PERKINELMER INC
Form 10-Q
August 10, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 1, 2007

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)

Massachusetts	**04-2052042**
(State of incorporation)	**(I.R.S. Employer Identification No.)**

940 Winter Street

Waltham, Massachusetts 02451

(Address of principal executive offices)

(781) 663-6900

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨

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

As of August 9, 2007, there were outstanding 118,427,107 shares of common stock, $1 par value per share.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

PERKINELMER, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED INCOME STATEMENTS

(Unaudited)

	Three Months Ended July 1, 2007	Three Months Ended July 2, 2006	Six Months Ended July 1, 2007	Six Months Ended July 2, 2006
	(In thousands, except per share data)			
Sales	$ 437,290	$ 377,001	$ 840,190	$ 732,455
Cost of sales:				
Cost of sales	262,642	225,412	505,475	439,179
Amortization of acquired inventory revaluation	670		2,047	
Total cost of sales	263,312	225,412	507,522	439,179
Selling, general and administrative expenses	109,357	92,655	211,122	182,508
Research and development expenses	27,316	25,036	55,157	47,878
Restructuring and lease charges (reversals), net	4,547	(290)	8,985	(290)
Gains on settlement of insurance claim	(15,346)		(15,346)	
Gains on dispositions, net		(1,505)		(1,505)
In-process research and development charges			1,502	
Operating income from continuing operations	48,104	35,693	71,248	64,685
Interest and other expense, net	3,430	1,814	6,196	1,641
Income from continuing operations before income taxes	44,674	33,879	65,052	63,044
Provision for income taxes	11,371	7,559	16,930	14,704
Income from continuing operations	33,303	26,320	48,122	48,340
Loss from discontinued operations, net of income taxes		(582)		(1,025)
Gain (loss) on disposition of discontinued operations, net of income taxes	384	(1,253)	257	787
Net income	$ 33,687	$ 24,485	$ 48,379	$ 48,102
Basic earnings (loss) per share:				
Continuing operations	$ 0.28	$ 0.21	$ 0.40	$ 0.38
Loss from discontinued operations, net of income taxes				(0.01)
Gain (loss) on disposition of discontinued operations, net of income taxes		(0.01)		0.01
Net income	$ 0.28	$ 0.19	$ 0.40	$ 0.38
Diluted earnings (loss) per share:				
Continuing operations	$ 0.28	$ 0.21	$ 0.39	$ 0.38
Loss from discontinued operations, net of income taxes				(0.01)
Gain (loss) on disposition of discontinued operations, net of income taxes		(0.01)		0.01

Net income	$	0.28	$	0.19	$	0.40	$	0.37
Weighted average shares of common stock outstanding:								
Basic		118,911		126,119		120,298		127,018
Diluted		120,689		127,401		121,976		128,558
Cash dividends per common share	$	0.07	$	0.07	$	0.14	$	0.14

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

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PERKINELMER, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	July 1, 2007	December 31, 2006
	(In thousands, except share and per share data)	
Current assets:		
Cash and cash equivalents	$ 150,040	$ 191,059
Accounts receivable, net	271,470	268,459
Inventories, net	204,059	183,260
Other current assets	86,139	101,511
Current assets of discontinued operations	485	477
Total current assets	712,193	744,766
Property, plant and equipment, net:		
At cost	544,064	525,134
Accumulated depreciation	(353,326)	(342,938)
Property, plant and equipment, net	190,738	182,196
Marketable securities and investments	4,485	7,508
Intangible assets, net	414,737	404,021
Goodwill	1,158,836	1,117,724
Other assets	49,971	52,502
Long-term assets of discontinued operations	1,509	1,605
Total assets	$ 2,532,469	$ 2,510,322
Current liabilities:		
Short-term debt	$ 898	$ 1,153
Accounts payable	151,930	152,836
Accrued restructuring and integration costs	4,687	2,731
Accrued expenses	292,241	318,987
Current liabilities of discontinued operations		826
Total current liabilities	449,756	476,533
Long-term debt	234,504	151,781
Long-term liabilities	351,903	304,278
Total liabilities	1,036,163	932,592
Commitments and contingencies		
Stockholders equity:		
Preferred stock $1 par value per share, authorized 1,000,000 shares; none issued or outstanding		
Common stock $1 par value per share, authorized 300,000,000 shares; issued and outstanding 118,299,000 and 123,255,000 at July 1, 2007 and December 31, 2006, respectively	118,299	123,255
Capital in excess of par value	286,657	407,345

Retained earnings	1,075,358	1,040,190
Accumulated other comprehensive income	15,992	6,940
Total stockholders equity	1,496,306	1,577,730
Total liabilities and stockholders equity	$ 2,532,469	$ 2,510,322

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

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PERKINELMER, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended July 1, 2007	Six Months Ended July 2, 2006
	(In thousands)	
Operating activities:		
Net income	$ 48,379	$ 48,102
Add: loss from discontinued operations, net of income taxes		1,025
Add: gain on disposition of discontinued operations, net of income taxes	(257)	(787)
Net income from continuing operations	48,122	48,340
Adjustments to reconcile net income from continuing operations to net cash provided by continuing operations:		
Stock-based compensation	7,506	7,316
Restructuring and lease charges (reversals), net	8,985	(290)
Amortization of deferred debt issuance costs	148	143
Depreciation and amortization	38,161	33,406
In-process research and development charges	1,502	
Amortization of acquired inventory revaluation	2,047	
Gains on settlement of insurance claim	(15,346)	
Gains on dispositions, net	(536)	(3,837)
Changes in operating assets and liabilities which provided (used) cash, excluding effects from companies purchased and divested:		
Accounts receivable	9,457	27,842
Inventories	(6,456)	(6,519)
Accounts payable	(5,945)	(21,260)
Taxes paid on divestitures	(235)	(59,151)
Accrued expenses and other	(669)	(9,571)
Net cash provided by continuing operations operating activities	86,741	16,419
Net cash provided by (used in) discontinued operations operating activities	246	(871)
Net cash provided by operating activities	86,987	15,548
Investing activities:		
Capital expenditures	(27,517)	(21,448)
Proceeds from dispositions of property, plant and equipment, net	10,787	7,085
Proceeds from surrender of life insurance policies	1,327	2,327
Payments for business development activity	(1,094)	(796)
Proceeds from disposition of businesses and investments, net	580	20,325
Payments for acquisitions and investments, net of cash and cash equivalents acquired	(42,925)	(38,312)
Net cash used in continuing operations investing activities	(58,842)	(30,819)
Net cash provided by discontinued operations investing activities	800	
Net cash used in investing activities	(58,042)	(30,819)
Financing activities:		
Payments on debt	(49,694)	(56,565)
Proceeds from borrowing	129,462	
Payment of debt issuance costs		(741)
Decrease in other credit facilities	(824)	(603)

Tax benefit from exercise of common stock options	1,435	3,631
Proceeds from issuance of common stock under stock plans	12,781	17,145
Purchases of common stock	(147,105)	(116,393)
Dividends paid	(17,123)	(17,974)
Net cash used in financing activities	(71,068)	(171,500)
Effect of exchange rate changes on cash and cash equivalents	1,104	8,262
Net decrease in cash and cash equivalents	(41,019)	(178,509)
Cash and cash equivalents at beginning of period	191,059	502,264
Cash and cash equivalents at end of period	$ 150,040	$ 323,755

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

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PERKINELMER, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by PerkinElmer, Inc. (the Company), without audit, in accordance with the accounting principles generally accepted in the United States (the U.S.) and pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information in the footnote disclosures of these financial statements has been condensed or omitted where it substantially duplicates information provided in the Company s latest audited financial statements in accordance with the rules and regulations of the SEC. These financial statements should be read in conjunction with the Company s financial statements and notes included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2006, filed with the SEC (the 2006 Form 10-K). The balance sheet amounts at December 31, 2006 in this report were derived from the Company s audited 2006 financial statements included in the 2006 Form 10-K. The financial statements reflect all adjustments that, in the opinion of management, are necessary to present fairly the Company s financial position, results of operations and cash flows for the periods indicated. The preparation of financial statements in conformity with 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 three and six months ended July 1, 2007 and July 2, 2006, respectively, are not necessarily indicative of the results for the entire fiscal year or any future period.

Recently Adopted Accounting Pronouncement

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes* (FIN No. 48). FIN No. 48 was issued to clarify the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes.* FIN No. 48 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition. The Company adopted FIN No. 48 effective January 1, 2007. In accordance with FIN No. 48, the Company will continue to classify interest and penalties as a component of income tax expense. During the three and six months ended July 1, 2007, the Company recognized approximately $0.5 million and $1.1 million, respectively, in interest and penalties in its tax provision.

As a result of the adoption of FIN No. 48, the Company adjusted the estimated value of its uncertain tax positions and reduced its accrued liabilities by $3.6 million, which was accounted for as an increase to retained earnings as of January 1, 2007. As of the adoption date, the Company had gross tax effected unrecognized tax benefits of $48.5 million and valuation allowances of $111.1 million, for a total of $159.6 million in tax benefits. $36.0 million of unrecognized tax benefits, if recognized, would affect the continuing operations effective tax rate. The remaining amount, if recognized, would affect goodwill and discontinued operations. The Company had accrued interest, net of tax benefits, and penalties expense related to the unrecognized tax benefits of $7.3 million, which is not included in the unrecognized tax benefits of $48.5 million.

As of July 1, 2007 the Company had $14.4 million of FIN No. 48 accrued tax liabilities, including accrued interest, net of tax benefits, and penalties, and $50.5 million of other tax benefits which should be resolved within the next year as a result of the completion of audits that, depending on the ultimate resolution, could affect the continuing operations effective tax rate; however, the Company cannot quantify an estimated range at this time. The Company is subject to U.S. federal income tax as well as income tax of multiple state and foreign

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jurisdictions. The Company has substantially concluded all U.S. federal income tax matters for years through 2002. The U.S. federal income tax returns for 2003 through 2005 are currently under examination. In addition, tax years ranging from 1997 through 2006 remain open to examination by various state and foreign taxing jurisdictions.

Recently Issued Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability, and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. The Company will be required to adopt SFAS No. 157 in the first quarter of fiscal year 2008. The Company is currently evaluating the requirements of SFAS No. 157 and has not yet determined the impact, if any, of its adoption on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 provides entities with an option to report selected financial assets and liabilities at fair value, with the objective to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The Company will be required to adopt SFAS No. 159 in the first quarter of fiscal year 2008. The Company is currently evaluating the requirements of SFAS No. 159 and has not yet determined the impact, if any, of its adoption on its consolidated financial statements.

In March 2007, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements* (EITF No. 06-10). EITF No. 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. The Company will be required to adopt EITF No. 06-10 in the first quarter of fiscal year 2008. The Company is currently evaluating the requirements of EITF No. 06-10 and has not yet determined the impact, if any, of its adoption on its consolidated financial statements.

Note 2: Acquisitions

Acquisition of Agilix Corporation. In February 2006, the Company acquired specified assets of Agilix Corporation (Agilix) for approximately $8.7 million in cash. Assets acquired primarily relate to Agilix s core technology which centers around labeling technology using isobaric mass tags that allow for the simultaneous quantification of molecules, such as proteins, from multiple samples.

Acquisition of Spectral Genomics, Inc. In April 2006, the Company acquired specified assets and assumed specified liabilities of Spectral Genomics, Inc. (Spectral), a leader in molecular karyotyping technology used to evaluate chromosomal abnormalities. Consideration for the transaction was approximately $14.0 million in cash plus potential additional contingent consideration, which management expects to be immaterial to the Company. The Company will make royalty payments based on future sales, to license additional intellectual property rights from a third party.

Acquisition of Clinical & Analytical Service Solutions Ltd. In June 2006, the Company acquired the stock of Clinical & Analytical Service Solutions Ltd. (C&A), a scientific equipment asset and managed maintenance company serving the pharmaceutical, biotechnology and healthcare markets. Consideration for the transaction was approximately $16.0 million in cash plus potential additional contingent consideration, which management expects to be immaterial to the Company.

Acquisition of J.N. Macri Technologies LLC and NTD Laboratories, Inc. In July 2006, the Company acquired specified assets and assumed specified liabilities of J.N. Macri Technologies LLC (Macri) and acquired the stock of NTD Laboratories, Inc. (NTD). The Company acquired Macri s global patents related to free beta Human Chorionic Gonadotropin (free Beta hCG). Free Beta hCG is a peptide hormone produced in the early stage of pregnancy that is widely recognized as an important biomarker for first-trimester prenatal risk assessment. NTD is a laboratory specializing in prenatal risk assessment and offers laboratory-developed and validated testing under the brand name UltraScreen®, of which free Beta hCG is an important component. Aggregate consideration for these transactions was approximately $56.65 million in cash.

Acquisition of Avalon Instruments Limited. In September 2006, the Company acquired the stock of Avalon Instruments Limited (Avalon). The acquisition of Avalon expands and complements the Company s molecular spectroscopy product portfolio by adding a family of innovative bench-top dispersive Raman spectrometers. Raman spectroscopy identifies and characterizes the composition of both organic and inorganic materials in a wide range of applications. Consideration for this transaction was approximately $5.3 million in cash plus potential additional contingent consideration, which management expects to be immaterial to the Company.

Acquisition of Dynamic Mechanical Analysis Product Line from Triton Technology Ltd. In December 2006, the Company acquired specified assets and assumed specified liabilities of the Dynamic Mechanical Analysis (DMA) product line from Triton Technology Ltd. The DMA products offer a thermal analysis tool that is used by scientists in the polymers, pharmaceuticals and food industries for diverse applications ranging from simple quality control to advanced research. Consideration for this transaction was approximately $2.3 million in cash at the closing, plus additional cash payments of approximately $1.7 million that were paid during the first six months of 2007.

Acquisition of Evotec Technologies GmbH. In January 2007, the Company acquired the stock of Evotec Technologies GmbH (Evotec). The acquisition is intended to allow the Company to provide its customers in the pharmaceutical, biotechnology and academic arenas with Evotec s high content screening (HCS) instruments and software. These analysis tools determine the composition of cells and cell structure, a critical step in moving potential drug targets quickly through the discovery process. Consideration for this transaction was approximately $33.0 million in cash, which was paid in fiscal year 2006.

Acquisition of Euroscreen Products S.A. In January 2007, the Company acquired the stock of Euroscreen Products S.A. (Euroscreen), a developer of the AequoScreen cellular assay platform. The AequoScreen platform from Euroscreen is based on an innovative luminescence technology that generates higher quality data, while reducing the number of false positives in G protein-coupled receptor (GPCR) screening applications. Consideration for this transaction was approximately $18.1 million in cash.

Acquisition of Improvision Ltd. In March 2007, the Company acquired the stock of Improvision Ltd. (Improvision), a leading provider of cellular imaging software and integrated hardware solutions used in life sciences research. The Company expects that the addition of Improvision s imaging and analysis software to the Company s high content screening systems will provide customers with powerful imaging solutions for analyzing cellular events from real-time imaging of live cells to rapid high content screening of multiple samples. Consideration for this transaction was approximately $23.6 million in cash plus potential additional contingent consideration, which management expects to be immaterial to the Company.

Acquisition of remaining minority interest of PerkinElmer India Pvt. Ltd. In June 2007, the Company acquired the remaining minority interest in PerkinElmer India Pvt. Ltd. (PKI India), a direct sales, service and marketing operation targeting India s life science and analytical instrumentation markets, from Labindia Instruments Pvt. Ltd. The acquisition establishes PKI India as a wholly owned subsidiary of the Company. Consideration for this transaction was approximately $1.3 million in cash plus potential additional contingent consideration, which management expects to be immaterial to the Company. As of July 1, 2007, the Company had accrued approximately $0.6 million of additional contingent consideration, which the Company expects to pay in quarterly installments through March 2008.

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The operations for each of these acquisitions are reported within the results of the Company s Life and Analytical Sciences segment from the acquisition date. The operations subsequent to the acquisitions, individually and in the aggregate, did not have a material effect on the Company s financial position, results of operations or cash flows.

The acquisitions were accounted for in accordance with SFAS No. 141, *Business Combinations* , using the purchase method of accounting. Allocation of the purchase price for the acquisitions was based on estimates of the fair value of the net assets acquired and is subject to adjustment upon finalization of the purchase price allocation. The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management s estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques. The excess purchase price over those assigned values was recorded as goodwill. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets,* goodwill will be reviewed at least annually for impairment. Purchased intangibles with finite lives will be amortized on a straight-line basis over their respective estimated useful lives, described in more detail in Note 12, below.

In-process research and development (IPR&D) charges represent incomplete acquired research and development projects that have not reached technological feasibility and have no alternative future use as of the acquisition date. Technological feasibility is established when an enterprise has completed all planning, designing, coding, and testing activities that are necessary to establish that a product can be produced to meet its design specifications including functions, features, and technical performance requirements. On the date of the acquisitions of Evotec and Euroscreen, there were multiple IPR&D efforts under way at each company for certain current and future product lines. In determining the value of the in-process projects, the Company considers, among other factors, the in-process projects stage of completion, the complexity of the work completed as of the acquisition date, the costs already incurred, the projected costs to complete, the contribution of core technologies and other acquired assets, the expected introduction date and the estimated useful life of the technology. The Company utilized the discounted cash flow method to value the IPR&D, using a discount rate equivalent to the relative risk of the asset, including the uncertainty of technological feasibility and successful launch. This approach determines fair value by estimating the after-tax cash flows attributable to an in-process project over its useful life and then discounting these after-tax cash flows back to a present value. For both acquisitions, the Company estimated the fair value as of the acquisition date to be $1.5 million and believes that the estimated purchased research and development amounts so determined represent the fair value at the date of the acquisitions of Evotec and Euroscreen and the amount represents management s best estimate of the amount a third party would pay in the aggregate for the projects.

As of July 1, 2007 the purchase price allocations for the Agilix, Spectral and C&A acquisitions have been finalized. As of July 1, 2007 the purchase prices and related allocations for the Macri, NTD, Avalon, Triton, Evotec, Euroscreen, Improvision and PKI India acquisitions have not been finalized. The Company is not aware of any information that indicates the final purchase price allocations will differ materially from the preliminary estimates, although the Company expects to complete any outstanding asset valuations no later than one year from the date of acquisition.

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The components of the preliminary purchase prices and allocations for the acquisitions completed in 2007 are as follows:

	Evotec	Euroscreen	Improvision	PKI India
		(In thousands)		
Consideration and acquisition costs:				
Cash payments	$ 32,952	$ 18,141	$ 23,573	$ 1,259
Cash acquired	(2,790)	(1,277)	(901)	
Deferred consideration				646
Transaction costs	662	208	375	50
Total consideration and acquisition costs	$ 30,824	$ 17,072	$ 23,047	$ 1,955
Allocation of purchase price				
Current assets*	$ 14,510	$ 3,224	$ 4,267	$
Property, plant and equipment	2,622	61	330	
Identifiable intangible assets	10,300	11,968	8,845	
Goodwill	17,038	7,135	15,093	1,744
Minority interest				211
Deferred taxes	(4,096)	(4,029)	(2,726)	
Liabilities assumed	(9,550)	(1,287)	(2,762)	
Total	$ 30,824	$ 17,072	$ 23,047	$ 1,955

* Current assets includes $0.9 million, $1.3 million and $0.2 million of purchase price accounting adjustments to record the inventory from the Evotec, Euroscreen and Improvision acquisitions, respectively.

Note 3: Restructuring and Lease Charges (Reversals), Net

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 taken since 2002 were recorded in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS No. 146). Details of these plans are discussed more fully in the 2006 Form 10-K.

The purpose of the 2007 restructuring plan was principally to shift resources into geographic regions and product lines that are more consistent with the Company s growth strategy. The pre-tax restructuring activity associated with these plans has been reported as restructuring expenses as a component of operating expenses from continuing operations. The impact of immediate and future cost savings from these restructuring activities on operating results and cash flows is expected to be negligible as the Company has incurred and will incur offsetting costs.

A description of the restructuring plans and the activity recorded for the six months ended July 1, 2007 is as follows:

Q1 2007 Plan

During the first quarter of 2007, the Company s management approved a plan to shift resources into product lines that are more consistent with the Company s growth strategy. The Company completed notifying affected employees on March 30, 2007. As a result of this plan, the Company recognized a pre-tax restructuring charge of $4.4 million during the first quarter of 2007 (the Q1 2007 Plan). The actions within the Q1 2007 Plan related to a workforce reduction resulting from reorganization activities within the Life and Analytical Sciences segment.

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The following table summarizes the components of the Q1 2007 Plan activity for the six months ended July 1, 2007:

	Headcount	Severance (Dollars in thousands)
Balance at December 31, 2006		$
Provision	60	4,438
Amounts paid	(45)	(2,293)
Balance at July 1, 2007	15	$ 2,145

The Company anticipates that the remaining payments of $2.1 million will be completed by the end of the first quarter of fiscal 2008.

2001 to 2006 Restructuring and Integration Plans

The principal actions of these restructuring plans were workforce reductions related to the integration of the Company s Life Sciences and Analytical Instruments businesses in order to reduce costs and achieve operational efficiencies as well as workforce reductions in both the Life and Analytical Sciences and Optoelectronics segments by shifting resources into geographic regions and product lines that are more consistent with the Company s growth strategy. For the six months ended July 1, 2007, the Company paid $0.2 million related to these plans. As of July 1, 2007, the Company had approximately $2.5 million of remaining liabilities associated with 2001 to 2006 restructuring and integration plans, primarily relating to workforce severance benefits associated with the closure of the Company s European manufacturing facility in the Life and Analytical Sciences segment and remaining lease obligations related to those closed facilities. The remaining terms of these leases vary in length and will be paid through 2014. The remaining severance payments will be completed by the end of fiscal 2008.

Lease Costs

To facilitate the sale of a business in 2001, the Company was required to guarantee the obligations that the buyer of the business assumed related to the lease for the building in which the business operates. The lease obligations continue through March 2011. While the Company assigned its interest in the lease to the buyer at the time of the sale of the business, in the event the buyer defaults under the lease, the Company is responsible for all remaining lease payments and certain other building related expenses. As an additional measure to facilitate the sale of the business, the Company obtained a letter of credit as partial security for a loan to the buyer, which may be drawn upon by the buyer s lender in the event the buyer is delinquent in repayment of the loan. During the second quarter of 2007, the lessor of the building began the process to evict the buyer as a result of unpaid lease payments and building expenses and sought reimbursement from the Company. As a result of this action, the Company recorded a charge of $4.5 million related to payments for this lease obligation and the potential drawdown of the letter of credit. This charge was calculated based on the remaining lease and building obligations, reduced by estimated sublease rentals that could be reasonably obtained for the property, plus the balance remaining on the letter of credit.

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Note 4: Interest and Other Expense, Net

Interest and other expense, net consisted of the following:

	Three Months Ended		Six Months Ended	
	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
	(In thousands)			
Interest income	$ (1,093)	$ (2,363)	$ (2,304)	$ (5,735)
Interest expense	3,509	2,232	5,764	4,537
Gains on dispositions of investments, net	(135)	(667)	(536)	(933)
Other expense, net	1,149	2,612	3,272	3,772
Total interest and other expense, net	$ 3,430	$ 1,814	$ 6,196	$ 1,641

Note 5: Inventories, net

Inventories consisted of the following:

	July 1, 2007	December 31, 2006
	(In thousands)	
Raw materials	$ 73,711	$ 67,014
Work in progress	15,252	10,077
Finished goods	115,096	106,169
Total inventories, net	$ 204,059	$ 183,260

Note 6: Debt

Senior Unsecured Credit Facility. On October 31, 2005, the Company entered into a $350.0 million five-year senior unsecured revolving credit facility. Letters of credit in the aggregate amount of approximately $15.0 million were issued under this facility. The Company uses the senior unsecured revolving credit facility 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 revolving 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 Federal Funds rate plus 50 basis points. The Company may allocate all or a portion of its indebtedness under the senior unsecured revolving credit facility to interest based upon the Eurocurrency rate plus a margin or the base rate. The Eurocurrency margin as of July 1, 2007 was 60 basis points. The weighted average Eurocurrency interest rate as of July 1, 2007 was 4.79%, resulting in a weighted average effective Eurocurrency rate, including the margin, of 5.39%. There were approximately $234.4 million of borrowings under the facility as of July 1, 2007 with interest based on the above described Eurocurrency rate. The borrowings were undertaken by the Company and certain of its foreign subsidiaries and the funds were borrowed in U.S. Dollars (USD) and the subsidiaries functional currency of Euro (EUR). The effective rates of the borrowings as of July 1, 2007 were as follows: USD: 5.92% and EUR: 4.72%. The agreement for the facility contains affirmative, negative and financial covenants and events of default customary for financings of this type. The financial covenants include interest coverage and debt-to-EBITDA ratios. The Company was in compliance with all applicable covenants as of July 1, 2007.

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Note 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 less restricted unvested shares. Diluted earnings per share was computed by dividing net income by the 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. The following table reconciles the number of shares utilized in the earnings per share calculations:

	Three Months Ended		Six Months Ended	
	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
	(In thousands)			
Number of common shares basic	118,911	126,119	120,298	127,018
Effect of dilutive securities:				
Stock options	1,716	1,250	1,612	1,508
Restricted stock	62	32	66	32
Number of common shares diluted	120,689	127,401	121,976	128,558
Number of potentially dilutive securities excluded from calculation due to antidilutive impact	6,991	8,223	7,692	7,882

Antidilutive securities include outstanding stock options with exercise prices and average unrecognized compensation cost in excess of the average fair market value of the Company s common stock for the related period. Antidilutive options were excluded from the calculation of diluted net income per share and could become dilutive in the future.

Note 8: Comprehensive Income

The components of other comprehensive income, net of income taxes, are the following:

	Three Months Ended		Six Months Ended	
	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
	(In thousands)		(In thousands)	
Net income	$ 33,687	$ 24,485	$ 48,379	$ 48,102
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of income taxes	3,866	11,239	8,603	17,505
Pension and other postretirement benefit liability adjustments, net of income taxes	548		548	
Unrealized gains (losses) on securities, net of income taxes	70	(214)	(99)	(64)
	4,484	11,025	9,052	17,441
Comprehensive income, net of income taxes	$ 38,171	$ 35,510	$ 57,431	$ 65,543

The components of accumulated other comprehensive income, net of income taxes, consist of the following:

	July 1, 2007	December 31, 2006
	(In thousands)	

Foreign currency translation adjustments, net of income taxes	$ 79,666	$ 71,063
Pension and other postretirement benefit liability adjustments, net of income taxes	(63,704)	(64,252)
Unrealized gains on securities, net of income taxes	30	129
Accumulated other comprehensive income, net of income taxes	$ 15,992	$