PERKINELMER INC
Form 10-Q
November 13, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 1, 2006

or

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

Commission File Number 001-5075

PerkinElmer, Inc.

(Exact name of Registrant as specified in its Charter)

Massachusetts	**04-2052042**
(State of incorporation)	**(I.R.S. Employer Identification No.)**

45 William Street

Wellesley, Massachusetts 02481

(Address of principal executive offices)

(781) 237-5100

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

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

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨

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

As of November 6, 2006, there were outstanding 122,969,013 shares of common stock, $1 par value per share.

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PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

PERKINELMER, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED INCOME STATEMENTS

(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 1, 2006	October 2, 2005	October 1, 2006	October 2, 2005
	(In thousands, except per share data)		(In thousands, except per share data)	
Sales	$ 386,917	$ 359,982	$ 1,119,372	$ 1,086,173
Cost of sales	230,976	209,700	670,155	636,479
Selling, general and administrative expenses	94,664	87,900	277,172	277,437
Research and development expenses	24,762	21,676	72,640	66,349
Restructuring and integration (reversals) charges, net			(290)	14,245
Gains on dispositions, net		(461)	(1,505)	(64)
In-process research and development charge				194
Operating income from continuing operations	36,515	41,167	101,200	91,533
Interest expense (income), net	233	6,397	(965)	20,684
Extinguishment of debt				6,210
(Gains) losses on dispositions of investments and other, net	(456)	(349)	2,383	(5,342)
Interest and other (income) expense, net	(223)	6,048	1,418	21,552
Income from continuing operations before income taxes	36,738	35,119	99,782	69,981
Provision for (benefit from) income taxes	7,823	8,650	22,527	(2,652)
Income from continuing operations	28,915	26,469	77,255	72,633
Income (loss) from discontinued operations, net of income taxes		5,176	(1,025)	12,464
Gain (loss) on disposition of discontinued operations, net of income taxes	838	188	1,625	(4,537)
Net income	$ 29,753	$ 31,833	$ 77,855	$ 80,560
Basic earnings (loss) per share:				
Continuing operations	$ 0.23	$ 0.20	$ 0.61	$ 0.56
Income (loss) from discontinued operations, net of income taxes		0.04	(0.01)	0.10
Gain (loss) on disposition of discontinued operations, net of income taxes	0.01		0.01	(0.04)
Net income	$ 0.24	$ 0.25	$ 0.62	$ 0.62
Diluted earnings (loss) per share:				
Continuing operations	$ 0.23	$ 0.20	$ 0.61	$ 0.55
Income (loss) from discontinued operations, net of income taxes		0.04	(0.01)	0.10
Gain (loss) on disposition of discontinued operations, net of income taxes	0.01		0.01	(0.03)

Net income	$	0.24	$	0.24	$	0.61	$	0.62
Weighted average shares of common stock outstanding:								
Basic		124,277		129,543		126,105		129,135
Diluted		125,171		131,291		127,429		131,021
Cash dividends per common share	$	0.07	$	0.07	$	0.21	$	0.21

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

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PERKINELMER, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	October 1, 2006	January 1, 2006
	(In thousands, except share and per share data)	
Current assets:		
Cash and cash equivalents	$ 207,074	$ 502,264
Accounts receivable, net	253,189	250,844
Inventories	182,124	163,150
Other current assets	72,745	71,189
Current assets of discontinued operations	1,090	11,442
Total current assets	716,222	998,889
Property, plant and equipment:		
At cost	517,611	484,453
Accumulated depreciation	(336,026)	(307,084)
Property, plant and equipment, net	181,585	177,369
Marketable securities and investments	7,531	9,222
Intangible assets, net	412,017	375,419
Goodwill	1,102,232	1,026,201
Other assets	80,028	90,156
Long-term assets of discontinued operations	1,654	16,205
Total assets	$ 2,501,269	$ 2,693,461
Current liabilities:		
Short-term debt	$ 1,142	$ 1,131
Accounts payable	142,644	146,971
Accrued restructuring costs and integration costs	8,607	11,242
Accrued expenses	278,969	324,954
Current liabilities of discontinued operations	909	10,241
Total current liabilities	432,271	494,539
Long-term debt	201,133	243,282
Long-term liabilities	311,218	303,687
Long-term liabilities of discontinued operations		1,440
Total liabilities	944,622	1,042,948
Commitments and contingencies		
Stockholders equity:		
Preferred stock $1 par value per share, authorized 1,000,000 shares; none issued or outstanding		
Common stock $1 par value per share, authorized 300,000,000 shares; issued and outstanding 122,919,000 and 130,109,000 at October 1, 2006 and January 1, 2006, respectively	122,919	130,109

Capital in excess of par value	400,006	556,728
Unearned compensation		(6,372)
Retained earnings	1,007,088	964,690
Accumulated other comprehensive income	26,634	5,358
Total stockholders equity	1,556,647	1,650,513
Total liabilities and stockholders equity	$ 2,501,269	$ 2,693,461

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

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PERKINELMER, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended	
	October 1, 2006	October 2, 2005
	(In thousands)	
Operating activities:		
Net income	$ 77,855	$ 80,560
Loss (income) from discontinued operations, net of income taxes	1,025	(12,464)
(Gain) loss on disposition of discontinued operations, net of income taxes	(1,625)	4,537
Net income from continuing operations	77,255	72,633
Adjustments to reconcile net income from continuing operations to net cash provided by continuing operations:		
Stock-based compensation	10,629	5,627
Restructuring and integration (reversals) charges, net	(290)	14,245
Amortization of debt discount and issuance costs	218	8,506
Depreciation and amortization	50,937	51,117
Resolution of prior year tax contingencies	55	(27,772)
Gains on dispositions, net	(3,418)	(5,908)
Changes in operating assets and liabilities which provided (used) cash, excluding effects from companies purchased and divested:		
Accounts receivable	12,972	(2,658)
Inventories	(13,264)	(2,186)
Accounts payable	(9,976)	2,810
Taxes paid on divestitures	(59,996)	
Accrued expenses and other	(21,907)	(6,547)
Net cash provided by operating activities from continuing operations	43,215	109,867
Net cash (used in) provided by discontinued operations	(862)	13,651
Net cash provided by operating activities	42,353	123,518
Investing activities:		
Capital expenditures	(30,999)	(16,199)
Proceeds from dispositions of property, plant and equipment, net	7,085	9,393
Proceeds from surrender of insurance policies	3,753	
Proceeds from disposition of investments, net	23,243	6,956
Cash used for acquisitions, net of cash acquired	(97,576)	(14,888)
Net cash used in continuing operations	(94,494)	(14,738)
Net cash provided by (used in) discontinued operations	467	(9,547)
Net cash used in investing activities	(94,027)	(24,285)
Financing activities:		
Payments on debt	(56,565)	(100,000)
Premium on prepayment of debt		(4,125)
Payment of debt issuance and tender costs	(741)	
Decrease in other credit facilities	(812)	(875)
Tax benefit from exercise of common stock options	3,998	
Proceeds from issuance of common stock	17,385	9,270

Purchases of common stock	(190,121)	
Cash dividends	(26,851)	(27,210)
Net cash used in continuing operations	(253,707)	(122,940)
Net cash used in discontinued operations		(155)
Net cash used in financing activities	(253,707)	(123,095)
Effect of exchange rate changes on cash and cash equivalents	10,191	(7,594)
Net decrease in cash and cash equivalents	(295,190)	(31,456)
Cash and cash equivalents at beginning of period	502,264	197,513
Cash and cash equivalents at end of period	$ 207,074	$ 166,057

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

PERKINELMER, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by PerkinElmer, Inc. (the Company), without audit, in accordance with the accounting principles generally accepted in the United States and pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information in the footnote disclosures of these financial statements has been condensed or omitted where it substantially duplicates information provided in the Company s latest audited financial statements in accordance with the rules and regulations of the SEC. These financial statements should be read in conjunction with the Company s financial statements and notes included in its Annual Report on Form 10-K for the fiscal year ended January 1, 2006, filed with the SEC (the 2005 Form 10-K). The balance sheet amounts at January 1, 2006 in this report were derived from the Company s audited 2005 financial statements included in the 2005 Form 10-K. Certain prior period amounts related to discontinued operations have been reclassified to conform to the current-year financial statement presentation. The financial statements reflect all adjustments that, in the opinion of management, are necessary to present fairly the Company s results of operations, financial position and cash flows for the periods indicated. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and classifications of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The results of operations for the nine months ended October 1, 2006 and October 2, 2005 are not necessarily indicative of the results for the entire fiscal year or any future period.

Recently Adopted Accounting Pronouncement

Effective January 2, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment* (SFAS No. 123(R)), which requires compensation costs related to stock-based transactions, including employee stock options, to be recognized in the financial statements based on fair value. SFAS No. 123(R) revises SFAS No. 123, as amended, *Accounting for Stock-Based Compensation,* and supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees.* The Company adopted SFAS No. 123(R) using the modified prospective application transition method. Under this method, compensation cost, measured using fair value, is recognized for the unvested portion of stock-based payments granted prior to January 2, 2006 and all stock-based payments granted subsequent to January 1, 2006 over the related vesting period. Prior to January 2, 2006, the Company applied the intrinsic value based method prescribed in APB Opinion No. 25 in accounting for employee stock-based compensation. In accordance with the modified prospective method, prior period results have not been restated and are not directly comparable to periods after adoption. Due to the adoption of SFAS No. 123(R), the Company s results for the three and nine months ended October 1, 2006 include incremental compensation related to stock options totaling $3.1 million and $6.9 million, respectively.

Recently Issued Accounting Pronouncements

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). SAB 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year s financial statements are materially misstated. The Company will be required to adopt SAB 108 in the fourth quarter of fiscal year 2006. Management does not anticipate that the adoption of SAB 108 will have a material impact on the Company s consolidated financial statements.

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

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 106, and 132(R)* (SFAS No. 158). SFAS No. 158 requires companies to recognize a net liability or asset and an offsetting adjustment to accumulated other comprehensive income to report the funded status of defined benefit pension and other postretirement benefit plans. Additionally, SFAS No. 158 requires companies to measure plan assets and obligations at their year-end balance sheet date. SFAS No. 158 requires prospective application, and the recognition and disclosure requirements are effective for the Company s fiscal year ending December 31, 2006.

Management is currently evaluating the requirements of SFAS No. 158 and has not yet determined the impact on the Company s consolidated financial statements. The effect of adopting SFAS No. 158 may have an impact on the Company s consolidated balance sheets, but no impact to the Company s consolidated income statements or statements of cash flows. The actual impact of adopting SFAS No. 158 will be dependent upon the fair value of plan assets and the amount of projected benefit obligations measured as of December 31, 2006. Management does not anticipate an impact on the Company s compliance with the financial covenants contained in the Company s loan agreement, described in more detail in Note 5, from the adoption of SFAS No. 158.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN No. 48). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements of an entity in accordance with SFAS No. 109, *Accounting for Income Taxes.* The new interpretation is effective for fiscal years beginning after December 15, 2006. The Company will be required to adopt FIN No. 48 in the first quarter of fiscal year 2007. Management is currently evaluating the requirements of FIN No. 48 and has not yet determined the impact on the Company s consolidated financial statements.

(2) Acquisitions

Acquisition of Agilix Corporation. In February 2006, the Company acquired specified assets of Agilix Corporation (Agilix) for approximately $8.7 million in cash plus potential additional contingent consideration, which management expects to be immaterial to the Company. Assets acquired primarily relate to Agilix s core technology which centers around labeling technology using isobaric mass tags that allows for the simultaneous quantification of molecules, such as proteins, from multiple samples.

Acquisition of Spectral Genomics, Inc. In April 2006, the Company acquired specified assets and assumed specified liabilities of Spectral Genomics, Inc. (Spectral), a leader in molecular karyotyping technology used to evaluate chromosomal abnormalities. Consideration for the transaction was approximately $12.0 million in cash plus potential additional contingent consideration, which management expects to be immaterial to the Company. The Company will make cash payments of $2.1 million in the fourth quarter of 2006 and $0.9 million in the first quarter of 2007, as well as royalty payments based on future sales, to license additional intellectual property rights from a third party. The Company expects to receive a partial reimbursement of the license fees as a result of its agreement with Spectral.

Acquisition of Clinical & Analytical Service Solutions Ltd. In June 2006, the Company acquired the stock of Clinical & Analytical Service Solutions Ltd. (C&A), a scientific equipment asset and managed maintenance company serving the pharmaceutical, biotechnology and healthcare markets. Consideration for the transaction was approximately $12.3 million in cash, net of cash acquired, plus potential additional contingent consideration, which management expects to be immaterial to the Company.

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Acquisition of J.N. Macri Technologies LLC and NTD Laboratories, Inc. In July 2006, the Company acquired specified assets and assumed specified liabilities of J.N. Macri Technologies LLC (Macri) and acquired the stock of NTD Laboratories, Inc. (NTD). Macri holds and licenses global patents related to free beta Human Chorionic Gonadotropin (free Beta hCG). Free Beta hCG is a peptide hormone produced in the early stage of pregnancy that is widely recognized as an important biomarker for first-trimester prenatal risk assessment. NTD is a laboratory specializing in prenatal risk assessment and offers laboratory developed and validated testing under the brand name UltraScreen®, of which free Beta hCG is an important component. Aggregate consideration for these transactions was $55.2 million in cash, net of cash acquired, and subject to a net working capital adjustment.

Acquisition of Avalon Instruments Limited. In September 2006, the Company acquired the stock of Avalon Instruments Limited (Avalon). The acquisition of Avalon expands and complements the Company s Molecular Spectroscopy product portfolio by adding a family of innovative bench-top dispersive Raman spectrometers. Raman spectroscopy identifies and characterizes the composition of both organic and inorganic materials in a wide range of applications. Consideration for this transaction was $5.2 million in cash, net of cash acquired, plus potential additional contingent consideration, which management expects to be immaterial to the Company.

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

The acquisitions were accounted for in accordance with SFAS No. 141, Business Combinations (SFAS No. 141), and the Company has accordingly allocated the purchase prices of the acquisitions based upon the preliminary fair values of the assets acquired and liabilities assumed. The purchase prices and related allocations are preliminary and may be revised as a result of adjustments made to the purchase prices, additional information regarding liabilities assumed, including contingent liabilities, and revisions of preliminary estimates of fair values made at the dates of purchase. In connection with the fair valuing of the assets acquired and liabilities assumed, management, assisted by valuation consultants, performed assessments of intangible assets using customary valuation procedures and techniques. During the third quarter of 2006, the Company has updated the purchase price allocations of Agilix and Spectral based on additional information regarding the liabilities assumed and future payments for deferred consideration.

The components of the preliminary purchase prices and allocations are as follows (in thousands):

	Agilix	Spectral	C&A	Macri/NTD	Avalon
Consideration and acquisition costs:					
Cash payments, net of cash acquired	$ 8,696	$ 12,000	$ 12,333	$ 55,222	$ 5,240
Deferred consideration		2,000			
Transaction costs	29	69	440	377	165
Total consideration and acquisition costs	$ 8,725	$ 14,069	$ 12,773	$ 55,599	$ 5,405
Allocation of purchase price					
Current assets	$	$ 468	$ 2,468	$ 3,044	$ 512
Property, plant and equipment	645	388	533	384	8
Identifiable intangible assets	7,300	9,900	4,368	32,600	1,600
Goodwill	780	5,427	10,993	31,811	3,998
Other assets				40	
Deferred taxes			(1,416)	(8,388)	(480)
Liabilities assumed		(2,114)	(4,173)	(3,892)	(233)
Total	$ 8,725	$ 14,069	$ 12,773	$ 55,599	$ 5,405

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(3) Restructuring Charges

The Company has undertaken a series of restructuring actions related to the impact of acquisitions, divestitures and the integration of its business units. Restructuring actions were recorded in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. In certain instances, specifically when governmental authorities are involved in setting severance levels, SFAS No. 112, *Employers Accounting for Postemployment Benefits,* is applied. The principal actions associated with these plans related to workforce and overhead reductions resulting from reorganization activities, including the closure of certain manufacturing and selling facilities. Details of these plans are discussed more fully in the Company s 2005 Form 10-K.

A description of each of the restructuring plans and the activity recorded for the nine month period ended October 1, 2006 is as follows:

Q2 2006 Plan

During the second quarter of 2006, the Company recognized a $0.8 million restructuring charge in the Life and Analytical Sciences segment (the Q2 2006 Plan). The purpose of this restructuring action was to shift resources into product lines that were more consistent with the Company s growth strategy. The actions in the Q2 2006 Plan were workforce reductions resulting from reorganization activities.

The following table summarizes the components of the Q2 2006 Plan activity for the nine months ended October 1, 2006:

	Headcount	Severance (Dollars in thousands)	
Balance at January 1, 2006		$	
Provision	23		755
Amounts paid	(23)		(391)
Balance at October 1, 2006		$	364

All actions related to the Q2 2006 Plan were completed by the end of the second quarter of 2006, and the Company anticipates that all payments will be completed by the end of 2006.

Q4 2005 Plan

During the fourth quarter of 2005, the Company recognized a $2.2 million restructuring charge in the Life and Analytical Sciences segment and a $6.0 million restructuring charge in the Optoelectronics segment (the Q4 2005 Plan). The purpose of these restructuring actions was to shift resources into geographic regions and product lines that were more consistent with the Company s growth strategy. The principal actions in the Q4 2005 Plan were workforce reductions and the closure of several facilities resulting from reorganization activities.

During the second quarter of 2006, the Company recorded a pre-tax restructuring charge of $0.4 million relating to its Q4 2005 Plan due to higher than expected costs associated with the termination of employees in Europe within the Life and Analytical Sciences segment. The Company also recorded a pre-tax restructuring reversal of $1.4 million relating to its Q4 2005 Plan due to the completion in June 2006 of the sale of a building previously reserved for in the Q4 2005 Plan. The amount of the proceeds from this sale in excess of the current book value of the property was recorded as a restructuring reversal within the Optoelectronics segment.

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The following table summarizes the components of the Q4 2005 Plan activity for the nine months ended October 1, 2006:

	Headcount	Severance	Abandonment of Excess Facilities	Total
		(Dollars in thousands)		
Balance at January 1, 2006	24	$ 1,792	$ 354	$ 2,146
Change in estimate		354		354
Amounts paid	(16)	(1,665)	(221)	(1,886)
Balance at October 1, 2006	8	$ 481	$ 133	$ 614

All actions related to the Q4 2005 Plan have been completed and the Company anticipates that all payments will be completed by the end of 2006.

Q2 2005 Plan

During the second quarter of 2005, the Company recognized a $5.3 million restructuring charge in the Life and Analytical Sciences segment and a $2.9 million restructuring charge in the Optoelectronics segment (the Q2 2005 Plan). The purpose of these restructuring actions was to shift resources into geographic regions and product lines that were more consistent with the Company s growth strategy. The principal actions in the Q2 2005 Plan were workforce reductions resulting from reorganization activities. All workforce reductions have been completed and the remaining payments relate to international severance contracts.

The following table summarizes the components of the Q2 2005 Plan activity for the nine months ended October 1, 2006:

	Severance (In thousands)
Balance at January 1, 2006	$ 2,338
Amounts paid	(1,299)
Balance at October 1, 2006	$ 1,039

All actions related to the Q2 2005 Plan have been completed and the Company anticipates that all payments will be completed by the end of 2006.

2001 to 2003 Restructuring and Integration Plans

The Company has approximately $6.6 million of remaining liabilities associated with 2001 to 2003 restructuring and integration plans, primarily relating to remaining lease obligations of closed facilities. The remaining terms of these leases vary in length but all will be completed by 2014.

(4) Inventories

Inventories consisted of the following:

	October 1, 2006	January 1, 2006
	(In thousands)	
Raw materials	$ 67,224	$ 59,023
Work in progress	12,069	9,606
Finished goods	102,831	94,521

Total Inventories	$ 182,124	$ 163,150

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(5) Debt

Senior Unsecured Credit Facility. In October 2005, the Company entered into a $350.0 million five-year senior unsecured revolving credit facility. This facility replaced its previous $100.0 million five-year revolving credit facility. Letters of credit in the aggregate amount of approximately $15.0 million, originally issued under its previous credit agreement, are treated as issued under this new agreement. The Company uses the senior unsecured revolving credit facility for general corporate purposes which may include working capital, refinancing existing indebtedness, capital expenditures, share repurchases, acquisitions and strategic alliances. The interest rates under the senior unsecured revolving credit facility are based on the Eurocurrency rate at the time of borrowing plus a margin or the base rate from time to time. The Eurocurrency margin as of October 1, 2006 was 60 basis points. The base rate is the higher of (1) the corporate base rate announced from time to time by Bank of America, N.A. and (2) the Federal Funds rate plus 50 basis points. The Company may allocate all or a portion of its indebtedness under the senior unsecured revolving credit facility to interest based upon the Eurocurrency rate plus a margin or the base rate. As of October 1, 2006, all borrowings under the senior unsecured revolving credit facility were allocated to interest based on the Eurocurrency rate plus a margin. The weighted-average Eurocurrency interest rate as of October 1, 2006 was 3.32%, resulting in a weighted-average effective Eurocurrency rate, including the margin, of 3.92%. There were approximately $200.9 million of borrowings under the facility as of October 1, 2006, which were undertaken by certain foreign subsidiaries of the Company. The funds were borrowed in the subsidiaries functional currencies of Euro (EUR), Canadian Dollars (CAD) and Japanese Yen (JPY). The agreement contains affirmative, negative and financial covenants and events of default customary for financings of this type. The financial covenants include interest coverage and debt-to-EBITDA ratios. The Company was in compliance with all covenants as of October 1, 2006.

(6) Earnings Per Share

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

	Three Months Ended		Nine Months Ended	
	October 1, 2006	October 2, 2005	October 1, 2006	October 2, 2005
	(In thousands)		(In thousands)	
Number of common shares basic	124,277	129,543	126,105	129,135
Effect of dilutive securities:				
Stock options and restricted stock	894	1,748	1,324	1,886
Number of common shares diluted	125,171	131,291	127,429	131,021
Number of potentially dilutive securities excluded from calculation due to antidilutive impact	9,966	6,786	8,577	7,831

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

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(7) Comprehensive Income

Comprehensive income consisted of the following:

	Three Months Ended		Nine Months Ended	
	October 1, 2006	October 2, 2005	October 1, 2006	October 2, 2005
	(In thousands)		(In thousands)	
Net income	$ 29,753	$ 31,833	$ 77,855	$ 80,560
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	3,877	(296)	21,382	(42,609)
Unrealized (losses) gains on securities, net of tax	(42)	73	(106)	(72)
	3,835	(223)	21,276	(42,681)
Comprehensive income	$ 33,588	$ 31,610	$ 99,131	$ 37,879

The components of accumulated other comprehensive income, net of tax, were as follows:

	October 1, 2006	January 1, 2006
	(In thousands)	
Foreign currency translation adjustments, net of tax	$ 59,014	$ 37,632
Minimum pension liability, net of tax	(32,401)	(32,401)
Unrealized gains on securities, net of tax	21	127
Accumulated other comprehensive income, net of tax	$ 26,634	$ 5,358

(8) Industry Segment Information

The Company follows SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*. SFAS No. 131 establishes standards for the way public business enterprises report information about operating segments in annual financial statements and in interim reports to shareholders. The method for determining what information to report is based on the way that management organizes the segments within the Company for making operating decisions and assessing financial performance. In evaluating financial performance, management uses operating profit as the measure of the segments profit or loss. Based on the guidance in SFAS No. 131, the Company has two operating segments for financial reporting purposes. The operating segments and their principal products and services are:

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

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

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Sales and operating profit by segment are shown in the table below:

	Three Months Ended	Nine Months Ended
October 1, 2006		