

PERKINELMER INC  
Form 10-Q  
November 14, 2005  
Table of Contents

---

**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, 2005

or

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

Commission file number 001-5075

---

**PerkinElmer, Inc.**

(Exact name of registrant as specified in its charter)

---

Edgar Filing: PERKINELMER INC - Form 10-Q

Massachusetts  
(State or other jurisdiction of  
incorporation or organization)

04-2052042  
(I.R.S. employer  
identification no.)

45 William Street, Wellesley, Massachusetts  
(Address of principal executive offices)

02481  
(Zip Code)

(781) 237-5100

(Registrant's telephone number, including area code)

NONE

(Former name, former address and former fiscal year, if changed since last report)

---

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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

Number of shares outstanding of each of the issuer's classes of common stock:

<u>Class</u>	<u>Outstanding at November 7, 2005</u>
Common Stock, \$1 par value per share	130,797,274

---

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
	<b>_____</b>
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. <u>Financial Statements</u>	3
<u>Condensed Consolidated Income Statements</u>	3
<u>Condensed Consolidated Balance Sheets</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Overview</u>	20
<u>Consolidated Results of Continuing Operations</u>	21
<u>Reporting Segment Results of Continuing Operations</u>	30
<u>Liquidity and Capital Resources</u>	31
<u>Off-Balance Sheet Arrangements</u>	33
<u>Application of Critical Accounting Policies and Estimates</u>	34
<u>Forward-Looking Information and Factors Affecting Future Performance</u>	34
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	39
Item 4. <u>Controls and Procedures</u>	40
<b>PART II. OTHER INFORMATION</b>	
Item 1. <u>Legal Proceedings</u>	41
Item 6. <u>Exhibits</u>	42
<u>Signature</u>	43
<u>Exhibit Index</u>	44

Table of Contents

## PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

## PERKINELMER, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED INCOME STATEMENTS

(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 2, 2005	September 26, 2004	October 2, 2005	September 26, 2004
	(In thousands, except per share data)		(In thousands, except per share data)	
<b>Sales</b>	\$ 361,901	\$ 341,601	\$ 1,092,270	\$ 1,028,396
Cost of sales	204,510	198,567	621,017	597,101
Research and development expenses	21,808	20,435	66,674	60,748
Selling, general and administrative expenses	87,722	83,430	278,449	264,826
Restructuring charges, net			14,245	
Amortization of intangible assets	7,159	6,920	21,452	20,658
In-process research and development charge			194	
<b>Operating income from continuing operations</b>	<b>40,702</b>	<b>32,249</b>	<b>90,239</b>	<b>85,063</b>
Interest expense, net	6,397	8,428	20,684	25,789
Extinguishment of debt		345	6,210	1,877
Gains on dispositions of investments and other, net	(304)	(743)	(5,263)	(932)
Other expense, net	6,093	8,030	21,631	26,734
Income from continuing operations before income taxes	34,609	24,219	68,608	58,329
Provision for (benefit from) income taxes	8,464	5,825	(3,151)	13,844
<b>Income from continuing operations</b>	<b>26,145</b>	<b>18,394</b>	<b>71,759</b>	<b>44,485</b>
Income from discontinued operations, net of income taxes	5,500	5,889	13,337	14,102
Gain (loss) on disposition of discontinued operations, net of income taxes	188	(269)	(4,537)	(467)
<b>Net income</b>	<b>\$ 31,833</b>	<b>\$ 24,014</b>	<b>\$ 80,559</b>	<b>\$ 58,120</b>
<b>Basic earnings (loss) per share:</b>				
Continuing operations	\$ 0.20	\$ 0.14	\$ 0.56	\$ 0.35
Income from discontinued operations, net of income tax	0.04	0.05	0.10	0.11
Loss on disposition of discontinued operations, net of income tax			(0.04)	

Edgar Filing: PERKINELMER INC - Form 10-Q

Net income	\$ 0.25	\$ 0.19	\$ 0.62	\$ 0.46
<b>Diluted earnings (loss) per share:</b>				
Continuing operations	\$ 0.20	\$ 0.14	\$ 0.55	\$ 0.34
Income from discontinued operations, net of income tax	0.04	0.05	0.10	0.11
Loss on disposition of discontinued operations, net of income tax			(0.04)	
Net income	\$ 0.24	\$ 0.19	\$ 0.62	\$ 0.45
<b>Weighted average shares of common stock outstanding:</b>				
Basic	129,543	127,562	129,135	127,123
Diluted	131,291	129,395	131,021	129,230
Cash dividends per common share	0.07	0.07	0.21	0.21

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

**Table of Contents****PERKINELMER, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	<b>October 2, 2005</b>	<b>January 2, 2005</b>
	<b>(In thousands, except share and per share data)</b>	
<b>Current assets:</b>		
Cash and cash equivalents	\$ 166,057	\$ 197,513
Accounts receivable, net	247,599	258,405
Inventories	168,632	170,383
Other current assets	72,033	67,689
Current assets of discontinued operations	54,980	53,640
<b>Total current assets</b>	<b>709,301</b>	<b>747,630</b>
<b>Property, plant and equipment:</b>		
At cost	487,699	501,238
Accumulated depreciation	(307,372)	(296,489)
Net property, plant and equipment	180,327	204,749
Marketable securities and investments	9,268	10,479
Intangible assets, net	378,915	392,019
Goodwill	1,027,890	1,043,027
Other assets	101,451	107,574
Long-term assets of discontinued operations	86,546	70,029
<b>Total assets</b>	<b>\$ 2,493,698</b>	<b>\$ 2,575,507</b>
<b>Current liabilities:</b>		
Short-term debt	\$ 5,850	\$ 9,714
Accounts payable	127,920	127,936
Accrued restructuring costs and integration costs	10,754	3,045
Accrued expenses	252,066	273,913
Current liabilities of discontinued operations	47,450	31,363
<b>Total current liabilities</b>	<b>444,040</b>	<b>445,971</b>
Long-term debt	268,390	364,874
Long-term liabilities	283,043	292,340
Long-term liabilities of discontinued operations	12,120	12,237
<b>Total liabilities</b>	<b>1,007,593</b>	<b>1,115,422</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		

Edgar Filing: PERKINELMER INC - Form 10-Q

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 130,319,000 and 129,059,000 at October 2, 2005 and January 2, 2005, respectively	130,319	129,059
Capital in excess of par value		561,558	545,000
Unearned compensation		(6,670)	(4,202)
Retained earnings		786,228	732,878
Accumulated other comprehensive income		14,670	57,350
		<u>1,486,105</u>	<u>1,460,085</u>
<b>Total stockholders equity</b>		<b>1,486,105</b>	<b>1,460,085</b>
<b>Total liabilities and stockholders equity</b>		<b>\$ 2,493,698</b>	<b>\$ 2,575,507</b>

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

Table of Contents

## PERKINELMER, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended	
	October 2, 2005	September 26, 2004
(In thousands)		
<b>Operating activities:</b>		
Net income	\$ 80,559	\$ 58,120
Income from discontinued operations, net of income taxes	(13,337)	(14,102)
Loss on disposition of discontinued operations, net of income taxes	4,537	467
	<u>71,759</u>	<u>44,485</u>
Net income from continuing operations	71,759	44,485
Adjustments to reconcile net income from continuing operations to net cash provided by continuing operations:		
Stock-based compensation	5,543	4,362
Amortization of debt discount and issuance costs	4,381	4,870
Depreciation and amortization	51,474	50,734
In-process research and development	194	
Gains on dispositions and sales of investments, net	(64)	(662)
Changes in operating assets and liabilities which (used) provided cash, excluding effects from companies purchased and divested:		
Accounts receivable	(2,738)	19,002
Inventories	(2,662)	1,873
Accounts payable	2,831	(28,133)
Accrued restructuring and integration costs	7,709	(4,231)
Accrued expenses and other	(30,702)	15,962
	<u>107,725</u>	<u>108,262</u>
<b>Net cash provided by operating activities from continuing operations</b>	<b>107,725</b>	<b>108,262</b>
Net cash provided by discontinued operations	15,793	21,483
	<u>123,518</u>	<u>129,745</u>
<b>Net cash provided by operating activities</b>	<b>123,518</b>	<b>129,745</b>
<b>Investing activities:</b>		
Capital expenditures	(16,245)	(10,282)
Proceeds from dispositions of property, plant and equipment, net	9,393	3,442
Proceeds from disposition or settlement of businesses, net	6,956	
(Cash used) proceeds received for acquisitions, net of cash acquired	(14,888)	2,765
	<u>(14,784)</u>	<u>(4,075)</u>
<b>Net cash used in continuing operations</b>	<b>(14,784)</b>	<b>(4,075)</b>
Net cash used in discontinued operations	(9,501)	(1,637)
	<u>(24,285)</u>	<u>(5,712)</u>
<b>Net cash used in investing activities</b>	<b>(24,285)</b>	<b>(5,712)</b>
<b>Financing activities:</b>		
Prepayment of senior subordinated debt	(34,125)	
Prepayment of term loan debt	(70,000)	(75,000)
Decrease in other credit facilities	(875)	(125)



Edgar Filing: PERKINELMER INC - Form 10-Q

Proceeds from issuance of common stock	8,599	4,677
Cash dividends	(27,210)	(26,814)
	<u>          </u>	<u>          </u>
<b>Net cash used in continuing operations</b>	<b>(123,611)</b>	<b>(97,262)</b>
Net cash provided by discontinued operations	516	1,260
	<u>          </u>	<u>          </u>
<b>Net cash used in financing activities</b>	<b>(123,095)</b>	<b>(96,002)</b>
	<u>          </u>	<u>          </u>
Effect of exchange rate changes on cash and cash equivalents	(7,594)	511
	<u>          </u>	<u>          </u>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(31,456)</b>	<b>28,542</b>
Cash and cash equivalents at beginning of period	197,513	191,499
	<u>          </u>	<u>          </u>
Cash and cash equivalents at end of period	<b>\$ 166,057</b>	<b>\$ 220,041</b>
	<u>          </u>	<u>          </u>

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

**Table of Contents**

**PERKINELMER, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**(1) Basis of Presentation**

The consolidated financial statements included herein have been prepared by PerkinElmer, Inc. (the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information in footnote disclosures normally included in financial statements has been condensed or omitted in accordance with the rules and regulations of the SEC. These statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 2005, filed with the SEC (the 2004 Form 10-K). The balance sheet amounts at January 2, 2005 in this report were derived from the Company's audited 2004 financial statements included in the 2004 Form 10-K. Certain prior period amounts related to discontinued operations have been reclassified to conform to the current-year financial statement presentation. The financial statements reflect all adjustments that, in the opinion of management, are necessary to present fairly the Company's results of operations, financial position and cash flows for the periods indicated. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and classifications of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The results of operations for the nine months ended October 2, 2005 and September 26, 2004 are not necessarily indicative of the results for the entire fiscal year.

In June 2005, the Company approved a plan to shut down its Fiber Optics Test Equipment business. In September 2005, the Company approved a plan to dispose of its Fluid Sciences business segment. The Company has accounted for these businesses as discontinued operations in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144).

**(2) Subsequent Events**

***Sale of Fluid Sciences businesses***

As discussed in Note 1, the Company approved a plan to dispose of its Fluid Sciences business segment in September 2005. The Fluid Sciences business segment consisted of three businesses—Aerospace, Fluid Testing and Semiconductor. As part of the divestiture process, the Company signed a definitive agreement on October 6, 2005 to sell its Aerospace business to Eaton Corporation for approximately \$333 million, subject to regulatory approval and customary closing conditions. On October 26, 2005, the Company entered a definitive agreement to sell substantially all of the assets of its Fluid Testing business to Caleb Brett USA Inc. for approximately \$34.5 million. The Fluid Testing asset sale closed on November 10, 2005. In addition, the Company is in discussions to sell its Semiconductor business.

***Unsecured Credit Facility***

## Edgar Filing: PERKINELMER INC - Form 10-Q

In October 2005, the Company entered into a \$350 million unsecured revolving credit facility with a term of five years. The facility replaces the Company's previous \$100 million facility and will be used for general corporate purposes which may include working capital, refinancing existing indebtedness, capital expenditures, share repurchases, acquisitions and strategic alliances.

### *Tender Offer*

In October 2005, the Company commenced a cash tender offer and consent solicitation for any and all of its outstanding 8<sup>7/8</sup>% senior subordinated notes due 2013 (the 8<sup>7/8</sup>% Notes). On October 2, 2005, the 8<sup>7/8</sup>%

**Table of Contents****PERKINELMER, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Notes had an outstanding principal amount of \$270 million. On November 14, 2005, as part of an early settlement under the tender offer, the Company repurchased \$269.9 million of the 8<sup>7/8</sup>% Notes.

Several of the events described above will have direct impacts on the financial statements in the fourth quarter. The Company is in the process of computing these.

**(3) Acquisitions**

In February 2005, the Company acquired the capital stock of Elcos AG, a leading European designer and manufacturer of custom light emitting diode, or LED, solutions for biomedical and industrial applications. Consideration for the transaction was approximately \$15.4 million in cash at the time of closing with deferred cash consideration of approximately \$1.4 million due through fiscal 2007. In addition, potential cash earn out payments of up to approximately \$8.4 million are expected to be made based on the future performance of the business. The Company has accrued for such payments due to the high likelihood that the payments will be made.

Elcos operations are reported within the results of the Company's Optoelectronics reporting segment. The acquisition was accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, and the Company has accordingly allocated the purchase price of Elcos based upon the fair values of the assets acquired and liabilities assumed. In connection with the fair valuing of the assets acquired and liabilities assumed, management, assisted by valuation consultants, performed an assessment of intangible assets using customary valuation procedures and techniques. Identifiable intangible assets included \$0.2 million in acquired in-process research and development for projects that had not yet reached technological feasibility as of the acquisition date and for which no future alternative use existed. These costs were expensed on the date of the acquisition.

The components of the preliminary purchase price and allocation are as follows (in thousands):

Consideration and acquisition costs:	
Cash payments	\$ 15,429
Deferred consideration	1,444
Earnout liability	8,403
Transaction costs	402
	<hr/>
Total consideration and acquisition costs	\$ 25,678
	<hr/>
Allocation of purchase price	
Current assets	\$ 5,769
Property, plant and equipment	2,094

Edgar Filing: PERKINELMER INC - Form 10-Q

Other assets	181
Identifiable intangible assets:	
Core and completed technologies	2,836
Customer contracts	2,626
Customer relationships	1,838
Distributor network	880
Supplier network	552
Trade names and other	621
In-process research and development	194
Goodwill	13,666
Deferred taxes on identified intangibles	(3,640)
Liabilities assumed	(1,939)
	<hr/>
Total	\$ 25,678
	<hr/>

---

**Table of Contents**

**PERKINELMER, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(4) Restructuring Charges**

The Company has undertaken a series of restructuring actions related to the impact of acquisitions, divestitures and the integration of its business units. Restructuring actions in 2001 and 2002 were recorded in accordance with Emerging Issues Task Force ( EITF ) 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. Restructuring actions taken since 2002 were recorded in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* ( SFAS No. 146 ). In certain instances, specifically when governmental authorities are involved in setting severance levels, SFAS No. 112, *Employers' Accounting for Postemployment Benefits*, is applied. The principal actions associated with these plans related to workforce reductions and overhead reductions resulting from reorganization activities, including the closure of certain manufacturing and selling facilities. Details of these plans are discussed more fully in the Company's 2004 Form 10-K.

For the nine-month period ended October 2, 2005, the Company recorded a pre-tax restructuring charge of \$6.0 million relating to its Q4 2002 and Integration restructuring plans (each of which is further described below) due to higher than expected costs associated with the closure of facilities, primarily in Europe.

In addition, on June 15, 2005, the Company's management approved a plan to terminate employees in several locations as the Company shifts resources into geographic regions and product lines that are more consistent with the Company's growth strategy. The Company completed notifying affected employees on July 1, 2005. As a result of this plan of termination, the Company recorded a pre-tax restructuring charge of \$8.2 million during the second quarter of 2005 (the Q2 2005 Plan ). The principal actions within the Q2 2005 Plan related to a workforce reduction resulting from reorganization activities within the Life and Analytical Sciences and Optoelectronics businesses.

A description of each of the restructuring plans and the activity recorded for the nine-month period ended October 2, 2005 is as follows:

***Q2 2005 Plan***

During the second quarter of 2005, the Company recognized a \$5.3 million restructuring charge in the Life and Analytical Sciences business and a \$2.9 million restructuring charge in the Optoelectronics business. The purpose of these restructuring actions was to shift resources into geographic regions and product lines that were more consistent with the Company's growth strategy. The principal actions in the Q2 2005 Plan comprised headcount reductions resulting from reorganization activities.

The following table summarizes the components of the Q2 2005 Plan activity for the nine-month period ended October 2, 2005:

Edgar Filing: PERKINELMER INC - Form 10-Q

	<u>Headcount</u>	<u>Severance</u>	<u>Abandonment of Excess Facilities</u>	<u>Total</u>
	(In thousands)			
Balance at January 2, 2005		\$	\$	\$
Provision	228	8,111	140	8,251
Amounts paid	(225)	(4,536)	(140)	(4,676)
Balance at October 2, 2005	<u>3</u>	<u>\$ 3,575</u>	<u>\$</u>	<u>\$ 3,575</u>

The Company expects that all remaining Q2 2005 Plan actions will be completed by the end of the fourth quarter of 2005.

**Table of Contents****PERKINELMER, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Q2 2003 Plan***

During the second quarter of 2003, the Company recognized a \$2.0 million restructuring charge in the Life and Analytical Sciences business and a \$0.3 million restructuring charge in the Optoelectronics business (the Q2 2003 Plan ). The purpose of the restructuring was to further improve performance and take advantage of synergies between the Company's former Life Sciences and Analytical Instruments businesses. The principal actions in the Q2 2003 Plan included lower headcount due to the continued integration of the Life and Analytical Sciences business in a European manufacturing facility and a customer care center as well as a headcount reduction at one of the Optoelectronics manufacturing facilities to reflect recent declining demand for several product lines.

The following table summarizes the components of the Q2 2003 Plan activity for the nine-month period ended October 2, 2005:

	<b>Severance and Separation</b>
	<b>(In thousands)</b>
Balance at January 2, 2005	\$ 202
Amounts paid	
Balance at October 2, 2005	\$ 202

During 2004, the Company completed all actions under the Q2 2003 Plan, with the exception of a headcount reduction of one person that is expected to be complete by the end of 2006.

***Q4 2002 Plan***

In connection with the Company's decision to combine the Life Sciences and Analytical Instruments businesses in order to reduce costs and achieve operational efficiencies, the Company recorded a pre-tax restructuring charge of \$26.0 million during the fourth quarter of 2002 (the Q4 2002 Plan ). The Q4 2002 Plan allowed the Company to combine many business functions worldwide, with the intention to better serve its customers and more fully capitalize on the strengths of the businesses' sales, service and research and development organizations. The principal actions in the restructuring plan included workforce reductions, closure of facilities and disposal of underutilized assets.



## Edgar Filing: PERKINELMER INC - Form 10-Q

In the nine-month period ended October 2, 2005, the Company recorded an additional provision of \$5.3 million for additional costs related to closed facilities due to soft sublease markets, primarily in Europe. The following table summarizes the components of the Q4 2002 Plan for the nine-month period ended October 2, 2005:

	<b>Severance</b>	<b>Abandonment of Excess Facilities</b>	<b>Total</b>
		<b>(In thousands)</b>	
Balance at January 2, 2005	\$ 463	\$ 507	\$ 970
Provision		5,430	5,430
Amounts paid	(432)	(788)	(1,220)
	\$ 31	\$ 5,149	\$ 5,180

The Q4 2002 Plan resulted in the integration of the United States Life and Analytical Sciences sales, service and customer care centers, the integration of European customer care and finance centers, the merging of

**Table of Contents****PERKINELMER, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

a former Life Sciences European manufacturing facility with a former Analytical Instruments European manufacturing facility and the merging of a portion of a former Life Sciences research and development European facility with a former Analytical Instruments European facility.

The Company expects to settle the remaining severance liability under the Q4 2002 Plan in the fourth quarter of 2005. The Company's current estimates of its lease commitments on unoccupied buildings under the Q4 2002 Plan extend until 2014.

***Q4 2001 Plan***

During the fourth quarter of 2001, in connection with the integration of Packard BioScience Company ( Packard ), which the Company acquired that quarter, and a restructuring of sales offices in Europe, the Company recorded a restructuring charge of \$9.2 million in the Life and Analytical Sciences segment (the Q4 2001 Plan ). The principal actions in the Q4 2001 Plan included the closing or consolidation of several leased sales and service offices in Europe, as well as costs associated with the closure of a manufacturing facility in Europe, the closure of leased manufacturing facilities in the United States and the disposal of related assets. These actions were designed to streamline the organization and take advantage of the synergies offered by the Packard acquisition as they relate to the legacy Life and Analytical Science segment.

The following table summarizes the components of the Q4 2001 Plan for the nine-month period ended October 2, 2005:

	<b>Severance</b>
	<b>(In thousands)</b>
Balance at January 2, 2005	\$ 1,506
Amounts paid	(310)
Balance at October 2, 2005	\$ 1,196

The remaining liability under the Q4 2001 Plan relates to European benefit obligations and is expected to be paid during 2006.

***Integration Charges***

## Edgar Filing: PERKINELMER INC - Form 10-Q

As discussed in the Company's 2004 Form 10-K, the Company established integration reserves relating primarily to the acquisition of Packard. In the nine-month period ended October 2, 2005, the Company recorded an additional provision of \$0.6 million for additional costs related to closed facilities due to soft sublease markets, primarily in Europe. While the initial accounting was contemplated in the original purchase price allocation under EITF 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*, the change in estimate in the second quarter of 2005 was charged directly to restructuring.

The following table summarizes the activity in the reserves for the nine-month period ended October 2, 2005:

	<b>Abandonment of Excess Facilities</b>
	<b>(In thousands)</b>
Accrued integration costs at January 2, 2005	\$ 367
Provision	564
Amounts paid	(330)
Accrued integration costs at October 2, 2005	\$ 601

**Table of Contents****PERKINELMER, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The integration activities were completed in 2003 with the exception of payments due on leased facilities exited in 2001. The Company's current estimates of its lease commitments extend through 2009.

**(5) Inventories**

Inventories consisted of the following:

	<u>October 2, 2005</u>	<u>January 2, 2005</u>
	(In thousands)	
Raw materials	\$ 63,687	\$ 68,228
Work in progress	14,644	13,106
Finished goods	90,301	89,049
	<u>          </u>	<u>          </u>
Total Inventories	<u>\$ 168,632</u>	<u>\$ 170,383</u>

**(6) Debt**

In October 2005, the Company entered into a \$350.0 million senior unsecured revolving credit facility with a term of five years. This facility replaced the existing senior credit facility. There was no outstanding principal balance under the former senior credit facility at October 2, 2005 or at any other time during the third quarter of 2005. Letters of credit in the aggregate amount of approximately \$15 million, originally issued under the senior credit facility, will be treated as issued under the revolving credit facility. Interest rates under the senior unsecured credit facility are based on the Eurocurrency rate plus a margin or the base rate at the time of borrowing. The base rate is the higher of (1) the corporate base rate announced from time to time by Bank of America, N.A. and (2) the Fed funds rate plus 50 basis points. The new senior credit facility also contains covenants that require the Company to maintain specific financial ratios, including (i) a minimum interest coverage ratio; and (ii) a maximum total leverage ratio.

On October 2, 2005, the outstanding balance of the Company's senior subordinated notes (the 7/8% Notes) was \$270 million. In the fourth quarter of 2005, the Company commenced and substantially completed a cash tender offer and consent solicitation for any and all of its outstanding 8 7/8% Notes. On November 14, 2005, as part of an early settlement under the tender offer, the Company repurchased \$269.9 million of the 8 7/8% Notes. The 8 7/8% Notes were originally guaranteed by certain of the Company's domestic subsidiaries. As a result of the structure of the new senior revolving credit facility referred to above, the guarantor subsidiaries have been released from the 8 7/8% Notes and the previously provided supplemental financial information will no longer be included with these financial statements.

As described in the footnotes to the Company's annual report, the Company entered into interest rate swap agreements (the Swaps) that effectively converted the fixed interest rate on \$200 million of the Company's 8<sup>7</sup>/<sub>8</sub>% Notes to a variable interest rate which is reset semi-annually in arrears based upon six-month USD LIBOR plus a negotiated spread. The Swaps have been designated as fair value hedges and have been marked to market in the Company's consolidated financial statements. The fair value of the Swaps as of October 2, 2005 was a loss of \$4.7 million. The fair value movements in the Swaps have offset the fair value movements in the debt they have been designated to hedge. On November 10, 2005, the Company terminated the interest rate swaps in conjunction with the tender of the 8<sup>7</sup>/<sub>8</sub>% Notes.

**(7) Earnings Per Share**

Basic earnings per share was computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share was computed by dividing net income by the

**Table of Contents****PERKINELMER, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

weighted-average number of common shares outstanding plus all potentially dilutive common stock equivalents, primarily shares issuable upon the exercise of stock options using the treasury stock method:

	Three Months Ended		Nine Months Ended	
	October 2, 2005	September 26, 2004	October 2, 2005	September 26, 2004
	(In thousands)		(In thousands)	
Number of common shares basic	129,543	127,562	129,135	127,123
Effect of dilutive securities				
Stock options and employee stock purchase plan	1,487	1,521	1,638	1,788
Restricted stock	261	312	248	319
Number of common shares diluted	131,291	129,395	131,021	129,230
Number of potentially dilutive securities excluded from calculation due to antidilution	6,786	8,715	7,831	7,140

**(8) Comprehensive Income**

Comprehensive income consisted of the following:

	Three Months Ended		Nine Months Ended	
	October 2, 2005	September 26, 2004	October 2, 2005	September 26, 2004
	(In thousands)		(In thousands)	
Net income	\$ 31,833	\$ 24,014	\$ 80,559	\$ 58,120
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(296)	7,608	(42,608)	(626)
Unrealized gains (losses) on securities, net of tax	73	(11)	(72)	(319)
	(223)	7,597	(42,680)	(945)
Comprehensive income	\$ 31,610	\$ 31,611	\$ 37,879	\$ 57,175



The components of accumulated other comprehensive income were as follows:

	October 2, 2005	January 2, 2005
	(In thousands)	
Foreign currency translation adjustments	\$ 39,650	\$ 82,258
Minimum pension liability	(25,025)	(25,025)
Unrealized gains on securities	45	117
<b>Accumulated other comprehensive income</b>	<b>\$ 14,670</b>	<b>\$ 57,350</b>

**(9) Industry Segment Information**

The accounting policies of the Company's reportable segments are the same as those described in Note 1 of the Notes to Consolidated Financial Statements in the 2004 Form 10-K. The Company evaluates the performance of its operating segments based on operating profit. Intersegment sales and transfers are not significant. The operating segments and their principal products and services are:

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

**Table of Contents****PERKINELMER, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

As described in Note 10, in the third quarter of 2005, the Company discontinued the operations of its Fluid Sciences segment. Accordingly, results from this segment are excluded from the discussion below.

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>October 2, 2005</b>	<b>September 26, 2004</b>	<b>October 2, 2005</b>	<b>September 26, 2004</b>
	<b>(In thousands)</b>		<b>(In thousands)</b>	
<b>Life &amp; Analytical Sciences</b>				
Sales	\$ 259,083	\$ 243,704	\$ 794,634	\$ 750,820
Operating profit	26,716	18,914	64,341	57,032
<b>Optoelectronics</b>				
Sales	102,818	97,897	297,636	277,576
Operating profit	20,318	17,721	45,863	43,876
<b>Other</b>				
Operating loss	(6,332)	(4,386)	(19,965)	(15,845)
<b>Continuing Operations</b>				
Sales	\$ 361,901	\$ 341,601	\$ 1,092,270	\$ 1,028,396
Operating profit	40,702	32,249	90,239	85,063

**(10) Discontinued Operations**

As part of its continued efforts to focus on higher growth opportunities, the Company has discontinued certain businesses and accounted for them as discontinued operations in accordance with SFAS No. 144. The results of operations and related cash flows have been presented as discontinued operations for all periods presented. The assets and liabilities of these businesses have been presented separately and are reflected within the assets and liabilities from discontinued operations in the accompanying balance sheets as of October 2, 2005 and January 2, 2005.

***2005 Discontinued Operations***



## Edgar Filing: PERKINELMER INC - Form 10-Q

In September 2005, the Board of Directors approved a plan to divest the Company's Fluid Sciences business segment. The Fluid Sciences business segment consisted of three businesses - Aerospace, Fluid Testing and Semiconductor. As part of the divesting process, the Company signed a definitive agreement on October 6, 2005 to sell its Aerospace business, subject to regulatory approval and customary closing conditions. On October 26, 2005, the Company entered a definitive agreement to sell substantially all of the assets of its Fluid Testing business to Caleb Brett USA Inc. The Fluid Testing asset sale closed on November 10, 2005. In addition, the Company is in discussions to sell its Semiconductor business.

In June 2005, senior management approved a plan to shut down the Company's Fiber Optics Test Equipment business. The results of this business were previously reported as part of the Optoelectronics reporting segment. The shut-down of this business resulted in a \$5.2 million loss related to lease and severance costs and the reduction of fixed assets and inventory to net realizable value. In August 2005, certain assets that were previously written down were subsequently sold resulting in a gain of \$0.1 million. These activities have been recognized in the gain (loss) on dispositions in the three and nine months ended October 2, 2005.

**Table of Contents****PERKINELMER, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****2004 and Prior Discontinued Operations***

In 2004, the Company's Board of Directors approved a plan to shut down its Computer-To-Plate business, its Electroformed Products business and sell its Ultraviolet Lighting business. The results of these businesses were previously reported as part of the Optoelectronics reporting segment. During the third quarter of 2005, the Electroformed Products business recorded a gain of \$0.1 million related to the sale of previously written-off assets.

During the nine-month period ended October 2, 2005 the Company settled various claims under certain long-term contracts with the Company's former Technical Services business, which was sold in August 1999. The net settlements resulted in a gain of \$0.4 million that was recognized in the nine months ended October 2, 2005. This amount has been included in gain (loss) on dispositions of discontinued operations.

The table below summarizes the gains and losses on dispositions of discontinued operations, as discussed above:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>October 2, 2005</b>	<b>September 26, 2004</b>	<b>October 2, 2005</b>	<b>September 26, 2004</b>
	<b>(In thousands)</b>		<b>(In thousands)</b>	
Gain (Loss) on Fiber Optics Test Equipment business	\$ 126	\$	\$ (5,025)	\$
Loss on Computer-To-Plate business		(1,354)		(1,354)
Gain (loss) on Electroformed Products business	94		10	(1,160)
Gain on contract settlements associated with the Technical Services business	30	730	430	1,487
Net (loss) gain on dispositions of other discontinued operations	(36)	183	340	254
Net gain (loss) on dispositions of discontinued operations before income taxes	214	(441)	(4,245)	(773)
Provision (benefit) for income taxes	26	(172)	292	(306)
Gain (loss) on dispositions of discontinued operations, net of income taxes	\$ 188	\$ (269)	\$ (4,537)	\$ (467)

Summary operating results of the discontinued operations of the Fluid Sciences, Fiber Optics Test Equipment, Computer-To-Plate, Electroformed Products and Ultraviolet Lighting businesses for the periods prior to disposition were as follows:

Edgar Filing: PERKINELMER INC - Form 10-Q

	Three Months Ended		Nine Months Ended	
	October 2, 2005	September 26, 2004	October 2, 2005	September 26, 2004
	(In thousands)		(In thousands)	
Sales	\$ 58,271	\$ 62,110	\$ 169,999	\$ 183,655
Costs and expenses	49,140	51,877	147,557	158,607
Operating income from discontinued operations	9,131	10,233	22,442	25,048
Other loss, net	528	559	1,149	1,159
Operating income from discontinued operations before income taxes	8,603	9,674	21,293	23,889
Provision for income taxes	3,103	3,785	7,956	9,787
Income from discontinued operations, net of taxes	\$ 5,500	\$ 5,889	\$ 13,337	\$ 14,102

**Table of Contents****PERKINELMER, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(11) Stock-Based Compensation**

As allowed by SFAS No. 123, *Accounting for Stock-Based Compensation*, the Company has elected to account for stock-based compensation at intrinsic value with disclosure of the effects of fair value accounting on net income and earnings per share on a pro forma basis. The Company accounts for these plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees ( APB No. 25 )* and related interpretations. No stock-based employee compensation cost related to stock options is reflected in net income, as all options granted under those plans had an exercise price at least equal to the market value of the underlying common stock on the date of grant.

The Company has issued restricted stock to certain employees that vests over time and has reflected the fair value of these awards as unearned compensation until the restrictions are released and the compensation is earned. In addition, the Company has awarded performance-contingent restricted stock to certain executive officers that vests only upon achievement of specific performance targets within three years. If the performance targets are not achieved within the three-year period, the shares are forfeited. These shares were awarded under the Company's 2001 Incentive Plan. Under APB No. 25, the compensation expense associated with the fair market value of these awards is variable; that is, the expense is determined based on the then-current stock price at the end of each quarter and is recognized over the period that the performance targets are expected to be achieved.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123.

	Three Months Ended		Nine Months Ended	
	October 2, 2005	September 26, 2004	October 2, 2005	September 26, 2004
	(In thousands, except per share)		(In thousands, except per share)	
Net income as reported	\$ 31,833	\$ 24,014	\$ 80,559	\$ 58,120
Add: Stock-based employee compensation expense included in net income, net of related tax effects	390	(179)	1,525	717
Deduct: Total stock-based employee compensation expense determined under fair market value method for all awards, net of related tax effects	(2,028)	(3,919)	(8,909)	(12,615)
Pro forma net income	\$ 30,194	\$ 19,916	\$ 73,175	\$ 46,222
Earnings per share:				
Basic as reported	\$ 0.25	\$ 0.19	\$ 0.62	\$ 0.46
Basic pro forma	\$ 0.23	\$ 0.16	\$ 0.57	\$ 0.36
Diluted as reported	\$ 0.24	\$ 0.19	\$ 0.62	\$ 0.45

## Edgar Filing: PERKINELMER INC - Form 10-Q

Diluted	pro forma	\$	0.23	\$	0.15	\$	0.56	\$	0.36
---------	-----------	----	------	----	------	----	------	----	------

In December 2004, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 123R, *Share-Based Payment* ( SFAS No. 123R ). This Statement is a revision of SFAS No. 123, and supersedes ABP No. 25, and its related implementation guidance. SFAS No. 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS 123R requires entities to recognize stock compensation expense for awards of equity instruments to employees based on the grant-date fair value of those awards (with limited exceptions). SFAS No. 123R is effective for the Company's first quarter of 2006.

**Table of Contents****PERKINELMER, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company expects to adopt SFAS No. 123R using the Statement's modified prospective application method. Adoption of SFAS No. 123R is expected to increase stock compensation expense, and the Company is currently evaluating the impact that the adoption of SFAS No. 123R will have on its financial results.

**(12) Goodwill and Intangible Assets**

In accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and other Intangible Assets*, the Company is required to test goodwill for impairment at the reporting unit level upon initial adoption and at least annually thereafter. As part of the Company's on-going compliance with SFAS No. 142, the Company, assisted by valuation consultants, completed its annual assessment of goodwill using a measurement date of January 3, 2005. The results of this annual assessment resulted in no impairment charge.

The changes in the carrying amount of goodwill for the period ended October 2, 2005 from January 2, 2005 are as follows:

	<b>Life and Analytical Sciences</b>	<b>Optoelectronics</b>	<b>Consolidated</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
	(In thousands)		
Balance, January 3, 2005	\$ 1,005,224	\$ 37,803	\$ 1,043,027
Foreign currency translation	(28,671)	(1,678)	(30,349)
Elcos acquisition		13,666	13,666
Purchase accounting adjustment	1,546		1,546
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Balance, October 2, 2005	<u>\$ 978,099</u>	<u>\$ 49,791</u>	<u>\$ 1,027,890</u>

In the third quarter of 2005, the Company settled two earnout cases in connection with minor acquisitions resulting in the payment of approximately \$1.5 million.

Intangible asset balances at October 2, 2005 and January 2, 2005 were as follows:

October 2, 2005	January 2, 2005
--------------------	--------------------

Edgar Filing: PERKINELMER INC - Form 10-Q

	(In thousands)	
Patents	\$ 91,601	\$ 91,778
Less: Accumulated depreciation	(40,063)	(33,390)
<b>Net patents</b>	<b>51,538</b>	<b>58,388</b>
Licenses	48,797	49,439
Less: Accumulated depreciation	(21,647)	(17,809)
<b>Net licenses</b>	<b>27,150</b>	<b>31,630</b>
Core technology	209,202	200,567
Less: Accumulated depreciation	(68,140)	(57,599)
<b>Net core technology</b>	<b>141,062</b>	<b>142,968</b>
<b>Net amortizable intangible assets</b>	<b>219,750</b>	<b>232,986</b>
Non-amortizing intangible assets, primarily trademarks and trade names	159,165	159,033
<b>Totals</b>	<b>\$ 378,915</b>	<b>\$ 392,019</b>

**(13) Warranty Reserves**

The Company provides warranty protection for certain products for periods ranging from one to three years beyond the date of sale. The majority of costs associated with warranty obligations include the replacement of

Table of Contents

## PERKINELMER, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

parts and the time of service personnel to respond to repair and replacement requests. A warranty reserve is recorded based upon historical results, supplemented by management's expectations of future costs. A summary of warranty reserve activity for the three and nine months ended October 2, 2005 and September 26, 2004 is as follows:

	Three Months Ended		Nine Months Ended	
	October 2, 2005	September 26, 2004	October 2, 2005	September 26, 2004
	(In thousands)		(In thousands)	
Balance beginning of period	\$ 9,514	\$ 9,702	\$ 9,862	\$ 9,438
Provision	3,365	3,041	10,039	9,456
Charges	(3,425)	(3,589)	(10,175)	(9,645)
Other	(37)	74	(309)	(21)
Balance end of period	\$ 9,417	\$ 9,228	\$ 9,417	\$ 9,228

**(14) Employee Benefit Plans**

Net periodic benefit cost (credit) included the following components for the three and nine months ended October 2, 2005 and September 26, 2004:

	Defined Benefit Pension Benefits		Post-Retirement Medical Benefits	
	October 2, 2005	September 26, 2004	October 2, 2005	September 26, 2004
	(In thousands)			
Service cost	\$ 1,585	\$ 1,534	\$ 34	\$ 24
Interest cost	5,614	5,491	125	136
Expected return on plan assets	(5,596)	(5,598)	(197)	(224)
Net amortization and deferral	1,131	483	(123)	(126)
Net periodic benefit cost (credit)	\$ 2,734	\$ 1,910	\$ (161)	\$ (190)



	Defined Benefit		Post-Retirement	
	Pension Benefits		Medical Benefits	
	Nine Months Ended			
	October 2, 2005	September 26, 2004	October 2, 2005	September 26, 2004
	(In thousands)			
Service cost	\$ 4,919	\$ 4,584	\$ 102	\$ 93
Interest cost	17,087	16,423	375	392
Expected return on plan assets	(16,907)	(16,751)	(591)	(579)
Net amortization and deferral	3,361	1,444	(369)	(361)
Net periodic benefit cost (credit)	\$ 8,460	\$ 5,700	\$ (483)	\$ (455)

**(15) Contingencies**

The Company is conducting a number of environmental investigations and remedial actions at current and former Company locations and, along with other companies, has been named a potentially responsible party ( PRP ) for certain waste disposal sites. The Company accrues for environmental issues in the accounting period

**Table of Contents****PERKINELMER, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

that the Company's responsibility is established and when the cost can be reasonably estimated. The Company has accrued \$3.8 million as of October 2, 2005, representing management's estimate of the total cost of ultimate disposition of known environmental matters. Such amount is not discounted and does not reflect the recovery of any amounts through insurance or indemnification arrangements. These cost estimates are subject to a number of variables, including the stage of the environmental investigations, the magnitude of the possible contamination, the nature of the potential remedies, possible joint and several liability, the timeframe over which remediation may occur and the possible effects of changing laws and regulations. For sites where the Company has been named a PRP, management does not currently anticipate any additional liability to result from the inability of other significant named parties to contribute. The Company expects that such accrued amounts could be paid out over a period of up to ten years. As assessments and remediation activities progress at each individual site, these liabilities are reviewed and adjusted to reflect additional information as it becomes available. There have been no environmental problems to date that have had or are expected to have a material adverse effect on the Company's financial position, results of operations or cash flows. While it is reasonably possible that a material loss exceeding the amounts recorded may be incurred, the potential exposure is not expected to be materially different than the amounts recorded.

In papers dated October 23, 2002, Enzo Biochem, Inc. and Enzo Life Sciences, Inc. ( Enzo ) filed a complaint in the United States District Court for the Southern District of New York, Civil Action No. 02-8448, against Amersham PLC, Amersham BioSciences, PerkinElmer, Inc., PerkinElmer Life Sciences, Inc., Sigma-Aldrich Corporation, Sigma Chemical Company, Inc., Molecular Probes, Inc., and Orchid BioSciences, Inc. The complaint alleges that the Company has breached its distributorship and settlement agreements with Enzo, infringed Enzo's patents, engaged in unfair competition and fraud, and committed torts against Enzo by, among other things, engaging in commercial development and exploitation of Enzo's patented products and technology, separately and together with the other defendants. Enzo seeks injunctive and monetary relief. On May 28, 2003, the court severed the lawsuit and ordered Enzo to serve individual complaints against the five defendants. Enzo served its new complaint on July 16, 2003, and the Company subsequently filed an answer denying the substantive allegations and including a counterclaim alleging that Enzo's patents are invalid. During the third quarter 2005, fact discovery was largely completed and a Markman hearing was conducted regarding the construction of the claims in Enzo's patents. The court has not yet issued its decision regarding claim construction or set a date for trial.

On October 17, 2003, Amersham Biosciences Corp. filed a complaint, which was subsequently amended, in the United States District Court for New Jersey, Civil Action No. 03-4901, against a subsidiary of the Company, alleging that the Company's ViewLux and certain of its Image FlashPlates infringe two of Amersham's patents related to high-throughput screening (the NJ case ). On August 18, 2004, Amersham Plc filed a complaint against two of the Company's United Kingdom based subsidiaries in the Patent Court of the English High Court of Justice, Case No. 04C02688, alleging that the Company's same products infringe Amersham's European (United Kingdom) patent granted in August 2004 (the UK case ). Amersham seeks injunctive and monetary relief in both cases. The Company subsequently filed answers in both cases denying the substantive allegations and including affirmative defenses and counterclaims. On October 29, 2003, the Company filed a complaint, which was subsequently amended, against Amersham Biosciences Corp. in the United States District Court for Massachusetts, Civil Action No. 03-12098, alleging that Amersham's IN Cell Analyzer, and LEADseeker Multimodality Imaging system and certain Cyclic AMP and IP3 assays infringe two of the Company's patents related to high-throughput screening (the MA case ). The Company seeks injunctive and monetary relief. Amersham subsequently filed an answer denying the substantive allegations and including affirmative defenses and counterclaims. Trial before a judge in the UK case has been scheduled to begin on November 30. In the NJ case, discovery regarding issues of liability, which were bifurcated from issues of damages, has been largely completed and the parties await the Markman hearing on claim construction, for which briefing has been completed. In the MA case, discovery began in October 2005.

**Table of Contents**

**PERKINELMER, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company believes it has meritorious defenses to these lawsuits and other proceedings, and is contesting the actions vigorously. The Company is currently unable, however, to reasonably estimate the amount of the loss, if any, that may result from the resolution of these matters or to determine whether resolution of any of these matters will have a material adverse impact on its consolidated financial statements.

The Company and certain of its officers were named as defendants in a purported securities class action lawsuit filed in July 2002, and the Company and certain of its officers and directors were named as defendants in a purported derivative lawsuit filed in June 2004. On November 7, 2005, these lawsuits were dismissed. Further information with respect to these lawsuits is contained in *Part II, Item I. Legal Proceedings* of this quarterly report.

The Company is under regular examination by tax authorities in the United States and other countries in which it has significant business operations. The tax years under examination vary by jurisdiction. The Company regularly assesses the likelihood of additional assessments in each of the taxing jurisdictions resulting from these and subsequent years' examinations. Tax reserves have been established, which the Company believes to be adequate in relation to the potential for additional assessments. Once established, reserves are adjusted as information becomes available and when an event occurs requiring a change to the reserves. The resolution of tax matters is not expected to have a material effect on the Company's consolidated financial condition, although such settlement could have a material impact on the Company's effective tax rate and consolidated statement of income for a particular future period. In particular, in the second quarter of 2005, identified reserves for prior year taxes of \$26.5 million were released based on the settlement of certain foreign and domestic tax audits.

The Company is subject to various other claims, legal proceedings and investigations covering a wide range of matters that arise in the ordinary course of its business activities. Each of these matters is subject to uncertainties, and it is possible that some of these matters may be resolved unfavorably to the Company. In the opinion of the Company's management, based on its review of the information available at this time, the total cost of resolving these other contingencies at October 2, 2005, should not have a material adverse effect on the Company's consolidated financial statements.

---

## **Table of Contents**

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

*This quarterly report on Form 10-Q, including the following management's discussion and analysis, contains forward-looking information that you should read in conjunction with the consolidated financial statements and notes to consolidated financial statements that we have included elsewhere in this quarterly report on Form 10-Q. For this purpose, any statements contained in this report that are not statements of historical fact may be deemed to be forward-looking statements. Words such as believes, plans, anticipates, expects, will and similar expressions are intended to identify forward-looking statements. Our actual results may differ materially from the plans, intentions or expectations we disclose in the forward-looking statements we make. We have included important factors below under the heading Forward-Looking Information and Factors Affecting Future Performance that we believe could cause actual results to differ materially from the forward-looking statements we make. We are not obligated to update any forward-looking statements, whether as a result of new information, future events or otherwise.*

### **Overview**

We are a leading provider of scientific instruments, consumables and services to the pharmaceutical, biomedical, academic research, environmental testing and general industrial markets, commonly referred to as the health sciences and photonics markets. We design, manufacture, market and service products and systems within two businesses, each constituting one reporting segment:

*Life and Analytical Sciences.* We are a leading provider of drug discovery, genetic screening, and environmental and chemical analysis tools, including instruments, reagents, consumables, and services.

*Optoelectronics.* We provide a broad range of digital imaging, sensor and specialty lighting components used in the biomedical, consumer products and other specialty end markets.

The health sciences markets include genetic screening, environmental, service, biopharma, and medical imaging. The photonics markets include specialty lighting and sensor applications sold into the consumer electronics, safety and security, military/aerospace and other end markets

### **Significant Developments**

*Fluid Sciences Divestiture.* In September 2005, our Board approved a plan to divest our Fluid Sciences business segment to increase our strategic focus on our Life and Analytical Sciences and Optoelectronics businesses. The Fluid Sciences business segment consisted of three businesses—Aerospace, Fluid Testing and Semiconductor. As part of the divestiture process, we signed a definitive agreement on October 6, 2005 to sell our Aerospace business to Eaton Corporation for approximately \$333 million, subject to regulatory approval and customary closing conditions. On October 26, 2005, we entered into a definitive agreement to sell substantially all of the assets of our Fluid Testing business to Caleb Brett USA Inc. for approximately \$34.5 million. The Fluid Testing asset sale closed on November 10, 2005. In addition, we are in discussions to sell our Semiconductor business.

*Unsecured Credit Facility.* In October 2005, we entered into a \$350 million unsecured senior revolving credit facility with a term of five years. The facility replaces our previous \$100 million facility and will be used for general corporate purposes which may include working capital, refinancing existing indebtedness, capital expenditures, share repurchases, acquisitions and strategic alliances.

## Edgar Filing: PERKINELMER INC - Form 10-Q

*Tender Offer.* In October 2005, we commenced a cash tender offer and consent solicitation for any and all of our outstanding 8<sup>7/8</sup>% senior subordinated notes due 2013 (the 8<sup>7/8</sup>% Notes ). On October 2, 2005, the 8<sup>7/8</sup>% Notes had an outstanding balance of \$270 million. On November 14, 2005, as part of an early settlement under the tender offer, we repurchased \$269.9 million of the 8<sup>7/8</sup>% Notes.

*Key Management Promotions.* In October 2005, we announced that Robert F. Friel, our current Executive Vice President and Chief Financial Officer, was appointed Vice Chairman of PerkinElmer, Inc. and will join our

## **Table of Contents**

Board of Directors. In addition, Jeffrey D. Capello, our Vice President Finance and Chief Accounting Officer, was appointed Senior Vice President and Chief Financial Officer. Mr. Capello will retain his position as Chief Accounting Officer. The management and Board appointments will be effective January 1, 2006.

## **Consolidated Results of Continuing Operations**

### ***Sales***

Sales for the third quarter of 2005 were \$361.9 million, versus \$341.6 million for the third quarter of 2004, an increase of \$20.3 million, or 6%. Changes in foreign exchange rates had an immaterial impact on sales in the third quarter of 2005, as compared to the third quarter of 2004. This increase in sales reflects a \$15.4 million, or 6%, increase in our Life and Analytical Sciences segment sales. Our Optoelectronics segment sales grew \$4.9 million, or 5% and include \$3.2 million from the acquisition of Elcos.

Sales for the nine-month period ended October 2, 2005 were \$1,092.3 million, versus \$1,028.4 million for the nine-month period ended September 26, 2004, an increase of \$63.9 million, or 6%. Changes in foreign exchange rates, primarily the Euro, increased sales by approximately \$12.7 million in the nine-month period ended October 2, 2005, as compared to the nine-month period ended September 26, 2004. This increase in sales reflects a \$43.8 million, or 6%, increase in our Life and Analytical Sciences segment sales, which includes approximately \$11.5 million in sales attributable to favorable changes in foreign exchange rates compared to the nine-month period ended September 26, 2004. Our Optoelectronics segment sales grew \$20.1 million, or 7%, including approximately \$1.3 million in sales attributable to favorable changes in foreign exchange rates compared to the nine-month period ended September 26, 2004 as well as \$9.6 million resulting from the acquisition of Elcos.

### ***Cost of Sales***

Cost of sales for the third quarter of 2005 was \$204.5 million, versus \$198.6 million for the third quarter of 2004, an increase of \$5.9 million, or 3%. As a percentage of sales, cost of sales decreased to 56.5% in the third quarter of 2005 from 58.1% in the third quarter of 2004, resulting in an increase in gross margin of 160 basis points from 41.9% in the third quarter of 2004 to 43.5% in the third quarter of 2005. The increase in gross margin percentage was primarily attributable to increases in gross margins at our Life and Analytical Sciences and Optoelectronics segments driven by higher volume and productivity improvements.

Cost of sales for the nine-month period ended October 2, 2005 was \$621.0 million, versus \$597.1 million for the nine-month period ended September 26, 2004, an increase of \$23.9 million, or 4%. As a percentage of sales, cost of sales decreased to 56.9% in the nine-month period ended October 2, 2005 from 58.1% in the nine-month period ended September 26, 2004, resulting in an increase in gross margin of 120 basis points from 41.9% in the nine-month period ended September 26, 2004, to 43.1% in the nine-month period ended October 2, 2005. The increase in gross margin was primarily attributable to increases in gross margins in our Life and Analytical Sciences and Optoelectronics driven by increased volume and productivity improvements.

### ***Research and Development Expenses***

## Edgar Filing: PERKINELMER INC - Form 10-Q

Research and development expenses for the third quarter of 2005 were \$21.8 million versus \$20.4 million for the third quarter of 2004, an increase of \$1.4 million, or 7%. As a percentage of sales, research and development expenses remained at 6.0% in both the third quarter of 2005 and the third quarter of 2004. We expect our research and development efforts to continue to emphasize the health sciences end markets.

Research and development expenses for the nine-month period ended October 2, 2005 were \$66.7 million versus \$60.7 million for the nine-month period ended September 26, 2004, an increase of \$6.0 million, or 10%. As a percentage of sales, research and development expenses increased to 6.1% in the nine-month period ended October 2, 2005, from 5.9% in the nine-month period ended September 26, 2004.

---

**Table of Contents**

***Selling, General and Administrative Expenses***

Selling, general and administrative expenses for the third quarter of 2005 were \$87.7 million versus \$83.4 million for the third quarter of 2004, an increase of \$4.3 million, or 5%. As a percentage of sales, selling, general and administrative expenses decreased 20 basis points from 24.4% in the third quarter of 2004 to 24.2% in the third quarter of 2005. The decrease as a percentage of sales of 20 basis points in the third quarter of 2005, as compared to the third quarter of 2004, was primarily the result of increased fixed cost leverage and cost controls.

Selling, general and administrative expenses for the nine-month period ended October 2, 2005 were \$278.4 million versus \$264.8 million for the nine-month period ended September 26, 2004, an increase of \$13.6 million, or 5%. As a percentage of sales, selling, general and administrative expenses decreased 30 basis points from 25.8% in the nine-month period ended September 26, 2004 to 25.5% in the nine-month period ended October 2, 2005. The decrease as a percentage of sales of 30 basis points in the nine-month period ended October 2, 2005, as compared to the nine-month period ended September 26, 2004, was the result of increased fixed cost leverage and cost controls, offset in part by an increase in the number of sales and service people in both higher growth regions of the world and higher growth product lines.

***Restructuring, Net***

We have undertaken a series of restructuring actions related to the impact of acquisitions, divestitures and the integration of our business units. Restructuring actions in 2001 and 2002 were recorded in accordance with Emerging Issues Task Force ( EITF ) 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. Restructuring actions taken since 2002 were recorded in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* ( SFAS No. 146 ). The principal actions associated with these plans related to workforce reductions and overhead reductions resulting from reorganization activities, including the closure of certain manufacturing and selling facilities. Details of these plans are discussed more fully in our 2004 Form 10-K.

For the nine-month period ended October 2, 2005, we recorded a pre-tax restructuring charge of \$6.0 million relating to our Q4 2002 and Integration restructuring plans (each of which is further described below) due to higher than expected costs associated with the closure of facilities, primarily in Europe.

In addition, on June 15, 2005, our management approved a plan to terminate employees in several locations as we shift resources into geographic regions and product lines that are more consistent with our growth strategy. We completed notifying affected employees on July 1, 2005. As a result of this plan of termination, we recorded a pre-tax restructuring charge of \$8.2 million during the second quarter of 2005 (the Q2 2005 Plan ). The principal actions within the Q2 2005 Plan related to a workforce reduction resulting from reorganization activities within the Life and Analytical Sciences and Optoelectronics businesses.

A description of each of the restructuring plans and the activity recorded for the nine-month period ended October 2, 2005 is as follows:

***Q2 2005 Plan***



## Edgar Filing: PERKINELMER INC - Form 10-Q

During the second quarter of 2005, we recognized a \$5.3 million restructuring charge in the Life and Analytical Sciences business and \$2.9 million restructuring charge in the Optoelectronics business. The purpose of these restructuring actions was to shift resources into geographic regions and product lines that were more consistent with our growth strategy. The principal actions in the Q2 2005 Plan comprised headcount reductions resulting from reorganization activities.

**Table of Contents**

The following table summarizes the components of the Q2 2005 Plan activity for the nine-month period ended October 2, 2005:

	<u>Headcount</u>	<u>Severance</u>	<u>Abandonment of Excess Facilities</u>	<u>Total</u>
			(In thousands)	
Balance at January 2, 2005		\$	\$	\$
Provision	228	8,111	140	8,251
Amounts paid	(225)	(4,536)	(140)	(4,676)
Balance at October 2, 2005	3	\$ 3,575		\$ 3,575

We expect that all remaining Q2 2005 Plan actions will be completed by the end of the fourth quarter of 2005.

***Q2 2003 Plan***

During the second quarter of 2003, we recognized a \$2.0 million restructuring charge in the Life and Analytical Sciences business and a \$0.3 million restructuring charge in the Optoelectronics business (the Q2 2003 Plan). The purpose of the restructuring was to further improve performance and take advantage of synergies between our former Life Sciences and Analytical Instruments businesses. The principal actions in the Q2 2003 Plan included lower headcount due to the continued integration of the Life and Analytical Sciences business in a European manufacturing facility and a customer care center as well as a headcount reduction at one of the Optoelectronics manufacturing facilities to reflect recent declining demand for several product lines.

The following table summarizes the components of the Q2 2003 Plan activity for the nine-month period ended October 2, 2005:

	<u>Severance and Separation</u>
	(In thousands)
Balance at January 2, 2005	\$ 202
Amounts paid	
Balance at October 2, 2005	\$ 202

During 2004, we completed all actions under the Q2 2003 Plan, with the exception of a headcount reduction of one person that is expected to be complete by the end of 2006.

*Q4 2002 Plan*

In connection with our decision to combine the Life Sciences and Analytical Instruments businesses in order to reduce costs and achieve operational efficiencies, we recorded a pre-tax restructuring charge of \$26.0 million during the fourth quarter of 2002 (the Q4 2002 Plan ). The Q4 2002 Plan allowed us to combine many business functions worldwide, with the intention to better serve our customers and more fully capitalize on the strengths of the businesses sales, service and research and development organizations. The principal actions in the restructuring plan included workforce reductions, closure of facilities and disposal of underutilized assets.

**Table of Contents**

In the nine-month period ended October 2, 2005, we recorded an additional provision of \$5.3 million for additional costs related to closed facilities due to soft sublease markets, primarily in Europe. The following table summarizes the components of the Q4 2002 Plan for the nine-month period ended October 2, 2005:

	Severance	Abandonment of Excess Facilities	Total
	_____	_____	_____
	(In thousands)		
Balance at January 2, 2005	\$ 463	\$ 507	\$ 970
Provision		5,430	5,430
Amounts paid	(432)	(788)	(1,220)
	_____	_____	_____
Balance at October 2, 2005	\$ 31	\$ 5,149	\$ 5,180
	_____	_____	_____

The Q4 2002 Plan resulted in the integration of our United States Life and Analytical Sciences sales, service and customer care centers, the integration of European customer care and finance centers, the merging of a former Life Sciences European manufacturing facility with a former Analytical Instruments European manufacturing facility and the merging of a portion of a former Life Sciences research and development European facility with a former Analytical Instruments European facility.

We expect to settle the remaining severance liability under the Q4 2002 Plan in the fourth quarter of 2005. Our current estimate of our lease commitments on unoccupied buildings under the Q4 2002 Plan extend until 2014.

**Q4 2001 Plan**

During the fourth quarter of 2001, in connection with the integration of Packard BioScience Company ( Packard ), which we acquired that quarter, and a restructuring of sales offices in Europe, we recorded a restructuring charge of \$9.2 million in the Life and Analytical Sciences segment (the Q4 2001 Plan ). The principal actions in the Q4 2001 Plan included the closing or consolidation of several leased sales and service offices in Europe, as well as costs associated with the closure of a manufacturing facility in Europe, the closure of leased manufacturing facilities in the United States and the disposal of related assets. These actions were designed to streamline the organization and take advantage of the synergies offered by the Packard acquisition as they relate to the legacy Life and Analytical Science segment.

The following table summarizes the components of the Q4 2001 Plan for the nine-month period ended October 2, 2005:

	Severance
	_____
	(In thousands)
Balance at January 2, 2005	\$ 1,506
Amounts paid	(310)
	_____

Balance at October 2, 2005	\$	1,196
----------------------------	----	-------

The remaining liability under the Q4 2001 Plan relates to European benefit obligations and is expected to be paid during 2006.

*Integration Charges*

As discussed in our 2004 Form 10-K, in the fourth quarter of 2001, we established integration reserves relating primarily to the acquisition of Packard. In the nine-month period ended October 2, 2005, we recorded an additional provision of \$0.6 million for additional costs related to closed facilities due to soft sublease markets, primarily in Europe. While the initial accounting was contemplated in the original purchase price allocation

**Table of Contents**

under EITF 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*, the change in estimate in the second quarter of 2005 was charged directly to restructuring.

The following table summarizes the activity in the reserves for the nine-month period ended October 2, 2005:

	<b>Abandonment of Excess Facilities</b>
	<b>(In thousands)</b>
Accrued integration costs at January 2, 2005	\$ 367
Provision	564
Amounts paid	(330)
Accrued integration costs at October 2, 2005	<u>\$ 601</u>

The integration activities were completed in 2003 with the exception of payments due on leased facilities exited in 2001. Our current estimates of our lease commitments extend through 2009.

***Amortization of Intangible Assets***

Amortization of intangible assets was \$7.2 million for the third quarter of 2005, versus \$6.9 million for the third quarter of 2004. The \$0.3 million increase in the third quarter of 2005 compared to the third quarter of 2004 primarily related to increased amortization in our Optoelectronics segment as a result of our acquisition of Elcos in the first quarter of 2005.

Amortization of intangible assets was \$21.6 million for the nine months ended October 2, 2005, versus \$20.7 million for the nine months ended September 26, 2004. The \$0.9 million increase for the first nine months of 2005 compared to the first nine months of 2004 primarily related to increased amortization in our Optoelectronics segment as a result of our acquisition of Elcos in the first quarter of 2005. The nine-month period ended October 2, 2005 includes a \$0.2 million charge for in-process research and development related to the Elcos acquisition.

***Interest and Other Expense, Net***

Interest and other expense, net consisted of the following:

**Three Months Ended**

**Nine Months Ended**

Edgar Filing: PERKINELMER INC - Form 10-Q

	October 2,	September 26,	October 2,	September 26,
	2005	2004	2005	2004
	(In thousands)		(In thousands)	
Interest Income	\$ (489)	\$ (615)	\$ (1,778)	\$ (1,452)
Interest Expense	6,886	9,043	22,462	27,241
Extinguishment of Debt		345	6,210	1,877
Gains on Dispositions of Investments, net	(400)		(5,844)	
Other	96	(743)	581	(932)
	<u>\$ 6,093</u>	<u>\$ 8,030</u>	<u>\$ 21,631</u>	<u>\$ 26,734</u>

Interest and other expense, net for the three months ended October 2, 2005 was \$6.1 million, versus \$8.0 million for the three months ended September 26, 2004, a decrease of \$1.9 million or 24%. The decrease in interest and other expense, net in the third quarter of 2005 as compared to the third quarter of 2004 was primarily due to debt reductions in the second quarter of 2005, including the \$70 million final payment of the senior credit facility that we terminated on October 31, 2005 and the repurchase of \$30 million of our 8<sup>7/8</sup>% Notes. Gains on

---

**Table of Contents**

dispositions of investments increased \$0.4 million due to the sale of an investment in Agencourt Personal Genomics. For nine months ended October 2, 2005, interest and other expense, net was \$21.6 million versus \$26.7 million for the comparable period in 2004, a decrease of \$5.1 million, or 19%. The decrease primarily relates to the lower average outstanding balances on the senior credit facility that we terminated on October 31, 2005 and the gain on the sale of an investment in Agencourt Personal Genomics, partially offset by the premium related to the repurchase of \$30 million of our 8<sup>7</sup>/<sub>8</sub>% Notes. A discussion of our liquidity and our prospective borrowing costs is set forth below under the heading *Liquidity and Capital Resources* .

***Provision/Benefit for Income Taxes***

The third quarter 2005 provision for income taxes was \$8.5 million, versus a provision of \$5.8 million for the third quarter of 2004. The effective tax rate for the third quarter of 2005 was 24.5%, versus an effective tax rate of 24.1% for the third quarter of 2004. The higher continuing operations effective tax rate for the third quarter of 2005 compared to the third quarter of 2004 is due primarily to decreasing U.S. losses.

The benefit for income taxes was \$3.2 million for the nine-month period ended October 2, 2005, compared to a provision for income taxes of \$13.8 million for the nine-month period ended September 26, 2004. During the nine months ended October 2, 2005, our continuing operations effective tax rate was reduced, in aggregate, by discrete items totaling approximately \$19.9 million. Without the benefit of these discrete items, our tax provision for the nine-month period ended October 2, 2005 would have been \$16.7 million.

Without the impact of the discrete items, our continuing operations effective tax rate for the nine months ended October 2, 2005 and September 26, 2004 were 24.3% and 23.7%, respectively. The reported benefit from income taxes for the nine months ended October 2, 2005 of \$3.2 million was affected by a benefit from the settlement of income tax audits of \$26.5 million and the provision for repatriated earnings of \$6.6 million, resulting in a provision before the effect of discrete items of \$16.7 million. The higher continuing operations effective tax rate for the first nine months of 2005 compared to 2004, excluding the effects of the discrete items, is due to decreasing U.S. losses.

We believe that the inclusion of these non-GAAP financial measures helps investors to gain a meaningful understanding of our tax provision and effective tax rate and their effect on our core operating results and future prospects, consistent with how management measures and forecasts our performance, especially when comparing such results to previous periods or forecasts. Our management uses these non-GAAP measures, in addition to GAAP financial measures, as the basis for measuring our tax provision and effective tax rate and their effect on our core operating results and future prospects and comparing such performance to that of prior periods and to the performance of our competitors. These measures are also used by management in their financial and operating decision making.

***Discontinued Operations***

As part of our continued efforts to focus on higher growth opportunities, we have discontinued certain businesses and accounted for them as discontinued operations in accordance with SFAS No. 144. The results of operations and related cash flows have been presented as discontinued operations for all periods presented. The assets and liabilities of these businesses have been presented separately and are reflected within the assets and liabilities from discontinued operations in the accompanying balance sheets as of October 2, 2005 and January 2, 2005.

**2005 Discontinued Operations**



In September 2005, our Board of Directors approved a plan to divest our Fluid Sciences business segment. The Fluid Sciences business segment consisted of three businesses Aerospace, Fluid Testing and Semiconductor. As part of the divestiture process, we signed a definitive agreement on October 6, 2005 to sell

**Table of Contents**

our Aerospace business, subject to regulatory approval and customary closing conditions. On October 26, 2005, we entered a definitive agreement to sell substantially all of the assets of our Fluid Testing business to Caleb Brett USA Inc. The Fluid Testing asset sale closed on November 10, 2005. In addition, we are in discussions to sell our Semiconductor business. We will record the impact on the sales of such businesses in the fourth quarter at the point in time that a transaction closes.

In June 2005, our senior management approved a plan to shut down our Fiber Optics Test Equipment business. The results of this business were previously reported as part of the Optoelectronics reporting segment. The shut-down of this business resulted in a \$5.2 million loss related to lease and severance costs and the reduction of fixed assets and inventory to net realizable value. In August 2005, certain assets that were previously written down were subsequently sold resulting in a gain of \$0.1 million. These activities have been recognized in the gain (loss) on dispositions in the three and nine months ended October 2, 2005.

**2004 and Before Discontinued Operations**

In 2004, our Board of Directors approved a plan to shut down our Computer-To-Plate business, Electroformed Products business and sell our Ultraviolet Lighting business. The results of these businesses were previously reported as part of the Optoelectronics reporting segment. During the third quarter of 2005, our Electroformed Products business recorded a gain of \$0.1 million related to the sale of previously written-off assets.

During the nine-month period ended October 2, 2005 we settled various claims under certain long-term contracts with our former Technical Services business, which was sold in August 1999. The net settlements resulted in a gain of \$0.4 million that was recognized in the nine months ended October 2, 2005. This amount has been included in gain (loss) on dispositions of discontinued operations.

The table below summarizes the gains and losses on dispositions of discontinued operations, as discussed above:

	Three Months Ended		Nine Months Ended	
	October 2, 2005	September 26, 2004	October 2, 2005	September 26, 2004
	(In thousands)		(In thousands)	
Gain (Loss) on Fiber Optics Test Equipment business	\$ 126	\$	\$ (5,025)	\$
Loss on Computer-To-Plate business		(1,354)		(1,354)
Gain (loss) on Electroformed Products business	94		10	(1,160)
Gain on contract settlements associated with the Technical Services business	30	730	430	1,487
Net (loss) gain on disposition of other discontinued operations	(36)	183	340	254
Net gain (loss) on dispositions of discontinued operations before income taxes	214	(441)	(4,245)	(773)
Provision (benefit) for income taxes	26	(172)	292	(306)
Gain (loss) on dispositions of discontinued operations, net of income taxes	\$ 188	\$ (269)	\$ (4,537)	\$ (467)



**Table of Contents**

Summary operating results of the discontinued operations of our Fluid Sciences, Fiber Optics Test Equipment, Computer-To-Plate, Electroformed Products and Ultraviolet Lighting businesses for the periods prior to disposition were as follows:

	Three Months Ended		Nine Months Ended	
	October 2, 2005	September 26, 2004	October 2, 2005	September 26, 2004
	(In thousands)		(In thousands)	
Sales	\$ 58,271	\$ 62,110	\$ 169,999	\$ 183,655
Costs and expenses	49,140	51,877	147,557	158,607
Operating income from discontinued operations	9,131	10,233	22,442	25,048
Other loss, net	528	559	1,149	1,159
Operating income from discontinued operations before income taxes	8,603	9,674	21,293	23,889
Provision for income taxes	3,103	3,785	7,956	9,787
Income from discontinued operations, net of taxes	\$ 5,500	\$ 5,889	\$ 13,337	\$ 14,102

**Contingencies**

We are conducting a number of environmental investigations and remedial actions at our current and former locations and, along with other companies, have been named a potentially responsible party for certain waste disposal sites. We accrue for environmental issues in the accounting period that our responsibility is established and when the cost can be reasonably estimated. We have accrued \$3.8 million as of October 2, 2005, representing our management's estimate of the total cost of ultimate disposition of known environmental matters. This amount is not discounted and does not reflect any recovery of any amounts through insurance or indemnification arrangements. These cost estimates are subject to a number of variables, including the stage of the environmental investigations, the magnitude of the possible contamination, the nature of the potential remedies, possible joint and several liability, the timeframe over which remediation may occur, and the possible effects of changing laws and regulations. For sites where we have been named a potentially responsible party, our management does not currently anticipate any additional liability to result from the inability of other significant named parties to contribute. We expect that such accrued amounts could be paid out over a period of up to ten years. As assessment and remediation activities progress at each individual site, these liabilities are reviewed and adjusted to reflect additional information as it becomes available. There have been no environmental problems to date that have had or are expected to have a material adverse effect on our financial position, results of operations or cash flows. While it is reasonably possible that a material loss exceeding the amounts recorded may be incurred, we do not expect the potential exposure to be materially different from the amounts we recorded.

In papers dated October 23, 2002, Enzo Biochem, Inc. and Enzo Life Sciences, Inc. ( Enzo ) filed a complaint in the United States District Court for the Southern District of New York, Civil Action No. 02-8448, against Amersham PLC, Amersham BioSciences, PerkinElmer, Inc., PerkinElmer Life Sciences, Inc., Sigma- Aldrich Corporation, Sigma Chemical Company, Inc., Molecular Probes, Inc., and Orchid BioSciences, Inc. The complaint alleges that we have breached our distributorship and settlement agreements with Enzo, infringed Enzo's patents, engaged in unfair competition and fraud, and committed torts against Enzo by, among other things, engaging in commercial development and exploitation of Enzo's patented products and technology, separately and together with the other defendants. Enzo seeks injunctive and monetary relief. On May 28, 2003, the court severed the lawsuit and ordered Enzo to serve individual complaints against the five defendants. Enzo served its new complaint on July 16, 2003, and we subsequently filed an answer denying the substantive allegations and including a counterclaim alleging that Enzo's patents are invalid. During the third quarter 2005, fact discovery was largely completed and a Markman hearing was conducted regarding the construction of the claims in Enzo's patents. The court has not yet issued its decision regarding claim construction or set a date for trial.



---

**Table of Contents**

On October 17, 2003, Amersham Biosciences Corp. filed a complaint, which was subsequently amended, in the United States District Court for New Jersey, Civil Action No. 03-4901, against one of our subsidiaries alleging that our ViewLux and certain of our Image FlashPlates infringe two of Amersham's patents related to high-throughput screening (the NJ case). On August 18, 2004, Amersham Plc filed a complaint against two of our United Kingdom based subsidiaries in the Patent Court of the English High Court of Justice, Case No. 04C02688, alleging that the same products infringe Amersham's European (United Kingdom) patent granted in August 2004 (the UK case). Amersham seeks injunctive and monetary relief in both cases. We subsequently filed answers in both cases denying the substantive allegations and including affirmative defenses and counterclaims. On October 29, 2003, we filed a complaint, which was subsequently amended, against Amersham Biosciences Corp. in the United States District Court for Massachusetts, Civil Action No. 03-12098, alleging that Amersham's IN Cell Analyzer, and LEADseeker Multimodality Imaging system and certain Cyclic AMP and IP3 assays infringe two of our patents related to high-throughput screening (the MA case). We seek injunctive and monetary relief. Amersham subsequently filed an answer denying the substantive allegations and including affirmative defenses and counterclaims. Trial before a judge in the UK case has been scheduled to begin on November 30. In the NJ case, discovery regarding issues of liability, which were bifurcated from issues of damages, has been largely completed and the parties await the Markman hearing on claim construction, for which briefing has been completed. In the MA case, discovery began in October 2005.

We believe we have meritorious defenses to these lawsuits and other proceedings, and are contesting the actions vigorously. We are currently unable, however, to reasonably estimate the amount of the loss, if any, that may result from the resolution of these matters or to determine whether resolution of any of these matters will have a material adverse impact on our consolidated financial statements.

We and certain of our officers were named as defendants in a purported securities class action lawsuit filed in July 2002, and we and certain of our officers and directors were named as defendants in a purported derivative lawsuit filed in June 2004. On November 7, 2005, these lawsuits were dismissed. Further information with respect to these lawsuits is contained in *Part II, Item 1. Legal Proceedings* of this quarterly report.

We are under regular examination by tax authorities in the United States and other countries in which we have significant business operations. The tax years under examination vary by jurisdiction. We regularly assess the likelihood of additional assessments in each of the taxing jurisdictions resulting from these and subsequent years' examinations. Tax reserves have been established, which we believe to be adequate in relation to the potential for additional assessments. Once established, reserves are adjusted as information becomes available and when an event occurs requiring a change to the reserves. The resolution of tax matters is not expected to have a material effect on our consolidated financial condition, although such settlement could have a material impact on our effective tax rate and consolidated statement of income for a particular future period. In particular, in the second quarter of 2005, identified reserves for prior year taxes of \$26.5 million were released based on the settlement of certain foreign and domestic tax audits.

We are subject to various other claims, legal proceedings and investigations covering a wide range of matters that arise in the ordinary course of our business activities. Each of these matters is subject to uncertainties, and it is possible that some of these matters may be resolved unfavorably to us. In the opinion of our management, based on its review of the information available at this time, the total cost of resolving these other contingencies at October 2, 2005, should not have a material adverse effect on our consolidated financial statements.

---

**Table of Contents**

**Reporting Segment Results of Continuing Operations**

*Life and Analytical Sciences*

Sales for the third quarter of 2005 were \$259.1 million, versus \$243.7 million for the third quarter of 2004, an increase of \$15.4 million, or 6%. Changes in foreign exchange rates had an immaterial impact on sales in the third quarter of 2005, as compared to the third quarter of 2004. The analysis in the remainder of this paragraph compares selected sales by market and product type for the third quarter of 2005, as compared to the third quarter of 2004, and includes the effect of foreign exchange rate fluctuations. Sales to genetic screening customers increased \$6.2 million, our OneSource laboratory service sales increased by \$5.8 million and sales to environmental and chemical analysis customers increased \$4.5 million. These increases were offset by decreases in sales to biopharmaceutical customers which decreased \$1.1 million. Sales by type of product included increases in instruments of \$7.8 million, service of \$5.8 million and consumables of \$1.8 million.

Sales for the nine-month period ended October 2, 2005 were \$794.6 million, versus \$750.8 million for the nine-month period ended September 26, 2004, an increase of \$43.8 million, or 6%. Changes in foreign exchange rates, primarily the Euro, increased sales by approximately \$11.5 million in the nine-month period ended October 2, 2005, as compared to the nine-month period ended September 26, 2004. The following analysis in the remainder of this paragraph compares selected sales by market and product type for the nine-month period ended October 2, 2005, as compared to the nine-month period ended September 26, 2004, and includes the effect of foreign exchange rate fluctuations. Our OneSource laboratory service sales increased by \$17.2 million, sales to genetic screening customers increased \$14.7 million, and sales to environmental and chemical analysis customers increased \$12.8 million, while sales to biopharmaceutical customers decreased \$0.9 million. Sales by type of product included increases in sales of instruments of \$19.2 million, service of \$17.2 million and consumables of \$7.4 million.

Operating profit for the third quarter of 2005 was \$26.7 million, versus \$18.9 million for the third quarter of 2004, an increase of \$7.8 million, or 41%. The increase in operating profit in the third quarter of 2005 as compared to the third quarter of 2004 was primarily the result of increased sales volume and productivity improvements. Amortization of intangible assets was \$6.5 million for the third quarter of 2005 and \$6.6 million for the third quarter of 2004.

Operating profit for the nine-month period ended October 2, 2005 was \$64.3 million, versus \$57.0 million for the nine-month period ended September 26, 2004, an increase of \$7.3 million, or 13%. The increase in operating profit in the nine-month period ended October 2, 2005 as compared to the nine-month period ended September 26, 2004 was primarily the result of increased sales volume and productivity improvements, offset by an \$11.0 million restructuring charge in the second quarter of 2005. Amortization of intangible assets was \$19.6 million for the nine-month period ended October 2, 2005 and \$19.7 million for the nine-month period ended September 26, 2004.

*Optoelectronics*

Sales for the third quarter of 2005 were \$102.8 million, versus \$97.9 million for the third quarter of 2004, an increase of \$4.9 million, or 5%. Changes in foreign exchange rates decreased sales by \$0.4 million in the third quarter of 2005, as compared to the third quarter of 2004. The acquisition of Elcos increased sales by approximately \$3.2 million in the third quarter of 2005, as compared to the third quarter of 2004. The analysis in the remainder of this paragraph compares selected sales by product type for the third quarter of 2005, as compared to the third quarter of 2004, and includes the effect of foreign exchange fluctuations. Sales within our specialty lighting product line increased \$3.6 million, sales of digital imaging products increased by \$1.7 million, sales within our sensors product line increased \$0.7 million. These increases were offset by decreases of \$1.1 million in other product lines, primarily lithography.

Edgar Filing: PERKINELMER INC - Form 10-Q

Sales for the nine-month period ended October 2, 2005 were \$297.6 million, versus \$277.6 million for the nine-month period ended September 26, 2004, an increase of \$20.0 million, or 7%. Changes in foreign exchange



## **Table of Contents**

rates increased sales by approximately \$1.3 million in the nine-month period ended October 2, 2005, as compared to the nine-month period ended September 26, 2004. The acquisition of Elcos increased sales by approximately \$9.6 million in the nine-month period ended October 2, 2005, as compared to the nine-month period ended September 26, 2004. The following analysis in the remainder of this paragraph compares selected sales by product type for the nine-month period ended October 2, 2005, as compared to the nine-month period ended September 26, 2004, and includes the effect of foreign exchange fluctuations and the Elcos acquisition. Sales of digital imaging products increased by \$10.3 million, sales within our specialty lighting product line increased \$8.8 million, and sales within our sensors product line increased \$6.3 million, offset by decreases of \$5.4 million primarily in our lithography product line.

Operating profit for the third quarter of 2005 was \$20.3 million, versus \$17.7 million for the third quarter of 2004, an increase of \$2.6 million, or 15%. The increase in operating profit in the third quarter of 2005, as compared to the third quarter of 2004, was primarily the result of increased sales volume and net productivity improvements. Amortization of intangible assets was \$0.6 million for the third quarter of 2005 and \$0.3 million for the third quarter of 2004.

Operating profit for the nine-month period ended October 2, 2005 was \$45.9 million, versus \$43.9 million for the nine-month period ended September 26, 2004, an increase of \$2.0 million, or 5%. The increase in operating profit in the nine-month period ended October 2, 2005, as compared to the nine-month period ended September 26, 2004, was primarily the result of increased sales volume and net productivity improvements, offset by a \$3.2 million restructuring charge in the second quarter of 2005. Amortization of intangible assets was \$2.0 million for the nine-month period ended October 2, 2005 and \$0.9 million for the nine-month period ended September 26, 2004. The nine-month period ended October 2, 2005 also included a \$0.2 million charge for in-process research and development related to the Elcos acquisition.

## **Liquidity and Capital Resources**

We require cash to pay our operating expenses, make capital expenditures, service our debt and other long-term liabilities and pay dividends on our common stock. Our principal sources of funds are from our operations and the capital markets, particularly the debt markets. In the near term, we anticipate that our operations will generate sufficient cash to fund our operating expenses, capital expenditures, interest payments on our debt and dividends on our common stock. In the long-term, we expect to use internally generated funds and external sources to satisfy our debt and other long-term liabilities.

Principal factors that could affect the availability of our internally generated funds include:

deterioration of sales due to weakness in markets in which we sell our products and services,

changes in our working capital requirements, and

our ability to successfully repatriate cash balances from our foreign subsidiaries for use in settling domestic obligations.

Principal factors that could affect our ability to obtain cash from external sources include:

## Edgar Filing: PERKINELMER INC - Form 10-Q

financial covenants contained in our borrowings that limit our total borrowing capacity,

increases in interest rates applicable to our outstanding variable rate debt,

a ratings downgrade that would limit our ability to borrow under our accounts receivable facility and our overall access to the corporate debt market,

volatility in the markets for corporate debt,

a decrease in the market price for our common stock, and

volatility in the public equity markets.

## **Table of Contents**

Our Board recently reaffirmed that the Company is authorized to repurchase up to 10 million shares of our common stock from time to time on the open market or in privately negotiated transactions. The repurchase program will be in place for three years. The timing and amount of any shares repurchased will be determined by our management based on its evaluation of market conditions and other factors. The repurchase program may be suspended or discontinued at any time. Any repurchased shares will be available for use in connection with our stock plans and for other corporate programs. The repurchase program will be funded using our existing financial resources, including cash and cash equivalents. At October 2, 2005, we had cash and cash equivalents of approximately \$166.1 million. We have approximately 131 million shares of common stock outstanding as of November 7, 2005.

## **Cash Flows**

*Operating Activities.* Net cash generated by continuing operations operating activities was \$107.7 million for the nine months ended October 2, 2005, compared to \$108.3 million for the nine months ended September 26, 2004. Principal contributors to the generation of cash from operating activities during the nine months ended October 2, 2005 were net income from continuing operations of \$71.8 million and depreciation and amortization of \$51.5 million. These amounts were offset in part by a net increase in working capital accounts of \$2.6 million. Contributing to the net increase in working capital in the nine months ended October 2, 2005 was an increase in accounts receivable of \$2.7 million and an increase in inventory of \$2.7 million, offset in part by a \$2.8 million increase in accounts payable. There was no incremental use of our accounts receivable securitization facility during the first nine months of 2005, which totaled \$45.0 million at both October 2, 2005 and January 2, 2005. Net cash used for changes in accrued expenses, restructuring, other assets and liabilities and other items totaled \$13.0 million during the first nine months of 2005, and primarily relates to timing of salary and benefit related payments and a decrease in tax-related accruals.

*Investing Activities.* Net cash used in continuing operations investing activities was \$14.8 million in the nine months ended October 2, 2005, compared to \$4.1 million of cash used in the nine months ended September 26, 2004. Included in the first nine months of 2005 was \$14.9 million of net cash used for the purchase of Elcos AG and related earnout payments and capital expenditures of \$16.2 million, mainly in the areas of tooling and productivity improvements. These cash outflows were partially offset by \$9.4 million received from the sale of buildings, \$6.8 million for the sale of our investment in Agencourt Personal Genomics, and \$0.2 million from the sale of a business.

*Financing Activities.* Net cash used in continuing operations financing activities was \$123.6 million in the nine months ended October 2, 2005, compared to \$97.3 million in the nine months ended September 26, 2004. Debt reductions during the first nine months of 2005 totaled \$105.0 million, whereas reductions in the first nine months of 2004 totaled \$75.1 million.

## ***Borrowing Arrangements***

*Senior Unsecured Credit Facility.* On October 31, 2005, we entered into a new \$350 million five-year senior unsecured revolving credit facility. This facility replaced the existing \$100 million five-year revolving credit facility. Letters of credit in the aggregate amount of approximately \$15 million, originally issued under our previous credit agreement, will be treated as issued under this new agreement. The new senior unsecured credit facility will be used for general corporate purposes which may include working capital, refinancing existing indebtedness, capital expenditures, share repurchases, acquisitions and strategic alliances. The interest rates under the senior unsecured credit facility are based on the Eurocurrency rate at the time of borrowing plus a margin or the base rate from time to time. The base rate is the higher of (1) the corporate base rate announced from time to time by Bank of America, N.A. and (2) the Fed funds rate plus 50 basis points. The Eurocurrency margin as of October 31, 2005 was 60 basis points. We may allocate all or a portion of our indebtedness under the senior credit facility to interest based upon the Eurocurrency rate plus a margin or the base rate. There were no borrowings under the facility as of October 31, 2005.



## **Table of Contents**

Our senior credit facility contains covenants that require us to maintain specific financial ratios, including:

A minimum interest coverage ratio, and

A maximum total leverage ratio.

*Senior Secured Credit Facility.* In December 2002, we entered into a senior credit facility. This facility was the predecessor to the Senior Unsecured Credit Facility described above and was terminated in October 2005. This facility was comprised of a six-year term loan in the amount of \$315.0 million and a \$100.0 million five-year secured revolving credit facility. During the second quarter, we repaid the remaining balance of \$70 million under the term loan, eliminating the term loan facility. At no point during the three months ended October 2, 2005 did we have any outstanding principal balance under the previous \$100 million secured revolving credit facility.

*8<sup>7</sup>/<sub>8</sub>% Notes.* In December 2002, we issued and sold ten-year senior subordinated notes at a rate of 8<sup>7</sup>/<sub>8</sub>% with a face value of \$300 million (the 8<sup>7</sup>/<sub>8</sub>% Notes ). The 8<sup>7</sup>/<sub>8</sub>% Notes had an outstanding balance as of October 2, 2005 of \$270 million. In the fourth quarter of 2005, we commenced and substantially completed a cash tender offer and consent solicitation for any and all of our outstanding 8<sup>7</sup>/<sub>8</sub>% Notes. On November 14, 2005, as part of an early settlement under the tender offer, we repurchased \$269.9 million of the 8<sup>7</sup>/<sub>8</sub>% Notes. The source of funds for the tender offer were comprised of proceeds from the sale of our Fluid Testing business, our cash and cash equivalents and our unsecured credit facility. In connection with the tender offer, we solicited consents to amend the indenture under which the 8<sup>7</sup>/<sub>8</sub>% Notes were issued and removed most of the restrictive covenants from the indenture.

In January 2004 and 2005, we entered into interest rate swap agreements (the Swaps ) that effectively converted the fixed interest rate on \$200 million of our 8<sup>7</sup>/<sub>8</sub>% Notes to a variable interest rate which is reset semi-annually in arrears based upon six-month UDS LIBOR plus a negotiated spread. The Swaps reduced the annualized interest rate on the 8<sup>7</sup>/<sub>8</sub>% Notes by approximately 10 basis points during the three months ended October 2, 2005. The Swaps have been designated as fair value hedges and have been marked to market in our consolidated financial statements. The fair value of the Swaps as of October 2, 2005 was a loss of \$4.7 million. The fair value movements in the Swaps have offset the fair value movements in the debt they have been designated to hedge. On November 10, 2005, we terminated the interest rate swaps in conjunction with the tender of the 8<sup>7</sup>/<sub>8</sub>% Notes.

*6.8% Notes.* In December 2002, we initiated a tender offer for all of our outstanding 6.8% notes. We completed the tender offer and repurchased all but \$4.7 million of these notes as of December 26, 2002. The remaining principal balance of \$4.7 million was repurchased in the fourth quarter of 2005.

## **Off-Balance Sheet Arrangements**

### ***Receivables Securitization Facility***

We have established a wholly owned consolidated subsidiary to purchase, on a revolving basis, certain of our accounts receivable balances and simultaneously sell an undivided interest in this pool of receivables to a financial institution. This facility, which is currently scheduled to expire in January 2006, provides for total funding capacity of \$65.0 million to expand our sources of liquidity. Amounts funded under this facility were

## Edgar Filing: PERKINELMER INC - Form 10-Q

\$45.0 million at October 2, 2005 and \$45.0 million at January 2, 2005. As of October 2, 2005, we had approximately \$20.0 million of un-drawn capacity available under the facility. The facility had an effective interest rate of approximately LIBOR plus 58 basis points as of October 2, 2005. The facility includes conditions that require us to maintain a senior unsecured credit rating of BB or above, as defined by Standard & Poor's Rating Services, and Ba2 or above, as defined by Moody's Investors Service. On November 1, 2005, our senior unsecured credit rating was upgraded by Standard & Poor's Rating Services to BBB- and by Moody's Investors Service to Baa3. In January 2005, we entered into an agreement to extend the term of our accounts receivable securitization facility to January 27, 2006.

## **Table of Contents**

### **Dividends**

Our Board of Directors declared regular quarterly cash dividends of seven cents per share in the first, second and third quarters of 2005 and in each quarter of 2004.

### **Application of Critical Accounting Policies and Estimates**

The preparation of consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to bad debts, inventories, intangible assets, income taxes, restructuring, pensions and other post-retirement benefits, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are those policies that affect our more significant judgments and estimates used in preparation of our consolidated financial statements. We believe our critical accounting policies include our policies regarding revenue recognition, allowances for doubtful accounts, inventory valuation, value of long-lived assets, including intangibles, employee compensation and benefits, restructuring activities, gains or losses on dispositions and income taxes. For a more detailed discussion of our critical accounting policies, please refer to our annual report on Form 10-K for the fiscal year ended January 2, 2005.

### **Forward-Looking Information and Factors Affecting Future Performance**

The following important factors affect our business and operations generally or affect multiple segments of our business and operations:

*Economic, political and other risks associated with foreign operations could adversely affect our international sales.*

Because we sell our products worldwide, our businesses are subject to risks associated with doing business internationally. Our sales originating outside the United States represented more than 50% of our total sales in both the fiscal year ended January 2, 2005 and the first nine months of 2005. We anticipate that sales from international operations will continue to represent a substantial portion of our total sales. In addition, many of our manufacturing facilities, employees and suppliers are located outside the United States. Accordingly, our future results could be harmed by a variety of factors, including:

changes in foreign currency exchange rates,

changes in a country's or region's political or economic conditions, particularly in developing or emerging markets,

## Edgar Filing: PERKINELMER INC - Form 10-Q

longer payment cycles of foreign customers and difficulty of collecting receivables in foreign jurisdictions,

trade protection measures and import or export licensing requirements,

differing tax laws and changes in those laws,

difficulty in staffing and managing widespread operations,

differing labor laws and changes in those laws,

differing protection of intellectual property and changes in that protection, and

differing regulatory requirements and changes in those requirements.



**Table of Contents**

*If we do not introduce new products in a timely manner, our products could become obsolete and our operating results would suffer.*

We sell many of our products in industries characterized by rapid technological change, frequent new product and service introductions, and evolving industry standards. Without the timely introduction of new products and enhancements, our products could become technologically obsolete over time, in which case our sales and operating results would suffer. The success of our new product offerings will depend upon several factors, including our ability to:

accurately anticipate customer needs,

innovate and develop new technologies and applications,

successfully commercialize new technologies in a timely manner,

price our products competitively and manufacture and deliver our products in sufficient volumes and on time, and

differentiate our offerings from our competitors' offerings.

Many of our products are used by our customers to develop, test and manufacture their products. Therefore, we must anticipate industry trends and develop products in advance of the commercialization of our customers' products. In developing new products, we may be required to make significant investments before we can determine the commercial viability of the new product. If we fail to accurately foresee our customers' needs and future activities, we may invest heavily in research and development of products that do not lead to significant sales.

In addition, some of our licensed technology is subject to contractual restrictions, which may limit our ability to develop or commercialize products for some applications. For example, some of our license agreements are limited to the field of life sciences research, and exclude clinical diagnostics applications.

*Restrictions in our senior credit facility may limit our activities.*

Our new senior credit facility entered into in October 2005 contains, and future debt instruments to which we may become subject may contain, restrictive covenants that limit our ability to engage in activities that could otherwise benefit our company.

Our new senior credit facility includes restrictions on our ability and the ability of our subsidiaries to:

pay dividends on, redeem or repurchase our capital stock,

sell assets,

incur obligations that restrict their ability to make dividend or other payments to us,

guarantee or secure indebtedness,

enter into transactions with affiliates, and

consolidate, merge or transfer all or substantially all of our assets and the assets of our subsidiaries on a consolidated basis.

We are also required to meet specified financial ratios under the terms of our new senior credit facility. Our ability to comply with these financial restrictions and covenants is dependent on our future performance, which is subject to prevailing economic conditions and other factors, including factors that are beyond our control such as foreign exchange rates, interest rates, changes in technology and changes in the level of competition.

Our failure to comply with the restrictions in our senior credit facility may result in an event of default under that facility, which could permit acceleration of our indebtedness under that facility and require us to prepay that debt before its scheduled due date.

**Table of Contents**

*Our operating results could be harmed by cyclical downturns affecting several of the industries into which we sell our products.*

Some of the industries and markets into which we sell our products are cyclical. Industry downturns are often characterized by reduced product demand, excess manufacturing capacity and erosion of average selling prices and profits. In the past, significant downturns in our customers markets and in general economic conditions have resulted in a reduced demand for several of our products and have hurt our operating results. For example, during 2002, our operating results were adversely affected by downturns in many of the markets we serve, including the pharmaceutical, biomedical, semiconductor and aerospace markets.

*Our quarterly operating results could be subject to significant fluctuation, and we may not be able to adjust our operations to effectively address changes we do not anticipate.*

Given the nature of the markets in which we participate, we cannot reliably predict future sales and profitability. Changes in competitive, market and economic conditions may require us to adjust our operations, and we may not be able to make those adjustments or to make them quickly enough to adapt to changing conditions. A high proportion of our costs are fixed, due in part to our significant sales, research and development and manufacturing costs. Thus, small declines in sales could disproportionately affect our operating results in a quarter. Factors that may affect our quarterly operating results include:

demand for and market acceptance of our products,

competitive pressures resulting in lower selling prices,

adverse changes in the level of economic activity in regions in which we do business,

adverse changes in industries, such as pharmaceutical, biomedical, semiconductors and aerospace, on which we are particularly dependent,

changes in the portions of our sales represented by our various products and customers,

delays or problems in the introduction of new products,

our competitors' announcement or introduction of new products, services or technological innovations,

increased costs of raw materials or supplies, and

changes in the volume or timing of product orders.

*We may not be able to successfully execute acquisitions or license technologies, integrate acquired businesses or licensed technologies into our existing business or make acquired businesses or licensed technologies profitable.*

We have in the past, and may in the future, supplement our internal growth by acquiring businesses and licensing technologies that complement or augment our existing product lines, such as our acquisition of Elcos AG in February 2005. However, we may be unable to identify, complete promising acquisitions or license transactions for many reasons, including:

competition among buyers and licensees,

the need for regulatory and other approvals,

our inability to raise capital to fund these acquisitions,

the high valuations of businesses and technologies, and

restrictions in the instruments governing our indebtedness, including the indenture governing our 8<sup>7</sup>/<sub>8</sub>% Notes and our new senior credit facility.

## **Table of Contents**

Some of the businesses we may seek to acquire may be unprofitable or marginally profitable. Accordingly, the earnings or losses of acquired businesses may dilute our earnings. For these acquired businesses to achieve acceptable levels of profitability, we must improve their management, operations, products and market penetration. We may not be successful in this regard and may encounter other difficulties in integrating acquired businesses into our existing operations, such as incompatible management, information or other systems or cultural differences.

To finance our acquisitions, we may have to raise additional funds, either through public or private financings. We may be unable to obtain such funds or may be able to do so only on terms unacceptable to us.

*If we are unable to renew our licenses or otherwise lose our licensed rights, we may have to stop selling products or we may lose competitive advantage.*

We may not be able to renew our existing licenses or licenses we may obtain in the future on terms acceptable to us, or at all. If we lose the rights to a patented or other proprietary technology, we may need to stop selling products incorporating that technology and possibly other products, redesign our products or lose a competitive advantage. Potential competitors could in-license technologies that we fail to license and potentially erode our market share.

Our licenses typically subject us to various economic and commercialization obligations. If we fail to comply with these obligations we could lose important rights under a license, such as the right to exclusivity in a market. In some cases, we could lose all rights under the license. In addition, rights granted under the license could be lost for reasons out of our control. For example, the licensor could lose patent protection for a number of reasons, including invalidity of the licensed patent, or a third party could obtain a patent that curtails our freedom to operate under one or more licenses.

*If we do not compete effectively, our business will be harmed.*

We encounter aggressive competition from numerous competitors in many areas of our business. We may not be able to compete effectively with all of these competitors. To remain competitive, we must develop new products and periodically enhance our existing products. We anticipate that we may also have to adjust the prices of many of our products to stay competitive. In addition, new competitors, technologies or market trends may emerge to threaten or reduce the value of entire product lines.

*If we fail to maintain satisfactory compliance with the regulations of the United States Food and Drug Administration and other governmental agencies, we may be forced to recall products and cease their manufacture and distribution, and we could be subject to civil or criminal penalties.*

Some of the products produced by our Life and Analytical Sciences business unit are subject to regulation by the United States Food and Drug Administration and similar international agencies. These regulations govern a wide variety of product activities, from design and development to labeling, manufacturing, promotion, sales, resales and distribution. If we fail to comply with those regulations or those of similar international agencies, we may have to recall products and cease their manufacture and distribution. We had to do this on a temporary basis in 2004 in response to an FDA action at one of our Life and Analytical Sciences locations until we were able to address the matter by implementing additional testing and labeling conditions on the relevant product. In addition, we could be subject to fines or criminal prosecution.

*Changes in governmental regulations may reduce demand for our products or increase our expenses.*

We compete in markets in which we or our customers must comply with federal, state, local and foreign regulations, such as environmental, health and safety, and food and drug regulations. We develop, configure and market our products to meet customer needs created by these regulations. Any significant change in these regulations could reduce demand for our products or increase our costs of producing these products.

**Table of Contents**

*Obtaining and enforcing patent protection for our proprietary products, processes and technologies may be difficult and expensive; we may infringe intellectual property rights of third parties.*

Patent and trade secret protection is important to us because developing and marketing new technologies and products is time-consuming and expensive. We own many United States and foreign patents and intend to apply for additional patents to cover our products. We may not obtain issued patents from any pending or future patent applications owned by or licensed to us. The claims allowed under any issued patents may not be broad enough to protect our technology.

*Third parties may seek to challenge, invalidate or circumvent issued patents owned by or licensed to us or claim that our products and operations infringe their patent or other intellectual property rights.*

In addition to our patents, we possess an array of unpatented proprietary technology and know-how and we license intellectual property rights to and from third parties. The measures that we employ to protect this technology and these rights may not be adequate. Moreover, in some cases, the licensor can terminate a license or convert it to a non-exclusive arrangement if we fail to meet specified performance targets.

We may incur significant expense in any legal proceedings to protect our proprietary rights or to defend infringement claims by third parties. In addition, claims of third parties against us, such as the pending actions by Enzo Biochem, Inc. and Enzo Life Sciences, Inc., and by Amersham Biosciences Corp. and Amersham Plc, could result in awards of substantial damages or court orders that could effectively prevent us from manufacturing, using, importing or selling our products in the United States or abroad.

*Our results of operations will be adversely affected if we fail to realize the full value of our intangible assets.*

As of October 2, 2005, our total assets included \$1.4 billion of net intangible assets. Net intangible assets consist principally of goodwill associated with acquisitions and costs associated with securing patent rights, trademark rights and technology licenses, net of accumulated amortization. We test these items on an annual basis for potential impairment by comparing the carrying value to the fair market value of the reporting unit to which they are assigned.

Adverse changes in our business or the failure to grow our Life and Analytical Sciences business may result in impairment of our intangible assets which could adversely affect our results of operations.

## **Table of Contents**

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

#### ***Market Risk***

We are exposed to market risks, relating to both currency exchange rates and interest rates. On occasion, in order to manage the volatility relating to these exposures, we may enter into various derivative transactions pursuant to our policies to hedge against known or forecasted market exposures. We briefly describe several of the market risks we face below. The following disclosure supplements the disclosure provided under the heading, Item 7A. Quantitative and Qualitative Disclosure About Market Risk, in our annual report on Form 10-K for the fiscal year ended January 2, 2005.

*Foreign Exchange Risk.* As a multinational corporation, we are exposed to changes in foreign exchange rates:

(1) Because a significant portion of our sales are international, volatility in exchange rates could have a material impact on our financial results. Reported sales made in foreign currencies by our international subsidiaries, when translated into U.S. dollars for financial reporting purposes, can fluctuate due to exchange rate movements. While exchange rate fluctuations can impact reported revenues and earnings, the impacts are purely a result of the translation effect and generally do not materially impact our short-term cash flows.

(2) Our foreign subsidiaries, on occasion, invoice third-party customers in foreign currencies other than the functional currency in which they primarily conduct business. Movements in the invoiced currency, as compared to the functional currency, result in both realized and unrealized transaction gains or losses that directly impact our cash flows and our results of operations.

(3) Our manufacturing and distribution organization is multi-national in nature. Accordingly, inventories may be manufactured in one location, stored in another, and distributed in a third location. This can result in a variety of intercompany transactions that are billed and paid in many different currencies. Our cash flows and our results of operations are therefore directly impacted by fluctuations in these currencies.

(4) The cash flow needs of each of our foreign subsidiaries vary through time. Accordingly, there may be times when a subsidiary is on the receiving side or the lending side of a short-term advance from either the parent company or another subsidiary. These advances, again being denominated in currencies other than a particular entity's functional currency, can expose us to fluctuations in exchange rates that can impact both our cash flows and results of operations.

(5) In order to repay debt or take advantage of tax saving opportunities, we may remit cash from our foreign locations to the United States. When this occurs, we are liquidating foreign currency net asset positions and converting them into U.S. dollars. Our cash flows and our results of operations are therefore also impacted by these transactions.

We currently do not have outstanding any foreign exchange transactions to hedge translation exposures; however, from time to time, we enter into various financial instruments to hedge exposures to foreign currencies. The principal currencies hedged are the British Pound, Canadian Dollar, Euro, Japanese Yen, and Singapore Dollar.



## Edgar Filing: PERKINELMER INC - Form 10-Q

*Foreign Currency Risk Value-at-Risk Disclosure* We continue to measure foreign currency risk using the Value-at-Risk model described in our annual report on Form 10-K for the fiscal year ended January 2, 2005. These measures continue to approximate our risks.

*Interest Rate Risk.* Our debt portfolio, after consideration of the tender offer and repayment of the 6.8% Notes, includes primarily variable rate instruments. Fluctuations in interest rates can therefore have a direct impact on both our short-term cash flows (as they relate to interest) and our earnings.

*Interest Rate Risk Sensitivity* Our annual report on Form 10-K for the fiscal year ended January 2, 2005 presents sensitivity measures for our interest rate risk. We refer to the annual report on Form 10-K for the fiscal year ended January 2, 2005 for our sensitivity disclosure.

**Table of Contents**

**Item 4.     *Controls and Procedures***

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of October 2, 2005. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on their evaluation of our disclosure controls and procedures as of October 2, 2005, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended October 2, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

---

**Table of Contents**

**PART II. OTHER INFORMATION**

**Item 1. *Legal Proceedings***

We and certain of our officers were named as defendants in a purported class action lawsuit filed in July 2002 in the United States District Court for the District of Massachusetts, *In re PerkinElmer, Inc. Securities Litigation*, Civil Action No. 02-11314 GAO, on behalf of purchasers of our common stock between July 15, 2001 and April 11, 2002. The lawsuit claimed violations of Sections 10(b) and 20(a) of, and Rule 10b-5 under, the Securities Exchange Act of 1934, alleging various statements made during the putative class period by us and our management were misleading with respect to our future operating results. The Court had denied our motion to dismiss the consolidated amended complaint and had taken under advisement the plaintiffs' motion for class certification and our motion for summary judgment. On November 7, 2005, the plaintiffs filed, and the court approved, a stipulation of dismissal with prejudice of all claims in this lawsuit. As part of this stipulation, the plaintiffs waived their right to appeal the dismissal.

A purported derivative action was filed in June 2004 in the United States District Court for the District of Massachusetts, *Jaroslawicz v. Summe et al.*, Civil Action No. 04-cv-11469-GAO, against certain of our officers and four of our directors, and nominal defendant PerkinElmer, which purported to make claims of breach of fiduciary duty, gross negligence, breach of contract, breach of duty of loyalty and unjust enrichment, based on allegations similar to those in the purported class action lawsuit, claims relating to insider trading, and claims that members of the audit committee of our Board of Directors breached their duties by failing to establish and maintain an adequate system of internal controls relating to revenue recognition practices. On November 7, 2005, the plaintiffs filed, and the court approved, a stipulation of dismissal with prejudice of all claims in this lawsuit. As part of this stipulation, the plaintiffs waived their right to appeal the dismissal.

With respect to the other lawsuits described in Note 15 to our consolidated financial statements, we believe we have meritorious defenses to these lawsuits and other proceedings, and are contesting the actions vigorously. We are currently unable, however, to reasonably estimate the amount of the loss, if any, that may result from the resolution of these matters or to determine whether resolution of any of these matters will have a material adverse impact on our consolidated financial statements.

We are also subject to various other claims, legal proceedings and investigations covering a wide range of matters that arise in the ordinary course of our business activities. Each of these matters is subject to uncertainties, and it is possible that some of these matters may be resolved unfavorably to the Company. In the opinion of our management, based on its review of the information available at this time, the total cost of resolving these other contingencies at October 2, 2005 should not have a material adverse effect on our consolidated financial statements.

**Table of Contents**

**Item 6. Exhibits**

- 10.1 Tenth Amendment, dated as of October 31, 2005, to the Receivables Sale Agreement, dated as of December 21, 2001, by and among PerkinElmer Receivables Company, as Seller, PerkinElmer, Inc., as Initial Collection Agent, the Committed Purchasers, Windmill Funding Corporation, and ABN AMRO Bank N.V., as agent for the Purchasers, is attached hereto as Exhibit 10.1.
- 10.2 Eleventh Amendment, dated as of November 10, 2005, to the Receivables Sale Agreement, dated as of December 21, 2001, by and among PerkinElmer Receivables Company, as Seller, PerkinElmer, Inc., as Initial Collection Agent, the Committed Purchasers, Windmill Funding Corporation, and ABN AMRO Bank N.V., as agent for the Purchasers, is attached hereto as Exhibit 10.2.
- 10.3 Third Amendment, dated as of November 10, 2005, to the Purchase and Sale Agreement, dated as of December 21, 2001 among PerkinElmer, Inc. and certain subsidiaries of PerkinElmer, Inc. as Originators, and PerkinElmer Receivables Company as Buyer, is attached hereto as Exhibit 10.3.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**Table of Contents**

**SIGNATURE**

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.

PERKINELMER, INC.

By: */s/* ROBERT F. FRIEL  
**Robert F. Friel**  
**Executive Vice President and**  
  
**Chief Financial Officer**  
**(Principal Financial Officer)**

November 14, 2005

**Table of Contents**

**EXHIBIT INDEX**

<b><u>Exhibit Number</u></b>	<b><u>Exhibit Name</u></b>
10.1	Tenth Amendment, dated as of October 31, 2005, to the Receivables Sale Agreement, dated as of December 21, 2001, by and among PerkinElmer Receivables Company, as Seller, PerkinElmer, Inc., as Initial Collection Agent, the Committed Purchasers, Windmill Funding Corporation, and ABN AMRO Bank N.V., as agent for the Purchasers, is attached hereto as Exhibit 10.1.
10.2	Eleventh Amendment, dated as of November 10, 2005, to the Receivables Sale Agreement, dated as of December 21, 2001, by and among PerkinElmer Receivables Company, as Seller, PerkinElmer, Inc., as Initial Collection Agent, the Committed Purchasers, Windmill Funding Corporation, and ABN AMRO Bank N.V., as agent for the Purchasers, is attached hereto as Exhibit 10.2.
10.3	Third Amendment, dated as of November 10, 2005, to the Purchase and Sale Agreement, dated as of December 21, 2001 among PerkinElmer, Inc. and certain subsidiaries of PerkinElmer, Inc. as Originators, and PerkinElmer Receivables Company as Buyer, is attached hereto as Exhibit 10.3.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.