CHARLES RIVER LABORATORIES INTERNATIONAL INC
Form 10-K
February 27, 2007

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

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# FORM 10-K

**(Mark One)**

**x** **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**FOR THE FISCAL YEAR ENDED DECEMBER 30, 2006**

**OR**

**o** **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. 333-92383**

# CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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**(Registrant s telephone number, including area code):**(978) 658-6000

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, $0.01 par value | New York Stock Exchange |

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 x No o

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 o No x

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 x No o

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. o

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.

Large Accelerated Filer x Accelerated Filer o Non-accelerated Filer o

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

On July 1, 2006, the aggregate market value of the Registrant s voting common stock held by non-affiliates of the Registrant was approximately $2,481,388,083.

As of February 15, 2007, there were outstanding 66,932,738 shares of the Registrant s common stock, $0.01 par value per share.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant s Definitive Proxy Statement for its 2007 Annual Meeting of Stockholders scheduled to be held on May 8, 2007, which will be filed with the Securities and Exchange Commission not later than 120 days after December 30, 2006, are incorporated by reference into Part III of this Annual Report on Form 10-K. With the exception of the portions of the 2007 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**

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**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 current expectations, estimates, forecasts, and projections about the industries in which Charles River operates and the beliefs and assumptions of our management. Words such as expect, anticipate, target, goal, project, intend, plan, seek, estimate, will, likely, may, designed, would, future, can, could and other similar expressions that are predictions of or in and trends or which do not relate to historical matters are intended to identify such forward-looking statements. These statements are based on current expectations and beliefs of Charles River 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: future demand for drug discovery and development products and services, including the outsourcing of these services; 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; changes in the composition or level of our revenues; our cost structure; the impact of acquisitions and dispositions; the timing of the opening of new and expanded facilities; our expectations with respect to sales growth, efficiency improvements and operating synergies; changes in our expectations regarding future stock option, restricted stock and other equity grants to employees and directors; changes in our expectations regarding our stock repurchases; and our cash flow and liquidity. 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 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**

Charles River has been operating since 1947 and during that time, we have undergone several changes to our business structure. Charles River Laboratories International, Inc. was incorporated in 1994. In 2000, we completed the initial public offering of Charles River Laboratories International, Inc. Our stock is traded on the New York Stock Exchange under the symbol CRL and is included in the Standard & Poor s MidCap 400, 1000 and Composite 1500 Indices, the Dow Jones US Biotech Index, and the NYSE Healthcare Sector Index. 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 (978) 658-6000. Our Internet site is *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 advance the drug discovery and development process, including research models and associated services, and outsourced preclinical services (including Phase I clinical services). We provide the animal research models required in research and development for new drugs, devices and therapies and have been in this business for 60 years. We have built upon our core competency of laboratory animal medicine and science (research model technologies) to develop a diverse and growing portfolio of products and services. Our wide array of tools and services enables our customers to reduce costs, increase speed and enhance their productivity and effectiveness in drug discovery and development. Our customer base includes global pharmaceutical companies, a wide range of biotechnology companies, as well as government agencies, leading hospitals and academic institutions throughout the world. We currently operate over 80 facilities, including our production and warehousing facilities, in 15 countries worldwide. Our products and services, supported by our global infrastructure and deep scientific expertise, enable our customers to meet many of the challenges of early-stage life sciences research, a large and growing market. In 2006, our net sales from continuing operations were $1.06 billion and our operating income from continuing operations was $188.2 million.

In 2004, we acquired Inveresk Research Group, Inc, a leading provider of drug development services to companies in the pharmaceutical and biotechnology industries. That acquisition broadened our portfolio of high-end services including general toxicology, specialty toxicology and Phase I clinical services (in addition to the later-stage clinical services business of Inveresk). In addition, acquiring Inveresk:

- significantly expanded our overall corporate size;
- significantly increased the breadth of the products and services that we offer; and
- expanded and strengthened our global footprint in the growing market for pharmaceutical research and development services.

Acquiring Inveresk was a critical step in our continuing mission to support our key pharmaceutical and biotechnology customers, who are increasingly seeking full service, global partners to whom they can outsource more of their preclinical research and development efforts. Consistent with our philosophy to focus on our core competencies, in August 2006 we divested the Phase II-IV Clinical Services business that had previously been part of Inveresk, although we retained the Phase I Clinical Services business, which we believe serves as an integral part of our preclinical development processes and service offerings. To enhance our Phase I service offerings, we acquired a U.S. Phase I clinical services company, Northwest Kinetics, Inc. in October 2006.

As part of the divestiture of the Phase II-IV Clinical Service business in August 2006, we changed our business reporting segments to better reflect our results of operations and facilitate understanding of our business. We currently have two reporting segments: Research Models and Services (RMS) and Preclinical Services (PCS) which includes Phase I clinical services.

**Research Models and Services (RMS).** Charles River has been supplying research models to the drug development industry since 1947. With approximately 150 different strains we continue to maintain

our position as the global leader in the production and sale of research models, principally genetically and virally defined purpose-bred rats and mice. We also provide a variety of related services that are designed to assist our customers in supporting the use of research models in drug development. With multiple facilities located on three continents (North America, Europe and Asia (Japan)), we maintain production centers, including a total of approximately 160 barrier rooms or isolator facilities strategically located near our customers. In addition, we are in process of expanding our existing U.S. West Coast capacity with additional construction which is expected to partially open in the first half of 2007. In 2006, RMS accounted for 49% of our total net sales and approximately 42% of our employees, including approximately 60 science professionals with advanced degrees

Our RMS segment is comprised of (1) Research Models, (2) Research Model Services and (3) other related businesses.

***Research Models.*** A significant portion of this business is comprised of the commercial production and sale of research models, principally purpose-bred rats, mice and other rodents for use by researchers. We provide our rodent models to numerous customers around the world, including most pharmaceutical companies, a broad range of biotechnology companies, many government agencies, and leading hospitals and academic institutions. Our research models include both standard strains and disease models such as those with compromised immune systems, which are increasingly in demand as early-stage research tools. The United States Food and Drug Administration (FDA) and foreign regulatory bodies typically require 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 in the breeding process. Our research models are bred and maintained in controlled environments which are designed to ensure that the animals 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 small research models include:

- outbred animals, which are genetically heterogeneous;
- inbred animals, which are genetically identical;
- hybrid animals, which are the offspring of two different inbred parents;
- spontaneous mutant animals, which contain a naturally occurring genetic mutation (such as immune deficiency); and
- other genetically modified research models, including knock-out models with one or more disabled genes and transgenic animals, which contain genetic material transferred from a different species.

Since 2001, we have been offering new and proprietary, disease-specific rat models used to find new treatments for diseases such as diabetes, obesity and cardiovascular and kidney disease. We are presently focusing our disease model program on four areas of research: cardiovascular, metabolic, renal and oncology, which, in addition to providing overlapping disease modalities that support multiple uses of certain models, also will permit us to concentrate on focused sales and marketing efforts.

We believe that over the next several years, many new research models will be developed and used in biomedical research, such as transgenic models with modified genetic material, knock-out models with one or more disabled genes, and transgenic models that incorporate or exclude a particular gene. These more highly defined and characterized models will allow researchers to further focus their investigations into

disease conditions and potential new therapies or interventions. We intend to build upon our position as a leader in this field to expand our presence in this market for higher-value research models.

In addition to our small research models, we also are a global leader in providing purpose-bred, high quality, specific pathogen-free (SPF) or disease free, large research models to the biomedical research community, principally for use in their drug development and testing studies.

***Research Model Services.*** RMS also offers a variety of services, described below, designed to assist our customers in screening drug candidates faster, including those which are related to genetically defined research models for in-house research, as well as those services designed to implement efficacy screening protocols to improve the customer s drug evaluation process. These services address the growing need among pharmaceutical and biotechnology companies to outsource the non-core aspects of their drug discovery activities. These services capitalize on the technologies and relationships developed through our research model business. We currently offer four major categories of research models services transgenic services, laboratory services, consulting and staffing services, and preconditioning services.

*Transgenic Services.* In this area of our business, we assist our customers in validating, maintaining, improving, breeding and testing research models purchased or created by them for biomedical research activities. While the creation of a transgenic model can be a critical scientific event, it is only the first step in the discovery process. Productive utilization of genetically engineered research models requires significant additional technical expertise. We provide transgenic breeding expertise, model characterization (including genotyping and phenotyping) and colony development, quarantine, embryo cryopreservation, embryo transfer and health and genetic monitoring. We provide these services to over 200 laboratories around the world from pharmaceutical and biotechnology companies to hospitals and universities, and maintain more than 1,000 different types of naturally occurring or experimentally manipulated research models for our customers.

*Laboratory Services.* We assist our customers in monitoring and analyzing the health and genetics of the research models used in their research protocols. We developed this capability internally by building upon the scientific foundation created by the diagnostic laboratory needs of our research model business. Depending upon a customer s needs, we may serve as its sole-source testing laboratory, or as an alternative source supporting its internal laboratory capabilities. We believe that the continued growth in model development and characterization and utilization of specific disease models and genetically engineered models will drive our future growth as the reference laboratory of choice for health and genetic testing of laboratory animals.

*Preconditioning Services.* Augmenting our traditional model production and transgenic services described above, we believe there are emerging opportunities to provide customers with preconditioning services, which center upon speeding the development process by providing study-ready research models. As a result of our veterinary medicine expertise, we are well positioned to provide preconditioning services, such as those required for development of drugs for obesity or hypertension. Additionally, models of subclinical disease can be created through surgical approaches, thereby providing a model for study that otherwise may not be commercially available. In furtherance of our preconditioning services, we offer related surgical services in the United States, Europe and Asia. This value-added service offering enhances the basic research model by preparing models to be used in studies immediately upon arrival at the customer s facility, rather than requiring time and effort on the part of the customer to prepare the models.

*Consulting and Staffing Services.* Building upon our core capability as the leading provider of high-quality research models, we manage animal care operations (including recruitment, training, staffing and management services) on behalf of government and academic organizations, as well as commercial customers. Demand for our services results from the growing trend by these large institutions to outsource internal functions or activities that are not critical to the core scientific innovation process, or for which they do not maintain the necessary resources in-house. In addition, we believe that our expertise in animal

care and facility operations enhances the productivity and quality of our customers animal care and use programs.

***Other Related Research Model Businesses.*** We also offer two other categories of products and services within RMS vaccine support and *in vitro* technology products.

*Vaccine Support.* We are the global leader for the supply of specific pathogen-free, or SPF, chickens and fertile chicken eggs. 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 vaccine, applications. The production of SPF eggs is done under biosecure conditions, similar in many ways to our research model production. We have a worldwide presence that includes several SPF egg production facilities in the United States, a joint venture in Mexico and production capabilities in Hungary. We also operate a specialized avian laboratory in the United States, which provides in-house testing and support services to our customers and produces poultry diagnostics.

*In Vitro Technology.* Our *in vitro* business provides non-animal, or *in vitro,* methods for lot release testing of medical devices and injectable drugs. We are committed to being the leader in providing our customers with *in vitro* alternatives as these methods become scientifically validated and commercially feasible, and toward that goal we work with and support the European Center for Validation of Alternative Methods in these efforts. Endotoxin testing uses a processed extract from the blood of the horseshoe crab, known as limulus amebocyte lysate (LAL). The LAL test is the first and only major FDA-validated *in vitro* alternative to an animal model test for endotoxin detection in pharmaceutical and medical device manufacturing. The process of extracting blood is generally not harmful to the crabs, which are subsequently returned to their natural ocean environment. Our *in vitro* technology 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, which is used for FDA-required quality control testing of injectable drugs and medical devices, their components and the processes by which they are manufactured.

We have developed the next generation of the endotoxin testing platform, known as the Endosafe Portable Testing System (Endosafe®-PTS). The PTS is a portable endotoxin testing platform which allows endotoxin testing in the field, affording researchers accurate and timely results. In July 2006, we received FDA approval for the sale and marketing of the PTS system for FDA-required lot release testing. The PTS can also be used for non-regulated applications, ranging from drug research and development to environmental monitoring. As an example, a modified version of the PTS was launched into space in December 2006 aboard the space shuttle Discovery and reached the International Space Station as part of NASA s ongoing efforts to conduct biological research in space. We are also investigating expanding the use of the PTS system for endotoxin testing into other markets such as nuclear pharmacies, cell transplant, dialysis clinics, testing for sterile water, other contaminants such as pesticides, and clinical diagnostics.

**Preclinical Services (PCS)**

Our PCS customers are principally engaged in the *discovery* and *development* of new drugs, devices and therapies.

*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 last anywhere from 4-6 years in conventional pharmaceutical research and development timelines.

*Development* activities, which follow, 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 subcellular level in a test tube or multi-well petri plate) and *in vivo* (in research models) to support planned or on-going human trials. We view

early-stage clinical Phase I studies as an essential, strategic component of our preclinical service offerings.

The development services portion of our PCS segment enables our customers to outsource their critical regulatory required toxicology and drug disposition activities to us. The demand for these services is driven by preclinical development programs for the smaller biotechnology companies, which traditionally have been outsourced, and key safety studies by the larger global pharmaceutical companies. Because of the necessary investments in personnel, facilities and other capital resources required in order to efficiently conduct and perform these activities, we believe that participants in these industries will prefer to focus on their core competencies of innovation, early drug discovery, and in the case of the larger pharmaceutical companies, targeted sales and marketing, and thus we believe the demand for our preclinical service offerings will continue to increase.

We are one of the two largest providers of preclinical services worldwide and offer particular expertise in the design, execution and reporting of general and specialty toxicology studies, especially those dealing with innovative therapies and biologicals. We currently provide preclinical services at multiple facilities located in the United States, Canada and Europe. As a result of increasing demand for outsourced preclinical services, we are conducting significant facilities expansions or our Preclinical Services facilities one in Massachusetts which opened recently and one in Nevada at which we expect to begin phased-in occupancy in mid-Summer 2007, as well as expansions at our Ohio and Edinburgh PCS facilities. The Massachusetts and Nevada facilities will eventually replace our legacy operations in those venues, and when fully built out, will more than double the size of the legacy operations. Our PCS segment represented 51% of our total net sales in 2006 (including the reclassified Phase I clinical services business) and employed 55% of our employees.

We currently offer the following preclinical services, in which we include both *in vivo* and *in vitro* studies, supportive laboratory services, and strategic preclinical consulting and program management to support product development from inception to proof of concept.

***Toxicology.*** Toxicology is one of our core preclinical competencies and a competitive strength. Once a lead molecule is selected, the stage of preclinical development begins where appropriate toxicology studies are conducted to support initial clinical trials. Our toxicology services feature:

- all the standard protocols for general toxicity testing required for regulatory submissions;

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

- other services to fully evaluate the genotoxicity, safety pharmacology, acute, subacute, chronic toxicity and carcinogenicity potential to support first in man to first on the market strategies;

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

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

- work in all major therapeutic areas;

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

- a strong history of aiding our sponsors in reaching their regulatory or internal milestones for safety testing, including studies addressing stem cell therapies, DNA vaccines, recombinant proteins, standard small molecules and medical devices.

Our toxicology facilities operate in compliance with Good Laboratory Practices (GLPs) as required by the FDA as well as other international regulatory bodies. Our facilities are regularly inspected by U.S. and other GLP compliance monitoring authorities, as well as our own and our customers Quality Assurance departments.

***Pathology Services.*** In the drug development process, the ability to identify and characterize clinical and anatomic pathologic changes (within tissues and cells) is critical in determining the safety of a new compound. We employ highly trained pathologists who use state-of-the-art techniques to identify potential compound-related changes within tissues and cells, as well as at the molecular level. Pathology support is critical for regulatory driven safety studies, but also for specialized investigative studies, discovery support, and stand-alone immunohistochemistry evaluations for monoclonal antibodies. Key go/no-go decisions regarding continued product development are typically dependent on the characterization and evaluation of gross and microscopic pathology findings we perform for our clients.

***Bioanalysis, Pharmacokinetics, and Drug Metabolism.*** In support of preclinical drug safety testing, our customers are required to demonstrate ample drug exposure, stability in the collected sample, kinetics of their drug or compound in circulation, the presence of metabolites, and with recombinant proteins and peptides, the presence of anti-drug antibodies. We have scientific depth in the sophisticated analytical techniques required to satisfy these requirements for a number of drug classes (including oligonucleotide and inhibitory RNAs). In the event that the sample analysis for preclinical study support translates to opportunities to analyze clinical samples for the same drug once human testing begins, we have opportunities to capture the benefits of bridging preclinical bioanalysis with later clinical development. Once the analysis is complete, our scientists evaluate the data to provide information on the kinetics (pharmaco-/toxico-) of the exposure to the drug, as well as complete evaluation of the distribution of the drug or metabolites by radio-labeled techniques. Our clients require these studies for the full preclinical assessment of the disposition of the drug and are used in the final preclinical safety evaluation of the compound.

***Discovery Support.*** At the earliest stages of lead compound identification, our scientists are engaged in evaluating the activity of drug candidates in several important therapeutic and support areas, including:

- oncology (through our tumor xenograft models);
- asthma (through our specialized disease model colonies);
- bone disease (using our state-of-the-art imaging and pathology capabilities);
- ophthalmology (using our models of neovascularization);
- general cardiovascular and device testing (using our surgical models); and
- early drug formulation and bioanalysis support and method development.

We also offer lead optimization strategies including early pharmacokinetic, metabolism, and toxicology support to help in early integrative drug selection criteria.

***Biopharmaceutical Services.*** We provide specialized, non-clinical quality control testing that is frequently outsourced by both pharmaceutical and biotechnology companies. These services allow our customers to determine if their human protein drug candidates, or the processes for manufacturing those products, are essentially free of residual biological materials. The bulk of this testing is required by the FDA in order to obtain new drug approval, to maintain an FDA-licensed manufacturing facility or to release approved products for use in patients. Our scientific staff consults with customers in the areas of process development, validation, manufacturing scale-up and biological testing.

***Phase I Trials in Healthy Normal and Special Populations***

The Phase I clinical services business represents a growth opportunity for us that initially originated through our acquisition of the Clinical Services business of Inveresk, and which we have grown through our acquisition of Northwest Kinetics in October 2006. Combined, our capabilities encompass two premier, internationally recognized Phase I clinics one in Europe (Edinburgh, Scotland) and the other in North America (Tacoma, Washington), with a combined capacity of over 300 beds. We focus our clinical services business on high-end clinical pharmacology studies in healthy participants and in therapeutic areas including: cardiovascular, oncology, ophthalmology, respiratory and infectious diseases. From a strategic perspective, we believe that our clinical services business is positioned to benefit from pull-through from our preclinical and laboratory services, particularly with our biotechnology customers.

We offer a wide range of Phase I clinical research services designed to move lead pharmaceutical candidates rapidly from preclinical development through Phase I pharmacokinetic tolerability and pharmacodynamic assessment to explore human pharmacology. We can conduct studies across a wide range of therapeutic areas, and have demonstrated experience in complex dose tolerance, radio-labeled, pharmacokinetics, pharmacodynamics and bioavailability studies. In addition, we provide customers with high-end first-in-man studies for novel compounds, and expertise in complex drug-drug interaction studies. Participants at both clinics are evaluated through an intensive screening process to ensure study suitability. We employ quality assurance units at these facilities to monitor the conduct and reporting of Phase I trials and to assure management that these trials are conducted in compliance with appropriate regulatory requirements.

**Our Strategy**

Our objective is to be the premier global company advancing the search for drugs, devices and therapies from discovery through proof of concept. The products and services which we provide our customers are essential to the drug discovery and development process, and are almost universally mandated by law. Our business is primarily driven by the continued growth of research and development spending by pharmaceutical and biotechnology companies, the federal government and academic institutions and of outsourced services. According to a report by the Biomedical Industry Advisory Group, it takes 11 to 16 years and costs in the range of $180 million to $1.65 billion, with an average cost of approximately $900 million, to bring a new drug to market. As the pressure to develop new drugs increases, so does the pressure to contain costs, to implement research in multiple countries simultaneously and to identify, hire and retain a breadth of scientific and technical experts. In order to facilitate and speed their research, our pharmaceutical and biotechnology customers are making strategic decisions to increasingly outsource services which can be provided by high-quality service providers like us. Outsourcing allows our customers to concentrate their internal resources on early drug discovery, while continuing to advance their most promising products through the development pipeline. This creates opportunities for companies such as ours that can help speed the drug discovery and development process. Our strategy is to capitalize on these opportunities by continuing to build our portfolio of high end, value-added products and services through internal development, augmented by strategic bolt-on transactions.

In today s business environment, we believe there is a particular advantage in being a large, global, high-quality provider of services throughout the drug discovery and development process. Many of our customers, especially large pharmaceutical companies, are attracted to Tier 1 contract research organizations with a full breadth of capabilities, and establish preferred provider relationships with only a small number. We are focused on being recognized as a premier preferred provider and maintaining long-term relationships and strategic partnerships with our customers. Accordingly, with many of our largest customers, we have entered into global provider agreements that span both segments of our business.

We intend to continue to broaden the scope of our products and services primarily through internal development, which will be augmented, as needed, through focused acquisitions and alliances. We believe our approach to acquisitions is a disciplined one that seeks to target businesses that are a sound strategic fit and that offer the prospect of enhancing stockholder value. This strategy may include geographic expansion of existing core services (particularly in Asia if the appropriate opportunities present themselves), strengthening of one of our core services or the addition of a new product or service in a related or adjacent business.

We believe that we are well positioned to exploit both existing and new outsourcing opportunities. We intend to focus our marketing efforts on, among other things, stimulating demand for further outsourcing to gain additional market share to take advantage of promising opportunities which are available to us as a result of continued growth of outsourced services. In 2006 we invested heavily in expanding our facilities capacity, and we intend to continue the capital expansion activity in 2007. Similarly, we are investing in our information technology systems and resources in order to better serve our customers, harmonize our data, and streamline our processes.

**Customers**

Our customers continue to consist primarily of all of the major pharmaceutical companies, many biotechnology companies, animal health, medical device, diagnostic and other life sciences companies, and leading hospitals, academic institutions, and government agencies. We have stable, long-term relationships with many of our customers. During 2006, no single commercial customer accounted for more than 6% of our total net sales.

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 15 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, Asia and other countries for each of the last three fiscal years, please review Note 15 included in the Notes to Consolidated Financial Statements included elsewhere in this Form 10-K.

**Sales, Marketing and Customer Support**

We sell our products and services principally through our direct sales force, the majority of whom work in North America, with the balance working in Europe and Japan. Our primary promotional activities include organizing scientific symposia, publishing scientific papers, making presentations and participating at scientific conferences and trade shows in North America, Europe and Japan. We supplement these scientifically based marketing activities with trade advertising, direct mail, newsletters and our website. The direct sales force is supplemented by international distributors for our products.

Our internal marketing/product management teams support the field sales staff while developing and implementing programs to create close working relationships with customers in the biomedical research industry. We maintain client/customer service, technical assistance and consulting service departments, which address both our customers routine and more specialized needs. We frequently assist our customers in solving problems related to animal husbandry, health and genetics, biosecurity, preclinical and clinical

study design, regulatory consulting, protocol development and other areas in which our expertise is recognized as a valuable customer resource.

**Competition**

Our strategy is to be a leader in each of the markets in which we participate. We compete in the marketplace on the basis of quality, reputation, responsiveness, pricing, innovation, timeliness and availability, supported by our strategically located facilities worldwide.

The competitive landscape for our two business segments varies. For RMS, our main competitors include three smaller competitors in North America (two of whom have 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 our competitors in RMS has our comparable global reach, financial strength, breadth of product and services offerings, technical expertise or pharmaceutical and biotechnology industry relationships.

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. The Phase I clinical services market is highly fragmented, with approximately ten participants, both public and private, representing the majority of the market and a number of smaller, limited-service providers also providing capacity. In addition, our PCS segment (including our Phase I business) competes with in-house departments of pharmaceutical companies and universities and teaching hospitals.

**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 area 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 an important 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 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 30, 2006, we had approximately 8,000 employees, including approximately 330 science professionals with advanced degrees including D.V.M.s, Ph.D.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. Our annual satisfaction surveys indicate that we have an excellent relationship with our employees.

**Backlog**

Our backlog for our PCS business segment was approximately $341 million at December 30, 2006. We do not report backlog for the RMS segment because turnaround time from order placement to fulfillment, both for products and services, is rapid. Our preclinical services (including Phase I clinical 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 customer s intention to proceed. We do not recognize verbal orders. Cancelled studies or projects are removed from backlog.

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 2006 backlog may be completed in 2007, 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. 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 segments and in a variety of locations worldwide, we are subject to numerous, and sometimes overlapping, regulatory environments, as described below.

The Animal Welfare Act (AWA) governs the care and use of certain species of animals used for research. The United States Congress has passed legislation which excludes rats, mice and chickens used for research from regulation under the AWA. As a result, most of our United States small animal research model activities and our vaccine support services operations are not subject to regulation under the AWA. For regulated species, the AWA and attendant 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 environmental enrichment to assure the welfare of these animals. We comply with licensing and registration requirement standards set by the United States Department of Agriculture (USDA) for the care and use of regulated species. Our animal production facilities and preclinical facilities in the U.S. 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. Portions of our preclinical business are also generally regulated by the USDA.

Our import and export of animals in support of several of our business units as well as our operations in foreign countries are subject to a variety of national, regional, and local laws and regulations, which establish the standards for the humane treatment, care and handling of animals by dealers and research facilities. We maintain the necessary certificates, licenses, detailed standard operating procedures and other documentation required to comply with applicable regulations for the humane treatment of the animals in our custody at our locations.

Our PCS business conducts nonclinical laboratory safety studies intended to support the registration or licensing of our clients products throughout the world. The conduct of these studies must comply with national statutory or regulatory requirements for Good Laboratory Practice (GLP). GLP regulations describe a quality system concerned with the organizational process and the conditions under which

nonclinical laboratory studies are planned, performed, monitored, recorded, archived and reported. GLP compliance is required by such regulatory agencies as the FDA, United States Environmental Protection Agency, European Agency for the Evaluation of Medicinal Products, Medicines and Healthcare Products Regulatory Agency (MHRA) in the United Kingdom, Health Canada, and the Japanese Ministry of Health and Welfare. GLP requirements are significantly harmonized throughout the world and our laboratories are capable of conducting studies in compliance with all appropriate requirements. To assure our compliance obligations, we have established quality assurance units (QAU) in each of our nonclinical laboratories. The QAUs operate independently from those individuals that direct and conduct studies and monitor each study to assure management that the facilities, equipment, personnel, methods, practices, records, and controls are in compliance with GLP. Our laboratory managers use the results of QAU monitoring as part of a continuous process improvement program to assure our nonclinical studies meet client and regulatory expectations for quality and integrity.

Our PCS business also conducts human Phase I clinical trials and provides services in support of our clients registration or licensing applications. Human clinical trials are conducted in a progressive fashion beginning with Phase I, and in the case of approved drugs, continued through Phase IV trials. Phase I studies are the initial human clinical trials and are conducted with a small number of subjects under highly controlled conditions. These clinical trials and services are performed in accordance with the International Conference on Harmonization of Technical Requirements for Registration of Pharmaceuticals for Human Use Good Clinical Practice Consolidated Guidance and in compliance with regulations governing the conduct of clinical investigations and the protection of human clinical trial subjects. In the United States, these trials and services must comply with FDA regulations and in Europe our clinical trials and services must comply with the clinical trials directive of the European Union. Neither FDA regulations nor the clinical trials directive requires a quality assurance program; however, each of our Phase I facilities has an established quality assurance unit that monitors the conduct and reporting of Phase I trials to assure that these trials are conducted in compliance with appropriate regulatory requirements. Our manufacturing business produces endotoxin test kits and reagents and vaccine support products. Additionally, the analytical divisions of several of our nonclinical laboratories conduct stability and potency testing in support of our clients manufacturing programs. These activities are subject to regulation by the FDA and MHRA under their respective Good Manufacturing Practice regulations or the FDA s Quality Systems Regulation (manufacturing of medical devices). We are required to register with the FDA as a device manufacturer and are subject to inspection on a routine basis for compliance with these regulations. These regulations require that we manufacture our products in a prescribed manner with respect to, and maintain records of, our manufacturing, testing and control activities.

All of our sites are also 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. Although we believe we are currently in compliance in all material respects with such national, regional and local laws, failure to comply could subject us to denial of the right to conduct business, fines, criminal penalties and other enforcement actions.

To ensure that all business sectors comply with applicable statutory and regulatory requirements and satisfy our client expectations for quality, we have established a corporate regulatory affairs and compliance organization that oversees our corporate quality system and all quality assurance functions within the Company. This organization reports to our Corporate Vice President for Regulatory Affairs and Compliance.

**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. Seven of the eight members of our Board of Directors are independent and have no significant financial, business or personal ties to the Company or management and all of our Board committees are composed of independent directors. The Board adheres to Corporate Governance Guidelines and a Code of Business Conduct and Ethics which has been communicated to employees and posted on our website. We have always been diligent in complying with established accounting principles and are committed to providing financial information that is transparent, timely and accurate. We have implemented a Related Person Transactions Policy in order to promote the timely identification of such transactions and to ensure we give appropriate consideration to any real or perceived conflicts in our commercial arrangement. We have established global processes 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 under the Investors Relations Corporate Governance caption.

## Item 1A. Risk Factors

**Risks Related to Our Business and Industry**

*Set forth below and 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 and clinical stages of drug discovery and development may decrease, which could slow our growth.***

Over the past several years, some areas of our businesses have grown significantly as a result of the increase in pharmaceutical and biotechnology companies outsourcing their preclinical and clinical research support activities. We believe that due to the significant investment in facilities and personnel required to support drug development, pharmaceutical and biotechnology companies look to outsource some or all of those services. By doing so, they can focus their resources on their core competency of drug discovery, while obtaining the outsourced services from a full-service provider like us. While industry analysts expect the outsourcing trend to continue for the next several years a decrease in preclinical and/or clinical outsourcing activity could result in a diminished growth rate in the sales of one or more of our expected higher-growth areas and adversely affect our financial condition and results of operations. Furthermore, our customer 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 these risks.

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

Our customers 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 research and development and to outsource the products and services we provide. Fluctuations in 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 and institutional budgetary policies. Our business could be adversely affected by any significant decrease in life sciences research and development expenditures by pharmaceutical and biotechnology companies, as well as by academic institutions, government laboratories or private foundations. Similarly, economic factors and industry trends that affect our clients in these industries also affect our business.

***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 customers 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. Government funding of research and development is subject to the political process, which is inherently unpredictable. Our sales may be adversely affected if our customers 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. A reduction in government funding for the NIH or other government research agencies could adversely affect our business and our financial results.

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

Governmental agencies throughout the world, but particularly in the United States, strictly regulate the drug development process. Our business involves helping pharmaceutical and biotechnology companies, among others, navigate the regulatory drug approval process. Changes in regulations, such as a relaxation in regulatory requirements or the introduction of simplified 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.

In recent years the U.S. Congress and state legislatures have considered various types of health care reform in order to control growing health care costs. We are unable to predict what legislative proposals will be adopted in the future, if any. Similar reform movements have occurred in Europe and Asia.

Implementation of health care reform legislation that contains costs 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 United States and abroad. In addition, new laws or regulations may create a risk of liability, increase our costs or limit our service offerings.

***Our standard customer agreements contain liberal termination and service reduction provisions, which may result in less contract revenue than we anticipate.***

Generally, our agreements with our customers provide that the customers can terminate the agreements or reduce the scope of services under the agreements with little or no notice. Customers 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; the customer s decision to forego or terminate a particular study; or the loss of funding for the particular research study. If a customer 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, penalties. Cancellation of a large contract or proximate cancellation of multiple contracts could materially adversely affect our business (particularly our Preclinical Services segment) 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, including often upon the discretion of the customer. 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 termination fee.

***Contaminations in our animal populations can damage our inventory, harm our reputation for contaminant-free production and result in decreased sales.***

Our research models and fertile chicken eggs must be free of certain adventious, 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 transgenic services, harm our reputation for contaminant-free production and result in decreased sales.

Contaminations typically require cleaning up, renovating, disinfecting, retesting and restarting. This clean-up results in inventory loss, clean-up and start-up costs, and reduced sales as a result of lost customer orders and credits for prior shipments. In addition, contaminations expose us to risks that customers will request compensation for damages in excess of our contractual indemnification requirements. These contaminations are unanticipated and difficult to predict and could adversely impact our financial results. We have made significant capital expenditures designed to strengthen our biosecurity and have significantly improved our operating procedures to protect against such contaminations, however, contaminations may still occur.

***Our business is subject to risks relating to operating internationally.***

A significant part of our net sales is derived from operations outside the United States. Our international revenues, which include revenues from our non-U.S. subsidiaries, represented 50.2% of our total net sales in 2006, 49.8% of our total net sales in 2005, and 31.6% in 2004. 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:

- foreign currencies we receive for sales outside the United States could be subject to unfavorable exchange rates with the U.S. dollar and reduce the amount of revenue that we recognize;

- general economic and political conditions in the markets in which we operate;
- potential international conflicts, including terrorist acts;
- potential increased costs associated with overlapping tax structures;
- potential trade restrictions, exchange controls and legal restrictions on the repatriation of funds into the United States;
- difficulties and costs associated with staffing and managing foreign operations, including risks of violations of local laws or the U.S. Foreign Corrupt Practices Act by employees oversees or 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;
- longer accounts receivable cycles in certain foreign countries; and
- import and export licensing requirements.

In particular with respect to our operations in Canada and the United Kingdom, significant amounts of revenues and expenses are recorded in local (non-U.S.) currency. Our financial statements are presented in U.S. dollars. Accordingly, changes in currency exchange rates, particularly between the pound sterling, the Canadian dollar, the European Euro and the U.S. dollar, will cause fluctuations in our reported financial results, which could be material. In addition, our contracts with foreign customers are frequently denominated in currencies other than the currency in which we incur expenses related to those contracts. This is particularly the case with respect to our Canadian operations, where contracts generally provide for invoicing clients in U.S. dollars but its expenses are generally incurred in Canadian dollars. 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.

***Negative attention from special interest groups may impair our business.***

The products and services which we provide our customers are essential to the drug discovery and development process, and are almost universally mandated by law. Notwithstanding, certain special interests 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, impacting the industry. This has included occasional, but infrequent, on-site demonstrations at facilities operated by us. Any negative attention or threats directed against our animal research activities in the future could impair our ability to operate our business efficiently. In addition, if regulatory authorities were to mandate a significant reduction in safety testing procedures which utilize laboratory animals (as has been advocated by certain groups), our business could be materially 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 of large animal models required in our product and service offerings. Disruptions to their continued supply may arise from colony fertility and health problems, export or import restrictions or embargoes, foreign government or economic instability, severe weather conditions, disruptions to the air travel system or contract disputes or disruptions. 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.

***We may be unable to build out our facilities as anticipated.***

To support our customers growing demand for drug discovery and development services, including increased strategic focus on outsourcing services and programs, we are engaged in a substantial capacity expansion program, with $182 million spent on capital expenditures in 2006 and another $200 $225 million allocated for capital expenditures in 2007. Included in our 2007 capital plan are the following: our new U.S. Preclinical Services facility in Nevada at which we expect to begin phased-in occupancy in mid-Summer 2007, expansions at our Ohio and Edinburgh Preclinical facilities, and an expansion of our RMS California capabilities (approximately half of which is scheduled to open in the second quarter of 2007). We cannot assure you that any or all of these facilities, or any particular phase of such facilities, will be constructed on the anticipated timetable or on budget. Any material delay in bringing these facilities on-line, or substantial increase in costs to complete these facilities, could materially and adversely affect us.

***Any failure by us to comply with existing regulations could harm our reputation and operating results.***

Any failure on our part to comply with existing 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, if we were to fail to verify that informed consent is obtained from participants in connection with a particular Phase I clinical trial, the data collected from that trial could be disqualified and we might be required to redo the trial at no further cost to our customer, but at substantial cost to us. Furthermore, the issuance of a notice of observations or a warning from the FDA based on a finding of a material violation by us of good clinical practice, good laboratory practice or good manufacturing practice requirements could materially and adversely affect us.

***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 drug discovery and development companies, but also with internal discovery and development departments within our clients, who are often large pharmaceutical and biotechnology companies with greater resources than ours. We also compete with universities and teaching hospitals. We compete on a variety of factors, including:

- reputation for on-time quality performance and regulatory compliance;
- expertise and experience in specific areas;
- scope of service and product offerings;
- strengths in various geographic markets;
- price;
- technological expertise and efficient drug development processes;
- quality of facilities;
- ability to acquire, process, analyze and report data in an accurate manner;
- ability to manage clinical trials both domestically and internationally; and
- size.

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. If this trend continues, it is likely to produce more competition among the larger companies and contract research organizations generally for both clients and acquisition candidates. In addition, small, limited-service entities considering entering the contract research organization industry will continue to find few barriers to entry, thus further increasing possible competition. These competitive pressures may affect the attractiveness of our services and could adversely affect our financial results.

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

We have substantial operations in the United Kingdom and Canada which currently benefit from favorable corporate tax arrangements. We receive substantial tax credits in Canada from both the Canadian federal and Quebec governments and benefits from tax credits and accelerated tax depreciation allowances in the United Kingdom. Any reduction in the availability or amount of these tax credits or allowances would be likely to have a material adverse effect on profits and cash flow from either or both of our Canadian and United Kingdom operations, and on our effective tax rate.

***Impairment of goodwill may adversely impact future results of operations.***

We accounted for our acquisition of Inveresk as a purchase under accounting principles generally accepted in the United States. Under the purchase method of accounting, the assets and liabilities of Inveresk, including identifiable intangible assets, have been recorded at their respective fair values as of the date the acquisition was completed. The excess of the purchase price over the fair value of acquired net assets and liabilities was recorded as goodwill. As a result of our acquisitions, we have recorded $1.1 billion of goodwill and other intangible assets.

During fiscal 2006, we sold our Phase II-IV Clinical Services business segment, which we had acquired in the Inveresk transaction, for approximately $215 million in cash as part of a portfolio realignment which would allow us to capitalize on our core competencies. Accordingly, during 2006 we performed a goodwill impairment test for the Clinical Services business segment and determined that the book carrying value of goodwill assigned to our Clinical Services business segment exceeded its implied fair value. We therefore recorded a $129.2 million charge to write-down the value of this goodwill.

The remaining goodwill will not be amortized, but will be reviewed for impairment by us at least annually. If the future growth and operating results of the acquired businesses are not as strong as anticipated, goodwill may be impaired. 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 earnings. Such an impairment charge could materially and adversely affect our operating results and financial condition.

***Contract research services create a risk of liability.***

In contracting to work on drug development trials, as a contract research organization we face a range of potential liabilities which may include:

- errors or omissions in reporting of study detail in preclinical or Phase I clinical studies that may lead to inaccurate reports, which may potentially advance studies absent the necessary support;

- litigation risk, including resulting from our errors or omissions, associated with the possibility that the drugs of our clients that were included in drug development trials we participated in may cause illness, personal injury or have other negative side effects to clinical study participants or other persons (including death);

- general risks associated with operating a Phase I business, including negative consequences from the administration of drugs to clinical trial participants or the professional malpractice of Phase I medical care providers;

- risks associated with our possible failure to properly care for our customers property, such as research models and samples, while in our possession;

- risks that models in our breeding facilities may be infected with diseases that may be harmful and even lethal to themselves or humans despite preventive measures contained in our company policies for the quarantine and handling of imported animals; and

- errors and omissions during a trial that may undermine the usefulness of a trial or data from the trial.

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 regiment of animal testing, quarantine, and veterinary staff vigilance, through which we seek to control the exposure of animal related disease or infections.

In our Preclinical businesses, 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, investigators, and by us; and various regulatory requirements we must follow in connection with our business.

In both our RMS and Preclinical Services businesses, contractual 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 were required to pay damages or bear the costs of defending any claim which is not covered by a contractual indemnification provision or in the event that a party who must indemnify us does not fulfill its indemnification obligations or which is beyond the level of our insurance coverage. Furthermore, there can be no assurance that we will be able to maintain such insurance coverage on terms acceptable to us.

***If we are unable to attract suitable participants for our clinical trials, our business might suffer.***

The clinical research studies we run rely upon the ready accessibility and willing participation of subjects. Participants generally include people from the communities in which the studies are conducted, including our Phase I clinics in Edinburgh, Scotland and Tacoma, Washington, which to date has provided a substantial pool of potential subjects for research studies. Our Phase I clinical research activities could be adversely affected if we were unable to attract suitable and willing participants on a consistent basis.

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

For many years, groups within the scientific and research communities have attempted to develop models, methods and systems that would replace or supplement the use of living animals as test subjects in biomedical research. Some companies have developed techniques in these areas, including vaccine development, that may have scientific merit. It is our strategy to participate in some fashion with any non-animal test method as it becomes validated as a research model alternative or adjunct in our markets. However, we may not be successful in commercializing these methods if developed, and sales or profits from these methods may not offset reduced sales or profits from research models. Alternative research methods could decrease the need for research models, and we may not be able to develop new products effectively or in a timely manner to replace any lost sales.

***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.

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

At December 30, 2006, we had approximately $572.1 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.

***If we are not successful in selecting and integrating the businesses and technologies we acquire, our business may suffer.***

During the past six years, we have expanded our business through several acquisitions. We plan to continue to acquire businesses and technologies and form alliances. However, businesses and technologies may not be available on terms and conditions we find acceptable. We risk spending time and money investigating and negotiating with potential acquisition or alliance partners, but not completing the transaction. 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;

- difficulties in developing and operating new businesses, including 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;

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

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

- difficulties in achieving business and financial success.

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.

***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 customer data. As a routine element of our business, we collect, analyze and retain substantial amounts of data pertaining to the preclinical and the clinical studies we conduct for our customers. 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 adequate measures to protect them from intrusion, but in the event that our efforts are unsuccessful we could suffer significant harm. Our contracts with our customers 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.

***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 30 years. We have no employment agreement with Mr. Foster or other members of our management. If Mr. Foster or other members of 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 qualified scientific, technical and managerial personnel. While we have an excellent record of employee retention, there is still strong 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 the number and scope of ongoing customer engagements, the commencement, postponement, completion or cancellation of customer contracts in the quarter, changes in the mix of our products and services, the extent of cost overruns, holiday patterns of our customers, budget cycles of our customers, 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 and lease our facilities. We own large facilities (over 50,000 square feet) for our PCS businesses in the United States, Canada, Scotland and Ireland, and lease large facilities in the United States and Canada. We have recently brought a new U.S. Preclinical Service facility online in Massachusetts and will bring another one in Nevada online in 2007. We own large RMS facilities in the United Kingdom, France, Germany, Japan, Mexico, Canada and the United States. None of our leases are individually material to our business operations and many have an option to renew. 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 7 to the Consolidated Financial Statements included elsewhere in this Form 10-K.

**Item 3.** Legal Proceedings

We are not a 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.

**Item 4.** Submission of Matters to a Vote of Security Holders

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 for the last five years of each 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.

**Joanne P. Acford,** age 51, joined us in 2004 as Corporate Senior Vice President, General Counsel and Corporate Secretary. Prior to joining us, Ms. Acford held a number of positions over 20 years at John Hancock Financial Services, Inc., most recently as Senior Vice President and Deputy General Counsel. Previously, Ms. Acford was an associate in the Corporate Department at Hale and Dorr.

**Thomas F. Ackerman,** age 52, 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.

**Christophe Berthoux,** age 44, rejoined us in February 2005 as General Manager of our clinical services business. Following the sale of our Phase II-IV clinical services business in August 2006, Dr. Berthoux was named Corporate Senior Vice President, U.S. Research Models and Services and In Vitro Products and Services. Previously, from 1990 to early 2004, Dr. Berthoux held a variety of managerial positions with the Company, including Corporate Vice President and head of European Research Models and Services.

**David J. Elliott,** age 49, joined us in October 2005 as Corporate Vice President, Corporate Controller. Prior to joining us, Mr. Elliott was Corporate Controller for Cabot Corporation. Prior to Cabot, he had over twenty years of diverse, financial experience with large, multinational companies in the chemical industry. He is responsible for the corporate accounting and purchasing functions and oversees all accounting and control activities globally.

**John C. Ho,** age 47, joined us in January 2006 as Corporate Senior Vice President, Corporate Strategy. Dr. Ho has over 17 years experience serving pharmaceutical, biotech, medical device and provider organizations in a variety of capacities including corporate and M&A strategy formulation, product commercialization, investment decision-making, process reengineering and organizational redesign. Prior to joining us, Dr. Ho was a partner in Accenture s Health and Life Sciences Practice, where he led the Preclinical Development and the Medical Device Practices, and before that he was a member of the Life Science Industry Group of Pittiglio Rabin Todd & McGrath.

**James C. Foster,** age 56, joined us in 1976 as General Counsel. Over the past 30 years, 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.

**Nancy A. Gillett,** age 51, joined us in 1999 with the acquisition of Sierra Biomedical. Dr. Gillett has 21 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 Preclinical Services 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.

**David P. Johst,** age 45, 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 the Company s Chief Administrative Officer and is responsible for overseeing our Human Resources department, our Consulting and Staffing Services business unit and several other corporate staff departments. Prior to joining the Company, Mr. Johst was an attorney in the Corporate Department at Hale and Dorr.

**Real H. Renaud,** age 59, joined us in 1964 and has over 40 years of research models production and related management experience. In 1986, Mr. Renaud became Vice President of Production, with responsibility for overseeing the Company s North American small animal operations, and was named Vice President, Worldwide Production in 1990. Mr. Renaud became Vice President and General Manager, European and North American Animal Operations in 1996, following a two-year European assignment during which he provided direct oversight to our European operations. In 1999, he became a Senior Vice President and in 2003, Mr. Renaud became Executive Vice President and General Manager, Global Research Models and Services.

**Nicholas Ventresca,** age 46, joined us in March 2006 as Corporate Senior Vice President, Information Technology and Chief Information Officer. Prior to joining us, Mr. Ventresca was Vice President in Business Technology for Pfizer, Inc, and previously he served in a number of senior information technology positions for multi-international organizations, including Warner-Lambert s Schick & Wilkinson Sword group and Pepsi-Cola International. He is responsible for establishing our global information technology strategies, and developing and maintaining our information technology systems and operational plans.

**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.

| **2007** | **High** | **Low** |
|---|---|---|
| First quarter (through February 15, 2007) | $ 47.64 | $ 42.71 |

| **2006** | **High** | **Low** |
|---|---|---|
| First quarter | $ 51.50 | $ 41.99 |
| Second quarter | 49.95 | 36.30 |
| Third quarter | 43.46 | 33.73 |
| Fourth quarter | 45.34 | 41.00 |

| **2005** | **High** | **Low** |
|---|---|---|
| First quarter | $ 51.64 | $ 43.99 |
| Second quarter | 49.52 | 45.16 |
| Third quarter | 53.09 | 42.80 |
| Fourth quarter | 46.00 | 40.50 |

Except as disclosed in a current report on Form 8-K filed with the Securities and Exchange Commission on June 12, 2006 with respect the Company s sale of 2.25% convertible senior notes due 2013, 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 30, 2006.

**Shareholders**

As of February 15, 2007, there were approximately 555 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 the Company s purchases of shares of its common stock during the quarter ended December 30, 2006.

| | **Total Number of Shares Purchased** | **Average Price Paid per Share** | **Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs** | **Approximate $ Yet to be Purchased** |
|---|---|---|---|---|
| Oct. 1, 2006 Oct. 28, 2006 | 288 | $ 43.41 | 0 | $ 38,628,392.34 |
| Oct. 29, 2006 Nov. 25, 2006 | 540 | $ 42.92 | 0 | $ 38,628,392.34 |
| Nov. 26, 2006 Dec. 30, 2006 | 76,953 | $ 43.10 | 76,900 | $ 35,311,507.48 |
| Total | 77,781 | | 76,900 | |

On July 27, 2005, the Board of Directors authorized a share repurchase program to acquire up to $50.0 million of common stock. On October 26, 2005, the Board of Directors authorized increasing the share repurchase program by $50.0 million to a total of $100.0 million. On May 9, 2006, the Board of Directors authorized an additional increase of the Company s share repurchase program by $200.0 million to acquire up to a total of $300.0 million of common stock. The program does not have a fixed expiration date.

During the quarter ended December 30, 2006, the Company repurchased 76,900 shares of common stock for approximately $3.3 million. The timing and amount of any future repurchases will depend on market conditions and corporate considerations. Additionally, the Company s 2000 Incentive Plan permits the netting of common stock upon vesting of restricted stock awards in order to satisfy individual tax withholding requirements. Accordingly, during the quarter ended December 30, 2006, the Company acquired 881 shares as a result of such withholdings.

**Securities Authorized for Issuance Under Equity Compensation Plans**

The following table summarizes, as of December 30, 2006, 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 (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|---|---|---|---|
| **Equity compensation plan approved by security holders:** | | | |
| Charles River 2000 Incentive Plan | 4,694,635 | $ 39.14 | 2,515,342 |
| Charles River 1999 Management Incentive Plan | 340,342 | $ 7.99 | 15,617 |
| Charles River 2000 Directors Stock Plan | 12,900 | $ 33.70 | 4,000 |
| Inveresk 2002 Stock Option Plan | 344,736 | $ 28.87 | |
| Inveresk 2002 Non-Employee Directors Stock Option Plan | | | |
| **Equity compensation plans not approved by security holders** | | | |
| Total | 5,392,613 | $ 36.50 | 2,534,959 |

**Item 6.** Selected Consolidated Financial Data

The following table presents our selected consolidated financial data and other data as of and for the fiscal years ended December 30, 2006, December 31, 2005, December 25, 2004, December 27, 2003 and December 28, 2002. The Statement of Income Data and Other Data for the fiscal years ended December 30, 2006, December 31, 2005 and December 25, 2004, and the Balance Sheet Data at December 30, 2006 and December 31, 2005 have been derived from the audited consolidated financial statements for such years, included elsewhere in this Form 10-K. The Statement of Income Data and Other Data for the fiscal years ended December 27, 2003 and December 28, 2002 and the Balance Sheet Data at December 25, 2004, December 27, 2003, and December 28, 2002 have been derived from the audited consolidated financial statements for such years not included in this Form 10-K. During 2006, we sold Phase II-IV of the Clinical business and made a decision to close our Interventional and Surgical Services (ISS) business. Accordingly, the results of these businesses are disclosed as discontinued operations, less applicable income taxes (benefit), and are reported as a separate component in the accompanying statement of income for the current and prior periods. In addition, assets and liabilities of discontinued businesses have been reclassified in the balance sheets of periods ended prior to 2006. You should read the selected consolidated financial data contained in this table in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes.

| | Fiscal Year(1) | | | | |
|---|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| | (dollars in thousands) | | | | |
| **Statement of Income Data:** | | | | | |
| Net sales | $ 1,058,385 | $ 993,328 | $ 724,221 | $ 599,495 | $ 553,223 |
| Cost of products sold and services provided | 651,778 | 603,624 | 435,499 | 368,665 | 343,153 |
| Selling, general and administrative expenses | 180,795 | 157,999 | 116,879 | 88,800 | 83,368 |
| Other operating expenses, net | | | | 747 | |
| Amortization of goodwill and intangibles | 37,639 | 47,011 | 13,857 | 4,865 | 3,403 |
| Operating income | 188,173 | 184,694 | 157,986 | 136,418 | 123,299 |
| Interest income | 6,836 | 3,695 | 3,262 | 1,775 | 2,120 |
| Interest expense | (19,426) | (24,324) | (11,718) | (8,480) | (11,205) |
| Loss on debt retirement | | | | | (29,882) |
| Other, net | 981 | (177) | 937 | 784 | 1,222 |
| Income before income taxes, minority interests and earnings from equity investments | 176,564 | 163,888 | 150,467 | 130,497 | 85,554 |
| Provision for income taxes | 49,738 | 16,261 | 60,159 | 50,230 | 32,324 |
| Income before minority interests and earnings from equity investments | 126,826 | 147,627 | 90,308 | 80,267 | 53,230 |
| Minority interests | (1,605) | (1,838) | (1,577) | (1,416) | (2,784) |
| Earnings from equity investments | | | | | 316 |
| Income from continuing operations | 125,221 | 145,789 | $ 88,731 | $ 78,851 | $ 50,762 |
| Income (loss) from discontinued businesses, net of tax | (181,004) | (3,790) | 1,061 | 1,300 | (630) |
| Net income (loss) | $ (55,783) | $ 141,999 | $ 89,792 | $ 80,151 | $ 50,132 |
| **Common Share Data:** | | | | | |
| Basic earnings (loss) | | | | | |
| Continuing operations | $ 1.82 | $ 2.09 | $ 1.79 | $ 1.73 | $ 1.14 |
| Discontinued operations | $ (2.63) | $ (0.05) | $ 0.02 | $ 0.03 | $ (0.01) |
| Net income (loss) | $ (0.81) | $ 2.04 | $ 1.81 | $ 1.76 | $ 1.12 |
| Diluted earnings (loss) | | | | | |
| Continuing operations | $ 1.79 | $ 2.02 | $ 1.65 | $ 1.61 | $ 1.07 |
| Discontinued operations | $ (2.59) | $ (0.05) | $ 0.02 | $ 0.03 | $ (0.01) |
| Net income (loss) | $ (0.80) | $ 1.96 | $ 1.68 | $ 1.64 | $ 1.06 |
| **Other Data:** | | | | | |
| Depreciation and amortization | $ 82,586 | $ 87,935 | $ 42,063 | $ 29,564 | $ 23,986 |
| Capital expenditures | 181,747 | 94,520 | 44,735 | 32,704 | 37,543 |
| **Balance Sheet Data (at end of period):** | | | | | |
| Cash and cash equivalents | $ 175,380 | $ 114,821 | $ 207,566 | $ 182,331 | $ 122,509 |
| Working capital | 241,762 | 107,910 | 161,191 | 256,537 | 164,723 |
| Goodwill, net | 1,119,309 | 1,097,590 | 1,102,511 | 105,308 | 96,532 |
| Total assets | 2,557,544 | 2,538,209 | 2,626,835 | 799,554 | 701,344 |
| Total debt | 572,054 | 296,090 | 686,844 | 186,002 | 195,818 |
| Total shareholders equity | 1,595,211 | 1,827,013 | 1,472,505 | 464,623 | 357,376 |

(1) Our fiscal year consists of 12 months ending on the last Saturday on, or prior to, December 31.

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

**Overview**

***Continuing Operations***

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, which include Phase I clinical services. We partner with global pharmaceutical companies, a wide range of biotechnology companies, as well as government agencies, leading hospitals and academic institutions throughout the world in order to bring drugs to market faster and more efficiently. Our wide array of tools and services enables our customers to reduce costs, increase speed and enhance their productivity and effectiveness in drug discovery and development. We currently operate over 80 facilities in 15 countries worldwide.

We have been in business for 60 years. We have built upon our core competency of laboratory animal medicine and science (research model technologies) to develop a diverse and growing portfolio of services which address drug discovery and development in the preclinical arena, including Phase I clinical studies.

We report two segments: Research Models and Services (RMS) and Preclinical Services (PCS), which reflect the manner in which our operating units are managed. When we divested the Clinical Phase II-IV business in the third quarter of 2006 we retained our Phase I Clinical Services business as an integral strategic component of our service offerings which enables us to support our customers preclinical efforts through early-stage clinical trials. The Phase I Clinical Services results are included in the PCS segment.

Our sales growth in 2006 was driven by spending by major pharmaceuticals, biotechnology companies and academic institutions on our global products and services, which aid in their development of new drugs and products. This growth in revenues was partially offset by customer focus on cost-savings. Future drivers for our business as a whole are primarily expected to emerge from our customers continued growing demand for drug discovery and development services, including increased strategic focus on outsourcing which should drive future sales of services.

We expect our continuing capacity expansion program to position us to take advantage of these long-term opportunities. In 2006 we began major construction at our preclinical sites in Massachusetts and Nevada, which are planned to open in early and mid-2007, respectively. Other significant projects include expanding our California RMS capabilities, building of a facility in Maryland which will support the National Cancer Institute (NCI) contract we were awarded in late 2006 as well as additional RMS capacity, and additional Preclinical capacity in Ohio and Scotland. Our capital expenditures of over $180 million in 2006, and our planned capital expenditures in the range of $200 million to $225 million in 2007, reflect our ongoing commitment to this strategy.

In addition to internally generated organic growth, our business strategy includes strategic bolt-on acquisitions that complement our business and increase the rate of our growth, as reflected in our acquisition in late 2006 of Northwest Kinetics, a Phase I clinical services business, to augment our existing European Phase I clinic in Edinburgh, Scotland.

Our overall results for 2006 were significantly affected by the implementation of SFAS 123(R) (expensing of stock options), which we adopted on a modified prospective application transition method in the first quarter of 2006. The additional cost associated with stock option expense was $11.7 million.

Total net sales in 2006 were $1.1 billion, an increase of 6.5% over the same period last year. The sales increase was due primarily to increased customer demand and higher pricing. The effect of foreign currency translation was negligible. Our gross margin decreased to 38.4% of net sales, compared to 39.2%

of net sales for 2005, due primarily to stock compensation expense and lower margins in the RMS segment. Stock compensation expense for 2006 is set forth in the following chart:

***Stock Option Expense***

| | RMS | Preclinical | Unallocated Corporate Overhead | Total |
|---|---|---|---|---|
| | (in thousands) | | | |
| Cost of goods | $ 1,728 | $ 2,307 | $ | $ 4,035 |
| Selling, general and administrative expenses | 1,073 | 1,552 | 5,052 | 7,677 |
| Total | $ 2,801 | $ 3,859 | $ 5,052 | $ 11,712 |

***Restricted Stock Expense and Inveresk Stock Compensation Expense***

| | RMS | Preclinical | Unallocated Corporate Overhead | Total |
|---|---|---|---|---|
| | (in thousands) | | | |
| Cost of goods | $ 1,108 | $ 1,797 | $ | $ 2,905 |
| Selling, general and administrative expenses | 823 | 1,754 | 3,955 | 6,532 |
| Total | $ 1,931 | $ 3,551 | $ 3,955 | $ 9,437 |

***Total Stock Compensation Expense***

| | RMS | Preclinical | Unallocated Corporate Overhead | Total |
|---|---|---|---|---|
| | (in thousands) | | | |
| Cost of goods | $ 2,836 | $ 4,104 | $ | $ 6,940 |
| Selling, general and administrative expenses | 1,896 | 3,306 | 9,007 | 14,209 |
| Total | $ 4,732 | $ 7,410 | $ 9,007 | $ 21,149 |

Operating income for the year was $188.2 million compared to $184.7 million for 2005. The operating margin was 17.8% compared to 18.6% for the prior year. Our 2006 operating margin rate was unfavorably impacted by $11.7 million (1.1%) due to the additional cost associated with expensing stock options under SFAS 123R, although the negative effect was partially offset by improved margins in the PCS business.

Net income from continuing operations was $125.2 million in 2006 compared to $145.8 million in 2005. Diluted earnings per share from continuing operations for 2006 were $1.79 compared to $2.02 in 2005.

Our RMS segment, which represented 48.7% of net sales in 2006, includes sales of research models, transgenic services, laboratory services, preconditioning services, consulting and staffing services, vaccine support and in vitro technology (primarily endotoxin testing). Net sales for this segment increased 2.4% compared to 2005, due to increased research model production and in vitro sales, partially offset by lower large model and transgenic sales as well as reduced spending by certain of our large pharmaceutical customers. Unfavorable foreign currency translation decreased the net sales gain by 0.4%. We experienced declines in both the RMS gross margin and operating margin, (to 41.6% from 42.8%, and to 28.7% from 31.8%, respectively), mainly due to the impact of stock option expense and the impact of lower large model and transgenic sales. During 2006, we began construction to expand capacity in our Northern California production facility to meet our West Coast customers increased need for models, preconditioning services and value-added model characterization services for their drug discovery and development efforts. We expect to begin production in approximately one-half of this addition in the second quarter of 2007. Preconditioning services presents a significant opportunity for future growth, therefore, we intend to

dedicate space at our major breeding facilities over the next few years to support our customers expected increased use of outsourced preconditioning services.

Our Preclinical Services segment, which represented 51.3% of net sales in 2006, includes services required to take a drug through the development process including discovery support, toxicology, pathology, biopharmaceutical, bioanalysis, pharmacokinetics and drug metabolism services as well as Phase I clinical trials. Sales for this segment increased 10.9% over 2005. We experienced favorable market conditions as demand for toxicology services particularly remained strong. Unfavorable foreign currency decreased sales growth by 0.7%. The gross margin for Preclinical Services remained essentially flat at 35.4% in 2006, due primarily to the negative impact of the stock compensation expense offset by increased capacity utilization. The operating margin increased to 15.2% of net sales compared to 13.9% of net sales in 2005 due mainly to lower amortization expense, which was partially offset by the stock compensation expense. We expect to see increasing levels of customer demand in certain of our development services businesses, particularly large model, reproductive and inhalation toxicology. We continue to focus on meeting the growing demand for our preclinical services and increased outsourcing trends through our expansion program. In 2006 we began major construction at our preclinical sites in Massachusetts and Nevada, which are planned to open in early and mid-2007, respectively. In addition, in 2007, we plan construction on new capacity in Edinburgh, Scotland and Ohio which we expect will be online in 2008.

**Discontinued Operations**

Our former Phase II-IV Clinical Services and our Interventional and Surgical Services (ISS) businesses are reported as discontinued operations. Our historical information has been reclassified to reflect discontinued operations.

During fiscal 2006, the Company initiated actions to sell and sold Phase II-IV of our clinical business. Accordingly, management performed appropriate goodwill impairment and asset impairment tests for the Clinical business segment. As a result, we recorded charges of $129.2 million to write down the value of the goodwill associated with the Clinical business. Additionally, the Company made a decision to close its ISS business, which was formerly included in the PCS segment.

Net income (loss) from discontinued operations for 2006 was $(181.0) million which included the goodwill impairment of $129.2 million, the tax expense of $37.8 million related to the sale of the Phase II-IV Clinical business as well as results from our ISS business.

**Net Income**

Net income (loss) for 2006 was $(55.8) million compared to $142.0 million in 2005.

**Critical Accounting Policies and Estimates**

The 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.

Management s Discussion and Analysis of Financial Condition and Results of Operations discusses the consolidated financial statements of Charles River Laboratories International, Inc. which have been prepared in accordance with accounting principles generally accepted in the United States. Management believes the following critical accounting policies are most affected by significant judgments and estimates used in the preparation of our consolidated financial statements. The following summary should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this Form 10-K. We believe the following critical accounting policies and estimates reflect our more significant judgments and estimates than usual in the preparation of our consolidated financial statement:

- Goodwill and other intangible assets;
- Revenue recognition;
- Pension plan accounting; and
- Income taxes and deferred tax assets.

***Goodwill, Other Intangible Assets.*** We have intangible assets, including goodwill and other identifiable finite and indefinite-lived acquired intangibles on our balance sheet due to the acquisition of businesses we acquired. The identification and valuation of these intangible assets and the determination of the estimated useful lives at the time of acquisition require significant management judgments and estimates. These estimates are made based on, among others, input from an accredited valuation consultant, reviews of projected future income cash flows and statutory regulations. The use of alternative estimates and assumptions could increase or decrease the estimated fair value of our goodwill and other intangible assets, and potentially result in a different impact to our results of operations.

We perform an annual review of goodwill to determine if an impairment exists. Goodwill is considered impaired if we determine that the carrying value of the reporting unit exceeds its fair value. Assessing the impairment of goodwill requires us to make assumptions and judgments regarding the fair value of the net assets of our reporting units. Our evaluation includes management estimates of cash flow projections based on an internal strategic review. Key assumptions, strategies, opportunities and risks from this strategic review along with a market evaluation are the basis for our assessment. Our market capitalization was also compared to the discounted cash flow analysis. We performed annual impairment tests in 2006 and concluded the goodwill and other indefinite-lived intangible asset balances were not impaired. As of December 30, 2006, we had recorded goodwill and other intangibles of $1.3 billion in the consolidated balance sheet. The results of this year s impairment review is as of a point in time and changes in future business strategy or market conditions could significantly impact the assumptions used in calculating the fair value of these assets in subsequent years.

***Revenue Recognition.*** We recognize revenue on product and services sales. We record product revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collectibility is reasonably assured. Recognition of service revenue is primarily based on the completion of agreed-upon service procedures including rate specified contracts and fixed fee contracts. Revenue of agreed-upon rate contracts is recognized as services are performed, based on rates specified in the contract. Revenue of fixed fee contracts is recognized as services are performed in relation to estimated costs to complete procedures specified by the customers in the form of study protocols. Our fixed fee service contracts, which are utilized mainly in our Preclinical segment, vary in term from a few days to greater than a year, with the majority of such contracts having a term of less than six months. On a monthly basis, management reviews the costs incurred and services provided to date on these contracts in relation to the total estimated effort to complete the contract. As a result of the monthly reviews, revisions in estimated effort to complete the contract are reflected in the period in which the change became known. These judgments and estimates are not expected to result in a change that would materially effect our reported results. In some cases, a portion of the contract fee is paid at the time the study is initiated. These

advances are deferred 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 customer with the offset to unbilled receivable. As of December 30, 2006, we had recorded unbilled revenue of $49.4 million and deferred revenue of $93.2 million in our consolidated balance sheet based on the difference between the estimated level of services performed and the billing arrangements defined by our service contracts.

***Pension Plan Accounting.*** As of December 30, 2006, we had a pension liability of $49.6 million. The actuarial computations require the use of assumptions to estimate the total benefits ultimately payable to employees and allocate this cost to the service periods. 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 key assumptions used to calculate pension costs are determined and reviewed annually by management after consulting with outside investment advisors and actuaries. 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. As of December 30, 2006 the weighted average discount rate for our pension plans was 4.95%.

The assumed expected return on plan assets is the average return expected on the funds invested or to be invested to provide future benefits to pension plan participants. This includes considering the assets allocation and expected returns likely to be earned over the life of the plan. If the actual return is different from the assumed expected return in plan assets, the difference would be amortized over a period of approximately 15 to 20 years. During 2006, based on our most recent analysis of historical and projected returns, we lowered our expected return on plan assets resulting in a weighted average return of 6.58% from 7.28%. The estimated effect of a 1.0% change in the expected rate of return would increase or decrease pension expense by $1.6 million annually.

***Income Taxes and Deferred Tax Assets.*** As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our current tax exposure and assessing temporary and permanent differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. In certain cases, we must assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. In the event that actual results differ from these estimates, or we adjust these estimates in future periods, we may need to establish an additional valuation allowance which could impact our financial position or results of operations.

As of December 30, 2006, earnings of non-U.S. subsidiaries considered to be indefinitely reinvested totaled $215.9 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 both U.S. taxes and withholding taxes payable to the various foreign countries. It is not practicable to estimate the amount of additional tax that might be payable on this undistributed foreign income.

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 tax provision contemplates tax rates in effect to determine both the current and deferred tax position. Any significant fluctuation in rates or in tax laws could cause our estimate of taxes that we anticipate to change. These changes could result in either increases or decreases in our effective tax rate.

Our tax positions are consistently subject to challenge by taxing authorities around the world. Due to our size and the number of tax jurisdictions within which we conduct our business operations, we are subject to 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 the reserves are necessary to adequately reflect tax obligations which may arise out of current and future audits.

***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, selling, general and administrative expenses, amortization of goodwill and intangibles and operating income by segment and as percentages of their respective segment net sales.

| | **Fiscal Year Ended December 30, 2006 (dollars in millions)** | **December 31, 2005** | **December 25, 2004** |
|---|---|---|---|
| Net sales: | | | |
| Research models and services | $ 515.0 | $ 503.2 | $ 476.7 |
| Preclinical services | 543.4 | 490.2 | 247.6 |
| Cost of products sold and services provided: | | | |
| Research models and services | $ 300.9 | $ 287.6 | $ 269.8 |
| Preclinical services | 350.9 | 316.0 | 165.7 |
| Selling, general and administrative expenses: | | | |
| Research models and services | $ 65.9 | $ 55.5 | $ 54.1 |
| Preclinical services | 73.0 | 59.5 | 35.8 |
| Unallocated corporate overhead | 41.9 | 43.0 | 27.0 |
| Amortization of other intangibles: | | | |
| Research models and services | $ 0.5 | $ 0.3 | $ 0.2 |
| Preclinical services | 37.2 | 46.7 | 13.7 |
| Operating income: | | | |
| Research models and services | $ 147.8 | $ 159.8 | $ 152.6 |
| Preclinical services | 82.3 | 67.9 | 32.4 |
| Unallocated corporate overhead | (41.9) | (43.0) | (27.0) |

| | Fiscal Year Ended December 30, 2006 | December 31, 2005 | December 25, 2004 |
|---|---|---|---|
| Net sales: | | | |
| Research models and services | 48.7 % | 50.6 % | 65.8 % |
| Preclinical services | 51.3 % | 49.4 % | 34.2 % |
| Cost of products sold and services provided: | | | |
| Research models and services | 58.4 % | 57.2 % | 56.6 % |
| Preclinical services | 64.6 % | 64.5 % | 66.9 % |
| Selling, general and administrative expenses: | | | |
| Research models and services | 12.8 % | 11.0 % | 11.3 % |
| Preclinical services | 13.4 % | 12.1 % | 14.5 % |
| Unallocated corporate overhead | | | |
| Amortization of other intangibles: | | | |
| Research models and services | 0.1 % | 0.1 % | |
| Preclinical services | 6.8 % | 9.5 % | 5.5 % |
| Operating income: | | | |
| Research models and services | 28.7 % | 31.8 % | 32.0 % |
| Preclinical services | 15.1 % | 13.9 % | 13.1 % |
| Unallocated corporate overhead | (4.0 )% | (4.3 )% | (3.7 )% |

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.

**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 30, 2006 | December 31, 2005 | December 25, 2004 |
|---|---|---|---|
| Net sales | 100.0% | 100.0% | 100.0% |
| Cost of products sold and services provided | 61.6% | 60.8% | 60.1% |
| Selling, general and administrative expenses | 17.1% | 15.9% | 16.1% |
| Amortization of other intangibles | 3.6% | 4.7% | 1.9% |
| Operating Income | 17.8% | 18.6% | 21.8% |
| Interest income | 0.6% | 0.4% | 0.5% |
| Interest expense | 1.8% | 2.4% | 1.6% |
| Provision for income taxes | 4.7% | 1.6% | 8.3% |
| Minority interests | 0.2% | 0.2% | 0.2% |
| Income from continuing operations | 11.8% | 14.7% | 12.2% |

**Fiscal 2006 Compared to Fiscal 2005**

***Net Sales.*** Net sales in 2006 were $1,058.4 million, an increase of $65.1 million, or 6.5%, from $993.3 million in 2005.

*Research Models and Services.* In 2006, net sales from our RMS segment were $515.0 million, an increase of $11.8 million, or 2.4%, from $503.2 million in 2005. Unfavorable foreign currency translation

reduced our net sales gain by 0.4%. RMS sales increased due to pricing and unit volume increases in both models and services. The RMS sales growth was driven by increases in basic research and biotechnology spending, which drove greater demand for our products and services, partially offset by continued slowdown in the transgenic services business and lower large model sales.

*Preclinical Services.* In 2006, net sales from our Preclinical Services segment were $543.4 million, an increase of $53.2 million, or 10.9%, compared to $490.2 million in 2005. The increase was primarily due to the increased customer demand for toxicology and other specialty preclinical services, reflecting increased drug development efforts and customer outsourcing. Favorable foreign currency increased sales growth by 0.7%.

***Cost of Products Sold and Services Provided.*** Cost of products sold and services provided in 2006 was $651.8 million, an increase of $48.2 million, or 8.0%, from $603.6 million in 2005. Cost of products sold and services provided in 2006 was 61.6% of net sales, compared to 60.8% in 2005 due to stock compensation expense and higher costs in RMS.

*Research Models and Services.* Cost of products sold and services provided for RMS in 2006 was $300.9 million, an increase of $13.3 million, or 4.6%, compared to $287.6 million in 2005. Cost of products sold and services provided in 2006 increased to 58.4% of net sales compared to 57.2% of net sales in 2005. The continued slowdown in the transgenic services business, lower large model sales, lower research model sales mainly in Japan, stock compensation expense, second quarter cost-saving initiatives which included the shutdown of two small vaccine sites and higher delivery costs all adversely impacted the cost of products sold and services provided as a percent of sales.

*Preclinical Services.* Cost of products sold and services provided for the Preclinical Services segment in 2006 was $350.9 million, an increase of $34.9 million, or 11.0%, compared to $316.0 million in 2005. Cost of products sold and services provided as a percentage of net sales was 64.6% in 2006, compared to 64.5% in 2005. The increase in cost of products sold and services provided as a percentage of net sales was primarily due to stock compensation expense partially offset by improved capacity utilization resulting from the increased sales of services.

***Selling, General and Administrative Expenses.*** Selling, general and administrative expenses in 2006 were $180.8 million, an increase of $22.8 million, or 14.4%, from $158.0 million in 2005. Selling, general and administrative expenses in 2006 were 17.1% of net sales compared to 15.9% of net sales in 2005. The increase as a percent of sales was due primarily to the impact of stock compensation expense.

*Research Models and Services.* Selling, general and administrative expenses for RMS in 2006 were $65.9 million, an increase of $10.4 million, or 18.7%, compared to $55.5 million in 2005. Selling, general and administrative expenses increased slightly as a percentage of sales to 12.8% in 2006 from 11.0% in 2005 due mainly to stock compensation expense.

*Preclinical Services.* Selling, general and administrative expenses for the Preclinical Services segment in 2006 were $73.0 million, an increase of $13.5 million, or 22.7%, compared to $59.5 million in 2005. Selling, general and administrative expenses in 2006 increased to 13.4% of net sales, compared to 12.1% of net sales in 2005. The increase in selling, general and administrative expenses as a percent of sales in 2006 was due primarily to the increased stock compensation expense.

*Unallocated Corporate Overhead.* Unallocated corporate overhead, which consists of various corporate expenses including those associated with pension, executive salaries and departments such as corporate accounting, legal and investor relations, was $41.9 million in 2006, compared to $43.0 million in 2005. The decrease in unallocated corporate overhead in 2006 was due to reduced restricted stock compensation expense.

***Amortization of Other Intangibles.*** Amortization of other intangibles in 2006 was $37.6 million, a decrease of $9.4 million, from $47.0 million in 2005. The decreased amortization was primarily due to reduced amortization related to the acquisition of Inveresk.

*Research Models and Services.* In 2006, amortization of other intangibles for our RMS segment was $0.5 million, an increase of $0.2 million from $0.3 million in 2005.

*Preclinical Services.* In 2006, amortization of other intangibles for our Preclinical Services segment was $37.2 million, a decrease of $9.5 million from $46.7 million in 2005. The decrease in amortization of other intangibles was primarily due to reduced amortization related to the Inveresk acquisition.

***Operating Income.*** Operating income in 2006 was $188.2 million, an increase of $3.5 million, or 1.9%, from $184.7 million in 2005. Operating income in 2006 was 17.8% of net sales, compared to 18.6% of net sales in 2005. The decrease as a percent of sales was due primarily to stock compensation expense.

*Research Models and Services.* In 2006, operating income for our RMS segment was $147.8 million, an decrease of $12.0 million, or 7.5%, from $159.8 million in 2005. Operating income as a percentage of net sales in 2006 was 28.7%, compared to 31.8% in 2005. The decrease in operating income as a percent to sales was primarily due to increase in cost of products sold and services provided due to stock compensation expense, the slowdown in the Transgenic Services business and lower large model sales.

*Preclinical Services.* In 2006, operating income for our Preclinical Services segment was $82.3 million, an increase of $14.4 million, or 21.2%, from $67.9 million in 2005. Operating income as a percentage of net sales increased to 15.1%, compared to 13.9% of net sales in 2005. The increase in operating income as a percentage of net sales was primarily due to higher sales which resulted in improved operating efficiency and lower amortization costs, partially offset by stock compensation expense and cost-saving initiatives.

***Interest Expense.*** Interest expense in 2006 was $19.4 million, compared to $24.3 million in 2005. The $4.9 million decrease was primarily due to debt repayment.

***Income Taxes.*** Income tax expense for 2006 was $49.7 million an increase of $33.4 million compared to $16.3 million in 2005. The increase was primarily attributable to the one time 2005 net benefit of $28.3 million or 17.3%, from the effects of a distribution under the AJCA of $24.1 million and the 2005 change of the Company s assertion with respect to the remaining Inveresk pre-acquisition earnings of $29.2 million, offset by the 2005 tax charge related to the Company s restructuring of its UK operations as a part of the plan of distribution of $23.1 million and a charge of $1.9 million related to the write off of deferred tax assets.

***Income from Continuing Operations.*** Income from continuing operations in 2006 was $125.2 million, a decrease of $20.6 million from $145.8 million in 2005.

***Income (Loss) from Discontinued Operations.*** The loss from discontinued operations was $(181.0) million due mainly to the goodwill impairment in the first quarter.

***Net Income (Loss).*** Net income (loss) in 2006 was $(55.8) million compared to $142.0 in 2005.

**Fiscal 2005 Compared to Fiscal 2004**

***Net Sales.*** Net sales in 2005 were $993.3 million, an increase of $269.1 million, or 37.2%, from $724.2 million in 2004.

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*Research Models and Services.* In 2005, net sales from our RMS segment were $503.2 million, an increase of $26.5 million, or 5.6%, from $476.7 million in 2004. Favorable foreign currency translation contributed approximately 0.2% to our net sales gain. RMS global prices increased approximately 3% and unit volume of both models and services increased approximately 2%. Sales of our research models and services increased, particularly in North America, due to growing market demand for our higher priced specialty units partially offset by a continued slowdown in the transgenic service market. The RMS sales increase was driven by increases in basic research and biotechnology spending which drove greater demand for our products and services.

*Preclinical Services.* In 2005, net sales from our Preclinical Services segment were $490.2 million, an increase of $242.6 million, or 98.0%, compared to $247.6 million in 2004. The increase was primarily due to the acquisition of Inveresk in October 2004 and the increased customer demand for toxicology and other preclinical services partially offset by the negative impact of softness in our interventional and surgical services and biopharmaceutical services businesses. Our Preclinical Services business benefited from the growth of the preclinical market reflecting increased drug development efforts and outsourcing trends. Foreign currency unfavorably impacted the sales growth rate by less than 0.4%.

***Cost of Products Sold and Services Provided.*** Cost of products sold and services provided in 2005 was $603.6 million, an increase of $168.1 million, or 38.6%, from $435.5 million in 2004. Cost of products sold and services provided in 2005 was 60.8% of net sales, compared to 60.1% in 2004.

*Research Models and Services.* Cost of products sold and services provided for RMS in 2005 was $287.6 million, an increase of $17.8 million, or 6.6%, compared to $269.8 million in 2004. Cost of products sold and services provided in 2005 increased to 57.2% of net sales compared to 56.6% of net sales in 2004. The increase in cost of products sold and services provided as a percentage of net sales was primarily due to the slow down in the transgenic services sales and higher fuel costs.

*Preclinical Services.* Cost of products sold and services provided for the Preclinical Services segment in 2005 was $316.0 million, an increase of $150.3 million, or 90.7%, compared to $165.7 million in 2004. Cost of products sold and services provided as a percentage of net sales was 64.5% in 2005, compared to 66.9% in 2004. The decrease in cost of products sold and services provided as a percentage of net sales was primarily due to improved capacity utilization from the increased sales of services along with select pricing increases.

***Selling, General and Administrative Expenses.*** Selling, general and administrative expenses in 2005 were $158.0 million, an increase of $41.1 million, or 35.2%, from $116.9 million in 2004. Selling, general and administrative expenses in 2005 were 15.9% of net sales compared to 16.1% of net sales in 2004. The increase in selling general and administrative expenses was due primarily to the impact of our restricted stock grant in 2005, other stock-based compensation and a charge for the acceleration of stock options of $1.6 million.

*Research Models and Services.* Selling, general and administrative expenses for RMS in 2005 were $55.5 million, an increase of $1.4 million, or 2.6%, compared to $54.1 million in 2004. Selling, general and administrative expenses decreased slightly as a percentage of sales to 11.0% in 2005 from 11.3% in 2004.

*Preclinical Services.* Selling, general and administrative expenses for the Preclinical Services segment in 2005 were $59.5 million, an increase of $23.7 million, or 66.2%, compared to $35.8 million in 2004. Selling, general and administrative expenses in 2005 decreased to 12.1% of net sales, compared to 14.5% of net sales in 2004. The decrease in selling, general and administrative expenses as a percent of sales in 2005 was due primarily to the increased sales.

*Unallocated Corporate Overhead.* Unallocated corporate overhead, which consists of various corporate expenses including those associated with pension, executive salaries and departments such as corporate accounting, legal and investor

relations, was $43.0 million in 2005, compared to $27.0 million in

2004. The substantial increase in unallocated corporate overhead in 2005 was due to our restricted stock compensation, Inveresk related stock based compensation and professional fees associated with the repatriation.

***Amortization of Other Intangibles.*** Amortization of other intangibles in 2005 was $47.0 million, an increase of $33.1 million, from $13.9 million in 2004. The increased amortization was primarily due to the acquisition of Inveresk.

*Research Models and Services.* In 2005, amortization of other intangibles for our RMS segment was $0.3 million, an increase of $0.1 million from $0.2 million in 2004.

*Preclinical Services.* In 2005, amortization of other intangibles for our Preclinical Services segment was $46.7 million, an increase of $33.0 million from $13.7 million in 2004. The increase in amortization of other intangibles was primarily due to the full-year effect of the Inveresk acquisition.

***Operating Income.*** Operating income in 2005 was $184.7 million, an increase of $26.7 million, or 16.9%, from $158.0 million in 2004. Operating income in 2005 was 18.6% of net sales, compared to 21.8% of net sales in 2004. The decrease as a percent of sales was due primarily to the unfavorable impact of amortization of intangibles and the stock-based compensation in both cases relating to our acquisition of Inveresk as well as the increased mix of preclinical services in our overall business.

*Research Models and Services.* In 2005, operating income for our RMS segment was $159.8 million, an increase of $7.2 million, or 4.7%, from $152.6 million in 2004. Operating income as a percentage of net sales in 2005 was 31.8%, compared to 32.0% in 2004. The decrease in operating income as a percent to sales was primarily due to the increase in cost of products sold and services provided due to the slowdown in Transgenic Services.

*Preclinical Services.* In 2005, operating income for our Preclinical Services segment was $67.9 million, an increase of $35.5 million from $32.4 million in 2004. Operating income as a percentage of sales increased to 13.9%, compared to 13.1% of net sales in 2004. The increase in operating income as a percent of sales in 2005 was primarily due to greater efficiencies in cost of products sold and services provided and particularly global toxicology sales offset by Inveresk amortization.

***Interest Expense.*** Interest expense in 2005 was $24.3 million, compared to $11.7 million in 2004. The $12.6 million increase was primarily due to the increased borrowing as a result of the Inveresk acquisition.

***Income Taxes.*** Income tax expense for 2005 was $16.3 million or 9.9%, a decrease of $43.9 million compared to $60.2 million or 40.0% in 2004. The decrease was primarily attributable to a net benefit of $28.3 million or 17.3% from the effects of a distribution under the AJCA of $24.1 million, the change of the Company s assertion with respect to the remaining Inveresk pre-acquisition earnings of $29.2 million, offset by a tax charge related to the Company s restructuring of its UK operations as a part of the plan of distribution of $23.1 million and a charge of $1.9 million related to the write off of deferred tax assets. The Company s 2005 income tax expense also reflects a full year tax benefit from tax credits and enhanced deductions in Canada and the United Kingdom from research and development spending of $12.0 million or 7.3%.

***Income from Continuing Operations.*** Income from continuing operations in 2005 was $145.8 million, an increase of $57.1 million from $88.7 million in 2004.

***Income (Loss) from Discontinued Operations.*** Income (loss) from discontinued operations of $(3.8) million in 2005 compared to $1.1 million in 2004.

***Net Income.*** Net income in 2005 was $142.0 million compared to $89.8 million in 2004.

**Liquidity and Capital Resources**

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

Our principal sources of liquidity have been our cash flow from operations, the convertible debt offering, proceeds from the sale of our Phase II-IV Clinical business and our revolving line of credit arrangements.

On July 31, 2006, we amended and restated our then-existing credit agreement to reduce the current interest rate, modify certain restrictive covenants and extend the term. The now $428.0 million credit agreement provides for a $156.0 million U.S. term loan facility, a $200.0 million U.S. revolving facility, a C$57.8 million term loan facility and a C$12.0 million revolving facility for a Canadian subsidiary, and a GBP 6.0 million revolving facility for a U.K. subsidiary (the $428.0 million credit agreement). The $156.0 million term loan facility matures in 20 quarterly installments with the last installment due June 30, 2011. The $200.0 million U.S. revolving facility matures on July 31, 2011 and requires no scheduled payment before that date. Under specified circumstances, the $200.0 million U.S. revolving facility may be increased by $100.0 million. The Canadian term loan is repayable in full by June 30, 2011 and requires no scheduled prepayment before that date. The Canadian and UK revolving facilities mature on July 31, 2011 and require no scheduled prepayment before that date. The interest rate applicable to the Canadian term loan and the Canadian and U.K. revolving loans under the credit agreement is the adjusted LIBOR rate in its relevant currency plus an interest rate margin based upon our leverage ratio. The interest rates applicable to term loans and revolving loans under the credit agreement are, at our option, equal to either the base rate (which is the higher of the prime rate or the federal funds rate plus 0.50%) or the adjusted LIBOR rate plus an interest rate margin based upon our leverage ratio. Based on our leverage ratio, the margin range for LIBOR based loans is 0.625% to 0.875%. The interest rate margin was 0.75% as of December 30, 2006. The Company has pledged the stock of certain subsidiaries as well as certain U.S. assets as security for the $428.0 million credit agreement. The $428.0 million credit agreement includes certain customary representations and warranties, negative and affirmative covenants and events of default. The Company had $5.4 million and $5.0 million outstanding under letters of credit as of December 30, 2006 and December 31, 2005, respectively.

As of December 30, 2006, there was no outstanding balance on the revolving facility.

We are also party to a $50 million credit agreement, which was entered into on July 27, 2005 and which was subsequently amended on December 20, 2005 and again on July 31, 2006 to reflect substantially the same modifications made to the covenants in the $428 million credit agreement. The $50 million credit agreement provides for a $50 million term loan facility which matures on July 27, 2007 and can be extended for an additional 7 years. The interest rates applicable to term loans under this credit agreement are, at our option, equal to either the base rate (which is the higher of the prime rate or the federal funds rate plus ½%) or the LIBOR rate plus 0.75%. The $50 million credit agreement includes certain customary representations and warranties, negative and affirmative covenants and events of default.

As of December 30, 2006, the entire balance of the $50.0 million credit agreement was outstanding.

On June 12, 2006, we issued $350.0 million aggregate principal amount of convertible senior subordinated notes (the 2013 Notes) in a private placement with net proceeds to the Company of $343.0 million. The 2013 Notes bear interest at 2.25% per annum, payable semi-annually, and mature on June 15, 2013. The 2013 Notes are convertible into cash and shares of common stock (or, at the Company s election, cash in lieu of some or all of such common stock) based on an initial conversion rate, subject to adjustment, of 20.4337 shares of common stock per $1,000 principal amount of notes (which represents an initial conversion price of $48.94 per share).

Concurrently with the sale of the 2013 Notes, we entered into convertible note hedge transactions with respect to our obligation to deliver common stock under the 2013 Notes. The convertible note hedges give us the right to receive, for no additional consideration, the numbers of shares of common stock that we are obligated to deliver upon conversion of the 2013 Notes (subject to anti-dilution adjustments substantially identical to those in the 2013 Notes), and expire on June 15, 2013. The aggregate cost of these convertible note hedges was $98.3 million.

Separately and concurrently with the pricing of the 2013 Notes, we issued warrants for approximately 7.2 million 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 $59.925, and expire between September 13, 2013 and January 22, 2014 over 90 equal increments. The total proceeds from the issuance of the warrants were $65.4 million.

From an economic perspective, the cumulative impact of the purchase of the convertible note hedges and the sale of the warrants increases the effective conversion price of the 2013 Notes from $48.94 to $59.25 per share.

In August 2006 we entered into an Accelerated Stock Repurchase (ASR) program with a third-party investment bank. In connection with this ASR program, we initially purchased 1,787,706 shares of stock at a cost of $75 million. In conjunction with the ASR, we also entered into a cashless collar with a forward floor price of $37.9576 per share of our common stock (95% of the initial price of $39.9554, the market price of our common stock on August 23, 2006) and a forward cap price of $41.9532 per share of our common stock (105% of the initial price). The final number of shares repurchased under the ASR program was 1,787,706 and was determined by taking the average volume weighted average price of our common stock for 65 trading days which resulted in a final share price of $42.6503 per share. Since the final share price of $42.6503 was above the cap price of $41.9532, there was no adjustment to the final number of shares repurchased.

In November 2006 the Company entered into a new Rule 10b5-1 Stock Purchase Plan with a third-party investment bank for the remaining $38.6 million authorized under our share repurchase program.

Cash and cash equivalents totaled $175.4 million at December 30, 2006, compared to $114.8 million at December 31, 2005.

Net cash provided by operating activities in 2006 and 2005 was $176.0 million and $216.8 million, respectively. The decrease in cash provided by operations was primarily due to changes in accounts receivable and deferred income. Our days sales outstanding increased to 39 days as of December 30, 2006, from 33 days as of December 31, 2005 due mainly to reduced deferred revenue. Our days sales outstanding includes deferred revenue as an offset to accounts receivable in the calculation.

Net cash used in investing activities in 2006 and 2005 was $297.4 million and $113.0 million, respectively. Our capital expenditures in 2006 were $181.7 million of which $27.0 million was related to RMS and $154.7 million to Preclinical Services. For 2007, we project capital expenditures to be in the range of $200 - $225 million. We anticipate that future capital expenditures will be funded by operating activities and existing credit facilities.

Net cash provided by financing activities in 2006 was $5.6 million and cash used in financing activities in 2005 was $195.2 million. During 2006, we received proceeds of $440.3 million of long-term debt partially offset by our purchase of $250.0 million of treasury stock and our repayment of debt of $170.9 million. During 2005, we repaid $337.3 million of our debt partially offset by additional borrowing of $133.7 million.

Minimum future payments of our contractual obligations at December 30, 2006 are as follows:

| Contractual Obligations | Total | Less than 1 Year | 1 3 Years | 3 5 Years | After 5 Years |
|---|---|---|---|---|---|
| Debt | $ 572.0 | $ 25.0 | $ 69.0 | $ 93.0 | $ 385.0 |
| Interest payments | 91.9 | 20.9 | 38.3 | 32.7 | |
| Operating leases | 55.0 | 19.2 | 23.4 | 7.7 | 4.7 |
| Pension | 50.0 | 7.8 | 15.6 | 15.6 | 11.0 |
| Total contractual cash obligations | $ 768.9 | $ 72.9 | $ 146.3 | $ 149.0 | $ 400.7 |

**Off-Balance Sheet Arrangements**

The conversion features of our 2013 Notes are equity-linked derivatives. As such, we recognize these instruments as off-balance sheet arrangements. The conversion features associated with these notes would be accounted for as derivative instruments, except that they are indexed to our common stock and classified in stockholders equity. Therefore, these instruments meet the scope of exception of paragraph 11(a) of SFAS No. 133, Accounting for Derivatives Instruments and Hedging Activities, and are accordingly not accounted for as derivatives for purposes of SFAS No. 133.

**Recent Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ( SFAS 157 ). SFAS 157 establishes a single authoritative definition of fair value, sets out framework for measuring fair value and expands on required disclosures about fair value measurements. SFAS 157 is effective for us on January 1, 2008 and will be applied prospectively. The provisions of SFAS 157 are not expected to have a material impact on our consolidated financial statements.

We adopted the recognition and disclosure requirements of SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) as of December 30, 2006. This statement requires employers that sponsor defined benefit plans to recognize the funded status of a benefit plan on its balance sheet; 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 other comprehensive income, net of tax; measure defined benefit plan assets and obligations as of the date of the employer s fiscal year-end balance sheet; and disclose in the notes to financial statements 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.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 (SAB 108). Due to diversity in practice among registrants, SAB 108 expresses SEC staff views regarding the process by which misstatements in financial statements are evaluated for purposes of determining whether financial statement restatement is necessary. SAB 108 is effective for fiscal years ending after November 15, 2006, and early application is encouraged. We have applied the provisions of SAB 108 in the third quarter of 2006 which had an immaterial impact on selling, general and administrative expense and tax expense which resulted in a positive impact of $0.01 on our earnings per share in the statement of operations.

The Financial Accounting Standards Board ( FASB ) has issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FAS No. 109 (FIN 48), which clarifies the accounting for uncertainty in income taxes. Currently, the accounting for uncertainty in income taxes is subject to significant and varied interpretations that have resulted in diverse and inconsistent accounting practices and measurements. Addressing such diversity, FIN 48 prescribes a consistent recognition threshold and measurement attribute, as well as clear criteria for subsequently recognizing, derecognizing

and measuring changes in such tax positions for financial statement purposes. FIN 48 also requires expanded disclosure with respect to the uncertainty in income taxes. FIN 48 is effective for fiscal years beginning after December 15, 2006. We have evaluated the interpretation and have determined the impact of FIN 48 will not have a significant impact on our consolidated financial results.

**Item 7A.** Quantitative and Qualitative Disclosure 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**

The fair value of our marketable securities is subject to interest rate risk and will fall in value if market interest rates increase. If market rates were to increase immediately and uniformly by 100 basis points from levels at December 30, 2006, then the fair value of the portfolio would decline by approximately $0.3 million.

We have entered into two credit agreements, the $428 million credit agreement (prior to July 31, 2006, the $660 million credit agreement) and the $50 million credit agreement. Our primary interest rate exposure results from changes in LIBOR or the base rates which are used to determine the applicable interest rates under our term loans in the $428 million credit agreement and in the $50 million agreement and our revolving credit facilities. Our potential loss over one year that would result from a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rate would be approximately $4.8 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 our foreign operations revenue is denominated in U.S. dollars, with the costs accounted for in their local currencies. 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 certain transactions as hedges as set forth in SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities.

During 2006, we utilized foreign exchange contracts, principally to hedge the impact of currency fluctuations on customer transactions and certain balance sheet items. No material, foreign exchange contracts were outstanding on December 30, 2006.

**Item 8.** Financial Statements and Supplementary Data

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## Consolidated Financial Statements:


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**Report of Management**

Management s Report on Internal Control Over Financial Reporting

The management of the company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) or 15(d)-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the company s principal executive and principal financial officers and effected by the company s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with United States generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

- 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

- 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.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

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.

The Company s management assessed the effectiveness of the company s internal control over financial reporting as of December 30, 2006. In making this assessment, the company s management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control Integrated Framework.

Based on this assessment, management concluded that, as of December 30, 2006, the Company s internal control over financial reporting was effective based on those criteria.

Our management s assessment of the effectiveness of the Company s internal control over financial reporting as of December 30, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated within their report which appears herein.

**Report of Independent Registered Public Accounting Firm**

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

We have completed integrated audits of Charles River Laboratories International, Inc s consolidated financial statements and of its internal control over financial reporting as of December 30, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

*Consolidated financial statements and financial statement schedule*

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Charles River Laboratories International, Inc. and its subsidiaries at December 30, 2006 and December 31, 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes 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. We believe that our audits provide a reasonable basis for our opinion.

**As discussed in Note 11 to the consolidated financial statements, the Company changed its method of accounting for share-based payments on January 1, 2006. In addition, as discussed in Note 10 to the consolidated financial statements, the Company changed its method of accounting for defined benefit pension and other post retirement obligations as of December 30, 2006.**

*Internal control over financial reporting*

Also, in our opinion, management s assessment, included in Management s Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 30, 2006 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management s assessment and on the effectiveness of the Company s internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing

and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides 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 27, 2007

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

| | Fiscal Year Ended December 30, 2006 | December 31, 2005 | December 25, 2004 |
|---|---|---|---|
| Net sales related to products | $ 374,832 | $ 364,303 | $ 339,993 |
| Net sales related to services | 683,553 | 629,025 | 384,228 |
| Net sales | 1,058,385 | 993,328 | 724,221 |
| Costs and expenses | | | |
| Cost of products sold | 211,008 | 199,517 | 185,428 |
| Cost of services provided | 440,770 | 404,107 | 250,071 |
| Selling, general and administrative | 180,795 | 157,999 | 116,879 |
| Amortization of other intangibles | 37,639 | 47,011 | 13,857 |
| Operating income | 188,173 | 184,694 | 157,986 |
| Other income (expense) | | | |
| Interest income | 6,836 | 3,695 | 3,262 |
| Interest expense | (19,426) | (24,324) | (11,718) |
| Other, net | 981 | (177) | 937 |
| Income before income taxes and minority interests | 176,564 | 163,888 | 150,467 |
| Provision for income taxes | 49,738 | 16,261 | 60,159 |
| Income before minority interests | 126,826 | 147,627 | 90,308 |
| Minority interests | (1,605) | (1,838) | (1,577) |
| Income from continuing operations | 125,221 | 145,789 | 88,731 |
| Income (loss) from discontinued businesses, net of tax | (181,004) | (3,790) | 1,061 |
| Net income (loss) | $ (55,783) | $ 141,999 | $ 89,792 |
| Earnings (loss) per common share | | | |
| Basic: | | | |
| Continuing operations | $ 1.82 | $ 2.09 | $ 1.79 |
| Discontinued operations | $ (2.63) | $ (0.05) | $ 0.02 |
| Net income | $ (0.81) | $ 2.04 | $ 1.81 |
| Diluted: | | | |
| Continuing operations | $ 1.79 | $ 2.02 | $ 1.65 |
| Discontinued operations | $ (2.59) | $ (0.05) | $ 0.02 |
| Net income | $ (0.80) | $ 1.96 | $ 1.68 |

See Notes to Consolidated Financial Statements.

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

| | December 30, 2006 | December 31, 2005 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 175,380 | $ 114,821 |
| Trade receivables, net | 202,658 | 171,259 |
| Inventories | 72,362 | 65,128 |
| Other current assets | 44,363 | 26,858 |
| Current assets of discontinued operations | 6,330 | 41,256 |
| Total current assets | 501,093 | 419,322 |
| Property, plant and equipment, net | 534,745 | 387,501 |
| Goodwill, net | 1,119,309 | 1,097,590 |
| Other intangibles, net | 160,204 | 175,021 |
| Deferred tax asset | 107,498 | 68,046 |
| Other assets | 133,944 | 34,709 |
| Long term assets of discontinued operations | 751 | 356,020 |
| Total assets | $ 2,557,544 | $ 2,538,209 |
| **Liabilities and Shareholders Equity** | | |
| Current liabilities | | |
| Current portion of long-term debt and capital lease obligations | $ 24,977 | $ 36,263 |
| Accounts payable | 28,223 | 28,727 |
| Accrued compensation | 41,651 | 38,238 |
| Deferred revenue | 93,197 | 95,564 |
| Accrued liabilities | 41,991 | 38,625 |
| Other current liabilities | 25,625 | 43,581 |
| Current liabilities of discontinued operations | 3,667 | 30,414 |
| Total current liabilities | 259,331 | 311,412 |
| Long-term debt and capital lease obligations | 547,084 | 259,902 |
| Other long-term liabilities | 146,695 | 116,503 |
| Long term liabilities of discontinued operations | | 13,661 |
| Total liabilities | 953,110 | 701,478 |
| Commitments and contingencies | | |
| Minority interests | 9,223 | 9,718 |
| 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; 73,416,303 issued and 66,919,634 shares outstanding at December 30, 2006 and 72,361,666 shares issued and 71,955,491 outstanding at December 31, 2005 | 734 | 724 |
| Capital in excess of par value | 1,818,138 | 1,777,625 |
| Accumulated earnings | 23,123 | 78,906 |
| Treasury stock, at cost, 6,496,669 shares and 406,175 shares at December 30, 2006 and December 31, 2005, respectively | (267,955) | (17,997) |
| Unearned compensation | | (20,785) |
| Accumulated other comprehensive income | 21,171 | 8,540 |
| Total shareholders equity | 1,595,211 | 1,827,013 |
| Total liabilities and shareholders equity | $ 2,557,544 | $ 2,538,209 |

See Notes to Consolidated Financial Statements.

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

| | Fiscal Year Ended December 30, 2006 | December 31, 2005 | December 25, 2004 |
|---|---|---|---|
| **Cash flows relating to operating activities** | | | |
| Net income (loss) | $ (55,783) | $ 141,999 | $ 89,792 |
| Less: Income (loss) from discontinued operations | (181,004) | (3,790) | 1,061 |
| Income from continuing operations | 125,221 | 145,789 | 88,731 |
| Adjustments to reconcile net income from continuing operations to net cash provided by operating activities: | | | |
| Depreciation and amortization | 82,586 | 87,935 | 42,063 |
| Impairment charge | 2,774 | | 2,956 |
| Amortization of debt issuance costs and discounts | 2,499 | 2,135 | 1,642 |
| Amortization of premiums on marketable securities | 45 | 47 | 225 |
| Provision for doubtful accounts | 4 | 16 | 762 |
| Minority interests | 1,605 | 1,838 | 1,577 |
| Deferred income taxes | 4,035 | (39,230) | 8,018 |
| Loss on disposal of property, plant, and equipment | 1,242 | 236 | 460 |
| Non-cash compensation | 21,090 | 16,974 | 3,815 |
| Net purchases, proceeds and gains on trading securities | (6,510) | | |
| Tax benefit from exercise of stock options | | 8,767 | 13,804 |
| Changes in assets and liabilities: | | | |
| Trade receivables | (18,961) | (14,315) | (8,568) |
| Inventories | (6,475) | (5,918) | (6,103) |
| Other current assets | (8,024) | 3,455 | (3,246) |
| Other assets | (11,115) | (241) | (1,466) |
| Accounts payable | (2,586) | 2,248 | (79) |
| Accrued compensation | (414) | (2,798) | 1,960 |
| Deferred revenue | (2,967) | 6,159 | 25,342 |
| Accrued liabilities | (8,493) | (5,158) | (6,792) |
| Other current liabilities | (15,141) | 20,525 | 11,691 |
| Other long-term liabilities | 15,558 | (11,680) | 3,287 |
| Net cash provided by operating activities | 175,973 | 216,784 | 180,079 |
| **Cash flows relating to investing activities** | | | |
| Acquisition of businesses, net of cash acquired | (30,862) | (3,400) | (571,992) |
| Capital expenditures | (181,747) | (94,520) | (44,735) |
| Purchases of marketable securities | (207,900) | (15,580) | (16,689) |
| Proceeds from sales of property, plant and equipment | 130 | 132 | 1,427 |
| Proceeds from sale of marketable securities | 122,981 | 405 | 32,621 |
| Net cash used in investing activities | (297,398) | (112,963) | (599,368) |
| **Cash flows relating to financing activities** | | | |
| Proceeds from long-term debt and revolving credit agreement | 440,300 | 133,700 | 594,000 |
| Payments on long-term debt, capital lease obligation and revolving credit agreement | (170,842) | (337,305) | (173,862) |
| Purchase of call option | (98,110) | | |
| Proceeds from exercises of warrants | 79 | 1,136 | |
| Proceeds from issuance of warrants | 65,423 | | |
| Proceeds from exercises of employee stock options | 22,821 | 25,987 | 26,554 |
| Excess tax benefit from exercises of employee stock options | 6,540 | | |
| Dividends paid to minority interests | (1,916) | (1,400) | (2,112) |
| Purchase of treasury stock | (249,958) | (17,997) | |
| Payment of deferred financing costs | (8,769) | 639 | (7,449) |
| Net cash provided by (used in) financing activities | 5,568 | (195,240) | 437,131 |
| **Discontinued operations** | | | |
| Net cash provided by operating activities | (11,603) | 17,764 | 4,750 |
| Net cash provided by (used in) investing activities | 189,406 | (1,030) | (601) |
| Net cash used in financing activities | (182) | (182) | (185) |
| Net cash provided by discontinued operations | 177,621 | 16,552 | 3,964 |
| Effect of exchange rate changes on cash and cash equivalents | (1,205) | (17,878) | 3,429 |
| Net change in cash and cash equivalents | 60,559 | (92,745) | 25,235 |
| Cash and cash equivalents, beginning of period | 114,821 | 207,566 | 182,331 |
| **Cash and cash equivalents, end of period** | 175,380 | 114,821 | 207,566 |
| **Supplemental cash flow information** | | | |
| Cash paid for interest | $ 22,992 | $ 21,776 | $ 6,994 |
| Cash paid for taxes | $ 93,109 | $ 10,074 | $ 36,302 |

| | | | |
|---|---|---|---|
| **Supplemental non-cash investing activities information** | | | |
| Issuance of common stock related to the Inveresk acquisition | | | 841,042 |
| Conversion of senior convertible debenture to common stock | $ | $ 198,020 | $ |
| Capitalized interest | $ 4,107 | $ 810 | $ |

See Notes to Consolidated Financial Statements

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

| | Total | Accumulated (Deficit) Earnings | Accumulated Other Comprehensive Income | Common Stock | Capital in Excess of Par | Treasury Stock | Unearned Compensation |
|---|---|---|---|---|---|---|---|
| **Balance at December 27, 2003** | $ 464,623 | $ (152,885) | $ 9,254 | $ 458 | $ 609,781 | $ | $ (1,985) |
| Components of comprehensive income, net of tax: | | | | | | | |
| Net income | $ 89,792 | $ 89,792 | $ | $ | $ | $ | $ |
| Foreign currency translation adjustment | 19,960 | | 19,960 | | | | |
| Minimum pension liability adjustment | (1,475) | | (1,475) | | | | |
| Unrealized gain on marketable securities | (46) | | (46) | | | | |
| Total comprehensive income | 108,231 | | | | | | |
| Issuance of common stock related to acquisition | 841,042 | | | 185 | 840,857 | | |
| Fair value of stock option exchange related to acquisition | 30,350 | | | | 41,694 | | (11,344) |
| Transaction cost related to acquisition | (10,122) | | | | (10,122) | | |
| Exercise of stock options | 26,554 | | | 15 | 26,539 | | |
| Tax benefit from exercise of stock options | 8,011 | | | | 8,011 | | |
| Issuance of restricted stock to employees | | | | | 1,513 | | (1,513) |
| Performance based compensation | 581 | | | | 581 | | |
| Amortization of unearned compensation | 3,235 | | | | | | 3,235 |
| **Balance at December 25, 2004** | $ 1,472,505 | $ (63,093) | $ 27,693 | $ 658 | $ 1,518,854 | $ | $ (11,607) |
| Components of comprehensive income, net of tax: | | | | | | | |
| Net income | $ 141,999 | $ 141,999 | $ | $ | $ | $ | $ |
| Foreign currency translation adjustment | (19,444) | | (19,444) | | | | |
| Minimum pension liability adjustment | 331 | | 331 | | | | |
| Unrealized gain on marketable securities | (40) | | (40) | | | | |
| Unrealized gain on hedging activities | | | | | | | |
| Total comprehensive income | 122,846 | | | | | | |
| Exercise of stock options | 25,987 | | | 11 | 25,976 | | |
| Acceleration of stock options | 1,556 | | | | 1,556 | | |
| Tax benefit from exercise of stock options | 7,597 | | | | 7,597 | | |
| Exercise of warrants | 1,136 | | | 2 | 1,134 | | |
| Issuance of restricted stock to employees | | | | 5 | 24,591 | | (24,596) |
| Amortization of unearned compensation | 15,418 | | | | | | 15,418 |
| Performance based compensation | (55) | | | | (55) | | |
| Purchase of treasury shares | (17,997) | | | | | (17,997) | |
| Conversion of convertible debentures | 198,020 | | | 48 | 197,972 | | |
| **Balance at December 31, 2005** | $ 1,827,013 | $ 78,906 | $ 8,540 | $ 724 | $ 1,777,625 | $ (17,997) | $ (20,785) |
| Components of comprehensive income, net of tax: | | | | | | | |
| Net (loss) | $ (55,783) | $ (55,783) | $ | $ | $ | $ | $ |
| Foreign currency translation adjustment | 12,335 | | 12,335 | | | | |
| Minimum pension liability adjustment | (195) | | (195) | | | | |
| Unrealized gain on marketable securities | 11 | | 11 | | | | |
| Total comprehensive income | (43,632) | | | | | | |
| Adjustment to initially apply SFAS No. 158, net of tax | 480 | | 480 | | | | |
| Tax benefit associated with stock issued under employee compensation plans | 5,714 | | | | 5,714 | | |
| Exercise of warrants | 79 | | | | 79 | | |
| Issuance of stock under employee compensation plans | 22,821 | | | 10 | 22,811 | | |
| Acquisition of treasury shares | (249,958) | | | | | (249,958) | |
| Stock-based compensation | 22,392 | | | | 22,392 | | |
| Performance based compensation | (526) | | | | (526) | | |
| Purchase of hedge on convertible debt | (98,110) | | | | (98,110) | | |
| Issuance of warrants | 65,423 | | | | 65,423 | | |
| Deferred tax assets | 43,515 | | | | 43,515 | | |
| Reversal of unearned compensation upon adoption of SFAS No. 123(R) | | | | | (20,785) | | 20,785 |
| **Balance at December 30, 2006** | $ 1,595,211 | $ 23,123 | $ 21,171 | $ 734 | $ 1,818,138 | $ (267,955) | $ |

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. (together with its subsidiaries, the Company) is a leading global provider of solutions that advance the drug discovery and development process including research models and associated services, and outsourced preclinical services which includes Phase I clinical services. The Company s 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. Results for two majority-owned subsidiaries are recorded on a one-month lag basis. There were no material transactions or events for these subsidiaries between the reporting date and December 30, 2006.

***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. Actual results could differ from those estimates.

***Cash and Cash Equivalents***

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

***Trade Receivables and Concentrations of Credit Risk***

The Company records trade receivables net of an allowance for doubtful accounts. The Company establishes an allowance for doubtful accounts which it believes is adequate to cover anticipated losses on the collection of all outstanding trade receivable balances. The adequacy of the doubtful account allowance is based on historical information, a review of major customer accounts, receivable balances and management s assessment of current economic conditions. The Company reassesses the allowance for doubtful accounts each quarter.

The composition of net trade receivables is as follows:

| | December 30, 2006 | December 31, 2005 |
|---|---|---|
| Customer receivables | $ 156,411 | $ 133,436 |
| Unbilled revenue | 49,356 | 40,102 |
| Total | 205,767 | 173,538 |
| Less allowance for doubtful accounts | (3,109) | (2,279) |
| Net trade receivables | $ 202,658 | $ 171,259 |

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

## 1. Description of Business and Summary of Significant Accounting Policies (Continued)

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade receivables from customers in the pharmaceutical and biotechnology industries. The Company believes its exposure to credit risk to be minimal, as these industries have experienced significant growth and the customers are predominantly well established and viable.

***Marketable Securities***

The Company accounts for its investment in marketable securities in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. Investments in marketable securities are reported at fair value and consist of corporate debt securities and government securities and obligations which are classified as securities available for sale and mutual funds which are classified as actively traded.

Realized gains and losses on securities are included in earnings and are determined using the specific identification method. Unrealized holding gains and losses on securities classified as available for sale, are excluded from earnings and are reported in accumulated other comprehensive income, net of related tax effects. Unrealized gains and losses on actively traded securities are included in earnings. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion is included in interest income.

***Inventories***

Inventories are stated at the lower of cost, determined principally on the average cost method, or market. The determination of market value involves assessment of numerous factors, including costs to dispose of inventory and estimated selling price. Inventory costs for small models are based upon the actual average cost to produce specific models and strains. Costs for large models are accumulated in inventory by specific model. Inventory costs for both small and large models are charged to cost of sales in the period the models are sold. Reserves are recorded to reduce the carrying value for inventory determined damaged, obsolete or otherwise unsaleable.

The composition of inventories is as follows:

| | December 30, 2006 | December 31, 2005 |
|---|---|---|
| Raw materials and supplies | $ 11,715 | $ 10,948 |
| Work in process | 6,107 | 5,615 |
| Finished products | 54,540 | 48,565 |
| Inventories | $ 72,362 | $ 65,128 |

***Other Current Assets***

Other current assets consist of assets the Company intends to settle within the next twelve months.

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

**1.** Description of Business and Summary of Significant Accounting Policies (Continued)

| | December 30, 2006 | December 31, 2005 |
|---|---|---|
| Prepaid assets | $ 19,686 | $ 10,883 |
| Deferred tax asset | 10,176 | 3,668 |
| Prepaid income tax | 7,051 | 10,630 |
| Marketable securities | 7,450 | 1,677 |
| Other current assets | $ 44,363 | $ 26,858 |

***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. The Company capitalizes interest on certain construction projects which amounted to $4,107 in 2006 and $810 in 2005. No interest was capitalized in 2004. 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, 2 to 20 years; furniture and fixtures, 5 to 7 years; vehicles, 2 to 4 years; and leasehold improvements, the shorter of estimated useful life or the lease periods.

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

| | December 30, 2006 | December 31, 2005 |
|---|---|---|
| Land | $ 16,173 | $ 15,411 |
| Buildings | 339,786 | 307,627 |
| Machinery and equipment | 280,126 | 245,512 |
| Leasehold improvements | 16,248 | 13,611 |
| Furniture and fixtures | 6,790 | 5,400 |
| Vehicles | 4,843 | 4,700 |
| Construction in progress | 186,105 | 62,027 |
| Total | 850,071 | 654,288 |
| Less accumulated depreciation | (315,326) | (266,787) |
| Net property, plant and equipment | $ 534,745 | $ 387,501 |

Depreciation expense for 2006, 2005 and 2004 was $44,947, $40,924 and $28,206, respectively.

***Goodwill and Other Intangible Assets***

The Company accounts for goodwill and other intangible assets in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 142, Goodwill and Other Intangible Assets, which establishes financial accounting and reporting standards for acquired goodwill and other intangible assets. SFAS No. 142 requires that goodwill and indefinite-lived intangible assets are no longer amortized but are

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

**1.** Description of Business and Summary of Significant Accounting Policies (Continued)

reviewed at least annually for impairment. Separate intangible assets that have finite useful lives continue to be amortized over their estimated useful lives.

The Company tests goodwill for impairment annually or whenever events or circumstances occur as required under the provisions of SFAS No. 142. Goodwill is considered to be impaired when the net book value of a reporting unit exceeds its estimated fair value. During 2005, the Company performed its annual impairment test of goodwill and concluded there was no impairment. As a result of the decision to divest the Phase II-IV Clinical business in the first quarter of 2006, the Company preformed a goodwill impairment test assuming sale of the Phase II-IV Clinical business and recorded a goodwill impairment charge of $129,187 in discontinued operations. For the Company s remaining goodwill, an annual impairment test was performed for 2006. No additional goodwill impairment was recorded during 2006.

Intangible assets deemed to have an indefinite life are tested for impairment using a one-step process which compares the fair value to the carrying amount of the asset. The Company completed the annual impairment tests in 2006 and 2005 and concluded there was no impairment of identifiable intangible assets with indefinite useful lives.

***Accounting for Investment in Life Insurance Contracts***

The Company accounts for its investments in life insurance contracts in accordance with FASB Staff Position No. FTB 85-4, *Accounting for Life Settlement Contracts by Third-Party Investors* using the fair value method. Under the fair value method, the Company recognizes the initial investment at the transaction price and remeasures the investment at fair value each reporting period. Investments in life contracts are reported as part of purchases of marketable securities in the statement of cash flows. At December 30, 2006, the Company held 45 contracts with a carrying value of $14,360.

***Other Assets***

Other assets consist of assets that the Company does not intend to settle within the next twelve months.

The composition of other assets is as follows:

| | December 30, 2006 | December 31, 2005 |
|---|---|---|
| Deferred financing costs | $ 11,120 | $ 4,850 |
| Cash surrender value of life insurance policies | 14,360 | 7,423 |
| Long term marketable securities | 103,922 | 18,341 |
| Other assets | 4,542 | 4,095 |
| Other assets | $ 133,944 | $ 34,709 |

***Impairment of Long-Lived Assets***

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-lived Assets, the Company evaluates long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss may be recognized when

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

**1.** Description of Business and Summary of Significant Accounting Policies (Continued)

estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposal are less than its carrying amount. In such instances, additional analysis is performed and the carrying value of long-lived assets is reduced to the estimated fair value, if this is lower, as determined using an appraisal or discounted cash flows, as appropriate.

In the second quarter of 2006, taking into account the planned divestiture of the Phase II-IV Clinical business, the Company performed an impairment test on the long-lived assets of the Clinical Phase II-IV business. Based on this analysis, the Company determined that the book value of assets assigned to the Clinical Phase II-IV business exceeded its future cash flows, which included the proceeds from the sale of the business, and therefore recorded an impairment of the assets of $3,900.

***Other Current Liabilities***

Other current liabilities consist of liabilities the Company intends to settle within the next twelve months.

The composition of other current liabilities is as follows:

| | December 30, 2006 | December 31, 2005 |
|---|---|---|
| Accrued income taxes | $ 23,048 | $ 35,893 |
| Current deferred tax liability | 2,149 | 4,953 |
| Accrued interest | 428 | 2,735 |
| Other current liabilities | $ 25,625 | $ 43,581 |

***Other Long-Term Liabilities***

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

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

| | December 30, 2006 | December 31, 2005 |
|---|---|---|
| Deferred tax liability | $ 56,372 | $ 39,645 |
| Long-term pension liability | 49,553 | 52,834 |
| Accrued Executive Supplemental Life Insurance Retirement Plan | 29,262 | 17,566 |
| Other long-term liabilities | 11,508 | 6,458 |
| Other long-term liabilities | $ 146,695 | $ 116,503 |

***Stock-Based Compensation Plans***

Prior to January 1, 2006, the Company had followed Accounting Principles Board ( APB ) Opinion 25, Accounting for Stock Issued to Employees and related interpretations, which resulted in accounting for grants and awards to employees at their intrinsic value in the consolidated financial statements. On January 1, 2006, the Company adopted SFAS No. 123(R) ( SFAS No. 123(R) ), Accounting for Stock-

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

**1.** Description of Business and Summary of Significant Accounting Policies (Continued)

Based Compensation, using the modified prospective application transition method, which results in the provisions of SFAS No. 123(R) being applied to the consolidated financial statements on a going-forward basis. Prior periods have not been restated. Under SFAS No. 123(R), the Company is required to record compensation cost for all share-based payments granted after the date of adoption based on the grant date fair value, estimated in accordance with the provisions of SFAS 123(R), and for the unvested portion of all share-based payments previously granted that remain outstanding based on the grant date fair value, estimated in accordance with the original provisions of SFAS 123. The estimated fair value of the Company s stock-based awards is expensed on a straight-line basis.

***Revenue Recognition***

The Company recognizes revenue related to its products and services in accordance with the SEC Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition.

The Company recognizes revenue related to its products, which include research models, in vitro technology and vaccine support products, when persuasive evidence of an arrangement exists, generally in the form of customer purchase orders, title and risk of loss have transferred, which occurs upon delivery of the products, the sales price is fixed and determinable and collectibility is reasonably assured. These recognition criteria are met at the time the product is delivered to the customer s site. Product sales are recorded net of returns upon delivery. For large models in some cases customers pay in advance of delivery of the product. These advances are deferred and recognized as revenue upon delivery of the product.

The Company s service revenue is comprised of toxicology, pathology, laboratory, clinical Phase I trials, transgenic and contract staffing services and is generally evidenced by customer contracts. Toxicology services provide highly specialized studies to evaluate the safety and toxicity of new pharmaceutical compounds and materials used in medical devices. Pathology services provide the ability to identify and characterize pathologic changes within tissues and cells in determining the safety of a new compound. Laboratory services monitor and analyze health and genetics of research models used in research protocols. Clinical Phase I conducts tolerability assessments to explore human pharmacology. Transgenic services include validating, maintaining, breeding and testing research models for biomedical research activities. Contract staffing services provide management of animal care operations on behalf of government, academic, pharmaceutical and biotechnology organizations.

The toxicology, pathology and clinical Phase I trials services arrangements typically range from one to six months but can range up to approximately 24 months in length. These agreements are negotiated for a fixed fee. Laboratory service arrangements are generally completed within a one-month period and are also of a fixed fee nature. Transgenic and contract staffing services are of a longer-term nature, from six months to five years, and are billed at agreed upon rates as specified in the contract.

The Company s service revenues are recognized upon the Company s completion of the agreed upon performance criteria. These performance criteria are generally in the form of either study protocols or specified activities or procedures which the Company is engaged to perform. These performance criteria are established by the Company s customers and do not contain acceptance provisions which are based upon the achievement of certain study or laboratory testing results. Revenue of agreed upon rate contracts is recognized as services are performed, based upon rates specified in the contract. Revenue of fixed fee

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

**1.** Description of Business and Summary of Significant Accounting Policies (Continued)

contracts is recognized as services are performed in relation to estimated costs to complete procedures specified by customers in the form of study protocols.

Deferred and unbilled revenue is recognized in the consolidated balance sheets. In some cases, a portion of the contract fee is paid at the time the study is initiated. These advances are deferred and recognized as revenue as services are performed. Revenue is recognized on unbilled services and relate to amounts that are currently unbillable to the customer pursuant to contractual terms. In general, such amounts become billable in accordance with predetermined payment schedules, but recognized as revenue as services are performed.

***Guarantees***

The Company includes standard indemnification provisions in its customer contracts, which include standard provisions limiting the Company s liability under such contracts, including the Company s indemnification obligations, with certain exceptions.

***Derivatives and Hedging Activities***

The Company follows the requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and used for hedging activities. All derivatives, whether designed for hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, all changes in the fair value of the derivative and changes in the fair value of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portion of the changes in the fair value of the derivative are recorded in other comprehensive income and are recognized in the statement of operations when the hedged item affects earnings. The ineffective portions of both fair value and cash flow hedges are immediately recognized as earnings.

***Fair Value of Financial Instruments***

The carrying amounts of the Company s significant financial instruments, which include cash equivalents, marketable securities, accounts receivable and accounts payable, approximate their fair values at December 30, 2006 and December 31, 2005. The fair value of the Company s financing instruments was $572,054 and $296,090 based on market rates at December 30, 2006 and December 31, 2005, respectively.

***Income Taxes***

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. The asset and liability approach underlying SFAS No. 109 requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and tax basis of the Company s assets and liabilities. A valuation allowance is provided for deferred tax assets if it is more likely than not that these items will expire before the Company is able to realize their benefits or that their future deductibility is uncertain.

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

**1.** Description of Business and Summary of Significant Accounting Policies (Continued)

***Foreign Currency Translation***

The functional currencies of the Company s foreign subsidiaries are in local currency. In accordance with SFAS No. 52, Foreign Currency Translation, 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 shareholders 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. The Company recorded an exchange loss of $449 in 2006 and $1,015 in 2005 and $418 in 2004.

***Comprehensive Income***

The Company accounts for comprehensive income in accordance with SFAS No. 130, Reporting Comprehensive Income. As it relates to the Company, comprehensive income is defined as net income plus the sum of the changes in unrealized gains (losses) on available-for-sale marketable securities, unrealized gains (losses) on hedging activities, foreign currency translation adjustments and minimum pension liability adjustments (collectively, other comprehensive income) and is presented in the Consolidated Statements of Changes in Shareholders Equity, net of tax.

***Pension Obligations***

The Company recognizes obligations associated with its defined benefit pension plans in accordance with SFAS No. 87, Employers Accounting for Pensions. Assets, liabilities and expenses are calculated by accredited independent actuaries. As required by SFAS No. 87, the Company is required to make certain assumptions to value the plan assets and liabilities. These assumptions are reviewed annually, or whenever otherwise required by SFAS No. 87, based on reviews of current plan information and consultations with independent investment advisors and actuaries. The selection of assumptions requires a high degree of judgment and may materially change from period to period. The Company does not offer other defined benefits associated with post-retirement benefit plans other than pensions.

The Company adopted the recognition and disclosure requirements of SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) as of December 30, 2006. This statement requires employers that sponsor defined benefit plans to recognize the funded status of a benefit plan on its balance sheet; 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; measure defined benefit plan assets and obligations as of the date of the employer s fiscal year-end balance sheet; and disclose in the notes to financial statements 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.

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

**1.** Description of Business and Summary of Significant Accounting Policies (Continued)

***Restructuring Costs***

The Company recognizes obligations associated with restructuring activities in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, which generally requires a liability for costs associated with an exit or disposal activity be recognized and measured initially at its fair value in the period in which the liability is incurred. The overall purpose of the Company s restructuring actions is to lower overall operating costs and improve profitability by reducing excess capacities. Restructuring charges are typically recorded in selling, general and administrative expenses in the period in which the plan is approved by the Company s senior management and, where material, the Company s Board of Directors, and when the liability is incurred.

***Earnings Per Share***

Basic earnings per share are calculated by dividing net income 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.

***Discontinued Operations***

In accordance with SFAS No. 144, the results of discontinued operations, less applicable income taxes (benefit), are reported as a separate component in the accompanying statement of income for the current and prior periods. In addition, assets and liabilities of discontinued businesses have been reclassified in the balance sheets of periods ended prior to 2006. The statement of cash flows also reflects separate disclosure of cash flows pertaining to discontinued operations consistently for all periods presented.

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

**1. Description of Business and Summary of Significant Accounting Policies (Continued)**

***New Accounting Pronouncements***

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ( SFAS 157 ). SFAS 157 establishes a single authoritative definition of fair value, sets out framework for measuring fair value and expands on required disclosures about fair value measurements. SFAS 157 is effective for the Company on January 1, 2008 and will be applied prospectively. The provisions of SFAS 157 are not expected to have a material impact on the Company s consolidated financial statements.

The Company adopted the recognition and disclosure requirements of SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) as of December 30, 2006. This statement requires employers that sponsor defined benefit plans to recognize the funded status of a benefit plan on its balance sheet; 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 other accumulated comprehensive income, net of tax; measure defined benefit plan assets and obligations as of the date of the employer s fiscal year-end balance sheet; and disclose in the notes to financial statements 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.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 (SAB 108). Due to diversity in practice among registrants, SAB 108 expresses SEC staff views regarding the process by which misstatements in financial statements are evaluated for purposes of determining whether financial statement restatement is necessary. SAB 108 is effective for fiscal years ending after November 15, 2006, and early application is encouraged. The Company has applied the provisions of SAB 108 in the third quarter of 2006 which had a positive impact of $0.01 on the Company s earnings per share in the statement of operations.

The Financial Accounting Standards Board ( FASB ) has issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FAS No. 109 (FIN 48), which clarifies the accounting for uncertainty in income taxes. Currently, the accounting for uncertainty in income taxes is subject to significant and varied interpretations that have resulted in diverse and inconsistent accounting practices and measurements. Addressing such diversity, FIN 48 prescribes a consistent recognition threshold and measurement attribute, as well as clear criteria for subsequently recognizing, derecognizing and measuring changes in such tax positions for financial statement purposes. FIN 48 also requires expanded disclosure with respect to the uncertainty in income taxes. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has evaluated the interpretation and has determined the impact of FIN 48 will not have a significant impact on its consolidated financial results.

**2. Discontinued Operations**

During the first quarter of fiscal 2006, the Company initiated actions to sell Phase II-IV of the Clinical business. On May 9, 2006, the Company announced that it entered into a definitive agreement to sell Phase II-IV of the Clinical Services business for $215,000 in cash as part of a portfolio realignment which would allow the Company to capitalize on core competencies. Accordingly, management performed a goodwill impairment test for the Clinical business segment assuming sale of the Phase II-IV business. To

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

**2. Discontinued Operations (Continued)**

determine the fair value of this segment, the Company used a combination of discounted cash flow methodology for the Phase I Clinical business and expected selling price for the Phase II-IV Clinical business. Based on this analysis, it was determined that the book carrying value of goodwill assigned to the Clinical business reporting unit exceeded its implied fair value and therefore a $129,187 charge was recorded in 2006 to write-down the value of this goodwill. No additional goodwill impairment was recorded during 2006. Goodwill will continue to be re-evaluated for impairment annually, as well as when events or circumstances occur.

In addition, taking into account the planned divestiture of the Phase II-IV Clinical business, the Company performed an impairment test on the long-lived assets of the Clinical Phase II-IV business. Based on this analysis, the Company determined that the book value of assets assigned to the Clinical Phase II-IV business exceeded its future cash flows, which included the proceeds from the sale of the business, and therefore recorded an impairment of the assets of $3,900 during 2006.

During 2006, the Company also made a decision to close its Interventional and Surgical Services (ISS) business, which was formerly included in the Preclinical Services segment. The Company performed an impairment test on the long-lived assets of the ISS business and based on that analysis, it was determined that the book value of the ISS assets exceeded the future cash flows of the business. Accordingly, the Company recorded an impairment charge of $1,070 during 2006.

For the year end December 30, 2006, the discontinued businesses recorded a loss from operations of $181,004 which included a $546 loss from the sale of the Phase II-IV Clinical business. As a direct result of the sale, the Company realized a significant tax gain resulting in additional tax expense of $37,835, all of which has been paid by the end of fiscal year 2006.

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 30, 2006 | December 31, 2005 | December 25, 2004 |
|---|---|---|---|
| Net sales | $ 73,658 | $ 128,900 | $ 42,695 |
| Income (loss) from operations of discontinued businesses, before income taxes | (145,613) | (3,475) | 2,058 |
| Provision for income taxes | 35,391 | 315 | 997 |
| Income (loss) from operations of discontinued businesses, net of taxes | $ (181,004) | $ (3,790) | $ 1,061 |

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

**2. Discontinued Operations (Continued)**

Assets and liabilities of discontinued operations at December 30, 2006 and December 31, 2005 consisted of the following:

| | December 30, 2006 | December 31, 2005 |
|---|---|---|
| Current assets | $ 6,330 | $ 41,256 |
| Long-term assets | 751 | 356,020 |
| Total assets | $ 7,081 | $ 397,276 |
| | | |
| Current liabilities | $ 3,667 | $ 30,414 |
| Long-term liabilities | | 13,661 |
| Total liabilities | $ 3,667 | $ 44,075 |

Current assets included accounts receivable, prepaid income taxes, deferred income taxes and other current assets. Non-current assets included property, plant and equipment, goodwill and other intangible assets and deferred income taxes. Current liabilities consisted of accounts payable, deferred income and accrued expenses. Non-current liabilities consisted of lease obligations and deferred tax liabilities.

## 3. Business Acquisitions

The Company acquired several businesses during the three-year period ended December 30, 2006. The results of operations of the acquired businesses are included in the accompanying consolidated financial statements from the date of acquisition. Significant acquisitions include the following:

On October 30, 2006, the Company acquired all of the capital stock of privately held Tacoma, Washington based Northwest Kinetics for $29,500 in cash. Northwest Kinetics runs clinical trials, primarily in Phase I, in a 150 bed facility with a focus on high end clinical pharmacology studies.

The final purchase price allocation associated with the Northwest Kinetics acquisition, including transaction costs of $265 incurred by the Company and net of $812 of cash acquired, is as follows:

| | |
|---|---|
| Current assets (excluding cash) | $ 6,741 |
| Property, plant and equipment | 2,983 |
| Non-current assets | 100 |
| Current liabilities | (6,378) |
| Non-current liabilities | (7,493) |
| Goodwill and other intangibles acquired | 32,857 |
| Total purchase price allocation | $ 28,810 |

In conjunction with the purchase of Northwest Kinetics, the Company utilized $2,076 of available cash to pay off Northwest Kinetics existing debt.

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

## 3. Business Acquisitions (Continued)

The breakout of goodwill and other intangibles acquired with the Northwest Kinetics acquisition was as follows:

| | | Weighted average amortization life (years) |
|---|---|---|
| Customer relationships | $ 13,700 | 12 |
| Participant list | 1,300 | 12 |
| Non-compete covenants | 200 | 5 |
| Trademarks and trade names | 40 | 1 |
| Goodwill | 17,617 | |
| Total goodwill and other intangibles | $ 32,857 | |

On October 20, 2004, the Company s shareholders approved the merger agreement with Inveresk Research Group (Inveresk). The acquisition strengthened the Company s position as a leading global provider of essential preclinical and clinical drug development services and products. The strategic combination significantly expanded the Company s service portfolio and strengthened the Company s global footprint in the growing market for pharmaceutical research and development products and services. Under the terms of the merger agreement, Inveresk shareholders received 0.48 shares of the Company s common stock and $15.15 in cash for each share of Inveresk common stock they owned. The purchase price of $1,458,057 consisted of $841,042 representing the fair value of the Company s common stock of 18,451,996 shares issued, $582,391 of cash consideration, the fair value of the Company s stock options exchanged for Inveresk stock options and transaction costs incurred by the Company. The Company utilized $161,229 of available cash and $500,000 of borrowings under its existing credit facility for the cash consideration paid to Inveresk shareholders and to pay off Inveresk s existing credit facility of approximately $78,838.

The purchase price associated with the Inveresk acquisition is as follows:

| | |
|---|---|
| Stock consideration | $ 841,042 |
| Cash consideration | 582,391 |
| Fair value of stock options exchange | 30,350 |
| Transaction costs | 4,274 |
| Purchase price | 1,458,057 |
| Cash acquired | (41,726 ) |
| Purchase price, net of cash acquired | $ 1,416,331 |

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

## 3. Business Acquisitions (Continued)

The final purchase price allocation associated with the Inveresk acquisition is as follows:

| | |
|---|---|
| Current assets (excluding cash) | $ 93,895 |
| Property, plant and equipment | 126,602 |
| Current liabilities | (194,401) |
| Non-current liabilities | (152,374) |
| Goodwill and other intangibles acquired | 1,542,609 |
| Total purchase price allocation | $ 1,416,331 |

The breakout of goodwill and other intangibles acquired with the Inveresk acquisition was as follows:

| | | Weighted average amortization life (years) |
|---|---|---|
| Customer relationships | $ 167,700 | 21 |
| Backlog | 63,700 | 3 |
| Trademarks and trade names | 700 | 1 |
| Goodwill | 1,310,509 | |
| Total goodwill and other intangibles | $ 1,542,609 | |

On August 16, 2006, the Company completed the sale of its Phase II-IV Clinical Services business which was part of the Inveresk acquisition and is reported as discontinued operations in the accompanying financial statements. See Note 2.

On January 8, 2004, the Company acquired River Valley Farms, Inc. (RVF), a privately held medical device contract research business. Consideration, including acquisition expenses, was $16,972, net of cash acquired of $347. RVF was acquired to strengthen service offerings of the Company s Preclinical Services segment. This acquisition was recorded as a purchase business combination in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations.

The final purchase price allocation associated with the RVF acquisition is as follows:

| | |
|---|---|
| Current assets | $ 2,135 |
| Property, plant and equipment | 5,987 |
| Current liabilities | (2,828) |
| Non-current liabilities | (2,315) |
| Goodwill and other intangibles acquired | 13,993 |
| Consideration, net of cash acquired | $ 16,972 |

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

## 3. Business Acquisitions (Continued)

The breakout of goodwill and other intangibles acquired with the RVF acquisition was as follows:

| | | Weighted average amortization life (years) |
|---|---|---|
| Customer relationships | $ 3,800 | 12 |
| Goodwill | 10,193 | |
| Total goodwill and other intangibles | $ 13,993 | |

On May 1, 2006, the Company completed the sale of RVF which was part of the ISS business and is reported as discontinued operations in the accompanying financial statements. See Note 2.

The following selected unaudited pro forma consolidated results of operations are presented as if each of the acquisitions had occurred as of the beginning of the period immediately preceding the period of acquisition after giving effect to certain adjustments including the amortization of intangibles. The pro forma data is for informational purposes only and does not necessarily reflect the results of operations had the companies operated as one during the periods reported. No effect has been given for synergies, if any, that may have been realized through the acquisitions.

| | Fiscal Year Ended December 30, 2006 | December 31, 2005 | December 25, 2004 |
|---|---|---|---|
| Net sales | $ 1,073,215 | $ 1,004,194 | $876,862 |
| Operating income | 186,918 | 183,268 | 150,895 |
| Income from continuing operations | 123,325 | 143,780 | 83,860 |
| Earnings per common share | | | |
| Basic | $ 1.79 | $ 2.06 | $ 1.30 |
| Diluted | $ 1.76 | $ 1.99 | $ 1.23 |

Refer to Note 8 for further discussion of the method of computation of earnings per share.

## 4. Impairment and Other Charges

During 2006, the Company recorded charges of $6,205 associated with actions designed to improve operating efficiency and profitability. In the RMS segment, the charges were $3,115 for closure of two small vaccine facilities and a management consolidation in the Transgenic Services business. In the PCS segment, the charges were $3,090 for headcount reductions, primarily in the Montreal facility, and closure of a small Interventional and Surgical Services operation in Ireland. Substantially all amounts have been paid as of December 30, 2006.

During the fourth quarter of 2004, the company recorded a charge of $2,956 associated with the closure of the Charles River Proteomic Services, which was included in the Preclinical Services segment. The charge included an asset impairment charge of $1,539, a lease impairment of $989, severance of $41 and other related expenses of $389.

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

## 5. Marketable Securities

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

| | December 30, 2006 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Auction rate securities | $ 96,976 | $ | $ | $ 96,976 |
| Mutual funds | 5,069 | 101 | (47) | 5,123 |
| Government securities and obligations | 5,958 | 54 | (108) | 5,904 |
| Corporate debt securities | 3,392 | 2 | (25) | 3,369 |
| | $ 111,395 | $ 157 | $ (180) | $ 111,372 |

| | December 31, 2005 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Corporate debt securities | $ 3,320 | $ 14 | $ (29) | $ 3,305 |
| Government securities and obligations | 16,718 | 10 | (15) | 16,713 |
| | $ 20,038 | $ 24 | $ (44) | $ 20,018 |

Maturities of corporate debt securities and government securities and obligations classified as available for sale were as follows:

| | December 30, 2006 | | December 31, 2005 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due less than one year | $ 7,416 | $ 7,450 | $ 1,687 | $ 1,677 |
| Due after one year through five years | 103,979 | 103,922 | 18,351 | 18,341 |
| | $ 111,395 | $ 111,372 | $ 20,038 | $ 20,018 |

Marketable securities due after one year are included in other assets on the consolidated balance sheets.

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

**6. Goodwill and Other Intangible Assets**

The following table displays goodwill and other intangible assets not subject to amortization and other intangible assets that continue to be subject to amortization:

| | December 30, 2006 Gross Carrying Amount | Accumulated Amortization | December 31, 2005 Gross Carrying Amount | Accumulated Amortization |
|---|---|---|---|---|
| Goodwill | $ 1,132,074 | $ (12,765) | $ 1,110,240 | $ (12,650) |
| Other intangible assets not subject to amortization: | | | | |
| Research models | 3,438 | | 3,438 | |
| Other intangible assets subject to amortization: | | | | |
| Backlog | 54,734 | (54,718) | 52,402 | (42,568) |
| Customer relationships | 197,302 | (47,407) | 173,759 | (20,775) |
| Customer contracts | 1,655 | (1,655) | 1,655 | (1,590) |
| Trademarks and trade names | 3,278 | (2,012) | 3,914 | (2,267) |
| Standard operating procedures | 1,357 | (1,263) | 1,349 | (1,012) |
| Other identifiable intangible assets | 10,599 | (5,104) | 10,857 | (4,141) |
| Total other intangible assets | $ 272,363 | $ (112,159) | $ 247,374 | $ (72,353) |

The changes in the gross carrying amount and accumulated amortization of goodwill are as follows:

| | Balance at December 25, 2004 | Adjustments to Goodwill | | Balance at December 31, 2005 | Adjustments to Goodwill | | Balance at December 30, 2006 |
|---|---|---|---|---|---|---|---|
| | | Acquisitions | Other | | Acquisitions | Other | |
| **Research Models and Services** | | | | | | | |
| Gross carrying amount | $ 19,921 | $ | $ (2,537) | $ 17,384 | $ | $ (460) | $ 16,924 |
| Accumulated amortization | (4,900) | | 178 | (4,722) | | (115) | (4,837) |
| **Preclinical Services** | | | | | | | |
| Gross carrying amount | 1,095,418 | | (2,562) | 1,092,856 | 17,617 | 4,677 | 1,115,150 |
| Accumulated amortization | (7,928) | | | (7,928) | | | (7,928) |
| **Total** | | | | | | | |
| Gross carrying amount | $ 1,115,339 | $ | $ (5,099) | $ 1,110,240 | $ 17,617 | $ 4,217 | $ 1,132,074 |
| Accumulated amortization | (12,828) | | 178 | (12,650) | | (115) | (12,765) |

Amortization expense for 2006, 2005 and 2004 was $37,639, $47,011 and $13,857, respectively.

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

**6.** Goodwill and Other Intangible Assets (Continued)

Estimated amortization expense for each of the next five fiscal years is as follows:

| | |
|---|---|
| 2007 | $ 30,756 |
| 2008 | 26,278 |
| 2009 | 21,851 |
| 2010 | 17,941 |
| 2011 | 14,447 |

**7. Long-Term Debt and Capital Lease Obligations**

***Long-Term Debt***

On July 31, 2006, the Company amended and restated its then-existing $660,000 credit agreement to reduce the current interest rate, modify certain restrictive covenants and extend the term. The now $428,000 credit agreement provides for a $156,000 U.S. term loan facility, a $200,000 U.S. revolving facility, a C$57,800 term loan facility and a C$12,000 revolving facility for a Canadian subsidiary, and a GBP 6,000 revolving facility for a U.K. subsidiary. The $156,000 term loan facility matures in 20 quarterly installments with the last installment due June 30, 2011. The $200,000 U.S. revolving facility matures on July 31, 2011 and requires no scheduled payment before that date. Under specified circumstances, the $200,000 U.S. revolving facility may be increased by $100,000. The Canadian term loan is repayable in full by June 30, 2011 and requires no scheduled prepayment before that date. The Canadian and UK revolving facilities mature on July 31, 2011 and require no scheduled prepayment before that date. The interest rate applicable to the Canadian term loan and the Canadian and U.K. revolving loans under the credit agreement is the adjusted LIBOR rate in its relevant currency plus an interest rate margin based upon the Company s leverage ratio. The interest rates applicable to term loans and revolving loans under the credit agreement are, at the Company s option, equal to either the base rate (which is the higher of the prime rate or the federal funds rate plus 0.50%) or the adjusted LIBOR rate plus an interest rate margin based upon the Company s leverage ratio. Based on the Company s leverage ratio, the margin range for LIBOR based loans is 0.625% to 0.875%. The interest rate margin was 0.75% as of December 30, 2006. The Company has pledged the stock of certain subsidiaries as well as certain U.S. assets as security for the $428,000, credit agreement. The $428,000 credit agreement includes certain customary representations and warranties, negative and affirmative covenants and events of default. The Company had $5,388 and $4,988 outstanding under letters of credit as of December 30, 2006 and December 31, 2005, respectively.

As of December 30, 2006, there was no outstanding balance on the revolving facility.

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

## 7. Long-Term Debt and Capital Lease Obligations (Continued)

On July 27, 2005 the Company entered into a $50,000 credit agreement ($50,000 credit agreement), which was subsequently amended on December 20, 2005 and again on July 31, 2006 to reflect substantially the same modifications made to the covenants in the $660,000 and $428,000 credit agreements respectively. The $50,000 credit agreement provides for a $50,000 term loan facility which matures on July 27, 2007 and can be extended for an additional 7 years. The interest rates applicable to term loans under the credit agreement are, at the Company s option, equal to either the base rate (which is the higher of the prime rate or the federal funds rate plus 0.50%) or the LIBOR rate plus 0.75%. The $50,000 credit agreement includes certain customary representations and warranties, negative and affirmative covenants and events of default. If the Company chooses to extend the term loan for an additional 7 years, the applicable interest rates after the extension date are equal to either the base rate (which is the higher of the prime rate or the federal funds rate plus 0.50%) plus 0.25% or the LIBOR rate plus 1.25%.

As of December 30, 2006, the entire balance of the $50,000 credit agreement was outstanding.

On June 12, 2006, the Company issued $300,000 aggregate principal amount of convertible senior notes (the 2013 Notes) in a private placement with net proceeds to the Company of approximately $294,000. On June 20, 2006, the initial purchasers associated with this convertible debt offering exercised an option to purchase an additional $50,000 of the 2013 Notes for additional net proceeds to the Company of approximately $49,000. The 2013 Notes bear interest at 2.25% per annum, payable semi-annually, and mature on June 15, 2013. The 2013 Notes are convertible into cash and shares of the Company s common stock (or, at the Company s election, cash in lieu of some or all of such common stock), if any, based on an initial conversion rate, subject to adjustment, of 20.4337 shares of the Company s common stock per $1,000 principal amount of notes (which represents an initial conversion price of $48.94 per share), only in the following circumstances and to the following extent: (i) during any fiscal quarter beginning after July 1, 2006 (and only during such fiscal quarter), if the last reported sale price of the Company s common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is more than 130% of the conversion price on the last day of such preceding fiscal quarter; (ii) during the five business-day period after any five consecutive trading-day period, or the measurement period, in which the trading price per note for each day of that measurement period was less than 98% of the product of the last reported sale price of the Company s common stock and the conversion rate on each such day; (iii) upon the occurrence of specified corporate transactions, as described in the indenture for the 2013 Notes; and (iv) at the option of the holder at any time beginning on the date that is two months prior to the stated maturity date and ending on the close of business on the second trading-day immediately preceding the maturity date. Upon conversion, the Company will pay cash and shares of its common stock (or, at its election, cash in lieu of some or all of such common stock), if any. As of December 30, 2006, no conversion triggers were met. If the Company undergoes a fundamental change as described in the indenture for the 2013 Notes, holders will have the option to require the Company to purchase all or any portion of their notes for cash at a price equal to 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest, including any additional interest to, but excluding, the purchase date. The related debt issuance costs of $7.0 million were deferred and are being amortized on a straight-line basis over a seven-year term.

Concurrently with the sale of the 2013 Notes, the Company entered into convertible note hedge transactions with respect to its obligation to deliver common stock under the notes. The convertible note

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

## 7. Long-Term Debt and Capital Lease Obligations (Continued)

hedges give the Company the right to receive, for no additional consideration, the number of shares of common stock that it is obligated to deliver upon conversion of the notes (subject to anti-dilution adjustments substantially identical to those in the 2013 Notes), and expire on June 15, 2013. The aggregate cost of these convertible note hedges was $98,293.

Separately and concurrently with the pricing of the 2013 Notes, the Company issued warrants for approximately 7.2 million shares of its common stock. The warrants give the holders the right to receive, for no additional consideration, cash or shares (at the option of the Company) with a value equal to the appreciation in the price of the Company s shares above $59.925, and expire between September 13, 2013 and January 22, 2014 over 90 equal increments. The total proceeds from the issuance of the warrants was $65,423.

In accordance with Emerging Issues Task Force Issue ( EITF ) No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock ( EITF No. 00-19 ), SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, the Company recorded both the purchase of the convertible note hedges and the sale of the warrants as adjustments to additional paid in capital, and will not recognize subsequent changes in fair value of the agreement. At December 30, 2006, the fair value of the outstanding 2013 Notes was approximately $380,450, based on their quoted market value.

Long-term debt consists of the following:

| | December 30, 2006 | December 31, 2005 | December 25, 2004 |
|---|---|---|---|
| Senior convertible debentures | $ 350,000 | $ | $ 185,000 |
| Term loan facilities | 221,274 | 295,885 | 400,000 |
| Revolving credit facility | | | 100,000 |
| Other long-term debt, represents secured and unsecured promissory notes, interest rates between 0% and 11.6% at December 30, 2006, maturing between 2007 and 2013 | 780 | 205 | 844 |
| Total debt | 572,054 | 296,090 | 685,844 |
| Less: current portion of long-term debt | (24,970) | (36,195) | (80,456) |
| Long-term debt | $ 547,084 | $ 259,895 | $ 605,388 |

Minimum future principal payments of long-term debt at December 30, 2006 are as follows:

| Fiscal Year | |
|---|---|
| 2007 | $ 24,970 |
| 2008 | 34,544 |
| 2009 | 34,544 |
| 2010 | 34,544 |
| 2011 | 58,448 |
| Thereafter | 385,004 |
| Total | $ 572,054 |

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

## 7. Long-Term Debt and Capital Lease Obligations (Continued)

***Capital Leases***

The Company has one capital lease for a building and numerous capital leases for equipment. These leases are capitalized using interest rates considered appropriate at the inception of each lease. Assets recorded in connection with these capital leases are not material.

Capital lease obligations amounted to $7 and $75 at December 31, 2006 and December 25, 2005, respectively at interest rates ranging from 4.6% to 16.5%.

## 8. Shareholders Equity

***Earnings Per Share***

Basic earnings per share for 2006, 2005 and 2004 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 adjusted for contingently issuable shares. The weighted average number of common shares outstanding for 2006, 2005 and 2004 have been adjusted to include common stock equivalents for the purpose of calculating diluted earnings per share for these periods.

Options to purchase 2,972,420 shares, 2,027,666 shares and 113,800 shares were outstanding at December 30, 2006, December 31, 2005 and December 25, 2004, respectively, but were not included in computing diluted earnings per share because their inclusion would have been anti-dilutive.

Basic weighted average shares outstanding for 2005 and 2004 excluded the weighted average impact of 20,000 shares of contingently issuable shares. In addition, weighted average shares outstanding for 2006, 2005 and 2004 excluded the weighted average impact of 653,780, 544,863 and 64,241 shares, respectively, of non-vested fixed restricted stock awards.

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

**8.** Shareholders Equity (Continued)

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

| | December 30, 2006 | December 31, 2005 | December 25, 2004 |
|---|---|---|---|
| **Numerator:** | | | |
| Income from continuing operations for purposes of calculating earnings per share | $ 125,221 | $ 145,789 | $ 88,730 |
| After-tax equivalent of interest expense on 3.5% senior convertible debentures | | 1,208 | 4,125 |
| Income from continuing operations for purposes of calculating diluted earnings per share | 125,221 | 146,997 | 92,855 |
| Income (loss) from discontinued businesses | $ (181,004) | $ (3,790) | $ 1,061 |
| **Denominator:** | | | |
| Weighted average shares outstanding Basic | 68,945,622 | 69,730,056 | 49,601,021 |
| Effect of dilutive securities: | | | |
| 3.5% senior convertible debentures | | 1,462,474 | 4,759,455 |
| Stock options and contingently issued restricted stock | 867,204 | 1,424,740 | 1,346,665 |
| Warrants | 135,206 | 285,115 | 338,707 |
| Weighted average shares outstanding Diluted | 69,948,032 | 72,902,385 | 56,045,848 |
| Basic earnings per share from continuing operations | $ 1.82 | $ 2.09 | $ 1.79 |
| Basic earnings (loss) per share from discontinued operations | $ (2.63) | $ (0.05) | $ 0.02 |
| Diluted earnings per share from continuing operations | $ 1.79 | $ 2.02 | $ 1.65 |
| Diluted earnings (loss) per share from discontinued operations | $ (2.59) | $ (0.05) | $ 0.02 |

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

***Treasury Shares***

On July 27, 2005, the Board of Directors authorized a share repurchase program to acquire up to $50,000 of common stock. On October 26, 2005, the Board of Directors authorized increasing the share repurchase program by $50,000 to a total of $100,000. On May 9, 2006, the Board of Directors authorized an additional increase of the Company s share repurchase program by $200,000 to acquire up to a total of $300,000 of common stock. The program does not have a fixed expiration date.

In order to facilitate these share repurchases, the Company entered into two Rule 10b5-1 Purchase Plans. During 2006 and 2005, the Company repurchased 518,800 shares of common stock for $23,322 and 396,000 shares of common stock for $17,485, respectively, under these plans. In addition, concurrent with the sale of the 2013 Notes, the Company used $148,866 of the net proceeds for the purchase of 3,726,300 shares of its common stock.

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

**8.** Shareholders Equity (Continued)

During 2006 the Company also entered into an Accelerated Stock Repurchase (ASR) program with a third-party investment bank. In connection with this ASR program, the Company purchased 1,787,706 shares of stock at a cost of $75,000. In conjunction with the ASR, the Company also entered into a cashless collar with a forward floor price of $37.9576 per share of the Company s common stock (95% of the initial price of $39.9554, the market price of the Company s common stock on August 23, 2006) and a forward cap price of $41.9532 per share of the Company s common stock (105% of the initial price). The final number of shares repurchased under the ASR program was determined by taking the average volume weighted average price of the Company s common stock for 65 trading days starting on August 23, 2006. Since the final share price of $42.6503 was above the cap price of $41.9532, there was no adjustment to the final number of shares repurchased.

As of December 30, 2006, approximately $35,312 remains authorized for share repurchases.

Share repurchases during 2006 and 2005 were as follows:

| | Fiscal Year Ended December 30, 2006 | December 31, 2005 |
|---|---|---|
| Number of shares of common stock repurchased | 6,032,806 | 396,000 |
| Total cost of repurchase | $ 247,203 | $ 17,485 |

Additionally, the Company s 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 30, 2006 and December 25, 2005, the Company acquired 57,688 shares for $2,755 and 10,175 shares for $512, respectively, as a result of such withholdings.

The timing and amount of any future repurchases will depend on market conditions and corporate considerations.

***Retained Earnings***

Retained earnings includes approximately $2,000 which is restricted due to statutory requirements in the local jurisdiction of a foreign subsidiary as of December 30, 2006 and December 31, 2005.

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

## 8. Shareholders Equity (Continued)

***Accumulated Other Comprehensive Income***

The composition of accumulated other comprehensive income is as follows:

| | Foreign Currency Translation Adjustment | Minimum Pension Liability Adjustment | Pension Gains/(Losses) and Prior Service (Cost)/Credit Not Yet Recognized as Components of Net Periodic Benefit Costs Pursuant to SFAS No. 158 | Net Unrealized Gain on Investment Securities | Net Unrealized Gain on Hedging Activities | Accumulated Other Comprehensive Income |
|---|---|---|---|---|---|---|
| Balance at December 25, 2004 | $ 31,212 | $ (3,545) | $ | $ 26 | $ | $ 27,693 |
| Period change | (20,283) | 472 | | (51) | | (19,862) |
| Tax benefit | 839 | (141) | | 11 | | 709 |
| Balance at December 31, 2005 | 11,768 | (3,214) | | (14) | | 8,540 |
| Period change | 13,167 | 5,360 | (7,792) | 15 | | 10,750 |
| Tax benefit | (832) | (2,146) | 4,863 | (4) | | 1,881 |
| Balance at December 30, 2006 | $ 24,103 | $ | $ (2,929) | $ (3) | $ | $ 21,171 |

***Warrants***

Separately and concurrently with the pricing of the 2013 Notes, the Company issued warrants for approximately 7.2 million shares of its common stock. The warrants give the holders the right to receive, for no additional consideration, cash or shares (at the option of the Company) with a value equal to the appreciation in the price of the Company s shares above $59.925, and expire between September 13, 2013 and January 22, 2014 over 90 equal increments. The total proceeds from the issuance of the warrants was $65,423.

As part of the recapitalization in 1999, the Company issued 150,000 units, each comprised of a $1,000 senior subordinated note and a warrant to purchase 7.6 shares of common stock of the Company for total proceeds of $150,000. The Company allocated the $150,000 offering proceeds between the senior subordinated notes ($147,872) and the warrants ($2,128), based upon the estimated fair value. The portion of the proceeds allocated to the warrants is reflected as capital in excess of par in the accompanying consolidated financial statements. Each warrant entitles the holder, subject to certain conditions, to purchase 7.6 shares of common stock of the Company at an exercise price of $5.19 per share of common stock, subject to adjustment under some circumstances. Upon exercise, the holders of warrants would be entitled to purchase 149,910 and 165,110 shares of common stock of the Company as of December 30, 2006 and December 31, 2005, respectively. The warrants expire on October 1, 2009.

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

## 8. Shareholders Equity (Continued)

***Accelerated Vesting***

On December 7, 2005, the Company accelerated the vesting of 724,000 outstanding options granted to certain employees on February 13, 2004 to purchase common stock at an exercise price $43.07. As a result of the acceleration, the Company recorded a charge of $1,556 based on the closing price of the Company s stock.

As a result of the accelerated vesting in advance of the effective date of SFAS No. 123(R), Charles River reduced the pre-tax stock option expense it would otherwise have been required to record.

## 9. Income Taxes

An analysis of the components of income before income taxes, minority interests and earnings from equity investments and the related provision for income taxes is presented below:

| | Fiscal Year Ended December 30, 2006 | December 31, 2005 | December 25, 2004 |
|---|---|---|---|
| **Income before income taxes, minority interests and earnings from equity investments** | | | |
| U.S. | $ 90,598 | $ 96,647 | $ 102,099 |
| Non-U.S. | 85,966 | 67,241 | 48,368 |
| | $ 176,564 | $ 163,888 | $ 150,467 |
| **Income tax provision** | | | |
| Current: | | | |
| Federal | $ 22,626 | $ 36,312 | $ 26,715 |
| Foreign | 10,895 | 17,495 | 21,725 |
| State and local | 5,501 | 3,000 | 5,314 |
| Total current | 39,022 | 56,807 | 53,754 |
| Deferred: | | | |
| Federal | 10,595 | (32,886) | 13,651 |
| Foreign | 121 | (3,403) | (8,521) |
| State and local | 0 | (4,257) | 1,275 |
| Total deferred | 10,716 | (40,546) | 6,405 |
| | $ 49,738 | $ 16,261 | $ 60,159 |

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

**9.** Income Taxes (Continued)

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 30, 2006 | December 31, 2005 |
|---|---|---|
| Compensation related | $ 38,662 | $ 27,497 |
| Accruals | 938 | 1,788 |
| Financing related | 37,050 | |
| Goodwill and other intangibles | (4,906) | (3,442) |
| Net operating loss and credit carryforwards | 20,359 | 27,924 |
| Depreciation and amortization | (31,563) | (27,993) |
| Non-indefinitely reinvested earning | | |
| Deferred Income | 376 | |
| Other | (1,762) | 2,020 |
| | 59,154 | 27,794 |
| Valuation allowance | | (678) |
| Total deferred taxes | $ 59,154 | $ 27,116 |

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

| | December 30, 2006 | December 31, 2005 | December 25, 2004 |
|---|---|---|---|
| Tax at statutory U.S. tax rate | 35.0 % | 35.0 % | 35.0 % |
| Foreign tax rate differences | (3.4)% | (1.7)% | (1.8)% |
| State income taxes, net of federal tax benefit | 1.9 % | 1.3 % | 2.7 % |
| Change in valuation allowance | (0.2)% | (1.1)% | (1.4)% |
| Net impact of repatriation, reorganization and change in assertion | 0 % | (17.2)% | 0.0 % |
| Research tax credits and enhanced deductions | (6.4)% | (7.3)% | (0.8)% |
| Write off of other deferred tax assets and liabilities. | 0.0 % | 0.6 % | 5.1 % |
| Other | 1.3 % | 0.3 % | 1.2 % |
| | 28.2 % | 9.9 % | 40.0 % |

On June 12, 2006, the Company issued $300,000 aggregate principal amount of convertible senior notes ( the 2013 Notes ) in a private placement with net proceeds to the Company of approximately $294,000. On June 20, 2006, the initial purchasers associated with this convertible debt offering exercised an option to purchase an additional $50,000 of the 2013 Notes for additional net proceeds to the Company of approximately $49,000. The 2013 Notes bear interest at 2.25% per annum, payable semi-annually, and mature on June 15, 2013. Concurrently with the sale of the 2013 Notes, the Company entered into convertible note hedge transactions with respect to its obligation to deliver common stock under the notes. Separately and concurrently with the pricing of the 2013 Notes, the Company issued warrants for approximately 7.2 million shares of its common stock. The Company has elected to apply the rules of the

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

**9.** Income Taxes (Continued)

Integration Regulations under Treas. Reg. 1.1275-6 to treat the 2013 Notes and the associated hedge as synthetic debt instruments and accordingly is deducting the option premium paid for the hedge as original issue discount over the 7 year term. The cash tax benefit of this deduction is recorded to additional paid in capital. A deferred tax asset has been recorded to reflect the future cash tax benefit of the deductions over the term of the 2013 Notes. Also, pursuant to Internal Revenue Code Section 1032, the Company will not recognize any gain or loss for tax purpose with respect to the exercise or lapse of the warrants.

Also in the second quarter of 2006, the Company revalued certain of its deferred tax assets and liabilities for the enactment of a Canadian federal income tax rate reduction resulting in a tax benefit of $2,114.

During 2006, the Company also recorded a reduction to income taxes payable for $6,741 from the exercise of stock options. The benefit of this reduction has been recorded to additional paid in capital for $5,714 and goodwill for $1,027.

As of December 30, 2006, the Company has non-U.S. net operating loss carryforwards of approximately $5,705 which may be carried forward indefinitely. The Company has U.S. foreign tax credit carryforwards of $5,328 which will begin to expire in 2014. The Company has Canadian Investment Tax Credit Carryforwards of $8,446 as a result of its research and development activity in Montreal, which begin to expire in 2015.

The Company has fully recognized its deferred tax assets on the belief that it is more likely than not they will be realized. This belief is based on all available evidence including historical operating results, projections of taxable income and tax planning strategies.

The Company conducts business operations in a number of tax jurisdictions. As a result, the Company is subject to tax audits on a regular basis including, but not limited to, current examinations by the Internal Revenue Service in the United States and Canada Revenue Agency. The Company has recorded tax reserves which are attributable to potential tax obligations around the world. The Company believes these reserves are necessary to adequately reflect global tax liabilities which may arise out of current and future audits.

As of December 30, 2006, earnings of non-U.S. subsidiaries considered to be indefinitely reinvested totaled $215,925. No provision for U.S. income taxes has been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to both U.S. taxes and withholding taxes payable to the various foreign countries. It is not practicable to estimate the amount of additional tax that might be payable on this undistributed foreign income.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 ( FIN48 ), which will become effective for the Company on January 1, 2007.

The Company will adopt FIN 48 as of January 1, 2007, as required. The cumulative effect of adopting FIN 48 will be recorded as a change to opening retained earnings in the first quarter of 2007. The Company expects that the adoption of FIN 48 will not have a significant impact on the Company s consolidated financial position, results of operations and effective tax rate.

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

## **9.** Income Taxes (Continued)

During the fourth quarter of 2005, the Company repatriated $148,027 of its accumulated foreign earnings in a distribution that qualified under the American Jobs Creation Act of 2004 ( AJCA ). The distribution was primarily from the pre-acquisition foreign earnings of Inveresk. The Company provided for income taxes on substantially all of Inveresk s unremitted foreign earnings at the time of the Inveresk acquisition based on the tax rates in effect at date of the acquisition. As a result, the Company recorded a tax benefit of $24,060 from the impact of the change in tax law on the $148,027 distribution. As part of its plan of distribution, the Company restructured its UK operations in order to distribute the funds in the most tax efficient manner and incurred a non-cash charge of $23,110 related to an increase in the deferred tax liability on the remaining undistributed earnings of Inveresk. In addition, the Company incurred an additional tax of $1,883 on the write-off of deferred tax assets.

Also during the fourth quarter of 2005, the Company changed its assertion with respect to the remaining unremitted pre-acquisition earnings of Inveresk in order to fund the expansion of the Company s preclinical facilities and an increased UK pension funding requirement. These earnings and the earnings distributed under the AJCA were previously not considered permanently reinvested. The Company recorded a non-cash benefit from the change in assertion of $29,204.

During the second quarter of 2005, the Company realized a tax benefit of $14,497 when it converted all of its $185,000 3.5% senior convertible debentures. Also in 2005, the Company also recorded a reduction to income taxes payable for $7,600 from the exercise of stock options. The benefit from both of these items has been recorded to additional paid in capital.

During 2004, the Company reorganized its European operations. The purpose of the reorganization was to streamline the legal entity structure in order to improve operating efficiency and cash management, facilitate acquisitions and provide tax benefits. The reorganization, which did not involve reductions of personnel or facility closures, resulted in a one-time, non-cash charge to earnings in the first quarter of 2004 of $7,900 due primarily to the write-off of a deferred tax asset. In conjunction with the restructuring of its European operations, the Company recorded a tax benefit of $2,111 on the reduction of a valuation allowance on its foreign tax credits.

## **10.** Employee Benefits

***Charles River Laboratories Employee Savings Plan***

The Company s 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 the Company matches a percentage of employee contributions. The costs associated with this defined contribution plan totaled $3,439, $3,316 and $2,986, in 2006, 2005, and 2004, respectively.

***Charles River Laboratories Deferred Compensation Plan and Executive Supplemental Life Insurance Retirement Plan***

On February 8, 2006, the Company established the Charles River Laboratories Deferred Compensation Plan (Deferred Compensation Plan) for select eligible employees, including its Named Executive Officers. Under the Deferred Compensation Plan, participants may elect to defer bonus and

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

**10.** Employee Benefits (Continued)

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 Company 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 of the Company also participate, or in the past participated, in the Company s 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 connection with the establishment of the Deferred Compensation Plan, current active employees who agreed to convert their ESLIRP benefit to a comparable benefit in the deferred compensation plan discontinued their direct participation in the ESLIRP. Instead, the present value of the accrued benefits of ESLIRP participants was credited to their Deferred Compensation Plan accounts, and future ESLIRP accruals will now be converted to present values and credited to their Deferred Compensation Plan accounts annually. Upon the adoption of the Deferred Compensation Plan, the value of their accrued ESLIRP benefits, prior to adjustments for outstanding Medicare taxes, were credited to their Deferred Compensation Plan account. In addition, the Company provides 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 totaled $4,029 in 2006.

The Company has 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 have no interest in any such investments. At December 30, 2006 and December 31, 2005 the cash surrender value of these life insurance policies were $14,360 and $7,423, respectively. Additionally, at December 30, 2006, mutual fund and U.S. Treasury Securities investments totaled $6,510.

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

**10. Employee Benefits (Continued)**

*Pension Plans*

The Charles River Laboratories, Inc. Pension Plan (Pension Plan), is a qualified, non-contributory defined benefit plan that covers certain U.S. employees. Benefits are based on participants final average monthly compensation and years of service. Participants rights vest upon completion of five years of service. Effective January 1, 2002, the plan was amended to exclude new participants from joining the plan. Benefit criteria offered to existing participants as of the amendment date did not change.

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.

In connection with the Inveresk acquisition on October 20, 2004, the Company assumed a defined contribution plan and a defined benefit pension plan covering certain employees. Contributions under the defined contribution plan are determined as a percentage of gross salary. As a result of the sale of Phase II-IV of the Clinical business, this plan realized a curtailment of $1,466 during 2006 associated with those employees who participated in this plan and whose employment with the Company was terminated in connection with the sale.

The Company adopted the recognition and disclosure requirements of SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) as of December 30, 2006. This statement requires employers that sponsor defined benefit plans to recognize the funded status of a benefit plan on its balance sheet; 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 other comprehensive income, net of tax; measure defined benefit plan assets and obligations as of the date of the employer s fiscal year-end balance sheet; and disclose in the notes to financial statements 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. Retrospective application is not permitted. The following tables summarize the funded status of the Company s defined benefit plans and amounts reflected in the Company s consolidated balance sheets in accordance with SFAS No. 158.

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

**10. Employee Benefits (Continued)**

**Obligations and Funded Status**

| | Pension Benefits 2006 | Supplemental Retirement Benefits 2006 |
|---|---|---|
| **Change in benefit obligations** | | |
| Benefit obligation at beginning of year | $ 196,316 | $ 19,439 |
| Service cost | 6,426 | 839 |
| Interest cost | 9,921 | 1,527 |
| Plan participants contributions | 976 | |
| Curtailment | 132 | |
| Benefit payments | (3,569) | (575) |
| Actuarial loss (gain) | (972) | 2,091 |
| Plan amendments | (54) | 5,941 |
| Effect of foreign exchange | 3,822 | |
| Benefit obligation at end of year | $ 212,998 | $ 29,262 |
| **Change in plan assets** | | |
| Fair value of plan assets at beginning of year | $ 143,409 | $ |
| Plan assets assumed | 569 | |
| Actual return on plan assets | 13,893 | |
| Employer contributions | 8,408 | 575 |
| Plan participants contributions | 976 | |
| Benefit payments | (3,570) | (575) |
| Premiums paid | (240) | |
| Fair value of plan assets at end of year | $ 163,445 | $ |
| **Funded status** | | |
| Projected benefit obligation | $ 212,998 | $ 29,262 |
| Fair value of plan assets | 163,445 | |
| Net balance sheet liability at December 30, 2006 | $ 49,553 | $ 29,262 |
| **Classification of net balance sheet liability at December 30, 2006** | | |
| Non-current liabilities | $ 49,553 | $ 29,262 |

| | | |
|---|---|---|
| The accumulated benefit obligation for all defined benefit plans | $194,924 | $23,745 |

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

**10. Employee Benefits (Continued)**

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

| | Pension Benefits 2006 | Supplemental Retirement Benefits 2006 |
|---|---|---|
| Projected benefit obligation | $ 203,396 | $ 29,261 |
| Accumulated benefit obligation | 187,861 | 23,745 |
| Fair value of plan assets | 155,604 | |

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

| | Pension Benefits 2006 | Supplemental Retirement Benefits 2006 |
|---|---|---|
| Projected benefit obligation | $ 212,997 | $ 29,261 |
| Accumulated benefit obligation | 194,924 | 23,745 |
| Fair value of plan assets | 163,446 | |

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

| | Pension Benefits 2006 | Supplemental Retirement Benefits 2006 |
|---|---|---|
| Net actuarial (gain)/loss | $ 5,602 | $ 9,243 |
| Net prior service cost/(credit) | (11,524) | 4,471 |
| Total pre-tax | (5,922) | 13,714 |
| Less: taxes | (586) | 5,449 |
| Total | $ (5,336) | $ 8,265 |

**Change in AOCI**

| | Pension Benefits 2006 | Supplemental Retirement Benefits 2006 |
|---|---|---|
| AOCI at beginning of the year | $ | $ 3,214 |
| AOCI at December 30, 2006 prior to adoption of SFAS 158 | 91 | 3,318 |
| AOCI at December 30, 2006 after adoption of SFAS 158 | (5,336) | 8,265 |

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

**10. Employee Benefits (Continued)**

**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 (gain)/loss | $ 430 | $ 571 |
| Amortization of net prior service cost/(credit) | 1,065 | 498 |

**Components of net periodic benefit cost**

| | Pension Benefits 2006 | Supplemental Retirement Benefits 2006 |
|---|---|---|
| Service cost | $ 6,426 | $ 839 |
| Interest cost | 9,921 | 1,527 |
| Expected return on plan assets | (10,013) | |
| Amortization of prior service cost (credit) | (547) | 498 |
| Amortization of net loss | 1,011 | 1,139 |
| Net periodic benefit cost | 6,798 | 4,003 |
| Curtailment gain | (1,334) | |
| Net pension cost | $ 5,464 | $ 4,003 |

**Incremental effect of applying SFAS 158 on individual line items in the statement of financial position at December 30, 2006**

| | Pension Benefits | | | Supplemental Retirement Benefits | | |
|---|---|---|---|---|---|---|
| | Before application of SFAS 158 | Adjustments | After application of SFAS 158 | Before application of SFAS 158 | Adjustments | After application of SFAS 158 |
| Liability for benefits | $ (55,608) | $ 6,055 | $(49,553) | $ (21,080) | $ (8,182) | $ (29,262) |
| Deferred income taxes | 43 | (628) | (586) | 68 | 3,235 | 3,303 |
| Total liabilities | $ (55,565) | $ 5,427 | (50,139) | $ (21,012) | $ (4,947) | $ (25,959) |
| Accumulated other comprehensive income | $ 91 | $ (5,427) | $ (5,336) | $ 3,318 | $ 4,947 | $ 8,265 |
| Total stockholders equity | $ 91 | $ (5,427) | $ (5,336) | $ 3,318 | $ 4,947 | $ 8,265 |

**Prior to the adoption of SFAS No. 158**

The following tables summarize the funded status of the Company s defined benefit plans and amounts reflected in the Company s consolidated balance sheets, in accordance with SFAS No. 132 (revised 2003), *Employers Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106 ( SFAS No. 132R ).*

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

**10. Employee Benefits (Continued)**

**Obligations and Funded Status**

| | Pension Benefits 2005 | Supplemental Retirement Benefits 2005 |
|---|---|---|
| **Change in benefit obligations** | | |
| Benefit obligation at beginning of year | $ 180,017 | $ 16,303 |
| Benefit obligation assumed | 5,856 | |
| Service cost | 6,066 | 484 |
| Interest cost | 9,519 | 1,031 |
| Benefit payments | (5,272) | (533) |
| Plan participants contributions | 1,134 | |
| Actuarial loss (gain) | 4,441 | 2,154 |
| Plan amendments | 145 | |
| Effect of foreign exchange | (5,590) | |
| Benefit obligation at end of year | $ 196,316 | $ 19,439 |
| **Change in plan assets** | | |
| Fair value of plan assets at beginning of year | $ 114,626 | $ |
| Actual return on plan assets | 16,875 | |
| Employer contributions | 16,583 | 533 |
| Plan participants contributions | 1,134 | |
| Benefit payments | (5,809) | (533) |
| Fair value of plan assets at end of year | $ 143,409 | $ |
| **Funded status** | | |
| Funded status | $ (52,907) | $ (19,439) |
| Unrecognized prior-service cost | (10,544) | (972) |
| Unrecognized gain | 12,183 | 8,323 |
| Net amount recognized | $ (51,268) | $ (12,088) |
| Amounts recognized in the statement of financial position consist of: | | |
| Prepaid benefit cost | $ 279 | $ |
| Accrued benefit cost | (53,807) | (17,567) |
| Intangible asset | 2,260 | |
| Accumulated other comprehensive income | | 5,479 |
| Net amount recognized | $ (51,268) | $ (12,088) |

The accumulated benefit obligation for all defined benefit plans was $174,814 at December 31, 2005.

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

**10. Employee Benefits (Continued)**

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

| | Pension Benefits 2005 | Supplemental Retirement Benefits 2005 |
|---|---|---|
| Projected benefit obligation | $ 138,813 | $ 19,439 |
| Accumulated benefit obligation | 135,918 | 17,479 |
| Fair value of plan assets | 101,823 | |

**Components of net periodic benefit cost**

| | Pension Benefits | | Supplemental Retirement Benefits | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Service cost | $ 6,066 | $ 4,081 | $ 484 | $ 283 |
| Interest cost | 9,519 | 3,726 | 1,031 | 832 |
| Expected return on plan assets | (8,335) | (4,123) | | |
| Amortization of transition obligation | | 4 | | |
| Amortization of prior service cost (credit) | (133) | 288 | (162) | (162) |
| Amortization of net loss | 634 | 76 | 892 | 582 |
| Net periodic benefit cost | $ 7,751 | $ 4,052 | $ 2,245 | $ 1,535 |

**Additional information**

| | Pension Benefits 2005 | Supplemental Retirement Benefits 2005 |
|---|---|---|
| Increase (decrease) in minimum liability included in other comprehensive income, net of tax | | $ 331 |

**Assumptions**

**Weighted-average assumptions used to determine benefit obligations**

| | Pension Benefits | | Supplemental Retirement Benefits | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Discount rate | 4.95 % | 4.92 % | 5.65 % | 5.65 % |
| Rate of compensation increase | 3.27 % | 3.31 % | 4.75 % | 4.75 % |

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

**10. Employee Benefits (Continued)**

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

| | Pension Benefits | | | Supplemental Retirement Benefits | | |
|---|---|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006 | 2005 | 2004 |
| Discount rate | 4.95 % | 5.26 % | 5.59 % | 5.50 % | 5.75 % | 6.00 % |
| Expected long-term return on plan assets | 6.58 % | 7.10 % | 7.63 % | | | |
| Rate of compensation increase | 3.31 % | 3.31 % | 4.36 % | 4.75 % | 4.75 % | 4.75 % |

The expected long term rate of return on plan assets was made considering the pension plan s asset mix, historical returns and the expected yields on plan assets.

**Plan assets**

The Company s pension plan weighted-average asset allocations are as follows:

| | Target Allocation | Pension Benefits | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Equity securities | 68 % | 66 % | 65 % |
| Fixed income | 32 % | 29 % | 26 % |
| Other | 0 % | 5 % | 9 % |
| Total | 100 % | 100 % | 100 % |

The Company s 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 1000 Index, Russell 3000 Index and Lehman Brothers Aggregate Bond Index. The Company s Investment Committee meets on a quarterly basis to review plan assets.

The Company s plan assets did not include any of the Company s common stock at December 30, 2006 and December 31, 2005.

**Cash Flows**

**Contributions**

During 2006, the Company contributed $8,196 to its pension plans. The Company expects to contribute $7,789 to its pension plan in 2007.

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

**10. Employee Benefits (Continued)**

**Estimated future benefit payments**

| | Pension Benefits | Supplemental Retirement Benefits |
|---|---|---|
| 2007 | $ 3,817 | $ 627 |
| 2008 | 5,692 | 650 |
| 2009 | 4,194 | 5,484 |
| 2010 | 4,537 | 769 |
| 2011 | 5,046 | 756 |
| 2012 2016 | 37,010 | 28,345 |

**11. Stock Based Compensation**

Effective January 1, 2006, the Company adopted, on a modified prospective basis, the provisions of SFAS No. 123(R), and related guidance which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options and restricted stock awards based on estimated fair values. Accordingly, 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.

The Company adopted SFAS No. 123(R), using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of the Company s fiscal year 2006. Under this transition method, stock-based compensation expense recognized during the fiscal year ended December 30, 2006 includes: stock options and restricted stock awards granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and stock options and restricted stock granted subsequent to January 1, 2006, based on the grant-date fair value, in accordance with the provisions of SFAS No. 123(R). Under the modified prospective transition method, results for prior periods are not restated.

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

**11. Stock Based Compensation (Continued)**

The estimated fair value of the Company s stock-based awards, less expected forfeitures, is amortized over the awards vesting period on a straight-line basis. The effect of the change from applying the original provisions of SFAS 123 for the fiscal year ended December 30, 2006 was as follows:

| | Fiscal Year Ended December 30, 2006 |
|---|---|
| Share based compensation expense before tax | $11,712 |
| Income tax benefit | (4,384) |
| Reduction to income from continuing operations | 7,328 |
| Share based compensation expense of discontinued businesses, net of tax | 216 |
| Reduction to net income | $ 7,544 |
| Reduction to earnings per share | |
| Basic | $ 0.11 |
| Diluted | $ 0.11 |
| Effect on income by line item: | |
| Cost of sales | $ 4,073 |
| Selling and administration | 7,639 |
| Share based compensation expense before tax | 11,712 |
| Income tax benefit | (4,384) |
| Operations of discontinued businesses, net of tax | 216 |
| Reduction to net income | $ 7,544 |

The Company estimates 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 was determined using the historical volatility of the Company s common stock over the expected life of the option. The risk free interest rate was based on the market yield for the five year U.S. Treasury security. The expected life of options was determined using historical option exercise activity. Management believes that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in calculating the fair values of the Company s stock options granted during fiscal year 2006. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive equity awards.

The fair value of stock-based awards granted during 2006 was estimated on the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions:

| Fiscal Year Ended December 30, 2006 | |
|---|---|
| Expected life (in years) | 4.9 |
| Expected volatility | 30 % |
| Risk-free interest rate | 4.8 % |
| Expected dividend yield | 0.0 % |
| Weighted-average grant date fair value | $ 13.91 |

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

**11. Stock Based Compensation (Continued)**

**Prior to the adoption of SFAS No. 123(R)**

Prior to January 1, 2006, the Company accounted for its stock plans under the provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, ( APB No. 25 ) and FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation an Interpretation of APB Opinion No. 25 and provided the required pro forma disclosures of SFAS No. 123, Accounting for Stock-Based Compensation as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure . Stock-based compensation expense related to restricted stock granted at no cost to the employees were reflected in net income.

The pro-forma information for the fiscal years ended December 31, 2005 and December 25, 2004 was as follows:

| | December 31, 2005 | December 25, 2004 |
|---|---|---|
| Reported net income | $ 141,999 | $ 89,792 |
| Add: Stock-based employee compensation included in reported net income, net of tax | 10,490 | 2,431 |
| Less: Total stock-based employee compensation expense determined under the fair value method for all awards, net of tax | (29,735) | (17,341) |
| Pro forma net income | $ 122,754 | $ 74,882 |
| Reported basic earnings per share | $ 2.04 | $ 1.81 |
| Pro forma basic earnings per share | $ 1.76 | $ 1.51 |
| Reported diluted earnings per share | $ 1.96 | $ 1.68 |
| Pro forma diluted earnings per share | $ 1.70 | $ 1.41 |

The fair value of stock-based awards granted during the fiscal years ended December 31, 2005 and December 25, 2004 was estimated using the following weighted-average assumptions:

| | 2005 | 2004 |
|---|---|---|
| Expected life (in years) | 5.0 | 5.0 |
| Expected volatility | 35 % | 35 % |
| Risk-free interest rate | 4.0 % | 3.1 % |
| Expected dividend yield | 0.0 % | 0.0 % |
| Weighted-average grant date fair value | $ 17.97 | $ 15.57 |

**Stock Compensation Plans**

*1999 Management Incentive Plan*

The 1999 Management Incentive Plan (1999 Plan) is administered by the Company s Compensation Committee of the Board of Directors. The 1999 Plan has a total of 1,784,384 shares authorized, of which 15,617 shares are available for grant as of December 30, 2006. Awards of 15,100 non-qualified stock options were granted under the 1999 Plan in fiscal 2005. No grants were made from this plan during fiscal 2006 and 2004. As of December 30, 2006, options to purchase 330,142 shares were exercisable under the

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

**11. Stock Based Compensation (Continued)**

1999 Plan. Options granted pursuant to the 1999 Plan are subject to a vesting schedule based on three distinct measures. Certain options vest solely with the passage of time (incrementally typically over three years so long as the optionee continues to be employed by the Company). The remainder of the options vest over time but contain clauses providing for the acceleration of vesting upon the achievement of certain performance targets or the occurrence of certain liquidity events. All options currently granted expire on or before February 17, 2015. The exercise price of all options granted under the 1999 Plan is the fair market value of the underlying common stock at the time of the grant.

*2000 Incentive Plan*

Effective June 5, 2000, the Board of Directors adopted and the Company s shareholders approved the 2000 Incentive Plan (2000 Plan), which provides for the grant of incentive and nonqualified stock options, stock appreciation rights, restricted or unrestricted common stock and other equity awards. The 2000 Plan has a total of 9,889,000 shares authorized, of which 2,515,342 are available for grant as of December 30, 2006.

Options granted pursuant to the 2000 Plan vest incrementally, typically over three to four years, so long as the employee continues to be employed by the Company. All options granted under the 2000 Plan expire on or before September 1, 2016. The exercise price of all options currently granted under the 2000 Plan is the fair value of the underlying common stock at the time of grant. A total of 889,650, 1,194,224 and 1,416,600 stock option awards were made under the 2000 Plan in 2006, 2005 and 2004, respectively, of which 3,246,112 awards were exercisable as of December 30, 2006.

Under the Company s 2000 Plan, shares of restricted common stock of the Company may be granted at no cost to officers and key employees. Recipients are entitled to cash dividends and to vote their respective shares. Restrictions limit the sale or transfer of these shares until they vest, which is typically over a three-year or four-year period. Upon issuance of restricted stock awards under the plan, compensation expense equivalent to the market value at the measurement date is charged to earnings over the vesting period. In 2006, 2005 and 2004, the Company granted 350,850, 490,655 and 24,700 restricted stock awards at no cost to the recipient. Additionally, the Company issued 30,000 performance-based restricted stock awards at no cost to the Company s Chief Executive Officer and President during 2002. Vesting of these awards was contingent upon the achievement of certain annual earnings per share growth targets over the vesting period. These shares were accounted for as variable awards in accordance with then effective APB No. 25 and its related interpretations, accordingly, the related unearned compensation and compensation expense was adjusted based on the closing market price of the Company s common stock until the shares vested. As a result of the merger with Inveresk, the earnings per share target was not obtained, therefore, during 2004 the Company reversed $537 of previously recorded compensation expense. During 2005, the remaining 20,000 unvested awards were cancelled. The weighted average fair value of all restricted stock awards issued during 2006, 2005 and 2004 was $38.73, $47.63 and $43.54, respectively. As of December 30, 2006, a total of 653,780 restricted stock awards were outstanding.

In 2004, the Company s Board of Directors initiated a new performance-based management incentive program (Mid-Term Incentive (MTI) Program), as a carve-out from the shareholder approved 2000 Plan. The MTI Program provided that up to a maximum of 218,000 performance units could be granted to senior executives and certain other key employees of the Company based on achieving financial

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

**11. Stock Based Compensation (Continued)**

performance targets for 2006. The MTI Program units, which equal the value of one share of Company stock, were to be paid out to participating employees in the form of cash and restricted stock. For a participant to be eligible to receive payment for 2004 MTI units, the employee had to remain employed with the Company until at least the beginning of 2007. In February 2005, the Compensation Committee of the Board of Directors determined that it would not make any future awards under the MTI Program.

The Company had been accruing compensation expense for the MTI Program over the period the participating employees were required to be employed by the Company. During the first quarter of 2006, the Company determined that the minimum performance requirement under the MTI Program would not be achieved. During the fiscal years ended December 30, 2006 and December 31, 2005, the Company recorded a benefit of $949 and $109, respectively, related to the MTI Program.

*2000 Directors Stock Plan*

In conjunction with the 2000 Plan, the Board of Directors adopted, and the Company s shareholders approved, the 2000 Directors Stock Plan (Directors Plan), which in the past provided for the grant of both automatic and discretionary nonstatutory stock options to non-employee directors. The Directors Plan has a total of 100,000 shares authorized, of which 4,000 shares are available to be granted as of December 30, 2006. No stock options were awarded under this plan during 2006. There are 12,900 options exercisable under the Directors Plan as of December 30, 2006. Options granted pursuant to the Directors Plan generally vest on the first anniversary of the date of grant. All options granted expire on or before May 3, 2007. The exercise price of the options granted under the Directors Plan is the fair market value of the underlying common stock at the time of grant.

*2002 Stock Option Plan*

In connection with the Inveresk acquisition, the Company assumed Inveresk s stock compensation plans. Stock options of 1,439,882 and 50,000 were assumed from the Inveresk Research Group, Inc. 2002 Stock Option Plan (Inveresk Stock Option Plan) and the Inveresk Research Group, Inc. 2002 Non-employee Directors Stock Option Plan (Inveresk Director Plan), respectively. Stock options under the Inveresk Stock Option Plan, which provides options to employees of Inveresk, vest in equal installments over the three years following the date of grant. At December 30, 2006, options to purchase 233,216 shares were exercisable under the plan. All options granted expire on or before February 17, 2015. Stock options under the Inveresk Directors Plan, which provides options to non-executive directors of Inveresk, vest three years following the date of grant. At December 30, 2006, there were no options to purchase shares outstanding under the plan.

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

**11. Stock Based Compensation (Continued)**

***Stock Options***

The following table summarizes stock option activities under the 1999 Plan, the 2000 Plan, and the Directors Plan:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Options outstanding as of December 27, 2003 | 4,526,992 | $ 26.13 | | |
| Options assumed | 1,489,882 | $ 19.47 | | |
| Options granted | 1,417,100 | $ 43.30 | | |
| Options exercised | (1,507,421) | $ 17.62 | | |
| Options canceled | (338,666) | $ 34.97 | | |
| Options outstanding as of December 25, 2004 | 5,587,887 | $ 30.47 | | |
| Options granted | 1,335,908 | $ 47.66 | | |
| Options exercised | (1,083,680) | $ 23.98 | | |
| Options canceled | (285,775) | $ 39.95 | | |
| Options outstanding as of December 31, 2005 | 5,554,340 | $ 35.39 | | |
| Options granted | 889,650 | $ 39.62 | | |
| Options exercised | (766,209) | $ 29.97 | | |
| Options canceled | (285,168) | $ 41.85 | | |
| Options outstanding as of December 30, 2006 | 5,392,613 | $ 36.50 | 6.2 years | $ 41,969 |
| | | | | |
| Options exercisable as of December 25, 2004 | 2,394,043 | $ 24.00 | | |
| Options exercisable as of December 31, 2005 | 3,712,538 | $ 32.08 | | |
| Options exercisable as of December 30, 2006 | 3,822,370 | $ 34.04 | 5.8 years | $ 37,434 |

As of December 30, 2006, the unrecognized compensation cost related to unvested stock options was $15,603 net of estimated forfeitures. This unrecognized compensation will be recognized over an estimated weighted average amortization period of 30.5 months.

The total intrinsic value of options exercised during the fiscal years ending December 30, 2006, December 31, 2005 and December 25, 2004 was $12,557, $27,028, and 58,177, 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 these options was $22,821. The actual tax benefit realized for the tax deductions from option exercises totaled $6,540 for the year ended December 30, 2006.

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

**11. Stock Based Compensation (Continued)**

The following table summarizes significant ranges of outstanding and exercisable options as of December 30, 2006:

| | Options Outstanding | | | | Options Exercisable | | | |
|---|---|---|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life (In years) | Weighted Average Exercise Price | Aggregate Intrinsic Value | Options Exercisable | Weighted Average Remaining Contractual Life (In years) | Weighted Average Exercise Price | Aggregate Intrinsic Value |
| $00.00 $10.00 | 315,090 | 2.8 | $ 5.27 | $ 11,966 | 315,090 | 2.8 | $ 5.27 | $ 11,966 |
| $10.01 $20.00 | 178,289 | 4.6 | 14.59 | 5,109 | 178,289 | 4.6 | 14.59 | 5,109 |
| $20.01 $30.00 | 175,574 | 6.1 | 27.47 | 2,770 | 123,269 | 5.7 | 26.56 | 2,057 |
| $30.01 $40.00 | 2,459,041 | 6.0 | 34.34 | 21,917 | 1,736,751 | 5.7 | 32.81 | 18,133 |
| $40.01 $50.00 | 2,260,219 | 7.1 | 45.61 | 207 | 1,467,505 | 6.8 | 44.66 | 169 |
| $50.01 $60.00 | 4,400 | 8.7 | 50.59 | 0 | 1,466 | 8.7 | 50.59 | 0 |
| Totals | 5,392,613 | 6.2 years | $ 36.50 | $ 41,969 | 3,822,370 | 6.5 years | $ 34.04 | $ 37,434 |

The aggregate intrinsic value in the preceding table represents the total intrinsic value, based on a closing stock price of $43.25 as of December 30, 2006, 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 30, 2006 was 3,293,201.

The following table summarizes the non-vested stock option activity in the equity incentive plans for the fiscal year ending December 30, 2006:

| | Stock Options | Weighted Average Exercise Price |
|---|---|---|
| Non-vested at December 31, 2005 | 1,841,802 | $ 42.06 |
| Granted | 889,650 | 39.62 |
| Forfeited | (168,798 ) | 43.20 |
| Vested | (992,411 ) | 39.03 |
| Non-vested at December 30, 2006 | 1,570,243 | $ 42.48 |

***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.

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

**11. Stock Based Compensation (Continued)**

The following table summarizes the restricted stock activity for 2006:

| | Restricted Stock | Weighted Average Grant Date Fair Value |
|---|---|---|
| Outstanding December 31, 2005 | 564,863 | $ 46.76 |
| Granted | 350,850 | 38.73 |
| Vested | (198,944 ) | 46.40 |
| Cancelled | (62,989 ) | 41.80 |
| Outstanding December 30, 2006 | 653,780 | $ 42.91 |

As of December 30, 2006, the unrecognized compensation cost related to unvested restricted stock was $19,318 net of estimated forfeitures. This unrecognized compensation will be recognized over an estimated weighted average amortization period of 24.3 months. The total fair value of restricted stock grants that vested during the fiscal years ending December 30, 2006, December 31, 2005 and December 25, 2004 was $9,231, $1,683 and $1,440, respectively.

## 12. Joint Ventures

The Company holds investments in several joint ventures. These joint ventures are separate legal entities whose purpose is consistent with the overall operations of the Company and represent geographic and business segment expansions of existing markets. The financial results of all joint ventures were consolidated in the Company s results as the Company has the ability to exercise control over these entities. The interests of the outside joint venture partners in these joint ventures have been recorded as minority interests totaling $9,223 and $9,718 at December 30, 2006 and December 31, 2005, respectively.

## 13. Commitments and Contingencies

***Operating Leases***

The Company has commitments for various operating leases for machinery and equipment, vehicles, office equipment, land and office space. Rent expense for all operating leases was $18,134, $19,542 and $10,663 in 2006, 2005, and 2004, respectively. Future minimum payments by year and in the aggregate, under noncancellable operating leases with initial or remaining terms of one year or more, consist of the following at December 30, 2006:

| | |
|---|---|
| 2007 | $ 17,971 |
| 2008 | 12,773 |
| 2009 | 8,480 |
| 2010 | 4,619 |
| 2011 | 3,084 |
| Thereafter | 4,749 |

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

## 13. Commitments and Contingencies (Continued)

***Insurance***

The Company maintains insurance for workers compensation, various liability lines and employee medical with per claim loss limits up to $500. Aggregate loss limits for workers compensation, auto liability and general liability is projected at $4,450. Related accruals were $5,253 and $5,447 on December 30, 2006 and December 31, 2005, respectively.

***Litigation***

Various lawsuits, claims and proceedings of a nature considered normal to its business are pending against the Company. In the opinion of management, the outcome of such proceedings and litigation currently pending will not materially affect the Company s consolidated financial statements.

## 14. Related Party Transactions

Ajinomoto Company, Inc. (Ajinomoto) is a minority shareholder in Charles River Laboratories Japan, Inc. Charles River Japan conducts certain business transactions with Ajinomoto, including the purchase of information technology systems and services, engineering services, product delivery services and the reimbursement of employee compensation. Charles River Japan incurred expenses related to these services of $3,182, $4,639 and $6,053 during 2006, 2005 and 2004, respectively. As of December 30, 2006 and December 31, 2005, Charles River Japan had amounts due to Ajinomoto totaling $1,038 and $1,427, respectively. In addition, Charles River Japan sold products to Ajinomoto totaling $667, $736 and $1,090 during 2006, 2005 and 2004, respectively.

**15. Business Segment and Geographic Information**

In accordance with SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information, the Company discloses financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise about which separate financial information is available and is regularly evaluated by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company reports two segments, called Research Models and Services (RMS) and Preclinical Services (PCS).

RMS includes the Company s research model business, research model services, vaccine support services and in vitro technology services. PCS includes development services which enable customers to accelerate their drug discovery and development process. These services are FDA compliant services that aid customers in drug safety assessment and biologicals safety testing. In connection with discontinuing the Company s Phase II-IV Clinical business during 2006, the Phase I Clinical business has been combined with the PCS segment. The Phase I Clinical business is an integral component of the Company s service offerings as it supports customers preclinical efforts through early-stage clinical trials. The combination of the Phase I Clinical Services business into the PCS segment better reflects the Company s operating results and the manner in which the businesses are managed. Segment data for 2005 and 2004 has been restated to reflect this combination.

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

**15. Business Segment and Geographic Information (Continued)**

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, goodwill, other intangibles and other long lived assets.

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| **Research Models and Services** | | | |
| Net sales | $ 514,999 | $ 503,167 | $ 476,668 |
| Gross margin | 214,125 | 215,534 | 206,843 |
| Operating income | 147,789 | 159,756 | 152,556 |
| Total assets | 674,963 | 484,975 | 569,765 |
| Long-lived assets | 306,267 | 217,414 | 211,110 |
| Depreciation and amortization | 20,804 | 20,015 | 17,872 |
| Capital expenditures | 27,018 | 24,558 | 26,560 |
| **Preclinical Services** | | | |
| Net sales | $ 543,386 | $ 490,161 | $ 247,553 |
| Gross margin | 192,482 | 174,170 | 81,880 |
| Operating income | 82,323 | 67,918 | 32,435 |
| Total assets | 1,875,487 | 1,655,960 | 1,638,774 |
| Long-lived assets | 1,641,935 | 1,477,407 | 1,479,287 |
| Depreciation and amortization | 61,779 | 67,920 | 24,191 |
| Capital expenditures | 154,728 | 69,885 | 18,198 |

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

| | Fiscal Year Ended December 30, 2006 | December 31, 2005 | December 25, 2004 |
|---|---|---|---|
| Total segment operating income | $ 230,112 | $ 227,674 | $ 184,991 |
| Unallocated corporate overhead | (41,939) | (42,980) | (27,005) |
| Consolidated operating income | $ 188,173 | $ 184,694 | $ 157,986 |

A summary of unallocated corporate overhead consists of the following:

| | December 30, 2006 | December 31, 2005 | December 25, 2004 |
|---|---|---|---|
| Restricted stock and performance based compensation expense | $ 8,198 | $ 14,566 | $ 5,986 |
| U.S. pension expense | 8,459 | 5,418 | 3,483 |
| Audit, tax and related expense | 3,918 | 2,679 | 4,067 |
| Bonus expense | 3,613 | 2,963 | 2,523 |
| Executive officers salaries | 8,083 | 5,627 | 4,326 |
| Other general unallocated corporate expenses | 9,668 | 11,727 | 6,620 |
| | $ 41,939 | $ 42,980 | $ 27,005 |

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

**15. Business Segment and Geographic Information (Continued)**

Other general unallocated corporate expenses consist of various costs including those associated with senior executive salaries and departments such as corporate accounting, legal 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 the Company s operations located in Australia, Canada, China, and Mexico. Sales to unaffiliated customers represent net sales originating in entities physically located in the identified geographic area. Long-lived assets include property, plant and equipment, goodwill, other intangibles, and other long-lived assets.

| | U.S. | Europe | Canada | Japan | Other Non-U.S. | Consolidated |
|---|---|---|---|---|---|---|
| 2006 | | | | | | |
| Sales to unaffiliated customers | $ 527,432 | $ 289,072 | $ 173,853 | $ 56,387 | $ 11,641 | $ 1,058,385 |
| Long-lived assets | 537,534 | 580,143 | 785,420 | 41,385 | 3,721 | 1,948,203 |
| 2005 | | | | | | |
| Sales to unaffiliated customers | $ 499,144 | $ 272,382 | $ 151,839 | $ 58,163 | $ 11,806 | $ 993,328 |
| Long-lived assets | 289,406 | 522,150 | 835,675 | 42,693 | 4,896 | 1,694,821 |
| 2004 | | | | | | |
| Sales to unaffiliated customers | $ 454,220 | $ 169,594 | $ 32,438 | $ 57,126 | $ 10,864 | $ 724,221 |
| Long-lived assets | $ 253,933 | $ 548,534 | $ 834,900 | $ 48,216 | $ 4,814 | $ 1,690,397 |

**16. Subsequent events**

In January 2007, the Company acquired the remaining 15% of the equity (319,199 common shares) of Charles River Laboratories Japan, Inc. from Ajinomoto Company, Inc., the minority interest partner. As of the effective date of this transaction, the Company owns 100% of Charles River Japan. The purchase price for the equity was 1.3 billion yen, or approximately $10,889, which was paid in cash.

**FINANCIAL STATEMENT SCHEDULES**
**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.**
**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**
**(dollars in thousands)**

**Income Tax Valuation Allowance**

| | |
|---|---|
| **Balance at December 27, 2003** | $ 4,051 |
| Provisions | 0 |
| Releases | (2,111) |
| **Balance at December 25, 2004** | 1,940 |
| Provisions | 678 |
| Releases | (1,940) |
| **Balance at December 31, 2005** | $ 678 |
| Provisions | |
| Releases | (678) |
| **Balance at December 30, 2006** | $ 0 |

**Allowance for Doubtful Accounts**

| | |
|---|---|
| **Balance at December 27, 2003** | $ 1,644 |
| Provisions | 655 |
| Acquisitions | 1,399 |
| Recoveries/Write-offs | (430) |
| **Balance at December 25, 2004** | 3,268 |
| Provisions | 519 |
| Recoveries/Write-offs | (1,508) |
| **Balance at December 31, 2005** | 2,279 |
| Provisions | 928 |
| Recoveries/Write-offs | (98) |
| **Balance at December 30, 2006** | $ 3,109 |

**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.**

**SUPPLEMENTARY DATA**

**Quarterly Information (Unaudited)**

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| **Fiscal Year Ended December 30, 2006** | | | | |
| Total net sales | $ 254,141 | $ 267,859 | $ 264,660 | $ 271,725 |
| Gross profit | 95,505 | 107,110 | 102,262 | 101,730 |
| Operating income (loss) | 43,696 | 47,702 | 51,621 | 45,154 |
| Income from continuing operations | 28,515 | 32,781 | 32,133 | 31,792 |
| Income (loss) from discontinued businesses, net of tax | (128,630) | (7,032) | (48,739) | 3,397 |
| Net income | $ (100,115) | $ 25,749 | $ (16,606) | 35,189 |
| Earnings (loss) per common share | | | | |
| Basic | | | | |
| Continuing operations | $ 0.40 | $ 0.46 | $ 0.48 | $ 0.48 |
| Discontinued operations | $ (1.80) | $ (0.10) | $ (0.73) | $ 0.05 |
| Net income | $ (1.40) | $ 0.36 | $ (0.25) | $ 0.53 |
| Diluted | | | | |
| Continuing operations | $ 0.39 | $ 0.46 | $ 0.47 | $ 0.47 |
| Discontinued operations | $ (1.76) | $ (0.10) | $ (0.72) | $ 0.05 |
| Net income | $ (1.37) | $ 0.36 | $ (0.24) | $ 0.52 |
| **Fiscal Year Ended December 31, 2005** | | | | |
| Total net sales | $ 241,410 | $ 250,890 | $ 242,829 | $ 258,199 |
| Gross profit | 96,068 | 101,604 | 96,077 | 95,955 |
| Operating income (loss) | 45,427 | 49,058 | 47,167 | 43,042 |
| Income from continuing operations | 28,344 | 31,009 | 29,889 | 56,547 |
| Income (loss) from discontinued businesses, net of tax | (696) | 851 | 2,184 | (6,129) |
| Net income | 27,648 | 31,860 | 32,073 | 50,418 |
| Earnings (loss) per common share | | | | |
| Basic | | | | |
| Continuing operations | $ 0.43 | $ 0.44 | $ 0.42 | $ 0.79 |
| Discontinued operations | $ (0.01) | $ 0.01 | $ 0.03 | $ (0.09) |
| Net income | $ 0.42 | $ 0.46 | $ 0.45 | $ 0.70 |
| Diluted | | | | |
| Continuing operations | $ 0.41 | $ 0.43 | $ 0.41 | $ 0.77 |
| Discontinued operations | $ (0.01) | $ 0.01 | $ 0.03 | $ (0.08) |
| Net income | $ 0.40 | $ 0.44 | $ 0.44 | $ 0.69 |
| **Year ended December 25, 2004** | | | | |
| Total net sales | $ 166,879 | $ 173,538 | $ 170,458 | $ 213,346 |
| Gross profit | 67,177 | 72,703 | 68,289 | 80,552 |
| Operating income (loss) | 38,478 | 43,040 | 42,982 | 33,486 |
| Income from continuing operations | 16,967 | 25,605 | 25,587 | 20,572 |
| Income (loss) from discontinued businesses, net of tax | 627 | 695 | 234 | (495) |
| Net income | 17,594 | 26,300 | 25,821 | 20,077 |
| Earnings (loss) per common share | | | | |
| Basic | | | | |
| Continuing operations | $ 0.37 | $ 0.55 | $ 0.55 | $ 0.34 |
| Discontinued operations | $ 0.01 | $ 0.02 | $ 0.01 | $ (0.01) |
| Net income | $ 0.38 | $ 0.57 | $ 0.56 | $ 0.33 |
| Diluted | | | | |
| Continuing operations | $ 0.34 | $ 0.51 | $ 0.50 | $ 0.32 |
| Discontinued operations | $ 0.02 | $ 0.01 | $ 0.01 | $ (0.01) |
| Net income | $ 0.36 | $ 0.52 | $ 0.51 | $ 0.32 |

**Quarterly Segment Information (Unaudited)**

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| **Fiscal Year Ended December 30, 2006** | | | | |
| Research Models and Services | | | | |
| Sales | $ 128,972 | $ 130,816 | $ 127,560 | $ 127,651 |
| Gross margin | 55,866 | 55,478 | 52,423 | 50,358 |
| Operating income | 40,476 | 38,003 | 36,691 | 32,619 |
| Depreciation and amortization | 5,035 | 5,237 | 5,185 | 5,345 |
| Capital Expenditures | 3,566 | 4,783 | 3,932 | 14,737 |
| Preclinical Services | | | | |
| Sales | $ 125,169 | $ 137,043 | $ 137,100 | $ 144,074 |
| Gross margin | 39,639 | 51,632 | 49,839 | 51,372 |
| Operating income | 13,788 | 22,530 | 22,971 | 23,034 |
| Depreciation and amortization | 14,625 | 15,288 | 15,389 | 16,482 |
| Capital Expenditures | 35,821 | 12,620 | 39,038 | 67,249 |
| Unallocated corporate overhead | $ (10,568) | $ (12,831) | $ (8,041) | $ (10,499) |
| Total | | | | |
| Sales | $ 254,141 | $ 267,859 | $ 264,660 | $ 271,725 |
| Gross margin | 95,505 | 107,110 | 102,262 | 101,730 |
| Operating income | 43,696 | 47,702 | 51,621 | 45,154 |
| Depreciation and amortization | 19,660 | 20,525 | 20,574 | 21,827 |
| Capital Expenditures | 39,387 | 17,403 | 42,970 | 81,986 |

**Quarterly Segment Information (Unaudited)**

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| **Fiscal Year Ended December 31, 2005** | | | | |
| Research Models and Services | | | | |
| Sales | $ 127,912 | $ 130,771 | $ 118,882 | $ 125,602 |
| Gross margin | 56,567 | 57,729 | 49,984 | 51,254 |
| Operating income | 42,308 | 43,050 | 36,713 | 37,685 |
| Depreciation and amortization | 4,873 | 4,903 | 5,024 | 5,215 |
| Capital Expenditures | 5,314 | 6,478 | 5,583 | 7,183 |
| Preclinical Services | | | | |
| Sales | $ 113,498 | $ 120,119 | $ 123,947 | $ 132,597 |
| Gross margin | 39,501 | 43,875 | 46,093 | 44,701 |
| Operating income | 13,170 | 18,596 | 19,947 | 16,205 |
| Depreciation and amortization | 17,249 | 16,472 | 16,510 | 17,689 |
| Capital Expenditures | 6,852 | 5,115 | 39,831 | 18,087 |
| Unallocated corporate overhead | $ (10,051) | $ (12,588) | $ (9,493) | $ (10,848) |
| Total | | | | |
| Sales | $ 241,410 | $ 250,890 | $ 242,829 | $ 258,199 |
| Gross margin | 96,068 | 101,604 | 96,077 | 95,955 |
| Operating income | 45,427 | 49,058 | 47,167 | 43,042 |
| Depreciation and amortization | 22,122 | 21,375 | 21,534 | 22,904 |
| Capital Expenditures | 12,166 | 11,593 | 45,414 | 25,270 |

**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 , 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 as of December 30, 2006 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 an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer 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. We continually are in the process of further reviewing and documenting our disclosure controls and procedures, and our internal control over financial reporting, and accordingly may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

**(b) Changes in Internal Controls**

There were no changes in the Company s internal controls 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 30, 2006 that materially affected, or were reasonably likely to materially affect, the Company s internal control over financial reporting.

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 management s assessment of the effectiveness of our internal control over financial reporting can also be found in Item 8 of this report.

**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 the directors of the Company and compliance with Section 16(a) of the Exchange Act by the Company s officers and directors will be included in the 2007 Proxy Statement under the section captioned Section 16(a) Beneficial Ownership Reporting Compliance and is incorporated herein by reference thereto. The information required by this Item regarding the Company s corporate governance will be included in the 2007 Proxy Statement under the section captioned Corporate Governance and is incorporated herein by reference thereto.

**B. Executive Officers of the Company**

The information required by this Item regarding the executive officers of the Company 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 2007 Proxy Statement under the section captioned Audit Committee and Financial Experts and is incorporated herein by reference thereto.

**D. Code of Ethics**

The Company has adopted a Code of Business Conduct and Ethics that applies to all of its employees and directors, including the principal executive officer, principal financial officer, principal accounting officer, controller or persons performing similar functions. The Company s Code of Business Conduct and Ethics is posted on our website at *http://ir.criver.com*. The Company will provide to any person, without charge, a copy of its Code of Business Conduct and Ethics by requesting a copy from the Secretary, Charles River Laboratories, Inc., 251 Ballardvale Street, Wilmington, MA 01887.

**E. Changes to Board Nomination Procedures**

Since February 2004, there have been no material changes to the procedures by which security holders may recommend nominees to the Company s Board of Directors.

## Item 11. Executive Compensation

The information required by this Item will be included in the 2007 Proxy Statement under the sections captioned Compensation of Directors, Compensation Committee Interlocks and Insider Participation, Executive Compensation and Related Information 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 2007 Proxy Statement under the sections captioned Beneficial Ownership of Securities and Equity Compensation Plan Information 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 2007 Proxy Statement under the sections captioned Certain Relationships and Related Transactions and Corporate Governance Director Qualification Standards 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 2007 Proxy Statement under the section captioned Statement of Fees Paid to Independent Accountants and is incorporated herein by reference thereto.

**PART IV**

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

**Item 15(a)(1) and (2) and Item 15(d) 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(c) Exhibits**

The exhibits filed as part of this Annual Report on Form 10-K are listed in the Exhibit Index immediately preceding the exhibits. The Company has 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 14(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.

| | | |
|---|---|---|
| By: | /s/ THOMAS F. ACKERMAN<br>Thomas F. Ackerman Corporate Executive Vice President and Chief Financial Officer | Date: February 27, 2006 |

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 Chairman | February 27, 2007 |
| By: | /s/ THOMAS F. ACKERMAN<br>Thomas F. Ackerman | Corporate Executive Vice President and Chief Financial Officer | February 27, 2007 |
| By: | /s/ STEPHEN D. CHUBB<br>Stephen D. Chubb | Director | February 27, 2007 |
| By: | /s/ GEORGE E. MASSARO<br>George E. Massaro | Director | February 27, 2007 |
| By: | /s/ LINDA MCGOLDRICK<br>Linda McGoldrick | Director | February 27, 2007 |
| By: | /s/ GEORGE M. MILNE, JR.<br>George M. Milne, Jr. | Director | February 27, 2007 |
| By: | /s/ DOUGLAS E. ROGERS<br>Douglas E. Rogers | Director | February 27, 2007 |
| By: | /s/ SAMUEL O. THIER<br>Samuel O. Thier | Director | February 27, 2007 |
| By: | /s/ WILLIAM H. WALTRIP<br>William H. Waltrip | Director | February 27, 2007 |

**EXHIBIT INDEX**

| Exhibit No. | Description |
|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation of Charles River Laboratories International, Inc. (filed as Exhibit 3.1). (1) |
| 3.2 | By-laws of Charles River Laboratories International, Inc. (Filed as Exhibit 3.2). (1) |
| 4.1 | Form of certificate representing shares of common stock, $0.01 per value per share (Filed as Exhibit 4.1). (1) |
| 4.2 | Indenture dated June 6, 2006, amount Charles river Laboratories International, Inc. and U.S. Bank National Association. (2) |
| 4.3 | Form of 2.25% Convertible Senior Note due 2013. (2) |
| 10.4 | Severance Agreement between Charles River Laboratories, Inc. and Real H. Renaud, dated January 20, 1992 (Filed as Exhibit 10.10). (1)+ |
| 10.5* | 1999 Charles River Laboratories Officer Separation Plan. + |
| 10.6 | Charles River Laboratories 1999 Management Stock Incentive Plan (Filed as Exhibit 10.6) + (3). |
| 10.7 | Charles River Laboratories 2000 Incentive Plan, as amended May 2003 and May 2005. (Filed as Exhibit 10.7). (3) + |
| 10.8 | Charles River Laboratories 2000 Directors Stock Plan (Filed as Exhibit 10.15). (1)+ |
| 10.9 | Charles River Laboratories 2000 Incentive Plan Inland Revenue Approved Rules for UK Employees (Filed as Exhibit 99.1). (3)+ |
| 10.10 | Form of Indemnification Agreement (Filed as Exhibit 10.16). (1)+ |
| 10.11 | Form of Change in Control Agreement (Filed as Exhibit 10.11).(3) + |
| 10.13 | Summary of Director Compensation. + (6) |
| 10.15 | Executive Incentive Compensation Plan, as amended. (8) + |
| 10.16 | Form of Award Agreement under 2000 Incentive Plan.+ (5) |
| 10.17 | Form of Restricted Stock Award Agreement under 2000 Incentive Plan. +(5) |
| 10.20 | Inveresk Research Group, Inc. 2002 Stock Option and Incentive Compensation Plan, as amended and restated as of May 4, 2004. +(4) |
| 10.21 | Inveresk Research Group, Inc. 2002 Non-Employee Directors Stock Option Plan. +(4) |
| 10.23 | Charles River Laboratories Executive Life Insurance/Supplemental Retirement Income Plan.(6) + |
| 10.25 | Form of Resale Restriction Agreement. + (7) |
| 10.27 | Deferred Compensation Plan. (9) + |
| 104 | |

| | |
|---|---|
| 10.28 | Second Amended and Restated Credit Agreement, dated as of July 31, 2006, among Charles River Laboratories International, Inc., the Subsidiary Borrowers party thereto, the lenders party thereto, JPMorgan Chase Bank, N.A. as administrative agent, Credit Suisse Securities (USA) LLC, as syndication agent, and Bank of America, N.A., Citizens Bank of Massachusetts and Wachovia Bank, National Association, as co-documentation agents. (10) |
| 21.1* | Subsidiaries of Charles River Laboratories International, Inc. |
| 23.1* | Consent of PricewaterhouseCoopers LLP. |
| 31.1* | Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer. |
| 31.2* | Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer. |
| 32.1* | Section 1350 Certification of the Chief Executive Officer and the Chief Financial Officer. |

* Filed herewith.

+ Management contract or compensatory plan, contract or arrangement.

(1) Previously filed as an exhibit to Amendment No. 2 to the Company s Registration Statement on Form S-1 (File No. 333-35524), as amended, filed June 23, 2000.

(2) Previously filed as an exhibit to the Company s Current Report on Form 8-K, filed on June 12, 2006.

(3) Previously filed as an exhibit to the Company s Annual Report on Form 10-K filed on March 14, 2006.

(4) Previously filed as an exhibit to the Company s Registration Statement on Form S-8, filed on October 20, 2004.

(5) Previously filed as an exhibit to the Company s Quarterly Report on Form 10-Q filed on November 1, 2004.

(6) Previously filed as an exhibit to the Company s Annual Report on Form 10-K filed March 9, 2005.

(7) Previously filed as an exhibit to the Company s Current Report on Form 8-K, filed on December 13, 2005

(8) Previously filed as an exhibit to the Company s Current Report on Form 8-K, filed on December 22, 2005.

(9) Previously filed as an exhibit to the Company s Current Report on Form 8-K, filed on February 14, 2006.

(10) Previously filed as an exhibit to the Company s Current Report on Form 8-K, filed on August 2, 2006.