirements are significantly harmonized throughout the world and our laboratories are capable of conducting studies in compliance with all necessary requirements.

Our manufacturing businesses produce endotoxin test kits, reagents, cell banks used in research and biopharmaceutical production, clinical trial vaccines and vaccine support products. Additionally, several of our laboratories conduct identity, stability and potency testing in support of our clients' manufacturing programs. These activities are subject to regulation by the FDA and other national regulatory agencies under their respective current Good Manufacturing Practice (cGMP) regulations. These regulations require that we manufacture our products or perform testing in a prescribed manner with respect to cGMP compliance, and maintain records of our manufacturing, testing and control activities. In addition, the specific activities of some of our businesses require us to hold specialized licenses for the manufacture, distribution and/or marketing of particular products

All of our sites are subject to licensing and regulation under national, regional and local laws relating to the surface and air transportation of laboratory specimens, the handling, storage and disposal of laboratory specimens, hazardous waste and radioactive materials, and the safety and health of laboratory employees.

To ensure that all business sectors comply with applicable statutory and regulatory requirements and satisfy our client expectations for quality and regulatory compliance, we established a corporate regulatory affairs and compliance organization that oversees our corporate quality system and conducts regular audits of our quality assurance functions. To assure these compliance obligations, we established quality assurance units (QAU) in each of our nonclinical laboratories. The QAUs operate independently from those individuals that direct and conduct studies.

#### Intellectual Property

We develop and implement computer software and technically derived procedures and products intended to maximize the quality and effectiveness of our services. Although our intellectual property rights are valuable to our success, we believe that such factors as the technical expertise, proprietary know-how, ability and experience of our professionals are more important, and that, overall, these technological capabilities provide significant benefits to our clients. Where we consider it appropriate, steps are taken to protect our know-how through confidentiality agreements and registrations. In addition, we in-license technology and products from other companies when it enhances both our product and services businesses. In the future, in-licensing may become a larger initiative to enhance our offerings, particularly as we focus on therapeutic area expertise. With the exception of technology related to our EMD testing business, including Accugenix and the Endosafe-PTS, we have no patents, trademarks, licenses, franchises or concessions which are material and upon which any of our products or services are dependent.

#### Corporate Governance

We are committed to operating our business with integrity and accountability. We strive to meet or exceed all of the corporate governance standards established by the New York Stock Exchange, the Securities and Exchange Commission, and the Federal government as implemented by the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Eight of the nine members of our Board of Directors are independent and have no significant financial, business or personal ties to us or management and all of our board committees (with the exception of our Executive Committee and our Strategic Planning and Capital Allocation Committee) are composed entirely of independent directors. The Board adheres to our Corporate Governance Guidelines and a Code of Business Conduct and Ethics which has been communicated to

employees and posted on our website. We are diligent in complying with established accounting principles and are committed to providing financial information that is transparent, timely and accurate. We have a Related Person Transactions Policy designed to promote the timely identification of such transactions and to ensure we give appropriate consideration to any real or perceived conflicts in our commercial arrangements. We have a global process through which employees, either directly or anonymously, can notify management (and the Audit Committee of the Board of Directors) of alleged accounting and auditing concerns or violations including fraud. Our internal Disclosure Committee meets regularly and operates pursuant to formal disclosure procedures and guidelines which help to ensure that our public disclosures are accurate and timely. Copies of our Corporate Governance Guidelines, Code of Business Conduct and Ethics and Related Person Transactions Policy are available on our website at [www.criver.com](http://www.criver.com) under the “Investor Relations-Corporate Governance” caption.

#### Item 1A. Risk Factors

Set forth below, elsewhere in this Form 10-K and in other documents we file with the SEC are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this Form 10-K. We note that factors set forth below, individually or in the aggregate, may cause our actual results to differ materially from expected and historical results. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider the following to be a complete discussion of all potential risks or uncertainties.

The outsourcing trend in the preclinical stages of drug discovery and development may decrease, which could impair our growth.

Over the past decade, pharmaceutical and biotechnology companies have generally increased their outsourcing of preclinical research support activities. While many industry analysts expect the outsourcing trend to continue to increase for the next several years (although with different growth rates for different phases of drug discovery and development), decreases in preclinical outsourcing activity may result in a diminished growth rate in the sales of any one or more of our service lines and may adversely affect our financial condition and results of operations. For additional discussion of the factors that we believe have recently been influencing outsourcing demand from our clients, please see the section entitled “Our Strategy” included elsewhere in this Form 10-K. Furthermore, our client contracts are generally terminable on little or no notice. Termination of a large contract or multiple contracts could adversely affect our sales and profitability. Our operations and financial results could be significantly affected by these risks.

A reduction in research and development budgets at pharmaceutical and biotechnology companies may adversely affect our business.

Our clients include researchers at pharmaceutical and biotechnology companies. Our ability to continue to grow and win new business is dependent in large part upon the ability and willingness of the pharmaceutical and biotechnology industries to continue to spend on molecules in the preclinical phase of research and development and to outsource the products and services we provide. Fluctuations in the expenditure amounts in each phase of the research and development budgets of these researchers and their organizations could have a significant effect on the demand for our products and services. Research and development budgets fluctuate due to changes in available resources, mergers of pharmaceutical and biotechnology companies, spending priorities (including available resources of our biotechnology clients, particularly those that are cash-negative, who may be highly focused on rationing their liquid assets in a challenging funding environment), general economic conditions and institutional budgetary policies. Our business could be adversely affected by any significant decrease in drug research and development expenditures by pharmaceutical and biotechnology companies, as well as by academic institutions, government laboratories or private foundations. In particular, studies in recent years have indicated that a majority of academic researchers are anticipating reductions in their budgets. Similarly, economic factors and industry trends that affect our clients in these industries, also affect their research and development budgets and, consequentially, our business as well. The economic downturn has also negatively affected us to the extent that the spending by our global pharmaceutical clients has been directed towards their therapies in late-stage clinical rather than early-stage preclinical development as they

work to replenish drug pipelines to offset the effect of patent expirations on sales. Furthermore, our clients (particularly larger biopharmaceutical companies) continue to search for ways to maximize the return on their investments with a focus on leaner research and development costs per drug candidate. For additional discussion of the factors that we believe have recently been influencing research and development budgets at our clients, please see the sections entitled "Our Strategy" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Form 10-K.

A reduction or delay in government funding of research and development may adversely affect our business. A portion of net sales in our RMS segment is derived from clients at academic institutions and research laboratories whose funding is partially dependent on both the level and timing of funding from government sources such as the U.S. National Institutes of Health (NIH) and similar domestic and international agencies, which can be difficult to forecast. Government funding of research and development is subject to the political process, which is inherently fluid and unpredictable. Our sales may be adversely affected if our clients delay purchases as a result of uncertainties surrounding the approval of government budget proposals. Also, government proposals to reduce or eliminate budgetary deficits have sometimes included reduced allocations to the NIH and other government agencies that fund research and development activities. Other programs, such as homeland security or defense, or general efforts to reduce the federal budget deficit could be viewed by the U.S. government as a higher priority. These budgetary pressures may result in reduced allocations in the future to government agencies that fund research and development activities. Although the Obama administration's stimulus packages in 2009, 2010 and 2014 included increases in NIH funding, NIH funding had otherwise remained fairly flat in recent years. A reduction in government funding for the NIH or other government research agencies could adversely affect our business and our financial results as it did in 2013. Also, there is no guarantee that NIH funding will be directed towards projects and studies that require use of our products and services.

Changes in government regulation or in practices relating to the pharmaceutical or biotechnology industries, including potential health care reform, could decrease the need for the services we provide.

Governmental agencies throughout the world, but particularly in the U.S., strictly regulate the drug development process. Our business involves helping pharmaceutical and biotechnology companies, among others, navigate the regulatory drug approval process. Accordingly, many regulations, and often new regulations, are expected to result in higher regulatory standards and often additional revenues for companies that service these industries. However, some changes in regulations, such as a relaxation in regulatory requirements or the introduction of streamlined or expedited drug approval procedures, or an increase in regulatory requirements that we have difficulty satisfying or that make our services less competitive, could eliminate or substantially reduce the demand for our services. Although we believe we are currently in compliance in all material respects with national, regional and local laws (which include the USDA, the standards set by the International Air Transport Association, the Convention on International Trade in Endangered Species of Wild Fauna and Flora, U.S. Fish and Wildlife Service, The Centers for Disease Control and European oversight agencies), failure to comply could subject us to denial of the right to conduct business, fines, criminal penalties and other enforcement actions. In addition, if regulatory authorities were to mandate a significant reduction in safety assessment procedures which utilize laboratory animals (as has been advocated by certain groups), certain segments of our business could be materially adversely affected.

In March 2010, the U.S. Congress enacted health care reform legislation intended over time to expand health insurance coverage and impose health industry cost containment measures. In June 2012, the U.S. Supreme Court upheld the constitutionality of this legislation. The Court's decision allows implementation of key provisions impacting drug manufacturers going forward including, but not limited to, (1) expansion of access to health insurance coverage, (2) expansion of the Medicaid program, (3) enactment of an industry fee on pharmaceutical companies, and (4) imposition of an excise tax on the sale of medical devices. Since the law and its implementation continue to face challenges in Congress and federal courts, and from certain state governments, conservative advocacy groups, and some small business organizations, we are uncertain as to the effects of this legislation on our business and are unable to predict what legislative proposals will be adopted in the future.

Implementation of health care reform legislation may have certain benefits but also may contain costs that could limit the profits that can be made from the development of new drugs. This could adversely affect research and development expenditures by pharmaceutical and biotechnology companies, which could in turn decrease the business opportunities available to us both in the U.S. and abroad. In addition, new laws or regulations may create a risk of liability, increase our costs or limit our service offerings. Furthermore, if health insurers were to change their practices with respect to reimbursements for pharmaceutical products, our clients may spend less, or reduce their growth in spending on research and development.

The FDA is in the process of reviewing and modernizing the GLP regulations to reflect current industry standards. As this may change some of the GLP requirements, the regulatory impact will not be known until the final regulations are issued.

Contaminations in our animal populations can damage our inventory, harm our reputation for contaminant-free production, result in decreased sales and cause us to incur additional costs.

Our research models and fertile chicken eggs must be free of certain infectious agents such as certain viruses and bacteria because the presence of these contaminants can distort or compromise the quality of research results and could adversely

impact human or animal health. The presence of these infectious agents in our animal production facilities and certain service operations could disrupt our contaminant-free research model and fertile egg production as well as our animal services businesses including GEMS, harm our reputation for contaminant-free production and result in decreased sales.

Contaminations typically require cleaning up, renovating, disinfecting, retesting and restarting production or services. Such clean-ups result in inventory loss, clean-up and start-up costs, and reduced sales as a result of lost client orders and credits for prior shipments. In addition to microbiological contaminations, the potential for genetic mix-ups or mis-matings also exists and may require the restarting of the applicable colonies. While this does not require the complete clean-up, renovation and disinfection of the barrier room, it would likely result in inventory loss, additional start-up costs and possibly reduced sales. Contaminations also expose us to risks that clients will request compensation for damages in excess of our contractual indemnification requirements. There also exists a risk that contaminations from models that we produce may affect our client's facilities, with similar impact to them. In some cases, we may produce or import animals carrying infectious agents capable of causing disease in humans; and in the case of such a contamination or undiagnosed infection, there could be a possible risk of human exposure and infection.

We are also subject to similar contamination risks with respect to our large research models. While often we own these models, they may be maintained on our behalf at a site operated by the original provider. Accordingly, risk of contamination may be outside of our control, and we depend on the practices and protocols of third parties to ensure a contamination-free environment. Furthermore, while we often negotiate for contractual risk indemnification, we may be exposed in the event of such contaminations if the third party does not fulfill its indemnification obligation or is unable to as a result of insolvency or other impediments.

All such contaminations described above are unanticipated and difficult to predict and could adversely impact our financial results. Many of our operations are comprised of complex mechanical systems which are subject to periodic failure, including aging fatigue. Such failures are unpredictable, and while we have made significant capital expenditures designed to strengthen our biosecurity, improve our operating procedures to protect against such contaminations, and replace impaired systems and equipment in advance of such events, failures and/or contaminations may still occur.

Any failure by us to comply with applicable regulations and related guidance could harm our reputation and operating results, and compliance with new regulations and guidance may result in additional costs.

Any failure on our part to comply with applicable regulations could result in the termination of ongoing research or the disqualification of data for submission to regulatory authorities. This could harm our reputation, our prospects for future work and our operating results. For example, the issuance of a notice of objectionable observations or a warning from the FDA based on a finding of a material violation by us for Good Laboratory Practice or current Good Manufacturing Practice requirements could materially and adversely affect us. In recent years, the FDA has significantly increased the number of warning letters regarding drug products. If our operations are found to violate any applicable law or other governmental regulations, we might be subject to civil and criminal penalties, damages and fines. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses, divert our management's attention from the operation of our business and damage our reputation.

In addition, regulations and guidance worldwide concerning the production and use of laboratory animals for research purposes continues to be updated. Notably, the European Directive 2010/63/EU requires new standards for animal housing and accommodations that require implementation by 2017. Some of these new standards require additional operating and capital expenses that will impact not only us and our industry competitors, but clients in the biomedical research community through both changes in the pricing of goods and services and changes in their own operations. Similarly, guidance has been and continues to be developed for other areas that impact the biomedical research community on both a national and international basis including transportation, mandated contingency planning, euthanasia guidance, import and export requirements of biological materials, health monitoring requirements and the use of disinfectants.



Our revenue generating agreements contain termination and service reduction provisions or may otherwise terminate according to their term, which may result in less contract revenue than we anticipate.

Many of our agreements with both large and small clients, including those which underlie our strategic relationships with some of our more significant customers, provide for termination or reduction in scope with little or no notice. In addition, we sell our products and services to our competitors, and similarly they sell products and services to us. For instance, we have historically entered into, and currently are party to, contracts with certain of our competitors to distribute specialty research models in locations where our competitors may not have distribution capabilities.

Clients and/or competitors may elect to terminate their agreements with us for various reasons including:

- the products being tested fail to satisfy safety requirements;
- unexpected or undesired study results;
- production problems resulting in shortages of the drug being tested;
- a client's decision to forego or terminate a particular study;
- establishment of alternative distribution channels by our competitors;
- the loss of funding for the particular research study; or
- general convenience/counterparty preference.

If a client or competitor terminates a contract with us, we are entitled under the terms of the contract to receive revenue earned to date as well as certain other costs and, in some cases, termination fees. Cancellation of a large contract or proximate delay, cancellation or conclusion of multiple contracts could materially adversely affect our business and, therefore, may adversely affect our operating results.

Many of our contracts are fixed price and may be delayed or terminated or reduced in scope for reasons beyond our control, or we may under price or overrun cost estimates with these contracts, potentially resulting in financial losses. Many of our contracts provide for services on a fixed price or fee-for-service with a cap basis and, accordingly, we bear the financial risk if we initially under-price our contracts or otherwise overrun our cost estimates. In addition, these contracts may be terminated or reduced in scope either immediately or upon notice. Cancellations may occur for a variety of reasons, and often at the discretion of the client. The loss, reduction in scope or delay of a large contract or the loss or delay of multiple contracts could materially adversely affect our business, although our contracts frequently entitle us to receive the costs of winding down the terminated projects, as well as all fees earned by us up to the time of termination. Some contracts also entitle us to a predetermined termination fee and irrevocably committed costs/expenses.

We could experience a breach of the confidentiality of the information we hold or of the security of our computer systems.

We operate large and complex computer systems that contain significant amounts of client data. As a routine element of our business, we collect, analyze and retain substantial amounts of data pertaining to the preclinical studies we conduct for our clients. Unauthorized third parties could attempt to gain entry to such computer systems for the purpose of stealing data or disrupting the systems. We believe that we have taken appropriate measures to protect them from intrusion, and we continue to improve and enhance our systems in this regard, but in the event that our efforts are unsuccessful we could suffer significant harm. Our contracts with our clients typically contain provisions that require us to keep confidential the information generated from these studies. In the event the confidentiality of such information was compromised, we could suffer significant harm.

Impairment of goodwill may adversely impact future results of operations.

We have intangible assets, including goodwill and other identifiable and indefinite-lived acquired intangibles on our balance sheet due to our acquisitions of businesses. The initial identification and valuation of these intangible assets and the determination of the estimated useful lives at the time of acquisition involve use of management judgments and estimates. These estimates are based on, among other factors, input from accredited valuation consultants, reviews of projected future income cash flows and statutory regulations. The use of alternative estimates and assumptions might have increased or decreased the estimated fair value of our goodwill and other intangible assets that could potentially result in a different impact to our results of operations.

If the future growth and operating results of our business are not as strong as anticipated and/or our market capitalization declines, this could impact the assumptions used in calculating the fair value of goodwill. To the extent goodwill is impaired, its carrying value will be written down to its implied fair value and a charge will be made to our income from continuing operations. Such an impairment charge could materially and adversely affect our operating results. As of December 28, 2013, the carrying amount of goodwill and other intangibles was \$315.2 million on the consolidated balance sheet.

Our business is subject to risks relating to operating internationally.

A significant part of our net sales is derived from operations outside the U.S. Our international revenues, which include revenues from our non-U.S. subsidiaries, have represented approximately one-half of our total net sales in recent years. We expect that international revenues will continue to account for a significant percentage of our revenues for the foreseeable future. There are a number of risks associated with our international business including:

16

---

foreign currencies we receive for sales and in which we record expenses outside the U.S. could be subject to unfavorable exchange rates with the U.S. dollar and reduce the amount of revenue and cash flow (and increase the amount of expenses) that we recognize and cause fluctuations in reported financial results;

certain contracts, particularly in Canada, are frequently denominated in currencies other than the currency in which we incur expenses related to those contracts and where expenses are incurred in currencies other than those in which contracts are priced, fluctuations in the relative value of those currencies could have a material adverse effect on our results of operations;

general economic and political conditions in the markets in which we operate;

potential international conflicts, including terrorist acts;

potential trade restrictions, exchange controls, adverse tax consequences, and legal restrictions on the repatriation of funds into the U.S.;

difficulties and costs associated with staffing and managing foreign operations, including risks of work stoppages and/or strikes, as well as violations of local laws or anti-bribery laws such as the U.S. Foreign Corrupt Practices Act, the UK Bribery Act, and the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions;

unexpected changes in regulatory requirements;

the difficulties of compliance with a wide variety of foreign laws and regulations;

unfavorable labor regulations in foreign jurisdictions;

potentially negative consequences from changes in or interpretations of US and foreign tax laws;

exposure to business disruption or property damage due to geographically unique natural disasters;

longer accounts receivable cycles in certain foreign countries; and

import and export licensing requirements.

These risks, individually or in the aggregate, could have an adverse effect on our results of operations and financial condition. For example, as mentioned above, we are subject to compliance with the United States Foreign Corrupt Practices Act and similar anti-bribery laws, which generally prohibit companies and their intermediaries from making improper payments to foreign government officials for the purpose of obtaining or retaining business. While our employees and agents are required to comply with these laws, we cannot be sure that our internal policies and procedures will always protect us from violations of these laws despite our commitment to legal compliance and corporate ethics. The occurrence or allegation of these types of risks may adversely affect our business, performance, prospects, value, financial condition, and results of operations.

Negative attention from special interest groups may impair our business.

The products and services which we provide our clients are essential to the drug discovery, development and manufacturing process, and are almost universally mandated by law. Notwithstanding, certain special interest groups categorically object to the use of animals for valid research purposes. Historically, our core research model activities with rats, mice and other rodents have not been the subject of significant animal rights media attention. However, research activities with animals have been the subject of adverse attention, including shareholder proposals, impacting the industry. This has included demonstrations near facilities operated by us and at our annual meetings, as well as shareholder proposals we received for our 2012 and 2013 Annual Meetings. In some instances, periodic demonstrations at our operating sites occur. Any negative attention, threats or acts of vandalism directed against either our animal research activities or our third party service providers in the future could impair our ability to operate our business efficiently.

The drug discovery and development services industry is highly competitive.

The drug discovery and development services industry is highly competitive. We often compete for business not only with other CROs, but also with internal discovery and development departments within our larger clients, who may have greater resources than ours. We also compete with universities and teaching hospitals for outsourced services.

We compete on a variety of factors, including:

- reputation for on-time quality performance;
- reputation for regulatory compliance;



- expertise and experience in multiple specialized areas;
- scope and breadth of service and product offerings across the drug discovery and development spectrum;
- ability to provide flexible and customized solutions to support our clients' drug discovery and development needs;
- broad geographic availability (with consistent quality);
- price/value;
- technological expertise and efficient drug development processes;
- quality of facilities;
- financial stability;
- size;
- ability to acquire, process, analyze and report data in an accurate manner; and
- accessibility of client data through secure portals

If we do not compete successfully, our business will suffer. Increased competition might lead to price and other concessions that might adversely affect our operating results. The drug discovery and development services industry has continued to see a trend towards consolidation, particularly among the biotechnology companies, who are targets for each other and for larger pharmaceutical companies. If this trend continues, it is likely to produce more competition among the larger companies and CROs generally, with respect to both clients and acquisition candidates. In addition, while there are substantial barriers to entry for large, global competitors with broad-based services, small, specialized entities considering entering the CRO industry will continue to find lower barriers to entry, and private equity firms may determine that there are opportunities to acquire and consolidate these companies, thus further increasing possible competition. Furthermore, between 2006 and 2008, both Charles River and our competitors, particularly in the preclinical services area, invested significantly in capital projects to increase capacity. An ongoing challenge for all participants is balancing existing capacity and market demand. Where capacity has been increased too much, pressure to lower prices or to take on lower-margin studies and projects can occur. More generally, our competitors or others might develop technologies, services or products that are more effective or commercially attractive than our current or future technologies, services or products, or that render our technologies, services or products less competitive or obsolete. If competitors introduce superior technologies, services or products and we cannot make enhancements to ours to remain competitive, our competitive position, and in turn our business, revenue and financial condition, would be materially and adversely affected. In the aggregate, these competitive pressures may affect the attractiveness of our technologies, services or products and could adversely affect our financial results.

#### Potential Changes in U.S. Tax Law.

In the U.S., there are several proposals to reform corporate tax law that are currently under consideration. These proposals include reducing the corporate statutory tax rate, broadening the corporate tax base through the elimination or reduction of deductions, exclusions and credits, implementing a territorial regime of taxation, limiting the ability of U.S. corporations to deduct interest expense associated with offshore earnings, modifying the foreign tax credit rules, and reducing the ability to defer U.S. tax on offshore earnings. These or other changes in the U.S. tax laws could increase our effective tax rate which would affect our profitability.

We could be adversely affected by tax law changes in Canada and the United Kingdom.

We have substantial operations in Canada and the United Kingdom which currently benefit from favorable corporate tax arrangements. We receive substantial tax credits in Canada, from both the Canadian federal and Quebec governments, and the United Kingdom. Any reduction in the availability or amount of these tax credits due to tax law changes or outcomes of tax controversies could have a material adverse effect on our profits, cash flow and effective tax rate.

Contract research services create a risk of liability.

As a CRO, we face a range of potential liabilities which may include:

- errors or omissions in reporting of study detail in preclinical studies that may lead to inaccurate reports, which may undermine the usefulness of a study or data from the study, or which may potentially advance studies absent the necessary support or inhibit studies from proceeding to the next level of testing;

risks associated with our possible failure to properly care for our clients' property, such as research models and samples, study compounds, records, work in progress, other archived materials, or goods and materials in transit, while in our possession;

18

---

risks that models in our breeding facilities or in facilities that we manage may be infected with diseases that may be harmful and even lethal to themselves or humans despite preventive measures contained in our policies for the quarantine and handling of imported animals; and risks that we may have errors and omissions related to our products designed to conduct lot release testing of medical devices and injectable drugs (primarily through our EMD business) or in the testing of biologics and other services performed by our biopharmaceutical services business, which could result in us or our clients failing to identify unsafe or contaminated materials.

We attempt to mitigate these risks through a variety of methods. Nonetheless, it is impossible to completely eradicate such risks. In our RMS business, we mitigate these risks to the best of our abilities through our regimen of animal testing, quarantine, and veterinary staff vigilance, through which we seek to control the exposure of animal related disease or infections. In our PCS business, we attempt to reduce these risks by contract provisions entitling us to be indemnified or entitling us to a limitation of liability, insurance maintained by our clients and by us, and various regulatory requirements we must follow in connection with our business.

In both our RMS and PCS businesses, contractual risk transfer indemnifications generally do not protect us against liability arising from certain of our own actions, such as negligence or misconduct. We could be materially and adversely affected if we are required to pay damages or bear the costs of defending any claim which is not covered by a contractual indemnification provision or if a party does not fulfill its indemnification obligations or the damage is beyond the scope or level of insurance coverage. We also often contractually indemnify our clients, similar to the way they indemnify us, and we may be materially adversely affected if we have to fulfill our indemnity obligations. Furthermore, there can be no assurance that we or a party required to indemnify us will be able to maintain such insurance coverage on terms acceptable to us.

New technologies may be developed, validated and increasingly used in biomedical research that could reduce demand for some of our products and services.

The scientific and research communities continue to explore methods to develop improved models and systems that would replace or supplement the use of living animals as test platforms in biomedical research as well as improve the translation of cellular and animal models to human studies and vice-versa. Some companies have developed techniques in these areas that may have scientific merit. In addition, technological improvements to existing or new processes, such as imaging and other translational biomarker technologies, could result in the refinement and utility for the number of animal research models necessary to improve the translation from preclinical to human studies. It is our strategy to explore non-animal approaches to reduce the need for animal models as these new methods become validated. We may not be successful in commercializing these methods, and, furthermore, revenues from these new models and approaches if successfully developed may not offset reduced sales or profits from research models. In addition, alternative research methods could decrease the need for future research models, and we may not be able to develop new products effectively or in a timely manner to replace any lost sales. Lastly, other companies or entities may develop research models with characteristics different than the ones that we produce, and which may be viewed as more desirable by some of our clients.

Upgrading and integrating our business systems could result in implementation issues and business disruptions. In recent years we implemented a project to replace many of our numerous legacy business systems at certain different sites worldwide with an enterprise wide, integrated enterprise resource planning (ERP) system. The expansion of the system to other international locations may occur at a future date based on value to the business. In general, the process of planning and preparing for these types of integrated, wide-scale implementations is extremely complex and we are required to address a number of challenges including data conversion, system cutover and user training. Problems in any of these areas could cause operational problems during implementation including delayed shipments, missed sales, billing and accounting errors and other operational issues. There have been numerous, well-publicized instances of companies experiencing difficulties with the implementation of ERP systems which resulted in negative business consequences.



The drug discovery and development industry has a history of patent and other intellectual property litigation, and we might be involved in costly intellectual property lawsuits.

The drug discovery and development industry has a history of patent and other intellectual property litigation and these lawsuits will likely continue. Accordingly, we face potential patent infringement suits by companies that have patents for similar products and methods used in business or other suits alleging infringement of their intellectual property rights. Legal proceedings relating to intellectual property could be expensive, take significant time and divert management's attention from other business concerns, whether we win or lose. If we do not prevail in an infringement lawsuit brought against us, we might

have to pay substantial damages, including treble damages, and we could be required to stop the infringing activity or obtain a license to use technology on unfavorable terms.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, and delays in completing our internal controls and financial audits, could adversely affect our operating results, and investor, supplier and client confidence in our reported financial information.

If we fail to achieve and maintain effective internal controls, we may be unable to provide holders of our securities with the required financial information in a timely and reliable manner and we may incorrectly report financial information, either of which could subject us to regulatory enforcement and other actions, and could have a material adverse effect on our operations, investor, supplier and customer confidence in our reported financial information and the trading price of our common stock. Our management assessment as of December 29, 2012 revealed a material weakness in our internal controls over financial reporting due to the design and operation of certain controls over information technology, business processes and financial reporting. Specifically, we identified deficiencies with respect to controls over segregation of duties, restricted access, changes to vendor and customer master data, transaction level and financial close controls. We have since changed our internal controls to address this material weakness and concluded as of December 28, 2013 that our internal controls related to our internal control over financial reporting were operating effectively.

Although there can be no assurances, we believe these enhancements and improvements as described in detail in Item 9A of Part II of this Form 10-K, when repeated in future periods, will allow us to maintain effective controls over financial reporting. Nevertheless, we may identify other significant deficiencies or material weaknesses which we may not be able to remediate in timely manner or at all.

We may not be able to successfully develop and market new services and products.

We may seek to develop and market new services and products that complement or expand our existing business or service offerings. We believe our ability to in-license new technologies from third-parties will be critical to our ability to offer new products and services to our customers. Our ability to gain access to technologies that we need for new products and services depends - in part - on our ability to convince inventors and their agents or assignees that we can successfully commercialize their inventions. We cannot guarantee that we will be able to identify new technologies of interest to our customers. Even if we are able to identify new technologies of interest, we may not be able to negotiate license agreements on acceptable terms, or at all. If we are unable to develop new services and products and/or create demand for those newly developed services and products, our future business, results of operations, financial condition, and cash flows could be adversely affected.

Several of our product and service offerings are dependent on a limited source of supply, which if interrupted could adversely affect our business.

We depend on a limited international source of supply for certain products, such as large research models. Disruptions to their continued supply may arise from health problems, export or import laws/restrictions or embargoes, international trade regulations, foreign government or economic instability, severe weather conditions, increased competition amongst suppliers for models, disruptions to the air travel system, commercial disputes, supplier insolvency, or other normal-course or unanticipated events. Any disruption of supply could harm our business if we cannot remove the disruption or are unable to secure an alternative or secondary supply source on comparable commercial terms.

Our debt level could adversely affect our business and growth prospects.

At December 28, 2013, we had approximately \$664 million of debt. This debt could have significant adverse effects on our business, including making it more difficult for us to obtain additional financing on favorable terms; requiring us to dedicate a substantial portion of our cash flows from operations to the repayment of debt and the interest on this debt; limiting our ability to capitalize on significant business opportunities; and making us more vulnerable to rising interest rates. For additional information regarding our debt, please see Note 5 included in the Notes to Consolidated Financial Statements elsewhere in this Form 10-K.

If we are not successful in selecting and integrating the businesses and technologies we acquire, or in managing our current and future divestitures, our business may suffer.

During the past decade, we have expanded our business through numerous acquisitions. We plan to continue to acquire businesses and technologies and form strategic alliances. However, businesses and technologies may not be available on terms

20

---

and conditions we find acceptable. We risk spending time and money investigating and negotiating with potential acquisition or alliance partners, but not completing transactions.

Even if completed, acquisitions and alliances involve numerous risks which may include:

- difficulties and expenses incurred in assimilating and integrating operations, services, products or technologies;
- challenges with developing and operating new businesses, including those which are materially different from our existing businesses and which may require the development or acquisition of new internal capabilities and expertise;
- diversion of management's attention from other business concerns;

- potential losses resulting from undiscovered liabilities of acquired companies that are not covered by the indemnification we may obtain from the seller;

acquisitions could be dilutive to earnings, or in the event of acquisitions made through the issuance of our common stock to the shareholders of the acquired company, dilutive to the percentage of ownership of our existing shareholders;

loss of key employees;

- risks of not being able to overcome differences in foreign business practices, customs and importation regulations, language and other cultural barriers in connection with the acquisition of foreign companies;

- risks that disagreements or disputes with prior owners of an acquired business, technology, service or product may result in litigation expenses and distribution of our management's attention;

- integration and support of preexisting supplier, distribution and customer relationships;

- the presence or absence of adequate internal controls and/or significant fraud in the financial systems of acquired companies;

- difficulties in achieving business and financial success; and

- new technologies and products may be developed which cause businesses or assets we acquire to become less valuable.

In the event that an acquired business or technology or an alliance does not meet our expectations, our results of operations may be adversely affected.

Some of the same risks exist when we decide to sell a business, site, or product line. In addition, divestitures could involve additional risks, including the following:

- difficulties in the separation of operations, services, products and personnel; and

- the need to agree to retain or assume certain current or future liabilities in order to complete the divestiture.

We continually evaluate the performance and strategic fit of our businesses. These and any divestitures may result in significant write-offs, including those related to goodwill and other intangible assets, which could have an adverse effect on our results of operations and financial condition. In addition, we may encounter difficulty in finding buyers or alternative exit strategies at acceptable prices and terms and in a timely manner. We may not be successful in managing these or any other significant risks that we encounter in divesting a business, site or product line, and as a result, we may not achieve some or all of the expected benefits of the divestiture.

We depend on key personnel and may not be able to retain these employees or recruit additional qualified personnel, which would harm our business.

Our success depends to a significant extent on the continued services of our senior management and other members of management. James C. Foster, our Chief Executive Officer since 1992 and Chairman since 2000, has held various positions with us for 37 years. We have no employment agreement with Mr. Foster or other members of our non-European based senior management. If Mr. Foster or other members of senior management do not continue in their present positions, our business may suffer.

Because of the specialized scientific nature of our business, we are highly dependent upon attracting and retaining qualified scientific, technical and managerial personnel. While we have a strong record of employee retention, there is still significant

competition for qualified personnel in the veterinary, pharmaceutical and biotechnology fields. Therefore, we may not be able to attract and retain the qualified personnel necessary for the development of our business. The loss of the services of existing personnel, as well as the failure to recruit additional key scientific, technical and managerial personnel in a timely manner, could harm our business.

Our quarterly operating results may vary, which could negatively affect the market price of our common stock.

Our results of operations in any quarter may vary from quarter to quarter and are influenced by such factors as:

- changes in the general global economy;
- the number and scope of ongoing client engagements;
- the commencement, postponement, delay, progress, completion or cancellation of client contracts in the quarter;
- changes in the mix of our products and services;
- the extent of cost overruns;
- holiday buying patterns of our clients;
- budget cycles of our clients;
- the timing and charges associated with completed acquisitions and other events;
- the financial performance of the limited partnerships in which we invest;
- the occasional extra “53rd week” that we recognize in a fiscal year (and 4th fiscal quarter thereof) due to our fiscal year ending on the last Saturday in December; and
- exchange rate fluctuations.

We believe that operating results for any particular quarter are not necessarily a meaningful indication of future results. Nonetheless, fluctuations in our quarterly operating results could negatively affect the market price of our common stock.

#### Item 1B. Unresolved Staff Comments

There are no unresolved comments to be reported in response to Item 1B.

#### Item 2. Properties

We own or lease the land and buildings where we have facilities. We own large facilities (facilities over 50,000 square feet) for our PCS businesses in Canada, Ireland, Scotland and the United States and lease large facilities in the United States. We own large RMS facilities in Canada, China, France, Germany, Japan, England and the United States. None of our leases is individually material to our business operations. Many of our leases have an option to renew, and we believe that we will be able to successfully renew expiring leases on terms satisfactory to us. We believe that our facilities are adequate for our operations and that suitable additional space will be available when needed. For additional information see Note 10 to the Consolidated Financial Statements included elsewhere in this Form 10-K. In fiscal 2013, we initiated minor expansions at certain domestic PCS sites, an international Biologics Testing Solutions site, certain international EMD sites, an international RMS site and a domestic Avian site and we consolidated certain domestic RMS sites. We have adequate capacity to meet the current needs of our PCS and RMS clients, and we do not currently anticipate significant expansion requirements. However, many of our facilities are built for specific purposes. Thus, underutilized capacity may not be usable other than for the specific purposes without significant renovation and expense. We may expand at specific sites if we determine that it is not feasible to utilize available capacity at existing or suspended sites. We may also expand at specific sites in order to accommodate needs resulting from any consolidation strategy. We continue to employ a master site planning strategy to proactively evaluate our real estate needs. In certain circumstances, we dispose of or consolidate operations, which could result in impairment charges. In situations where the associated real estate is leased, and depending on the resolution of these situations, we may be encumbered with the remaining real estate lease obligations.



### Item 3. Legal Proceedings

We are not party to any material legal proceedings, other than ordinary routine litigation incidental to our business that is not material to our business or financial condition.

In early May 2013, with the assistance of the law firm of Davis Polk & Wardwell LLP, the Company commenced an investigation of inaccurate billing with respect to certain government contracts. This issue had been reported to the Company's senior management by a Charles River employee. The Company promptly reported these matters to the relevant government contracting officers, the Department of Health and Human Services' Office of the Inspector General, and the Department of Justice, and is cooperating with these agencies to ensure the proper repayment and resolution of this matter.

The investigation to date has confirmed that the Company's RMS business segment billed the Department of Health and Human Services for certain work that had not been performed with respect to a small subset of the Company's government contracts. It has been determined that when employees regularly assigned to work in research model barrier rooms associated with these contracts were absent, other employees' names would be substituted on time-keeping records associated with the relevant contracts. The Company billed the government for the hours associated with these substitute employees, despite the fact that, in many cases, these employees did not perform any services in connection with the relevant government contracts. Based on the findings of the investigation to date, the Company believes that this conduct was limited to the Company's research model facilities in Raleigh and Kingston.

The Company has identified approximately \$1.5 million in excess amounts billed on these contracts since January 1, 2007 and has reserved such amount. Because of the preliminary stage of discussions with the government and complex nature of this matter, the Company cannot at this time make a reasonable estimate of the potential range of loss beyond such reserve.

The Company has already taken appropriate steps to prevent this conduct from recurring, and will consider additional remedial measures following the conclusion of the investigation.

### Item 4. Mine Safety Disclosures

Not Applicable

Supplementary Item. Executive Officers of the Registrant (pursuant to Instruction 3 to Item 401(b) of Regulation S-K).

Below are the names, ages and principal occupations of each of our current executive officers. All such persons have been elected to serve until their successors are elected and qualified or until their earlier resignation or removal.

Thomas F. Ackerman, age 59, joined us in 1988 with over eleven years of combined public accounting and international finance experience. He was named Controller, North America in 1992 and became our Vice President and Chief Financial Officer in 1996. In 1999, he was named a Senior Vice President and in 2005 he was named a Corporate Executive Vice President. He is currently responsible for overseeing our Accounting and Finance Department and several other corporate staff departments. Prior to joining us, Mr. Ackerman was an accountant at Arthur Andersen & Co.

James C. Foster, age 63, joined us in 1976 as General Counsel. During his tenure, Mr. Foster has held various staff and managerial positions, and was named our President in 1991, Chief Executive Officer in 1992 and our Chairman in 2000.

Jörg M. Geller, age 59, joined our German operation in 1986 as production manager. In 1994, he was promoted to Vice President and in 2007, he was named a Senior Vice President. In 2011, Dr. Geller was promoted to Corporate Executive Vice President, European & Asian Operations and in December 2013, he was named Corporate Executive Vice President, Global Productivity and Efficiency. Prior to joining us, Dr. Geller was employed in private practice as a veterinarian.

Nancy A. Gillett, age 58, joined us in 1999 with the acquisition of Sierra Biomedical. Dr. Gillett has 29 years of experience as an ACVP board certified pathologist and scientific manager. In 1999, she became Senior Vice President

and General Manager of our Sierra Biomedical division, and subsequently held a variety of managerial positions, including President and General Manager of Sierra Biomedical and Corporate Vice President and General Manager of Drug Discovery and Development (the predecessor to our PCS business segment). In 2004, Dr. Gillett was named Corporate Senior Vice President and President, Global Preclinical Services, and in 2006, she became a Corporate Executive Vice President. Currently, Dr. Gillett serves as our Corporate Executive Vice President, Chief Scientific Officer.



David P. Johst, age 52, joined us in 1991 as Corporate Counsel and was named Vice President, Human Resources in 1995. He became Vice President, Human Resources and Administration in 1996, a Senior Vice President in 1999, and a Corporate Executive Vice President in 2005. He currently serves as our General Counsel and Chief Administrative Officer and is responsible for overseeing our Corporate legal function, Human Resources department and several other corporate staff departments. Mr. Johst also currently serves as interim head of our Insourcing Solutions business. Prior to joining us, Mr. Johst was in private practice at the law firm of Hale and Dorr (now WilmerHale).

Davide Molho, age 44, joined our Italian operations in 1999 and was promoted to Director of Operations for Research Models and Services (RMS) Italy in 2002. In 2005, his role was expanded to include French RMS operations and in 2007, he became Corporate Vice President, European Research Models and Services with responsibility for all European RMS operations. In July 2009, Dr. Molho was promoted to Corporate Senior Vice President, North American and European Research Models and Services. He was subsequently promoted to Corporate Executive Vice President and President, Global Research Models and Services in December 2010. In 2011, Dr. Molho was named Corporate Executive Vice President, North America Operations and in December 2013, he was named Corporate Executive Vice President and President, Global RMS and PCS Operations.

## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock began trading on the New York Stock Exchange on June 23, 2000 under the symbol "CRL." The following table sets forth for the periods indicated below the high and low sales prices for our common stock.

|   |          |          |
|---|----------|----------|
| 2014                                      | High     | Low      |
| First quarter (through February 14, 2014) | \$ 59.19 | \$ 52.88 |
| 2013                                      | High     | Low      |
| First quarter                             | \$ 46.90 | \$ 36.50 |
| Second quarter                            | 45.90    | 40.28    |
| Third quarter                             | 48.73    | 41.05    |
| Fourth quarter                            | 53.81    | 44.12    |
| 2012                                      | High     | Low      |
| First quarter                             | \$ 37.02 | \$ 27.39 |
| Second quarter                            | 36.75    | 31.82    |
| Third quarter                             | 39.60    | 32.27    |
| Fourth quarter                            | 41.24    | 35.65    |

There were no equity securities that were not registered under the Securities Act of 1933, as amended, sold by the Company during the fiscal year ended December 28, 2013.

## Shareholders

As of January 31, 2014, there were approximately 442 registered shareholders of the outstanding shares of common stock.

## Dividends

We have not declared or paid any cash dividends on shares of our common stock in the past two years and we do not intend to pay cash dividends in the foreseeable future. We currently intend to retain any earnings to finance future operations and expansion. Some of the restrictive covenants contained in our revolving credit agreement and term loan agreements limit our ability to pay dividends.

## Issuer Purchases of Equity Securities

The following table provides information relating to our purchases of shares of our common stock during the quarter ended December 28, 2013.

|  | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs |
|--|----------------------------------|------------------------------|--|--|
| September 29, 2013 to October 25, 2013 | 240,040                          | \$46.81                      | 240,000  | \$ 205,058   |
| October 26, 2013 to November 22, 2013  | 827,158                          | \$ 50.67                     | 827,100  | \$ 163,147   |
| November 23, 2013 to December 28, 2013 | 455,900                          | \$ 52.75                     | 455,900  | \$ 139,099   |
| Total:                                 | 1,523,098                        |                              | 1,523,000  |  |

On July 29, 2010, our Board of Directors authorized a \$500 million stock repurchase program. Our Board of Directors subsequently approved increases to the stock repurchase program by \$250 million in 2010, and by \$250 million in 2013 for an aggregate authorization of \$1 billion. During the fourth quarter of 2013, we repurchased 1,523,000 shares of common stock for \$77.2 million under our Rule 10b5-1 Purchase Plan and in open market trading. Additionally, the Company's Incentive Plans permit the netting of common stock upon vesting of restricted stock awards in order to

satisfy individual tax withholding requirements. During the quarter ended December 28, 2013, the Company acquired 98 shares for a nominal amount as a result of such withholdings.

## Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes, as of December 28, 2013, the number of options issued under the Company's stock option plans and the number of options available for future issuance under these plans.

| Plan Category  | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|--|---|---|---|
|  | (a)   | (b)   | (c)   |
| Equity compensation plan approved by security holders:     |   |   |   |
| Charles River 2000 Incentive Plan                          | 588,150   | \$ 46.89  | 1,190,787   |
| Charles River 1999 Management Incentive Plan               | —   | \$ —  | 6,000   |
| Inveresk 2002 Stock Option Plan                            | 5,233   | \$ 43.03  | —   |
| 2007 Incentive Plan  | 3,175,350   | \$ 39.67  | 7,780,081   |
| Equity compensation plans not approved by security holders | —   | —   | —   |
| Total  | 3,768,733   | (1)   | 8,976,868 (2)   |

None of the options outstanding under any of our equity compensation plans include rights to any dividend (1)equivalents (i.e., a right to receive from us a payment commensurate to dividend payments received by holders of our common stock or our other equity instruments).

On March 22, 2007, the Board of Directors determined that, upon approval of the 2007 Incentive Plan, no future awards would be granted under the preexisting equity compensation plans, including the Charles River 1999 (2)Management Incentive Plan and the Charles River 2000 Incentive Plan. Shareholder approval was obtained on May 8, 2007. Previously, on February 28, 2005, the Board of Directors terminated the Inveresk 2002 Stock Option Plan to the extent that no further awards would be granted thereunder.

The following table provides additional information regarding the aggregate issuances under our existing equity compensation plans as of December 28, 2013:

| Category   | Number of securities outstanding | Weighted average exercise price | Weighted average term |
|--|----------------------------------|---------------------------------|-----------------------|
|  | (a)                              | (b)                             | (c)                   |
| Total number of restricted shares outstanding(1) | 932,703                          | \$—                             | —                     |
| Total number of options outstanding              | 3,768,733                        | \$40.80                         | 3.3 years             |
| Total number of performance units outstanding    | 163,847                          |                                 |                       |

For purposes of this table, only unvested restricted stock as of December 28, 2013 is included. Also for purposes of (1)this table only, the total includes 123,346 restricted stock units granted to certain of our employees outside of the United States.



Comparison of 5-Year Cumulative Total Return

The following stock performance graph compares the annual percentage change in the Company's cumulative total shareholder return on its Common Stock during a period commencing on December 28, 2008 and ending on December 28, 2013 (as measured by dividing (1) the sum of (A) the cumulative amount of dividends for the measurement period, assuming dividend reinvestment, and (B) the difference between the Company's share price at the end and the beginning of the measurement period; by (2) the share price at the beginning of the measurement period) with the cumulative total return of the S&P 500 Index and the NASDAQ Pharmaceutical Index during such period. The Company has not paid any dividends on the Common Stock, and no dividends are included in the representation of the Company's performance. The stock price performance on the graph below is not necessarily indicative of future price performance. The graph is not "soliciting material," is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference in any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934 whether made before or after the date hereof and irrespective of any general incorporation language in any such filing. Information used in the graph was obtained from Standards & Poor's Institutional Market Services, a source believed to be reliable, but the Company is not responsible for any errors or omissions in such information.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN

Among Charles River Laboratories International, Inc., The S&P 500 Index  
And The NASDAQ Pharmaceutical Index

|  | Dec. 27,<br>2008 | Dec. 26,<br>2009 | Dec. 25,<br>2010 | Dec. 31,<br>2011 | Dec. 29,<br>2012 | Dec. 28,<br>2013 |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| Charles River Laboratories International, Inc. | 100              | 131.73           | 142.69           | 109.23           | 147.4            | 213.15           |
| S&P 500 Index                                  | 100              | 126.46           | 145.51           | 148.59           | 172.37           | 228.19           |
| NASDAQ Pharmaceutical Index                    | 100              | 104.9            | 109.55           | 125.16           | 172.74           | 284.56           |

## Item 6. Selected Consolidated Financial Data

The following selected financial data are derived from our Consolidated Financial Statements and notes thereto and should be read in conjunction with Item 7., "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and notes thereto contained in Item 8., "Financial Statements and Supplementary Data" of this report. Our fiscal year consists of 12 months ending on the last Saturday on, or prior to, December 31.

|  | Fiscal Year            |             |             |             |             |
|--|------------------------|-------------|-------------|-------------|-------------|
|  | 2013                   | 2012        | 2011        | 2010        | 2009        |
|  | (dollars in thousands) |             |             |             |             |
| Statement of Income Data:                                    |                        |             |             |             |             |
| Net sales  | \$1,165,528            | \$1,129,530 | \$1,142,647 | \$1,133,416 | \$1,171,642 |
| Cost of products sold and services provided                  | 766,424                | 733,901     | 740,405     | 748,656     | 748,650     |
| Selling, general and administrative expenses                 | 225,695                | 208,248     | 198,648     | 232,489     | 227,663     |
| Goodwill impairment  | —                      | —           | —           | 305,000     | —           |
| Asset impairment   | 4,202                  | 3,548       | 7,492       | 91,378      | —           |
| Termination fee  | —                      | —           | —           | 30,000      | —           |
| Amortization of intangibles                                  | 17,806                 | 18,068      | 21,796      | 24,405      | 25,716      |
| Operating income (loss)                                      | 151,401                | 165,765     | 174,306     | (298,512)   | 169,613     |
| Interest income  | 730                    | 589         | 1,353       | 1,186       | 1,712       |
| Interest expense   | (20,969)               | (33,342)    | (42,586)    | (35,279)    | (21,682)    |
| Other, net   | 7,165                  | (3,266)     | (411)       | (1,477)     | 1,914       |
| Income (loss) from continuing operations before income taxes | 138,327                | 129,746     | 132,662     | (334,082)   | 151,557     |
| Provision for income taxes                                   | 32,911                 | 27,628      | 17,140      | 23          | 40,354      |
| Income (loss) from continuing operations net of income taxes | 105,416                | 102,118     | 115,522     | (334,105)   | 111,203     |
| Income (loss) from discontinued businesses, net of tax       | (1,265)                | (4,252)     | (5,545)     | (8,012)     | 1,399       |
| Net income (loss)  | 104,151                | 97,866      | 109,977     | (342,117)   | 112,602     |
| Net income (loss) attributable to noncontrolling interests   | (1,323)                | (571)       | (411)       | 5,448       | 1,839       |
| Net income (loss) attributable to common shareholders        | \$102,828              | \$97,295    | \$109,566   | \$(336,669) | \$114,441   |
| Common Share Data:   |                        |             |             |             |             |
| Earnings (loss) per common share                             |                        |             |             |             |             |
| Basic  |                        |             |             |             |             |
| Continuing operations attributable to common shareholders    | \$2.18                 | \$2.12      | \$2.26      | \$(5.25)    | \$1.73      |
| Discontinued operations                                      | \$(0.03)               | \$(0.09)    | \$(0.11)    | \$(0.13)    | \$0.02      |
| Net income (loss) attributable to common shareholders        | \$2.15                 | \$2.03      | \$2.16      | \$(5.38)    | \$1.75      |
| Diluted  |                        |             |             |             |             |
| Continuing operations attributable to common shareholders    | \$2.15                 | \$2.10      | \$2.24      | \$(5.25)    | \$1.72      |
| Discontinued operations                                      | \$(0.03)               | \$(0.09)    | \$(0.11)    | \$(0.13)    | \$0.02      |
| Net income (loss) attributable to common shareholders        | \$2.12                 | \$2.01      | \$2.14      | \$(5.38)    | \$1.74      |

Edgar Filing: CHARLES RIVER LABORATORIES INTERNATIONAL INC - Form 10-K

Other Data:

|  |           |           |           |           |           |
|--|-----------|-----------|-----------|-----------|-----------|
| Depreciation and amortization            | \$96,636  | \$81,275  | \$85,230  | \$93,649  | \$89,962  |
| Capital expenditures                     | 39,154    | 47,534    | 49,143    | 42,860    | 79,853    |
| Balance Sheet Data (at end of period):   |           |           |           |           |           |
| Cash and cash equivalents                | \$155,927 | \$109,685 | \$68,905  | \$179,160 | \$182,574 |
| Working capital                          | 305,516   | 143,005   | 209,046   | 293,114   | 345,828   |
| Goodwill, net                            | 230,701   | 208,609   | 197,561   | 198,438   | 508,235   |
| Total assets                             | 1,644,621 | 1,586,344 | 1,558,320 | 1,733,373 | 2,204,093 |
| Total debt and capital lease obligations | 663,789   | 666,520   | 717,945   | 700,852   | 492,832   |
| Total shareholders' equity               | 640,984   | 600,805   | 525,583   | 687,423   | 1,375,243 |



## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis will help you understand our financial condition and results of operations. The Management's Discussion and Analysis is a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying notes to the consolidated financial statements.

### Overview

We are a leading global provider of solutions that advance the drug discovery and development process, including research models and associated services and outsourced preclinical services. We provide our products and services to pharmaceutical and biotechnology companies, government agencies, leading hospitals and academic institutions around the world in order to bring drugs to market faster and more efficiently. We have built upon our core competency of in vivo biology, including laboratory animal medicine and science (research model technologies) to develop a diverse portfolio of preclinical services, both GLP (Good Laboratory Practice) and non-GLP, which address drug discovery and development. Utilizing our broad portfolio of products and services enables our clients to create a more flexible drug development model which reduces their costs, enhances their productivity and effectiveness, and increases speed to market. We have been in business for over 65 years and currently operate approximately 68 facilities in 16 countries worldwide.

Beginning in late 2008, large pharmaceutical and biotechnology companies undertook significant changes in their operations as they endeavored to improve the productivity of their drug development pipelines, and at the same time, streamline their infrastructures in order to improve efficiency and reduce operating costs. Our clients' efforts had an unfavorable impact on our operations as a result of their measured research and development spending; delays in decisions and commitments; tight cost constraints and the resultant pressure on pricing and payment terms, particularly in view of excess capacity in the contract research industry; and a focus on late-stage clinical testing as our clients accelerate their efforts to bring drugs to market in the face of expiration of patents on branded drugs. There were other trends which also affected us unfavorably: biotechnology companies experienced a period of decreased funding; there was uncertainty surrounding healthcare reform initiatives; and the pharmaceutical and biotechnology industries continued to consolidate.

While these factors have continued to contribute to demand uncertainty and impact sales, there have been improvements in many of them. Large biopharmaceutical companies have made progress in their operating efficiency, which have included closure of underutilized facilities. This, in turn, has led to an increase in outsourcing, as these clients have chosen to utilize our facilities and scientific expertise rather than maintaining in-house capabilities. As part of our clients' efforts to improve pipeline productivity, pharmaceutical and biotechnology companies are emphasizing efficacy testing in order to eliminate molecules from the pipeline earlier in the drug development process. This trend is visible in increasing demand for our non-GLP in vivo pharmacology and drug metabolism and pharmacokinetics (DMPK) services. In addition to outsourcing services to contract research organizations (CROs), large biopharmaceutical companies are also partnering with biotechnology companies and academia in order to access their novel molecules and research capabilities; as a result, there has been a significant increase in funding for biotechnology companies and research institutions. 2013 was a robust year for biotechnology funding, as improvements in the capital markets provided additional funding for these companies.

As a result of these factors, our market for products and services has stabilized. In this environment, our targeted sales strategies are resulting in sales growth.

As our clients increase focus on strategic outsourcing, our scientific expertise, operating efficiency, information technology platforms and client data portals, and ability to meet each client's individual needs strongly positions us to compete for business. We believe we continue to win new or renewing existing strategic relationships in a highly competitive marketplace because of the industry characteristics noted above, as well as our broad portfolio of products and services which span the early-stage drug development continuum, and our ability to develop a customized in vivo biology program to support our client's drug development efforts. Price continues to be a factor in our clients' choice of strategic partners, but we believe our scientific expertise remains a key criterion when our clients make the decision to

eliminate in-house capabilities and rely on a CRO. Our clients are at different stages in the outsourcing process, and we are in ongoing discussions concerning additional strategic relationships as our clients focus on the logistics of outsourcing. Additionally, we continue to expand our relationships with our mid-tier and academic clients through focused sales and marketing efforts in order to achieve market share gains.

We believe that the long-term drivers for our business as a whole will primarily emerge from our clients' continued demand for research models and services, EMD products, and both GLP and non-GLP in vivo biology services, which are essential to the drug development process. However, presently it is challenging to predict the timing associated with these drivers.

We continue to focus on our four key initiatives, which were designed to be cornerstones of the strategy to position ourselves to operate successfully in the current and future business environment, and thus drive profitable growth and maximize value for shareholders. These four initiatives are: (1) improving our consolidated operating margin; (2) improving free cash flow generation; (3) disciplined investment in growth businesses; and (4) returning value to shareholders.

Our continued actions in 2013 toward the achievement of these initiatives include the following:

Our focus on operating efficiencies is evidenced by our plan announced in the third quarter to consolidate production in our California research model facility. We expect to continue to rationalize our global production capacity to continue to achieve efficiencies and cost savings. As part of this initiative, in first quarter of 2014 we announced our plan to close our research model production facility in Michigan by the end of the 2014, which will include associated severance and accelerated depreciation charges of approximately \$4 million in 2014. Other projects in support of our global efficiency initiative are expected in 2014, but as of the date of this filing no specific decisions have been made. In the fourth quarter we announced organizational changes, including a new role for Dr. Jörg Geller who is tasked with leading a new global initiative to enhance efficiency and drive increased productivity across all of our businesses.

During 2013, we made two growth acquisitions: acquired a 75% interest in Vital River in China and purchased the business of an EMD products and services provider in Singapore.

We continue to repurchase our stock with the intent to drive immediate shareholder value and earnings per share accretion. During 2013 we repurchased 3.5 million shares on the open market based on our share buy-back program. Our weighted average shares outstanding 48.5 million for the year ending December 28, 2013 were consistent with the prior year as a result of significant stock option exercises during 2013. During 2013, our Board of Directors approved a total of \$250 million in increases in our share buy-back program.

Total net sales in 2013 were \$1,165.5 million, an increase of 3.2% from \$1,129.5 million in 2012. Foreign currency translation had a negative impact on sales of 0.8%. We report two segments: Research Models and Services (RMS) and Preclinical Services (PCS). Sales increased in both our RMS and PCS reportable segments.

Our RMS segment, which represented 60.7% of net sales in 2013, includes three categories: Research Models, Research Model Services, and Endotoxin and Microbial Detection (EMD). Research Models includes production of small and large research models as well as avian products. Research Model Services include four business units: Genetically Engineered Models and Services (GEMS), which performs contract breeding and associated services, Research Animal Diagnostics (RADS), which provides health monitoring and diagnostics services, Discovery Research Services (DRS), which provides non-regulated efficacy testing, and Insourcing Solutions (IS), which provides management services for our client's in vivo operations. Our PCS segment, which represented 39.3% of net sales in 2013, includes services required to take a drug through the development process including DRS, safety assessment and biologics testing services.

Net sales for the RMS segment increased 1.7% in 2013 compared to 2012, primarily driven by the acquisition of 75% of Vital River and the resulting expansion of our research model sales in China, and by continued growth of our EMD business. RMS sales growth was partially offset by foreign currency translation, which had a negative impact on sales of 1.2%, and sales declines in our legacy research model production operations in the U.S., Europe and Japan, which offset net sales growth. Net sales for the PCS segment increased 5.5% year-over-year, driven by higher demand for our preclinical services, partially offset by unfavorable foreign currency, which decreased sales growth by 0.4%.

Our operating income was \$151.4 million for 2013, compared to operating income of \$165.8 million for 2012. The reduction in operating income was due to several factors, including accelerated depreciation expense of \$15.4 million related to two facilities in the U.S. that were consolidated or vacated in 2013.

Operating income for the RMS segment was \$181.3 million in 2013, compared to \$202.4 million in 2012. Operating income in the current year was negatively affected by accelerated depreciation of \$13.5 million related to

consolidation of a research model production facility in California and lower volume of research model sales in the U.S., Europe and Japan. Operating income for the PCS segment increased to \$44.1 million in 2013 compared to \$34.6 million in 2012. The increase was driven by higher sales volume, a favorable mix including longer term contracts, and the benefit of efficiency initiatives.

Income from continuing operations, net of tax, was \$105.4 million for 2013 compared to \$102.1 million for 2012. For 2013, diluted earnings per share attributable to common shareholders were \$2.12 compared to \$2.01 in 2012. Net income attributable

to common shareholders increased to \$102.8 million in 2013, compared to \$97.3 million in 2012. Cash flows provided by operating activities in 2013 were \$209.0 million compared to \$208.0 million in 2012.

#### Critical Accounting Policies and Estimates

Preparation of these financial statements requires management to use judgment when making assumptions that are involved in preparing estimates that affect the reported amounts of assets, liabilities, revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and assumptions. Some of those estimates can be complex and require management to make estimates about the future and actual results could differ from those estimates. Management bases its estimates and assumptions on historical experience and on various other factors that are believed 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. For any given estimate or assumption made by management, there may also be other estimates or assumptions that are reasonable.

We consider the following accounting estimates important in understanding our operating results and financial condition. For additional accounting policies see Notes to Consolidated Financial Statements-Note 1. Description of Business and Summary of Significant Accounting Policies.

#### Valuation and Impairment of Goodwill, Indefinite-Lived Intangible Assets and Definite-Lived Intangible Assets

A significant portion of the purchase price in our business acquisitions is assigned to intangible assets and goodwill. Assigning value to intangible assets requires that we use significant judgment in determining (i) the fair value and (ii) whether such intangibles are amortizable or non-amortizable and, if the former, the period and the method by which the intangible assets will be amortized. We utilize commonly accepted valuation techniques, such as the income approach and the cost approach, as appropriate, in establishing the fair value of long-lived assets. Typically, key assumptions include projected revenue and expense levels used in establishing the fair value of business acquisitions as well as discount rates based on an analysis of our weighted average cost of capital, adjusted for specific risks associated with the assets. Changes in the initial assumptions could lead to changes in amortization expense recorded in our future financial statements.

We test for goodwill impairment annually or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. Our annual goodwill impairment assessment has historically been completed in the fourth quarter. We have elected not to apply the guidance available in ASU 2011-08, Testing Goodwill for Impairment, to assess purely qualitative factors to determine whether it is more likely than not that the fair value of our reporting units is less than their carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. We performed the first step of the two-step goodwill impairment test for our reporting units as of the first day of fiscal November, 2013. The first step, identifying a potential impairment, compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds fair value, the second step would need to be performed; otherwise, no further step is required. The second step, measuring the impairment loss, compares the implied fair value of the reporting unit's goodwill with its carrying amount. Any excess of the goodwill carrying amount over the implied fair value is recognized as an impairment loss, and the carrying value of goodwill is written down to fair value. Our 2013 impairment test indicated that goodwill was not impaired for any reporting unit. Please refer to Note 3 to the consolidated financial statement for further information on goodwill. As noted above, the goodwill impairment analysis is a two-step process. The first step is used to identify potential impairment and involves comparing each reporting unit's estimated fair value to its carrying value, including goodwill. Fair value is determined by using a weighted combination of a market-based approach and an income approach, as this combination is deemed to be the most indicative of our fair value in an orderly transaction between market participants. Under the market-based approach, we utilize information about our company as well as publicly available industry information to determine earnings multiples and sales multiples that are used to value our reporting units. Under the income approach, we determine fair value based on the estimated future cash flows of each reporting unit, discounted by an estimated weighted-average cost of capital which reflects the overall level of inherent risk of the reporting unit and the rate of return an outside investor would expect to earn. Determining the fair value of a

reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates, profit margin percentages, discount rates, perpetuity growth rates, future capital expenditures and future market conditions, among others. Our projections are based on our internal plans. Key assumptions, strategies, opportunities and risks from this strategic review along with a market evaluation are the basis for our assessment. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is not considered to be impaired.

However, if the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment.

The second step of the goodwill impairment process, if required, measures the goodwill impairment by calculating an implied fair value of goodwill for each reporting unit for which step one indicated impairment. The implied fair value of goodwill is

determined similar to the manner in which goodwill is calculated in a business combination: by measuring the excess of the estimated fair value of the reporting unit over the estimated fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. In determining the fair value of assets, we utilize appraisals for the fair value of property and equipment and valuations of certain intangible assets, including client relationships.

#### Valuation and Impairment of Long-Lived Assets

We assess the carrying value of property, plant and equipment and definite-lived intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include but are not limited to the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant negative industry or economic trends; or
- significant changes or developments in strategy or operations that negatively affect the utilization of our long-lived assets.

Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Should we determine that the carrying value of held-for-use long-lived assets may not be recoverable, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in our current business model. We may also estimate fair value based on market prices for similar assets, as appropriate. Significant judgments are required to estimate future cash flows, including the selection of appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for these assets.

Long-lived asset groups may be classified as held-for-sale when the following conditions are met: we have committed to a plan to sell the asset group and it is unlikely that significant changes will be made to the plan; the asset group is available for immediate sale in its present condition and it is probable that the sale will be completed within one year; and an active program to locate a buyer has been initiated and the asset group is being marketed at a sale price that is reasonable in relation to its current fair value. Should we determine that the carrying value of held-for-sale long-lived assets exceeds its fair value, we will measure any impairment based on this difference. Subsequent adjustments to the carrying amount of held-for-sale assets based on changes in fair value are recorded but only to the extent of the carrying amount of the asset group when it entered the held-for-sale category.

#### Revenue Recognition

We recognize revenue related to our products, which include research models, EMD technology and vaccine support products, when persuasive evidence of an arrangement exists, generally in the form of client purchase orders, title and risk of loss have transferred, which generally occurs upon delivery of the products, the sales price is fixed or determinable and collectability is reasonably assured. Product sales are recorded net of returns upon delivery. For large models, in some cases clients pay in advance of delivery of the product. These advances are deferred and recognized as revenue upon delivery of the product.

Our service revenue is generally evidenced by client contracts. Our service revenue is recognized upon the completion of the agreed upon performance criteria. These performance criteria are generally in the form of either study protocols or specified activities or procedures that we are engaged to perform. These performance criteria are established by our clients and do not contain acceptance provisions based upon the achievement of certain study or laboratory testing results. Revenue of agreed upon rate per unit contracts is recognized as services are performed, based upon rates specified in the contract. Revenue of fixed fee contracts is recognized as services are performed in relation to the total estimated costs to complete procedures specified by clients in the form of study protocols. In general, such amounts become billable in accordance with predetermined payment schedules, but are recognized as revenue as services are performed. Revisions in estimated effort to complete the contract are reflected in the period in which the change became known.

Deferred and unbilled revenue are recognized in our consolidated balance sheets. In some cases, a portion of the contract fee is paid at the time the study is initiated. These advances are recorded as deferred revenue and recognized as revenue as services are performed. Conversely, in some cases, revenue is recorded based on the level of service performed in advance of billing the client and recognized as unbilled receivable. As of December 28, 2013, based on the difference between the estimated level of services performed and the billing arrangements defined by our service contracts, we recorded unbilled revenue of \$35.2 million and deferred revenue of \$54.2 million in our consolidated balance sheet.



Service revenue from our businesses can be categorized as follows:

Safety assessment services provide highly specialized toxicology studies to evaluate the safety and toxicity of new pharmaceutical molecules and materials used in medical devices. It also includes pathology services, which provide the ability to identify and characterize pathologic changes within tissues and cells in determining the safety of a new compound. The safety assessment services arrangements typically range from one to six months but can range up to approximately 24 months in length. These agreements are primarily negotiated for a fixed fee and also include unit-based pricing.

RADS services monitor and analyze the health and genetics of research models used in research protocols. These laboratory service arrangements are generally completed within a one-month period and are also of a fixed fee nature. GEMS services include validating, maintaining, breeding and testing research models for biomedical research activities. These services are long-term and are recognized as revenue monthly based on agree-upon fixed price per unit.

Discovery Research Services (DRS), which provides non-GLP efficacy studies and other services required as drugs progress through the development pipeline, range between one month and five years. Revenue for these services is recognized as the services are performed.

Inourcing Solutions (IS) provides services for the management of animal care operations on behalf of government, academic, pharmaceutical and biotechnology organizations. These services are billed and recognized as revenue at a fixed rate per hour.

EMD services provide contract microbial identification testing. These services are generally completed in less than 30 days and are billed, and recognized as revenue, upon completion and billing.

#### Pension Plan Accounting

Our defined benefit pension plans' assets, liabilities and expenses are calculated by accredited independent actuaries using certain assumptions, which are approved by management. The actuarial computations require the use of assumptions to estimate the total benefits ultimately payable to employees and to allocate this cost to the service periods. The key assumptions used to calculate pension costs are determined and reviewed annually by management after consulting with outside investment advisers and actuaries. The key assumptions include the discount rate, the expected return on plan assets and expected future rate of salary increases. In addition, our actuaries determine the expense or liability of the plan using other assumptions for future experiences such as withdrawal and mortality rate. The assumed discount rate, which is intended to be the actual rate at which benefits could effectively be settled, is adjusted based on the change in the long-term bond yield as of the measurement date.

The estimated long-term return on plan assets is the average return expected on invested funds over the period in which future benefits are paid to pension plan participants. We estimate the future return on invested pension assets annually based on information prepared by our outside actuaries and investment advisers. We use several data points to estimate the long-term investment return, including our targeted asset allocation, capital market performance estimates prepared by our outside investment advisers, survey information of rates of return used by other public companies and historical return information. If the actual annual return is different from estimated long-term return on plan assets, the difference is recorded in accumulated other comprehensive income and is amortized to pension expense over a period of approximately 15 to 20 years.

The weighted average expected long-term return on plan assets as of 2013, 2012 and 2011 are 6.3%, 6.6% and 6.8%, respectively. The expected return is intended to match the duration over which our pension plans will provide benefit payments to participants. The duration of our largest plans (the U.S. plan and the U.K. plan), which comprise approximately 90% of global plan assets as of December 28, 2013, are approximately 14 and 22 years, respectively. For the years ended 2013 and 2012, our invested funds achieved returns of 12.0% and 10.8%, respectively. We acknowledge that there are limitations to historical returns in their use to predict future performance, including annual volatility in the market and changes in our asset allocation.

#### Stock-based Compensation

We recognize compensation expense for all stock-based payment awards, including stock options and restricted stock awards, made to employees and directors based on the fair value of the award at grant date. All awards contain a

service condition that requires the employee or director to provide services in order to vest in the award. Certain of our awards also contain performance and/or market conditions. For awards with performance conditions, we recognize quarterly stock-based compensation based on the grant-date fair value of awards expected to vest based on the achievement of the performance condition. For awards with market conditions, we calculate the incremental fair value of the market condition at grant date.

Stock-based compensation is recognized on a straight-line basis over the requisite service period, which is generally the vesting period, net of estimated forfeiture for employee turnover. We estimate the fair value of stock options using the Black-Scholes option pricing model and we calculate the fair value of our restricted stock awards and restricted stock units based on the quoted market price of our common stock. Forfeiture rates are estimated based on historical pre-vesting forfeitures and are updated on a quarterly basis to reflect actual forfeitures of unvested awards.

Estimating the fair value for stock options requires judgment, including estimating stock-price volatility, the expected life of the award, the estimated achievement of performance conditions, and the appropriate risk-free interest rates. The expected volatility rates are estimated based on historical volatilities of our common stock over a period of time that approximates the expected term of the options. The expected life represents the average time that options are expected to be outstanding and is estimated based on the historical exercise and post-vesting cancellation patterns of our stock options. The estimated achievement of performance conditions is based on our internal financial projections, and the risk-free interest rate is based on the market yield of U.S. Treasury securities for periods approximating the expected terms of the options in effect at the time of grant. These assumptions are updated at least quarterly.

We record deferred tax assets for stock-based awards based on the amount of stock-based compensation recognized in our income statement at the statutory tax rate in the jurisdiction in which we will receive a tax deduction. Differences between the deferred tax assets and the actual tax deduction reported on our income tax returns are recorded in additional paid-in capital. If the tax deduction is less than the deferred tax asset, the calculated shortfall reduces our pool of excess tax benefits. If the pool of excess tax benefits is reduced to zero, then subsequent shortfalls would increase our income tax expense. Our pool of excess tax benefits is computed in accordance with the long form method.

#### Income Taxes

As part of the process of preparing our consolidated financial statements, we estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our current tax expense and assessing temporary and permanent differences resulting from differing treatment of items for tax and financial reporting purposes. We recognize deferred tax assets and liabilities for the temporary differences using the enacted tax rates and laws that will be in effect when we expect the differences to reverse. We assess the realizability of our deferred tax assets based upon the weight of available evidence both positive and negative. To the extent we believe that recovery is not likely, we establish a valuation allowance. In the event that actual results differ from our estimates or we adjust our estimates in the future, we may need to increase or decrease income tax expense which could impact our financial position and results of operations.

As of December 28, 2013, earnings of non-U.S. subsidiaries considered to be indefinitely reinvested totaled \$210.3 million. No provision for U.S. income taxes has been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, we would be subject to additional U.S. Federal and state income taxes and foreign income and withholding taxes, which could be material. It is our policy to indefinitely reinvest the earnings of our non-U.S. subsidiaries unless they can be repatriated in a manner that generates a tax benefit or an unforeseen cash need arises in the United States and the earnings can be repatriated in a manner that is substantially tax free. Determination of the amount of unrecognized deferred income tax liabilities on these earnings is not practicable due to the complexities with the hypothetical calculation. Additionally, the amount of the liability is dependent upon the circumstances existing if and when the remittance occurs.

We are a worldwide business and operate in various tax jurisdictions where tax laws and tax rates are subject to change given the political and economic climate in these countries. We report and pay income taxes based upon operational results and applicable law. Our current and deferred tax provision is based upon enacted tax rates in effect for the current and future periods. Any significant fluctuation in tax rates or changes in tax laws and regulations or changes to interpretation of existing tax laws and regulations could cause our estimate of taxes to change resulting in

either increases or decreases in our effective tax rate.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities based on the technical merits of the tax position. The tax benefits recognized in our financial statements from such positions are measured based upon the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution.

Due to our size and the number of tax jurisdictions within which we conduct our global business operations, we are subject to income tax audits on a regular basis. As a result, we have tax reserves which are attributable to potential tax obligations around the world. We believe we have sufficiently provided for all audit exposures and assessments. Resolutions of these audits or the expiration of the statute of limitations on the assessment of income taxes for any tax year may result in an increase or decrease to our effective tax rate.

## Results of Operations

The following table summarizes historical results of operations as a percentage of net sales for the periods shown:

|  | Fiscal Year Ended    |                      |                      |    |
|--|----------------------|----------------------|----------------------|----|
|  | December 28,<br>2013 | December 29,<br>2012 | December 31,<br>2011 |    |
| Net sales                                      | 100.0                | % 100.0              | % 100.0              | %  |
| Cost of products sold and services provided    | 65.8                 | % 65.0               | % 64.8               | %  |
| Selling, general and administrative expenses   | 19.4                 | % 18.4               | % 17.4               | %  |
| Asset impairments                              | 0.4                  | % 0.3                | % 0.7                | %  |
| Amortization of other intangibles              | 1.5                  | % 1.6                | % 1.9                | %  |
| Operating income                               | 13.0                 | % 14.7               | % 15.3               | %  |
| Interest income                                | 0.1                  | % 0.1                | % 0.1                | %  |
| Interest expense                               | 1.8                  | % 3.0                | % 3.7                | %  |
| Provision for income taxes                     | 2.8                  | % 2.4                | % 1.5                | %  |
| Discontinued operations                        | (0.1)                | )% (0.4)             | )% (0.5)             | )% |
| Noncontrolling interests                       | (0.1)                | )% (0.1)             | )% —                 | %  |
| Net income attributable to common shareholders | 8.8                  | % 8.6                | % 9.6                | %  |

## Segment Operations

The following tables show the net sales and the percentage contribution of each of our reportable segments for the past three years. They also show cost of products sold and services provided, asset impairments, selling, general and administrative expenses, amortization of intangible assets and operating income by reportable segment and as percentages of their respective net sales. In our consolidated statements of income, we provide a breakdown of net sales and cost of sales between net products and services. Such information is reported irrespective of the business segment from which the sales were generated.

|   | Fiscal Year Ended     |                      |                      |
|---|-----------------------|----------------------|----------------------|
|   | December 28,<br>2013  | December 29,<br>2012 | December 31,<br>2011 |
|   | (dollars in millions) |                      |                      |
| Net sales:                                    |                       |                      |                      |
| Research models and services                  | \$ 707.1              | \$ 695.1             | \$ 705.4             |
| Preclinical services                          | 458.4                 | 434.4                | 437.2                |
| Cost of products sold and services provided:  |                       |                      |                      |
| Research models and services                  | 421.9                 | 401.8                | 408.1                |
| Preclinical services                          | 344.6                 | 332.1                | 332.3                |
| Asset impairment                              |                       |                      |                      |
| Research models and services                  | 0.4                   | 3.5                  | 0.7                  |
| Preclinical services                          | 3.8                   | —                    | 6.8                  |
| Selling, general and administrative expenses: |                       |                      |                      |
| Research models and services                  | 94.7                  | 81.0                 | 83.6                 |
| Preclinical services                          | 57.1                  | 56.0                 | 58.1                 |
| Unallocated corporate overhead                | 74.0                  | 71.2                 | 56.9                 |
| Intangible amortization:                      |                       |                      |                      |
| Research models and services                  | 8.8                   | 6.4                  | 6.7                  |
| Preclinical services                          | 9.0                   | 11.7                 | 15.0                 |
| Operating income (loss):                      |                       |                      |                      |
| Research models and services                  | 181.3                 | 202.4                | 206.3                |
| Preclinical services                          | 44.1                  | 34.6                 | 24.9                 |
| Unallocated corporate overhead                | \$(74.0)              | ) \$(71.2)           | ) \$(56.9)           |



|   | Fiscal Year Ended    |                      |                      |    |
|---|----------------------|----------------------|----------------------|----|
|   | December 28,<br>2013 | December 29,<br>2012 | December 31,<br>2011 |    |
| Net sales:                                    |                      |                      |                      |    |
| Research models and services                  | 60.7                 | % 61.5               | % 61.7               | %  |
| Preclinical services                          | 39.3                 | % 38.5               | % 38.3               | %  |
| Cost of products sold and services provided:  |                      |                      |                      |    |
| Research models and services                  | 59.7                 | % 57.8               | % 57.9               | %  |
| Preclinical services                          | 75.2                 | % 76.4               | % 76.0               | %  |
| Asset impairment:                             |                      |                      |                      |    |
| Research models and services                  | 0.1                  | % 0.5                | % 0.1                | %  |
| Preclinical services                          | 0.8                  | % —                  | % 1.6                | %  |
| Selling, general and administrative expenses: |                      |                      |                      |    |
| Research models and services                  | 13.4                 | % 11.6               | % 11.8               | %  |
| Preclinical services                          | 12.4                 | % 12.9               | % 13.3               | %  |
| Amortization of other intangibles:            |                      |                      |                      |    |
| Research models and services                  | 1.2                  | % 0.9                | % 1.0                | %  |
| Preclinical services                          | 2.0                  | % 2.7                | % 3.4                | %  |
| Operating income:                             |                      |                      |                      |    |
| Research models and services                  | 25.6                 | % 29.1               | % 29.2               | %  |
| Preclinical services                          | 9.6                  | % 8.0                | % 5.7                | %  |
| Unallocated corporate overhead                | (6.3)                | )% (6.3)             | )% (5.0)             | )% |

#### Fiscal 2013 Compared to Fiscal 2012

**Net Sales.** Net sales for the year ending December 28, 2013 were \$1,165.5 million, an increase of \$36.0 million, or 3.2%, from \$1,129.5 million for the year ending December 29, 2012. The increase in sales was driven by increases in the PCS business segment. Foreign currency had an unfavorable impact of 0.8% on total sales growth.

**Research Models and Services.** For the year ending December 28, 2013, net sales for the RMS segment were \$707.1 million, an increase of \$12.0 million, or 1.7%, from \$695.1 million for the year ending December 29, 2012. The increase was primarily due to our acquisitions of 75% of Vital River in 2013, which increased our revenue in China, the inclusion of a full year of Accugenix services (an EMD service provider acquired in 2012), and an increase in legacy EMD products globally. These increases were partially offset by decreased sales of research models in our legacy production operations in the U.S., Europe and Japan, due primarily to infrastructure reductions by our global biopharmaceutical clients. In addition, unfavorable foreign currency translation decreased sales by 1.2%.

**Preclinical Services.** For the year ending December 28, 2013, net sales for our PCS segment were \$458.4 million, an increase of \$24.0 million, or 5.5%, from \$434.4 million for the year ending December 29, 2012. Foreign currency translation had an unfavorable impact of 0.4% on sales growth. Net sales increased due to higher demand for our services from both global pharmaceutical and mid-tier biotechnology companies, as well as a more favorable mix of longer-term services.

**Cost of Products Sold and Services Provided.** Cost of products sold and services provided during 2013 was \$766.4 million, an increase of \$32.5 million, or 4.4%, from \$733.9 million in 2012. Cost of products sold and services provided for 2013 was 65.8% of net sales as compared to 65.0% for the year ending December 29, 2012.

**Research Models and Services.** Cost of products sold and services provided for RMS during 2013 was \$421.9 million, an increase of \$20.1 million, or 5.0%, compared to \$401.8 million in 2012. Cost of products sold and services provided exclude asset impairment charges of \$0.4 million and \$3.5 million in 2013 and 2012, respectively, which are discussed below. The increase in cost of products sold and services provided was due to the acquisition of Vital River, which contributed \$10.5 million to the increase, and the acceleration of depreciation at our California facility, which contributed \$13.5 million to the increase; partially offset by declines in cost of products sold in our legacy research model operations due to lower volume.

Cost of products sold and services provided for the year ending 2013 increased to 59.7% of net sales compared to 57.8% of net sales for 2012. Gross margins were down due to a decline in units sold from our legacy research model facilities in the U.S., Europe and Japan, as well as the accelerated depreciation expenses noted above.



Preclinical Services. Cost of services provided for the PCS segment during 2013 was \$344.6 million, an increase of \$12.5 million, or 3.8%, compared to \$332.1 million in 2012. Cost of services provided excludes asset impairments of \$3.8 million in 2013 as discussed below. Cost of services provided as a percentage of net sales was 75.2% in 2013, relatively consistent compared to 76.4% for the year ending December 29, 2012. The increase in gross margin was due to higher volume of services provided and the benefit of efficiency initiatives.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the year ending December 28, 2013 were \$225.7 million, an increase of \$17.5 million, or 8.4%, from \$208.2 million for the year ending December 29, 2012. Selling, general and administrative expenses in 2013 were 19.4% of net sales compared to 18.4% for the year ending December 29, 2012. Selling, general and administrative expenses increased by \$17.5 million over the prior year due to higher compensation expenses in both reportable segments, higher unallocated corporate costs, and the inclusion of selling, general and administrative expenses of acquired businesses in 2013.

Research Models and Services. Selling, general and administrative expenses for RMS for 2013 were \$94.7 million, an increase of \$13.7 million, or 16.9%, compared to \$81.0 million in 2012. Selling, general and administrative expenses increased as a percentage of sales to 13.4% for the year ending December 28, 2013 from 11.6% for the year ending December 29, 2012. As noted above, the primary driver of the increase in RMS selling, general and administrative expense was in inclusion of a full year of selling, general and administrative costs of both Vital River and Accugenix in 2013 as well as increases in compensation expenses.

Preclinical Services. Selling, general and administrative expenses for the PCS segment in 2013 were \$57.1 million, an increase of \$1.1 million, or 2.0%, compared to \$56.0 million in 2012. Selling, general and administrative expenses for the year ending December 28, 2013 decreased to 12.4% of net sales, compared to 12.9% of net sales for the year ending December 29, 2012. The decrease in selling, general and administrative expenses as a percentage of sales was due to the leverage of higher sales on our fixed facility cost base and the benefit of efficiency initiatives.

Unallocated Corporate Overhead. Unallocated corporate overhead, which consists of various costs primarily associated with activities centered at our corporate headquarters, such as compensation (including stock-based compensation), information systems, compliance and facilities expenses associated with our corporate, administration and professional services functions, was \$74.0 million for the year ending December 28, 2013, an increase of \$2.8 million, or 3.9%, compared to \$71.2 million for the year ending December 29, 2012. The increase is primarily the result of increased stock-based compensation and bonus expense and increased audit and tax fees, partially offset by lower Global IT and acquisition-related costs.

Asset Impairments. For the year ending December 28, 2013, we recorded asset impairments of \$4.2 million related to our PCS Massachusetts facility and the consolidation of certain RMS Europe operations.

Research Models and Services: In 2012, we commenced a consolidation of certain research model operations in Europe. As a result, we recorded an impairment charge of \$3.5 million in 2012 for the disposition of facilities that we own. Following the impairment, the long-lived asset group was classified as held-for-use as we ceased operations over the following several months. We have commenced a search for a buyer of the facility. We continue to utilize the facility in a limited capacity and, accordingly, we have not yet met the criteria for classifying the facility as held-for-sale. Once these conditions are met, we will classify the long-lived assets as held-for-sale, cease depreciation and adjust the assets to fair value quarterly. Additional asset impairment charges of \$0.4 million were recorded in 2013 related to equipment no longer required.

Preclinical Services. We recorded an impairment charge of \$3.8 million for our PCS Massachusetts facility, which we adjusted to an estimated fair market value of \$39.5 million in the fourth quarter of 2013. In 2010, due to the decrease in demand for preclinical services and the excess capacity in the industry, we consolidated our global preclinical facilities and temporarily ceased operations at the PCS Massachusetts facility. As a result, we conducted an impairment test of the facility and adjusted the long-lived asset group to fair market value. Given the change in real estate values for similar properties in suburban Massachusetts, we performed an updated impairment test in 2013, which resulted in a \$3.8 million impairment charge in the fourth quarter.

Amortization of Other Intangibles. Amortization of other intangibles for the year ending December 28, 2013 was \$17.8 million, a decrease of \$0.3 million, from \$18.1 million for the year ending December 29, 2012. Amortization expense decreased as a percentage of sales to 1.5% for the year ending December 28, 2013, from 1.6% for the year

ending December 29, 2012.

37

---

Research Models and Services. In 2013, amortization of other intangibles for our RMS segment was \$8.8 million, an increase of \$2.4 million from \$6.4 million in December 29, 2012. The increase was due to the amortization of intangible assets acquired in recent business acquisitions.

Preclinical Services. For the year ending December 28, 2013, amortization of other intangibles for our PCS segment was \$9.0 million, a decrease of \$2.7 million from \$11.7 million for the year ending December 29, 2012. The decrease was due to intangible assets arising from legacy business acquisitions becoming fully amortized.

Operating Income. Operating income for the year ending December 28, 2013 was \$151.4 million, a decrease of \$14.4 million compared to \$165.8 million for the year ending December 29, 2012. Operating income as a percentage of net sales for the year ending December 28, 2013 was 13.0% compared to 14.7% the year ending December 29, 2012. The reduction in operating income was due to several factors, including accelerated depreciation expense of \$15.4 million related to two facilities in the U.S. that were vacated in 2013.

Research Models and Services. For 2013, operating income for our RMS segment was \$181.3 million, a decrease of \$21.1 million, or 10.4%, from \$202.4 million in 2012. Operating income as a percentage of net sales for the year ending December 28, 2013 was 25.6% compared to 29.1% for the year ending December 29, 2012. Operating income in 2013 was affected by accelerated depreciation charges of \$13.5 million related to the consolidation of research model production in California. Operating income declined year-over-year in our legacy research model production facilities in the U.S., Europe and Japan due to lower demand for research models in these regions. These declines were partially offset by increased operating income in our global EMD business and growth in the China, driven by our acquisition of 75% of Vital River in 2013.

Preclinical Services. For the year ending December 28, 2013, operating income for our PCS segment was \$44.1 million, an increase of \$9.5 million, or 27.5%, compared to \$34.6 million for the year ending December 29, 2012.

Operating income as a percentage of net sales increased to 9.6% in 2013 compared to 8.0% of net sales in December 29, 2012. The increase was driven by increased study volume in relation to our fixed cost structure, favorable study mix, and improved operating efficiencies, all of which increased operating margins, partially offset by accelerated depreciation of \$1.9 million related to a leased facility in our U.S. Biologics Testing Services business.

Unallocated Corporate Overhead. Unallocated corporate overhead was \$74.0 million during the year ending December 28, 2013, compared to \$71.2 million during the year ending December 29, 2012. The increase is primarily the result of increased stock-based compensation and bonus expense and increased audit and tax fees, partially offset by lower Global IT and acquisition-related costs.

Interest Expense. Interest expense for 2013 was \$21.0 million, compared to \$33.3 million in 2012. The decrease was due to lower interest rates on our debt as a result of our debt refinancing in May 2013 and the associated retirement of our 2013 Notes.

Interest Income. Interest income for 2013 was \$0.7 million, compared to \$0.6 million for 2012 due to lower cash balances and lower interest rates on invested funds.

Other Income (Expense). Other income (expense) includes gains and losses from investments in limited partnerships accounted for under the Equity-Method, foreign currency transaction gains and losses, and changes in the cash surrender value of investments in life insurance contracts. Other income (expense) for 2013 was \$7.2 million, compared to \$(3.3) million in 2012. Other income increased due to gains recognized in 2013 on our investments in limited partnerships accounted for under the equity-method.

Income Taxes. Income tax expense in 2013 was \$32.9 million, compared to \$27.6 million in 2012. Our effective tax rate was 23.8% in 2013, compared to 21.3% in 2012. The increase of 2.5% in the effective tax rate for 2013 was primarily attributable to a discrete tax detriment of \$2.0 million due to an adjustment related to the ongoing transfer pricing controversy with the Canadian Revenue Authority, a reduction in research and development tax benefits by \$1.8 million arising from the adoption of a new refundable research and development credit provided for in a U.K. tax law change that was enacted in 2013, \$1.4 million of costs from a new French tax law enacted in 2013 that applied retroactively to 2012 that limits the deductibility of interest by our French affiliates, and a discrete tax cost of \$0.5 million related to nondeductible transaction costs incurred in 2012 for the acquisition of Vital River, which closed in the first quarter of 2013. These costs were partially offset by increased benefits from the domestic production deduction of \$0.6 million and reduced unbenefitted tax losses of \$0.6 million. The 2012 effective tax rate reflects a

benefit from the settlement of the tax litigation related to the 2003 and 2004 Scientific Research and Experimental Development credits (SR&ED) claimed by our Preclinical services facility in Montreal.

38

---

### Fiscal 2012 Compared to Fiscal 2011

**Net Sales.** Net sales for the year ending December 29, 2012 were \$1,129.5 million, a decrease of \$13.1 million, or 1.1%, from \$1,142.6 million for the year ending December 31, 2011, due primarily to unfavorable foreign currency translation of 2.0%.

**Research Models and Services.** For the year ending December 29, 2012, net sales for our RMS segment were \$695.1 million, a decrease of \$10.3 million, or 1.5%, from \$705.4 million for the year ending December 31, 2011. The decrease was due primarily to unfavorable foreign currency translation which decreased sales by 2.5% and lower sales of research models partially offset by increased sales for EMD and research model services.

**Preclinical Services.** For the year ending December 29, 2012, net sales for our PCS segment were \$434.4 million, a decrease of \$2.8 million, or 0.6%, from \$437.2 million for the year ending December 31, 2011. The sales decrease was driven by unfavorable foreign currency translation of 1.1% and reduced biopharmaceutical spending partially offset by increased demand for preclinical services.

**Cost of Products Sold and Services Provided.** Cost of products sold and services provided during 2012 was \$733.9 million, a decrease of \$6.5 million, or 0.9%, from \$740.4 million during 2011. Cost of products sold and services provided during the year ending December 29, 2012 was 65.0% of net sales, compared to 64.8% during the year ending December 31, 2011.

**Research Models and Services.** Cost of products sold and services provided for RMS during 2012 was \$401.8 million, a decrease of \$6.3 million, or 1.5%, compared to \$408.1 million in 2011. Cost of products sold and services provided for the year ending December 29, 2012 decreased to 57.8% of net sales compared to 57.9% of net sales for the year ending December 31, 2011. The decrease in cost as a percentage of sales was due primarily to the effect of our cost-savings actions partially offset by the effect of lower sales on our fixed cost base.

**Preclinical Services.** Cost of services provided for the PCS segment during 2012 was \$332.1 million, a decrease of \$0.2 million, compared to \$332.3 million in 2011. Cost of services provided as a percentage of net sales was 76.4% during the year ending December 29, 2012, compared to 76.0% for the year ending December 31, 2011. The increase in cost of services provided as a percentage of net sales was primarily due to the impact of lower sales on our fixed cost base and the performance of client protocols under an expanded preferred provider agreement with a global pharmaceutical client partially offset by our cost-savings actions.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses for the year ending December 29, 2012 were \$208.2 million, an increase of \$9.6 million, or 4.8%, from \$198.6 million for the year ending December 31, 2011. Selling, general and administrative expenses during 2012 were 18.4% of net sales compared to 17.4% for the year ending December 31, 2011. The increase in selling, general and administrative expenses as a percent of sales was primarily due to a prior year insurance gain of \$7.7 million partially offset by the impact of our cost saving-actions.

**Research Models and Services.** Selling, general and administrative expenses for RMS for 2012 were \$81.0 million, a decrease of \$2.6 million, or 3.1%, compared to \$83.6 million in 2011. Selling, general and administrative expenses decreased as a percentage of sales to 11.6% for the year ending December 29, 2012 from 11.8% for the year ending December 31, 2011. The decrease in selling, general and administrative expenses as a percent of sales was primarily due to cost-savings actions and the insurance settlement related to our Japan operations.

**Preclinical Services.** Selling, general and administrative expenses for the PCS segment during 2012 were \$56.0 million, a decrease of \$2.1 million, or 3.6%, compared to \$58.1 million during 2011. Selling, general and administrative expenses for the year ending December 29, 2012 decreased to 12.9% of net sales, compared to 13.3% of net sales for the year ending December 31, 2011, due mainly to the benefit of cost-savings actions.

**Unallocated Corporate Overhead.** Unallocated corporate overhead, which consists of various costs primarily associated with activities centered at our corporate headquarters, such as compensation (including stock-based compensation), information systems, compliance and facilities expenses associated with our corporate, administration and professional services functions, was \$71.2 million during the year ending December 29, 2012, compared to \$56.9 million during the year ending December 31, 2011. The increase was primarily due to a prior year life insurance gain of \$7.7 million in 2011 and higher 2012 costs related to the evaluation of acquisitions partially offset by

cost-savings actions and tight expense control.

39

---

**Asset Impairment.** For the year ending December 29, 2012, we recorded asset impairments of \$3.5 million for RMS primarily associated with the consolidation of certain RMS Europe operations. For the year ending December 31, 2011, we recorded an asset impairment of \$7.5 million composed of a \$6.8 million impairment of our PCS in-process research and development cost and an \$0.7 impairment of an RMS facility no longer in use.

**Amortization of Other Intangibles.** Amortization of other intangibles for the year ending December 29, 2012 was \$18.1 million, a decrease of \$3.7 million, from \$21.8 million for the year ending December 31, 2011. Amortization expense decreased as a percentage of sales to 1.6% for the year ending December 29, 2012, from 1.9% for the year ending December 31, 2011.

**Research Models and Services.** In 2012, amortization of other intangibles for our RMS segment was \$6.4 million, a decrease of \$0.3 million from \$6.7 million in December 31, 2011.

**Preclinical Services.** For the year ending December 29, 2012, amortization of other intangibles for our PCS segment was \$11.7 million, a decrease of \$3.3 million from \$15.0 million for the year ending December 31, 2011.

**Operating Income.** Operating income for the year ending December 29, 2012 was \$165.8 million, a decrease of \$8.5 million compared to \$174.3 million for the year ending December 31, 2011. Operating income as a percentage of net sales for the year ending December 29, 2012 was 14.7% compared to 15.3% the year ending December 31, 2011, due primarily to the impact of lower sales on our fixed cost base offset by cost savings actions.

**Research Models and Services.** For 2012, operating income for our RMS segment was \$202.4 million, a decrease of \$3.9 million, or 1.9%, from \$206.3 million in 2011. Operating income as a percentage of net sales for the year ending December 29, 2012 remained essentially flat at 29.1%, compared to the year ending December 31, 2011, due primarily to the impact of lower sales on our fixed cost base offset by cost savings actions.

**Preclinical Services.** For the year ending December 29, 2012, operating income for our PCS segment was \$34.6 million, an increase of \$9.7 million compared to \$24.9 million for the year ending December 31, 2011. Operating income as a percentage of net sales increased to 8.0% in 2012 compared to 5.7% of net sales in December 31, 2011. The increase in operating income as a percentage of net sales was primarily due to the cost savings actions and lower amortization.

**Unallocated Corporate Overhead.** Unallocated corporate overhead was \$71.2 million during the year ending December 29, 2012, compared to \$56.9 million during the year ending December 31, 2011. The increase was primarily due to a prior year life insurance gain of \$7.7 million and costs related to the evaluation of acquisitions partially offset by cost-savings actions and tight expense control.

**Interest Expense.** Interest expense for 2012 was \$33.3 million, compared to \$42.6 million in 2011. The decrease was due to decreased debt balances and lower interest rates.

**Interest Income.** Interest income for 2012 was \$0.6 million, compared to \$1.4 million for 2011 due to lower cash balances and lower interest rates on invested funds.

**Other Income (Expense).** Other income (expense) includes gains and losses from investments in limited partnerships accounted for under the Equity-Method, foreign currency transaction gains and losses, and changes in the cash surrender value of investments in life insurance contracts. Other income (expense) for 2012 was \$(3.3) million in 2012, compared to \$(0.4) million in 2011.

**Income Taxes.** Income tax expense in 2012 was \$27.6 million, compared to \$17.1 million in December 31, 2011. Our effective tax rate was 21.3% in 2012, compared to 12.9% in 2011. The 2012 effective tax rate reflects a benefit from the settlement of the tax litigation related to the 2003 and 2004 Scientific Research and Experimental Development credits (SR&ED) claimed by our Preclinical services facility in Montreal. The effective tax rate for 2011 reflects benefits due to releasing a valuation allowance on a tax loss incurred with the disposition of the our Phase I clinical business in the first quarter of 2011, a non-taxable gain on a settlement of a life insurance policy, a settlement of a German tax audit, and the impact of declines in statutory tax rates in the United Kingdom and Japan.

### Liquidity and Capital Resources

The following discussion analyzes liquidity and capital resources by operating, investing and financing activities as presented in our consolidated statements of cash flows.

Our principal sources of liquidity have been our cash flow from operations, supplemented by long-term borrowings. On May 29, 2013, we amended and restated our credit agreement dated September 23, 2011 to repay loans outstanding under the previous agreement, retire our 2.25% Senior Convertible Debentures and extend the maturity date under a new \$970.0 million agreement (the \$970M Credit Facility). The \$970M Credit Facility has a maturity date of May 2018 and provides for a \$420.0 million U.S. term loan and a \$550.0 million multi-currency revolving credit facility. The revolving credit facility may be drawn in U.S. Dollars, Euros, Pound Sterling, or Japanese Yen, subject to sub-limits by currency. Under specified circumstances, we have the ability to expand the term loan and/or revolving credit facility by up to \$350.0 million. The U.S. term loan matures in 20 quarterly installments through May 2018. The revolving credit facility matures in May 2018 and requires no scheduled payment before this date. The interest rates on the \$970M Credit Facility are variable and are based on various applicable published rates plus a spread determined by our leverage ratio.

Our \$350.0 million of 2.25% Senior Convertible Debentures matured in June 2013 and were retired with funds provided by the \$970M Credit Facility and available cash.

Cash and cash equivalents totaled \$155.9 million at December 28, 2013, compared to \$109.7 million at December 29, 2012. At December 28, 2013, cash and cash equivalents was comprised of \$8.0 million held in the United States and \$147.9 million held by non-U.S. subsidiaries. The cash held by our non-U.S. subsidiaries will be used to fund working capital, capital expansion, pension obligations, and funding of future bolt-on acquisitions. We maintain liquidity in the U.S. by having the ability to borrow on our revolving line of credit. In addition to our cash and cash equivalents, as of December 28, 2013, we had \$11.2 million in marketable securities, which were held by non-U.S. subsidiaries. In accordance with our policy, the undistributed earnings of our non-U.S. subsidiaries remain indefinitely reinvested as of December 28, 2013 as they are required to fund needs outside the U.S. and cannot be repatriated in a manner that is substantially tax free.

Net cash provided by operating activities for the years ending December 28, 2013 and December 29, 2012 was \$209.0 million and \$208.0 million, respectively. Our days sales outstanding (DSO) increased to 56 days as of December 28, 2013 compared to 51 days as of December 29, 2012. Our DSO includes deferred revenue as an offset to accounts receivable in the calculation. The increase in our DSO was primarily driven by slower collections. However, we do not anticipate additional credit risk due to the increase. A one-day increase or decrease in our DSO represents a change of approximately \$3.2 million of cash provided by operating activities. Our allowance for doubtful accounts was \$5.0 million as of December 28, 2013 compared to \$4.3 million as of December 29, 2012.

Net cash used in investing activities for 2013 and 2012 was \$74.0 million and \$55.0 million, respectively. During 2013, we acquired two businesses for \$29.2 million in cash, net of cash acquired: we acquired 75% of Vital River for \$24.2 million in cash, net of cash acquired of \$2.7 million and the business of an EMD products and service provider in Singapore for \$4.9 million in cash. During 2012, we acquired Accugenix Inc., which is part of our EMD business, for \$16.9 million, net of cash acquired. Our capital expenditures during 2013 were \$39.2 million, of which \$24.4 million was related to the RMS segment and \$14.8 million to the PCS segment. Capital expenditures in 2012 were \$47.5 million.

Net cash used in financing activities for 2013 and 2012 was \$84.2 million and \$111.1 million, respectively. For 2013 and 2012, net payments from long-term borrowings were \$11.5 million and \$66.2 million and we purchased \$165.9 million and \$64.2 million of treasury stock, respectively. As of December 28, 2013, we had \$139.1 million remaining for approved open market treasury stock purchases.



Minimum future payments of our contractual obligations at December 28, 2013 are as follows (in millions)

| Contractual Obligations (in millions)   | Total          | Less than<br>1 Year | 1 - 3<br>Years | 3 - 5<br>Years | After<br>5 Years |
|---|----------------|---------------------|----------------|----------------|------------------|
| Debt and capital leases   | \$663.1        | \$21.2              | \$89.3         | \$552.6        | \$—              |
| Interest payments   | 37.1           | 9.3                 | 17.0           | 10.8           | —                |
| Operating leases  | 55.1           | 14.0                | 18.7           | 10.6           | 11.8             |
| Pension and supplemental retirement benefits  | 124.6          | 7.6                 | 29.9           | 18.8           | 68.3             |
| Redeemable noncontrolling interest  | 20.6           |                     | 20.6           |                |                  |
| Commitment to limited partnership investments accounted for as equity-method affiliates | 22.6           | 22.6                |                |                |                  |
| <b>Total contractual cash obligations</b>   | <b>\$923.1</b> | <b>\$74.7</b>       | <b>\$175.5</b> | <b>\$592.8</b> | <b>\$80.1</b>    |

The estimated cash obligation for redeemable non-controlling interest, which is exercisable by the non-controlling interest holders in 2016 at fair value, is based on the estimated fair value of the interest as of December 28, 2013. The timing of the remaining capital commitment payments to limited partnership investments is subject to the procedures of the general partner and is therefore estimated by management. The above table does not reflect unrecognized tax benefits.

#### Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, that would have been established for the purpose of facilitating off-balance sheet arrangements (as that term is defined in Item 303(a)(4)(ii) of Regulation S-K) or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in those types of relationships. We include standard indemnification provisions in client contracts, which include standard provisions limiting our liability under such contracts, including our indemnification obligations, with certain exceptions.

#### Recent Accounting Pronouncements

There are no recent accounting pronouncements that have been issued but are not yet effective that will have a material impact our future consolidated financial statements.

#### Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Certain of our financial instruments are subject to market risks, including interest rate risk and foreign currency exchange rates. We generally do not use financial instruments for trading or other speculative purposes.

#### Interest Rate Risk

We amended and restated our credit facility on May 29, 2013. Our primary interest rate exposure results from changes in LIBOR or the base rates that are used to determine the applicable interest rates under our term loans and revolving credit agreement.

Our potential additional interest expense over one year that would result from a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rate would be approximately \$9.6 million on a pre-tax basis. The book value of our debt approximates fair value.

#### Foreign Currency Exchange Rate Risk

We operate on a global basis and have exposure to some foreign currency exchange rate fluctuations for our earnings and cash flows. This risk is mitigated by the fact that various foreign operations are principally conducted in their respective local currencies. A portion of the revenue from our foreign operations is denominated in U.S. dollars, with the costs accounted for in their local currencies. Additionally, we have exposure on certain intercompany loans. We attempt to minimize this exposure by using certain financial instruments, for purposes other than trading, in accordance with our overall risk management and our hedge policy. In accordance with our hedge policy, we designate such transactions as hedges.

During 2013, we utilized foreign exchange contracts, principally to hedge the impact of currency fluctuations on client transactions and certain balance sheet items, including intercompany loans. There were no foreign currency hedges outstanding as of December 28, 2013.

Item 8. Financial Statements and Supplementary Data  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements:

|  |           |
|--|-----------|
| <u>Management's Annual Report on Internal Control Over Financial Reporting</u>   | <u>45</u> |
| <u>Report of Independent Registered Public Accounting Firm</u>   | <u>46</u> |
| <u>Consolidated Statements of Income for the years ended December 28, 2013, December 29, 2012, and December 31, 2011</u>               | <u>47</u> |
| <u>Consolidated Statements of Comprehensive Income for the years ended December 28, 2013, December 29, 2012, and December 31, 2011</u> | <u>48</u> |
| <u>Consolidated Balance Sheets as of December 28, 2013 and December 29, 2012</u>   | <u>49</u> |
| <u>Consolidated Statements of Cash Flows for the years ended December 28, 2013, December 29, 2012, and December 31, 2011</u>           | <u>50</u> |
| <u>Consolidated Statements of Changes in Equity for the years ended December 28, 2013, December 29, 2012, December 31, 2011</u>        | <u>51</u> |
| <u>Notes to Consolidated Financial Statements</u>  | <u>52</u> |

Supplementary Data:

|  |           |
|--|-----------|
| <u>Quarterly Information (Unaudited)</u> | <u>87</u> |
|--|-----------|

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment and those criteria, management concluded that the Company maintained effective internal control over financial reporting as of December 28, 2013.

The effectiveness of our internal control over financial reporting as of December 28, 2013 has been audited by PricewaterhouseCoopers LLP, an Independent Registered Public Accounting Firm, as stated in their report which is included herein.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Charles River Laboratories International, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, equity and cash flows present fairly, in all material respects, the financial position of Charles River Laboratories International, Inc. and its subsidiaries at December 28, 2013 and December 29, 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 28, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 28, 2013 based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in Management's Report on Internal Control over Financial Reporting appearing under Item 8. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts

February 25, 2014

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(dollars in thousands, except per share amounts)

|  | Fiscal Year Ended    |                      |                      |
|--|----------------------|----------------------|----------------------|
|  | December 28,<br>2013 | December 29,<br>2012 | December 31,<br>2011 |
| Net sales related to products                                    | \$476,362            | \$467,944            | \$483,309            |
| Net sales related to services                                    | 689,166              | 661,586              | 659,338              |
| Net sales  | 1,165,528            | 1,129,530            | 1,142,647            |
| Costs and expenses:  |                      |                      |                      |
| Cost of products sold  | 272,302              | 255,409              | 267,966              |
| Cost of services provided  | 494,122              | 478,492              | 472,439              |
| Asset impairments (Note 4)                                       | 4,202                | 3,548                | 7,492                |
| Selling, general and administrative                              | 225,695              | 208,248              | 198,648              |
| Amortization of other intangibles                                | 17,806               | 18,068               | 21,796               |
| Operating income   | 151,401              | 165,765              | 174,306              |
| Other income (expense):  |                      |                      |                      |
| Interest income  | 730                  | 589                  | 1,353                |
| Interest expense   | (20,969)             | ) (33,342)           | ) (42,586)           |
| Other, net   | 7,165                | ) (3,266)            | ) (411)              |
| Income from continuing operations, before income taxes           | 138,327              | 129,746              | 132,662              |
| Provision for income taxes                                       | 32,911               | 27,628               | 17,140               |
| Income from continuing operations, net of income taxes           | 105,416              | 102,118              | 115,522              |
| Loss from discontinued operations, net of taxes                  | (1,265)              | ) (4,252)            | ) (5,545)            |
| Net income   | 104,151              | 97,866               | 109,977              |
| Less: Net loss (income) attributable to noncontrolling interests | (1,323)              | ) (571)              | ) (411)              |
| Net income attributable to common shareholders                   | \$102,828            | \$97,295             | \$109,566            |
| Earnings (loss) per common share                                 |                      |                      |                      |
| Basic:   |                      |                      |                      |
| Continuing operations attributable to common shareholders        | \$2.18               | \$2.12               | \$2.26               |
| Discontinued operations  | \$(0.03)             | ) \$(0.09)           | ) \$(0.11)           |
| Net income attributable to common shareholders                   | \$2.15               | \$2.03               | \$2.16               |
| Diluted:   |                      |                      |                      |
| Continuing operations attributable to common shareholders        | \$2.15               | \$2.10               | \$2.24               |
| Discontinued operations  | \$(0.03)             | ) \$(0.09)           | ) \$(0.11)           |
| Net income attributable to common shareholders                   | \$2.12               | \$2.01               | \$2.14               |

See Notes to Consolidated Financial Statements.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(dollars in thousands, except per share amounts)

|  | Fiscal Year Ended |                   |                   |
|--|-------------------|-------------------|-------------------|
|  | December 28, 2013 | December 29, 2012 | December 31, 2011 |
| Net income   | \$ 104,151        | \$ 97,866         | \$ 109,977        |
| Foreign currency translation adjustment:   |                   |                   |                   |
| Write-off of currency translation adjustment for liquidated entities   | —                 | 636               | —                 |
| Foreign currency translation adjustment for the period   | (15,322           | ) 4,682           | (12,264 )         |
| Unrealized gains (losses) on marketable securities:  |                   |                   |                   |
| Unrealized gains (losses) for the period   | —                 | 209               | (325 )            |
| Add: reclassification adjustment for losses included in net income   | —                 | 712               | —                 |
| Defined benefit plan gains (losses) and prior service costs not yet recognized as components of net periodic pension cost: |                   |                   |                   |
| Prior service cost and gains (losses) for the period   | 19,293            | (8,634            | ) (23,728 )       |
| Amortization of prior service costs and net gains and losses   | 3,017             | 2,772             | 1,068             |
| Comprehensive income, before tax   | 111,139           | 98,243            | 74,728            |
| Income tax (benefit) related to items of other comprehensive income  | 7,805             | (1,677            | ) (6,272 )        |
| Comprehensive income, net of tax   | 103,334           | 99,920            | 81,000            |
| Less: comprehensive income related to noncontrolling interests   | 1,752             | 615               | 476               |
| Comprehensive income attributable to common shareholders   | \$ 101,582        | \$ 99,305         | \$ 80,524         |

See Notes to Consolidated Financial Statements.

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

|  | December 28,<br>2013 | December 29,<br>2012 |
|--|----------------------|----------------------|
| Assets   |                      |                      |
| Current assets:  |                      |                      |
| Cash and cash equivalents  | \$ 155,927           | \$ 109,685           |
| Trade receivables, net   | 220,630              | 203,001              |
| Inventories  | 89,396               | 88,470               |
| Other current assets   | 85,847               | 83,601               |
| Current assets of discontinued businesses  | 750                  | 495                  |
| Total current assets   | 552,550              | 485,252              |
| Property, plant and equipment, net   | 676,182              | 717,020              |
| Goodwill, net  | 230,701              | 208,609              |
| Other intangible assets, net   | 84,537               | 84,922               |
| Deferred tax asset   | 35,536               | 38,554               |
| Other assets   | 61,964               | 48,659               |
| Long-term assets of discontinued businesses  | 3,151                | 3,328                |
| Total assets   | \$ 1,644,621         | \$ 1,586,344         |
| Liabilities and Equity   |                      |                      |
| Current liabilities:   |                      |                      |
| Current portion of long-term debt and capital leases   | \$ 21,437            | \$ 139,384           |
| Accounts payable   | 31,770               | 31,218               |
| Accrued compensation   | 58,461               | 46,951               |
| Deferred revenue   | 54,177               | 56,422               |
| Accrued liabilities  | 56,712               | 45,208               |
| Other current liabilities  | 22,546               | 21,262               |
| Current liabilities of discontinued businesses   | 1,931                | 1,802                |
| Total current liabilities  | 247,034              | 342,247              |
| Long-term debt and capital leases  | 642,352              | 527,136              |
| Other long-term liabilities  | 82,497               | 104,966              |
| Long-term liabilities of discontinued businesses   | 8,080                | 8,795                |
| Total liabilities  | 979,963              | 983,144              |
| Commitments and contingencies (Notes 1 and 10)   |                      |                      |
| Redeemable noncontrolling interest   | 20,581               | —                    |
| Shareholders' equity:  |                      |                      |
| Preferred stock, \$0.01 par value; 20,000,000 shares authorized; no shares issued and outstanding  | —                    | —                    |
| Common stock, \$0.01 par value; 120,000,000 shares authorized; 82,522,905 issued and 47,553,841 shares outstanding at December 28, 2013 and 79,607,981 issued and 48,220,037 shares outstanding at December 29, 2012, respectively | 825                  | 796                  |
| Additional paid-in capital   | 2,206,155            | 2,097,316            |
| Accumulated deficit  | (265,473)            | (368,301)            |
| Treasury stock, at cost, 34,969,064 shares and 31,387,944 shares at December 28, 2013 and December 29, 2012, respectively  | (1,305,880)          | (1,135,609)          |
| Accumulated other comprehensive income   | 5,357                | 6,603                |
| Total shareholders' equity   | 640,984              | 600,805              |
| Noncontrolling interests   | 3,093                | 2,395                |



|                              |             |             |
|------------------------------|-------------|-------------|
| Total equity                 | 664,658     | 603,200     |
| Total liabilities and equity | \$1,644,621 | \$1,586,344 |

See Notes to Consolidated Financial Statements.

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

|  | Fiscal Year Ended    |                      |                      |
|--|----------------------|----------------------|----------------------|
|  | December 28,<br>2013 | December 29,<br>2012 | December 31,<br>2011 |
| Cash flows relating to operating activities  |                      |                      |                      |
| Net income   | \$ 104,151           | \$ 97,866            | \$ 109,977           |
| Less: Loss from discontinued operations  | (1,265               | ) (4,252             | ) (5,545             |
| Income from continuing operations  | 105,416              | 102,118              | 115,522              |
| Adjustments to reconcile net income from continuing operations to net cash provided by operating activities: |                      |                      |                      |
| Depreciation and amortization  | 96,636               | 81,275               | 85,230               |
| Amortization of debt issuance costs and discounts  | 9,561                | 17,622               | 20,010               |
| Impairment charges   | 4,202                | 3,548                | 7,492                |
| Non-cash compensation  | 24,542               | 21,855               | 21,706               |
| Deferred income taxes  | (846                 | ) 1,311              | (8,668               |
| (Gain) loss on investments in limited partnerships   | (5,864               | ) 618                | (869                 |
| Other, net   | 755                  | 5,519                | (5,797               |
| Changes in assets and liabilities:   |                      |                      |                      |
| Trade receivables  | (19,492              | ) (16,266            | ) 7,669              |
| Inventories  | (1,571               | ) 785                | 3,766                |
| Other assets   | 2,421                | (117                 | ) (265               |
| Accounts payable   | (7,080               | ) (3,257             | ) 2,208              |
| Accrued compensation   | 11,926               | 4,612                | (7,412               |
| Deferred revenue   | (3,297               | ) (915               | ) (9,515             |
| Accrued liabilities  | 759                  | (7,050               | ) (1,355             |
| Taxes payable and prepaid taxes  | (3,054               | ) 2,331              | (13,782              |
| Other liabilities  | (5,969               | ) (5,983             | ) (9,098             |
| Net cash provided by operating activities  | 209,045              | 208,006              | 206,842              |
| Cash flows relating to investing activities  |                      |                      |                      |
| Acquisition of businesses and assets, net of cash acquired   | (29,218              | ) (16,861            | ) —                  |
| Capital expenditures   | (39,154              | ) (47,534            | ) (49,143            |
| Purchases of investments   | (17,566              | ) (18,537            | ) (24,556            |
| Proceeds from sale of investments  | 11,584               | 25,156               | 31,607               |
| Other, net   | 307                  | 2,786                | 5,447                |
| Net cash used in investing activities  | (74,047              | ) (54,990            | ) (36,645            |
| Cash flows relating to financing activities  |                      |                      |                      |
| Proceeds from long-term debt and revolving credit agreement  | 511,804              | 74,116               | 250,708              |
| Proceeds from exercises of stock options and warrants  | 93,789               | 18,359               | 20,625               |
| Payments on long-term debt, capital lease obligation and revolving credit agreement                          | (523,304             | ) (140,347           | ) (252,965           |
| Purchase of treasury stock and Accelerated Stock Repurchase Program  | (165,932             | ) (64,189            | ) (283,795           |
| Other, net   | (594                 | ) 940                | (6,359               |
| Net cash used in financing activities  | (84,237              | ) (111,121           | ) (271,786           |
| Discontinued operations  |                      |                      |                      |
| Net cash used in operating activities  | (1,906               | ) (106               | ) (1,559             |
| Net cash used in discontinued operations   | (1,906               | ) (106               | ) (1,559             |

Edgar Filing: CHARLES RIVER LABORATORIES INTERNATIONAL INC - Form 10-K

|  |            |            |           |   |
|--|------------|------------|-----------|---|
| Effect of exchange rate changes on cash and cash equivalents | (2,613     | ) (1,009   | ) (7,107  | ) |
| Net change in cash and cash equivalents                      | 46,242     | 40,780     | (110,255  | ) |
| Cash and cash equivalents, beginning of period               | 109,685    | 68,905     | 179,160   |   |
| Cash and cash equivalents, end of period                     | \$ 155,927 | \$ 109,685 | \$ 68,905 |   |
| Supplemental cash flow information                           |            |            |           |   |
| Cash paid for interest                                       | \$ 12,029  | \$ 15,145  | \$ 22,321 |   |
| Cash paid for taxes  | \$ 19,139  | \$ 17,032  | \$ 29,124 |   |
| Capitalized interest   | \$ 243     | \$ 467     | \$ 298    |   |
| Non-cash additions to property, plant and equipment          | \$ 6,960   | \$ 2,778   | \$ 5,302  |   |
| Assets acquired under capital lease                          | \$ —       | \$ 69      | \$ —      |   |

See Notes to Consolidated Financial Statements.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
(dollars in thousands)

|  | Total      | Accumulated<br>(Deficit)<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Common<br>Stock | Additional<br>Paid In<br>Capital | Treasury<br>Stock | Non-controlling<br>Interest |
|--|------------|--------------------------------------|---|-----------------|----------------------------------|-------------------|-----------------------------|
| Balance at December 25, 2010   | \$688,727  | \$ (575,162 )                        | \$ 33,635                                       | \$ 775          | \$ 1,996,874                     | \$(768,699 )      | \$ 1,304                    |
| Components of comprehensive<br>income, net of tax:                                 |            |                                      |   |                 |                                  |                   |                             |
| Net income   | 109,977    | 109,566                              |   |                 |                                  |                   | 411                         |
| Other comprehensive income<br>(loss)   | (28,977 )  |                                      | (29,042 )                                       |                 |                                  |                   | 65                          |
| Total comprehensive income   | 81,000     |                                      |   |                 |                                  |                   | 476                         |
| Tax detriment associated with<br>stock issued under employee<br>compensation plans | (802 )     |                                      |   |                 | (802 )                           |                   |                             |
| Issuance of stock under<br>employee compensation plans                             | 20,527     |                                      |   | 10              | 20,517                           |                   |                             |
| Acquisition of treasury shares   | (269,655 ) |                                      |   |                 | 32,766                           | (302,421 )        |                             |
| Accelerated Stock Repurchase<br>equity instrument                                  | (14,140 )  |                                      |   |                 | (14,140 )                        |                   |                             |
| Stock-based compensation   | 21,706     |                                      |   |                 | 21,706                           |                   |                             |
| Balance at December 31, 2011   | 527,363    | (465,596 )                           | 4,593   | 785             | 2,056,921                        | (1,071,120 )      | 1,780                       |
| Components of comprehensive<br>income, net of tax:                                 |            |                                      |   |                 |                                  |                   |                             |
| Net income   | 97,866     | 97,295                               |   |                 |                                  |                   | 571                         |
| Other comprehensive income   | 2,054      |                                      | 2,010   |                 |                                  |                   | 44                          |
| Total comprehensive income   | 99,920     |                                      |   |                 |                                  |                   | 615                         |
| Tax benefit associated with<br>stock issued under employee<br>compensation plans   | 125        |                                      |   |                 | 125                              |                   |                             |
| Issuance of stock under<br>employee compensation plans                             | 18,426     |                                      |   | 11              | 18,415                           |                   |                             |
| Acquisition of treasury shares   | (64,489 )  |                                      |   |                 |                                  | (64,489 )         |                             |
| Stock-based compensation   | 21,855     |                                      |   |                 | 21,855                           |                   |                             |
| Balance at December 29, 2012   | 603,200    | (368,301 )                           | 6,603   | 796             | 2,097,316                        | (1,135,609 )      | 2,395                       |
| Components of comprehensive<br>income, net of tax:                                 |            |                                      |   |                 |                                  |                   |                             |
| Net income   | 104,151    | 102,828                              |   |                 |                                  |                   | 1,323                       |
| Other comprehensive income   | (817 )     |                                      | (1,246 )  |                 |                                  |                   | 429                         |
| Total comprehensive income   | 103,334    |                                      |   |                 |                                  |                   | 1,752                       |
| Tax benefit associated with<br>stock issued under employee<br>compensation plans   | 1,069      |                                      |   |                 | 1,069                            |                   |                             |
| Issuance of stock under<br>employee compensation plans                             | 93,821     |                                      |   | 29              | 93,792                           |                   |                             |
| Acquisition of treasury shares   | (170,271 ) |                                      |   |                 | —                                | (170,271 )        |                             |
|  | 8,963      |                                      |   |                 |                                  |                   | 8,963                       |

|   |           |               |          |         |             |                |           |
|---|-----------|---------------|----------|---------|-------------|----------------|-----------|
| Redeemable noncontrolling interest acquired in business combination |           |               |          |         |             |                |           |
| Adjustment of redeemable noncontrolling interest to fair value.     | —         |               |          | (10,564 | )           |                | 10,564    |
| Stock-based compensation  | 24,542    |               |          | 24,542  |             |                |           |
| Balance at December 28, 2013  | \$664,658 | \$ (265,473 ) | \$ 5,357 | \$ 825  | \$2,206,155 | \$ (1,305,880) | \$ 23,674 |

See Notes to Consolidated Financial Statements.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (dollars in thousands, except per share amounts)

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Charles River Laboratories International, Inc. (the "Company") together with its subsidiaries is a leading global provider of solutions that accelerate the drug discovery and development process including research models and associated services and outsourced preclinical services. Our fiscal year is the twelve-month period ending the last Saturday in December.

Principles of Consolidation

The consolidated financial statements include all majority-owned subsidiaries. Intercompany accounts, transactions and profits are eliminated.

Reclassifications

Certain reclassifications have been made to prior year statements to conform to the current year presentation. These reclassifications have no impact on period reported net income or cash flow.

Use of Estimates

The financial statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Estimates and assumptions are reviewed on an ongoing basis and the effect of revisions to the estimates and assumptions is reflected in the consolidated statements prospectively in the period in which they are revised.

Cash and Cash Equivalents

Cash equivalents include time deposits and highly liquid investments with original maturities at the purchase date of three months or less.

Trade Receivables

We record trade receivables net of an allowance for doubtful accounts. We establish an allowance for doubtful accounts based on historical collection information, a review of major client accounts receivable balances and current economic conditions in the geographies in which we operate. Provisions to the allowance for doubtful accounts were \$1,332 in 2013, \$947 in 2012 and \$426 in 2011. Write offs against the allowance for doubtful accounts were \$373 in 2013, \$697 in 2012 and \$1,228 in 2011.

The composition of net trade receivables is as follows:

|                                      | December 28,<br>2013 | December 29,<br>2012 |
|--------------------------------------|----------------------|----------------------|
| Client receivables                   | \$ 190,423           | \$ 174,774           |
| Unbilled revenue                     | 35,184               | 32,494               |
| Total                                | 225,607              | 207,268              |
| Less allowance for doubtful accounts | (4,977               | ) (4,267             |
| Net trade receivables                | \$ 220,630           | \$ 203,001           |

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents and trade receivables. We place our cash and cash equivalents in various financial institutions with high credit rating and limit the amount of credit exposure to any one financial institution. Our trade receivables are from

clients in the pharmaceutical and biotechnology industries. No single client accounted for more than 5% of our net sales or trade receivables for any period presented.

#### Marketable Securities

Investments in marketable securities are reported at fair value and consist of time deposits with original maturities of greater than three months. Realized gains and losses on these securities are included in other income (expense) and are determined using the specific identification method. We currently hold no trading or held-to-maturity securities.

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

(dollars in thousands, except per share amounts)

The amortized cost, gross unrealized gains, gross unrealized losses and fair value for marketable securities by major security type were as follows:

|               | December 28, 2013 |                              |                               |               |
|---------------|-------------------|------------------------------|-------------------------------|---------------|
|               | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| Time deposits | \$ 11,158         | \$—                          | \$—                           | \$ 11,158     |
|               | \$ 11,158         | \$—                          | \$—                           | \$ 11,158     |
|               | December 29, 2012 |                              |                               |               |
|               | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| Time deposits | \$ 6,781          | \$—                          | \$—                           | \$ 6,781      |
|               | \$ 6,781          | \$—                          | \$—                           | \$ 6,781      |

Maturities of debt securities were as follows:

|                                       | December 28, 2013 |               | December 29, 2012 |               |
|---------------------------------------|-------------------|---------------|-------------------|---------------|
|                                       | Amortized<br>Cost | Fair<br>Value | Amortized<br>Cost | Fair<br>Value |
| Due less than one year                | \$ 11,158         | \$ 11,158     | \$ 6,781          | \$ 6,781      |
| Due after one year through five years | —                 | —             | —                 | —             |
| Due after ten years                   | —                 | —             | —                 | —             |
|                                       | \$ 11,158         | \$ 11,158     | \$ 6,781          | \$ 6,781      |

#### Inventories

Inventories are stated at the lower of cost or market. Cost is determined on the average cost method for our small model business and first-in-first-out (FIFO) for our large model and EMD businesses. For our small model business, cost includes direct materials such as feed and bedding, costs of personnel directly involved in the care of the models, and an allocation of facility overhead. For our large model business, cost is primarily the external cost we pay to acquire the model. Certain of our businesses value inventory based on standard costs, which are periodically compared to and adjusted to actual costs. We determine market value based on either replacement cost or estimated selling price less cost to sell and a normal profit margin. Inventory costs are charged to cost of sales in the period the products are sold to an external party. Inventory reserves are recorded to reduce the carrying value for inventory determined to be damaged, obsolete or otherwise unable to be sold.

The composition of inventories is as follows:

|                            | December 28,<br>2013 | December 29,<br>2012 |
|----------------------------|----------------------|----------------------|
| Raw materials and supplies | \$ 15,028            | \$ 14,525            |
| Work in process            | 11,715               | 11,082               |
| Finished products          | 62,653               | 62,863               |
| Inventories                | \$ 89,396            | \$ 88,470            |



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

(dollars in thousands, except per share amounts)

Other Current Assets

Other current assets consist of assets we expect to settle within the next twelve months.

|                       | December 28,<br>2013 | December 29,<br>2012 |
|-----------------------|----------------------|----------------------|
| Prepaid assets        | \$ 20,058            | \$ 20,404            |
| Deferred tax asset    | 29,139               | 30,018               |
| Marketable securities | 11,158               | 6,781                |
| Prepaid income tax    | 25,247               | 26,169               |
| Restricted cash       | 245                  | 229                  |
| Other current assets  | \$ 85,847            | \$ 83,601            |

Property, Plant and Equipment

Property, plant and equipment, including improvements that significantly add to productive capacity or extend useful life, are recorded at cost, while maintenance and repairs are expensed as incurred. We capitalize interest on certain capital projects which amounted to \$243 in 2013, \$467 in 2012 and \$298 in 2011, respectively. We also capitalize internal and external costs incurred during the application development stage of internal use software. Depreciation is calculated for financial reporting purposes using the straight-line method based on the estimated useful lives of the assets as follows: buildings, 20 to 40 years; machinery and equipment, 3 to 20 years; furniture and fixtures, 5 to 10 years; vehicles, 3 to 5 years; computer hardware and software, 3 to 8 years and leasehold improvements, the shorter of estimated useful life or the lease periods. We begin to depreciate capital projects in the first full month the asset is placed in service.

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

|                                   | December 28,<br>2013 | December 29,<br>2012 |
|-----------------------------------|----------------------|----------------------|
| Land                              | \$ 40,157            | \$ 40,812            |
| Buildings                         | 694,074              | 697,547              |
| Machinery and equipment           | 367,244              | 356,960              |
| Leasehold improvements            | 37,959               | 34,916               |
| Furniture and fixtures            | 24,013               | 25,681               |
| Vehicles                          | 3,859                | 3,736                |
| Computer hardware and software    | 112,328              | 107,171              |
| Construction in progress          | 42,075               | 46,186               |
| Total                             | 1,321,709            | 1,313,009            |
| Less accumulated depreciation     | (645,527             | ) (595,989           |
| Net property, plant and equipment | \$ 676,182           | \$ 717,020           |

Depreciation expense for 2013, 2012 and 2011 was \$78,830, \$63,207 and \$63,435, respectively.

Valuation and Impairment of Goodwill and Indefinite-Lived Intangible Assets

Goodwill and other indefinite-lived intangibles are not amortized and are reviewed for impairment at least annually. Valuation of goodwill requires significant judgment. Assumptions and estimates are used in determining the fair value of assets acquired and liabilities assumed in a business acquisition. A significant portion of the purchase price in our acquisitions is assigned to intangible assets and goodwill. Assigning value to intangible assets requires that we use significant judgment in determining (i) the fair value and (ii) whether such intangibles are amortizable or non-amortizable and, if the former, the period and the method by which the intangible assets will be amortized. We utilize commonly accepted valuation techniques, such as the income approach and the cost approach, as appropriate, in establishing the fair value of intangible assets. Typically, key assumptions include: projected revenues and expenses that will be generated or expended from the use of the intangible asset, costs that would be avoided due to our

ownership of the asset, client turn-over in the case of client relationships intangible assets, and the discount rate reflecting the risk associated with achieving these key assumptions.

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

(dollars in thousands, except per share amounts)

We test goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. We have elected not apply the guidance available in ASU 2011-08, Testing Goodwill for Impairment, to assess purely qualitative factors as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. We perform the first step of the two-step goodwill impairment test for each of our reporting units as of the first day of fiscal November. The first step, identifying a potential impairment, compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds fair value, the second step would need to be performed; otherwise, no further step is required. The second step, measuring the impairment loss, compares the implied fair value of the reporting unit's goodwill with its carrying amount. Any excess of the goodwill carrying amount over the implied fair value is recognized as an impairment loss, and the carrying value of goodwill is written down to fair value. Please refer to Note 3 for the results of our 2013 goodwill impairment test.

Valuation and Impairment of Long-Lived Assets

We assess the carrying value of property, plant and equipment and definite-lived intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important that could trigger an impairment review include but are not limited to the following:

• significant financial underperformance relative to expected future operating results;

• significant negative industry, market or economic trends; or

• significant changes in our operating strategy that negatively affect the utilization of our long-lived assets.

We assign long-lived assets to groups based on the lowest level at which cash flows are largely independent from other cash flows. Should we determine that a trigger has been met, we determine the recoverability of the long-lived asset group based on an estimate of undiscounted future cash flows resulting from the use of the asset group, including its eventual disposition. Should we determine that the carrying value of held-for-use long-lived assets may not be recoverable, we then measure any resulting impairment based on the fair value of the long-lived asset group. In some cases, fair value is based on the income approach using projected discounted cash flows and using a discount rate commensurate with the risk inherent in our current business model. We may also estimate fair value based on market prices for similar assets, as appropriate. Significant judgments are required to estimate future cash flows, including the selection of appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for these assets.

Long-lived asset groups are classified as held-for-sale when the following conditions are met: we have committed to a plan to sell the asset group and it is unlikely that significant changes will be made to the plan; the asset group is available for immediate sale in its present condition and it is probable that the sale will be completed within one year; and an active program to locate a buyer has been initiated and the asset group is being marketed at a sale price that is reasonable in relation to its current fair value. Should we determine that the carrying value of held-for-sale long-lived assets exceeds its fair value, we will measure any impairment based on this difference. Subsequent adjustments to the carrying amount of held-for-sale assets based on changes in fair value are recorded but only to the extent of the carrying amount of the asset group when it entered the held-for-sale category.

Other Assets

Other assets consist of assets that we do not expect to settle within the next twelve months. The composition of other assets is as follows:

|   | December 28,<br>2013 | December 29,<br>2012 |
|---|----------------------|----------------------|
| Deferred financing costs                        | \$ 7,126             | \$ 6,424             |
| Cash surrender value of life insurance policies | 26,507               | 25,240               |
| Investments in limited partnerships             | 17,911               | 8,492                |
| Other assets                                    | 10,420               | 8,503                |
| Other assets                                    | \$ 61,964            | \$ 48,659            |

**Accounting for Investments in Limited Partnerships**

We have invested in a series of limited partnerships that invest in start-up companies primarily in the life sciences industry. Our total commitment to these entities as of December 28, 2013 is \$35,000, of which we have funded \$12,375 to date. Our ownership interest in these limited partnerships ranges from 3.8% to 12.1%. We account for these investments under the

55

---

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

(dollars in thousands, except per share amounts)

Equity-Method, whereby we record our portion of investment gains and losses of the limited partnerships each reporting period. Accordingly, we recognized equity income/(loss) of \$5,864, \$(618) and \$869 for the years ended December 28, 2013, December 29, 2012 and December 31, 2011 respectively, reported in Other Income (Expense), net on our consolidated statements of income. As of December 28, 2013, these investments had a carrying value of \$17,911, which is reported in Other Assets on the consolidated balance sheets.

#### Accounting for Investment in Life Insurance Contracts

Our investments in life insurance contracts are recorded at cash surrender value. Accordingly, we recognize the initial investment at the transaction price and remeasure the investment at cash surrender value based on fair value of underlying investments or contractual value each reporting period. Investments in and redemptions of these life insurance contracts are reported as cash flows from investing activities in the consolidated statement of cash flows. At December 28, 2013, we held 30 contracts with a carrying value of \$26,507 and a face value of \$67,482.

#### Restructuring and Contract Termination Costs

We recognize obligations associated with restructuring activities and contract termination costs by recording a liability at fair value for the costs associated with an exit or disposal activity as well as costs to terminate a contract or an operating lease. The overall purpose of our restructuring actions is to lower operating costs and improve profitability by reducing excess capacities. Restructuring charges are typically recorded in the period in which the plan is approved by our senior management and, where material, our Board of Directors, and when the liability is incurred. A liability for costs that will continue to be incurred under a contract for its remaining term without economic benefit to us is recognized and measured at its fair value when we cease using the right conveyed by the contract.

During 2013, 2012 and 2011, we implemented staffing reductions to improve operating efficiency and profitability at various sites. As a result of these actions, for the years ended December 28, 2013, December 29, 2012 and December 31, 2011, we recorded severance and retention charges as shown below. As of December 28, 2013, \$1,475 was included in accrued compensation and \$1,307 in other long-term liabilities on our consolidated balance sheet. As of December 29, 2012, \$1,885 was included in accrued compensation and \$1,751 in other long-term liabilities on our consolidated balance sheet.

The following table rolls forward our severance and retention cost liability:

|                              | Severance and Retention Costs |          |           |
|------------------------------|-------------------------------|----------|-----------|
|                              | 2013                          | 2012     | 2011      |
| Balance, beginning of period | \$ 3,636                      | \$ 3,374 | \$ 10,658 |
| Expense                      | 3,223                         | 2,576    | 5,462     |
| Payments/utilization         | (4,077                        | ) (2,314 | ) (12,746 |
| Balance, end of period       | \$ 2,782                      | \$ 3,636 | \$ 3,374  |

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

|   | Fiscal Year Ended |          |          |
|---|-------------------|----------|----------|
|   | 2013              | 2012     | 2011     |
| Severance charges included in cost of sales                               | \$ 1,477          | \$ 1,203 | \$ 1,012 |
| Severance charges included in selling, general and administrative expense | 1,746             | 1,373    | 4,450    |
| Total expense   | \$ 3,223          | \$ 2,576 | \$ 5,462 |

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

(dollars in thousands, except per share amounts)

The following table presents severance and retention cost by segment:

|                              | Fiscal Year Ended |         |         |
|------------------------------|-------------------|---------|---------|
|                              | 2013              | 2012    | 2011    |
| Research models and services | \$2,055           | \$1,068 | \$1,196 |
| Preclinical services         | 1,164             | 1,508   | 4,372   |
| Corporate                    | 4                 | —       | (106)   |
| Total expense                | \$3,223           | \$2,576 | \$5,462 |

Other Current Liabilities

Other current liabilities consist of liabilities we intend to settle within the next twelve months.

The composition of other current liabilities is as follows:

|                                | December 28,<br>2013 | December 29,<br>2012 |
|--------------------------------|----------------------|----------------------|
| Accrued income taxes           | \$18,773             | \$18,216             |
| Current deferred tax liability | 1,960                | 410                  |
| Accrued interest and other     | 1,813                | 2,636                |
| Other current liabilities      | \$22,546             | \$21,262             |

Other Long-Term Liabilities

Other long-term liabilities consist of liabilities we do not intend to settle within the next twelve months.

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

|  | December 28,<br>2013 | December 29,<br>2012 |
|--|----------------------|----------------------|
| Deferred tax liability   | \$14,988             | \$13,147             |
| Long-term pension liability  | 16,219               | 44,316               |
| Accrued Executive Supplemental Life Insurance Retirement Plan and Deferred Compensation Plan | 28,708               | 26,663               |
| Other long-term liabilities  | 22,582               | 20,840               |
| Other long-term liabilities  | \$82,497             | \$104,966            |

Stock-Based Compensation Plans

We grant stock options and restricted stock to employees and non-employee directors under our stock-based compensation plans. Stock-based compensation cost is measured at grant date, based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period. We estimate the fair value of stock options using the Black-Scholes valuation model. Key inputs and assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, the risk-free interest rate over the option's expected term, the expected annual dividend yield and the expected stock price volatility. The expected stock price volatility assumption is determined using the historical volatility of our common stock over the expected life of the option. The risk-free interest rate is based on the market yield for the five year U.S. Treasury security. The expected life of options is determined using historical option exercise activity.

We record deferred tax assets for stock-based awards based on the amount of stock-based compensation recognized in our consolidated statements of income at the statutory tax rate for the jurisdiction in which we will receive a tax deduction. Differences between the deferred tax assets and the actual tax deduction reported on our income tax returns are recorded in additional paid-in capital. If the tax deduction is less than the deferred tax asset, the calculated shortfall reduces our pool of excess tax benefits. If the pool of excess tax benefits is reduced to zero, then subsequent shortfalls would increase our income tax expense. Our pool of excess tax benefits is computed in accordance with the long-form

method.

57

---

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

(dollars in thousands, except per share amounts)

#### Revenue Recognition

We recognize revenue related to our products, which include research models, endotoxin and microbial detection (EMD) technology and avian vaccine support products, when persuasive evidence of an arrangement exists, generally in the form of client purchase orders, title and risk of loss have transferred, which generally occurs upon delivery of the products, the sales price is fixed or determinable and collectability is reasonably assured. For large models, in some cases clients pay in advance of delivery of the product. These advances are deferred and recognized as revenue upon delivery of the product.

Our service revenue is generally evidenced by client contracts and is recognized upon the completion of the agreed upon performance criteria. These performance criteria are generally in the form of either study protocols or specified activities or procedures that we are engaged to perform. These performance criteria are established by our clients and do not contain acceptance provisions based upon the achievement of certain study or laboratory testing results. Revenue of agreed upon rate per unit contracts is recognized as services are performed, based upon rates specified in the contract. Revenue of fixed fee contracts is recognized as services are performed in relation to total estimated costs to complete procedures specified by clients in the form of study protocols. In general, such amounts become billable in accordance with predetermined payment schedules, but are recognized as revenue as services are performed. Revisions in estimated effort to complete the contract are reflected in the period in which the change became known.

Deferred and unbilled revenue are recognized in our consolidated balance sheets. In some cases, a portion of the contract fee is paid at the time the services are initiated. These advances are recorded as deferred revenue and recognized as revenue as services are performed. Conversely, in some cases, revenue is recorded based on the level of service performed in advance of billing the client and recognized as unbilled receivable.

#### Guarantees

We include standard indemnification provisions in client contracts, which include standard provisions limiting our liability under such contracts, including our indemnification obligations, with certain exceptions. In addition, we are the guarantor of certain facility leases for businesses that have been sold to other parties. When we sell the business, we recognize the retained lease guarantee as a liability on our books at fair value and we amortize the liability ratably as our obligation decreases. In addition, we record contingent losses on the guarantee when it is probable that we will be required to make lease payments in excess of the remaining carrying amount of the guarantee liability and the additional payments are reasonably estimable. See Note 12 for discussion of guarantees related to our Phase I clinical business that we discontinued in 2011.

#### Derivatives and Hedging Activities

During the three years ended December 28, 2013, we entered into forward foreign currency contracts in order to hedge the foreign exchange impact of cash collections at our Canadian facility related to accounts receivable denominated in U.S. dollars and an intercompany loan between two of our subsidiaries with different functional currencies. As of December 28, 2013, there were no outstanding forward contracts. We recorded losses associated with these forward foreign currency contracts of \$853 in 2013, \$1,260 in 2012 and \$6,287 in 2011.

#### Fair Value

We hold cash equivalents, investments and certain other assets and liabilities that are carried at fair value. We generally determine fair value using a market approach based on quoted prices of identical instruments when available. When market quotes of identical instruments are not readily accessible or available, we determine fair value based on quoted market prices of similar instruments. As of December 28, 2013, we do not have any significant non-recurring measurements of non-financial assets and non-financial liabilities other than the adjustment of our PCS Massachusetts facility to fair value in the fourth quarter of 2013 based on an impairment charge recorded in the



period.

The valuation hierarchy for disclosure of the inputs used to measure fair value prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, including interest rates, yield curves and credit risks, or inputs that are derived principally from or corroborated by observable market data through correlation. Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

58

---

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

(dollars in thousands, except per share amounts)

The valuation methodologies used for assets and liabilities measured at fair value are as follows:

- Time deposits—Valued at their ending balances as reported by the financial institutions that hold our securities, which approximates fair value.

- Investments in life insurance policies—Valued at cash surrender value based on fair value of underlying investments.

- Long-lived assets impaired during the period—Valued at fair value at the date of the impairment based upon the income or market approach.

- Hedge contracts (such as forward currency contracts)—Valued at fair value by management based on our foreign exchange rates and forward points provided by banks.

Redeemable noncontrolling interest—Valued using a weighted combination of a market-based approach, utilizing information about our company as well as publicly available industry information to determine revenue and earnings multiples, and an income approach based on estimated future cash flows based on projected financial data discounted by a weighted average cost of capital. Significant assumptions include a discount rate of 18.5% and a long-term pretax operating margin of approximately 31.7%.

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

|  | Fair Value Measurements at December 28, 2013                 |                                       |   |                                      |
|--|--|---------------------------------------|---|--------------------------------------|
|  | Quoted Prices in Active Markets for Identical Assets Level 1 | Significant Observable Inputs Level 2 | Other Significant Unobservable Inputs Level 3 | Assets and Liabilities at Fair Value |
| Time deposits                            | \$ —   | \$ 11,158                             | \$ —  | \$ 11,158                            |
| Life insurance policies                  | —  | 19,534                                | —   | 19,534                               |
| Total assets measured at fair value      | —  | 30,692                                | —   | 30,692                               |
| Redeemable noncontrolling interest       | —  | —                                     | 20,581  | 20,581                               |
| Total liabilities measured at fair value | \$ —   | \$ —                                  | \$ 20,581                                     | \$ 20,581                            |
|  | Fair Value Measurements at December 29, 2012                 |                                       |   |                                      |
|  | Quoted Prices in Active Markets for Identical Assets Level 1 | Significant Observable Inputs Level 2 | Other Significant Unobservable Inputs Level 3 | Assets and Liabilities at Fair Value |
| Time deposits                            | \$ —   | \$ 6,781                              | \$ —  | \$ 6,781                             |
| Life insurance policies                  | —  | 19,555                                | —   | 19,555                               |
| Hedge contract                           | —  | 16                                    | —   | 16                                   |
| Total assets measured at fair value      | \$ —   | \$ 26,352                             | \$ —  | \$ 26,352                            |

The book value of our term and revolving loans, which are variable rate loans carried at amortized cost, approximates fair value based current market pricing of similar debt. We classify the fair value of our debt as Level 2 on the valuation hierarchy.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
 (dollars in thousands, except per share amounts)

The following table presents a reconciliation for all liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended December 28, 2013 and December 29, 2012.

|  | Fair Value<br>Measurements<br>Using Significant<br>Unobservable Inputs<br>(Level 3)<br>Year ended |
|--|---|
| Redeemable Noncontrolling Interest (Liability) | December 28, 2013   |
| Beginning balance                              | \$ —  |
| Transfers in and/or out of Level 3             | —   |
| Purchases, issuances and settlements           | 8,963   |
| Total gains or losses (realized/unrealized):   |   |
| Included in other income (expense)             | 687   |
| Included in other comprehensive income (CTA)   | 367   |
| Included in additional paid-in capital         | 10,564  |
| Ending balance                                 | \$20,581  |

During the quarter ended December 28, 2013, we recorded an impairment charge for long-lived assets held and used related to our PCS Massachusetts facility (see Note 4). As a result, we adjusted the carrying amount of this asset group, which consists of land, building and fixtures, to fair value. Fair value was determined based on a weighted average of the replacement cost, market and income valuation approaches. In applying the income approach, we estimated the future net cash flows associated with leasing the asset group in the current market. In applying the replacement cost approach, we estimated the current estimated cost to reconstruct the facility and deducted the loss in value due to depreciation and obsolescence considerations. In applying the market approach, we performed a market sales comparison and adjusted for certain criteria, such as location, age and square footage, to make for a meaningful comparison. We determined the average of the three valuation approaches and adjusted the carrying value of the asset group to its fair value of \$39,500, which we classified as Level 3, whereby the inputs are based on management's internal estimates and not corroborated with observable market data.

#### Income Taxes

We recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax basis of our assets and liabilities. We measure deferred tax assets and liabilities using the enacted tax rates and laws that will be in effect when we expect the differences to reverse. We reduce our deferred tax assets by a valuation allowance if, based upon the weight of available evidence both positive and negative, it is more likely than not that we will not realize some or all of the deferred tax assets.

As of December 28, 2013, earnings of non-U.S. subsidiaries considered to be indefinitely reinvested totaled \$210,328. No provision for U.S. income taxes has been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, we would be subject to additional U.S. Federal and state income taxes and foreign income and withholding taxes, which could be material. It is our policy to indefinitely reinvest the earnings of our non-U.S. subsidiaries unless they can be repatriated in a manner that generates a tax benefit or an unforeseen cash need arises in the United States and the earnings can be repatriated in a manner that is substantially tax free. Determination of the amount of unrecognized deferred income tax liabilities on these earnings is not practicable due to the complexities with the hypothetical calculation. Additionally, the amount of the liability is dependent upon the circumstances existing if and when the remittance occurs.

We are a worldwide business and operate in various tax jurisdictions where tax laws and tax rates are subject to change given the political and economic climate in these countries. We report and pay income taxes based upon operational results and applicable law. Our current and deferred tax provision is based upon enacted tax rates in effect

for the current and future periods. Any significant fluctuation in tax rates or changes in tax laws and regulations or changes to interpretation of existing tax laws and regulations could cause our estimate of taxes to change resulting in either increases or decreases in our effective tax rate.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the tax position. The tax benefits

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

(dollars in thousands, except per share amounts)

recognized in our financial statements from such positions are measured based upon the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution.

#### Foreign Currency Translation

The functional currency of each of our operating foreign subsidiaries is local currency. The financial statements of these subsidiaries are translated into U.S. dollars as follows: assets and liabilities at year-end exchange rates; income, expenses and cash flows at average exchange rates; and equity at historical exchange rates. The resulting translation adjustment is recorded as a component of accumulated other comprehensive income in the accompanying balance sheet. Exchange gains and losses on foreign currency transactions are recorded as other income or expense. We recorded an exchange gain (loss) of \$136 in 2013, \$(892) in 2012 and \$6,237 in 2011.

#### Other Comprehensive Income

Our other comprehensive income (OCI) consists of unrealized gains (losses) on available-for-sale marketable securities, foreign currency translation adjustments and unrecognized pension gains and losses and prior service costs and credits. These items are presented, before tax effects, in the consolidated statements of other comprehensive income. We disclose the tax effects on each item included in Note 6.

#### Pension Plans

Our defined benefit pension plans' assets, liabilities and expenses are calculated using various assumptions. These assumptions are reviewed annually, or whenever otherwise required, based on reviews of current plan information and consultations with independent investment advisers and actuaries. The selection of assumptions requires a high degree of judgment and may materially change from period to period.

We recognize the funded status of our benefit plans on our consolidated balance sheets. We recognize gains, losses and prior service costs or credits that arise during the period that are not recognized as components of net periodic benefit cost as a component of accumulated other comprehensive income, net of tax. We measure plan assets and obligations as of the date of our fiscal year-end balance sheet. Additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation are disclosed in the Note 8 of these financial statements.

Our defined benefit pension plans' assets, liabilities and expenses are calculated by accredited independent actuaries using various assumptions, which are approved by management. The actuarial computations require the use of assumptions to estimate the total benefits ultimately payable to employees and to allocate this cost to the service periods. The key assumptions used to calculate pension costs are determined and reviewed annually by management after consulting with outside investment advisers and actuaries. The key assumptions include the discount rate, the expected return on plan assets and expected future rate of salary increases. In addition, our actuaries utilize other assumptions such as withdrawal and mortality rate. The assumed discount rate, which is intended to be the rate at which benefits could effectively be settled, is adjusted based on the change in the long-term bond yield as of the measurement date.

We estimate the future return on invested pension assets annually based on information prepared by our outside actuaries and investment advisers, our targeted asset allocations and our own assumptions about that market. Our forward-looking pension assumptions, such as the rate of return on invested assets, are approved annually by our pension committee in the first quarter of the year and are updated as needed as of year-end. The rate of return on invested plan assets is primarily based on capital market models prepared by our advisers. These models use asset-class specific expected returns, standard deviations and correlation coefficients to derive a distribution of expected average portfolio return over the future duration of the pension plan's liabilities.

Differences between actual investment returns and estimated investment returns are recorded in accumulated other comprehensive income (loss) (AOCI) and are amortized over the remaining duration of the pension plans. As of December 28, 2013, the Company's AOCI includes \$39,788 of net actuarial losses, which will be amortized over

approximately 22 years.

#### Earnings Per Share

Basic earnings per share are calculated by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding. Diluted earnings per common share are calculated by adjusting the weighted average number of common shares outstanding to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued, to the extent these additional shares are not anti-dilutive.

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

(dollars in thousands, except per share amounts)

#### Discontinued Operations

The results of discontinued operations, less applicable income taxes (benefit) and assets and liabilities, are reported as a separate component in the accompanying statement of income and consolidated balance sheets for the current and prior periods. The statement of cash flows also reflects separate disclosure of cash flows pertaining to discontinued operations consistently for all periods presented.

#### Recent Accounting Pronouncements

There are no recent accounting pronouncements that have been issued but are not yet effective that will have a material impact our future consolidated financial statements.

## 2. BUSINESS ACQUISITIONS

We completed two business acquisitions during the year ended December 28, 2013 and one business acquisition for the year end December 29, 2012. The results of operations of the acquired businesses are included in the accompanying consolidated financial statements from the dates of acquisition. During the year ended December 31, 2011 no significant business acquisitions were completed.

#### EMD Singapore

On October 4, 2013, we acquired an EMD products and service provider located in Singapore for approximately \$4,934 in cash, subject to certain closing adjustments. The financial results of the acquired entity will be included in our RMS reportable business segment.

The preliminary purchase price allocation is as follows:

|                                  |  |         |   |
|----------------------------------|--|---------|---|
| Current assets                   |  | \$300   |   |
| Property, plant and equipment    |  | 154     |   |
| Definite-lived intangible assets |  | 1,885   |   |
| Goodwill                         |  | 2,659   |   |
| Current liabilities              |  | (64     | ) |
| Total purchase price allocation  |  | \$4,934 |   |

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

|  |         | Weighted average<br>amortization life (in years) |
|--|---------|--|
| Client relationships                   | \$1,870 | 8.0  |
| Other intangible assets                | 15      | 2.0  |
| Total definite-lived intangible assets | \$1,885 | 8.0  |

The definite-lived intangibles are largely attributed to the expected cash flows related to client relationships existing at the acquisition closing date. The goodwill resulting from the transaction is primarily attributed to the potential growth of the business in Southeast Asia. The goodwill is not deductible for tax purposes. The accounting for this acquisition is not yet complete due to our ongoing assessment of the fair value of assets acquired and associated income tax accounting thereon. We expect to complete the acquisition accounting in 2014.

#### Vital River

In October 2012, we entered into an agreement to acquire a 75% ownership interest of Vital River, a commercial provider of research models and related services in China, for \$26,890 in cash, subject to certain closing adjustments. The acquisition closed in January 2013. Vital River's financial results are included in our RMS reportable business

segment.

62

---



CHARLES RIVER LABORATORIES INTERNATIONAL, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
 (dollars in thousands, except per share amounts)

The purchase price allocation, net of \$2,671 of cash acquired, is as follows:

|                                    |          |   |
|------------------------------------|----------|---|
| Current assets (excluding cash)    | \$3,092  |   |
| Property, plant and equipment      | 10,468   |   |
| Other long-term assets             | 2,242    |   |
| Definite-lived intangible assets   | 16,954   |   |
| Goodwill                           | 16,989   |   |
| Current liabilities                | (11,303) | ) |
| Long term liabilities              | (5,260)  | ) |
| Redeemable noncontrolling interest | (8,963)  | ) |
| Total purchase price allocation    | \$24,219 |   |

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

|  |          | Weighted average<br>amortization life (in years) |
|--|----------|--|
| Client relationships                   | \$14,741 | 11.7   |
| Reacquired rights                      | 2,053    | 1.3  |
| Other intangible assets                | 160      | 2.8  |
| Total definite-lived intangible assets | \$16,954 | 10.4   |

The definite-lived intangibles are largely attributed to the expected cash flows related to client relationships existing at the acquisition closing date. In addition, the Company reacquired a right previously granted to the entity related to a royalty agreement for the distribution of products in China. The value assigned to the reacquired right is being amortized over the remaining life of the existing royalty agreement. The goodwill resulting from the transaction is primarily attributed to the potential growth of the business in China. The goodwill is not deductible for tax purposes.

Concurrent with the acquisition, the Company entered into a joint venture agreement with the noncontrolling interest holders that provide the Company with the right to purchase the remaining 25% of the entity for cash at its then appraised value beginning in January 2016. Additionally, the noncontrolling interest holders were granted the right to require the Company to purchase the remaining 25% of the entity at its then appraised value beginning in January 2016 for cash. These rights are accelerated in certain events. As the noncontrolling interest holders can require the Company to purchase for cash the remaining 25% interest, we classify the carrying amount of the noncontrolling interest above the equity section and below liabilities on the consolidated balance sheet. The acquisition-date fair value of the noncontrolling interest was determined based on the fair value of the consideration exchanged for the 75% of Vital River. Subsequent to the acquisition, each quarter we adjust the carrying amount of the noncontrolling interest to fair value using a weighted combination of a market-based approach and an income approach. The income approach uses estimated future cash flows based on projected financial data discounted by a rate which considers the Company's weighted average cost of capital and the specific risks of achieving these cash flows. Adjustments to fair value are recorded through additional paid-in capital.

#### Accugenix

In August 2012, we acquired 100% of Accugenix Inc. (Accugenix), for \$18,408 in cash, subject to adjustments. Accugenix is a global provider of cGMP-compliant contract microbial identification testing. The acquisition strengthens our EMD portfolio of products and services by providing state-of-the-art microbial detection services for the biotechnology, pharmaceutical, and medical device manufacturing industries. Accugenix is based in the U.S. and is included in our RMS reportable business segment.



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

(dollars in thousands, except per share amounts)

The purchase price allocation, net of \$1,547 of cash acquired is as follows:

|                                  |           |   |
|----------------------------------|-----------|---|
| Current assets (excluding cash)  | \$ 2,162  |   |
| Property, plant and equipment    | 549       |   |
| Current liabilities              | (911      | ) |
| Long term liabilities            | (3,700    | ) |
| Definite-lived intangible assets | 8,400     |   |
| Goodwill                         | 10,361    |   |
| Total purchase price allocation  | \$ 16,861 |   |

The definite-lived intangible assets acquired are as follows:

|  |          | Weighted<br>average<br>amortization<br>life (in years) |
|--|----------|--|
| Client relationships                   | \$ 1,500 | 13.0   |
| Proprietary database                   | 4,100    | 11.0   |
| Standard operating procedures          | 2,500    | 4.0  |
| Trademarks                             | 300      | 12.0   |
| Total definite-lived intangible assets | \$ 8,400 | 9.3  |

The definite-lived intangibles are largely attributed to a proprietary database of thousands of species of organisms and the methods and technology to provide accurate, timely and cost-effective microbial identification services. The goodwill resulting from the transaction of \$10,361 is primarily attributed to the potential for growth of the Company's global EMD products and services business through the increased competitive advantage and market penetration provided by the services offered by Accugenix. The goodwill is not deductible for tax purposes.

### 3. GOODWILL AND OTHER INTANGIBLE ASSETS

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

|  | December 28, 2013     |                          | December 29, 2012     |                          |
|--|-----------------------|--------------------------|-----------------------|--------------------------|
|  | Gross carrying amount | Accumulated amortization | Gross carrying amount | Accumulated amortization |
| Backlog                                | \$ 2,916              | \$(2,507                 | ) \$ 2,875            | \$(2,375                 |
| Client relationships                   | 311,507               | (238,002                 | ) 305,178             | (231,902                 |
| Client contracts                       | 15,633                | (15,633                  | ) 15,366              | (15,366                  |
| Trademarks and trade names             | 5,399                 | (4,997                   | ) 5,326               | (4,821                   |
| Standard operating procedures          | 2,754                 | (1,498                   | ) 2,751               | (863                     |
| Other identifiable intangible assets   | 10,432                | (4,905                   | ) 10,033              | (4,718                   |
| Total definite-lived intangible assets | \$ 348,641            | \$(267,542               | ) \$ 341,529          | \$(260,045               |

Additionally, as of December 28, 2013 and December 29, 2012, other intangible assets, net, consisted of \$3,438 of indefinite-lived intangible assets.



CHARLES RIVER LABORATORIES INTERNATIONAL, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
 (dollars in thousands, except per share amounts)

The following is a schedule of goodwill by reportable segment and changes in the gross carrying amount and accumulated amortization of goodwill:

|                                 | Balance at<br>December<br>31, 2011 | Adjustments to<br>Goodwill<br>Acquisitions | Foreign<br>Exchange/<br>Impairment | Balance at<br>December<br>29, 2012 | Adjustments to<br>Goodwill<br>Acquisitions | Foreign<br>Exchange/<br>Impairment | Balance at<br>December<br>28, 2013 |
|---------------------------------|------------------------------------|--|------------------------------------|------------------------------------|--|------------------------------------|------------------------------------|
| Research Models and<br>Services |                                    |  |                                    |                                    |  |                                    |                                    |
| Gross carrying amount           | \$ 52,681                          | \$ 10,361                                  | \$ 97                              | \$ 63,139                          | \$ 19,647                                  | \$ 765                             | \$ 83,551                          |
| Preclinical Services            |                                    |  |                                    |                                    |  |                                    |                                    |
| Gross carrying amount           | 1,149,880                          | —  | 590                                | 1,150,470                          | —  | 1,680                              | 1,152,150                          |
| Accumulated impairment<br>loss  | (1,005,000 )                       | —  | —                                  | (1,005,000 )                       | —  | —                                  | (1,005,000 )                       |
| Total                           |                                    |  |                                    |                                    |  |                                    |                                    |
| Gross carrying amount           | \$ 1,202,561                       | \$ 10,361                                  | \$ 687                             | \$ 1,213,609                       | \$ 19,647                                  | \$ 2,445                           | \$ 1,235,701                       |
| Accumulated impairment<br>loss  | (1,005,000 )                       | —  | —                                  | (1,005,000 )                       | —  | —                                  | (1,005,000 )                       |
| Goodwill, net                   | \$ 197,561                         |  |                                    | \$ 208,609                         |  |                                    | \$ 230,701                         |

Our annual goodwill impairment assessment has historically been completed at the beginning of the fourth quarter. Based on our step one assessment for 2013, 2012 and 2011, the fair value of each reporting unit exceeded the reporting unit's book value (including allocated goodwill) and, therefore, our goodwill was not impaired.

Amortization expense of intangible assets for 2013, 2012 and 2011 was \$17,806, \$18,068 and \$21,796, respectively.

Amortization of revenue-producing intangible assets is excluded from cost of services.

Estimated amortization expense for intangible assets for each of the next five fiscal years is expected to be as follows:

|      |           |
|------|-----------|
| 2014 | \$ 16,396 |
| 2015 | 13,281    |
| 2016 | 11,351    |
| 2017 | 10,057    |
| 2018 | 9,181     |

#### 4. RESTRUCTURING AND ASSET IMPAIRMENTS

For the years ended 2013, 2012 and 2011, based on our most recent market outlook, we assessed our long-lived assets for impairment. The assessment included an evaluation of the ongoing cash flows associated with the use of the long lived assets.

In the fourth quarter of 2013, we recorded an asset impairment charge of \$3,753, which was included in cost of sales, related to an adjustment to fair value of long-lived assets associated with our PCS Massachusetts facility. The long-lived assets, which include land, building and associated building improvements and equipment, were adjusted to an estimated fair market value of \$39,500. In 2010, due to a decrease in demand for preclinical services and excess capacity in the industry, we consolidated our global preclinical facilities and temporarily ceased operations at this facility. As a result, we conducted an impairment test of the facility and adjusted the long-lived asset group to fair market value. We intend to maintain the space in the event additional capacity is needed in the future. Given the change in real estate values for similar properties in the surrounding area, we performed an updated asset impairment test in 2013. We calculated the fair value of the long-lived assets based upon a valuation completed by an independent third party valuation firm specializing in real estate. We utilized a weighted combination of the market value approach, cost replacement approach, and income capitalization approach. The resulting fair value of the asset group

was below its book value. Accordingly, we recorded an impairment charge representing the excess of the carrying value of those assets over their respective fair market values. The decrease in fair market value was driven by a general trend in the regional real estate market, which currently favors real estate in Boston metropolitan area and is experiencing a decline in suburban markets. The long-lived assets of the facility are classified as held-for-use and we continue to depreciate these assets over their useful economic life.

During 2013, we implemented a plan to consolidate production in our U.S. research model facilities, which to date has resulted in the abandonment of certain long-lived assets, including a building at one of our facilities in California. As a result of these actions, we recorded \$13,531 of accelerated depreciation to cost of sales related to the building based on its revised useful life. Also during 2013 we implemented a plan to consolidate operations within our U.S. Biologics facility, which is a leased facility, resulting in the abandonment of leasehold improvements and associated accelerated depreciation of \$1,864, recorded in cost of sales, related to those leasehold improvements. We also recorded in 2013 asset impairments of \$449 to cost of sales related to the consolidation of European operations noted in the following paragraph.

In 2012, we commenced a consolidation of certain research model operations in Europe. As a result, we recorded an impairment charge of \$3,548 to cost of sales for the disposition of facilities that we own. Following the impairment, the long-lived asset group was classified as held-for-use as we ceased operations over the following several months. We have commenced a search for a buyer of the facility. We continue to utilize the facility in a limited capacity and, accordingly, we have not yet met the criteria for classifying the facility as held-for-sale. Once these conditions are met, we will classify the long-lived assets as held-for-sale, cease depreciation and adjust the assets to fair value quarterly.

In 2011, certain long-lived assets related to facilities in our RMS segment were no longer in use and not expected to be fully recoverable and as a result we recorded an impairment charge of \$692 included in cost of sales. In addition, we sold the assets of our PCS-China facility for \$4,593 and recognized a gain on the sale of \$3,776. Also in 2011, we determined that the carrying value of our in process research and development acquired in the acquisition of SPC exceeded its fair value and as a result we recorded an impairment charge of \$6,800 included in selling, general and administrative expenses.

## 5. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

### Long-Term Debt

Long-term debt consists of the following:

|  | December 28,<br>2013 | December 29,<br>2012 |
|--|----------------------|----------------------|
| 2.25% Senior convertible debentures:                 |                      |                      |
| Principal  | \$—                  | \$ 349,995           |
| Unamortized debt discount                            | —                    | (6,726 )             |
| Net carrying amount of senior convertible debentures | —                    | 343,269              |
| Term loan facility                                   | 409,500              | 290,947              |
| Revolving credit facility                            | 253,308              | 32,000               |
| Other long-term debt                                 | 241                  | 232                  |
| Total debt   | 663,049              | 666,448              |
| Less: current portion of long-term debt              | (21,241 )            | (139,373 )           |
| Long-term debt                                       | \$ 641,808           | \$ 527,075           |

Minimum future principal payments of long-term debt at December 28, 2013 are as follows:

| Fiscal<br>Year |            |
|----------------|------------|
| 2014           | \$ 21,241  |
| 2015           | 42,000     |
| 2016           | 47,250     |
| 2017           | 68,250     |
| 2018           | 484,308    |
| Total          | \$ 663,049 |





CHARLES RIVER LABORATORIES INTERNATIONAL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(dollars in thousands, except per share amounts)

On May 29, 2013, we amended and restated our credit agreement dated September 23, 2011 to repay loans outstanding under the previous agreement, to retire our 2.25% Senior Convertible Debentures (the "2013 Notes") and to extend the maturity date of our credit agreement under a new \$970,000 agreement (the "\$970M Credit Facility"). The \$970M Credit Facility provides a \$420,000 U.S. term loan facility (the "Term Loan") and a \$550,000 multi-currency revolving credit facility (the "Credit Facility"). The revolving credit facility may be drawn in U.S. Dollars, Euros, Pound Sterling, or Japanese Yen, subject to sub-limits by currency. Under specified circumstances, we have the ability to expand the term loan and/or revolving credit facility by up to \$350,000 in the aggregate. The \$420,000 U.S. term loan matures in quarterly installments through maturity on May 29, 2018. The revolving credit facility also matures on May 29, 2018 and requires no scheduled payment before this date. The interest rates applicable to our term loans and revolving loans under the credit agreement are variable and based on an applicable rate plus a spread determined by our leverage ratio. As of December 28, 2013, the interest rate spread for adjusted LIBOR loans was 1.25%.

The \$970M Credit Facility includes certain customary representations and warranties, events of default, notices of material adverse changes to our business and negative and affirmative covenants. As of December 28, 2013, we were compliant with all financial covenants. These covenants include (1) maintenance of a ratio of consolidated earnings before interest, taxes, depreciation and amortization less capital expenditures to consolidated cash interest expense, for any period of four consecutive fiscal quarters, of no less than 3.5 to 1.0 as well as (2) maintenance of a ratio of consolidated indebtedness to consolidated earnings before interest, taxes, depreciation and amortization for any period of four consecutive fiscal quarters, of no more than 3.75 to 1.0. In addition, we must maintain a ratio of consolidated indebtedness to quarterly consolidated earnings before interest, taxes, depreciation and amortization of 3.5 to 1.0 for our first and second fiscal quarters of 2014 and of 3.25 to 1.0 for each fiscal quarter thereafter. Our obligations under the credit agreement are guaranteed by our material domestic subsidiaries and are secured by substantially all of our assets, including a pledge of 100% of the capital stock of our domestic subsidiaries (other than the capital stock of any domestic subsidiary that is treated as a disregarded entity for U.S. federal income tax purposes) and 65% of the capital stock of certain first-tier foreign subsidiaries and domestic disregarded entities, and mortgages on owned real property in the U.S. having a book value in excess of \$10,000. We had \$4,855 outstanding under letters of credit as of December 28, 2013.

As noted above, our 2013 Notes were retired from the proceeds of the \$970M Credit Facility and available cash and were done without triggering any of the conversion features. As a result of the refinancing and the associated modification and extinguishment of the previous debt agreement, we recognized an extinguishment loss of \$389, which is included in interest expense.

We have capital leases for equipment. These leases are capitalized using interest rates considered appropriate at the inception of each lease. Capital lease obligations amounted to \$740 and \$72 at December 28, 2013 and December 29, 2012, respectively.

## 6. EQUITY

### Earnings Per Share

Basic earnings per share for 2013, 2012 and 2011 was computed by dividing earnings available to common shareholders for these periods by the weighted average number of common shares outstanding in the respective periods. Diluted earnings per share for these periods was computed by dividing earnings available to common shareholders by the weighted average number of common shares outstanding for each period adjusted for the dilutive effect outstanding stock options and unvested restricted stock. Options to purchase 2,288,926 shares, 4,590,925 shares and 4,249,564 shares were outstanding at December 28, 2013, December 29, 2012 and December 31, 2011, respectively, but were not included in computing diluted earnings per share because their inclusion would have been anti-dilutive. In addition, weighted average shares outstanding for 2013, 2012 and 2011 excluded the weighted

average impact of 1,096,550, 934,505 and 703,011 shares, respectively, of non-vested fixed restricted stock awards.

67

---

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

(dollars in thousands, except per share amounts)

The following table illustrates the reconciliation of the numerator and denominator in the computations of the basic and diluted earnings per share:

|  | December 28,<br>2013 | December 29,<br>2012 | December 31,<br>2011 |
|--|----------------------|----------------------|----------------------|
| Numerator:   |                      |                      |                      |
| Income from continuing operations for purposes of calculating earnings per share                   | \$ 104,093           | \$ 101,547           | \$ 115,111           |
| Income (loss) from discontinued businesses   | \$(1,265             | ) \$(4,252           | ) \$(5,545           |
| Denominator:   |                      |                      |                      |
| Weighted-average shares outstanding—Basic  | 47,740,167           | 47,912,135           | 50,823,063           |
| Effect of dilutive securities:   |                      |                      |                      |
| Stock options and contingently issued restricted stock   | 749,155              | 494,185              | 495,179              |
| Weighted-average shares outstanding—Diluted  | 48,489,322           | 48,406,320           | 51,318,242           |
| Basic earnings per share from continuing operations attributable to common shareholders            | \$ 2.18              | \$ 2.12              | \$ 2.26              |
| Basic earnings (loss) per share from discontinued operations attributable to common shareholders   | \$(0.03              | ) \$(0.09            | ) \$(0.11            |
| Diluted earnings per share from continuing operations attributable to common shareholders          | \$ 2.15              | \$ 2.10              | \$ 2.24              |
| Diluted earnings (loss) per share from discontinued operations attributable to common shareholders | \$(0.03              | ) \$(0.09            | ) \$(0.11            |

The sum of the earnings per share from continuing operations attributable to common shareholders and the earnings (loss) per share from discontinued operations attributable to common shareholders does not necessarily equal the earnings (loss) per share from net income attributable to common shareholders in the consolidated statements of operations due to rounding.

#### Treasury Shares

The Company's Board of Directors has authorized an aggregate stock repurchase program of \$1,000,000, which includes \$750,000 approved in 2010 and \$250,000 approved in 2013. As of December 28, 2013, the Company had \$139,099 of remaining authorization under this stock repurchase program. In order to enable us to facilitate, on a more timely and cost efficient basis, the repurchase of a substantial number of our shares pursuant to that stock repurchase authorization, we entered into a series of accelerated stock repurchase (ASR) programs in 2010 and 2011. The ASR programs are recorded as two transactions allocated between the initial purchase of treasury stock and a forward contract indexed to our common stock. The treasury shares result in an immediate reduction of shares on our statement of financial position and in our EPS calculation.

On August 26, 2010, we entered into an agreement with a third party investment bank to implement an ASR program to repurchase \$300,000 of common stock. Under this ASR, we paid \$300,000 on August 27, 2010 from cash on hand and available liquidity, including funds borrowed by us under our \$750,000 credit facility. The ASR was settled on February 11, 2011 based on a discount to the daily volume weighted average price (VWAP) of our common stock over the course of a calculation period. We received the final 871,829 shares based on the settlement of the ASR, which were recorded at \$32,509.

On February 24, 2011, we entered into an ASR to repurchase \$150,000 of common stock. Under the ASR, we paid \$150,000 from cash on hand, including funds borrowed under our credit facility. Upon signing the ASR on February 24, 2011, we received the initial delivery of 3,759,398 shares, which was recorded at \$135,860 based on the market value at the date of the transaction, and recorded \$14,140 as a forward contract indexed to our common stock. The ASR was settled on May 16, 2011 based on a discount to the daily volume weighted average price (VWAP) of our common stock over the course of a calculation period. We received the final 6,505 shares based on the settlement

of the ASR, which were recorded at \$257.

During 2013, 2012 and 2011, we repurchased 3,468,031 shares of common stock for \$165,717, 1,705,521 shares of common stock for \$61,442 and 3,790,762 shares of common stock for \$130,853, respectively, under our Rule 10b5-1 Purchase Plans and in open market trading. The timing and amount of any future repurchases will depend on market conditions and corporate considerations.

68

---

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

(dollars in thousands, except per share amounts)

Share repurchases through ASR programs and open market purchases during 2013, 2012 and 2011 were as follows:

|  | Fiscal Year Ended |                   |                   |
|--|-------------------|-------------------|-------------------|
|  | December 28, 2013 | December 29, 2012 | December 31, 2011 |
| Number of shares of common stock repurchased | 3,468,031         | 1,705,521         | 8,428,494         |
| Total cost of repurchase                     | \$ 165,717        | \$ 61,442         | \$ 299,479        |

Additionally, our 2000 Incentive Plan permits the netting of common stock upon vesting of restricted stock awards in order to satisfy individual tax withholding requirements. During the fiscal year ended December 28, 2013, December 29, 2012 and December 31, 2011, we acquired shares 113,424 for \$4,554, 84,250 shares for \$3,047 and 79,704 shares for \$2,942, respectively, as a result of such withholdings.

#### Accumulated Deficit

None of our accumulated deficit is restricted due to statutory requirements in the local jurisdiction of a foreign subsidiary as of December 28, 2013 and December 29, 2012.

#### Accumulated Other Comprehensive Income

The composition of accumulated other comprehensive income is as follows:

|                              | Foreign<br>Currency<br>Translation<br>Adjustment | Pension<br>Gains/(Losses)<br>and Prior Service<br>(Cost)/Credit Not<br>Yet<br>Recognized as<br>Components of<br>Net<br>Periodic Benefit<br>Costs | Net Unrealized<br>Gain on<br>Marketable<br>Securities | Accumulated<br>Other<br>Comprehensive<br>Income |
|------------------------------|--|--|---|---|
| Balance at December 31, 2011 | \$ 38,685  | \$ (33,171   | ) \$ (921   | ) \$ 4,593                                      |
| Period change                | 5,274  | (5,862   | ) 921   | 333   |
| Tax                          | 98   | 1,579  | —   | 1,677   |
| Balance at December 29, 2012 | \$ 44,057  | \$ (37,454   | ) \$ —  | \$ 6,603  |
| Period change                | (15,751  | ) 22,310   | —   | 6,559   |
| Tax                          | 197  | (8,002   | ) —   | (7,805  |
| Balance at December 28, 2013 | \$ 28,503  | \$ (23,146   | ) \$ —  | \$ 5,357  |

#### Warrants

Separately and concurrently with the pricing of the 2013 Notes in June 2006, we issued warrants for approximately 7,200,000 shares of our common stock. The warrants give the holders the right to receive, for no additional consideration, cash or shares, at our option, with a value equal to the appreciation in the price of our shares above \$59.63 and expire between September 13, 2013 and January 22, 2014 over 90 equal increments. As of December 28, 2013, warrants for approximately 1,271,459 shares were outstanding and none were subsequently exercised.

#### Noncontrolling Interests

A noncontrolling interest resulted from our acquisition of a 75% ownership interest in Vital River. We entered into a joint venture agreement with the noncontrolling interest holders that provides us with the right to purchase, and the noncontrolling interest has the right to require us to purchase, the remaining 25% of the entity for cash at its then appraised fair value beginning in January 2016. See Note 2 for additional information. As the noncontrolling interest holders can require us to purchase the remaining 25% interest for cash, we classify the carrying amount of the

noncontrolling interest above the equity section and below liabilities on the consolidated balance sheet and we adjust the carrying amount to fair value at the end of each reporting period. Adjustments to fair value are recorded through additional paid-in capital. The carrying value of the Vital River noncontrolling interest is \$20,581 at December 28, 2013.

We hold investments in several joint ventures. These joint ventures are separate legal entities whose purpose is consistent with our overall operations and represent geographic and business segment expansions of existing markets. The financial results of all joint ventures were consolidated in our results as we have the ability to exercise control over these entities. The interests of

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

(dollars in thousands, except per share amounts)

the outside joint venture partners in these joint ventures have been recorded as noncontrolling interest totaling \$3,093 and \$2,395 at December 28, 2013 and December 29, 2012, respectively.

## 7. INCOME TAXES

An analysis of the components of income from continuing operations before income taxes and the related provision for income taxes is presented below:

|   | Fiscal Year Ended    |                      |                      |
|---|----------------------|----------------------|----------------------|
|   | December 28,<br>2013 | December 29,<br>2012 | December 31,<br>2011 |
| Income from continuing operations before income taxes |                      |                      |                      |
| U.S.  | \$ 39,900            | \$ 35,504            | \$ 47,158            |
| Non-U.S.  | 98,427               | 94,242               | 85,504               |
|   | \$ 138,327           | \$ 129,746           | \$ 132,662           |
| Income tax provision                                  |                      |                      |                      |
| Current:  |                      |                      |                      |
| Federal   | \$ 10,832            | \$ (1,447            | ) \$ 3,957           |
| Foreign   | 18,370               | 26,411               | 20,727               |
| State and local                                       | 4,240                | 1,353                | 1,124                |
| Total current   | \$ 33,442            | \$ 26,317            | \$ 25,808            |
| Deferred:   |                      |                      |                      |
| Federal   | \$ 5,468             | \$ 13,132            | \$ 2,961             |
| Foreign   | (6,431               | ) (12,683            | ) (11,649            |
| State and local                                       | 432                  | 862                  | 20                   |
| Total deferred  | \$ (531              | ) \$ 1,311           | \$ (8,668            |
|   | \$ 32,911            | \$ 27,628            | \$ 17,140            |

Net deferred taxes, detailed below, recognize the impact of temporary differences between the amounts of assets and liabilities recorded for financial statement purposes and such amounts measured in accordance with tax laws.

|   | December 28,<br>2013 | December 29,<br>2012 |
|---|----------------------|----------------------|
| Compensation                                | \$ 38,836            | \$ 52,668            |
| Accruals and reserves                       | 2,356                | 2,160                |
| Inventory reserves and valuations           | 1,696                | 3,663                |
| Financing related                           | 1,594                | 2,545                |
| Goodwill and other intangibles              | (21,826              | ) (14,982            |
| Net operating loss and credit carryforwards | 58,891               | 55,067               |
| Depreciation related                        | (22,389              | ) (37,212            |
| Non-indefinitely reinvested earnings        | —                    | (146                 |
| Investments in limited partnerships         | (2,720               | ) (405               |
| Other                                       | (1,640               | ) (839               |
|   | 54,798               | 62,519               |
| Valuation allowance                         | (7,071               | ) (7,504             |
| Total deferred taxes                        | \$ 47,727            | \$ 55,015            |

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

(dollars in thousands, except per share amounts)

Reconciliations of the statutory U.S. Federal income tax rate to effective tax rates are as follows:

|   | December 28,<br>2013 | December 29,<br>2012 | December 31,<br>2011 |    |  |
|---|----------------------|----------------------|----------------------|----|--|
| U.S. statutory income tax rate  | 35.0                 | % 35.0               | % 35.0               | %  |  |
| Foreign tax rate differences  | (8.0)                | )% (8.0              | )% (6.7              | )% |  |
| State income taxes, net of Federal tax benefit  | 1.6                  | % 1.5                | % 2.1                | %  |  |
| Unbenefitted losses and changes in valuation allowance                                  | 0.4                  | % 0.8                | % 0.6                | %  |  |
| Impact of repatriation of non-U.S. earnings   | —                    | % —                  | % 0.5                | %  |  |
| Research tax credits and enhanced deductions  | (6.6)                | )% (8.2              | )% (7.6              | )% |  |
| Enacted tax rate changes  | (0.4)                | )% (0.2              | )% (1.0              | )% |  |
| Impact of tax uncertainties   | 1.0                  | % (1.2               | )% (1.0              | )% |  |
| Releasing valuation allowance on loss from disposition of the Phase 1 Clinical business | —                    | % —                  | % (8.4               | )% |  |
| Non taxable gain from settlement of life insurance policy                               | —                    | % —                  | % (2.2               | )% |  |
| Other   | 0.8                  | % 1.6                | % 1.6                | %  |  |
|   | 23.8                 | % 21.3               | % 12.9               | %  |  |

As of December 28, 2013, we have non-U.S. net operating loss carryforwards, the tax effect of which is \$12,951. Of this amount, \$524 will expire in 2014, and \$218 will expire between 2014 and 2031. The remainder of \$12,209 can be carried forward indefinitely. We have U.S. net operating loss carryforwards at the state level, the tax effect of which is \$94, which will expire between 2016 and 2031. We have U.S. foreign tax credit carryforwards of \$21,733. Of this amount, \$12,783 will expire in 2019, \$6,255 will expire in 2020, \$2,411 will expire in 2021 and the remaining \$284 thereafter. We have Canadian Scientific Research and Experimental Development (SR&ED) credit carryforwards of \$23,946, which will expire between 2029 and 2033. In accordance with Canadian Federal tax law, we claim SR&ED credits on qualified research and development costs incurred by our Preclinical service facility in Canada, in the performance of projects for non-Canadian clients. Additionally, in the first quarter of 2013, in accordance with the tax law of the United Kingdom, we claimed enhanced deductions related to qualified research and development costs incurred by our Preclinical service facility in Scotland, in the performance of certain client contracts. As of April 1, 2013, we adopted the new refundable research and development credit that was provided for in a UK tax law change that was enacted in 2013. This credit was recorded as a benefit to operating income. We have realized capital losses in the U.S., the tax effect of which is \$166, which will expire in 2017. We have realized and unrealized capital losses in Canada, the tax effect of which is \$488. These losses can be carried forward indefinitely.

We record deferred tax assets for stock-based awards based on the amount of stock-based compensation recognized in our Consolidated Statements of Income at the statutory tax rate in the jurisdiction in which we will receive a tax deduction. Differences between the deferred tax assets and the actual tax benefit reported on our income tax returns are recorded in additional paid-in capital. If the tax benefit is less than the deferred tax asset, the calculated shortfall reduces our pool of excess tax benefits. If the pool of excess tax benefits is reduced to zero, the subsequent shortfalls would increase our income tax expense. Our pool of excess tax benefits, which is computed in accordance with the long form method, was \$7,345 as of December 28, 2013 and \$9,558 as of December 29, 2012. During 2013, we recorded a tax benefit of \$1,068 to additional paid-in-capital related to the exercise of stock options and vesting of restricted shares.

We have fully recognized our deferred tax assets on the belief that it is more likely than not that they will be realized. The only exceptions at December 28, 2013 relate to deferred tax assets primarily for net operating losses in Hong Kong, Luxembourg and the Netherlands, capital losses in the U.S. and Canada, and fixed assets in the U.K. The valuation allowance decreased by \$433 from \$7,504 at December 29, 2012 to \$7,071 at December 28, 2013.



At December 28, 2013, the amount recorded for unrecognized tax benefits was \$18,475. At December 29, 2012 the amount recorded for unrecognized income tax benefits was \$30,996. The \$12,521 decrease during 2013 is primarily attributable to a settlement reached during the year with the CRA related to SR&ED credits claimed in 2005 through 2011. This reduction was partially offset by increases primarily due to a new uncertain tax position related to tax incentives claimed by Vital River in prior years, ongoing evaluation of uncertain tax positions in the current and prior periods related to the Canadian SR&ED credits claimed by our Preclinical subsidiary in Montreal, and foreign exchange movement.

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

(dollars in thousands, except per share amounts)

The amount of unrecognized income tax benefits that, if recognized, would favorably impact the effective tax rate was \$17,012 as of December 28, 2013 and \$24,386 as of December 29, 2012. The \$7,374 decrease is primarily attributable to the settlement reached during 2013 with the CRA related to SR&ED credits claimed in 2005 through 2011, partially offset by the new uncertain tax position related to Vital River and an increase due to the ongoing evaluation of uncertain tax positions for the current and prior periods. It is reasonably possible as of December 28, 2013 that the liability for unrecognized tax benefits for the uncertain tax position associated with an acquisition agreement termination fee could decrease within the next twelve months by approximately \$11,000 due to the potential expiration of a statute of limitations.

A reconciliation of our beginning and ending unrecognized income tax benefits is as follows:

|                                      | December 28,<br>2013 | December 29,<br>2012 | December 31,<br>2011 |
|--------------------------------------|----------------------|----------------------|----------------------|
| Beginning balance                    | \$ 30,996            | \$ 27,976            | \$ 33,427            |
| Additions:                           |                      |                      |                      |
| Tax positions for current year       | 2,009                | 1,907                | 1,714                |
| Tax positions for prior years        | 1,709                | 4,196                | —                    |
| Reductions:                          |                      |                      |                      |
| Tax positions for current year       | —                    | —                    | —                    |
| Tax positions for prior years        | (732 )               | (28 )                | (239 )               |
| Settlements                          | (15,246 )            | (3,055 )             | (6,926 )             |
| Expiration of statute of limitations | (261 )               | —                    | —                    |
| Ending balance                       | \$ 18,475            | \$ 30,996            | \$ 27,976            |

We continue to recognize interest and penalties related to unrecognized income tax benefits in income tax expense.

The total amount of accrued interest related to unrecognized income tax benefits as of December 28, 2013 and December 29, 2012 was \$691 and \$1,964, respectively. The \$1,273 decrease is primarily due to the Canadian SR&ED settlement for tax years 2005 through 2011. We have not recorded a provision for penalties associated with uncertain tax positions.

We conduct business in a number of tax jurisdictions. As a result, we are subject to tax audits on a regular basis including, but not limited to, such major jurisdictions as the United States, the United Kingdom, France, Japan, Germany and Canada. With few exceptions, we are no longer subject to U.S. and international income tax examinations for years before 2006.

We and certain of our subsidiaries are currently under audit by various tax authorities in the U.S., Canada, Germany and Finland. We do not anticipate resolution of these audits to have a material impact on our financial statements. We are currently under audit by the Canadian Revenue Authority (CRA) for the years 2006 through 2009. In the fourth quarter of 2012, we received a draft reassessment from the CRA related to the transfer pricing in our Preclinical services operations in Montreal. The CRA proposes to disallow certain deductions related to headquarter service charges for the years 2006 through 2009. We intend to file an objection with the CRA upon receipt of the Notice of Reassessment and apply to the Internal Revenue Service (IRS) and the CRA for relief pursuant to the competent authority procedure provided in the tax treaty between the U.S. and Canada. We believe that the controversy will likely be ultimately settled via the competent authority process. In the fourth quarter of 2012, we established a reserve for this uncertain tax position of \$2,408 related to years 2006 through 2012 to reduce the tax benefit recognized for these deductions in Canada to the level that we believe will likely be realized upon the ultimate resolution of this controversy. Additionally, in the fourth quarter of 2012, we recognized a tax asset of \$2,981, which is included in Other Assets, that represents the correlative relief that we believe will more likely than not be received in the U.S. via the competent authority process. In the third quarter of 2013, there was a U.S. tax court opinion issued that could impact our ability to recognize the full benefit of the correlative relief recorded in 2012. As a result, in the third

quarter of 2013, the U.S. tax asset recorded in the fourth quarter of 2012 was reduced by \$2,006 to \$975. The actual amounts of the liability for Canadian taxes and the asset for the correlative relieve in the U.S. could be different based upon the agreement reached between the IRS and CRA.

During 2012, the Canadian government enacted a reduction in the SR&ED credit, which is applicable for years 2014 and beyond. This change in law will reduce our SR&ED credits by 25% starting in 2014.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(dollars in thousands, except per share amounts)

Subsequent to our December 29, 2012 year end, the French government enacted a tax law change that applies retroactively to 2012. We recorded the 2012 impact of this law change, which limits the deductibility of interest by our French affiliates for 2012 and beyond, as a discrete event in our financial statement for the first quarter ending March 30, 2013. The total 2012 impact from the tax law change is additional tax expense of \$703. On December 30, 2013, the French government enacted anti hybrid provisions in an attempt to further restrict the ability of companies to deduct interest in France for 2013 and beyond. We believe that this new tax law should not apply to further restrict the deduction of interest by our French affiliates. However, future changes in or clarifications to the French anti-hybrid provisions could result in the disallowance of interest currently deducted by our French affiliates resulting in an increase to our effective tax rate in 2014 and beyond.

On February 25, 2013, the German government enacted a tax law change that restricts the deductibility of losses in Germany. As of December 28, 2013, we believe that this new tax law should not apply to restrict the deduction of losses by our German affiliates. However, future changes in or clarifications to the German tax law may result in disallowing losses currently deducted by our German affiliates and a corresponding increase to our effective tax rate in 2014 and beyond.

In accordance with our policy, the remaining undistributed earnings of our non-U.S. subsidiaries remain indefinitely reinvested as of the end of 2013 as they are required to fund needs outside the U.S. and cannot be repatriated in a manner that is substantially tax free. During the third quarter of 2011, we restructured our international operations in a tax-free manner to allow us more flexibility in accessing our offshore cash to fund needs outside the U.S. As of December 28, 2013, the earnings of our non-U.S. subsidiaries considered to be indefinitely reinvested totaled \$210,328. No provision for U.S. income taxes has been provided thereon. Upon distribution of these earnings in the form of dividends or otherwise, we would be subject to additional U.S. Federal and state income taxes and foreign income and withholding taxes, which could be material. Determination of the amount of unrecognized deferred income tax liabilities on these earnings is not practicable because of the complexities with the hypothetical calculation. Additionally, the amount of liability is dependent on circumstances existing if and when remittance occurs.

## 8. EMPLOYEE BENEFIT PLANS

### Charles River Laboratories Employee Savings Plan

Our defined contribution plan, the Charles River Laboratories Employee Savings Plan, qualifies under section 401(k) of the Internal Revenue Code. It covers substantially all U.S. employees and contains a provision whereby we match a percentage of employee contributions. The costs associated with this defined contribution plan totaled \$4,718, \$4,364 and \$4,178, in 2013, 2012 and 2011, respectively.

Charles River Laboratories Deferred Compensation Plan and Executive Supplemental Life Insurance Retirement Plan  
The Charles River Laboratories Deferred Compensation Plan (Deferred Compensation Plan) is designed for select eligible employees, including our Named Executive Officers. Under the Deferred Compensation Plan, participants may elect to defer bonus and salary amounts, and may select the investment returns to be applied to deferred amounts from among a number of reference mutual funds as well as an interest crediting rate. The plan is not qualified under Section 401(a) of the Internal Revenue Code and is not subject to the Employee Retirement Income Security Act of 1974. At the present time, no contributions will be credited to the plan, except as set forth below. Participants must specify the distribution date for deferred amounts at the time of deferral, in accordance with applicable IRS regulations. Generally, amounts may be paid in lump sum or installments upon retirement or termination of employment, or later if the employee terminates employment after age 55 and before age 65. Amounts may also be distributed during employment, subject to a minimum deferral requirement of three years.

In addition to the Deferred Compensation Plan, certain officers and key employees also participate, or in the past participated, in our amended and restated Executive Supplemental Life Insurance Retirement Plan (ESLIRP) which is a non-funded, non-qualified arrangement. Annual benefits under this plan will equal a percentage of the highest five consecutive years of compensation, offset by amounts payable under the Charles River Laboratories, Inc. Pension Plan and Social Security.

In addition, we provide certain active employees an annual contribution into their Deferred Compensation Plan account of 10% of the employee's base salary plus the lesser of their target annual bonus or actual annual bonus. The costs associated with these defined contribution plans, including the ESLIRP, totaled \$3,322, \$2,930 and \$2,048 in 2013, 2012 and 2011, respectively.

We have invested in several corporate-owned key-person life insurance policies as well as mutual funds and U.S. Treasury Securities with the intention of using these investments to fund the ESLIRP and the Deferred Compensation Plan. Participants

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

(dollars in thousands, except per share amounts)

have no interest in any such investments. At December 28, 2013 and December 29, 2012 the cash surrender value of these life insurance policies were \$26,507 and \$25,240, respectively.

Post-Retirement Health and Life Insurance Plans

Our Montreal location offers post-retirement life insurance benefits to its employees and post-retirement medical & dental insurance coverage to certain executives. The plan is non-contributory and unfunded. As of December 28, 2013, the accumulated benefit obligation related to the plan was \$1,057. In addition, accumulated other comprehensive income includes \$96 of deferred gains, net of tax, as of December 28, 2013, and \$105 of deferred losses, net of tax, as of December 29, 2012. Expenses related to the plan were \$84, \$201 and \$188 for 2013, 2012 and 2011, respectively.

Pension Plans

The Charles River Laboratories, Inc. Pension Plan is a qualified, non-contributory defined benefit plan covering certain US employees. Effective 2002, the plan was amended to exclude new participants from joining and in 2008 the accrual of benefits was frozen.

The Charles River Pension Plan is a defined contribution and defined benefit pension plan covering certain UK employees. Benefits are based on participants' final pensionable salary and years of service. Participants' rights vest immediately. Effective December 31, 2002, the plan was amended to exclude new participants from joining the defined benefit section of the plan and a defined contribution section was established for new entrants. Contributions under the defined contribution plan are determined as a percentage of gross salary.

The defined benefit pension plans for Japan and our Canadian RMS operation are non-contributory plans that cover substantially all employees of those respective companies. Benefits are based upon length of service and final salary. In addition, our French RMS operation has a defined benefit statutory indemnity plan covering most of its employees.

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

(dollars in thousands, except per share amounts)

The following tables summarize the funded status of our defined benefit plans and amounts reflected in our consolidated balance sheets.

Obligations and Funded Status:

|  | Pension Benefits |            | Supplemental Retirement Benefits |           |
|--|------------------|------------|----------------------------------|-----------|
|  | 2013             | 2012       | 2013                             | 2012      |
| Change in benefit obligations                          |                  |            |                                  |           |
| Benefit obligation at beginning of year                | \$ 283,063       | \$ 251,916 | \$ 27,372                        | \$ 26,456 |
| Service cost   | 3,368            | 3,729      | 643                              | 640       |
| Interest cost  | 11,273           | 11,289     | 708                              | 892       |
| Plan participants' contributions                       | —                | 53         | —                                | —         |
| Benefit payments                                       | (8,300)          | (6,186)    | (726)                            | (743)     |
| Actuarial loss (gain)                                  | (4,276)          | 16,699     | 1,501                            | 127       |
| Plan amendments  | —                | —          | —                                | —         |
| Administrative expenses paid                           | (308)            | (266)      | —                                | —         |
| Effect of foreign exchange                             | 1,392            | 5,829      | —                                | —         |
| Benefit obligation at end of year                      | \$ 286,212       | \$ 283,063 | \$ 29,498                        | \$ 27,372 |
| Change in plan assets                                  |                  |            |                                  |           |
| Fair value of plan assets at beginning of year         | \$ 238,672       | \$ 202,652 | \$ —                             | \$ —      |
| Actual return on plan assets                           | 30,820           | 22,467     | —                                | —         |
| Settlements  | —                | —          | —                                | —         |
| Employer contributions                                 | 9,570            | 14,222     | 726                              | 743       |
| Plan participants' contributions                       | —                | 53         | —                                | —         |
| Benefit payments                                       | (8,300)          | (6,186)    | (726)                            | (743)     |
| Premiums paid  | (308)            | (266)      | —                                | —         |
| Effect of foreign exchange                             | 2,205            | 5,730      | —                                | —         |
| Fair value of plan assets at end of year               | \$ 272,659       | \$ 238,672 | \$ —                             | \$ —      |
| Funded status  |                  |            |                                  |           |
| Projected benefit obligation                           | \$ 286,212       | \$ 283,063 | \$ 29,498                        | \$ 27,372 |
| Fair value of plan assets                              | 272,659          | 238,672    | —                                | —         |
| Net balance sheet liability                            | \$ 13,553        | \$ 44,391  | \$ 29,498                        | \$ 27,372 |
| Classification of net balance sheet asset / liability: |                  |            |                                  |           |
| Non-current assets                                     | \$ 2,738         | \$ —       | \$ —                             | \$ —      |
| Current liabilities                                    | 72               | 75         | 789                              | 709       |
| Non-current liabilities                                | 16,219           | 44,316     | 28,709                           | 26,663    |

Amounts recognized in statement of financial position as part of accumulated other comprehensive income ("AOCI"):

|                                 | Pension Benefits |           | Supplemental Retirement Benefits |          |
|---------------------------------|------------------|-----------|----------------------------------|----------|
|                                 | 2013             | 2012      | 2013                             | 2012     |
| Net actuarial loss              | \$ 35,481        | \$ 58,594 | \$ 4,307                         | \$ 3,056 |
| Net prior service cost/(credit) | (6,338)          | (6,815)   | 660                              | 1,320    |
| Total                           | \$ 29,143        | \$ 51,779 | \$ 4,967                         | \$ 4,376 |





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

(dollars in thousands, except per share amounts)

Information for defined benefit plans with accumulated benefit obligation in excess of plan assets:

|                                | Pension Benefits |            | Supplemental Retirement Benefits |           |
|--------------------------------|------------------|------------|----------------------------------|-----------|
|                                | 2013             | 2012       | 2013                             | 2012      |
| Projected benefit obligation   | \$ 82,254        | \$ 277,187 | \$ 29,498                        | \$ 27,372 |
| Accumulated benefit obligation | 81,117           | 271,204    | 27,938                           | 26,495    |
| Fair value of plan assets      | 68,430           | 233,182    | —                                | —         |

Information for defined benefit plans with projected benefit obligation in excess of plan assets:

|                                | Pension Benefits |            | Supplemental Retirement Benefits |           |
|--------------------------------|------------------|------------|----------------------------------|-----------|
|                                | 2013             | 2012       | 2013                             | 2012      |
| Projected benefit obligation   | \$ 99,671        | \$ 283,063 | \$ 29,498                        | \$ 27,372 |
| Accumulated benefit obligation | 93,307           | 275,162    | 27,938                           | 26,495    |
| Fair value of plan assets      | 83,379           | 238,672    | —                                | —         |

Amounts in AOCI expected to be recognized as components of net periodic benefit cost over the next fiscal year:

|   | Pension Benefits | Supplemental Retirement Benefits |
|---|------------------|----------------------------------|
| Amortization of net actuarial loss              | \$ 923           | \$ 250                           |
| Amortization of net prior service cost/(credit) | (637             | ) 660                            |

Components of net periodic benefit cost:

|   | Pension Benefits |           |           | Supplemental Retirement Benefits |          |          |
|---|------------------|-----------|-----------|----------------------------------|----------|----------|
|   | 2013             | 2012      | 2011      | 2013                             | 2012     | 2011     |
| Service cost                                | \$ 3,368         | \$ 3,729  | \$ 3,056  | \$ 643                           | \$ 640   | \$ 636   |
| Interest cost                               | 11,273           | 11,289    | 12,107    | 708                              | 892      | 1,201    |
| Expected return on plan assets              | (14,672 )        | (13,799 ) | (13,677 ) | —                                | —        | —        |
| Amortization of prior service cost (credit) | 2,711            | 2,461     | (617 )    | 249                              | 260      | 498      |
| Amortization of net loss (gain)             | (603 )           | (609 )    | 978       | 660                              | 660      | 210      |
| Net periodic benefit cost                   | 2,077            | 3,071     | 1,847     | 2,260                            | 2,452    | 2,545    |
| Settlement                                  | —                | —         | 23        | —                                | —        | (487 )   |
| Net pension cost                            | \$ 2,077         | \$ 3,071  | \$ 1,870  | \$ 2,260                         | \$ 2,452 | \$ 2,058 |

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

(dollars in thousands, except per share amounts)

Rollforward of accumulated other comprehensive income:

|  | Pension Benefits |           | Supplemental Retirement Benefits |          |
|--|------------------|-----------|----------------------------------|----------|
|  | 2013             | 2012      | 2013                             | 2012     |
| Beginning balance                              | \$ 51,779        | \$ 45,267 | \$ 4,376                         | \$ 5,171 |
| Amortization of prior service (cost) or credit | 603              | (2,461)   | (660)                            | (660)    |
| Amortization of net (loss) gain                | (2,710)          | 609       | (250)                            | (260)    |
| Asset (gain) loss recorded during period       | (20,424)         | 8,030     | 1,501                            | 125      |
| Currency impact                                | (105)            | 334       | —                                | —        |
| Ending balance                                 | \$ 29,143        | \$ 51,779 | \$ 4,967                         | \$ 4,376 |

The above table excludes amortization of prior service cost of \$32 and asset gains recorded during the period of \$297.

Assumptions

Weighted-average assumptions used to determine benefit obligations:

|                               | Pension Benefits |        | Supplemental Retirement Benefits |        |
|-------------------------------|------------------|--------|----------------------------------|--------|
|                               | 2013             | 2012   | 2013                             | 2012   |
| Discount rate                 | 4.54 %           | 4.13 % | 3.47 %                           | 2.63 % |
| Rate of compensation increase | 3.39 %           | 3.04 % | 3.00 %                           | 2.50 % |

Weighted-average assumptions used to determine net periodic benefit cost:

|  | Pension Benefits |        |        | Supplemental Retirement Benefits |        |        |
|--|------------------|--------|--------|----------------------------------|--------|--------|
|  | 2013             | 2012   | 2011   | 2013                             | 2012   | 2011   |
| Discount rate                            | 4.13 %           | 4.47 % | 5.20 % | 2.63 %                           | 3.42 % | 4.34 % |
| Expected long-term return on plan assets | 6.27 %           | 6.55 % | 6.79 % | —                                | —      | —      |
| Rate of compensation increase            | 3.04 %           | 3.12 % | 3.48 % | 2.50 %                           | 2.50 % | 2.50 % |

The discount rates reflect the rates at which amounts that are invested in a portfolio of high-quality debt instruments would provide the future cash flows necessary to pay benefits when they become due. The rate of compensation increase reflects the expected annual salary increases for the plan participants based on historical experience and our current employee compensation strategy.

We estimate the expected return on invested pension assets annually. The expected return is intended to match the duration over which our pension plans will provide benefit payments to participants. Each year, we use several data points to estimate the long-term investment return, including our targeted asset allocation, capital market performance estimates prepared by our outside investment advisers, survey information of rates of return used by other public companies and historical return information. The capital models that we use to estimate future market performance do not explicitly allow for historical market rate of return. Rather, these models consider the historical relationships among the economic metrics that influence investment returns, such as interest rates, inflation, price-to-earnings ratios, discounted dividends and earnings growth. The expected return for the asset portfolio is estimated using a geometric average from the expected returns of individual asset classes in the portfolio and is net of investment fees. A 0.5% decrease in the expected rate of return would increase annual pension expense by approximately \$1,200.

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

(dollars in thousands, except per share amounts)

Plan assets

Our pension plans' weighted-average asset allocations are as follows:

|                   | Target<br>Allocation | Pension<br>Benefits |         |   |
|-------------------|----------------------|---------------------|---------|---|
|                   | 2014                 | 2013                | 2012    |   |
| Equity securities | 60.1                 | % 54.8              | % 60.0  | % |
| Fixed income      | 31.2                 | % 32.6              | % 36.0  | % |
| Other             | 8.7                  | % 12.6              | % 4.0   | % |
| Total             | 100.0                | % 100.0             | % 100.0 | % |

Our investment objective is to obtain the highest possible return commensurate with the level of assumed risk. Fund performances are compared to benchmarks including the S&P 500 Index, Russell 2000, BC Aggregate Index and MSCI EAFE Index. Our Investment Committee meets on a quarterly basis to review plan assets.

Plan assets did not include any of our common stock at December 28, 2013 and December 29, 2012, respectively.

The fair value of our pension assets by asset category are as follows.

| Asset Class                | Fair Value Measurements at December 28, 2013                                   |   |  |                         |
|----------------------------|--|---|--|-------------------------|
|                            | Quoted Prices<br>in<br>Active<br>Markets<br>for Identical<br>Assets<br>Level 1 | Significant<br>Other<br>Observable<br>Inputs<br>Level 2 | Significant<br>Unobservable<br>Inputs<br>Level 3 | Assets at<br>Fair Value |
| Cash                       | \$ 1,004   | \$ —  | \$ —   | \$ 1,004                |
| Common stock(a)            | 97,857   | 5,059   | —  | 102,916                 |
| Debt securities(a)         | 62,717   | 3,487   | —  | 66,204                  |
| Mutual funds(b)            | 65,152   | 35,610  | —  | 100,762                 |
| Life insurance policies(c) | —  | 48  | —  | 48                      |
| Other                      | 299  | —   | 1,426  | (d) 1,725               |
| Total                      | \$ 227,029   | \$ 44,204   | \$ 1,426   | \$ 272,659              |

(a) This category comprises investments valued at the closing price reported on the active market on which the individual securities are traded.

(b) This category comprises mutual funds valued at the net asset value of shares held at year end.

(c) This category comprises life insurance policies valued at cash surrender value at year end.

(d) This comprises annuity policies held with various insurance companies valued at face value.

|  | Fair Value<br>Measurements<br>Using Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|--|
| Balance at December 29, 2012                       | \$ 1,488   |
| Actual return on plan assets:                      |  |
| Relating to assets still held at December 28, 2013 | —  |
| Relating to assets sold during the period          | (62 )  |
| Purchases, sales and settlements                   | —  |

|                                    |          |
|------------------------------------|----------|
| Transfers in and/or out of Level 3 | —        |
| Balance at December 28, 2013       | \$ 1,426 |

78

---

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

(dollars in thousands, except per share amounts)

| Asset Class                | Fair Value Measurements at December 29, 2012                                   |   |  |                         |
|----------------------------|--|---|--|-------------------------|
|                            | Quoted Prices<br>in<br>Active<br>Markets<br>for Identical<br>Assets<br>Level 1 | Significant<br>Other<br>Observable<br>Inputs<br>Level 2 | Significant<br>Unobservable<br>Inputs<br>Level 3 | Assets at<br>Fair Value |
| Cash                       | \$ 1,336   | \$ —  | \$ —   | \$ 1,336                |
| Common stock(a)            | 100,864  | 4,261   | —  | 105,125                 |
| Debt securities(a)         | 63,283   | 3,169   | —  | 66,452                  |
| Mutual funds(b)            | 55,453   | 8,551   | —  | 64,004                  |
| Life insurance policies(c) | —  | 43  | —  | 43                      |
| Other                      | 224  | —   | 1,488  | (d) 1,712               |
| Total                      | \$ 221,160   | \$ 16,024   | \$ 1,488   | \$ 238,672              |

(a) This category comprises investments valued at the closing price reported on the active market on which the individual securities are traded.

(b) This category comprises mutual funds valued at the net asset value of shares held at year end.

(c) This category comprises life insurance policies valued at cash surrender value at year end.

(d) This comprises annuity policies held with various insurance companies valued at face value.

|  | Fair Value<br>Measurements<br>Using Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|--|
| Balance at December 31, 2011                       | \$ 1,419   |
| Actual return on plan assets:                      |  |
| Relating to assets still held at December 29, 2012 | 51   |
| Relating to assets sold during the period          | —  |
| Purchases, sales and settlements                   | (78 )  |
| Transfers in and/or out of Level 3                 | 96   |
| Balance at December 29, 2012                       | \$ 1,488   |

Contributions

During 2013, we contributed \$9,525 to our pension plans. We expect to contribute \$6,477 to our pension plan in 2014.

Estimated future benefit payments

|      | Pension<br>Benefits | Supplemental<br>Retirement<br>Benefits |
|------|---------------------|--|
| 2014 | \$ 6,784            | \$ 805                                 |
| 2015 | 7,461               | 13,232                                 |
| 2016 | 8,470               | 743                                    |
| 2017 | 8,475               | 728                                    |
| 2018 | 8,914               | 714                                    |

2019-2022 \$58,164 \$10,152

79

---

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

(dollars in thousands, except per share amounts)

### 9. STOCK PLANS AND STOCK BASED COMPENSATION

We have share-based compensation plans under which employees and non-employee directors may be granted share based awards. During 2013, 2012 and 2011, the primary share-based awards and their general terms and conditions are as follows:

Stock options, which entitle the holder to purchase a specified number of shares of common stock at an exercise price equal to the closing market price of our common stock on the date of grant; vest incrementally, typically over 3 to 4 years; and generally expire 7 to 10 years from date of grant.

Restricted stock grants, which entitle the holder to receive at no cost, a specified number of shares of common stock that vests incrementally, typically over 3 to 4 years. Recipients are entitled to cash dividends and to vote their respective shares upon grant.

Performance based stock awards, which entitle the holder to receive at no cost, a specified number of shares of common stock within a range of shares from zero to a specified maximum. Payout of this award is contingent upon achievement of targeted earnings per share with certain defined adjustments and our relative stock price market performance.

At the Annual Meeting of Shareholders held on May 8, 2007, our shareholders approved the 2007 Incentive Plan (2007 Plan). The 2007 Plan was subsequently amended in 2009, 2011 and 2013, and in each case the amendments were approved by our shareholders at the respective annual meeting of shareholders. The 2007 Plan provides that effective upon approval, no further awards will be granted under preexisting stock option and incentive plans; provided, however, that any shares that have been forfeited or canceled in accordance with the terms of the applicable award under a preexisting plan may be subsequently awarded in accordance with the terms of the preexisting plan. The 2007 Plan allows a maximum of 18.7 million shares to be awarded of which restricted stock grants and performance based stock awards count as 2.3 shares and stock options count as one share. In the past, we had various employee stock and incentive plans under which stock options and other share-based awards were granted. Stock options and other share-based awards that were granted under prior plans and were outstanding on May 8, 2007, continue in accordance with the terms of the respective plans.

At December 28, 2013, approximately 9.0 million shares were authorized for future grants under our share-based compensation plans. We settle employee share-based compensation awards with newly issued shares. The estimated fair value of our stock-based awards, less expected forfeitures, is amortized over the awards' vesting period on a straight-line basis. The following table presents stock-based compensation included in our consolidated statement of income:

|  | December 28,<br>2013 | December 29,<br>2012 | December 31,<br>2011 |
|--|----------------------|----------------------|----------------------|
| Stock-based compensation expense in:                   |                      |                      |                      |
| Cost of sales  | \$ 5,381             | \$ 5,470             | \$ 5,983             |
| Selling and administration                             | 19,161               | 16,385               | 15,723               |
| Income from continuing operations, before income taxes | 24,542               | 21,855               | 21,706               |
| Provision for income taxes                             | (8,658 )             | (7,793 )             | (7,784 )             |
| Net income attributable to common shareholders         | \$ 15,884            | \$ 14,062            | \$ 13,922            |

We capitalized no stock-based compensation related costs for the years ended 2013, 2012 and 2011.

The fair value of stock-based awards granted during 2013, 2012 and 2011 was estimated on the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions:

|                          | December 28,<br>2013 | December 29,<br>2012 | December 31,<br>2011 |
|--------------------------|----------------------|----------------------|----------------------|
| Expected life (in years) | 4.2                  | 4.5                  | 4.2                  |
| Expected volatility      | 33 %                 | 35 %                 | 33 %                 |
| Risk-free interest rate  | 0.80 %               | 0.84 %               | 2.21 %               |

|  |          |          |          |   |
|--|----------|----------|----------|---|
| Expected dividend yield                | 0        | % 0      | % 0      | % |
| Weighted—average grant date fair value | \$ 11.17 | \$ 10.94 | \$ 11.32 |   |

80

---



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

(dollars in thousands, except per share amounts)

Stock Options

The following table summarizes stock option activities under our plans:

|   | Shares      | Weighted<br>Average<br>Exercise Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life<br>(in years) | Aggregate<br>Intrinsic<br>Value |
|---|-------------|---------------------------------------|---|---------------------------------|
| Options outstanding as of December 29, 2012 | 5,860,403   | \$ 39.11                              |   |                                 |
| Options granted                             | 600,249     | \$ 40.63                              |   |                                 |
| Options exercised                           | (2,557,744) | ) \$ 36.68                            |   |                                 |
| Options canceled                            | (134,175)   | ) \$ 44.73                            |   |                                 |
| Options outstanding as of December 28, 2013 | 3,768,733   | \$ 40.81                              |   |                                 |
| Options exercisable as of December 28, 2013 | 2,188,734   | \$ 42.63                              | 2.12  | \$ 26,039                       |

As of December 28, 2013, the unrecognized compensation cost related to 1,564,777 unvested stock options expected to vest was \$10,589. This unrecognized compensation will be recognized over an estimated weighted-average amortization period of 27.4 months.

The total intrinsic value of options exercised during the fiscal years ending December 28, 2013, December 29, 2012 and December 31, 2011 was \$24,737, \$5,135 and \$7,950, respectively, with intrinsic value defined as the difference between the market price on the date of exercise and the grant date price. The total amount of cash received from the exercise of options during 2013 was \$93,789. The actual tax benefit realized for the tax deductions from option exercises totaled \$8,983 for the year ended December 28, 2013.

The following table summarizes significant ranges of outstanding and exercisable options as of December 28, 2013:

| Range of Exercise<br>Prices | Options Outstanding   |   |  |                                 | Options Exercisable    |   |  |                                 |
|-----------------------------|-----------------------|---|--|---------------------------------|------------------------|---|--|---------------------------------|
|                             | Number<br>Outstanding | Weighted<br>Average<br>Remaining<br>Contractual<br>Life<br>(In years) | Weighted<br>Average<br>Exercise<br>Price | Aggregate<br>Intrinsic<br>Value | Options<br>Exercisable | Weighted<br>Average<br>Remaining<br>Contractual<br>Life<br>(In years) | Weighted<br>Average<br>Exercise<br>Price | Aggregate<br>Intrinsic<br>Value |
| \$20.01–\$30.00             | 370,567               | 2.15  | 25.62                                    | 10,269                          | 368,762                | 2.14  | 25.60                                    | 10,224                          |
| \$30.01–\$40.00             | 1,674,154             | 4.10  | 36.82                                    | 27,639                          | 680,617                | 3.76  | 36.71                                    | 11,312                          |
| \$40.01–\$50.00             | 1,225,667             | 3.54  | 43.64                                    | 11,873                          | 641,010                | 1.14  | 46.39                                    | 4,449                           |
| \$50.01–\$60.00             | 463,105               | 1.11  | 58.17                                    | 54                              | 463,105                | 1.11  | 58.17                                    | 54                              |
| \$60.01–\$70.00             | 35,240                | 1.28  | 62.78                                    | —                               | 35,240                 | 1.28  | 62.78                                    | —                               |
| Totals                      | 3,768,733             | 3.33  | \$ 40.80                                 | \$ 49,835                       | 2,188,734              | 2.12  | \$ 42.63                                 | \$ 26,039                       |

The aggregate intrinsic value in the preceding table represents the total intrinsic value, based on a closing stock price of \$53.33 as of December 28, 2013, that would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options exercisable as of December 28, 2013 was 1,709,189.

The following table summarizes the non-vested stock option activity in the equity incentive plans for the fiscal year ending December 28, 2013:

|                   | Non-vested Stock<br>Options | Weighted Average<br>Exercise Price |
|-------------------|-----------------------------|------------------------------------|
| December 29, 2012 | 1,989,722                   | \$ 34.91                           |
| Granted           | 600,249                     | 40.63                              |

|                   |           |          |
|-------------------|-----------|----------|
| Forfeited         | (41,901   | ) 36.98  |
| Vested            | (968,071  | ) 32.90  |
| December 28, 2013 | 1,579,999 | \$ 38.26 |

81

---

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
 (dollars in thousands, except per share amounts)

### Restricted Stock

Stock compensation expense associated with restricted common stock is charged for the market value on the date of grant, less estimated forfeitures, and is amortized over the awards' vesting period on a straight-line basis.

The following table summarizes the restricted stock activity for 2013:

|                                     | Restricted Stock | Weighted<br>Average<br>Grant Date<br>Fair Value |
|-------------------------------------|------------------|---|
| Outstanding as of December 29, 2012 | 934,505          | \$35.83   |
| Granted                             | 571,499          | 40.60   |
| Vested                              | (373,548)        | ) 40.41   |
| Canceled                            | (35,906)         | ) 45.32   |
| Outstanding as of December 28, 2013 | 1,096,550        | \$36.44   |

As of December 28, 2013, the unrecognized compensation cost related to shares of unvested restricted stock expected to vest was \$28,313. This unrecognized compensation will be recognized over an estimated weighted-average amortization period of 29.7 months. The total fair value of restricted stock grants that vested during the fiscal years ending December 28, 2013, December 29, 2012 and December 31, 2011 was \$15,095, \$10,385 and \$10,989, respectively. The actual tax benefit realized for the tax deductions from restricted stock grants that vested totaled \$5,372 for the year ended December 28, 2013.

### Performance Based Stock Award Program

In February 2013, we granted 163,847 performance-based stock awards ("Performance Share Units", or "PSUs") to certain executive officers. The PSUs will be paid out in our common stock based upon the results of two metrics: (1) performance based on our earnings per share with certain defined adjustments and (2) our relative stock price market performance based on a 3-year relative Total Shareholder Return calculation. Accordingly, the actual total number of our shares into which the granted PSUs will convert can range from zero shares to 327,694 shares. The PSUs will be fully vested in December 2015 and will be paid out in the form of our common stock in the first quarter of 2016. Compensation expense associated these awards, along with performance-based awards made in prior years, was \$2,171, \$(28) and \$188 for the years ended December 28, 2013, December 29, 2012 and December 31, 2011, respectively.

## 10. COMMITMENTS AND CONTINGENCIES

### Operating Leases

We have commitments for various operating leases for machinery and equipment, vehicles, office equipment, land and office space. As a matter of ordinary business course, we occasionally guarantee certain lease commitments to landlords. Rent expense for all operating leases was \$16,731, \$18,246 and \$18,778 in 2013, 2012 and 2011, respectively.

Future minimum payments by year and in the aggregate, under non-cancellable operating leases with initial or remaining terms of one year or more, consist of the following at December 28, 2013:

|      |          |
|------|----------|
| 2014 | \$13,978 |
| 2015 | 10,688   |
| 2016 | 8,061    |
| 2017 | 6,008    |

|            |        |
|------------|--------|
| 2018       | 4,544  |
| Thereafter | 11,839 |

82

---

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(dollars in thousands, except per share amounts)

Insurance

We maintain various insurance policies that maintain large deductibles up to \$750, some with or without stop-loss limits, depending on market availability. Deductibles for certain property insurance policies in the event of a catastrophic event for certain locations based on a percentage of the insured assets, which may exceed \$750.

Litigation

Various lawsuits, claims and proceedings of a nature considered normal to our business are pending against us. In the opinion of management, the outcome of such proceedings and litigation currently pending will not materially affect our consolidated financial statements. We expense as incurred legal costs expected to be incurred in connection with loss contingencies.

In May 2013, the Company commenced an investigation into inaccurate billing with respect to certain government contracts. The Company promptly reported these matters to the relevant government contracting officers, the Department of Health and Human Services' Office of the Inspector General, and the Department of Justice, and we are cooperating with these agencies to ensure the proper repayment and resolution of this matter. The Company identified approximately \$1,500 in excess amounts billed on these contracts since January 1, 2007 and reserved such amount. Because of the preliminary stage of discussions with the government and complex nature of this matter, the Company believes that it is reasonably possible that additional losses may be incurred. However, the Company cannot at this time estimate the potential range of loss beyond the current reserve of \$1,500.

In July 2012, a Mauritius supplier of large animal models submitted an Application for Arbitration with The Permanent Secretariat, The Permanent Court of Arbitration, The Mauritius Chamber of Commerce and Industry in Port Louis, Mauritius. The supplier asserted that the Company failed to pay certain invoices and the supplier was therefore permitted to terminate the supply agreement. The Company filed a counterclaim asserting that the supplier had failed to meet its contractual obligations under the supply agreement. The arbitration hearing relating to this contract dispute took place in Mauritius from August 13-15, 2013. While no prediction may be made as to the outcome of arbitration, the Company intends to defend against this proceeding vigorously and therefore an estimate of the possible loss or range of loss cannot be made.

#### 11. BUSINESS SEGMENT AND GEOGRAPHIC INFORMATION

We report two business segments, Research Models and Services (RMS) and Preclinical Services (PCS). Our RMS segment includes sales of research models, genetically engineered models and services (GEMS), insourcing solutions (IS), research animal diagnostic services (RADS), discovery research services (DRS), Endotoxin and Microbial Detection (EMD) products and services and avian vaccine products and services. Our PCS segment includes services required to take a drug through the development process, which includes DRS, safety assessment and Biologics Testing Solutions.

The following table presents sales and other financial information by business segment. Net sales represent sales originating in entities primarily engaged in either provision of RMS or PCS. Long-lived assets include property, plant and equipment and other long-lived assets

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

(dollars in thousands, except per share amounts)

|                               | 2013       | 2012       | 2011       |
|-------------------------------|------------|------------|------------|
| Research Models and Services  |            |            |            |
| Net sales                     | \$ 707,126 | \$ 695,083 | \$ 705,419 |
| Gross profit                  | 284,808    | 289,750    | 297,327    |
| Operating income              | 181,321    | 202,362    | 206,319    |
| Total assets                  | 752,499    | 698,134    | 687,346    |
| Long-lived assets             | 264,706    | 272,559    | 282,388    |
| Depreciation and amortization | 54,822     | 37,541     | 37,240     |
| Capital expenditures          | 24,384     | 36,856     | 34,257     |
| Preclinical Services          |            |            |            |
| Net sales                     | \$ 458,402 | \$ 434,447 | \$ 437,228 |
| Gross profit                  | 110,093    | 102,331    | 104,915    |
| Operating income              | 44,056     | 34,628     | 24,925     |
| Total assets                  | 892,122    | 888,210    | 869,881    |
| Long-lived assets             | 473,440    | 493,120    | 513,302    |
| Depreciation and amortization | 41,814     | 43,734     | 47,990     |
| Capital expenditures          | 14,770     | 10,678     | 14,886     |

A reconciliation of segment operating income to consolidated operating income is as follows:

|                                | Fiscal Year Ended    |                      |                      |
|--------------------------------|----------------------|----------------------|----------------------|
|                                | December 28,<br>2013 | December 29,<br>2012 | December 31,<br>2011 |
| Total segment operating income | \$ 225,377           | \$ 236,990           | \$ 231,244           |
| Unallocated corporate overhead | (73,976              | ) (71,225            | ) (56,938            |
| Consolidated operating income  | \$ 151,401           | \$ 165,765           | \$ 174,306           |

Net sales for each significant product or service offering are as follows:

|                            | Fiscal Year Ended    |                      |                      |
|----------------------------|----------------------|----------------------|----------------------|
|                            | December 28,<br>2013 | December 29,<br>2012 | December 31,<br>2011 |
| Research models            | \$ 381,561           | \$ 381,790           | \$ 401,660           |
| Research model services    | 212,647              | 219,671              | 220,698              |
| EMD                        | 112,918              | 93,622               | 83,061               |
| Total research models      | 707,126              | 695,083              | 705,419              |
| Total preclinical services | 458,402              | 434,447              | 437,228              |
| Total sales                | \$ 1,165,528         | \$ 1,129,530         | \$ 1,142,647         |

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

(dollars in thousands, except per share amounts)

A summary of unallocated corporate overhead consists of the following:

|   | December 28,<br>2013 | December 29,<br>2012 | December 31,<br>2011 |
|---|----------------------|----------------------|----------------------|
| Stock-based compensation expense                | \$ 13,411            | \$ 11,724            | \$ 11,159            |
| U.S. retirement plans                           | 4,877                | 4,831                | 3,802                |
| Audit, tax and related expense                  | 4,365                | 3,019                | 3,069                |
| Salary and bonus                                | 21,983               | 20,050               | 18,421               |
| Global IT                                       | 11,646               | 12,622               | 11,785               |
| Employee health, LDP and fringe benefit expense | (3,414               | ) (4,569             | ) (2,952             |
| Consulting and professional services            | 4,301                | 4,434                | 8,432                |
| Depreciation expense                            | 6,334                | 6,260                | 6,312                |
| Transaction (acquisition/disposition) costs     | 1,752                | 3,772                | 1,329                |
| Contingent consideration write-down             | —                    | —                    | (5,598               |
| Other general unallocated corporate expenses    | 8,721                | 9,082                | 1,179                |
| Total unallocated corporate overhead costs      | \$ 73,976            | \$ 71,225            | \$ 56,938            |

Other general unallocated corporate expenses consist of various departmental costs including those associated with departments such as senior executives, corporate accounting, legal, tax, human resources, treasury and investor relations.

The following table presents sales and other financial information by geographic regions. Included in the other non-U.S. category below are operations located in China, Korea, Australia, Singapore and India. Sales to unaffiliated clients represent net sales originating in entities physically located in the identified geographic area. Long-lived assets include property, plant and equipment and other long-lived assets.

|                               | U.S.       | Europe     | Canada     | Japan     | Other<br>Non-U.S. | Consolidated |
|-------------------------------|------------|------------|------------|-----------|-------------------|--------------|
| 2013                          |            |            |            |           |                   |              |
| Sales to unaffiliated clients | \$ 551,340 | \$ 353,688 | \$ 162,404 | \$ 59,370 | \$ 38,726         | \$ 1,165,528 |
| Long lived assets             | 447,829    | 130,855    | 109,811    | 30,589    | 19,062            | 738,146      |
| 2012                          |            |            |            |           |                   |              |
| Sales to unaffiliated clients | \$ 534,817 | \$ 341,550 | \$ 160,004 | \$ 77,707 | \$ 15,452         | \$ 1,129,530 |
| Long lived assets             | 476,927    | 122,351    | 124,302    | 39,642    | 2,457             | 765,679      |
| 2011                          |            |            |            |           |                   |              |
| Sales to unaffiliated clients | \$ 545,185 | \$ 348,455 | \$ 158,997 | \$ 75,992 | \$ 14,018         | \$ 1,142,647 |
| Long lived assets             | 497,197    | 123,634    | 127,531    | 45,857    | 1,470             | 795,689      |

## 12. DISCONTINUED OPERATIONS

In 2011, we disposed of our Phase I clinical business for a nominal amount. As part of the disposition we remained the guarantor of the Phase I facility lease. During the second quarter of 2011, we recognized the value of the guarantee net of the buyer's related indemnity as a liability of \$2,994, which we are amortizing ratably over the remaining term of the lease. The facility lease runs through January 2021 with remaining lease payments totaling \$12,086 as of December 28, 2013.

In 2012, we concluded that the decreasing financial viability of the lessee increased the probability that we would be required to make future lease payments as guarantor. As a result, we recorded an additional contingent loss of \$7,158 for the guarantee, reflecting our estimate of the total future lease payments less sublease income.





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

(dollars in thousands, except per share amounts)

In April 2013, the buyer of our Phase I clinical business filed for Chapter 11 bankruptcy. As a result, we revised our estimate of the total future lease payments, less estimated sublease income, resulting in an additional charge of \$1,316. In July 2013, the bankruptcy court approved the rejection of the lease, and effective July 1, 2013, we assumed control of the leased property and assumed obligations under the lease consistent with the guarantee. The total carrying amount of the liability for our obligation under the lease as of December 28, 2013 is \$9,787 and is reflected on the consolidated balance sheet as a liability of discontinued operations.

The consolidated financial statements have been reclassified to segregate, as discontinued operations, the assets and liabilities, operating results and cash flows, of the businesses being discontinued for all periods presented. Operating results from discontinued operations are as follows:

|   | Fiscal Year Ended    |                      |                      |
|---|----------------------|----------------------|----------------------|
|   | December 28,<br>2013 | December 29,<br>2012 | December 31,<br>2011 |
| Net sales   | \$—                  | \$—                  | 2,112                |
| Income (loss) from operations of discontinued businesses, before income taxes | (2,035)              | (6,986)              | (8,964)              |
| Provision (benefit) for income taxes  | (770)                | (2,734)              | (3,419)              |
| Income (loss) from operations of discontinued businesses, net of taxes        | \$(1,265)            | \$(4,252)            | (5,545)              |

Assets and liabilities of discontinued operations at December 2013 and December 2012 consisted of the following:

|                       | December 28,<br>2013 | December 29,<br>2012 |
|-----------------------|----------------------|----------------------|
| Current assets        | \$750                | \$495                |
| Long-term assets      | 3,151                | 3,328                |
| Total assets          | \$3,901              | \$3,823              |
| Current liabilities   | \$1,931              | \$1,802              |
| Long-term liabilities | 8,080                | 8,795                |
| Total liabilities     | \$10,011             | \$10,597             |

Current assets include a current deferred tax asset. Non-current assets include a long-term deferred tax asset. Current and long-term liabilities consist of a lease guarantee.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.  
SUPPLEMENTARY DATA

Quarterly Information (Unaudited)

|   | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|---|------------------|-------------------|------------------|-------------------|
| Fiscal Year Ended December 28, 2013                         |                  |                   |                  |                   |
| Total net sales   | \$ 291,238       | \$ 292,933        | \$ 292,129       | \$ 289,228        |
| Gross profit  | 104,211          | 102,570           | 99,926           | 88,195            |
| Operating income  | 42,763           | 43,188            | 40,843           | 24,607            |
| Income from continuing operations, net of tax               | 25,926           | 28,628            | 31,336           | 19,526            |
| (Loss) income from discontinued businesses, net of tax      | (155 )           | (915 )            | (113 )           | (82 )             |
| Net income attributable to common shareholders              | 25,578           | 27,284            | 30,867           | \$ 19,099         |
| Earnings (loss) per common share                            |                  |                   |                  |                   |
| Basic   |                  |                   |                  |                   |
| Continuing operations attributable to common shareholders   | \$ 0.54          | \$ 0.58           | \$ 0.65          | \$ 0.41           |
| Discontinued operations attributable to common shareholders | —                | (0.02 )           | —                | —                 |
| Net income attributable to common shareholders              | \$ 0.54          | \$ 0.57           | \$ 0.64          | \$ 0.41           |
| Diluted   |                  |                   |                  |                   |
| Continuing operations attributable to common shareholders   | \$ 0.53          | \$ 0.58           | \$ 0.64          | \$ 0.40           |
| Discontinued operations attributable to common shareholders | —                | (0.02 )           | —                | —                 |
| Net income attributable to common shareholders              | \$ 0.53          | \$ 0.56           | \$ 0.64          | \$ 0.40           |
| Fiscal Year Ended December 29, 2012                         |                  |                   |                  |                   |
| Total net sales   | \$ 285,981       | \$ 284,723        | \$ 278,686       | \$ 280,140        |
| Gross profit  | 104,212          | 103,585           | 93,259           | 94,573            |
| Operating income (loss)                                     | 43,740           | 49,274            | 37,682           | 35,069            |
| Income from continuing operations, net of tax               | 26,740           | 30,547            | 22,384           | 22,717            |
| Income (loss) from discontinued businesses, net of tax      | 77               | 42                | (182 )           | (4,189 )          |
| Net income attributable to common shareholders              | \$ 26,439        | \$ 30,468         | \$ 21,972        | \$ 18,416         |
| Earnings (loss) per common share                            |                  |                   |                  |                   |
| Basic   |                  |                   |                  |                   |
| Continuing operations attributable to common shareholders   | \$ 0.55          | \$ 0.63           | \$ 0.47          | \$ 0.48           |
| Discontinued operations attributable to common shareholders | —                | —                 | —                | (0.09 )           |
| Net income attributable to common shareholders              | \$ 0.55          | \$ 0.63           | \$ 0.46          | \$ 0.40           |
| Diluted   |                  |                   |                  |                   |
| Continuing operations attributable to common shareholders   | \$ 0.54          | \$ 0.63           | \$ 0.46          | \$ 0.48           |
| Discontinued operations attributable to common shareholders | —                | —                 | —                | (0.09 )           |
| Net income attributable to common shareholders              | \$ 0.54          | \$ 0.63           | \$ 0.46          | \$ 0.39           |

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.  
SUPPLEMENTARY DATA

Quarterly Segment Information (Unaudited)

|                                     | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|-------------------------------------|------------------|-------------------|------------------|-------------------|
| Fiscal Year Ended December 28, 2013 |                  |                   |                  |                   |
| Research Models and Services        |                  |                   |                  |                   |
| Sales                               | \$ 182,489       | \$ 178,973        | \$ 173,405       | \$ 172,259        |
| Gross margin                        | 80,435           | 75,771            | 65,710           | 62,892            |
| Operating income                    | 55,303           | 49,630            | 40,260           | 36,128            |
| Depreciation and amortization       | 9,873            | 10,629            | 16,876           | 17,444            |
| Capital expenditures                | 4,010            | 6,344             | 6,110            | 7,920             |
| Preclinical Services                |                  |                   |                  |                   |
| Sales                               | \$ 108,749       | \$ 113,960        | \$ 118,724       | \$ 116,969        |
| Gross margin                        | 23,776           | 26,799            | 34,216           | 25,302            |
| Operating income                    | 8,060            | 10,935            | 18,636           | 6,425             |
| Depreciation and amortization       | 10,137           | 9,781             | 10,039           | 11,857            |
| Capital expenditures                | 2,418            | 3,451             | 2,986            | 5,915             |
| Unallocated corporate overhead      | \$(20,600 )      | \$(17,377 )       | \$(18,053 )      | \$(17,946 )       |
| Total                               |                  |                   |                  |                   |
| Sales                               | \$ 291,238       | \$ 292,933        | \$ 292,129       | \$ 289,228        |
| Gross margin                        | 104,211          | 102,570           | 99,926           | 88,194            |
| Operating income                    | 42,763           | 43,188            | 40,843           | 24,607            |
| Depreciation and amortization       | 20,010           | 20,410            | 26,915           | 29,301            |
| Capital expenditures                | 6,428            | 9,795             | 9,096            | 13,835            |
| Fiscal Year Ended December 29, 2012 |                  |                   |                  |                   |
| Research Models and Services        |                  |                   |                  |                   |
| Sales                               | \$ 183,152       | \$ 173,611        | \$ 166,484       | \$ 171,836        |
| Gross margin                        | 82,196           | 76,266            | 65,902           | 65,386            |
| Operating income                    | 59,467           | 55,542            | 43,389           | 43,964            |
| Depreciation and amortization       | 8,942            | 9,085             | 9,670            | 9,844             |
| Capital expenditures                | 12,900           | 7,569             | 7,423            | 8,964             |
| Preclinical Services                |                  |                   |                  |                   |
| Sales                               | \$ 102,829       | \$ 111,112        | \$ 112,202       | \$ 108,304        |
| Gross margin                        | 22,016           | 27,319            | 27,358           | 25,638            |
| Operating income                    | 4,174            | 10,809            | 10,975           | 8,670             |
| Depreciation and amortization       | 11,060           | 10,980            | 10,880           | 10,814            |
| Capital expenditures                | 1,211            | 1,872             | 2,819            | 4,776             |
| Unallocated corporate overhead      | \$(19,901 )      | \$(17,077 )       | \$(16,682 )      | \$(17,565 )       |
| Total                               |                  |                   |                  |                   |
| Sales                               | \$ 285,981       | \$ 284,723        | \$ 278,686       | \$ 280,140        |
| Gross margin                        | 104,212          | 103,585           | 93,260           | 91,024            |
| Operating income                    | 43,740           | 49,274            | 37,682           | 35,069            |
| Depreciation and amortization       | 20,002           | 20,065            | 20,550           | 20,658            |
| Capital expenditures                | 14,111           | 9,441             | 10,242           | 13,740            |



Item 9. Changes in and Disagreement with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Based on their evaluation, required by paragraph (b) of Rules 13a-15 or 15d-15, promulgated by the Securities Exchange Act of 1934, as amended (Exchange Act), the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act are effective, at a reasonable assurance level, as of December 28, 2013 to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the 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, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objectives, and management necessarily was required to apply its judgment in designing and evaluating the controls and procedures.

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process, under the supervision of the Chief Executive Officer and Chief Financial Officer, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with U.S. GAAP.

As of December 28, 2013, Management conducted an assessment of the effectiveness of our internal control over financial reporting and has concluded that the Company's internal control over financial reporting was effective.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's report on our internal controls over financial reporting can be found in Item 8 of this report. The Independent Registered Public Accounting Firm's attestation report on the effectiveness of our internal control over financial reporting can also be found in Item 8 of this report

Remediation of Prior Material Weakness in Internal Control Over Financial Reporting

Management of the Company previously identified and disclosed a material weakness in internal control over financial reporting related to the design and operation of certain controls over information technology, business processes and financial reporting. Specifically, we identified deficiencies with respect to the design and operation of controls over segregation of duties, restricted access, changes to vendor and customer master data, transaction level and financial close controls which aggregated to a material weakness in internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

The Company has been actively engaged in the implementation of remediation efforts to address the material weakness in controls related to the design and operation of certain controls over information technology, business processes and financial reporting at December 29, 2012. These remediation efforts, outlined below, were specifically designed to address the material weakness previously identified by management.

The Company's remediation efforts were governed by a Steering Committee, under the direction of the Company's Chief Executive Officer and Chief Financial Officer. The status of remediation efforts was regularly reviewed with the Audit Committee at which time the committee was advised of issues encountered, progress against milestones and key decisions reached by management of the Company.

During 2013, management of the Company took the following actions to remediate this material weakness:

- Identified and removed or mitigated all segregation of duties conflicts within our company's ERP system.
- Redesigned and enhanced the provisioning process for access to the Company's ERP system and applied governance over that process.
- Designed and implemented enhanced controls over the performance of transactional controls and controls to ensure the accuracy and completeness of vendor and customer master data.
- Added resources and increased education in areas necessary to improve our ability to detect potential misstatements.
- Assessed the design and tested the operating effectiveness of the key controls with respect to segregation of duties, restricted access, changes to vendor and customer master data, transaction level and financial close controls.

The Company continues to develop further enhancements to its controls over segregation of duties, restricted access, changes to vendor and customer master data, transaction level and financial close controls, however, based upon the significant actions taken and the testing and evaluation of the effectiveness of the controls, management of the Company has concluded the material weakness in the Company's controls related to the design and operation of certain controls over information technology, business processes and financial reporting no longer existed as of December 28, 2013.

(b) Changes in Internal Controls

There were no changes, aside from those detailed above, in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of the Exchange Act Rules 13a-15 or 15d-15 that occurred during the quarter ended December 28, 2013 that materially affected, or were reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

A. Directors and Compliance with Section 16(a) of the Exchange Act

The information required by this Item regarding our directors and compliance with Section 16(a) of the Exchange Act by our officers and directors will be included in the 2014 Proxy Statement under the sections captioned "Nominees for Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated herein by reference thereto. The information required by this Item regarding our corporate governance will be included in the 2014 Proxy Statement under the section captioned "Corporate Governance" and is incorporated herein by reference thereto.

B. Our Executive Officers

The information required by this Item regarding our executive officers is reported in Part I of this Form 10-K under the heading "Supplementary Item. Executive Officers of the Registrant pursuant to Instruction 3 to Item 401(b) of Regulation S-K."

C. Audit Committee Financial Expert

The information required by this Item regarding the audit committee of the Board of Directors and financial experts will be included in the 2014 Proxy Statement under the section captioned "The Board of Directors and its Committees-Audit Committee and Financial Experts" and is incorporated herein by reference thereto.

D. Code of Ethics

We have adopted a Code of Business Conduct and Ethics that applies to all of our employees and directors, including our principal executive officer, principal financial officer, principal accounting officer, controller or persons performing similar functions. Our Code of Business Conduct and Ethics is posted on our website by selecting the "Corporate Governance" link at <http://ir.criver.com>. We will provide to any person, without charge, a copy of our Code of Business Conduct and Ethics by





requesting a copy from the Secretary, Charles River Laboratories, Inc., 251 Ballardvale Street, Wilmington, MA 01887. Information on our website is not incorporated by reference in this annual report.

#### E. Changes to Board Nomination Procedures

Since December 2008, there have been no material changes to the procedures by which security holders may recommend nominees to the our Board of Directors.

#### Item 11. Executive Compensation

The information required by this Item will be included in the 2014 Proxy Statement under the sections captioned “2013 Director Compensation,” “Compensation Discussion and Analysis,” “Executive Compensation and Related Information,” “Compensation Committee Interlocks and Insider Participation” and “Report of Compensation Committee” and is incorporated herein by reference thereto.

#### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item will be included in the 2014 Proxy Statement under the sections captioned “Beneficial Ownership of Securities” and is incorporated herein by reference thereto. See also Item 5. “Market for Registrants Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities-Securities Authorized for Issuance Under Equity Compensation Plans” for the disclosure required by Item 201(d) of Regulation S-K promulgated under the Securities Exchange Act of 1934, as amended.

#### Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item will be included in the 2014 Proxy Statement under the sections captioned “Related Person Transaction Policy” and “Corporate Governance-Director Qualification Standards; Director Independence” and is incorporated herein by reference thereto.

#### Item 14. Principal Accountant Fees and Services

The information required by this Item will be included in the 2014 Proxy Statement under the section captioned “Statement of Fees Paid to Independent Registered Public Accounting Firm” and is incorporated herein by reference thereto.

### PART IV

#### Item 15. Exhibits and Financial Statement Schedules

##### Item 15(a)(1) and (2) Financial Statements and Schedules

See "Index to Consolidated Financial Statements and Financial Statements Schedules" at Item 8 to this Form 10-K. Other financial statement schedules have not been included because they are not applicable or the information is included in the financial statements or notes thereto.

##### Item 15(a)(3) and Item 15(b) Exhibits

The exhibits filed as part of this Annual Report on Form 10-K are listed in the Exhibit Index immediately preceding the exhibits. We have identified in the Exhibit Index each management contract and compensation plan filed as an exhibit to this Annual Report on Form 10-K in response to Item 15(c) of Form 10-K.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

/s/ THOMAS F. ACKERMAN

Date: February 25, 2014

By: Thomas F. Ackerman  
Corporate Executive Vice President and  
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated below and on the dates indicated.

| Signatures   | Title   | Date              |
|--|---|-------------------|
| By: /s/ JAMES C. FOSTER<br>James C. Foster           | President, Chief Executive Officer and<br>Chairman                                    | February 25, 2014 |
| By: /s/ THOMAS F. ACKERMAN<br>Thomas F. Ackerman     | Corporate Executive Vice President and<br>Chief Financial Officer                     | February 25, 2014 |
| By: /s/ JOHN J. CROWLEY<br>John J. Crowley           | Corporate Senior Vice President, Corporate<br>Controller and Chief Accounting Officer | February 25, 2014 |
| By: /s/ ROBERT J. BERTOLINI<br>Robert J. Bertolini   | Director  | February 25, 2014 |
| By: /s/ STEPHEN D. CHUBB<br>Stephen D. Chubb         | Director  | February 25, 2014 |
| By: /s/ GEORGE E. MASSARO<br>George E. Massaro       | Director  | February 25, 2014 |
| By: /s/ DEBORAH KOICHEVAR<br>Deborah Koichevar       | Director  | February 25, 2014 |
| By: /s/ GEORGE M. MILNE, JR.<br>George M. Milne, Jr. | Director  | February 25, 2014 |
| By: /s/ C. RICHARD REESE<br>C. Richard Reese         | Director  | February 25, 2014 |
| By: /s/ CRAIG B THOMPSON<br>Craig B. Thompson        | Director  | February 25, 2014 |
| By: /s/ RICHARD F. WALLMAN<br>Richard F. Wallman     | Director  | February 25, 2014 |

## EXHIBIT INDEX

| Exhibit No. | Description   | Filed with Incorporated by Reference |       |                    | Exhibit No. |
|-------------|---|--------------------------------------|-------|--------------------|-------------|
|             |   | this Form 10-K                       | Form  | Filing Date        |             |
| 3.1         | Second Amended and Restated Certificate of Incorporation of Charles River Laboratories International, Inc. dated June 5, 2000           |                                      | S-1/A | June 23, 2000      | 3.1         |
| 3.2         | Second Amended and Restated By-laws of Charles River Laboratories International, Inc.   |                                      | 8-K   | December 5, 2008   | 3.2         |
| 4.1         | Form of common stock certificate, \$0.01 par value, of Charles River Laboratories International, Inc.                                   |                                      | S-1   | June 23, 2000      | 4.1         |
| 4.2         | Charles River Laboratories International, Inc. as Issuer and U.S. Bank National Association as Trustee Indenture dated June 12, 2006    |                                      | 8-K   | June 12, 2006      | 4.1         |
| 4.3         | Charles River Laboratories International, Inc. Form of 2.25% Convertible Senior Note due 2013   |                                      | 8-K   | June 12, 2006      | 4.1         |
| 4.4*        | Charles River Laboratories International, Inc. Form of Performance Share Unit Granted Under 2007 Incentive Plan                         |                                      | 10-K  | February 27, 2013  | 4.4         |
| 10.1*       | Charles River Corporate Officer Separation Plan dated April 30, 2010  |                                      | 10-Q  | August 3, 2010     | 10.1        |
| 10.2*       | Charles River Laboratories Holdings 1999 Management Incentive Plan  |                                      | 10-K  | March 14, 2006     | 10.6        |
| 10.3*       | Charles River Laboratories International, Inc. 2000 Incentive Plan amended May 9, 2005  |                                      | 10-K  | March 14, 2006     | 10.7        |
| 10.4*       | Charles River Laboratories International, Inc. 2000 Incentive Plan Inland Revenue Approved Rules for UK Employees                       |                                      | 10-Q  | November 5, 2001   | 99.1        |
| 10.5*       | Form of change in control agreement   |                                      | 10-K  | February 23, 2009  | 10.7        |
| 10.6*       | Executive Incentive Compensation Plan dated January 1, 2009   |                                      | 10-K  | February 23, 2009  | 10.8        |
| 10.7*       | Charles River Laboratories International, Inc. Form of Stock Option Award letter granted under 2000 Incentive Plan                      |                                      | 10-Q  | November 1, 2004   | 10.3        |
| 10.8*       | Charles River Laboratories International, Inc. Form of Restricted Stock Award granted under 2000 Incentive Plan                         |                                      | 10-Q  | November 1, 2004   | 10.4        |
| 10.9*       | Inveresk Research Group, Inc. 2002 Stock Option and Incentive Compensation Plan amended and restated as of May 4, 2004                  |                                      | S-8   | October 20, 2004   | 99.1        |
| 10.10*      | Charles River Laboratories, Inc. Executive Life Insurance/Supplemental Retirement Income Plan   |                                      | 10-K  | March 9, 2005      | 10.23       |
| 10.11*      | Charles River Laboratories amended and restated Deferred Compensation Plan amended December 2, 2008, July 20, 2011 and October 27, 2011 |                                      | 10-K  | February 27, 2012  | 10.11       |
| 10.12       | Charles River Laboratories International, Inc. Fourth Amended and Restated Credit Agreement dated September 23, 2011                    |                                      | 8-K   | September 23, 2011 | 10.1        |
| 10.13*      | Charles River Laboratories International, Inc. 2007 Incentive Plan amended March 18, 2009 and March 22, 2011                            |                                      | 10-K  | February 27, 2012  | 10.13       |

Edgar Filing: CHARLES RIVER LABORATORIES INTERNATIONAL INC - Form 10-K

|        |   |      |                   |       |
|--------|---|------|-------------------|-------|
| 10.14* | Charles River Laboratories International, Inc. Form of Stock Option granted under 2007 Incentive Plan           | 10-K | February 20, 2008 | 10.17 |
| 10.15* | Charles River Laboratories International, Inc. Form of Restricted Stock Award granted under 2007 Incentive Plan | 10-K | February 20, 2008 | 10.18 |

Edgar Filing: CHARLES RIVER LABORATORIES INTERNATIONAL INC - Form 10-K

|         |   |      |                   |       |
|---------|---|------|-------------------|-------|
| 10.16*  | Letter Agreements with Dr. Davide Molho dated May 22, 2009  | 10-K | February 23, 2011 | 10.17 |
| 10.17*  | Amended and Restated Deferred Compensation Plan Document dated July 17, 2012                                    | 10-Q | August 7, 2012    | 10.1  |
| 10.18*  | Employment agreement between Dr. Jorg Geller and Charles River Germany GmbH & Co.                               | 10-K | February 27, 2013 | 10.18 |
| 10.19*  | Certificate of Life Insurance for Dr. Jorg Geller dated February 8, 1988  | 10-Q | July 31, 2013     | 10.19 |
| 10.20*  | Certificate of Life Insurance for Dr. Jorg Geller dated April 24, 1998  | 10-Q | July 31, 2013     | 10.20 |
| 10.21*  | Provision Committed by Charles River Wiga Deutschland GmbH for Dr. Jorg Geller dated December 13, 1996          | 10-Q | July 31, 2013     | 10.21 |
| 10.22*  | Addendum to Provision Committed by Charles River Wiga Deutschland GmbH for Dr. Jorg Geller dated March 25, 1997 | 10-Q | July 31, 2013     | 10.22 |
| 21.1    | Subsidiaries of Charles River Laboratories International, Inc.  | X    |                   |       |
| 23.1    | Consent of PricewaterhouseCoopers LLP   | X    |                   |       |
| 31.1    | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer   | X    |                   |       |
| 31.2    | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer   | X    |                   |       |
| 32.1    | Section 1350 Certification of the Chief Executive Officer and Chief Financial Officer                           | X    |                   |       |
| 101.INS | XBRL Instance Document  | X    |                   |       |
| 101.SCH | XBRL Taxonomy Extension Schema  | X    |                   |       |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase  | X    |                   |       |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase   | X    |                   |       |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase   | X    |                   |       |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase   | X    |                   |       |

\* Management contract or compensatory plan, contract or arrangement.