

PERKINELMER INC
Form 10-Q
November 08, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 2, 2016

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 001-5075

PerkinElmer, Inc.
(Exact name of Registrant as specified in its Charter)

Massachusetts 04-2052042
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
940 Winter Street
Waltham, Massachusetts 02451
(Address of principal executive offices) (Zip code)
(781) 663-6900
(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.

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 November 4, 2016, there were outstanding 109,545,379 shares of common stock, \$1 par value per share.

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PART I. FINANCIAL INFORMATION

Item 1. Unaudited Financial Statements

PERKINELMER, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 2,	October 4,	October 2,	October 4,
	2016	2015	2016	2015
	(In thousands, except per share data)			
Product revenue	\$368,459	\$378,325	\$1,126,879	\$1,126,356
Service revenue	179,595	185,111	532,526	527,887
Total revenue	548,054	563,436	1,659,405	1,654,243
Cost of product revenue	177,077	193,375	555,153	579,659
Cost of service revenue	110,178	115,458	328,073	332,095
Total cost of revenue	287,255	308,833	883,226	911,754
Selling, general and administrative expenses	145,793	147,728	447,332	440,343
Research and development expenses	33,175	31,095	101,967	95,898
Restructuring and contract termination charges, net	603	(118)	5,692	4,838
Operating income from continuing operations	81,228	75,898	221,188	201,410
Interest and other expense, net	11,263	11,944	27,742	32,208
Income from continuing operations before income taxes	69,965	63,954	193,446	169,202
Provision for income taxes	12,216	9,057	26,970	24,998
Income from continuing operations	57,749	54,897	166,476	144,204
Gain on discontinued operations before income taxes	—	8	—	6
Gain on (loss from) disposition of discontinued operations before income taxes	630	(3)	619	(26)
Provision for (benefit from) income taxes on discontinued operations	252	39	(2,355)	13
Gain on (loss from) discontinued operations	378	(34)	2,974	(33)
Net income	\$58,127	\$54,863	\$169,450	\$144,171
Basic earnings per share:				
Income from continuing operations	\$0.53	\$0.49	\$1.52	\$1.28
Gain on (loss from) discontinued operations	0.00	(0.00)	0.03	(0.00)
Net income	\$0.53	\$0.49	\$1.55	\$1.28
Diluted earnings per share:				
Income from continuing operations	\$0.52	\$0.48	\$1.51	\$1.27
Gain on (loss from) discontinued operations	0.00	(0.00)	0.03	(0.00)
Net income	\$0.53	\$0.48	\$1.54	\$1.27
Weighted average shares of common stock outstanding:				
Basic	109,192	112,632	109,524	112,763
Diluted	110,078	113,422	110,372	113,565
Cash dividends per common share	\$0.07	\$0.07	\$0.21	\$0.21

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

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PERKINELMER, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)

	Three Months Ended		Nine Months Ended	
	October 2,	October 4,	October 2,	October 4,
	2016	2015	2016	2015
	(In thousands)			
Net income	\$58,127	\$ 54,863	\$ 169,450	\$ 144,171
Other comprehensive loss:				
Foreign currency translation adjustments	(9,441)	(46,629)	(8,868)	(58,055)
Unrealized gains (losses) on securities, net of tax	9	(80)	39	(143)
Other comprehensive loss	(9,432)	(46,709)	(8,829)	(58,198)
Comprehensive income	\$48,695	\$ 8,154	\$ 160,621	\$ 85,973

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

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PERKINELMER, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)

	October 2, 2016	January 3, 2016
	(In thousands, except share and per share data)	
Current assets:		
Cash and cash equivalents	\$311,663	\$237,932
Accounts receivable, net	443,275	439,015
Inventories	306,041	288,028
Other current assets	92,587	68,186
Total current assets	1,153,566	1,033,161
Property, plant and equipment:		
At cost	525,396	494,956
Accumulated depreciation	(350,170)	(327,927)
Property, plant and equipment, net	175,226	167,029
Marketable securities and investments	1,539	1,586
Intangible assets, net	452,458	490,811
Goodwill	2,313,900	2,276,149
Other assets, net	207,867	197,559
Total assets	\$4,304,556	\$4,166,295
Current liabilities:		
Current portion of long-term debt	\$1,160	\$1,123
Accounts payable	162,321	152,726
Accrued restructuring and contract termination charges	9,133	17,090
Accrued expenses and other current liabilities	373,207	388,446
Current liabilities of discontinued operations	2,170	2,100
Total current liabilities	547,991	561,485
Long-term debt	1,131,925	1,011,762
Long-term liabilities	489,218	482,607
Total liabilities	2,169,134	2,055,854
Commitments and contingencies (see Note 18)		
Stockholders' equity:		
Preferred stock—\$1 par value per share, authorized 1,000,000 shares; none issued or outstanding	—	—
Common stock—\$1 par value per share, authorized 300,000,000 shares; issued and outstanding 109,511,000 shares and 112,034,000 shares at October 2, 2016 and at January 3, 2016, respectively	109,511	112,034
Capital in excess of par value	19,209	52,932
Retained earnings	2,061,487	1,991,431
Accumulated other comprehensive loss	(54,785)	(45,956)
Total stockholders' equity	2,135,422	2,110,441
Total liabilities and stockholders' equity	\$4,304,556	\$4,166,295

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

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PERKINELMER, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

	Nine Months Ended	
	October 2, 2016	October 4, 2015
	(In thousands)	
Operating activities:		
Net income	\$ 169,450	\$ 144,171
(Gain on) loss from discontinued operations, net of income taxes	(2,974)	33
Income from continuing operations	166,476	144,204
Adjustments to reconcile income from continuing operations to net cash provided by continuing operations:		
Restructuring and contract termination charges, net	5,692	4,838
Depreciation and amortization	79,287	83,757
Gain on disposition of businesses and assets, net	(5,562)	—
Stock-based compensation	13,819	12,483
Change in fair value of contingent consideration	9,678	—
Amortization of deferred debt financing costs and accretion of discount	1,507	1,112
Amortization of acquired inventory revaluation	396	7,275
Changes in assets and liabilities which provided (used) cash, excluding effects from companies purchased and divested:		
Accounts receivable, net	1,848	36,361
Inventories	(12,350)	(50,824)
Accounts payable	8,986	(19,916)
Accrued expenses and other	(70,859)	(57,361)
Net cash provided by operating activities of continuing operations	198,918	161,929
Net cash provided by (used in) operating activities of discontinued operations	2,974	(70)
Net cash provided by operating activities	201,892	161,859
Investing activities:		
Capital expenditures	(25,311)	(17,814)
Proceeds from disposition of businesses	21,000	—
Proceeds from surrender of life insurance policies	44	757
Changes in restricted cash balances	(2,000)	59
Activity related to acquisitions and investments, net of cash and cash equivalents acquired	(71,924)	(18,735)
Net cash used in investing activities	(78,191)	(35,733)
Financing activities:		
Payments on revolving credit facility	(804,507)	(371,000)
Proceeds from revolving credit facility	375,507	347,000
Proceeds from sale of senior debt	546,190	—
Payments of debt financing costs	(7,868)	—
Settlement of cash flow hedges	1,674	19,210
Net payments on other credit facilities	(835)	(800)
Payments for acquisition-related contingent consideration	(113)	(26)
Proceeds from issuance of common stock under stock plans	12,081	13,081
Purchases of common stock	(151,640)	(76,158)
Dividends paid	(23,131)	(23,737)
Net cash used in financing activities	(52,642)	(92,430)
Effect of exchange rate changes on cash and cash equivalents	2,672	(13,451)

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Net increase in cash and cash equivalents	73,731	20,245
Cash and cash equivalents at beginning of period	237,932	174,821
Cash and cash equivalents at end of period	\$311,663	\$195,066

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

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PERKINELMER, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by PerkinElmer, Inc. (the "Company"), in accordance with accounting principles generally accepted in the United States of America (the "U.S." or the "United States") and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information in the footnote disclosures of the financial statements has been condensed or omitted where it substantially duplicates information provided in the Company's latest audited consolidated financial statements, in accordance with the rules and regulations of the SEC. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes included in its Annual Report on Form 10-K for the fiscal year ended January 3, 2016, filed with the SEC (the "2015 Form 10-K"). The balance sheet amounts at January 3, 2016 in this report were derived from the Company's audited 2015 consolidated financial statements included in the 2015 Form 10-K. The condensed consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary to present fairly the Company's financial position, results of operations and cash flows for the periods indicated. The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts and classifications of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The results of operations for the three and nine months ended October 2, 2016 and October 4, 2015, respectively, are not necessarily indicative of the results for the entire fiscal year or any future period.

The Company's fiscal year ends on the Sunday nearest December 31. The Company reports fiscal years under a 52/53 week format and as a result, certain fiscal years will contain 53 weeks. The fiscal year ending January 1, 2017 ("fiscal year 2016") will include 52 weeks, while the fiscal year ended January 3, 2016 ("fiscal year 2015") included 53 weeks. The additional week in fiscal year 2015 was reflected in the Company's third quarter, which consisted of 14 weeks as compared to the Company's third quarter of fiscal year 2016, which consisted of 13 weeks.

Recently Adopted and Issued Accounting Pronouncements: From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (the "FASB") and are adopted by the Company as of the specified effective dates. Unless otherwise discussed, such pronouncements did not have or will not have a significant impact on the Company's condensed consolidated financial position, results of operations and cash flows or do not apply to the Company's operations.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). ASU 2016-15 addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230 and other topics. The provisions of this guidance are to be applied using a retrospective transition method to each period presented, and if it is impracticable to apply the amendments retrospectively for some of the issues, ASU 2016-15 allows the amendments for those issues to be applied prospectively as of the earliest date practicable. ASU 2016-15 is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those years, with early adoption permitted. The Company is evaluating the requirements of this guidance and has not yet determined the impact of its adoption on the Company's consolidated financial position, results of operations and cash flows.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). ASU 2016-13 changes how

entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard requires entities to use the expected loss impairment model and will apply to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities, net investments in leases and off-balance sheet credit exposures. Entities are required to estimate the lifetime “expected credit loss” for each applicable financial asset and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The standard also amends the impairment model for available-for-sale (“AFS”) debt securities and requires entities to determine whether all or a portion of the unrealized loss on an AFS debt security is a credit loss. An entity will recognize an allowance for credit losses on an AFS debt security as a contra-account to the amortized cost basis rather than as a direct reduction of the amortized cost basis of the investment. The provisions of this guidance are to be applied using a modified-retrospective approach. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2019, and interim periods within those years. Early adoption is permitted for

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annual periods beginning after December 15, 2018, and interim periods therein. The Company is evaluating the requirements of this guidance and has not yet determined the impact of its adoption on the Company's consolidated financial position, results of operations and cash flows.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation—Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting ("ASU No. 2016-09"). The new standard simplifies the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory withholding requirements, as well as the related classification in the statement of cash flows. The new standard is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those years, with early adoption permitted. The standard requires an entity to recognize all excess tax benefits and tax deficiencies as income tax benefit or expense in the income statement as discrete items in the reporting period in which they occur, and such tax benefits and tax deficiencies are not included in the estimate of an entity's annual effective tax rate, applied on a prospective basis. Further, the standard eliminates the requirement to defer the recognition of excess tax benefits until the benefit is realized through a reduction to taxes payable. All excess tax benefits previously unrecognized, along with any valuation allowance, should be recognized on a modified retrospective basis as a cumulative adjustment to retained earnings as of the date of adoption. Under ASU No. 2016-09, an entity that applies the treasury stock method in calculating diluted earnings per share is required to exclude excess tax benefits and deficiencies from the calculation of assumed proceeds since such amounts are recognized in the income statement. Excess tax benefits should also be classified as operating activities in the same manner as other cash flows related to income taxes on the statement of cash flows, as such excess tax benefits no longer represent financing activities since they are recognized in the income statement, and should be applied prospectively or retrospectively to all periods presented. The Company adopted ASU No. 2016-09 at the beginning of the first quarter of fiscal year 2016. The Company recorded a cumulative increase of \$14.2 million in the beginning of the first quarter of fiscal year 2016 retained earnings with a corresponding increase in deferred tax assets related to the prior years' unrecognized excess tax benefits. Excess tax benefits related to exercised options and vested restricted stock and restricted stock units during the nine months ended October 2, 2016 have been recognized in the current period's income statement. The Company also excluded the excess tax benefits from the calculation of diluted earnings per share for the three and nine months ended October 2, 2016. The Company applied the cash flow presentation section of the guidance on a prospective basis, and the prior period statement of cash flows was not adjusted. ASU No. 2016-09 also allows an entity to elect as an accounting policy either to continue to estimate the total number of awards for which the requisite service period will not be rendered or to account for forfeitures for service based awards as they occur. An entity that elects to account for forfeitures as they occur should apply the accounting change on a modified retrospective basis as a cumulative effect adjustment to retained earnings as of the date of adoption. The Company has elected to account for forfeitures as they occur. The adoption of this accounting policy did not have a material impact on the Company's consolidated financial position, results of operations and cash flows.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases. The new guidance requires lessees to recognize a lease liability and right-of-use asset on the balance sheet for financing and operating leases. The provisions of this guidance are to be applied using a modified retrospective approach and are effective for annual reporting periods beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. The Company is evaluating the requirements of this guidance and has not yet determined the impact of its adoption on the Company's consolidated financial position, results of operations and cash flows.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, Simplifying the Measurement of Inventory. Under this new guidance, companies that use inventory measurement methods other than last-in, first-out or the retail inventory method should measure inventory at the lower of cost and net realizable value. The provisions of this guidance are to be applied prospectively and are effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is evaluating the requirements of this guidance. The adoption is not expected to have a material impact on the Company's consolidated financial position,

results of operations and cash flows.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). Under this new guidance, an entity should use a five-step process to recognize revenue, depicting the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also requires new disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Subsequent to the issuance of the standard, the FASB decided to defer the effective date for one year to annual reporting periods beginning after December 15, 2017, with early adoption permitted for annual reporting periods beginning after December 15, 2016. In May 2016, the FASB also issued Accounting Standards Update No. 2016-12, Revenue from Contracts with Customers (Topic 606), Narrow-Scope Improvements and Practical Expedients ("ASU 2016-12"), which amended its revenue recognition guidance in ASU 2014-09 on transition, collectibility, non-cash consideration and the presentation of sales and other similar taxes. In April 2016, the FASB also issued Accounting Standards Update No. 2016-10, Revenue from Contracts with Customers (Topic 606), Identifying

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Performance Obligations and Licensing ("ASU 2016-10"), which amended its revenue recognition guidance in ASU 2014-09 on identifying performance obligations to allow entities to disregard items that are immaterial in the context of the contract, clarify when a promised good or service is separately identifiable (i.e., distinct within the context of the contract) and allow an entity to elect to account for the cost of shipping and handling performed after control of a good has been transferred to the customer as a fulfillment cost (i.e., an expense). ASU 2016-10 also clarifies how an entity should evaluate the nature of its promise in granting a license of intellectual property ("IP") and requires entities to classify IP in one of two categories: functional IP or symbolic IP, which will determine whether it recognizes revenue over time or at a point in time. ASU 2016-10 also address how entities should consider license renewals and restrictions and apply the exception for sales- and usage-based royalties received in exchange for licenses of IP. ASU 2016-12, ASU 2016-10 and ASU 2014-09 may be adopted either using a full retrospective approach or a modified retrospective approach. The Company is evaluating the requirements of the foregoing standards and has not yet determined the impact of their adoption on the Company's consolidated financial position, results of operations and cash flows. The Company intends to adopt these standards using the modified retrospective approach, and the Company does not intend to early adopt these standards.

Note 2: Business Combinations

Acquisitions in fiscal year 2016

During the first nine months of fiscal year 2016, the Company completed the acquisition of two businesses for a total consideration of \$72.4 million in cash. The acquired businesses included Bioo Scientific Corporation, which was acquired for total consideration of \$63.6 million in cash and one other business acquired for a total consideration of \$8.8 million in cash. The excess of the purchase prices over the fair values of each of the acquired businesses' net assets represents cost and revenue synergies specific to the Company, as well as non-capitalizable intangible assets, such as the employee workforce acquired. As a result of the acquisitions, the Company recorded goodwill of \$45.8 million, which is not tax deductible, and intangible assets of \$19.9 million. The Company has reported the operations for these acquisitions within the results of the Company's Human Health and Environmental Health segments from the acquisition dates. Identifiable definite-lived intangible assets, such as core technology, trade names and customer relationships, acquired as part of these acquisitions had weighted average amortization periods of 9.5 years.

The total purchase price for the acquisitions in fiscal year 2016 has been allocated to the estimated fair values of assets acquired and liabilities assumed as follows:

	2016 Acquisitions (In thousands)
Fair value of business combination:	
Cash payments	\$ 72,497
Working capital and other adjustments	(122)
Less: cash acquired	(2,152)
Total	\$ 70,223
Identifiable assets acquired and liabilities assumed:	
Current assets	\$ 7,293
Property, plant and equipment	7,542
Identifiable intangible assets:	
Core technology	5,500
Trade names	570
Customer relationships	13,800
Goodwill	45,787
Deferred taxes	(8,284)
Liabilities assumed	(1,985)

Total \$ 70,223

Acquisitions in fiscal year 2015

During fiscal year 2015, the Company completed the acquisition of five businesses for a total consideration of \$77.1 million in cash. The acquired businesses included Vanadis Diagnostics AB (“Vanadis”), which was acquired for total consideration of \$35.1 million in cash, as further described in Note 17 below, and other acquisitions for aggregate consideration

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of \$42.0 million in cash. The Company has a potential obligation to pay the shareholders of Vanadis additional contingent consideration of up to \$93.0 million, which at closing had an estimated fair value of \$56.9 million. The excess of the purchase prices over the fair values of each of the acquired businesses' net assets represents cost and revenue synergies specific to the Company, as well as non-capitalizable intangible assets, such as the employee workforce acquired, and has been allocated to goodwill, of which \$9.2 million is tax deductible. The Company has reported the operations for these acquisitions within the results of the Company's Human Health and Environmental Health segments from the acquisition dates. Identifiable definite-lived intangible assets, such as core technology and trade names, acquired as part of these acquisitions had weighted average amortization periods of nine years.

The total purchase price for the acquisitions in fiscal year 2015 has been allocated to the estimated fair values of assets acquired and liabilities assumed as follows:

	2015 Acquisitions (In thousands)
Fair value of business combination:	
Cash payments	\$ 75,285
Contingent consideration	56,878
Working capital and other adjustments	1,832
Less: cash acquired	(3,864)
Total	\$ 130,131
Identifiable assets acquired and liabilities assumed:	
Current assets	\$ 2,551
Property, plant and equipment	998
Identifiable intangible assets:	
Core technology	15,759
Trade names	200
Licenses	116
Customer relationships	3,073
In-process research and development ("IPR&D")	75,700
Goodwill	52,221
Deferred taxes	(17,637)
Liabilities assumed	(2,850)
Total	\$ 130,131

The preliminary allocations of the purchase prices for acquisitions are based upon initial valuations. The Company's estimates and assumptions underlying the initial valuations are subject to the collection of information necessary to complete its valuations within the measurement periods, which are up to one year from the respective acquisition dates. The primary areas of the preliminary purchase price allocations that are not yet finalized relate to the fair value of certain tangible and intangible assets acquired and liabilities assumed, assets and liabilities related to income taxes and related valuation allowances, and residual goodwill. The Company expects to continue to obtain information to assist in determining the fair values of the net assets acquired at the acquisition dates during the measurement periods. During the measurement periods, the Company will adjust assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition dates that, if known, would have resulted in the recognition of those assets and liabilities as of those dates. These adjustments will be made in the periods in which the amounts are determined and the cumulative effect of such adjustments will be calculated as if the adjustments had been completed as of the acquisition dates. All changes that do not qualify as adjustments made during the measurement periods are also included in current period earnings.

Allocations of the purchase price for acquisitions are based on estimates of the fair value of the net assets acquired and are subject to adjustment upon finalization of the purchase price allocations. The accounting for business

combinations requires estimates and judgments as to expectations for future cash flows of the acquired business, and the allocation of those cash flows to identifiable intangible assets, in determining the estimated fair values for assets acquired and liabilities assumed. The fair values assigned to tangible and intangible assets acquired and liabilities assumed, including contingent consideration, are based on management's estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques. Contingent consideration is measured at fair value at the acquisition

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date, based on the probability that revenue thresholds or product development milestones will be achieved during the earnout period, with changes in the fair value after the acquisition date affecting earnings to the extent it is to be settled in cash. Increases or decreases in the fair value of contingent consideration liabilities primarily result from changes in the estimated probabilities of achieving revenue thresholds, changes in discount rates or product development milestones during the earnout period.

As of October 2, 2016, the Company may have to pay contingent consideration related to acquisitions with open contingency periods of up to \$94.6 million. As of October 2, 2016, the Company has recorded contingent consideration obligations with an estimated fair value of \$66.9 million, of which \$10.2 million was recorded in accrued expenses and other current liabilities, and \$56.7 million was recorded in long-term liabilities. As of January 3, 2016, the Company had recorded contingent consideration obligations with an estimated fair value of \$57.4 million, of which \$9.4 million was recorded in accrued expenses and other current liabilities, and \$48.0 million was recorded in long-term liabilities. The expected maximum earnout period for acquisitions with open contingency periods does not exceed five years from the respective acquisition dates, and the remaining weighted average expected earnout period at October 2, 2016 was two years. If the actual results differ from the estimates and judgments used in these fair values, the amounts recorded in the condensed consolidated financial statements could result in a possible impairment of the intangible assets and goodwill, require acceleration of the amortization expense of definite-lived intangible assets or the recognition of additional contingent consideration which would be recognized as a component of operating expenses from continuing operations.

Total transaction costs related to acquisition and divestiture activities for the three and nine months ended October 2, 2016 were \$0.4 million and \$1.0 million, respectively. Total transaction costs related to acquisition and divestiture activities for the three and nine months ended October 4, 2015 were \$0.1 million and \$0.5 million, respectively. These transaction costs were expensed as incurred and recorded in selling, general and administrative expenses in the Company's condensed consolidated statements of operations.

Note 3: Disposition of Businesses and Assets

As part of the Company's continuing efforts to focus on higher growth opportunities, the Company has discontinued certain businesses. When the discontinued operations represent a strategic shift that will have a major effect on the Company's operations and financial statements, the Company has accounted for these businesses as discontinued operations and accordingly, has presented the results of operations and related cash flows as discontinued operations. Any business deemed to be a discontinued operation prior to the adoption of ASU 2016-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of An Entity, continues to be reported as a discontinued operation, and the results of operations and related cash flows are presented as discontinued operations for all periods presented. Any remaining assets and liabilities of these businesses have been presented separately, and are reflected within assets and liabilities from discontinued operations in the accompanying condensed consolidated balance sheets as of October 2, 2016 and January 3, 2016.

During fiscal years 2016 and 2015, the Company settled various commitments related to the divestiture of discontinued operations and recognized net pre-tax gain of \$0.6 million and a net pre-tax loss of \$0.03 million for the nine months ended October 2, 2016 and October 4, 2015, respectively, and a net pre-tax gain of \$0.6 million for the three months ended October 2, 2016. The Company recorded a tax provision of \$0.3 million and a tax benefit of \$2.4 million on discontinued operations and dispositions for the three and nine months ended October 2, 2016, respectively. The Company recorded a tax provision of \$0.04 million and \$0.01 million on discontinued operations and dispositions for the three and nine months ended October 4, 2015, respectively.

During the second quarter of 2016, the Company completed the sale of its investment in PerkinElmer Labs, Inc., recognizing a pre-tax gain of \$7.1 million. The sale generated a capital loss for tax purposes of \$7.3 million, which resulted in an income tax benefit of \$2.5 million that was recognized as a discrete benefit during the second quarter of 2016. PerkinElmer Labs, Inc. was a component of the Company's Human Health segment. The pre-tax gain recognized in the second quarter of 2016 is included in interest and other expense, net in the condensed consolidated statement of operations. The divestiture of PerkinElmer Labs, Inc. has not been classified as a discontinued operation

in this Form 10-Q because the disposition does not represent a strategic shift that will have a major effect on the Company's operations and financial statements.

During the second quarter of 2016, the Company entered into a letter of intent to contribute certain assets to an academic institution in the United Kingdom. The Company recognized a pre-tax loss of \$1.6 million related to the write-off of assets in the second quarter of 2016 which is included in interest and other expense, net in the condensed consolidated statement of operations.

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Note 4: Restructuring and Contract Termination Charges, Net

The Company has undertaken a series of restructuring actions related to the impact of acquisitions and divestitures, the alignment of the Company's operations with its growth strategy, the integration of its business units and its productivity initiatives. The current portion of restructuring and contract termination charges is recorded in accrued restructuring and contract termination charges and the long-term portion of restructuring and contract termination charges is recorded in long-term liabilities. The activities associated with these plans have been reported as restructuring and contract termination charges, net, as applicable, and are included as a component of operating expenses from continuing operations.

The Company implemented a restructuring plan in the third quarter of fiscal year 2016 consisting of workforce reductions principally intended to focus resources on higher growth product lines (the "Q3 2016 Plan"). The Company implemented a restructuring plan in the second quarter of fiscal year 2016 consisting of workforce reductions principally intended to focus resources on higher growth end markets (the "Q2 2016 Plan"). The Company implemented a restructuring plan in the fourth quarter of fiscal year 2015 consisting of workforce reductions and closure of excess facility space principally intended to focus resources on higher growth end markets (the "Q4 2015 Plan"). The Company implemented a restructuring plan in the second quarter of fiscal year 2015 consisting of workforce reductions principally intended to realign resources to emphasize growth initiatives (the "Q2 2015 Plan"). Details of the plans initiated in previous years ("Previous Plans") are discussed more fully in Note 4 to the audited consolidated financial statements in the 2015 Form 10-K.

The following table summarizes the number of employees reduced, the initial restructuring or contract termination charges by operating segment, and the dates by which payments were substantially completed, or the expected dates by which payments will be substantially completed, for restructuring actions that were implemented during fiscal years 2016 and 2015:

Workforce Reductions Headcount Reduction (In thousands, except headcount data)	Human Health		Environmental Health		Closure of Excess Facility Total	(Expected) Date Payments Substantially Completed by	
	Human Health	Environmental Health	Human Health	Environmental Health		Severance	Excess Facility
Q3 2016 Plan 22	\$ 727	\$ 1,093	\$ —	—	—\$1,820	Q4 FY2017	—
Q2 2016 Plan 90	4,049	1,239	—	—	5,288	Q3 FY2017	—
Q4 2015 Plan 174	2,230	9,065	285	—	11,580	Q1 FY2017	Q4 FY2017
Q2 2015 Plan 97	1,850	4,160	—	—	6,010	Q2 FY2016	—

The Company expects to make payments under the Previous Plans for remaining residual lease obligations, with terms varying in length, through fiscal year 2022.

The Company also terminated various contractual commitments in connection with certain disposal activities and recorded charges, to the extent applicable, for the costs of terminating these contracts before the end of their terms and the costs that will continue to be incurred for the remaining terms without economic benefit to the Company. The Company recorded additional pre-tax charges of \$0.1 million during fiscal year 2015 in the Environmental Health segment as a result of these contract terminations.

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At October 2, 2016, the Company had \$12.9 million recorded for accrued restructuring and contract termination charges, of which \$9.1 million was recorded in short-term accrued restructuring and contract termination charges and \$3.8 million was recorded in long-term liabilities. At January 3, 2016, the Company had \$22.2 million recorded for accrued restructuring and contract termination charges, of which \$17.1 million was recorded in short-term accrued restructuring and contract termination charges and \$5.1 million was recorded in long-term liabilities. The following table summarizes the Company's restructuring and contract termination accrual balances and related activity by restructuring plan, as well as contract termination accrual balances and related activity, during the nine months ended October 2, 2016:

	Balance at January 3, 2016 (In thousands)	2016 Charges	2016 Changes in Estimates, Net	2016 Amounts Paid	Balance at October 2, 2016
Severance:					
Q3 2016 Plan	\$—	\$ 1,820	\$—	\$(104)	\$ 1,716
Q2 2016 Plan	—	5,288	(43)	(3,095)	2,150
Q4 2015 Plan	10,370	—	(953)	(8,052)	1,365
Q2 2015 Plan	1,149	—	(543)	(408)	198
Facility:					
Q4 2015 Plan	259	—	—	(248)	11
Previous Plans	10,287	—	35	(3,029)	7,293
Restructuring	22,065	7,108	(1,504)	(14,936)	12,733
Contract Termination	132	—	88	(76)	144
Total Restructuring and Contract Termination	\$ 22,197	\$ 7,108	\$ (1,416)	\$(15,012)	\$ 12,877

Note 5: Interest and Other Expense, Net

Interest and other expense, net, consisted of the following:

	Three Months Ended		Nine Months Ended	
	October 2, 2016	October 4, 2015	October 2, 2016	October 4, 2015
	(In thousands)			
Interest income	\$(124)	\$(147)	\$(361)	\$(488)
Interest expense	10,998	9,874	30,778	28,564
Gain on disposition of businesses and assets, net (see Note 3)	—	—	(5,562)	—
Other expense, net	389	2,217	2,887	4,132
Total interest and other expense, net	\$ 11,263	\$ 11,944		