

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

**FORM 10-Q**

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

**FOR THE QUARTERLY PERIOD ENDED MARCH 26, 2011**

**OR**

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

**FOR THE TRANSITION PERIOD FROM** \_\_\_\_\_ **to** \_\_\_\_\_

**Commission file number 001-15943**

**CHARLES RIVER LABORATORIES  
INTERNATIONAL, INC.**

(Exact Name of Registrant as specified in its Charter)

**DELAWARE**  
(State of Incorporation)

**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)

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of April 15, 2011, there were 51,658,245 shares of the registrant's common stock outstanding.

## FORM 10-Q

For the Quarterly Period Ended March 26, 2011

## Table of Contents

	<u>Page</u>
<u>Part I.</u> <u>Financial Information</u>	
<u>Item 1.</u> <u>Financial Statements</u>	
<u>Condensed Consolidated Statements of Operations (Unaudited) for the three months ended March 26, 2011 and March 27, 2010</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets (Unaudited) as of March 26, 2011 and December 25, 2010</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the three months ended March 26, 2011 and March 27, 2010</u>	<u>6</u>
<u>Condensed Consolidated Statement of Changes in Equity (Unaudited) for the three months ended March 26, 2011</u>	<u>7</u>
<u>Notes to Condensed Consolidated Interim Financial Statements</u>	<u>8</u>
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>36</u>
<u>Item 4.</u> <u>Controls and Procedures</u>	<u>36</u>
<u>Part II.</u> <u>Other Information</u>	
<u>Item 1A.</u> <u>Risk Factors</u>	<u>37</u>
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>38</u>
<u>Item 6.</u> <u>Exhibits</u>	<u>39</u>

## Special Note on Factors Affecting Future Results

This Quarterly Report on Form 10-Q contains forward-looking statements regarding future events and the future results of Charles River Laboratories International, Inc. (Charles River) 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," "believe," "seek," "estimate," "will," "likely," "may," "designed," "would," "future," "can," "could" and other similar expressions that are predictions of or indicate future events and trends or which do not relate to historical matters are intended to identify such forward-looking statements. These statements are based on 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: the pursuit of our initiatives to optimize returns for stockholders, including efforts to improve our operating margins, improve free cash flow, invest in growth businesses and return value to shareholders; goodwill and asset impairments still under review; future demand for drug discovery and development products and services, including the outsourcing of these services and spending trends by our customers; our expectations regarding stock repurchases, including our accelerated stock repurchase program, the number of shares to be repurchased, expected timing and duration, the amount of capital that may be expended and the treatment of repurchased shares; present spending trends and other cost reduction activities by our customers; 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; our expectations with respect to sales growth and operating synergies (including the impact of specific actions intended to cause related improvements); the impact of specific actions intended to improve overall operating efficiencies and profitability (and our ability to accommodate future demand with our infrastructure); changes in our expectations regarding future stock option, restricted stock, and other equity grants to employees and directors; expectations with respect to foreign currency exchange; assessing (or changing our assessment of) our tax positions for financial statement purposes; and our cash flow and liquidity. In addition, these statements include the impact of economic and market conditions on our customers; the effects of our 2010 cost-saving actions and the steps to optimize returns to shareholders on an effective and timely basis and the ability of Charles River to withstand the current market conditions. You should not rely on forward-looking statements because they are predictions and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document or in the case of statements incorporated by reference, on the date of the document incorporated by reference. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in our Annual Report on Form 10-K for the year ended December 25, 2010 under the section entitled "Our Strategy," the section entitled "Risks Related to Our Business and Industry," the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in our press releases and other financial filings with the Securities and Exchange Commission. We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or risks. New information, future events or risks may cause the forward-looking events we discuss in this report not to occur.

**Part I. Financial Information****Item 1. Financial Statements****CHARLES RIVER LABORATORIES INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)****(dollars in thousands, except per share amounts)**

	<b>Three Months Ended</b>	
	<b>March 26, 2011</b>	<b>March 27, 2010</b>
Net sales related to products	\$ 121,396	\$ 121,051
Net sales related to services	164,447	171,236
<b>Total net sales</b>	<b>285,843</b>	<b>292,287</b>
Costs and expenses		
Cost of products sold	65,766	63,723
Cost of services provided	117,439	129,359
Selling, general and administrative	55,007	62,331
Amortization of intangibles	5,380	6,680
<b>Operating income</b>	<b>42,251</b>	<b>30,194</b>
Other income (expense)		
Interest income	364	357
Interest expense	(10,016)	(6,008)
Other, net	63	(468)
Income from continuing operations before income taxes	32,662	24,075
Provision (benefit) for income taxes	(2,715)	6,737
Income from continuing operations, net of tax	35,377	17,338
Loss from discontinued operations, net of tax	(3,945)	(338)
Net income	31,432	17,000
Less: Net (income) loss attributable to noncontrolling interests	(97)	382
<b>Net income attributable to common shareowners</b>	<b>\$ 31,335</b>	<b>\$ 17,382</b>
<b>Earnings (loss) per common share:</b>		
Basic:		
Continuing operations	\$ 0.65	\$ 0.27
Discontinued operations	(0.07)	(0.01)
<b>Net income attributable to common shareowners</b>	<b>\$ 0.58</b>	<b>\$ 0.27</b>
Diluted:		
Continuing operations	\$ 0.65	\$ 0.27
Discontinued operations	(0.07)	(0.01)
<b>Net income attributable to common shareowners</b>	<b>\$ 0.57</b>	<b>\$ 0.26</b>

See Notes to Condensed Consolidated Interim Financial Statements

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

	<u>March 26, 2011</u>	<u>December 25, 2010</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 158,745	\$ 179,160
Trade receivables, net	215,304	192,972
Inventories	97,594	100,297
Other current assets	88,941	80,465
Total current assets	<u>560,584</u>	<u>552,894</u>
Property, plant and equipment, net	753,612	752,657
Goodwill, net	202,059	198,438
Other intangibles, net	118,950	121,236
Deferred tax asset	44,062	45,003
Other assets	65,353	63,145
Total assets	<u>\$ 1,744,620</u>	<u>\$ 1,733,373</u>
<b>Liabilities and Equity</b>		
Current liabilities		
Current portion of long-term debt and capital leases	\$ 95,527	\$ 30,582
Accounts payable	33,379	30,627
Accrued compensation	45,932	48,918
Deferred revenue	58,832	66,905
Accrued liabilities	59,368	59,369
Other current liabilities	14,770	23,379
Total current liabilities	<u>307,808</u>	<u>259,780</u>
Long-term debt and capital leases	761,293	670,270
Other long-term liabilities	111,188	114,596
Total liabilities	<u>1,180,289</u>	<u>1,044,646</u>
Commitments and contingencies		
Shareowners' 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; 77,980,109 issued and 51,602,261 shares outstanding at March 26, 2011 and 77,531,056 issued and 56,441,081 shares outstanding at December 25, 2010	780	775
Capital in excess of par value	2,025,643	1,996,874
Accumulated deficit	(543,827)	(575,162)
Treasury stock, at cost, 26,377,848 shares and 21,089,975 shares at March 26, 2011 and December 25, 2010, respectively	(961,533)	(768,699)
Accumulated other comprehensive income	41,855	33,635
Total shareowners' equity	<u>562,918</u>	<u>687,423</u>
Noncontrolling interests	1,413	1,304
Total equity	<u>564,331</u>	<u>688,727</u>
Total liabilities and equity	<u>\$ 1,744,620</u>	<u>\$ 1,733,373</u>

See Notes to Condensed Consolidated Interim Financial Statements

## CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(dollars in thousands)

	Three Months Ended	
	March 26, 2011	March 27, 2010
<b>Cash flows relating to operating activities</b>		
Net income	\$ 31,432	\$ 17,000
Less: Loss from discontinued operations	(3,945)	(338)
Income from continuing operations	35,377	17,338
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	21,265	23,580
Non-cash compensation	5,919	6,856
Deferred tax	3,422	1,290
Other, net	4,848	4,955
Changes in assets and liabilities:		
Trade receivables	(17,166)	(28,105)
Inventories	4,336	3,765
Other assets	(406)	(4,384)
Accounts payable	2,170	4,695
Accrued compensation	(4,188)	(749)
Deferred revenue	(8,073)	(3,909)
Accrued liabilities	(1,739)	1,404
Taxes payable and prepaid taxes	(23,365)	1,051
Other liabilities	(1,007)	149
Net cash provided by operating activities	21,393	27,936
<b>Cash flows relating to investing activities</b>		
Capital expenditures	(6,789)	(9,293)
Purchases of investments	(9,548)	(6,725)
Proceeds from sale of investments	3,655	50,151
Other, net	146	82
Net cash provided by (used in) investing activities	(12,536)	34,215
<b>Cash flows relating to financing activities</b>		
Proceeds from long-term debt and revolving credit agreement	150,607	1,025
Payments on long-term debt, capital lease obligation and revolving credit agreement	(9,766)	(22,682)
Proceeds from exercises of stock options and warrants	5,239	1,061
Purchase of treasury stock and Accelerated Stock Repurchase Program	(174,465)	(2,895)
Other, net	(876)	239
Net cash used in financing activities	(29,261)	(23,252)
<b>Discontinued operations</b>		
Net cash provided by (used in) operating activities	(38)	523
Net cash provided by investing activities	—	1,833
Net cash provided by financing activities	213	14
Net cash provided by discontinued operations	175	2,370
Effect of exchange rate changes on cash and cash equivalents	(186)	(1,644)
Net change in cash and cash equivalents	(20,415)	39,625
Cash and cash equivalents, beginning of period	179,160	182,574
<b>Cash and cash equivalents, end of period</b>	<b>\$ 158,745</b>	<b>\$ 222,199</b>
<b>Supplemental cash flow information</b>		
Capitalized interest	\$ 92	\$ 1,998

See Notes to Condensed Consolidated Interim Financial Statements

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(dollars in thousands)

	Total	Accumulated Deficit	Accumulated Other Comprehensive Income	Common Stock	Capital in Excess of Par	Treasury Stock	Noncontrolling Interest
Balance at							
December 25, 2010	\$ 688,727	\$ (575,162)	\$ 33,635	\$ 775	\$ 1,996,874	\$ (768,699)	\$ 1,304
Components of comprehensive income, net of tax:							
Net income	31,432	31,335	—	—	—	—	97
Foreign currency translation adjustment	8,192	—	8,180	—	—	—	12
Amortization of pension, net gain/loss and prior service cost	125	—	125	—	—	—	—
Unrealized loss on marketable securities	(85)	—	(85)	—	—	—	—
<b>Total comprehensive income</b>	<b>\$ 39,664</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>\$ 109</b>
Tax detriment associated with stock issued under employee compensation plans	(883)	—	—	—	(883)	—	—
Issuance of stock under employee compensation plans	5,369	—	—	5	5,364	—	—
Acquisition of treasury shares	(160,325)	—	—	—	32,509	(192,834)	—
Accelerated Stock Repurchase equity instrument	(14,140)	—	—	—	(14,140)	—	—
Stock-based compensation	5,919	—	—	—	5,919	—	—
<b>Balance at March 26, 2011</b>	<b>\$ 564,331</b>	<b>\$ (543,827)</b>	<b>\$ 41,855</b>	<b>\$ 780</b>	<b>\$ 2,025,643</b>	<b>\$ (961,533)</b>	<b>\$ 1,413</b>

See Notes to Condensed Consolidated Interim Financial Statements

**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS****(dollars in thousands, except per share amounts)****1. Basis of Presentation**

The condensed consolidated interim financial statements are unaudited, and certain information and footnote disclosures related thereto normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been omitted in accordance with Rule 10-01 of Regulation S-X. In the opinion of management, the accompanying unaudited condensed consolidated financial statements were prepared following the same policies and procedures used in the preparation of the audited financial statements and reflect all adjustments (consisting of normal recurring adjustments) considered necessary to state fairly the financial position and results of operations of Charles River Laboratories International, Inc. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year. These condensed consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 25, 2010.

Certain amounts in prior-year financial statements and related notes have been reclassified to conform with the current year presentation.

**2. Restructuring and Contract Termination Costs**

We implemented headcount reductions to improve operating efficiency and profitability at various sites. As of March 26, 2011, we had accrued severance and retention costs related to these actions of \$7,100 in our consolidated balance sheets, of which \$4,272 was included in accrued compensation and \$2,828 in other long-term liabilities on our consolidated balance sheet related to these actions.

During the first three months of 2011, we recorded severance charges of \$494 related primarily to further headcount reductions, of which \$241 is included in cost of sales and \$253 in selling, general and administrative expense. Additionally, we recorded an impairment charge of \$59 during the quarter ended March 26, 2011.

<u>Severance and Retention Costs</u>	<u>Three Months Ended</u>	
	<u>March 26, 2011</u>	<u>March 27, 2010</u>
Beginning balance	\$ 10,658	\$ 4,332
Expense	494	2,672
Payments/utilization	(4,052)	(1,934)
Ending balance	<u>\$ 7,100</u>	<u>\$ 5,070</u>



## CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS (Continued)

(dollars in thousands, except per share amounts)

**3. Supplemental Balance Sheet Information**

The composition of trade receivables is as follows:

	<u>March 26, 2011</u>	<u>December 25, 2010</u>
Customer receivables	\$ 190,183	\$ 170,696
Unbilled revenue	30,319	27,095
Total	220,502	197,791
Less allowance for doubtful accounts	(5,198)	(4,819)
Net trade receivables	<u>\$ 215,304</u>	<u>\$ 192,972</u>

The composition of inventories is as follows:

	<u>March 26, 2011</u>	<u>December 25, 2010</u>
Raw materials and supplies	\$ 13,352	\$ 13,153
Work in process	16,044	13,869
Finished products	68,198	73,275
Inventories	<u>\$ 97,594</u>	<u>\$ 100,297</u>

The composition of other current assets is as follows:

	<u>March 26, 2011</u>	<u>December 25, 2010</u>
Prepaid assets	\$ 21,291	\$ 21,434
Deferred tax asset	26,668	31,251
Marketable securities	14,536	9,834
Prepaid income tax	25,139	13,856
Restricted cash	229	228
Current assets of discontinued businesses	1,078	3,862
Other current assets	<u>\$ 88,941</u>	<u>\$ 80,465</u>

**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS (Continued)**

(dollars in thousands, except per share amounts)

**3. Supplemental Balance Sheet Information (Continued)**

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

	<u>March 26, 2011</u>	<u>December 25, 2010</u>
Land	\$ 40,878	\$ 40,409
Buildings	709,419	694,342
Machinery and equipment	340,115	327,353
Leasehold improvements	27,753	26,772
Furniture and fixtures	10,562	10,473
Vehicles	5,592	5,456
Computer hardware and software	105,860	106,073
Construction in progress	42,729	45,465
Total	<u>1,282,908</u>	<u>1,256,343</u>
Less accumulated depreciation	(529,296)	(503,686)
Net property, plant and equipment	<u>\$ 753,612</u>	<u>\$ 752,657</u>

Depreciation is calculated using a straight-line method based on estimated useful lives of the assets. Depreciation expense for the three months ended March 26, 2011 and March 27, 2010 was \$15,885 and \$16,900, respectively.

The composition of other assets is as follows:

	<u>March 26, 2011</u>	<u>December 25, 2010</u>
Deferred financing costs	\$ 11,845	\$ 11,167
Cash surrender value of life insurance policies	31,319	31,054
Long-term marketable securities	11,291	11,377
Other assets	10,898	8,725
Long-term assets of discontinued businesses	—	822
Other assets	<u>\$ 65,353</u>	<u>\$ 63,145</u>

The composition of other current liabilities is as follows:

	<u>March 26, 2011</u>	<u>December 25, 2010</u>
Accrued income taxes	\$ 6,241	\$ 18,372
Current deferred tax liability	1,033	963
Accrued interest and other	3,870	760
Current liabilities of discontinued businesses	3,626	3,284
Other current liabilities	<u>\$ 14,770</u>	<u>\$ 23,379</u>

## CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS (Continued)

(dollars in thousands, except per share amounts)

## 3. Supplemental Balance Sheet Information (Continued)

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

	March 26, 2011	December 25, 2010
Deferred tax liability	\$ 28,975	\$ 30,050
Long-term pension liability	33,741	36,335
Accrued Executive Supplemental Life Insurance Retirement Plan and Deferred Compensation Plan	24,925	24,659
Other long-term liabilities	23,547	23,552
Other long-term liabilities	<u>\$ 111,188</u>	<u>\$ 114,596</u>

## 4. Marketable Securities

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

	March 26, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Time deposits	\$ 14,536	\$ —	\$ —	\$ 14,536
Auction rate securities	11,972	—	(681)	11,291
	<u>\$ 26,508</u>	<u>\$ —</u>	<u>\$ (681)</u>	<u>\$ 25,827</u>

	December 25, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Time deposits	\$ 9,834	\$ —	\$ —	\$ 9,834
Auction rate securities	11,974	—	(597)	11,377
	<u>\$ 21,808</u>	<u>\$ —</u>	<u>\$ (597)</u>	<u>\$ 21,211</u>

As of March 26, 2011, we held \$11,291 in auction rate securities which are variable rate debt instruments, which bear interest rates that reset approximately every 35 days. The auction rate securities owned were rated AAA by a major credit rating agency and are guaranteed by the Federal Family Education Loan Program (FFELP). The underlying securities have contractual maturities which are generally greater than ten years. The auction rate securities are classified as available for sale and are recorded at fair value.

## CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS (Continued)

(dollars in thousands, except per share amounts)

**4. Marketable Securities (Continued)**

Maturities of debt securities were as follows:

	March 26, 2011		December 25, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due less than one year	\$ 14,536	\$ 14,536	\$ 9,834	\$ 9,834
Due after one year through five years	—	—	—	—
Due after ten years	11,972	11,291	11,974	11,377
	<u>\$ 26,508</u>	<u>\$ 25,827</u>	<u>\$ 21,808</u>	<u>\$ 21,211</u>

**5. Fair Value**

We hold cash equivalents, investments and certain other assets that are carried at fair value. We generally determine fair value using a market approach based on quoted prices of identical instruments when available. When market quotes of identical instruments are not readily accessible or available, we determine fair value based on quoted market prices of similar instruments.

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

On September 14, 2010, we entered into a fair market value hedge contract with a bank. The terms of this contract are for the bank to deliver 62,637 Canadian dollars, currently valued at \$63,834, to us on August 25, 2011, and for us to deliver 46,940 Euro, currently valued at \$66,148, to our bank on the same date. We have recorded a liability on our balance sheet of \$2,314, based on current foreign exchange rates, to represent the amount that would be owed to the bank if the hedge were to be settled as of March 26, 2011.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS (Continued)

(dollars in thousands, except per share amounts)

5. Fair Value (Continued)

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

	Fair Value Measurements at March 26, 2011 using			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Assets at Fair Value
Time deposits	\$ —	\$ 14,536	\$ —	\$ 14,536
Auction rate securities	—	—	11,291	11,291
Fair value of life policies	—	25,849	—	25,849
Total assets	\$ —	\$ 40,385	\$ 11,291	\$ 51,676
Contingent consideration	—	—	5,517	5,517
Hedge contract	—	2,314	—	2,314
Total liabilities	\$ —	\$ 2,314	\$ 5,517	\$ 7,831

	Fair Value Measurements at December 25, 2010 using			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Assets at Fair Value
Time deposits	\$ —	\$ 9,834	\$ —	\$ 9,834
Auction rate securities	—	—	11,377	11,377
Fair value of life policies	—	25,609	—	25,609
Hedge contract	—	419	—	419
Total assets	\$ —	\$ 35,862	\$ 11,377	\$ 47,239
Contingent consideration	—	—	5,365	5,365
Total liabilities	\$ —	\$ —	\$ 5,365	\$ 5,365

Descriptions of the valuation methodologies used for assets and liabilities measured at fair value are as follows:

- Time deposits—Valued at their ending balances as reported by the financial institutions that hold our securities, which approximates fair value.
- Auction rate securities—Valued at fair value by management in part utilizing an independent valuation reviewed by management which used pricing models and discounted cash flow methodologies incorporating assumptions that reflect the assumptions a marketplace participant would use at March 26, 2011.
- Life policies—Valued at cash surrender value.

## CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS (Continued)

(dollars in thousands, except per share amounts)

## 5. Fair Value (Continued)

- Contingent consideration—Consists of payments based on certain agreed upon revenue and technical milestones valued using the income approach. Key assumptions included a discount rate of 18% and probability adjustments ranging from 60% to 85%.
- Hedge contract—Valued at fair value by management; valuations were based on calculations using foreign exchange rates at the financial statement date.

The table below presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended March 26, 2011 and March 27, 2010.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Three months ended	
	March 26, 2011	March 27, 2010
<u>Auction rate securities</u>		
Beginning balance	\$ 11,377	\$ 16,212
Transfers in and/or out of Level 3	—	—
Total gains or losses (realized/unrealized):		
Included in earnings (other expenses)	(1)	—
Included in other comprehensive income	(85)	(166)
Purchases, issuances and settlements	—	—
Ending balance	\$ 11,291	\$ 16,046

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Three months ended	
	March 26, 2011	March 27, 2010
<u>Contingent Consideration</u>		
Beginning balance	\$ 5,365	\$ 9,300
Transfers in and/or out of Level 3	—	—
Total gains or losses (realized/unrealized):		
Included in (earnings) other expenses	152	100
Included in other comprehensive income	—	—
Purchases, issuances and settlements	—	—
Ending balance	\$ 5,517	\$ 9,400

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM  
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:

	March 26, 2011			December 25, 2010		
	Gross Carrying Amount	Accumulated Amortization & Impairment loss	Net Amount	Gross Carrying Amount	Accumulated Amortization & Impairment loss	Net Amount
Goodwill	\$ 1,219,898	\$ (1,017,839)	\$ 202,059	\$ 1,216,196	\$ (1,017,758)	\$ 198,438
Other intangible assets not subject to amortization:						
Research models	3,438	—	3,438	3,438	—	3,438
PCS in process R&D	6,800	—	6,800	6,800	—	6,800
Other intangible assets subject to amortization:						
Backlog	2,942	(2,190)	752	2,839	(2,109)	730
Customer relationships	310,353	(203,798)	106,555	301,175	(192,345)	108,830
Customer contracts	15,259	(15,259)	—	15,259	(15,259)	—
Trademarks and trade names	5,041	(4,642)	399	5,041	(4,614)	427
Standard operating procedures	657	(657)	—	657	(657)	—
Other identifiable intangible assets	5,464	(4,458)	1,006	5,428	(4,417)	1,011
Total other intangible assets	\$ 349,954	\$ (231,004)	\$ 118,950	\$ 340,637	\$ (219,401)	\$ 121,236

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

	Balance at December 25, 2010	Adjustments to Goodwill		Balance at March 26, 2011
		Acquisitions	Foreign Exchange/ Other	
<b>Research Models and Services</b>				
Gross carrying amount	\$ 57,876	\$ —	\$ 699	\$ 58,575
Accumulated amortization	(4,768)	—	(81)	(4,849)
<b>Preclinical Services</b>				
Gross carrying amount	1,158,320	—	3,003	1,161,323
Accumulated impairment loss	(1,005,000)	—	—	(1,005,000)
Accumulated amortization	(7,990)	—	—	(7,990)
<b>Total</b>				
Gross carrying amount	\$ 1,216,196	\$ —	\$ 3,702	\$ 1,219,898
Accumulated impairment loss	(1,005,000)	—	—	(1,005,000)
Accumulated amortization	(12,758)	—	(81)	(12,839)

## CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS (Continued)

(dollars in thousands, except per share amounts)

## 7. Long-Term Debt

*Long-Term Debt*

Long-term debt consists of the following:

	<u>March 26, 2011</u>	<u>December 25, 2010</u>
2.25% Senior convertible debentures:		
Principal	\$ 349,995	\$ 349,995
Unamortized debt discount	(32,234)	(35,583)
Net carrying amount of senior convertible debentures	317,761	314,412
Term loan facilities	538,224	386,213
Revolving credit facility	—	—
Other debt, represents secured and unsecured promissory notes, interest rates ranging from 0% to 0.5% and 0% to 0.5% at March 26, 2011 and December 25, 2010, respectively, maturing between 2010 and 2012	746	127
Total debt	<u>856,731</u>	<u>700,752</u>
Capital leases	89	100
Total debt and capital leases	<u>856,820</u>	<u>700,852</u>
Less: current portion of long-term debt and capital leases	(95,527)	(30,582)
Long-term debt and capital leases	<u>\$ 761,293</u>	<u>\$ 670,270</u>

The \$750,000 credit agreement, which has a maturity date of August 26, 2015, provides for a \$230,000 U.S. term loan, a 133,763 Euro term loan and a \$350,000 revolver. On February 24, 2011 we amended the \$750,000 credit agreement, now the \$900,000 credit agreement, primarily to provide for an incremental \$150,000 U.S. term loan and modify the leverage ratio. Under specified circumstances, we have the ability to increase the term loans and/or revolving line of credit by up to \$250,000 in the aggregate. Our obligations under the \$900,000 credit agreement are guaranteed by our material domestic subsidiaries and are secured by substantially all of our assets, including a pledge of 100% of the capital stock of our domestic subsidiaries (other than the capital stock of any domestic subsidiary that is treated as a disregarded entity for U.S. federal income tax purposes) and 65% of the capital stock of certain first-tier foreign subsidiaries and domestic disregarded entities, and mortgages on owned real property in the U.S. having a book value in excess of \$10,000. The \$400,000 term loan facility matures in 20 quarterly installments with the last installment due June 30, 2015 and the \$150,000 term loan facility matures in 18 quarterly installments with the last installment due June 30, 2015. The \$350,000 U.S. revolving facility matures on August 26, 2015 and requires no scheduled payment before that date. The \$900,000 credit agreement contains certain customary representations and warranties, affirmative covenants and events of default.

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 (1) the prime rate, (2) the federal



CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS (Continued)

(dollars in thousands, except per share amounts)

7. Long-Term Debt (Continued)

funds rate plus 0.50% or (3) the one-month adjusted LIBOR rate plus 1%) plus an applicable interest rate margin based upon the leverage ratio or the adjusted LIBOR rate plus an interest rate margin based upon our leverage ratio.

Based on our leverage ratio, the margin range for base rate loans is 0.75% to 1.5% and the margin range for LIBOR based loans is 1.75% to 2.5%. As of March 26, 2011, the interest rate margin for base rate loans was 1.5% and for adjusted LIBOR loans was 2.5%. The book value of our term and revolving loans approximates fair value.

We pledged the stock of certain subsidiaries as well as certain U.S. assets for our credit agreements. In addition, the credit agreement includes certain customary representations and warranties, events of default, notices of material adverse changes to our business and negative and affirmative covenants including the ratio of consolidated earnings before interest, taxes, depreciation and amortization less capital expenditures to consolidated cash interest expense, for any period of four consecutive fiscal quarters, of no less than 3.5 to 1.0 as well as the ratio of consolidated indebtedness to consolidated earnings before interest, taxes, depreciation and amortization for any period of four consecutive fiscal quarters, of no more than 4.00 to 1 and will step down to 3.50 to 1 with respect to the second and third fiscal quarters ending in 2012 and will step down to 3.25 to 1 with respect to the fourth fiscal quarter ending in 2012 and for each fiscal quarter thereafter. As of March 26, 2011, we were compliant with all financial covenants specified in the credit agreement. We had \$4,475 outstanding under letters of credit as of March 26, 2011.

Our \$350,000 of 2.25% Convertible Senior Notes (the 2013 Notes) due in June 2013 with interest payable semi-annually are convertible into cash for the principal amount and shares of our common stock for the conversion premium (or, at our 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 our 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: (1) during any fiscal quarter beginning after July 1, 2006 (and only during such fiscal quarter), if the last reported sale price of our 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; (2) 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 our common stock and the conversion rate on each such day; (3) upon the occurrence of specified corporate transactions, as described in the indenture for the 2013 Notes; and (4) 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, we will pay cash and shares of our common stock (or, at our election, cash in lieu of some or all of such common stock), if any. If we undergo a fundamental change as described in the indenture for the 2013 Notes, holders will have the option to require us 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.

**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS (Continued)****(dollars in thousands, except per share amounts)****7. Long-Term Debt (Continued)**

At March 26, 2011, the fair value of our outstanding 2013 Notes was approximately \$366,235 based on their quoted market value and no conversion triggers were met.

As of March 26, 2011, \$32,234 of debt discount remained and will be amortized over 9 quarters. As of March 26, 2011 and December 25, 2010, the equity component of our convertible debt was \$88,492. Interest expense related to our convertible debt of \$3,349 and \$3,132 for the quarters ended March 26, 2011 and March 27, 2010, respectively, yielded an effective interest rate of 6.93% on the liability component. In addition, \$1,969 of contractual interest expense was recognized on our convertible debt during the three months ended March 26, 2011 and March 27, 2010.

Principal maturities of existing debt which excludes unamortized debt discount for the periods set forth in the table below are as follows:

<u>Twelve months ending</u>	
March 2012	\$ 95,479
March 2013	78,173
March 2014	428,161
March 2015	195,215
March 2016	91,937
Total	<u>\$ 888,965</u>

We have capital leases for equipment. These leases are capitalized using interest rates considered appropriate at the inception of each lease. Capital lease obligations amounted to \$90 and \$100 at March 26, 2011 and December 25, 2010, respectively.

**8. Equity*****Earnings per Share***

Basic earnings per share for the three months ended March 26, 2011 and March 27, 2010 were computed by dividing earnings available to common shareowners 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 the three months ended March 26, 2011 and March 27, 2010 has been adjusted to include common stock equivalents for the purpose of calculating diluted earnings per share for these periods.

Options to purchase 4,490,167 shares and 4,434,498 shares were outstanding in each of the three respective months ended March 26, 2011 and March 27, 2010, but were not included in computing diluted earnings per share because their inclusion would have been anti-dilutive.

Basic weighted average shares outstanding for the three months ended March 26, 2011 and March 27, 2010 excluded the weighted average share impact of 761,173 and 1,002,336, respectively, of non-vested fixed restricted stock awards.

## CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS (Continued)

(dollars in thousands, except per share amounts)

## 8. Equity (Continued)

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

	Three Months Ended	
	March 26, 2011	March 27, 2010
<b>Numerator:</b>		
Income (loss) from continuing operations for purposes of calculating earnings per share	\$ 35,280	\$ 17,720
Loss from discontinued businesses	\$ (3,945)	\$ (338)
<b>Denominator:</b>		
Weighted average shares outstanding—Basic	53,937,948	65,124,451
Effect of dilutive securities:		
Stock options and contingently issued restricted stock	659,792	700,211
Weighted average shares outstanding—Diluted	54,597,740	65,824,662
Basic earnings per share from continuing operations	\$ 0.65	\$ 0.27
Basic loss per share from discontinued operations	\$ (0.07)	\$ (0.01)
Diluted earnings per share from continuing operations	\$ 0.65	\$ 0.27
Diluted loss per share from discontinued operations	\$ (0.07)	\$ (0.01)

**Treasury Shares and Accelerated Stock Repurchase Program (ASR)**

On October 20, 2010, our Board of Directors increased our stock repurchase authorization to \$750,000. In order to enable us to facilitate, on a more timely and cost efficient basis, the repurchase of a substantial number of our shares pursuant to that stock repurchase authorization we entered into agreements with a third party investment bank to implement an accelerated stock repurchase (ASR) program. We entered into an ASR on February 24, 2011 to repurchase \$150,000 of common stock. Under the ASR, we paid \$150,000 from cash on hand and available liquidity, including funds borrowed by us under our credit facility. The ASR program was recorded as two transactions allocated between the initial purchase of treasury stock and a forward contract indexed to our common stock. Upon signing the February 24, 2011 ASR we received the initial delivery of 3,759,398 shares which was recorded at \$135,860, the market value at the date of the transaction and recorded \$14,140 as a forward contract indexed to our common stock. If the actual number of shares repurchased exceeds the number of shares initially delivered, we will receive a number of additional shares equal to such excess following conclusion of the calculation period. If the actual number of shares repurchased is less than the number of shares initially delivered, we will be required, at election, to either (1) deliver a number of shares approximately equal to the difference or (2) make a cash payment equal to the value of such shares, in either case following conclusion of the calculation period. Our banker has purchased and will continue to trade shares of our common stock in the open market over the life of the ASR. The treasury shares will result in an immediate reduction of shares on our statement of financial position and in our EPS calculation. While the ASR is in effect, we will generally not be permitted to repurchase our common stock in the open market.

**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS (Continued)****(dollars in thousands, except per share amounts)****8. Equity (Continued)**

We had entered into an ASR on August 26, 2010 to repurchase \$300,000 of common stock. Under the ASR we paid \$300,000 on August 27, 2010 from cash on hand and available liquidity, including funds borrowed by us under our credit facility. We received 8,000,000 shares under the ASR during 2010. On February 11, 2011, we received the final 871,829 shares under the ASR, which were recorded at \$32,509.

Additionally, during the three months ended March 26, 2011, prior to entering into the \$150,000 ASR, we repurchased 579,200 shares for \$21,607 through open market repurchases made in reliance on Rule 10b-18.

Additionally, our 2000 Incentive Plan and 2007 Incentive Plan permit the netting of common stock upon vesting of restricted stock awards in order to satisfy individual tax withholding requirements. During the three months ended March 26, 2011 and March 27, 2010, we acquired 77,446 shares for \$2,858 and 76,722 shares for \$2,895, respectively, as a result of such withholdings.

The total number of shares repurchased during the three months ended March 26, 2011 and March 27, 2010 was as follows:

	<u>Three Months Ended</u>	
	<u>March 26, 2011</u>	<u>March 27, 2010</u>
Number of shares of common stock repurchased	5,287,873	76,722
Total cost of repurchase	\$ 192,834	\$ 2,895

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

**Warrants**

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 \$65,423.

**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS (Continued)**

(dollars in thousands, except per share amounts)

**8. Equity (Continued)**

A summary of the changes in equity for the three months ended March 26, 2011 and March 27, 2010 is provided below:

	Three Months Ended					
	March 26, 2011			March 27, 2010		
	Shareowners' Equity	Noncontrolling Interest	Total Equity	Shareowners' Equity	Noncontrolling Interest	Total Equity
Equity, beginning of the period	\$ 687,423	\$ 1,304	\$ 688,727	\$ 1,375,243	\$ (1,419)	\$1,373,824
Components of comprehensive income, net of tax:						
Net income	31,335	97	31,432	17,382	(382)	17,000
Foreign currency translation adjustment	8,180	12	8,192	(11,847)	(2)	(11,849)
Amortization of pension, net gain/loss and prior service cost	125	—	125	51	—	51
Unrealized loss on marketable securities	(85)	—	(85)	35	—	35
<b>Total comprehensive income</b>	<b>39,555</b>	<b>109</b>	<b>39,664</b>	<b>5,621</b>	<b>(384)</b>	<b>5,237</b>
Dividends paid noncontrolling interest	—	—	—	—	(270)	(270)
Tax detriment associated with stock issued under employee compensation plans	(883)	—	(883)	(264)	—	(264)
Issuance of stock under employee compensation plans	5,369	—	5,369	1,152	—	1,152
Acquisition of treasury shares	(160,325)	—	(160,325)	(2,895)	—	(2,895)
Acquisition of ASR equity instrument	(14,140)	—	(14,140)	—	—	—
Stock-based compensation	5,919	—	5,919	6,904	—	6,904
<b>Equity, end of the period</b>	<b>\$ 562,918</b>	<b>\$ 1,413</b>	<b>\$ 564,331</b>	<b>\$ 1,385,761</b>	<b>\$ (2,073)</b>	<b>\$1,383,688</b>

**9. Income Taxes**

The following table provides a reconciliation of the provision for income taxes on the condensed consolidated statements of operations:

	Three Months Ended	
	March 26, 2011	March 27, 2010
Income from continuing operations before income taxes	\$ 32,662	\$ 24,075
Effective tax rate	(8.3)%	28.0%
Provision for income taxes	\$ (2,715)	\$ 6,737

Our overall effective tax rate was (8.3)% in the first quarter of 2011 and 28.0% in the first quarter of 2010. The change was primarily attributable to an \$11,111 tax benefit recorded in the first quarter of 2011 associated with a tax loss incurred with the disposition of the Company's Phase I clinical business. Additionally, there was an increase in tax rate benefits in the first quarter of 2011 in comparison to the first quarter of 2010 resulting from the Canadian Scientific Research and Experimental Development credits (SR&ED credits).

**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS (Continued)**

**(dollars in thousands, except per share amounts)**

**9. Income Taxes (Continued)**

In accordance with Canadian Federal tax law, we claim SR&ED credits on qualified research and development costs incurred by our PCS facility in Canada in the performance of projects for non-Canadian customers. Additionally, in accordance with the tax law of the United Kingdom, we claim enhanced deductions related to qualified research and development costs incurred by our Preclinical service facility in Edinburgh, Scotland in the performance of certain customer contracts.

During the fourth quarter of 2010, we took actions to divest the Company's Phase I clinical business. We recorded in discontinued operations a deferred tax asset associated with the excess of the tax outside basis over the basis for financial reporting purposes of the Phase I clinical business. As of the fourth quarter, we determined that it was not more-likely-than-not that the Company would realize this deferred tax asset and recorded a valuation allowance against it as part of discontinued operations. During the first quarter of 2011, we determined that the tax loss would more-likely-than-not be benefited as a worthless stock deduction. As such, we eliminated the valuation allowance recorded to offset the tax loss on the Phase I clinical business, and recognized the benefit in continuing operations.

During the first quarter of 2011, our unrecognized tax benefits recorded increased by \$1,379 to \$34,807 primarily due to ongoing evaluation of uncertain tax positions in the current period and foreign exchange movement. The amount of unrecognized tax benefits that would impact the effective tax rate favorably if recognized increased by \$1,077 to \$29,533, and the amount of accrued interest on unrecognized tax benefits increased by \$200 to \$2,513 in the first quarter of 2011.

We conduct business in a number of tax jurisdictions. As a result, we are subject to tax audits in jurisdictions including, but not limited to, the United States, the United Kingdom, Japan, France, Germany and Canada. With few exceptions, we are no longer subject to U.S. and international income tax examinations for years before 2003.

We and certain of our subsidiaries are currently under audit by the German Tax Office and various state tax authorities. During the first quarter, we received a tax assessment from the German tax office. We do not agree with the assessment and filed an appeal during the quarter. As part of the appeal, we were required to make a payment of the tax and interest assessed. We do not believe that resolution of this controversy will have a material impact on our financial position or results of operations.

Additionally, we are challenging the reassessments received by the Canada Revenue Agency (CRA) with respect to the SR&ED credits claimed in 2003 and 2004 by our Canadian Preclinical Services subsidiary in the Tax Court of Canada (TCC). In the fourth quarter of 2009 and the first quarter of 2010, we filed Notices of Appeal with the TCC and received the Crown's response in the second quarter of 2010. In a related development, during the first quarter of 2010 we received Notices of Reassessment from the Minister of Revenue of Quebec (MRQ) provincial tax authorities with respect to the Quebec Research and Development tax credit. We filed Notices of Objection with the MRQ in the second quarter of 2010. We disagree with the positions taken by the CRA and MRQ with regard to the credits claimed. We believe that it is reasonably possible that we will conclude the controversies with the TCC and MRQ within the next twelve months. However, pending resolution of the reassessments with the TCC, it is possible that the CRA and MRQ will propose similar adjustments for later years. We do not believe that resolution of these controversies will have a material impact on our financial position, cash flows or results of operations.

**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS (Continued)**

(dollars in thousands, except per share amounts)

**9. Income Taxes (Continued)**

We believe we have appropriately provided for all unrecognized tax benefits.

In accordance with our policy, the undistributed earnings of our non-U.S. subsidiaries remain indefinitely reinvested as of the end of the first quarter of 2011 as they are required to fund needs outside the U.S. and cannot be repatriated in a manner that is substantially tax free.

**10. Employee Benefits**

The following table provides the components of net periodic benefit cost for our defined benefit plans:

	Pension Benefits		Supplemental Retirement Benefits	
	March 26, 2011	March 27, 2010	March 26, 2011	March 27, 2010
Service cost	\$ 766	\$ 652	\$ 159	\$ 149
Interest cost	3,022	2,841	300	335
Expected return on plan assets	(3,388)	(3,130)	—	—
Amortization of prior service cost	(154)	(151)	125	125
Amortization of net loss (gain)	239	178	53	38
Net periodic benefit cost	\$ 485	\$ 390	\$ 637	\$ 647
Company contributions	\$ 3,591	\$ 301	\$ —	\$ —

During 2011, we expect to contribute a total of \$9,286 to our plans.

**11. Stock-Based Compensation**

The estimated fair value of our stock-based awards, less expected forfeitures, is amortized over the awards' vesting period on a straight-line basis. The following table presents stock-based compensation included in our consolidated statements of operations:

	Three Months Ended	
	March 26, 2011	March 27, 2010
Stock-based compensation expense in:		
Cost of sales	\$ 1,678	\$ 1,995
Selling and administration	4,241	4,862
Income before income taxes	5,919	6,857
Provision for income taxes	(2,119)	(2,478)
Net income attributable to common shareowners	\$ 3,800	\$ 4,379

We did not capitalize any stock-based compensation related costs for the three months ended March 26, 2011 and March 27, 2010.

## CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS (Continued)

(dollars in thousands, except per share amounts)

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

The fair value of stock-based awards granted during the first three months of 2011 and 2010 was estimated on the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Options Granted In:	
	2011	2010
Expected life (in years)	4.2	4.5
Expected volatility	33.5%	34.0%
Risk-free interest rate	2.23%	2.35%
Expected dividend yield	0.0%	0.0%
Weighted-average grant date fair value	\$ 11.29	\$ 11.96

**Stock Options**

The following table summarizes the stock option activity in the equity incentive plans for the three months ended March 26, 2011:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Options outstanding as of December 25, 2010	6,594,313	\$ 37.87		
Options granted	853,450	\$ 37.05		
Options exercised	(199,915)	\$ 26.84		
Options canceled	(332,177)	\$ 44.38		
Options outstanding as of March 26, 2011	6,915,671	\$ 37.77	4.34 years	\$ 29,802
Options exercisable as of March 26, 2011	4,220,501	\$ 39.85	3.38 years	\$ 15,834

As of March 26, 2011, the unrecognized compensation cost related to 2,506,508 unvested stock options expected to vest was \$24,515. This unrecognized compensation will be recognized over an estimated weighted-average amortization period of 35 months.

The total intrinsic value of options exercised during the three months ended March 26, 2011 and March 27, 2010 was \$2,128 and \$488, respectively. Intrinsic value is defined as the difference between the market price on the date of exercise and the grant date price. The total amount of cash received from the exercise of options during the three months ended March 26, 2011 and March 27, 2010 was \$5,239 and \$1,152, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled \$741 and \$139 for the three months ending March 26, 2011 and March 27, 2010, respectively. A charge of \$883 was recorded in capital in excess of par value in the first quarter for the excess of deferred tax assets over the actual tax benefits at option exercise.

We settle employee stock option exercises with newly issued common shares.



## CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS (Continued)

(dollars in thousands, except per share amounts)

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

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

The following table summarizes the restricted stock activity from December 25, 2010 through March 26, 2011:

	<u>Restricted Stock</u>	<u>Weighted Average Grant Date Fair Value</u>
Outstanding December 25, 2010	777,740	\$ 35.97
Granted	262,780	\$ 37.05
Vested	(264,481)	\$ 38.32
Canceled	(14,866)	\$ 34.69
Outstanding March 26, 2011	<u>761,173</u>	<u>\$ 35.55</u>

As of March 26, 2011, the unrecognized compensation cost related to 707,891 shares of unvested restricted stock expected to vest was \$23,817. This unrecognized compensation will be recognized over an estimated weighted-average amortization period of 34 months. The total fair value of restricted stock grants that vested during the three months ended March 26, 2011 and March 27, 2010 was \$10,136 and \$9,104, respectively.

**Performance Based Stock Award Program**

During the three months ending March 26, 2011 and March 27, 2010, compensation expense of \$54 and \$180, respectively, was recorded associated with performance based stock awards.

**12. Commitments and Contingencies**

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

**13. Business Segment Information**

We report two segments, called Research Models and Services (RMS) and Preclinical Services (PCS). Operating segments are components of an enterprise for 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.

Our RMS segment includes sales of research models, genetically engineered models and services (GEMS), consulting and staffing services (CSS), research animal diagnostics, discovery services, *in vitro* and avian vaccine services. Our PCS segment includes services required to take a drug through the

**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS (Continued)**

(dollars in thousands, except per share amounts)

**13. Business Segment Information (Continued)**

development process including toxicology, pathology services, bioanalysis, pharmacokinetics and drug metabolism, discovery support and biopharmaceutical services.

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.

	Three Months Ended	
	March 26, 2011	March 27, 2010
<b>Research Models and Services</b>		
Net sales	\$ 173,371	\$ 172,205
Gross margin	73,839	74,279
Operating income	51,742	49,984
Depreciation and amortization	9,269	9,721
Capital expenditures	4,403	4,960
<b>Preclinical Services</b>		
Net sales	\$ 112,472	\$ 120,082
Gross margin	28,799	24,926
Operating income	9,306	429
Depreciation and amortization	11,996	13,859
Capital expenditures	2,387	4,333

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

	Three Months Ended	
	March 26, 2011	March 27, 2010
Total segment operating income	\$ 61,048	\$ 50,413
Unallocated corporate overhead	(18,797)	(20,219)
Consolidated operating income	<u>\$ 42,251</u>	<u>\$ 30,194</u>

Net sales for each significant service area are as follows:

	Three Months Ended	
	March 26, 2011	March 27, 2010
Research models	\$ 93,400	\$ 94,673
Research model services	51,975	51,155
Other products	27,996	26,377
Total research models	173,371	172,205
Total preclinical services	112,472	120,082
Total sales	<u>\$ 285,843</u>	<u>\$ 292,287</u>

## CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS (Continued)

(dollars in thousands, except per share amounts)

**13. Business Segment Information (Continued)**

A summary of unallocated corporate overhead consists of the following:

	Three Months Ended	
	March 26, 2011	March 27, 2010
Stock-based compensation expense	\$ 2,986	\$ 3,037
U.S. retirement plans	1,057	1,018
Audit, tax and related expenses	755	713
Salary and bonus	4,693	5,104
Global IT	3,362	3,226
Employee health and fringe cost	1,639	1,764
Consulting and professional services	1,331	2,216
Depreciation	1,581	1,163
Other general unallocated corporate expenses	1,393	1,978
	<u>\$ 18,797</u>	<u>\$ 20,219</u>

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

**14. Discontinued Operations**

During the fourth quarter of 2010, we initiated actions to divest our Phase I clinical business. We engaged an investment banker and were actively trying to sell the Phase I clinical business at year end. On December 25, 2010, taking into account the planned divestiture of the Phase I clinical business, we performed an impairment test on the long-lived assets of the Phase I clinical business. Based on this analysis, the Company determined that the book value of assets assigned to the Phase I clinical business exceeded its future cash flows, which included the anticipated proceeds from the sale of the business, and therefore recorded an impairment of the assets of \$6,402 during 2010.

For the three months ended March 26, 2011, the discontinued businesses recorded a pretax loss from operations of \$5,202 which included additional asset impairment charges of \$3,911. We disposed of our Phase I clinical business in our second quarter on March 28, 2011.

## CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS (Continued)

(dollars in thousands, except per share amounts)

**14. Discontinued Operations (Continued)**

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:

	<u>March 26, 2011</u>	<u>March 27, 2010</u>
Net sales	\$ 2,112	\$ 5,058
Loss from operations of discontinued businesses, before income taxes	(5,202)	(594)
Benefit for income taxes	(1,257)	(256)
Loss from operations of discontinued businesses, net of taxes	<u>\$ (3,945)</u>	<u>\$ (338)</u>

Assets and liabilities of discontinued operations at March 26, 2011 and December 25, 2010 consisted of the following:

	<u>March 26, 2011</u>	<u>December 25, 2010</u>
Current assets	\$ 1,078	\$ 3,862
Long-term assets	—	822
Total assets	<u>\$ 1,078</u>	<u>\$ 4,684</u>
Current liabilities	\$ 3,626	\$ 3,284
Long-term liabilities	—	—
Total liabilities	<u>\$ 3,626</u>	<u>\$ 3,284</u>

Current assets included accounts receivable and prepaid income taxes. Non-current assets included a long-term deferred tax asset. Current liabilities consisted of accounts payable, deferred income and accrued expenses.

**15. Subsequent Events**

On March 28, 2011, we disposed of our Phase I clinical business. Additionally, we have evaluated the impact of any subsequent events through the date these financial statements were issued, and determined there were no other subsequent events requiring disclosure in or adjustment to these financial statements.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our condensed consolidated financial statements and the related notes.

### Overview

We are a leading global provider of solutions that advance the drug discovery and development process, including research models and associated services and outsourced preclinical services. We provide our products and services to global pharmaceutical companies and biotechnology companies, as well as government agencies, and leading hospitals and academic institutions throughout the world in order to bring drugs to market faster and more efficiently. Our broad portfolio of products and services enables our customers to reduce costs, increase speed to market and enhance their productivity and effectiveness in drug discovery and development. We have built upon our core competency of *in vivo* biology, including laboratory animal medicine and science (research model technologies) to develop a diverse and growing portfolio of regulatory compliant preclinical services which address drug discovery and development in the preclinical arena. We have been in business for over 60 years and currently operate approximately 68 facilities in 16 countries worldwide.

The market for our goods and services appears to be stabilizing but we are uncertain as to when the unfavorable market factors, which continue to negatively impact our results of operations, will abate. These market factors, which have existed since 2008 include: measured research and development spending by major pharmaceutical and biotechnology companies due to the impact of the slower economy and a goal of reducing the cost of drug development; significant impact from consolidations in the pharmaceutical and biotechnology industry; significant patent expirations; delays in customer decisions and commitments; tight cost constraints by our customers and recognition of excess preclinical capacity within our industry which has resulted in pricing pressure; a focus on late-stage clinical testing as customers accelerate their efforts to bring drugs to market in the face of expiration of patents on branded drugs; and the impact of healthcare reform initiatives. All of these ongoing factors contribute to demand uncertainty and impacted sales in 2010 and continue to do so in 2011.

As we look forward, we continue to anticipate that demand, particularly for Preclinical Services (PCS), will begin to ramp up as our customers reinvigorate their early-stage drug development pipelines, continue to choose outsourcing of services to improve the effectiveness and cost efficiency of their drug development efforts, and reduce their internal capacity through closure of underutilized facilities. We believe that increased focus on strategic outsourcing by our customers should result in the expansion of strategic relationships with a reduced and limited number of partners, which will drive demand for our services. We believe that the long-term drivers for our business as a whole will primarily emerge from our customers' continued demand for research models and services and regulatory compliant preclinical services, which are essential to the drug development process. However, presently it is challenging to predict the timing associated with these drivers.

In 2011 we are intensifying our focus on our four key initiatives designed to allow us to drive profitable growth and to maximize value for shareholders, and thus better position ourselves to operate successfully in the current and future business environment. These four initiatives are:

- *Improving the consolidated operating margin.* By continuing to aggressively manage our cost structure and drive operating efficiencies, we expect to generate improving operating margins, depending on the strength of recovery in demand for preclinical services. We have already implemented significant actions to reduce costs during the last two years to manage challenging industry-wide preclinical market conditions. These actions were the primary drivers of our margin increase in the first quarter of 2011.

- *Improving free cash flow generation.* We currently believe we have adequate capacity to support revenue growth in both business segments without significant additional investment for expansion. Improved operating margins, elimination of operating losses with the sale our Phase I clinical business early in the second quarter of 2011 and minimal requirements for capital expansion should contribute to strong cash flow generation.
- *Disciplined investment in growth businesses.* We expect to maintain a disciplined focus on deployment of capital, investing in those areas of our existing business which will generate the greatest sales growth and profitability, such as GEMS, Discovery Services, In Vitro products and Biopharmaceutical Services.
- *Returning value to shareholders.* On October 20, 2010, our Board of Directors increased the stock repurchase authorization to \$750.0 million. Repurchasing our stock is intended to drive immediate shareholder value and earnings per share accretion. Under the authorization, in 2011 we continued a substantial stock repurchase program, including another ASR for \$150 million, at the inception of which we received 3.8 million shares. Additionally, we received the final 0.9 million shares under the 2010 ASR in February 2011.

Total net sales during the first quarter of 2011 were \$285.8 million, a decrease of 2.2% over the same period last year. The sales decrease was primarily the result of lower demand for PCS services due to reduced biopharmaceutical spending. The effect of foreign currency translation increased sales by 0.8%. Our gross margin increased to 35.9% of net sales, compared to 33.9% of net sales for the first quarter of 2010, due primarily to the impact of managing of our cost structure. Our operating income for the first quarter of 2011 was \$42.3 million compared to \$30.2 million for the first quarter of 2010, an increase of 39.9% due to increased gross margin and lower operating expenses. The operating margin was 14.8% for the first quarter of 2011, compared to 10.3% for the first quarter of 2010.

Our net income attributable to common shareholders was \$31.3 million for the three months ended March 26, 2011, compared to \$17.4 million for the three months ended March 27, 2010. The increase was primarily due to increased operating earnings and the tax benefit related to the disposition of our Phase I clinical business. Diluted earnings per share for the first quarter of 2011 were \$0.57, compared to \$0.26 for the first quarter of 2010.

We report two segments: RMS and PCS, which reflects the manner in which our operating units are managed.

Our RMS segment, which represented 60.7% of net sales in the first quarter of 2011, includes three categories; production of research models, research model services, and other products. Research model services include four business units; genetically engineered models and services (GEMS), research animal diagnostics (RADS), discovery services (DS), and consulting and staffing services (CSS). Other products include vaccine support and In Vitro products. Net sales for this segment increased 0.7% compared to the first quarter of 2010, due primarily to favorable foreign currency translation of 0.7%. The gross margin percentage decreased to 42.6% from 43.1% primarily due to the impact of our fixed costs with flat sales partially offset by cost savings. The operating margin percentage increased to 29.8% from 29.0% due primarily to the impact of managing of our cost structure.

Our PCS segment, which represented 39.3% of net sales in the first quarter of 2011, includes services required to take a drug through the development process including discovery support, toxicology, pathology, biopharmaceutical, bioanalysis, pharmacokinetics and drug metabolism services. Sales for this segment decreased 6.3% compared to the first quarter of 2010. The sales decrease was driven by reduced biopharmaceutical spending, which resulted in lower demand for our services, offset by favorable foreign currency translation of 0.1%. We experienced increases in both the PCS gross and

operating margin percentages (to 25.6% from 20.8% and to 8.3% from 0.4%, respectively), mainly as a result of the impact of managing of our cost structure.

Our unallocated corporate headquarters costs decreased to \$18.8 million in the first quarter of 2011, from \$20.2 million in the first quarter of 2010, due to the impact of our cost savings programs.

### **Three Months Ended March 26, 2011 Compared to Three Months Ended March 27, 2010**

**Net Sales.** Net sales for the three months ended March 26, 2011 were \$285.8 million, a decrease of \$6.5 million, or 2.2%, from \$292.3 million for the three months ended March 27, 2010.

**Research Models and Services.** For the three months ended March 26, 2011, net sales for our RMS segment were \$173.4 million, an increase of \$1.2 million, or 0.7%, from \$172.2 million for the three months ended March 27, 2010, due primarily to favorable foreign currency translation of 0.7%.

**Preclinical Services.** For the three months ended March 26, 2011, net sales for our PCS segment were \$112.5 million, a decrease of \$7.6 million, or 6.3%, from \$120.1 million for the three months ended March 27, 2010. The decrease in PCS sales was primarily due to lower volumes and pricing for preclinical services, partially offset by favorable foreign currency translation which increased our net sales by 0.9%.

**Cost of Products Sold and Services Provided.** Cost of products sold and services provided during the first quarter of 2011 was \$183.2 million, a decrease of \$9.9 million, or 5.1%, from \$193.1 million during the first quarter of 2010. Cost of products sold and services provided during the three months ended March 26, 2011 was 64.0% of net sales, compared to 66.1% during the three months ended March 27, 2010.

**Research Models and Services.** Cost of products sold and services provided for RMS during the first quarter of 2011 was \$99.5 million, an increase of \$1.6 million, or 1.6%, compared to \$97.9 million in 2010. Cost of products sold and services provided for the three months ended March 26, 2011 increased to 57.3% of net sales compared to 56.9% of net sales for the three months ended March 27, 2010. The increase in cost as a percentage of sales was due to the impact of our fixed costs, partially offset by the cost savings programs.

**Preclinical Services.** Cost of services provided for the PCS segment during the first quarter of 2011 was \$83.7 million, a decrease of \$11.5 million, or 12.1%, compared to \$95.2 million in 2010. Cost of services provided as a percentage of net sales was 74.4% during the three months ended March 26, 2011, compared to 79.2% for the three months ended March 27, 2010. The decrease in cost of services provided as a percentage of net sales was primarily due to a cost savings actions, partially offset by the continued impact of lower sales.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses for the three months ended March 26, 2011 were \$55.0 million, a decrease of \$7.3 million, or 11.8%, from \$62.3 million for the three months ended March 27, 2010. Selling, general and administrative expenses during the first quarter of 2011 were 19.2% of net sales compared to 21.3% of net sales during the first quarter of 2010.

**Research Models and Services.** Selling, general and administrative expenses for RMS for the first quarter of 2011 were \$20.4 million, a decrease of \$1.5 million, or 6.9%, compared to \$21.9 million in 2010. Selling, general and administrative expenses decreased as a percentage of sales to 11.7% for the three months ended March 26, 2011 from 12.7% for the three months ended March 27, 2010. The decrease in selling, general and administrative expenses as a percent of sales was primarily due to cost-savings actions and the tight expense control.

**Preclinical Services.** Selling, general and administrative expenses for the PCS segment during the first quarter of 2011 were \$15.8 million, a decrease of \$4.4 million, or 21.8%, compared to \$20.2 million during the first quarter of 2010. Selling, general and administrative expenses for the three months ended March 26, 2011 decreased to 14.1% of net sales, compared to 16.8% of net sales for the three months ended March 27, 2010 due mainly tight expense control.

**Unallocated Corporate Overhead.** Unallocated corporate overhead, which consists of various costs primarily related to activities centered at our corporate headquarters, such as compensation (including stock-based compensation), information systems, compliance and facilities expenses associated with our corporate, administration and professional services functions was \$18.8 million during the three months ended March 26, 2011, compared to \$20.2 million during the three months ended March 27, 2010. The decrease was due to the cost-savings actions.

**Amortization of Other Intangibles.** Amortization of other intangibles for the three months ended March 26, 2011 was \$5.4 million, a decrease of \$1.3 million from \$6.7 million for the three months ended March 27, 2010. Amortization expense decreased as a percentage of sales to 1.9% for the three months ended March 26, 2011 from 2.3% for the three months ended March 27, 2010.

**Research Models and Services.** In the first quarter of 2011, amortization of other intangibles for our RMS segment was \$1.7 million, a decrease of \$0.7 million from \$2.4 million in the first quarter of 2010.

**Preclinical Services.** For the three months ended March 26, 2011, amortization of other intangibles for our PCS segment was \$3.7 million, a decrease of \$0.6 million from \$4.3 million for the three months ended March 27, 2010.

**Operating Income.** Operating income for the quarter ended March 26, 2011 was \$42.3 million, an increase of \$12.1 million, or 39.9%, from \$30.2 million for the quarter ended March 27, 2010. Operating income as a percentage of net sales for the three months ended March 26, 2011 was 14.8% compared to 10.3% for the three months ended March 27, 2010 due primarily to the impact of cost-savings actions partially offset by the impact of lower sales.

**Research Models and Services.** For the first quarter of 2011, operating income for our RMS segment was \$51.7 million, an increase of \$1.7 million, or 3.5%, from \$50.0 million in 2010. Operating income as a percentage of net sales for the three months ended March 26, 2011 was 29.8%, compared to 29.0% for the three months ended March 27, 2010. The increase in operating income as a percentage of net sales was primarily due to cost-savings actions.

**Preclinical Services.** For the three months ended March 26, 2011, operating income for our PCS segment was \$9.3 million, an increase of \$8.9 million, or 2,069.2%, from \$0.4 million for the three months ended March 27, 2010. Operating income as a percentage of net sales increased to 8.3% compared to 0.4% of net sales in 2010. The increase in operating income as a percentage of net sales was primarily due to cost-savings actions partially offset by lower sales.

**Unallocated Corporate Overhead.** For the three months ended March 26, 2011, operating loss from our Corporate segment was \$18.8 million, a decrease of \$1.4 million, or 7.0%, compared to a loss of \$20.2 million in 2010. The decrease was due the impact of cost savings programs.

**Interest Expense.** Interest expense for the first quarter of 2011 was \$10.0 million compared to \$6.0 million in the first quarter of 2010. The increase was due primarily to increased borrowing and, fees and higher interest rates in connection with the amendment to the \$900.0 million credit agreement.



**Interest Income.** Interest income for the first quarter of 2011 was \$0.4 million, unchanged from the first quarter of 2010.

**Income Taxes.** Income tax expense for the three months ended March 26, 2011 was a benefit of \$2.7 million, a decrease of \$9.4 million compared to tax expense of \$6.7 million for the three months ended March 27, 2010. Our effective tax rate was (8.3)% for the first quarter of 2011, compared to 28.0% for the first quarter of 2010. The change in the effective tax rate for the three months ended March 26, 2011 was primarily due to the recognition of an \$11.1 million tax benefit from the tax loss on the disposition of the Company's Phase I clinical business and increased benefits from Canadian SR&ED credits.

**Net Income Attributable to Common Shareowners.** Net income attributable to common shareowners for the quarter ended March 26, 2011 was \$31.3 million, an increase of \$13.9 million, or 80.3%, from \$17.4 million for the quarter ended March 27, 2010.

## 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, our marketable securities and our revolving line of credit arrangements.

The \$750.0 million credit agreement, which has a maturity date of August 26, 2015, provides for a \$230.0 million U.S. term loan, a 133,763 Euro term loan and a \$350,000 revolver. On February 24, 2011 we amended the \$750.0 million credit agreement, now the \$900.0 million credit agreement, primarily to provide for an incremental \$150.0 million U.S. term loan and modify the leverage ratio. Under specified circumstances, we have the ability to increase the term loans and/or revolving line of credit by up to \$250.0 million in the aggregate. Our obligations under the \$900.0 million credit agreement are guaranteed by our material domestic subsidiaries and are secured by substantially all of our assets, including a pledge of 100% of the capital stock of our domestic subsidiaries (other than the capital stock of any domestic subsidiary that is treated as a disregarded entity for U.S. federal income tax purposes) and 65% of the capital stock of certain first-tier foreign subsidiaries and domestic disregarded entities, and mortgages on owned real property in the U.S. having a book value in excess of \$10.0 million. The \$400.0 million term loan facility matures in 20 quarterly installments with the last installment due June 30, 2015 and the \$150.0 million term loan facility matures in 18 quarterly installments with the last installment due June 30, 2015. The \$350.0 million U.S. revolving facility matures on August 26, 2015 and requires no scheduled payment before that date. The \$900.0 million credit agreement contains certain customary representations and warranties, affirmative covenants and events of default.

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 (1) the prime rate, (2) the federal funds rate plus 0.50% or (3) the one-month adjusted LIBOR rate plus 1%) plus an applicable interest rate margin based upon the leverage ratio or the adjusted LIBOR rate plus an interest rate margin based upon our leverage ratio.

Based on our leverage ratio, the margin range for base rate loans is 0.75% to 1.5% and the margin range for LIBOR based loans is 1.75% to 2.5%. As of March 26, 2011, the interest rate margin for base rate loans was 1.5% and for adjusted LIBOR loans was 2.5%. The book value of our term and revolving loans approximates fair value.

We pledged the stock of certain subsidiaries as well as certain U.S. assets for our credit agreements. In addition, the credit agreement includes certain customary representations and warranties, events of default, notices of material adverse changes to our business and negative and

affirmative covenants including the ratio of consolidated earnings before interest, taxes, depreciation and amortization less capital expenditures to consolidated cash interest expense, for any period of four consecutive fiscal quarters, of no less than 4.00 to 1 and will step down to 3.50 to 1 with respect to the second and third fiscal quarters ending in 2012 and will step down to 3.25 to 1 with respect to the fourth fiscal quarter ending in 2012 and for each fiscal quarter thereafter. As of March 26, 2011, we were compliant with all financial covenants specified in the credit agreement. We had \$4.5 million outstanding under letters of credit as of March 26, 2011.

In order to enable us to facilitate, on a more timely and cost efficient basis, the repurchase of a substantial number of our shares pursuant to our \$750.0 million stock repurchase authorization approved, by our Board of Directors in 2010, we entered into agreements with a third party investment bank to implement an accelerated stock repurchase (ASR) program. We had entered into an ASR on August 26, 2010 to repurchase \$300.0 million of common stock. Under that ASR, we paid \$300.0 million on August 27, 2010 from cash on hand and available liquidity, including funds borrowed by us under our credit facility. We received 8,000,000 shares under the ASR during 2010. On February 11, 2011, we received the final 871,829 shares under the ASR, which were recorded at \$32.5 million.

Following completion of the \$300.0 million ASR, we entered into another ASR on February 24, 2011 to repurchase \$150.0 million of common stock. Under that ASR, we paid \$150.0 million from cash on hand and available liquidity, including funds borrowed by us under our credit facility. The ASR program was recorded as two transactions allocated between the initial purchase of treasury stock and a forward contract indexed to our common stock. Upon signing the February 24, 2011 ASR we received the initial delivery of 3,759,398 shares which was recorded at \$135.9 million, the market value at the date of the transaction and recorded \$14.1 million as a forward contract indexed to our common stock. Receipt of the shares resulted in an immediate reduction of shares on our statement of financial position and in our EPS calculation. If the actual number of shares repurchased exceeds the number of shares initially delivered, we will receive a number of additional shares equal to such excess following conclusion of the calculation period. If the actual number of shares repurchased is less than the number of shares initially delivered, we will be required, at election, to either (1) deliver a number of shares approximately equal to the difference or (2) make a cash payment equal to the value of such shares, in either case following conclusion of the calculation period. Our banker has purchased and will continue to trade shares of our common stock in the open market over the life of the ASR. The treasury shares will result in an immediate reduction of shares on our statement of financial position and in our EPS calculation. While the ASR is in effect, we will generally not be permitted to repurchase our common stock in the open market.

As of March 26, 2011, we had \$25.8 million in marketable securities with \$14.5 million in time deposits and \$11.3 million in auction rate securities rated AAA by a major credit rating agency. Our auction rate securities are guaranteed by U.S. federal agencies. The current overall credit concerns in the capital markets as well as the failed auction status of these securities have impacted our ability to liquidate our auction rate securities. If the auctions for the securities we own continue to fail, the investment may not be readily convertible to cash until a future auction of these investments is successful. Based on our ability to access our cash and other short-term investments, our expected operating cash flows and other sources of cash, we do not anticipate the current lack of liquidity on these investments will affect our ability to operate our business as usual.

In 2006, we issued \$350.0 million of 2.25% Convertible Senior Notes (the 2013 Notes) due in 2013. At March 26, 2011, the fair value of our outstanding 2013 Notes was approximately \$366.2 million based on their quoted market value. During the first quarter of 2011, no conversion triggers were met.

Cash and cash equivalents totaled \$158.7 million at March 26, 2011, compared to \$179.2 million at December 25, 2010.

Net cash provided by operating activities for the three months ending March 26, 2011 and March 27, 2010 was \$21.4 million and \$27.9 million, respectively. The decrease in cash provided by operations was primarily due to tax payments and deferred revenue, partially offset by accounts receivable. The tax benefit related to the disposition of the Phase I clinical business, which increased net income in the first quarter of 2011, will be realized in cash in future quarters. Our days sales outstanding (DSO) increased to 49 days as of March 26, 2011 compared to 45 days as of December 25, 2010, and 46 days as of March 27, 2010. Our DSO includes deferred revenue as an offset to accounts receivable in the calculation. The increase in our DSO was primarily driven by slower collections and decreased deferred revenue. Our net cash provided by operating activities will be impacted by future timing of customer payments for products and services as evidenced in our DSO. A one-day increase or decrease in our DSO represents a change of approximately \$3.0 million of cash provided by operating activities. Our allowance for doubtful accounts was \$5.2 million as of March 26, 2011 compared to \$4.8 million as of December 25, 2010 and \$5.4 million as of March 27, 2010.

Net cash provided by (used in) investing activities for the three months ending March 26, 2011 and March 27, 2010 was \$(12.5) million and \$34.2 million, respectively. Our capital expenditures during the first three months of 2010 were \$6.8 million, of which \$4.4 million was related to RMS and \$2.4 million to PCS. For 2011, we project capital expenditures to be approximately \$50.0 million. We anticipate that future capital expenditures will be funded by operating activities, marketable securities and existing credit facilities. During the first three months of 2011, we sold \$3.6 million and \$50.2 million of marketable securities, respectively.

Net cash used in financing activities for the three months ending March 26, 2011 and March 27, 2010 was \$29.3 million and \$23.3 million, respectively. Proceeds from long-term debt were \$150.6 million and \$1.0 million for the three months ending March 26, 2011 and March 27, 2010, respectively. Payments on long-term debt and revolving credit agreements were \$9.8 million and \$22.7 million for the three months ending March 26, 2011 and March 27, 2010, respectively. During the first three months of 2011, we paid \$174.5 million for treasury stock and shares of common stock acquired through our ASR compared to \$2.9 million in 2010.

### **New Accounting Pronouncements**

In January 2010, the FASB issued an accounting standard update that requires new disclosures related to fair value measurements. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. In addition, in the reconciliation for fair value measurements using significant unobservable inputs (Level 3), an entity should present separately information about purchases, sales, issuances and settlements on a gross basis rather than as one net number. This update also clarifies existing disclosures by requiring fair value measurement disclosures for each class of assets and liabilities as well as disclosures about inputs and valuation techniques for fair value measurements that fall into Level 2 or Level 3. This update also includes conforming amendments to the guidance on employers' disclosures about postretirement benefit plans that changes the terminology from *major categories* of assets to *classes* of assets. This update was effective for us on December 27, 2009 and has increased the fair value disclosures made in our consolidated financial statements.

In April 2010, the FASB issued an accounting standard update to provide guidance on defining a milestone in regards to revenue recognition, and for determining whether the milestone method of revenue recognition is appropriate. An entity can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone meets all the criteria to be considered substantive. Determining whether a milestone is substantive is a matter of judgment made at the inception of the arrangement. The amendment was effective for us on December 26, 2010.

## **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. Because the conversion features associated with these notes are indexed to our common stock and classified in stockholders' equity, these instruments are not accounted for as derivatives.

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

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

### **Interest Rate Risk**

We have entered into the \$900.0 million credit agreement (amended and restated as of August 26, 2010 and further amended on February 24, 2011). 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 and revolving credit facility in the \$900 million credit agreement.

Our potential additional interest expense over one year that would result from a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rate would be approximately \$8.9 million on a pre-tax basis. The book value of our debt approximates fair value.

We issued \$350.0 million of the 2013 Notes in a private placement in the second quarter of 2006. The Convertible 2013 Notes bear an interest rate of 2.25%. The fair market value of the outstanding notes was approximately \$366.2 million on March 26, 2011 based on their quoted market value.

### **Foreign Currency Exchange Rate Risk**

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

During 2011 and 2010, we have utilized foreign exchange contracts, principally to hedge the impact of currency fluctuations on customer transactions and certain balance sheet items, including intracompany loans. The foreign currency contract outstanding as of March 26, 2011 is a non-designated hedge, and is marked to market with changes in fair value recorded to earnings.

## **Item 4. Controls 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, at a reasonable assurance level, as of March 26, 2011 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 March 26, 2011 that materially affected, or were reasonably likely to materially affect, the Company's internal control over financial reporting.

**Part II. Other Information**

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 25, 2010, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. With the exception of the risk factor set forth below, there have been no material changes to the risk factors set forth in our Annual Report on Form 10-K for the year ended December 25, 2010.

***Our business operations in Japan may be negatively affected by disruptions following the recent crisis in Japan***

On March 11, 2011, an earthquake and tsunami occurred in Japan, causing severe damage to the region and resulting in a nuclear crisis at the Fukushima reactors and the surrounding region. We currently operate five RMS facilities in Japan, primarily focused on Research Models production and Research Model Services. Our site located most proximate to the epicenter of the earthquake suffered only minor damage to the facility structure, inventory and equipment, which we quickly remediated. The other four RMS Japan facilities were not damaged by the earthquake or the tsunami.

Various evolving factors continue to influence our assessment of the consequential impact of these events on our business operations, including: internal customer decisions regarding the products and services we provide in Japan; the effect that these events have on our Japanese customers' financial condition and research and development spending programs; the frequency and severity of future rolling blackouts in Japan (particularly during periods of typical high energy usage) and the ability of our sites in Japan to access alternative or backup energy sources; and the environmental safety of the food, water and air within Japan. While we make efforts to mitigate these risks through a variety of methods, nonetheless it is impossible to completely eradicate such risks.

As previously reported in our Form 10-K for fiscal year 2010, our 2010 sales to unaffiliated customers for Japan was approximately \$74 million (representing 6.5% of our 2010 consolidated net sale). Presently, we believe that the aggregate impact to our business operations as a result of the events in Japan and potential consequential disruptions will not have a material effect on our future business, results of operations or financial condition. However, we cannot provide assurance that the

eventual impact will not be greater than our expectations, particularly if we are adversely affected by customers ceasing or slowing their research and development spending on account of ongoing challenges in Japan, which would negatively affect their demand for our products and services, or if these disruptions adversely affect our ability to meet our customers' demands for products and services.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information relating to our purchases of shares of our common stock during the quarter ended March 26, 2011.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (dollars in thousands)
December 26, 2010 to January 22, 2011	—	\$ —	—	\$ 397,112
January 23, 2011 to February 19, 2011	1,251,056	\$ 37.43	1,251,029	\$ 382,800
February 20, 2011 to March 26, 2011	4,036,817	\$ 36.17	3,959,398	\$ 225,504
Total:	5,287,873		5,210,427	

The Board of Directors of the Company has authorized a share repurchase program, originally authorized on July 29, 2010, and subsequently amended on October 20, 2010, to acquire up to a total of \$750.0 million of common stock. The program does not have a fixed expiration date.

In order to enable us to facilitate, on a more timely and cost efficient basis, the repurchase of a substantial number of our shares pursuant to that stock repurchase authorization we entered into agreements with a third party investment bank to implement an accelerated stock repurchase (ASR) program. We entered into an ARS on February 24, 2011 to repurchase \$150.0 million of common stock. Under the ASR, we paid \$150.0 million from cash on hand and available liquidity, including funds borrowed by us under our \$900 million credit facility. The ASR program was recorded as two transactions allocated between the initial purchase of treasury stock and a forward contract indexed to our common stock. Upon signing the February 24, 2011 ARS we received the initial delivery of 3,759,398 shares which was recorded at \$135.9 million, the market value at the date of the transaction and recorded \$14.1 million as a forward contract indexed to our common stock. If the actual number of shares repurchased exceeds the number of shares initially delivered, we will receive a number of additional shares equal to such excess following conclusion of the calculation period. If the actual number of shares repurchased is less than the number of shares initially delivered, we will be required, at election, to either (1) deliver a number of shares approximately equal to the difference or (2) make a cash payment equal to the value of such shares, in either case following conclusion of the calculation period. Our banker has purchased and will continue to trade shares of our common stock in the open market over the life of the ASR. The treasury shares will result in an immediate reduction of shares on our statement of financial position and in our EPS calculation. While the ASR is in effect, we will generally not be permitted to repurchase our common stock in the open market.

We entered into an ARS on August 26, 2010 to repurchase \$300.0 million of common stock. Under the ASR we paid \$300.0 million on August 27, 2010 from cash on hand and available liquidity, including funds borrowed by us under our credit facility. We repurchased 8,000,000 shares under the ASR during 2010. On February 11, 2011, we received the final 871,829 shares under the ASR, which were recorded at \$32.5 million. The remaining amount authorized and available for share repurchases of \$225.5 million reflects the deduction of the full amount of the ASRs upon payment.

In addition to shares repurchased under the ASRs, prior to entering into the ASR during the first quarter we repurchased 579,200 shares on the open market at a total cost of \$21.6 million.

Additionally, the Company's Incentive Plans permit the netting of common stock upon vesting of restricted stock awards in order to satisfy individual tax withholding requirements. Accordingly, during the quarter ended March 26, 2011, the Company acquired 77,446 shares for \$2.9 million as a result of such withholdings.

**Item 6. Exhibits**

**(a) Exhibits.**

- 10.1 Letter Agreement confirming Fixed Dollar Accelerated Share Repurchase Transaction between Charles River Laboratories International, Inc. and Morgan Stanley & Co. Incorporated dated February 24, 2011. Filed herewith.
- 31.1 Certification of the Principal Executive Officer required by Rule 13a-14(a) or 15d-14(a) of the Exchange Act. Filed herewith.
- 31.2 Certification of the Principal Financial Officer required by Rule 13a-14(a) or 15d-14(a) of the Exchange Act. Filed herewith.
- 32.1 Certification of the Principal Executive Officer and Principal Financial Officer required by Rule 13a-14(a) or 15d-14(a) of the Exchange Act. Filed herewith.
- 101 The following materials from the Form 10-Q for the quarter ended March 26, 2011, formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Statements of Operations, (ii) Condensed Consolidated Balance Sheets, (iii) Condensed Consolidated Statements of Cash Flows, (iv) Condensed Consolidated Statement of Changes in Equity and (v) Notes to Unaudited, Condensed Consolidated Interim Financial Statements.

**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, thereunto duly authorized.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

May 4, 2011

/s/ JAMES C. FOSTER

---

James C. Foster  
*Chairman, President and Chief Executive Officer*

May 4, 2011

/s/ THOMAS F. ACKERMAN

---

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





Reference Number:

Account Number: 02304957

Morgan Stanley

MORGAN STANLEY & CO. INCORPORATED  
 1585 BROADWAY  
 NEW YORK, NY 10036-8293  
 (212) 761-4000

February 24, 2011

## Fixed Dollar Accelerated Share Repurchase Transaction

Charles River Laboratories International, Inc.  
 251 Ballardvale Street  
 Wilmington, MA 01887

Dear Sir/Madam:

The purpose of this letter agreement (this “**Confirmation**”) is to confirm the terms and conditions of the Transaction entered into between Morgan Stanley & Co. Incorporated (“**MSCO**”) and Charles River Laboratories International, Inc. (the “**Issuer**”) on the Trade Date specified below (the “**Transaction**”). This confirmation constitutes a “Confirmation” as referred to in the Agreement specified below.

The definitions and provisions contained in the 2002 ISDA Equity Derivatives Definitions (as published by the International Swaps and Derivatives Association, Inc. (“**ISDA**”)) (the “**Equity Definitions**”) are incorporated into this Confirmation. In the event of any inconsistency between the Equity Definitions and this Confirmation, this Confirmation will govern. Any reference to a currency shall have the meaning contained in Annex A to the 1998 ISDA FX and Currency Option Definitions, as published by ISDA.

1. This Confirmation evidences a complete and binding agreement between MSCO and Issuer as to the terms of the Transaction to which this Confirmation relates. This Confirmation shall be subject to an agreement (the “**Agreement**”) in the form of the 2002 ISDA Master Agreement as if MSCO and Issuer had executed an agreement in such form without any Schedule. For the avoidance of doubt, the Transaction shall be the only transaction under the Agreement.

2. The terms of the particular Transaction to which this Confirmation relates are as follows:

**GENERAL TERMS:**

Trade Date:	As specified in Schedule I
Buyer:	Issuer
Seller:	MSCO
Shares:	Common Stock of Issuer (Ticker: CRL)
Number of Shares:	The number of Shares delivered in accordance with Physical Settlement below.
Forward Price:	A price per Share (as determined by the Calculation Agent) equal to (i) the arithmetic mean (not a weighted average) of the 10b-18 VWAPs on all Observation Dates during the

Calculation Period (subject to Averaging Date Disruption) minus (ii) the Discount (as specified in Schedule I)

10b-18 VWAP: For each Observation Date that is a Trading Day during the Calculation Period, and for each Settlement Averaging Date that is a Trading Day during any Settlement Valuation Period, a price per share (as determined by the Calculation Agent) equal to the volume-weighted average price of the Rule 10b-18 eligible trades in the Shares for such Trading Day as determined by reference to the screen entitled “CRL <Equity> AQR SEC” or any successor page as reported by Bloomberg L.P. (without regard to pre-open or after hours trading outside of any regular trading session for such Trading Day or block trades (as defined in Rule 10b-18(b)(5) of the Securities Exchange Act of 1934 as amended (the “**Exchange Act**”)) on such Trading Day).

Observation Dates: As specified in Schedule I

Calculation Period: The period from and including the first Observation Date that is a Trading Day that occurs on or after February 24, 2011 to but excluding the relevant Valuation Date;

provided, however, that if the Valuation Date is the Scheduled Valuation Date, then the Valuation Date shall be included in the Calculation Period.

Trading Day:	Any Exchange Business Day that is not a Disrupted Day.
Initial Shares:	As specified in Schedule I
Initial Share Delivery Date:	Two Exchange Business Day following the Trade Date. On the Initial Share Delivery Date, Seller shall deliver a number of Shares equal to the Initial Shares to Buyer in accordance with Section 9.4 of the Equity Definitions, with the Initial Share Delivery Date deemed to be a "Settlement Date" for purposes of such Section 9.4.
Prepayment:	Applicable
Prepayment Amount:	As specified in Schedule I
Commission Amount:	As specified in Schedule I
Adjustment Amount:	As specified in Schedule I
Structuring Fee:	As specified in Schedule I
Prepayment Date:	Two Exchange Business Day following the Trade Date. On the Prepayment Date, Buyer shall pay to Seller the Prepayment Amount, the Commission Amount, the Adjustment Amount and the Structuring Fee.
Exchange:	The New York Stock Exchange

2

---

Related Exchange:	The primary exchange on which options or futures on the relevant Shares are traded.
Market Disruption Event:	<p>The definition of "Market Disruption Event" in Section 6.3(a) of the Equity Definitions is hereby amended by deleting the words "at any time during the one-hour period that ends at the relevant Valuation Time" in the third line thereof.</p> <p>Section 6.3(d) of the Equity Definitions is hereby amended by deleting the remainder of the provision following the term "Scheduled Closing Time" in the fourth line thereof.</p>
Averaging Date Disruption:	<p>Modified Postponement, determined as if (a) each Observation Date or each Settlement Averaging Date, as the case may be, were an Averaging Date and (b) the Scheduled Valuation Date (as defined herein) or the final Settlement Averaging Date, as the case may be, were the final Averaging Date.</p> <p>Notwithstanding anything to the contrary in the Equity Definitions, if a Market Disruption Event occurs on any Observation Date or Settlement Averaging Date (i) the Calculation Agent may extend the Calculation Period or Settlement Valuation Period, as the case may be, by one Observation Date or Settlement Averaging Date, as the case may be, unless the Disrupted Day is deemed to be an Observation Date or Settlement Averaging Date, as the case may be, in accordance with Section 6.7(c)(iii)(A)(1) of the Equity Definitions, and (ii) the Calculation Agent may, if appropriate in light of market conditions, regulatory considerations or otherwise, determine that the relevant Observation Date or Settlement Averaging Date, as the case may be, is a Disrupted Day only in part, in which case such Disrupted Day shall be deemed to be a Trading Day and the Calculation Agent shall (x) determine the 10b-18 VWAP for such Disrupted Day based on Rule 10b-18 eligible transactions in the Shares on such Disrupted Day taking into account the nature and duration of such Market Disruption Event and (y) determine the Forward Price or Cash Settlement Price, as the case may be, based on an appropriately weighted average instead of the arithmetic average described in the definition thereof.</p>

**VALUATION:**

Valuation Time:	The Scheduled Closing Time on the relevant Exchange
Valuation Date:	The earlier of (i) the Scheduled Valuation Date (as specified in Schedule I) and (ii) any date after the Lock-Out Date (as specified in Schedule I) specified by MSCO as a Valuation Date, in each case, subject to extension in accordance with "Averaging Date Disruption" above or Section 10 below; <i>provided</i> , however, that if a Valuation Date occurs pursuant to

clause (ii) above, then notice of the designation of a Valuation Date must be given to Issuer by no later than 9:00am New York City time on the second Exchange Business Day following such Valuation Date.

On each Valuation Date, Calculation Agent shall calculate the Settlement Amount.

**SETTLEMENT TERMS:**

Settlement Method Election:	If the Settlement Amount is less than zero, Settlement Method Election shall be applicable. Otherwise, Physical Settlement shall be applicable.
Default Settlement Method:	Cash Settlement
Electing Party:	Buyer
Settlement Method Election Date:	(i) If the relevant Valuation Date occurs on the Scheduled Valuation Date, the Valuation Date; and  (ii) If the relevant Valuation Date occurs prior to the Scheduled Valuation Date, the later of (x) such Valuation Date and (y) the Exchange Business Day immediately following the date Buyer receives notice from Seller of such Valuation Date.
Physical Settlement:	Notwithstanding Section 9.2 of the Equity Definitions, on the Settlement Date, Seller shall deliver to Buyer a number of Shares equal to (a) (i) the Prepayment Amount <i>divided by</i> (ii) the Forward Price as determined on the relevant Valuation Date, <i>minus</i> (b) the Initial Shares (such number of Shares, the “ <b>Settlement Amount</b> ”), rounded to the nearest whole number of Shares; <i>provided</i> , however, that if the Settlement Amount is less than zero, then Buyer shall deliver to Seller a number of Shares equal to 102% of the absolute value of the Settlement Amount (such number of Shares, the “ <b>Payment Shares</b> ”).  Section 9.11 of the Equity Definitions is hereby modified by excluding any representations therein relating to restrictions, obligations, limitations or requirements under applicable securities laws arising as a result of the fact that Seller is the Issuer of the Shares.
Settlement Currency:	USD
Settlement Date:	Three Exchange Business Days after (x) the relevant Valuation Date (in the case of Physical Settlement) or (y) the final Settlement Averaging Day in the relevant Settlement Valuation Period (in the case of Cash Settlement) or, in either case, if such date is not a Clearance System Business Day or if there is a Settlement Disruption Event on such day, the immediately succeeding Clearance System Business Day on
	4
	which there is no Settlement Disruption Event.
Cash Settlement:	Notwithstanding Section 8.4(b) of the Equity Definitions, Buyer shall pay to Seller on the Settlement Date an amount in cash equal to the Cash Settlement Amount.
Cash Settlement Amount:	The product of the absolute value of the Settlement Amount and the Cash Settlement Price.
Cash Settlement Price:	A price per Share (as determined by the Calculation Agent) equal to the arithmetic mean (not a weighted average) of the 10b-18 VWAPs on all Settlement Averaging Dates during the Settlement Valuation Period (subject to Averaging Date Disruption).
Settlement Valuation Period:	A period consisting of a number of consecutive Scheduled Trading Days (each, a “ <b>Settlement Averaging Day</b> ”) determined by the Calculation Agent in a commercially reasonable manner and notified to the parties on the first day thereof, beginning on the first Scheduled Trading Day following the later of (x) the Settlement Method Election Date and (y) the relevant Valuation Date.
Consequences of Settlement:	For the avoidance of doubt, upon the date that Buyer satisfies its obligation to (i) deliver the Payment Shares to Seller pursuant to “Physical Settlement” above or (ii) pay the Cash Settlement Amount to Seller pursuant to “Cash Settlement” above, then Buyer shall have no further delivery or payment obligations with respect to the

Transaction and the Transaction shall be deemed to have been settled as of such date.

## SHARE ADJUSTMENTS:

Potential Adjustment Event:	Notwithstanding anything to the contrary in Section 11.2(e) of the Equity Definitions, the declaration or payment of an Extraordinary Dividend shall not constitute a Potential Adjustment Event
Extraordinary Dividend:	Any dividend or distribution on the Shares with an ex-dividend date occurring during the Calculation Period or any Settlement Valuation Period (other than any dividend or distribution of the type described in Section 11.2(e)(i) or Section 11.2(e)(ii)(A) or (B) of the Equity Definitions).
Method of Adjustment:	Calculation Agent Adjustment; <i>provided</i> that if the Calculation Period or any Settlement Valuation Period is suspended or extended hereunder, such suspension or extension shall constitute a Potential Adjustment Event, in which case the Calculation Agent may, in its commercially reasonable discretion, adjust any relevant terms of the Transaction as the Calculation Agent determines appropriate to account for the economic effect on the Transaction of such suspension or extension. In the case of a suspension pursuant

5

---

to Section 10, the Calculation Agent shall make such adjustments prior to the period of suspension, if it is practical to do so. Otherwise, and in all cases of a suspension as contemplated under “Averaging Date Disruption” above, the Calculation Agent shall make such adjustments promptly following the period of suspension.

## EXTRAORDINARY EVENTS:

Consequences of Merger Events:	
Share-for-Share:	Modified Calculation Agent Adjustment
Share-for-Other:	Cancellation and Payment on that portion of the Other Consideration that consists of cash; Modified Calculation Agent Adjustment on the remainder of the Other Consideration
Share-for-Combined:	Modified Calculation Agent Adjustment
Tender Offer:	Applicable; <i>provided</i> that Section 12.1(d) of the Equity Definitions is hereby amended by replacing “10%” with “25%” in the third line thereof.

## CONSEQUENCES OF TENDER OFFERS:

Share-for-Share:	Modified Calculation Agent Adjustment
Share-for-Other:	Modified Calculation Agent Adjustment
Share-for-Combined:	Modified Calculation Agent Adjustment

For purposes of the Transaction, the definition of Merger Date in Section 12.1(c) of the Equity Definitions shall be amended to read, “Merger Date shall mean the Announcement Date.” For purposes of the Transaction, the definition of Tender Offer Date in Section 12.1(e) of the Equity Definitions shall be amended to read, “Tender Offer Date shall mean the Announcement Date.”

Composition of Combined Consideration:	Applicable
Nationalization, Insolvency or Delisting:	Cancellation and Payment (Calculation Agent Determination)
Additional Disruption Events:	
Change in Law:	Applicable
Insolvency Filing:	Applicable
Hedging Disruption:	Applicable
Loss of Stock Borrow:	Applicable; <i>provided</i> that Section 12.9(a)(vii) of the Equity Definitions is hereby amended by deleting the words “at a rate equal to or less than the Maximum Stock Loan Rate” at the end thereof.

6

---

Increased Cost of Stock Borrow:	Applicable
Initial Stock Loan Rate:	25bps
Determining Party:	For all Extraordinary Events, MSCO
Hedging Party:	For all Additional Disruption Events, MSCO
Non-Reliance:	Applicable

#### AGREEMENTS AND ACKNOWLEDGMENTS:

Regarding Hedging Activities:	Applicable
Additional Acknowledgments:	Applicable

3. Calculation Agent: MSCO. The Calculation Agent shall deliver, within five Exchange Business Days of a written request by Buyer, a written explanation of any calculation or adjustment made by the Calculation Agent, including, where applicable, the methodology and data applied; *provided*, however, that nothing in this provision shall require Calculation Agent to disclose any proprietary models or violate applicable laws, regulations or policies or contractual obligations in connection with delivery of such explanation.

4. Account Details: To be provided.

5. (a) Nationalization, Insolvency or Delisting. The words “the Transaction will be cancelled,” in the first line of Section 12.6(c)(ii) are replaced with the words “MSCO will have the right to cancel the Transaction.”.

(b) Additional Termination Event. The declaration of any Extraordinary Dividend by Issuer during the period from and including the Trade Date to but excluding the final Valuation Date shall constitute an Additional Termination Event with the Transaction as the only “Affected Transaction” and Issuer as the sole “Affected Party”.

(c) For the avoidance of doubt, the Transaction shall be deemed to be a “Share Forward Transaction” for purposes of the Equity Definitions.

(d) The proviso appearing in parentheses beginning on the fifth row from the end of Section 11.2(c) is removed.

(e) The definition of “Announcement Date” in Section 12.1 of the Equity Definitions is hereby amended by (i) replacing the word “leads to the” with the words “, if completed, would lead to a” in the third and the fifth lines thereof, (ii) replacing the words “voting shares” with the word “Shares” in the fifth line thereof, (iii) inserting the words “by any entity” after the word “announcement” in the second and the fourth lines thereof, (iv) inserting the words “or, in the case of an announcement by the Issuer, to explore the possibility of engaging in” after the words “engage in” in the second line thereof, and (v) inserting the words “or, in the case of an announcement by the Issuer, to explore the possibility of purchasing or otherwise obtaining” after the word “obtain” in the fourth line thereof.

(f) The definition of “Change in Law” provided in Section 12.9(a)(ii) of the Equity Definitions is hereby amended by replacing the phrase “the interpretation” in the third line thereof with the phrase “or public

---

announcement of the formal or informal interpretation”. Any determination as to whether (A) the adoption of or any change in any applicable law or regulation (including, without limitation, any tax law) or (B) the promulgation of or any change in or public announcement of the formal or informal interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law or regulation (including any action taken by a taxing authority), in each case, constitutes a “Change in Law” shall be made without regard to Section 739 of the Wall Street Transparency and Accountability Act of 2010.

6. Certain Payments and Deliveries by MSCO. Notwithstanding anything to the contrary herein, or in the Equity Definitions, if at any time (i) an Early Termination Date occurs and MSCO would be required to make a payment pursuant to Sections 6(d) and 6(e) of the Agreement, (ii) a Tender Offer occurs and MSCO would be required to make a payment pursuant to Sections 12.3 and 12.7 of the Equity Definitions, (iii) a Merger Event occurs and MSCO would be required to make a payment pursuant to Sections 12.2 and 12.7 of the Equity Definitions (iv) an Additional Disruption Event occurs and MSCO would be required to make a payment pursuant to Sections 12.8 and 12.9 of the Equity Definitions or (v) a Nationalization, Insolvency or Delisting occurs and MSCO would be required to make a payment pursuant to Sections 12.6 and 12.7 of the Equity Definitions, then Issuer shall have the option to require MSCO to settle such payment amount in Shares in lieu of a cash payment (any such payment described in Sections 6(i), (ii), (iii), (iv) or (v) above, an “**MSCO Payment Amount**”). If Issuer elects for MSCO to settle an MSCO Payment Amount in Shares, then on the date such MSCO Payment Amount is due, MSCO shall deliver to Buyer a number of Shares (the “**MSCO Payment Shares**”) with a market value equal to the MSCO Payment Amount on such date, as determined by the Calculation Agent in a commercially reasonable manner; *provided* that MSCO may defer the date on which such MSCO Payment Shares are due if it reasonably determines that it is not practical on such date to deliver the full number of MSCO Payment Shares.

7. Certain Payments and Deliveries by Issuer. Notwithstanding anything to the contrary herein, or in the Equity Definitions, if at any time (i) an Early Termination Date occurs and Issuer would be required to make a payment pursuant to Sections 6(d) and 6(e) of the Agreement, (ii) a Tender Offer occurs and Issuer would be required to make a payment pursuant to Sections 12.3 and 12.7 of the Equity Definitions, (iii) a Merger Event occurs and Issuer would be required to make a payment pursuant to Sections 12.2 and 12.7 of the Equity Definitions, (iv) an Additional Disruption Event occurs and Issuer would be required to make a payment pursuant to Sections 12.8 and 12.9 of the Equity Definitions or (v) a Nationalization, Insolvency or Delisting occurs and Issuer would be required to make a payment pursuant to Sections 12.6 and 12.7 of the Equity Definitions (any such payment described in Sections 7(i), (ii), (iii),

(iv) or (v) above, an “**Early Settlement Payment**”), then Issuer shall have the option, in lieu of making such cash payment, to settle its payment obligations under Sections 7(i), (ii), (iii), (iv) or (v) above in Shares (such Shares, the “**Early Settlement Shares**”). In order to elect to deliver Early Settlement Shares, (i) Issuer must notify MSCO of its election by no later than 4 p.m. EST on the date that is three Exchange Business Days before the date that the Early Settlement Payment is due, (ii) Issuer must specify whether such Early Settlement Shares are to be sold by means of a registered offering or by means of a private placement and (iii) Issuer must comply with the provisions set forth in Section 8 below on each day Early Settlement Shares are to be sold by Seller in connection with Buyer’s election to deliver Early Settlement Shares in connection with the settlement of an Early Settlement Payment.

8. Provisions Relating to Delivery of Early Settlement Shares.

If Issuer elects to deliver Early Settlement Shares and Make-Whole Shares (as defined below), Issuer must comply with the following provisions:

(a) Issuer may only elect to deliver Early Settlement Shares and Make-Whole Shares by means of a registered offering if the following conditions are satisfied:

(i) On the later of (A) the Trading Day following the Issuer’s election to deliver Early Settlement Shares and any Make-Whole Shares by means of a registered offering (the “**Registration Notice Date**”), and (B) the date on which the Registration Statement (as defined below) is declared

8

---

effective by the Securities and Exchange Commission (the “**SEC**”) or becomes effective (the “**Registered Share Delivery Date**”), the Issuer shall deliver to MSCO a number of Early Settlement Shares equal to the quotient of (I) the relevant Early Settlement Payment divided by (II) the per Share market value of the Shares on the date of such delivery as reasonably determined by the Calculation Agent.

(ii) Promptly following the Registration Notice Date, the Issuer shall file with the SEC a registration statement (“**Registration Statement**”) covering the public resale by MSCO of the Early Settlement Shares and any Make-Whole Shares (collectively, the “**Registered Securities**”) on a continuous or delayed basis pursuant to Rule 415 (or any similar or successor rule), if available, under the Securities Act; *provided* that no such filing shall be required pursuant to this paragraph (ii) if the Issuer shall have filed a similar registration statement with unused capacity at least equal to the relevant Early Settlement Payment and such registration statement has become effective or been declared effective by the SEC on or prior to the Registration Notice Date and no stop order is in effect with respect to such registration statement as of the Registration Notice Date. The Issuer shall use its commercially reasonable efforts to file an automatic shelf registration statement or have the Registration Statement declared effective by the SEC as promptly as possible.

(iii) Promptly following the Registration Notice Date, the Issuer shall afford MSCO a reasonable opportunity to conduct a due diligence investigation with respect to the Issuer customary in scope for underwritten offerings of equity securities of similar size by similar issuers (including, without limitation, the availability of senior management to respond to questions regarding the business and financial condition of the Issuer and the right to have made available to MSCO for inspection all financial and other records, pertinent corporate documents and other information reasonably requested by MSCO), and MSCO shall be satisfied in all material respects with the results of such due diligence investigation of the Issuer. For the avoidance of doubt, the Issuer shall not have the right to deliver Shares pursuant to this Section 8(a) (and the conditions to delivery of Early Settlement Shares specified in this Section 8(a) shall not be satisfied) until MSCO is satisfied in all material respects with the results of such due diligence investigation of the Issuer.

(iv) From the effectiveness of the Registration Statement until all Registered Securities have been sold by MSCO, the Issuer shall, at the request of MSCO, make available to MSCO a printed prospectus relating to the Registered Securities in form and substance (including, without limitation, any sections describing the plan of distribution) satisfactory to MSCO (a “**Prospectus**”, which term shall include any prospectus supplement thereto), in such quantities as MSCO shall reasonably request.

(v) The Issuer shall use its commercially reasonable efforts to prevent the issuance of any stop order suspending the effectiveness of the Registration Statement or of any order preventing or suspending the use of any Prospectus and, if any such order is issued, to obtain the lifting thereof as soon thereafter as is possible. If the Registration Statement, the Prospectus or any document incorporated therein by reference contains a misstatement of a material fact or omits to state a material fact required to be stated therein or necessary to make any statement therein not misleading, the Issuer shall as promptly as practicable file any required document and prepare and furnish to MSCO a reasonable number of copies of such supplement or amendment thereto as may be necessary so that the Prospectus, as thereafter delivered to the purchasers of the Registered Securities will not contain a misstatement of a material fact or omit to state a material fact required to be stated therein or necessary to make any statement therein not misleading.

(vi) On or prior to the Registered Share Delivery Date, the Issuer shall enter into an agreement (a “**Transfer Agreement**”) with MSCO (or any affiliate of MSCO designated by MSCO) in connection with the public resale of the Registered Securities, substantially similar to underwriting agreements customary for underwritten offerings of equity securities of similar size by similar issuers,

9

---

in form and substance satisfactory to MSCO (or such affiliate), which Transfer Agreement shall (without limitation of the foregoing):

(A) contain provisions substantially similar to those contained in such underwriting agreements relating to the indemnification of, and contribution in connection with the liability of, MSCO and its affiliates,

(B) provide for delivery to MSCO (or such affiliate) of customary opinions (including, without limitation, accounting comfort letters, opinions relating to the due authorization, valid issuance and fully paid and non-assessable nature of the Registered Securities and a negative assurance letter regarding the lack of material misstatements and omissions in the Registration Statement, the Prospectus and the Issuer’s filings under the Exchange Act); and

(C) provide for the payment by the Issuer of all fees and expenses in connection with such resale, including all registration costs and all fees and expenses of counsel for MSCO (or such affiliate), but such Transfer Agreement shall not provide for any underwriter

discount or commission.

(vii) On the Registered Share Delivery Date, a balance (the “**Settlement Balance**”) shall be established with an initial balance equal to the applicable amount of the relevant Early Settlement Payment. Following the delivery of Early Settlement Shares or any Make-Whole Shares, Seller shall sell all such Early Settlement Shares or Make-Whole Shares in a commercially reasonable manner.

(viii) At the end of each day upon which sales have been made, the Settlement Balance shall be (A) reduced by an amount equal to the aggregate proceeds received by MSCO upon settlement of the sale of such Shares, and (B) increased by an amount (as reasonably determined by the Calculation Agent) equal to the then-current Settlement Balance as of the close of business on such day multiplied by overnight LIBOR, as determined by the Calculation Agent.

(ix) If, on any date, the Settlement Balance has been reduced to zero but not all of the Early Settlement Shares have been sold, no additional Early Settlement Shares shall be sold and MSCO shall promptly deliver to the Issuer (A) any remaining Early Settlement Shares and (B) if the Settlement Balance has been reduced to an amount less than zero, an amount in cash equal to the absolute value of the then-current Settlement Balance.

(x) If, on any date, all of the Early Settlement Shares have been sold and the Settlement Balance has not been reduced to zero, the Issuer shall promptly deliver to MSCO an additional number of Shares (“**Make-Whole Shares**”) equal to (A) the Settlement Balance as of such date divided by (B) the per Share market value of the Shares on the date of such delivery as reasonably determined by the Calculation Agent. This clause (x) shall be applied successively until the Settlement Balance is reduced to zero or the aggregate number of Early Settlement Shares and Make Whole Shares is equal to the Share Cap.

(xi) If at any time the number of Shares covered by the Registration Statement is less than the number of Registered Securities required to be delivered pursuant to this Section 8(a), the Issuer shall, at the request of MSCO, file additional registration statement(s) to register the sale of all Registered Securities required to be delivered to MSCO.

(xii) The Issuer shall cooperate with MSCO and use its reasonable best efforts to take any other action necessary to effect the intent of the provisions set forth in this Section 8(a).

(b) If Issuer timely elects to deliver Early Settlement Shares and Make-Whole Shares by means of a private placement, the following provisions shall apply:

10

---

(i) All Early Settlement Shares and Make-Whole Shares shall be delivered to the Seller (or any affiliate of the Seller designated by the Seller) pursuant to the exemption from the registration requirements of the Securities Act provided by Section 4(2) thereof.

(ii) Seller and any potential purchaser of any such Shares from the Seller (or any affiliate of the Seller designated by the Seller) identified by Seller shall have been afforded a commercially reasonable opportunity to conduct a due diligence investigation with respect to Issuer customary in scope for private placements of equity securities of similar size by similar issuers (including, without limitation, the right to have made available to them for inspection all financial and other records, pertinent corporate documents and other information reasonably requested by them) and Buyer shall not be required to disclose material non-public information in connection with such due diligence investigation.

(iii) An agreement (a “**Private Placement Agreement**”) shall have been entered into between Issuer and the Seller (or any affiliate of the Seller designated by the Seller) in connection with the private placement of such Shares by Issuer to the Seller (or any such affiliate) and the private resale of such Shares by the Seller (or any such affiliate), substantially similar to private placement purchase agreements customary for private placements of equity securities of similar size by similar issuers, in form and substance commercially reasonably satisfactory to the Seller and the Issuer, which Private Placement Agreement shall include, without limitation, provisions substantially similar to those contained in such private placement purchase agreements relating to the indemnification of, and contribution in connection with the liability of, the Seller and its affiliates, and shall provide for the payment by Issuer of all fees and expenses in connection with such resale, including all reasonable fees and expenses of one counsel for the Seller but not including any underwriter, initial purchaser or broker discounts and commissions, and shall contain representations, warranties and agreements of Issuer and Seller reasonably necessary or advisable to establish and maintain the availability of an exemption from the registration requirements of the Securities Act for such resales.

(iv) If Issuer elects to deliver Early Settlement Shares to satisfy its payment obligation of an Early Settlement Payment, neither Issuer nor Seller shall take or cause to be taken any action that would make unavailable either (i) the exemption set forth in Section 4(2) of the Securities Act for the sale of any Early Settlement Shares or Make-Whole Shares by Issuer to the Seller or (ii) an exemption from the registration requirements of the Securities Act reasonably acceptable to the Seller for resales of Early Settlement Shares and Make-Whole Shares by the Seller.

(v) On the date requested by MSCO, (A) Issuer shall deliver a number of Early Settlement Shares equal to the quotient of (I) the relevant Early Settlement Payment divided by (II) a per share value, determined by MSCO in a commercially reasonable manner and which may be based on indicative bids from institutional “accredited investors” (as defined in Rule 501 under the Securities Act of 1933, as amended (the “**Securities Act**”)) and (B) the provisions of Sections 8(a)(vii) —(x) shall apply to the Early Settlement Shares delivered pursuant to this Section 8(b) (v). For purposes of applying the foregoing, the Registered Share Delivery Date referred to in 8(a)(vii) shall be the date on which Issuer delivers the Early Settlement Shares.

(c) The provisions of Section 8(b) shall apply to any then-current Settlement Balance if (i) on any given day, Issuer cannot satisfy any of the conditions of Section 8(a) or (ii) for a period of at least ten (10) consecutive Exchange Business Days, MSCO has determined that it is inadvisable to effect sales of Registered Securities.

(d) If Issuer elects to deliver Early Settlement Shares to satisfy its payment obligation of an Early Settlement Payment, then, if necessary, Issuer shall use its commercially reasonable efforts to cause the number of authorized but unissued Shares of Common Stock to be increased to an amount sufficient to permit Issuer to



fulfill its obligations to satisfy its payment obligation of an Early Settlement Payment by delivering Early Settlement Shares.

9. Special Provisions for Merger Events. Notwithstanding anything to the contrary herein or in the Equity Definitions, Issuer agrees that it (i) will not during the period commencing on the Trade Date for the Transaction through the last Valuation Date for such Transaction make any public announcement (as defined in Rule 165(f) under the Securities Act) of any Merger Transaction or potential Merger Transaction unless such public announcement is made prior to the opening or after the close of the regular trading session on the Exchange for the Shares. To the extent that such announcement occurs during the term of the Transaction and does not cause the Transaction to terminate in whole under the provisions of "Extraordinary Event" in paragraph 2 above:

(a) As soon as practicable following the public announcement of such potential Merger Transaction, Issuer shall provide MSCO with written notice of such announcement;

(b) Promptly after request from MSCO, Issuer shall provide MSCO with written notice specifying (i) Issuer's average daily Rule 10b-18 Purchases (as defined in Rule 10b-18) during the three full calendar months immediately preceding the Announcement Date that were not effected through MSCO or its affiliates and (ii) the number of Shares purchased pursuant to the block purchase proviso in Rule 10b-18(b)(4) under the Exchange Act for the three full calendar months preceding the Announcement Date. Such written notice shall be deemed to be a certification by Issuer to MSCO that such information is true and correct. Issuer understands that MSCO will use this information in calculating the trading volume for purposes of Rule 10b-18; and

(c) Buyer acknowledges that such announcement could result in a Regulatory Disruption (as defined below) pursuant to Section 10 below.

"**Merger Transaction**" means any merger, acquisition or similar transaction involving a recapitalization of Issuer as contemplated by Rule 10b-18(a)(13) (iv) under the Exchange Act (other than any such transaction in which the consideration consists solely of cash and there is no valuation period).

10. Regulatory Disruption. In the event that Seller reasonably determines, based on the advice of counsel, that it is appropriate with regard to any legal, regulatory or self-regulatory requirements or related policies and procedures that Seller generally applies to transactions of this type (whether or not such requirements, policies or procedures are imposed by law or have been voluntarily adopted by Seller, and including, without limitation, Rule 10b-18, Rule 10b-5, Regulation 13D-G and Regulation 14E, "**Requirements**"), for Seller to refrain from purchasing Shares or to purchase fewer than the number of Shares Seller would otherwise purchase on any Trading Day during the duration of the Transaction, then Seller may, in its reasonable discretion, deem a Market Disruption Event to have occurred on such day (a "**Regulatory Disruption**"). Seller shall notify the Issuer upon the exercise of Seller's rights pursuant to this Section 10 and shall subsequently notify the Issuer on the day Seller believes that the circumstances giving rise to such exercise have changed.

## 11. Covenants.

The Buyer covenants and agrees:

(i) that during the Calculation Period and any Settlement Valuation Period, Buyer shall not, and shall cause its affiliates (as defined in Rule 10b-18) not to, directly or indirectly (which shall be deemed to include the writing or purchase of any cash-settled derivative instrument) purchase Shares (or any security convertible into or exchangeable for Shares) without the prior written approval of Seller, except for any privately negotiated transactions that would not reasonably be expected to lead to any open market purchases of Shares;

(ii) that it is not relying, and has not relied, upon Seller or any of its representatives or advisors with respect to the legal, accounting, tax or other implications of the Transaction and that it has

conducted its own analyses of the legal, accounting, tax and other implications of the Transaction, and that Seller and its affiliates may from time to time effect transactions for their own account or the account of customers and hold positions in securities or options on securities of the Buyer and that Seller and its affiliates may continue to conduct such transactions during the term of the Transaction; and

(iii) that, if Buyer reasonably concludes that it or any of its affiliates will take any action that would cause Regulation M under the Exchange Act ("Regulation M"), to be applicable to any purchases of Shares, or any security for which Shares is a reference security (as defined in Regulation M), by Buyer or any affiliated purchasers (as defined in Regulation M) during the Calculation Period or any Settlement Valuation Period, Buyer will provide Seller with written notice of such fact at least one Scheduled Trading Day prior to the beginning of the applicable restricted period under Regulation M. Buyer acknowledges that delivery of any such notice could result in a Regulatory Disruption pursuant to Section 10 above.

## 12. Representations, Warranties and Acknowledgments.

(a) The Buyer hereby represents and warrants to Seller that:

(i) as of the date hereof, (A) all reports and other documents filed by Buyer with the SEC pursuant to the Exchange Act when considered as a whole (with the more recent such reports and documents deemed to amend inconsistent statements contained in any earlier such reports and documents), do not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances in which they are made, not misleading and (B) Buyer agrees not to alter or deviate from the terms of the Transaction or enter into or alter a corresponding or hedging transaction or position with respect to the Shares (including, without limitation, with respect to any securities convertible or exchangeable into the Shares) during the term of the Transaction;

(ii) the transactions contemplated by this Confirmation have been authorized under Buyer's publicly announced program to repurchase Shares;

(iii) the Buyer is not entering into the Transaction to create actual or apparent trading activity in the Shares (or any security convertible into or exchangeable for Shares) or to raise or depress the price of the Shares (or any security convertible into or exchangeable for Shares), in each case in violation of the Exchange Act; and

(iv) the Buyer is as of the date hereof, and after giving effect to the transactions contemplated hereby will be, Solvent. As used in this paragraph, the term “Solvent” means, with respect to a particular date, that on such date (A) the present fair market value (or present fair saleable value) of the assets of the Buyer is not less than the total amount required to pay the liabilities of the Buyer on its total existing debts and liabilities (including contingent liabilities) as they become absolute and matured, (B) the Buyer is able to realize upon its assets and pay its debts and other liabilities, contingent obligations and commitments as they mature and become due in the normal course of business, (C) assuming consummation of the transactions as contemplated by this Confirmation, the Buyer is not incurring debts or liabilities beyond its ability to pay as such debts and liabilities mature, (D) the Buyer is not engaged in any business or transaction, and does not propose to engage in any business or transaction, for which its property would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which the Buyer is engaged and (E) the Buyer is not a defendant in any civil action that could reasonably be expected to result in a judgment that Buyer is or would become unable to satisfy.

(b) Seller and the Buyer each hereby acknowledges that any transactions by Seller in the Shares will be undertaken by Seller, as the case may be, as principal for its own account, except as provided in Sections 7 and 8, if applicable. All of the actions to be taken by Seller in connection with the Transaction shall be taken by Seller independently and without any advance or subsequent consultation with the Buyer, except as specifically provided herein.

13

---

13. Acknowledgements of Buyer Regarding Hedging and Market Activity. Buyer agrees, understands and acknowledges that:

(a) during the period from (and including) the Trade Date to (and including) the Settlement Date, Seller and its affiliates may buy or sell Shares or other securities or buy or sell options or futures contracts or enter into swaps or other derivative securities in order to adjust its hedge position with respect to the transactions contemplated by this Confirmation;

(b) Seller and its affiliates also may be active in the market for the Shares other than in connection with hedging activities in relation to the transactions contemplated by this Confirmation;

(c) Seller shall make its own determination as to whether, when and in what manner any hedging or market activities in the Issuer’s securities shall be conducted and shall do so in a manner that it deems appropriate to hedge its price and market risk with respect to 10b-18 VWAP; and

(d) any market activities of Seller and its affiliates with respect to the Shares may affect the market price and volatility of the Shares, as well as the 10b-18 VWAP, each in a manner that may be adverse to Buyer.

14. The parties hereto agree and acknowledge that Seller is a “financial participant” within the meaning of Section 101(22) of Title 11 of the United States Code (the “**Bankruptcy Code**”). The parties hereto further agree and acknowledge that the Transaction is either (i) a “securities contract” as such term is defined in Section 741(7) of the Bankruptcy Code, in which case each payment and delivery made pursuant to the Transaction is a “settlement payment”, as such term is defined in Section 741(8) of the Bankruptcy Code, and that Seller is entitled to the protections afforded by, among other sections, Sections 362(b)(6), 546(e) and 555 of the Bankruptcy Code, or (ii) a “swap agreement”, as such term is defined in Section 101(53B) of the Bankruptcy Code, in which case each party is a “swap participant”, as such term is defined in Section 101(53C) of the Bankruptcy Code, and that Seller is entitled to the protections afforded by, among other sections, Sections 362(b)(17), 546(g) and 560 of the Bankruptcy Code.

15. Seller and Issuer hereby agree and acknowledge that Seller has authorized the Issuer and each of its employees, representatives and other agents to disclose the Transaction, including the tax treatment and tax structure thereof and all materials relating thereto, to any and all persons, and there are no express or implied agreements, arrangements or understandings to the contrary, and authorizes the Issuer to use any information that the Issuer receives or has received with respect to the Transaction in any manner.

16. Treatment in Bankruptcy; No Setoff; No Collateral; Delivery of Cash.

(a) In the event the Buyer becomes the subject of proceedings (“**Bankruptcy Proceedings**”) under the U.S. Bankruptcy Code or any other applicable bankruptcy or insolvency statute from time to time in effect, any rights or claims of Seller hereunder in respect of this transaction shall rank for all purposes no higher than, but on a parity with, the rights or claims of holders of Shares, and Seller hereby agrees that its rights and claims hereunder shall be subordinated to those of all parties with claims or rights against the Buyer (other than common stockholders) to the extent necessary to assure such ranking. Without limiting the generality of the foregoing, after the commencement of Bankruptcy Proceedings, the claims of Seller hereunder shall for all purposes have rights equivalent to the rights of a holder of a percentage of the Shares equal to the aggregate amount of such claims (the “**Claim Amount**”) taken as a percentage of the sum of (i) the Claim Amount and (ii) the aggregate fair market value of all outstanding Shares on the record date for distributions made to the holders of such Shares in the related Bankruptcy Proceedings. Notwithstanding any right it might otherwise have to assert a higher priority claim in any such Bankruptcy Proceedings, Seller shall be entitled to receive a distribution solely to the extent and only in the form that a holder of such percentage of the Shares would be entitled to receive in such Bankruptcy Proceedings, and, from and after the commencement of such Bankruptcy

14

---

Proceedings, Seller expressly waives any other rights or distributions to which it might otherwise be entitled in such Bankruptcy Proceedings in respect of its rights and claims hereunder.

(b) Notwithstanding any provision of this Confirmation, the Agreement or any other agreement between the parties to the contrary, neither the obligations of the Buyer nor the obligations of Seller hereunder are secured by any collateral, security interest, pledge or lien.

(c) Each party waives any and all rights it may have to set off obligations arising under the Agreement and the Transaction against other obligations between the parties, whether arising under any other agreement, applicable law or otherwise.

(d) For the avoidance of doubt, nothing in this Confirmation or the Agreement shall be interpreted as requiring Buyer to deliver cash in respect of the settlement of the Transaction following payment by Buyer of the Prepayment Amount, except in circumstances where the required cash settlement thereof is permitted for classification of the contract as equity by ASC 815-40, *Derivatives and Hedging — Contracts in Entity's Own Equity*, as in effect on the Trade Date (including, without limitation, where Buyer elects to deliver cash in respect of the settlement of the Transaction).

17. Share Cap. Notwithstanding any other provision of this Confirmation or the Agreement to the contrary, in no event shall the Buyer be required to deliver to Seller a number of Shares that exceeds the Share Cap (as specified in Schedule I), subject to reduction by the number of Shares delivered hereunder by the Buyer on any prior date.

18. Account Details:

Account for Payments to MSCO: To be provided separately

Account for Payments to Issuer: To be provided by Issuer

19. Governing law: The laws of the State of New York.

**EACH PARTY HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHTS TO TRIAL BY JURY WITH RESPECT TO ANY LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS CONFIRMATION OR ANY TRANSACTION CONTEMPLATED HEREBY.**

*[The remainder of this page left intentionally blank]*

15

---

Please confirm that the foregoing correctly sets forth the terms of our agreement by executing this Confirmation and returning it to us by facsimile to the number provided on the attached facsimile cover page.

Confirmed as of the date first written above:

CHARLES RIVER LABORATORIES  
INTERNATIONAL, INC.

MORGAN STANLEY & CO. INCORPORATED

By: /s/ Thomas F. Ackerman  
Name: Thomas F. Ackerman  
Title: *Corporate Executive Vice President and Chief Financial Officer*

By: /s/ Serkan Savasoglu  
Name: Serkan Savasoglu  
Title: *Managing Director*

16

---

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002  
AND RULE 13a-14(a)/15d-14(a) OF THE EXCHANGE ACT OF 1934**

I, James C. Foster, Chief Executive Officer of Charles River Laboratories International, Inc. (the registrant) certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 26, 2011 of the registrant;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 4, 2011

/s/ JAMES C. FOSTER

---

James C. Foster  
*Chairman, President and Chief Executive Officer*  
Charles River Laboratories International, Inc.

---

## QuickLinks

[Exhibit 31.1](#)

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002  
AND RULE 13a-14(a)/15d-14(a) OF THE EXCHANGE ACT OF 1934**

I, Thomas F. Ackerman, Corporate Executive Vice President and Chief Financial Officer of Charles River Laboratories International, Inc. (the registrant) certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 26, 2011 of the registrant;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 4, 2011

/s/ THOMAS F. ACKERMAN

---

Thomas F. Ackerman  
*Corporate Executive Vice President and Chief  
Financial Officer*  
Charles River Laboratories International, Inc.

---

## QuickLinks

[Exhibit 31.2](#)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report on Form 10-Q for the quarter ended March 26, 2011 of Charles River Laboratories International, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, James C. Foster, Chairman, Chief Executive Officer and President of the Company, and Thomas F. Ackerman, Corporate Executive Vice President and Chief Financial Officer of the Company, each hereby certifies, to the best of his knowledge and pursuant to 18 U.S.C. Section 1350, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 4, 2011

/s/ JAMES C. FOSTER

---

James C. Foster  
*Chairman, President and Chief Executive Officer*  
Charles River Laboratories International, Inc.

Dated: May 4, 2011

/s/ THOMAS F. ACKERMAN

---

Thomas F. Ackerman  
*Corporate Executive Vice President and Chief  
Financial Officer*  
Charles River Laboratories International, Inc.

This certification shall not be deemed "filed" for any purpose, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act.

---



## QuickLinks

[Exhibit 32.1](#)