

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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 OR 15 (d) of the
Securities Exchange Act of 1934

AUGUST 9, 2017
Date of Report (Date of earliest event reported)

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
(Exact Name of Registrant as specified in its Charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

001-15943
(Commission File Number)

06-1397316
(I.R.S. Employer
Identification No.)

251 Ballardvale Street
Wilmington, Massachusetts 01887
(Address of Principal Executive Offices) (Zip Code)

781-222-6000
(Registrant's Telephone Number, including Area Code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

ITEM 2.02. Results of Operations and Financial Condition

The following information shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

On August 9, 2017, Charles River Laboratories International, Inc. issued a press release providing financial results for the quarter ended July 1, 2017.

The press release, attached as an exhibit to this report, includes "safe harbor" language pursuant to the Private Securities Litigation Reform Act of 1995, as amended, indicating that certain statements contained in the press release are "forward-looking" rather than historic. The press release also states that these and other risks relating to Charles River are set forth in the documents filed by Charles River with the Securities and Exchange Commission.

ITEM 9.01. Financial Statements and Exhibits

- (a) Not applicable.
- (b) Not applicable.
- (c) Exhibits.

99.1 Press release dated August 9, 2017.

SIGNATURES

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

CHARLES RIVER LABORATORIES
INTERNATIONAL, INC.

Dated: August 9, 2017

By: /s/ Matthew L. Daniel

Matthew L. Daniel, Corporate Vice President,
Deputy General Counsel and Assistant Secretary

Exhibit Index

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|-------------------------------------|
| 99.1 | Press release dated August 9, 2017. |

Charles River Laboratories Announces Second-Quarter 2017 Results from Continuing Operations**– Second-Quarter Revenue of \$469.1 Million –****– Second-Quarter GAAP EPS of \$1.12 and Non-GAAP EPS of \$1.29 –****– Updates 2017 Guidance –**

WILMINGTON, Mass.--(BUSINESS WIRE)--August 9, 2017--Charles River Laboratories International, Inc. (NYSE: CRL) today reported its results for the second quarter of 2017. Revenue from continuing operations was \$469.1 million, an increase of 8.1% from \$434.1 million in the second quarter of 2016. Revenue growth was driven primarily by the Discovery and Safety Assessment and Manufacturing Support segments.

The acquisitions of Agilux Laboratories, WIL Research, and Blue Stream Laboratories contributed 3.9% to consolidated second-quarter revenue growth, both on a reported basis and in constant currency. The February 2017 divestiture of the Contract Development and Manufacturing (CDMO) business reduced reported revenue growth by 1.0%. The impact of foreign currency translation reduced reported revenue growth by 1.9%. Excluding the effect of these items, organic revenue growth was 7.1%.

On a GAAP basis, second-quarter net income from continuing operations attributable to common shareholders was \$54.0 million, an increase of 53.5% from \$35.2 million for the same period in 2016. Second-quarter diluted earnings per share on a GAAP basis were \$1.12, an increase of 53.4% from \$0.73 for the second quarter of 2016.

On a non-GAAP basis, net income from continuing operations was \$62.4 million for the second quarter of 2017, an increase of 8.7% from \$57.4 million for the same period in 2016. Second-quarter diluted earnings per share on a non-GAAP basis were \$1.29, an increase of 7.5% from \$1.20 per share for the second quarter of 2016.

Both the GAAP and non-GAAP earnings per share increases were driven by higher revenue and operating margin improvement. GAAP earnings per share also benefited from lower acquisition- and integration-related costs in the second quarter of 2017. An excess tax benefit associated with stock compensation also contributed \$0.03 to both GAAP and non-GAAP earnings per share in the second quarter of 2017; and a gain from the Company's venture capital investments contributed \$0.03 per share, compared to a \$0.06 gain for the same period in 2016.

James C. Foster, Chairman, President and Chief Executive Officer, said, “I am very pleased to say that our collective portfolio delivered high-single digit revenue growth, operating margin expansion, and earnings per share growth. The positive factors which contributed to the strong start to the year continued in the second quarter of 2017. Demand for our products and services remained robust, as clients chose to partner with Charles River to take advantage of our strong portfolio and scientific expertise.”

“We intend to continue to focus on enhancing the three primary factors which differentiate Charles River in early-stage drug research: First, our unique portfolio of essential products and services, which increases our relevance to our clients’ drug research, development, and manufacturing efforts; second, our scientific expertise and depth, which we believe is unique and unparalleled in the early-stage CRO universe; and third, our intense focus on efficiency and responsiveness, which enables us to provide exceptional, flexible service to clients without adding significant cost. By leveraging the investments we have made, and new ones we intend to make, we will continue to differentiate Charles River as the CRO partner of choice, which is the foundation for our future growth.”

Second-Quarter Segment Results

Research Models and Services (RMS)

Revenue for the RMS segment was \$124.0 million in the second quarter of 2017, a decrease of 0.8% from \$125.1 million in the second quarter of 2016 due to the impact of foreign currency translation. Organic revenue growth was 1.0%, driven primarily by higher sales of research models in China, as well as in the Insourcing Solutions and Genetically Engineered Models and Services (GEMS) businesses. Growth in these businesses was partially offset by lower revenue in the Research Animal Diagnostic Services (RADS) business.

In the second quarter of 2017, the RMS segment’s GAAP operating margin decreased to 27.1% from 28.3% in the second quarter of 2016. On a non-GAAP basis, the operating margin decreased to 27.4% from 28.9% in the second quarter of 2016. The GAAP and non-GAAP operating margin declines were primarily driven by the research models business in North America and Europe and the RADS business.

Discovery and Safety Assessment (DSA)

Revenue from continuing operations for the DSA segment was \$252.1 million in the second quarter of 2017, an increase of 14.0% from \$221.1 million in the second quarter of 2016. The acquisitions of Agilux Laboratories and WIL Research⁽¹⁾ contributed 6.9% to DSA revenue growth. Organic revenue growth of 9.3% was primarily driven by low-double-digit growth in the Safety Assessment business. The revenue increase was driven primarily by demand from mid-tier biotechnology clients, and higher sales to global biopharmaceutical clients also contributed.

In the second quarter of 2017, the DSA segment's GAAP operating margin increased to 20.5% from 14.6% in the second quarter of 2016. The GAAP operating margin increase was due in part to lower acquisition-related costs associated with the acquisition and integration of WIL Research. On a non-GAAP basis, the operating margin increased to 23.7% from 21.2% in the second quarter of 2016. The Safety Assessment business was the primary contributor to the GAAP and non-GAAP margin improvement. Foreign exchange also benefited the DSA operating margin by approximately 100 basis points.

(1) The acquisition of WIL Research closed on April 4, 2016, during the second quarter. As a result, the second quarter of 2017 included one additional week of revenue for WIL Research, which has been excluded from the calculation of organic revenue growth.

Manufacturing Support (Manufacturing)

Revenue for the Manufacturing segment was \$93.0 million in the second quarter of 2017, an increase of 5.8% from \$87.9 million in the second quarter of 2016. The acquisition of Blue Stream Laboratories contributed 1.9% to Manufacturing revenue growth in the second quarter of 2017, while the divestiture of the CDMO business reduced Manufacturing revenue growth by 4.8%. Organic revenue increased 10.1%, driven by strong growth in the Microbial Solutions and Biologics Testing Solutions businesses.

In the second quarter of 2017, the Manufacturing segment's GAAP operating margin increased to 31.2% from 30.8% in the second quarter of 2016, due primarily to lower amortization of intangible assets related to acquisitions. On a non-GAAP basis, the operating margin decreased to 34.2% from 35.4% in the second quarter of 2016, due primarily to the Biologics Testing Solutions and Avian Vaccine businesses.

Stock Repurchase Update

During the second quarter of 2017, the Company repurchased 244,292 shares for a total of \$22.5 million. As of July 1, 2017, the Company had \$165.1 million available on its authorized stock repurchase program.

Updates 2017 Guidance

The Company is increasing its reported revenue growth guidance for 2017 to primarily reflect favorable movements in foreign exchange rates, and maintaining its GAAP and non-GAAP earnings per share guidance, that were previously provided on May 10, 2017.

| 2017 GUIDANCE (from continuing operations) | REVISED | PRIOR |
|---|----------------|-----------------|
| Revenue growth, reported | 8.5% - 10.0% | 7.5% - 9.0% |
| Less: Contribution from acquisitions (1) | (~5.0% - 6.0%) | (~5.0% - 6.0%) |
| Add: Effect of CDMO divestiture | ~1.0% | ~1.0% |
| Add: Negative effect of 53 rd week in 2016 | ~1.5% | ~1.5% |
| Add: Negative effect of foreign exchange | ~1.0% | ~2.0% - 2.5% |
| Revenue growth, organic (2) | 7.0% - 8.5% | 7.0% - 8.5% |
| GAAP EPS estimate | \$4.18-\$4.33 | \$4.18-\$4.33 |
| Amortization of intangible assets (3) | ~\$0.58 | ~\$0.58 |
| Charges related to global efficiency initiatives (4) | ~\$0.02 | ~\$0.02 |
| Acquisition/divestiture-related adjustments (5) | ~\$0.07 | ~\$0.07 |
| Net impact of CDMO divestiture (6) | ~\$0.15 | ~\$0.15 |
| Non-GAAP EPS estimate | \$5.00- \$5.15 | \$5.00 - \$5.15 |

Footnotes to Guidance Table

- (1) The contribution from acquisitions reflects only those acquisitions which have already been completed.
- (2) Organic revenue growth is defined as reported revenue growth adjusted for acquisitions, the divestiture of the CDMO business, the 53rd week, and foreign currency translation.
- (3) This adjustment does not include the impact of amortization of intangible assets related to the Brains On-Line acquisition because the preliminary purchase price allocation has not been completed.
- (4) These charges relate primarily to the Company's planned efficiency initiatives in 2017, including site consolidation costs, asset impairments, and severance. Other projects in support of the global productivity and efficiency initiatives are expected, but these charges reflect only the decisions that have already been finalized.
- (5) These adjustments are related to the evaluation and integration of acquisitions and the divestiture of the CDMO business, and primarily include transaction, advisory, and certain third-party integration costs, as well as certain costs associated with acquisition-related efficiency initiatives.
- (6) These adjustments include the preliminary net gain and tax impact related to the divestiture of the CDMO business.

Webcast

Charles River has scheduled a live webcast on Wednesday, August 9, at 8:30 a.m. ET to discuss matters relating to this press release. To participate, please go to ir.criver.com and select the webcast link. You can also find the associated slide presentation and reconciliations of GAAP financial measures to non-GAAP financial measures on the website.

Non-GAAP Reconciliations/Discontinued Operations

The Company reports non-GAAP results in this press release, which exclude often one-time charges and other items that are outside of normal operations. A reconciliation of GAAP to non-GAAP results is provided in the schedules at the end of this press release. In addition, the Company reports results from continuing operations, which exclude results of the Phase I clinical business that was divested in 2011. The Phase I business is reported as a discontinued operation.

Use of Non-GAAP Financial Measures

This press release contains non-GAAP financial measures, such as non-GAAP earnings per diluted share, which exclude the amortization of intangible assets, and other charges related to our acquisitions; expenses associated with evaluating and integrating acquisitions and divestitures, as well as fair value adjustments associated with contingent consideration; charges, gains, and losses attributable to businesses or properties we plan to close, consolidate, or divest; severance and other costs associated with our efficiency initiatives; gain on and tax effect of the divestiture of the CDMO business; and costs related to a U.S. government billing adjustment and related expenses. This press release also refers to our revenue in both a GAAP and non-GAAP basis: “constant currency,” which we define as reported revenue growth adjusted for the impact of foreign currency translation, and “organic revenue growth,” which we define as reported revenue growth adjusted for foreign currency translation, acquisitions, the divestiture, and the 53rd week. We exclude these items from the non-GAAP financial measures because they are outside our normal operations. There are limitations in using non-GAAP financial measures, as they are not prepared in accordance with generally accepted accounting principles, and may be different than non-GAAP financial measures used by other companies. In particular, we believe that the inclusion of supplementary non-GAAP financial measures in this press release helps investors to gain a meaningful understanding of our core operating results and future prospects without the effect of these often one-time charges, and is consistent with how management measures and forecasts the Company's performance, especially when comparing such results to prior periods or forecasts. We believe that the financial impact of our acquisitions and divestitures (and in certain cases, the evaluation of such acquisitions and divestitures, whether or not ultimately consummated) is often large relative to our overall financial performance, which can adversely affect the comparability of our results on a period-to-period basis. In addition, certain activities and their underlying associated costs, such as business acquisitions, generally occur periodically but on an unpredictable basis. We calculate non-GAAP integration costs to include third-party integration costs incurred post-acquisition. Presenting revenue on a constant-currency basis allows investors to measure our revenue growth exclusive of foreign currency exchange fluctuations more clearly. Non-GAAP results also allow investors to compare the Company's operations against the financial results of other companies in the industry who similarly provide non-GAAP results. The non-GAAP financial measures included in this press release are not meant to be considered superior to or a substitute for results of operations prepared in accordance with GAAP. The Company intends to continue to assess the potential value of reporting non-GAAP results consistent with applicable rules and regulations. Reconciliations of the non-GAAP financial measures used in this press release to the most directly comparable GAAP financial measures are set forth in this press release, and can also be found on the Company's website at ir.criver.com.

Caution Concerning Forward-Looking Statements

This press release includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of words such as “anticipate,” “believe,” “expect,” “intend,” “will,” “may,” “estimate,” “plan,” “outlook,” and “project,” and other similar expressions that predict or indicate future events or trends or that are not statements of historical matters. These statements also include statements regarding our projected future financial performance including revenue (on both a reported, constant-currency, and organic growth basis), operating margins, earnings per share, the expected impact of foreign exchange rates, and the expected benefit of our life science venture capital investments; the future demand for drug discovery and development products and services, including our expectations for future revenue trends; our expectations with respect to the impact of acquisitions on the Company, our service offerings, client perception, strategic relationships, revenue, revenue growth rates, and earnings; the development and performance of our services and products; market and industry conditions including the outsourcing of services and spending trends by our clients; the potential outcome of and impact to our business and financial operations due to litigation and legal proceedings; and Charles River’s future performance as delineated in our forward-looking guidance, and particularly our expectations with respect to revenue, the impact of foreign exchange, and enhanced efficiency initiatives. Forward-looking statements are based on Charles River’s current expectations and beliefs, and involve a number of risks and uncertainties that are difficult to predict and that could cause actual results to differ materially from those stated or implied by the forward-looking statements. Those risks and uncertainties include, but are not limited to: the ability to successfully integrate businesses we acquire; the ability to execute our efficiency initiatives on an effective and timely basis (including divestitures and site closures); the timing and magnitude of our share repurchases; negative trends in research and development spending, negative trends in the level of outsourced services, or other cost reduction actions by our clients; the ability to convert backlog to revenue; special interest groups; contaminations; industry trends; new displacement technologies; USDA and FDA regulations; changes in law; continued availability of products and supplies; loss of key personnel; interest rate and foreign currency exchange rate fluctuations (including the impact of Brexit); changes in tax regulation and laws; changes in generally accepted accounting principles; and any changes in business, political, or economic conditions due to the threat of future terrorist activity in the U.S. and other parts of the world, and related U.S. military action overseas. A further description of these risks, uncertainties, and other matters can be found in the Risk Factors detailed in Charles River's Annual Report on Form 10-K as filed on February 14, 2017, as well as other filings we make with the Securities and Exchange Commission. Because forward-looking statements involve risks and uncertainties, actual results and events may differ materially from results and events currently expected by Charles River, and Charles River assumes no obligation and expressly disclaims any duty to update information contained in this news release except as required by law.

About Charles River

Charles River provides essential products and services to help pharmaceutical and biotechnology companies, government agencies and leading academic institutions around the globe accelerate their research and drug development efforts. Our dedicated employees are focused on providing clients with exactly what they need to improve and expedite the discovery, early-stage development and safe manufacture of new therapies for the patients who need them. To learn more about our unique portfolio and breadth of services, visit www.criver.com.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

SCHEDULE 1
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
 (in thousands, except for per share data)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|---------------|------------------|---------------|
| | July 1, 2017 | June 25, 2016 | July 1, 2017 | June 25, 2016 |
| Total revenue | \$ 469,129 | \$ 434,055 | \$ 914,892 | \$ 788,923 |
| Cost of revenue (excluding amortization of intangible assets) | 283,467 | 264,308 | 557,531 | 478,408 |
| Selling, general and administrative | 94,533 | 100,473 | 186,023 | 183,417 |
| Amortization of intangible assets | 9,819 | 11,213 | 20,556 | 17,565 |
| Operating income | 81,310 | 58,061 | 150,782 | 109,533 |
| Interest income | 161 | 222 | 363 | 485 |
| Interest expense | (7,403) | (8,909) | (14,386) | (13,120) |
| Other income (expense), net | 2,848 | 5,016 | 18,204 | 9,042 |
| Income from continuing operations, before income taxes | 76,916 | 54,390 | 154,963 | 105,940 |
| Provision for income taxes | 22,243 | 18,845 | 53,327 | 32,820 |
| Income from continuing operations, net of income taxes | 54,673 | 35,545 | 101,636 | 73,120 |
| Income (Loss) from discontinued operations, net of income taxes | (71) | 12 | (75) | (14) |
| Net income | 54,602 | 35,557 | 101,561 | 73,106 |
| Less: Net income attributable to noncontrolling interests | 650 | 350 | 831 | 756 |
| Net income attributable to common shareholders | \$ 53,952 | \$ 35,207 | \$ 100,730 | \$ 72,350 |
| Earnings (loss) per common share | | | | |
| Basic: | | | | |
| Continuing operations attributable to common shareholders | \$ 1.14 | \$ 0.75 | \$ 2.12 | \$ 1.54 |
| Discontinued operations | \$ - | \$ - | \$ - | \$ - |
| Net income attributable to common shareholders | \$ 1.13 | \$ 0.75 | \$ 2.12 | \$ 1.54 |
| Diluted: | | | | |
| Continuing operations attributable to common shareholders | \$ 1.12 | \$ 0.73 | \$ 2.08 | \$ 1.51 |
| Discontinued operations | \$ - | \$ - | \$ - | \$ - |
| Net income attributable to common shareholders | \$ 1.12 | \$ 0.73 | \$ 2.08 | \$ 1.51 |
| Weighted average number of common shares outstanding | | | | |
| Basic | 47,591 | 47,061 | 47,569 | 46,852 |
| Diluted | 48,342 | 47,919 | 48,404 | 47,791 |

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

SCHEDULE 2
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(in thousands)

| | July 1, 2017 | December 31, 2016 |
|---|---------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 116,466 | \$ 117,626 |
| Trade receivables, net | 398,547 | 364,050 |
| Inventories | 104,690 | 95,833 |
| Prepaid assets | 50,671 | 34,315 |
| Other current assets | 67,693 | 45,008 |
| Total current assets | 738,067 | 656,832 |
| Property, plant and equipment, net | 758,724 | 755,827 |
| Goodwill | 776,453 | 787,517 |
| Client relationships, net | 299,348 | 320,157 |
| Other intangible assets, net | 69,446 | 74,291 |
| Deferred tax asset | 30,494 | 28,746 |
| Other assets | 101,132 | 88,430 |
| Total assets | <u>\$ 2,773,664</u> | <u>\$ 2,711,800</u> |
| Liabilities, Redeemable Noncontrolling Interest and Equity | | |
| Current liabilities: | | |
| Current portion of long-term debt and capital leases | \$ 27,225 | \$ 27,313 |
| Accounts payable | 64,652 | 68,485 |
| Accrued compensation | 84,732 | 93,471 |
| Deferred revenue | 119,336 | 127,731 |
| Accrued liabilities | 99,128 | 84,470 |
| Other current liabilities | 27,362 | 26,500 |
| Current liabilities of discontinued operations | 1,636 | 1,623 |
| Total current liabilities | 424,071 | 429,593 |
| Long-term debt, net and capital leases | 1,116,278 | 1,207,696 |
| Deferred tax liabilities | 82,956 | 55,717 |
| Other long-term liabilities | 163,799 | 159,239 |
| Long-term liabilities of discontinued operations | 4,849 | 5,771 |
| Total liabilities | 1,791,953 | 1,858,016 |
| Redeemable noncontrolling interest | 15,317 | 14,659 |
| Total equity attributable to common shareholders | 963,496 | 836,768 |
| Noncontrolling interests | 2,898 | 2,357 |
| Total liabilities, redeemable noncontrolling interest and equity | <u>\$ 2,773,664</u> | <u>\$ 2,711,800</u> |

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

SCHEDULE 3
RECONCILIATION OF GAAP TO NON-GAAP
SELECTED BUSINESS SEGMENT INFORMATION (UNAUDITED)⁽¹⁾
(in thousands, except percentages)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|---------------|------------------|---------------|
| | July 1, 2017 | June 25, 2016 | July 1, 2017 | June 25, 2016 |
| Research Models and Services | | | | |
| Revenue | \$ 124,002 | \$ 125,058 | \$ 251,163 | \$ 248,397 |
| Operating income | 33,579 | 35,445 | 71,290 | 71,831 |
| Operating income as a % of revenue | 27.1% | 28.3% | 28.4% | 28.9% |
| Add back: | | | | |
| Amortization related to acquisitions | 369 | 596 | 805 | 1,184 |
| Government billing adjustment and related expenses | 57 | 69 | 150 | 129 |
| Site consolidation costs, impairments and other items | - | 69 | - | 138 |
| Total non-GAAP adjustments to operating income | \$ 426 | \$ 734 | \$ 955 | \$ 1,451 |
| Operating income, excluding non-GAAP adjustments | \$ 34,005 | \$ 36,179 | \$ 72,245 | \$ 73,282 |
| Non-GAAP operating income as a % of revenue | 27.4% | 28.9% | 28.8% | 29.5% |
| Depreciation and amortization | \$ 4,945 | \$ 5,118 | \$ 10,037 | \$ 10,368 |
| Capital expenditures | \$ 4,404 | \$ 2,381 | \$ 7,007 | \$ 3,434 |
| Discovery and Safety Assessment | | | | |
| Revenue | \$ 252,092 | \$ 221,059 | \$ 479,850 | \$ 379,042 |
| Operating income | 51,690 | 32,381 | 90,350 | 63,211 |
| Operating income as a % of revenue | 20.5% | 14.6% | 18.8% | 16.7% |
| Add back: | | | | |
| Amortization related to acquisitions | 6,905 | 7,390 | 14,505 | 10,485 |
| Severance | 76 | 4,099 | 272 | 4,120 |
| Acquisition related adjustments ⁽²⁾ | 824 | 2,838 | 1,527 | 3,640 |
| Site consolidation costs, impairments and other items | 150 | 121 | 559 | 2,154 |
| Total non-GAAP adjustments to operating income | \$ 7,955 | \$ 14,448 | \$ 16,863 | \$ 20,399 |
| Operating income, excluding non-GAAP adjustments | \$ 59,645 | \$ 46,829 | \$ 107,213 | \$ 83,610 |
| Non-GAAP operating income as a % of revenue | 23.7% | 21.2% | 22.3% | 22.1% |
| Depreciation and amortization | \$ 18,965 | \$ 18,600 | \$ 38,334 | \$ 30,557 |
| Capital expenditures | \$ 7,102 | \$ 4,644 | \$ 15,425 | \$ 9,351 |
| Manufacturing Support | | | | |
| Revenue | \$ 93,035 | \$ 87,938 | \$ 183,879 | \$ 161,484 |
| Operating income | 29,041 | 27,121 | 55,642 | 46,736 |
| Operating income as a % of revenue | 31.2% | 30.8% | 30.3% | 28.9% |
| Add back: | | | | |
| Amortization related to acquisitions | 2,544 | 3,475 | 5,246 | 6,479 |
| Severance ⁽³⁾ | 247 | - | 1,068 | - |
| Acquisition related adjustments ⁽²⁾ | - | 490 | 26 | 677 |
| Site consolidation costs, impairments and other items | - | 72 | - | 301 |
| Total non-GAAP adjustments to operating income | \$ 2,791 | \$ 4,037 | \$ 6,340 | \$ 7,457 |
| Operating income, excluding non-GAAP adjustments | \$ 31,832 | \$ 31,158 | \$ 61,982 | \$ 54,193 |
| Non-GAAP operating income as a % of revenue | 34.2% | 35.4% | 33.7% | 33.6% |
| Depreciation and amortization | \$ 5,787 | \$ 6,525 | \$ 11,749 | \$ 12,501 |
| Capital expenditures | \$ 1,939 | \$ 4,256 | \$ 4,231 | \$ 6,385 |
| Unallocated Corporate Overhead | | | | |
| | \$ (33,000) | \$ (36,886) | \$ (66,500) | \$ (72,245) |
| Add back: | | | | |
| Acquisition related adjustments ⁽²⁾ | 1,192 | 7,260 | 1,213 | 11,023 |
| Total non-GAAP adjustments to operating expense | \$ 1,192 | \$ 7,260 | \$ 1,213 | \$ 11,023 |
| Unallocated corporate overhead, excluding non-GAAP adjustments | \$ (31,808) | \$ (29,626) | \$ (65,287) | \$ (61,222) |
| Total | | | | |
| Revenue | \$ 469,129 | \$ 434,055 | \$ 914,892 | \$ 788,923 |
| Operating income | \$ 81,310 | 58,061 | 150,782 | 109,533 |
| Operating income as a % of revenue | 17.3% | 13.4% | 16.5% | 13.9% |
| Add back: | | | | |
| Amortization related to acquisitions | 9,818 | 11,461 | 20,556 | 18,148 |
| Severance | 323 | 4,099 | 1,340 | 4,120 |
| Acquisition related adjustments ⁽²⁾ | 2,016 | 10,588 | 2,766 | 15,340 |
| Government billing adjustment and related expenses | 57 | 69 | 150 | 129 |
| Site consolidation costs, impairments and other items | 150 | 262 | 559 | 2,593 |
| Total non-GAAP adjustments to operating income | \$ 12,364 | \$ 26,479 | \$ 25,371 | \$ 40,330 |
| Operating income, excluding non-GAAP adjustments | \$ 93,674 | \$ 84,540 | \$ 176,153 | \$ 149,863 |
| Non-GAAP operating income as a % of revenue | 20.0% | 19.5% | 19.3% | 19.0% |
| Depreciation and amortization | \$ 31,799 | \$ 32,353 | \$ 64,210 | \$ 57,008 |
| Capital expenditures | \$ 15,997 | \$ 11,791 | \$ 31,917 | \$ 20,041 |

(1) Charles River management believes that supplementary non-GAAP financial measures provide useful information to allow investors to gain a meaningful understanding of our core operating results and future prospects, without the effect of often-one-time charges and other items which are outside our normal operations, consistent with the manner in which management measures and forecasts the Company's performance. The supplementary non-GAAP financial measures included are not meant to be considered superior to, or a substitute for results of operations prepared in accordance with U.S. GAAP. The Company intends to continue to assess the potential value of reporting non-GAAP results consistent with applicable rules, regulations and guidance.

(2) These adjustments are related to the evaluation and integration of acquisitions, which primarily include transaction, third-party integration, and certain compensation costs, and fair value adjustments associated with contingent consideration.

(3) This adjustment relates to transition costs associated with the divestiture of the CDMO business.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

SCHEDULE 4
RECONCILIATION OF GAAP EARNINGS TO NON-GAAP EARNINGS (UNAUDITED)⁽¹⁾
(in thousands, except per share data)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|---------------|------------------|---------------|
| | July 1, 2017 | June 25, 2016 | July 1, 2017 | June 25, 2016 |
| Net income attributable to common shareholders | \$ 53,952 | \$ 35,207 | \$ 100,730 | \$ 72,350 |
| Less: Income (loss) from discontinued operations, net of income taxes | (71) | 12 | (75) | (14) |
| Net income from continuing operations attributable to common shareholders | 54,023 | 35,195 | 100,805 | 72,364 |
| Add back: | | | | |
| Non-GAAP adjustments to operating income (Refer to Schedule 3) | 12,364 | 26,479 | 25,371 | 40,330 |
| Gain on divestiture of CDMO business | - | - | (10,577) | - |
| Write-off of deferred financing costs and fees related to debt financing | - | 1,449 | - | 1,449 |
| Tax effect of non-GAAP adjustments: | | | | |
| Tax effect from divestiture of CDMO business | - | - | 18,005 | - |
| Tax effect of the remaining non-GAAP adjustments | (4,035) | (5,767) | (8,699) | (10,249) |
| Net income from continuing operations attributable to common shareholders, excluding non-GAAP adjustments | \$ 62,352 | \$ 57,356 | \$ 124,905 | \$ 103,894 |
| Weighted average shares outstanding - Basic | 47,591 | 47,061 | 47,569 | 46,852 |
| Effect of dilutive securities: | | | | |
| Stock options, restricted stock units, performance share units and restricted stock | 751 | 858 | 835 | 939 |
| Weighted average shares outstanding - Diluted | 48,342 | 47,919 | 48,404 | 47,791 |
| Earnings per share from continuing operations attributable to common shareholders | | | | |
| Basic | \$ 1.14 | \$ 0.75 | \$ 2.12 | \$ 1.54 |
| Diluted | \$ 1.12 | \$ 0.73 | \$ 2.08 | \$ 1.51 |
| Basic, excluding non-GAAP adjustments | \$ 1.31 | \$ 1.22 | \$ 2.63 | \$ 2.22 |
| Diluted, excluding non-GAAP adjustments | \$ 1.29 | \$ 1.20 | \$ 2.58 | \$ 2.17 |

(1) Charles River management believes that supplementary non-GAAP financial measures provide useful information to allow investors to gain a meaningful understanding of our core operating results and future prospects, without the effect of often-one-time charges and other items which are outside our normal operations, consistent with the manner in which management measures and forecasts the Company's performance. The supplementary non-GAAP financial measures included are not meant to be considered superior to, or a substitute for results of operations prepared in accordance with U.S. GAAP. The Company intends to continue to assess the potential value of reporting non-GAAP results consistent with applicable rules, regulations and guidance.

SCHEDULE 5
RECONCILIATION OF GAAP REVENUE GROWTH
TO NON-GAAP REVENUE GROWTH, ORGANIC (UNAUDITED) (1)

| For the three months ended July 1, 2017 | Total CRL | RMS Segment | DSA Segment | MS Segment |
|--|------------------|--------------------|--------------------|-------------------|
| Revenue growth, reported | 8.1% | (0.8%) | 14.0% | 5.8% |
| Decrease due to foreign exchange | 1.9% | 1.8% | 2.2% | 1.4% |
| Contribution from acquisitions (2) | (3.9%) | 0.0% | (6.9%) | (1.9%) |
| Impact of CDMO divestiture (3) | 1.0% | 0.0% | 0.0% | 4.8% |
| Non-GAAP revenue growth, organic (4) | 7.1% | 1.0% | 9.3% | 10.1% |
| For the six months ended July 1, 2017 | Total CRL | RMS Segment | DSA Segment | MS Segment |
| Revenue growth, reported | 16.0% | 1.1% | 26.6% | 13.9% |
| Decrease due to foreign exchange | 2.0% | 1.8% | 2.3% | 1.6% |
| Contribution from acquisitions (2) | (10.9%) | 0.0% | (21.4%) | (3.2%) |
| Impact of CDMO divestiture (3) | 0.5% | 0.0% | 0.0% | 2.7% |
| Non-GAAP revenue growth, organic (4) | 7.6% | 2.9% | 7.5% | 15.0% |

(1) Charles River management believes that supplementary non-GAAP financial measures provide useful information to allow investors to gain a meaningful understanding of our core operating results and future prospects, without the effect of often-one-time charges and other items which are outside our normal operations, consistent with the manner in which management measures and forecasts the Company's performance. The supplementary non-GAAP financial measures included are not meant to be considered superior to, or a substitute for results of operations prepared in accordance with U.S. GAAP. The Company intends to continue to assess the potential value of reporting non-GAAP results consistent with applicable rules, regulations and guidance.

(2) The contribution from acquisitions reflects only those acquisitions which were completed during fiscal year 2016.

(3) The CDMO business, which was acquired as part of WIL Research on April 4, 2016, was divested on February 10, 2017. This adjustment represents the revenue from the CDMO business for all applicable periods in 2017 and 2016.

(4) Organic revenue growth is defined as reported revenue growth adjusted for acquisitions and foreign exchange.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

SCHEDULE 6
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

| | Six Months Ended | |
|---|------------------|---------------|
| | July 1, 2017 | June 25, 2016 |
| Cash flows relating to operating activities | \$ 134,353 | \$ 125,956 |
| Cash flows relating to investing activities | 14,026 | (604,776) |
| Cash flows relating to financing activities | (155,064) | 510,249 |
| Cash flows used in discontinued operations | (997) | (782) |
| Effect of exchange rate changes on cash and cash equivalents | 6,808 | 6,299 |
| Net change in cash and cash equivalents | (874) | 36,946 |
| Cash and cash equivalents, beginning of period ⁽¹⁾ | 119,894 | 119,963 |
| Cash and cash equivalents, end of period ⁽²⁾ | \$ 119,020 | \$ 156,909 |

(1) Includes restricted cash of \$2.3 million and \$2.0 million as of December 31, 2016 and December 26, 2015, respectively, which are reported in current and long-term other assets within the unaudited condensed consolidated balance sheets

(2) Includes restricted cash balances of \$2.6 million and \$2.3 million as of July 1, 2017 and June 25 2016, respectively, which are reported in current and long-term other assets within the unaudited condensed consolidated balance sheets.

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