

**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 APRIL 1, 2017**
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____**

Commission File No. 001-15943



CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)
251 Ballardvale Street
Wilmington, Massachusetts
(Address of Principal Executive Offices)

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

01887
(Zip Code)

(Registrant's telephone number, including area code): **(781) 222-6000**

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Emerging growth company

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

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

As of April 24, 2017, there were 47,639,367 shares of the Registrant's common stock outstanding.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED APRIL 1, 2017

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Special Note on Factors Affecting Future Results

This Quarterly Report on Form 10-Q contains forward-looking statements regarding future events and the future results of Charles River Laboratories International, Inc. that are based on our current expectations, estimates, forecasts and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as “expect,” “anticipate,” “target,” “goal,” “project,” “intend,” “plan,” “believe,” “seek,” “estimate,” “will,” “likely,” “may,” “designed,” “would,” “future,” “can,” “could” and other similar expressions that are predictions of or indicate future events and trends or which do not relate to historical matters are intended to identify such forward-looking statements. These statements are based on our current expectations and beliefs and involve a number of risks, uncertainties and assumptions that are difficult to predict. For example, we may use forward-looking statements when addressing topics such as: goodwill and asset impairments still under review; future demand for drug discovery and development products and services, including the outsourcing of these services; our expectations regarding stock repurchases, including the number of shares to be repurchased, expected timing and duration, the amount of capital that may be expended and the treatment of repurchased shares; present spending trends and other cost reduction activities by our clients; future actions by our management; the outcome of contingencies; changes in our business strategy, business practices and methods of generating revenue; the development and performance of our services and products; market and industry conditions, including competitive and pricing trends; our strategic relationships with leading pharmaceutical companies and venture capital investments and opportunities for future similar arrangements; our cost structure; the impact of acquisitions including WIL Research, Blue Stream, and Agilux; our expectations with respect to revenue growth and operating synergies (including the impact of specific actions intended to cause related improvements); the impact of specific actions intended to improve overall operating efficiencies and profitability (and our ability to accommodate future demand with our infrastructure), including gains and losses attributable to businesses we plan to close, consolidate or divest; changes in our expectations regarding future stock option, restricted stock, performance share units and other equity grants to employees and directors; expectations with respect to foreign currency exchange; assessing (or changing our assessment of) our tax positions for financial statement purposes; and our liquidity. In addition, these statements include the impact of economic and market conditions on us and our clients, including the potential impact of Brexit; the effects of our cost saving actions and the steps to optimize returns to shareholders on an effective and timely basis and our ability to withstand the current market conditions. You should not rely on forward-looking statements because they are predictions and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document or in the case of statements incorporated by reference, on the date of the document incorporated by reference. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in our Annual Report on Form 10-K for the year ended December 31, 2016 under the sections entitled “Our Strategy,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in our press releases and other financial filings with the Securities and Exchange Commission. We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or risks. New information, future events or risks may cause the forward-looking events we discuss in this report not to occur.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(in thousands, except per share amounts)

| | Three Months Ended | |
|---|--------------------|----------------|
| | April 1, 2017 | March 26, 2016 |
| Service revenue | \$ 304,531 | \$ 220,701 |
| Product revenue | 141,232 | 134,167 |
| Total revenue | 445,763 | 354,868 |
| Costs and expenses: | | |
| Cost of services provided (excluding amortization of intangible assets) | 206,820 | 147,349 |
| Cost of products sold (excluding amortization of intangible assets) | 67,244 | 66,751 |
| Selling, general and administrative | 91,490 | 82,944 |
| Amortization of intangible assets | 10,737 | 6,352 |
| Operating income | 69,472 | 51,472 |
| Other income (expense): | | |
| Interest income | 202 | 263 |
| Interest expense | (6,983) | (4,211) |
| Other income (expense), net | 15,356 | 4,026 |
| Income from continuing operations, before income taxes | 78,047 | 51,550 |
| Provision for income taxes | 31,084 | 13,975 |
| Income from continuing operations, net of income taxes | 46,963 | 37,575 |
| Loss from discontinued operations, net of income taxes | (4) | (26) |
| Net income | 46,959 | 37,549 |
| Less: Net income attributable to noncontrolling interests | 181 | 406 |
| Net income attributable to common shareholders | \$ 46,778 | \$ 37,143 |
| Earnings (loss) per common share | | |
| Basic: | | |
| Continuing operations attributable to common shareholders | \$ 0.98 | \$ 0.80 |
| Discontinued operations | \$ — | \$ — |
| Net income attributable to common shareholders | \$ 0.98 | \$ 0.80 |
| Diluted: | | |
| Continuing operations attributable to common shareholders | \$ 0.97 | \$ 0.78 |
| Discontinued operations | \$ — | \$ — |
| Net income attributable to common shareholders | \$ 0.97 | \$ 0.78 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(in thousands)

| | Three Months Ended | |
|--|--------------------|------------------|
| | April 1, 2017 | March 26, 2016 |
| Net income | \$ 46,959 | \$ 37,549 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustment and other | 11,221 | (7,796) |
| Amortization of net loss and prior service benefit included in net periodic cost for pension and other post-retirement benefit plans | 854 | 390 |
| Comprehensive income, before income taxes | 59,034 | 30,143 |
| Income tax expense related to items of other comprehensive income (Note 8) | 226 | 142 |
| Comprehensive income, net of income taxes | 58,808 | 30,001 |
| Less: Comprehensive income related to noncontrolling interests, net of income taxes | 298 | 127 |
| Comprehensive income attributable to common shareholders, net of income taxes | <u>\$ 58,510</u> | <u>\$ 29,874</u> |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

| | April 1, 2017 | December 31, 2016 |
|--|---------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 131,524 | \$ 117,626 |
| Trade receivables, net | 383,748 | 364,050 |
| Inventories | 98,482 | 95,833 |
| Prepaid assets | 42,495 | 34,315 |
| Other current assets | 43,872 | 45,008 |
| Total current assets | 700,121 | 656,832 |
| Property, plant and equipment, net | 746,951 | 755,827 |
| Goodwill | 756,022 | 787,517 |
| Client relationships, net | 299,477 | 320,157 |
| Other intangible assets, net | 70,336 | 74,291 |
| Deferred tax assets | 30,306 | 28,746 |
| Other assets | 93,862 | 88,430 |
| Total assets | \$ 2,697,075 | \$ 2,711,800 |
| Liabilities, Redeemable Noncontrolling Interest and Equity | | |
| Current liabilities: | | |
| Current portion of long-term debt and capital leases | \$ 27,308 | \$ 27,313 |
| Accounts payable | 60,987 | 68,485 |
| Accrued compensation | 63,309 | 93,471 |
| Deferred revenue | 127,591 | 127,731 |
| Accrued liabilities | 84,093 | 84,470 |
| Other current liabilities | 18,460 | 26,500 |
| Current liabilities of discontinued operations | 1,626 | 1,623 |
| Total current liabilities | 383,374 | 429,593 |
| Long-term debt, net and capital leases | 1,170,063 | 1,207,696 |
| Deferred tax liabilities | 83,930 | 55,717 |
| Other long-term liabilities | 160,663 | 159,239 |
| Long-term liabilities of discontinued operations | 5,300 | 5,771 |
| Total liabilities | 1,803,330 | 1,858,016 |
| Commitments and contingencies | | |
| Redeemable noncontrolling interest | 14,698 | 14,659 |
| Equity: | | |
| Preferred stock, \$0.01 par value; 20,000 shares authorized; no shares issued and outstanding | — | — |
| Common stock, \$0.01 par value; 120,000 shares authorized; 87,132 shares issued and 47,635 shares outstanding as of April 1, 2017 and 86,301 shares issued and 47,363 shares outstanding as of December 31, 2016 | 871 | 863 |
| Additional paid-in capital | 2,506,696 | 2,477,371 |
| Retained earnings | 212,081 | 165,303 |
| Treasury stock, at cost 39,497 shares and 38,938 shares as of April 1, 2017 and December 31, 2016, respectively | (1,601,185) | (1,553,005) |
| Accumulated other comprehensive loss | (242,032) | (253,764) |
| Total equity attributable to common shareholders | 876,431 | 836,768 |
| Noncontrolling interests | 2,616 | 2,357 |
| Total equity | 879,047 | 839,125 |
| Total liabilities, redeemable noncontrolling interest and equity | \$ 2,697,075 | \$ 2,711,800 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

| | Three Months Ended | |
|--|--------------------|-------------------|
| | April 1, 2017 | March 26, 2016 |
| Cash flows relating to operating activities | | |
| Net income | \$ 46,959 | \$ 37,549 |
| Less: Loss from discontinued operations, net of income taxes | (4) | (26) |
| Income from continuing operations, net of income taxes | 46,963 | 37,575 |
| Adjustments to reconcile net income from continuing operations to net cash provided by operating activities: | | |
| Depreciation and amortization | 32,411 | 24,655 |
| Stock-based compensation | 9,486 | 9,941 |
| Deferred income taxes | 26,273 | 12,522 |
| Gain on divestiture | (10,577) | — |
| Other, net | 462 | (1,252) |
| Changes in assets and liabilities: | | |
| Trade receivables, net | (21,062) | (16,279) |
| Inventories | (2,593) | (3,081) |
| Accounts payable | (6,258) | 9,352 |
| Accrued compensation | (30,399) | (16,025) |
| Other assets and liabilities, net | (10,677) | (11,564) |
| Net cash provided by operating activities | 34,029 | 45,844 |
| Cash flows relating to investing activities | | |
| Acquisition of businesses and assets, net of cash acquired | — | (318) |
| Capital expenditures | (15,920) | (8,250) |
| Purchases of investments | (6,698) | (6,395) |
| Proceeds from sale of investments and distributions from venture capital investments | 3,135 | 5,700 |
| Proceeds from divestiture | 72,462 | — |
| Other, net | 17 | 2,821 |
| Net cash provided by (used in) investing activities | 52,996 | (6,442) |
| Cash flows relating to financing activities | | |
| Proceeds from long-term debt and revolving credit facility | 112,724 | 49,423 |
| Proceeds from exercises of stock options | 19,723 | 12,514 |
| Payments on long-term debt, revolving credit facility and capital lease obligations | (158,140) | (49,409) |
| Purchase of treasury stock | (48,180) | (12,147) |
| Other, net | (451) | (675) |
| Net cash used in financing activities | (74,324) | (294) |
| Discontinued operations | | |
| Net cash used in operating activities from discontinued operations | (473) | (489) |
| Effect of exchange rate changes on cash, cash equivalents, and restricted cash | 1,705 | 739 |
| Net change in cash, cash equivalents, and restricted cash | 13,933 | 39,358 |
| Cash, cash equivalents, and restricted cash, beginning of period | 119,894 | 119,963 |
| Cash, cash equivalents, and restricted cash, end of period | \$ 133,827 | \$ 159,321 |
| Supplemental cash flow information: | | |
| Cash and cash equivalents | \$ 131,524 | \$ 157,375 |
| Restricted cash included in Other current assets | 538 | 159 |
| Restricted cash included in Other assets | 1,765 | 1,787 |
| Cash, cash equivalents, and restricted cash, end of period | \$ 133,827 | \$ 159,321 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements are unaudited and have been prepared by Charles River Laboratories International, Inc. (the Company) in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission. The year-end condensed consolidated balance sheet data was derived from the Company's audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for fiscal year 2016. The unaudited condensed consolidated financial statements, in the opinion of management, reflect all normal and recurring adjustments necessary for a fair statement of the Company's financial position and results of operations.

The Company has reclassified certain amounts in the unaudited condensed consolidated statements of cash flow for prior periods to conform to current year presentation.

Use of Estimates

The preparation of unaudited condensed consolidated financial statements in accordance with U.S. GAAP requires that the Company make estimates and judgments that may affect the reported amounts of assets, liabilities, redeemable noncontrolling interest, revenues, expenses and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, judgments and methodologies. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. Changes in estimates are reflected in reported results in the period in which they become known.

Consolidation

The Company's unaudited condensed consolidated financial statements reflect its financial statements and those of its subsidiaries in which the Company holds a controlling financial interest. For consolidated entities in which the Company owns or is exposed to less than 100% of the economics, the Company records net income (loss) attributable to noncontrolling interests in its consolidated statements of income equal to the percentage of the economic or ownership interest retained in such entities by the respective noncontrolling parties. Intercompany balances and transactions are eliminated in consolidation.

The Company's fiscal year is typically based on a 52-week year, with each quarter composed of 13 weeks ending on the last Saturday on, or closest to, March 31, June 30, September 30, and December 31. A 53rd week was included in the fourth quarter of fiscal year 2016, which is occasionally necessary to align with a December 31 calendar year-end.

Summary of Significant Accounting Policies

The Company's significant accounting policies are described in Note 1, "Description of Business and Summary of Significant Accounting Policies," in the Company's Annual Report on Form 10-K for fiscal year 2016.

Newly Adopted Accounting Pronouncements

In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-18, "Restricted Cash." The standard addresses the classification and presentation of restricted cash and restricted cash equivalents within the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. During the three months ended April 1, 2017, the Company elected to early adopt this standard and applied the changes retrospectively to all prior periods presented in its unaudited condensed consolidated statements of cash flows.

The Company historically excluded restricted cash balances, recorded in current and long-term other assets, from cash and cash equivalents within the unaudited consolidated statements of cash flows, reflecting transfers between cash, cash equivalents, and restricted cash as a cash flow classified within cash flows relating to operating activities. As a result of the adoption of this standard, the Company combined restricted cash balances of \$1.9 million and \$2.0 million as of March 26, 2016 and December 26, 2015, respectively, with cash and cash equivalents when reconciling the beginning and ending balances within the unaudited condensed consolidated statements of cash flows for the three months ended March 26, 2016.

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments." The standard addresses the classification of certain transactions within the statement of cash flows, including cash payments for debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, and distributions received from equity method investments. The ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. During the three months ended April 1, 2017, the Company elected to early adopt this standard and applied the changes retrospectively to all prior periods presented within its unaudited condensed consolidated statements of cash flows. The adoption of this standard had no impact within the unaudited condensed consolidated statement of cash flows for the three months ended March 26, 2016.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting." The standard reduces complexity in several aspects of the accounting for employee share-based compensation, including the income tax consequences, classification of awards as either equity or liabilities, and classification within the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company adopted this standard during the three months ended April 1, 2017, and applied the changes as required by each amendment to its consolidated financial statements and related disclosures.

Under ASU 2016-09, the Company adopted the amendment to recognize excess tax benefits and tax deficiencies in the consolidated statement of income on a prospective basis, the amendment to present excess tax benefits within operating activities within the unaudited condensed consolidated statements of cash flows on a retrospective basis, and elected to change its accounting policy to account for forfeitures when they occur on a modified retrospective basis.

The adoption to recognize excess tax benefits and tax deficiencies within the unaudited condensed consolidated statements of income on a prospective basis could result in fluctuations in the effective tax rate period-over-period depending on how many awards vest and the volatility of the stock price. During the three months ended April 1, 2017, the impact to the provision for income taxes within the unaudited condensed consolidated statements of income was an excess tax benefit of \$7.5 million. Further, for the three months ended April 1, 2017, the Company excluded the effect of windfall tax benefits from the hypothetical proceeds used to calculate the repurchase of shares under the treasury stock method for the calculation of diluted earnings per share.

The adoption of the amendment to present excess tax benefits within operating activities within the unaudited condensed consolidated statements of cash flows on a retrospective basis resulted in the reclassification of a cash inflow of \$7.4 million from cash provided by financing activities to cash provided by operating activities for the three months ended March 26, 2016. The Company had previously classified cash paid for tax withholding purposes as a financing activity within the unaudited condensed consolidated statements of cash flows; therefore, there was no change related to this requirement under the amendment.

The Company's election to change its accounting policy to account for forfeitures when they occur on a modified retrospective basis resulted in an immaterial impact to its consolidated financial statements and related disclosures.

Newly Issued Accounting Pronouncements

In March 2017, the FASB issued ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The standard requires an employer to disaggregate the service cost component from the other components of net benefit cost and provides explicit guidance on the presentation of the service cost component and the other components of net benefit cost in the statement of income. The ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years, and should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost in the statement of income. Early adoption is permitted within the first interim period of the fiscal year. The Company is still evaluating the impact this standard will have on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment." The standard simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. The ASU is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is still evaluating the impact this standard will have on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-01, "Clarifying the Definition of a Business." The standard clarifies the definition of a business by adding guidance to assist entities in evaluating whether transactions should be accounted for as acquisitions of assets or businesses. The ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted for certain transactions. The Company is still evaluating the impact this standard will have on its consolidated financial statements and related disclosures.

In October 2016, the FASB issued ASU 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory." The standard requires the immediate recognition of tax effects for an intra-entity asset transfer other than inventory. The ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, "Leases." The standard established the principles that lessees and lessors will apply to report useful information to users of financial statements about the amount, timing and uncertainty of cash flows arising from a lease. The ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company is still evaluating the full impact this standard will have on its

consolidated financial statements and related disclosures, but expects to recognize substantially all of its leases on the balance sheet by recording a right-to-use asset and a corresponding lease liability.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." The standard, including subsequently issued amendments, will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a retrospective or cumulative effect transition method. The standard will require an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard will be effective for annual and interim periods beginning after December 15, 2017. The Company formed an implementation team during fiscal year 2016 to oversee adoption of the new standard. The implementation team has completed its initial assessment of the new standard, including a detailed review of the Company's contract portfolio, revenue streams to identify potential differences in accounting as a result of the new standard, and selected the modified retrospective transition method. The Company continues to assess the impact on the existing revenue accounting policies, newly required financial statement disclosures, and executing on the project plan. Currently, the Company is finalizing contract reviews, working through anticipated changes to systems and business processes, and internal controls to support the adoption of the new standard.

2. BUSINESS ACQUISITIONS AND DIVESTITURE

Agilux

On September 28, 2016, the Company acquired Agilux Laboratories, Inc. (Agilux), a contract research organization (CRO) that provides a suite of integrated discovery small and large molecule bioanalytical services, drug metabolism and pharmacokinetic services, and pharmacology services. The acquisition supports the Company's strategy to offer clients a broader, integrated portfolio that provides services continuously from the earliest stages of drug research through the non-clinical development process. The purchase price for Agilux was \$64.9 million in cash and was funded by borrowings on the Company's revolving credit facility. The business is reported as part of the Company's DSA reportable segment.

The purchase price allocation of \$62.0 million, net of \$2.9 million of cash acquired, was as follows:

| | <u>September 28, 2016</u> |
|---|---------------------------|
| | (in thousands) |
| Trade receivables (contractual amount of \$4,799) | \$ 4,799 |
| Other current assets (excluding cash) | 1,509 |
| Property, plant and equipment | 3,907 |
| Other long-term assets | 11 |
| Definite-lived intangible assets | 21,900 |
| Goodwill | 43,899 |
| Current liabilities | (3,987) |
| Long-term liabilities | (10,013) |
| Total purchase price allocation | \$ 62,025 |

The purchase price allocations are subject to change as additional information becomes available concerning the fair value and tax basis of the assets acquired and liabilities assumed. Any additional adjustments to the purchase price allocation will be made as soon as practicable but no later than one year from the date of acquisition.

The breakout of definite-lived intangible assets acquired was as follows:

| | <u>Definite-Lived Intangible Assets</u> | <u>Weighted Average Amortization Life</u> |
|---|---|---|
| | (in thousands) | (in years) |
| Client relationships | \$ 16,700 | 17 |
| Other intangible assets | 5,200 | 4 |
| Total definite-lived intangible assets | \$ 21,900 | 14 |

The goodwill resulting from the transaction is primarily attributable to the potential growth of the Company's DSA businesses from customers and technology introduced through Agilux and the assembled workforce of the acquired business. The goodwill attributable to Agilux is not deductible for tax purposes.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company incurred \$0.2 million in transaction and integration costs in connection with the acquisition during the three months ended April 1, 2017, which were included in selling, general and administrative expenses, within the unaudited condensed consolidated statements of income.

Blue Stream

On June 27, 2016, the Company acquired Blue Stream Laboratories, Inc. (Blue Stream), an analytical CRO supporting the development of complex biologics and biosimilars. Combining Blue Stream with the Company's existing discovery, safety assessment, and biologics capabilities creates a leading CRO that has the ability to support biologic and biosimilar development from characterization through clinical testing and commercialization. The purchase price for Blue Stream was \$11.7 million, including \$3.0 million in contingent consideration, and was subject to certain customary adjustments. The acquisition was funded by borrowings on the Company's revolving credit facility. The business is reported in the Company's Manufacturing reportable segment.

The contingent consideration is a one-time payment that could become payable based on the achievement of a revenue target. If achieved, the payment will become due in the third quarter of fiscal year 2017. The aggregate, undiscounted amount of contingent consideration that the Company may pay is \$3.0 million. The Company estimated the fair value of this contingent consideration based on a probability-weighted set of outcomes.

The purchase price allocation of \$11.7 million, net of a non-significant amount of cash acquired, was as follows:

| | <u>June 27, 2016</u> | |
|---|----------------------|---------------|
| | (in thousands) | |
| Trade receivables (contractual amount of \$1,104) | \$ | 1,104 |
| Other current assets (excluding cash) | | 15 |
| Property, plant and equipment | | 912 |
| Other long-term assets | | 187 |
| Definite-lived intangible assets | | 1,230 |
| Goodwill | | 10,477 |
| Current liabilities | | (1,132) |
| Long-term liabilities | | (1,044) |
| Total purchase price allocation | \$ | <u>11,749</u> |

The purchase price allocations were prepared on a preliminary basis and are subject to change as additional information becomes available concerning the fair value and tax basis of the assets acquired and liabilities assumed. Any additional adjustments to the purchase price allocation will be made as soon as practicable but no later than one year from the date of acquisition.

The breakout of definite-lived intangible assets acquired was as follows:

| | <u>Definite-Lived Intangible Assets</u> | <u>Weighted Average Amortization Life</u> |
|--|---|---|
| | (in thousands) | (in years) |
| Client relationships | \$ 650 | 10 |
| Other intangible assets | 580 | 5 |
| Total definite-lived intangible assets | <u>\$ 1,230</u> | <u>7</u> |

The goodwill resulting from the transaction is primarily attributable to the potential growth of the Company's Manufacturing business from customers and technology introduced through Blue Stream, the assembled workforce of the acquired business, expected synergies, and the development of future proprietary processes. The goodwill attributable to Blue Stream is not deductible for tax purposes.

The Company incurred non-significant transaction and integration costs in connection with the acquisition during the three months ended April 1, 2017, which were included in selling, general and administrative expenses, within the unaudited condensed consolidated statements of income.

WIL Research

On April 4, 2016, the Company acquired WIL Research, a provider of safety assessment and CDMO services to biopharmaceutical and agricultural and industrial chemical companies worldwide. The acquisition enhanced the Company's position as a leading global early-stage CRO by strengthening its ability to partner with clients across the drug discovery and

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development continuum. The purchase price for WIL Research was \$604.8 million, including assumed liabilities of \$0.4 million. The purchase price included payment for actual working capital of the acquired business. The acquisition was funded by cash on hand and borrowings on the Company's amended credit facility. See Note 7, "Long-Term Debt and Capital Lease Obligations." WIL Research's safety assessment and CDMO businesses are reported in the Company's DSA and Manufacturing reportable segments, respectively. On February 10, 2017, the Company divested the CDMO business.

The purchase price allocation of \$577.4 million, net of \$27.4 million of cash acquired, was as follows:

| | <u>April 4, 2016</u> | |
|--|----------------------|----------------|
| | (in thousands) | |
| Trade receivables (contractual amount of \$48,625) | \$ | 48,157 |
| Inventories | | 2,296 |
| Other current assets (excluding cash) | | 3,814 |
| Property, plant and equipment | | 129,066 |
| Other long-term assets | | 1,060 |
| Definite-lived intangible assets | | 164,800 |
| Goodwill | | 330,175 |
| Deferred revenue | | (39,103) |
| Other current liabilities | | (27,386) |
| Long-term liabilities | | (35,488) |
| Total purchase price allocation | \$ | 577,391 |

From the date of the acquisition through April 1, 2017, the Company recorded measurement-period adjustments related to the acquisition that resulted in an immaterial change to the purchase price allocation on a consolidated basis.

The breakout of definite-lived intangible assets acquired was as follows:

| | <u>Definite-Lived Intangible Assets</u> | <u>Weighted Average Amortization Life</u> |
|---|---|---|
| | (in thousands) | (in years) |
| Client relationships | \$ 137,500 | 15 |
| Developed technology | 20,700 | 3 |
| Backlog | 6,600 | 1 |
| Total definite-lived intangible assets | \$ 164,800 | 13 |

The goodwill resulting from the transaction, \$19.0 million of which was deductible for tax purposes due to a prior asset acquisition, was primarily attributed to the potential growth of the Company's DSA and Manufacturing businesses from clients introduced through WIL Research, the assembled workforce of the acquired business, and expected cost synergies. Subsequent to the divestiture of the CDMO business on February 10, 2017, \$14.8 million of the goodwill from the transaction is deductible for tax purposes.

The Company incurred transaction and integration costs in connection with the acquisition of \$0.5 million and \$4.0 million for the three months ended April 1, 2017, and March 26, 2016, respectively, which were included in selling, general and administrative expenses, within the unaudited condensed consolidated statements of income.

Contract Manufacturing

On February 10, 2017, the Company completed the divestiture of its CDMO business to Quotient Clinical Ltd., based in London, England, for \$75.0 million in proceeds, net of \$0.6 million in cash and cash equivalents transferred in conjunction with the sale and \$0.3 million of estimated working capital adjustments.

The CDMO business was acquired in April 2016 as part of the acquisition of WIL Research and was reported in the Company's Manufacturing reportable segment. Following a strategic review that was finalized subsequent to December 31, 2016, the Company determined that the CDMO business was not optimized within the Company's portfolio at its current scale, and that the capital could be better deployed in other long-term growth opportunities.

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During the three months ended April 1, 2017, the Company recorded a gain on the divestiture of the CDMO business of \$10.6 million, which was included in other income (expense), net. As of February 10, 2017, the carrying amounts of the major classes of assets and liabilities associated with the divestiture of the CDMO business were as follows:

| | February 10, 2017 |
|------------------------------------|--------------------------|
| | (in thousands) |
| Assets | |
| Current assets | \$ 5,505 |
| Property, plant and equipment, net | 11,174 |
| Goodwill | 35,857 |
| Long-term assets | 17,154 |
| Total assets | \$ 69,690 |
| Liabilities | |
| Deferred revenue | \$ 4,878 |
| Other current liabilities | 1,158 |
| Total liabilities | \$ 6,036 |

3. SUPPLEMENTAL BALANCE SHEET INFORMATION

The composition of trade receivables, net is as follows:

| | April 1, 2017 | December 31, 2016 |
|---------------------------------------|-----------------------|--------------------------|
| | (in thousands) | |
| Client receivables | \$ 301,246 | \$ 283,997 |
| Unbilled revenue | 84,843 | 82,203 |
| Total | 386,089 | 366,200 |
| Less: Allowance for doubtful accounts | (2,341) | (2,150) |
| Trade receivables, net | \$ 383,748 | \$ 364,050 |

The composition of inventories is as follows:

| | April 1, 2017 | December 31, 2016 |
|----------------------------|-----------------------|--------------------------|
| | (in thousands) | |
| Raw materials and supplies | \$ 18,401 | \$ 18,893 |
| Work in process | 10,851 | 13,681 |
| Finished products | 69,230 | 63,259 |
| Inventories | \$ 98,482 | \$ 95,833 |

The composition of other current assets is as follows:

| | April 1, 2017 | December 31, 2016 |
|----------------------|-----------------------|--------------------------|
| | (in thousands) | |
| Investments | \$ 3,872 | \$ 3,771 |
| Prepaid income taxes | 39,462 | 40,705 |
| Restricted cash | 538 | 532 |
| Other current assets | \$ 43,872 | \$ 45,008 |

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The composition of other assets is as follows:

| | April 1, 2017 | December 31, 2016 |
|-----------------------------|----------------|-------------------|
| | (in thousands) | |
| Life insurance policies | \$ 30,759 | \$ 29,456 |
| Venture capital investments | 48,789 | 45,331 |
| Restricted cash | 1,765 | 1,736 |
| Other | 12,549 | 11,907 |
| Other assets | \$ 93,862 | \$ 88,430 |

The composition of other current liabilities is as follows:

| | April 1, 2017 | December 31, 2016 |
|---------------------------|----------------|-------------------|
| | (in thousands) | |
| Accrued income taxes | \$ 17,880 | \$ 25,621 |
| Other | 580 | 879 |
| Other current liabilities | \$ 18,460 | \$ 26,500 |

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

| | April 1, 2017 | December 31, 2016 |
|--|----------------|-------------------|
| | (in thousands) | |
| Long-term pension liability | \$ 89,047 | \$ 89,984 |
| Accrued executive supplemental life insurance retirement plan and deferred compensation plan | 33,213 | 32,880 |
| Other | 38,403 | 36,375 |
| Other long-term liabilities | \$ 160,663 | \$ 159,239 |

4. VENTURE CAPITAL INVESTMENTS

The Company invests in several venture capital funds that invest in start-up companies, primarily in the life sciences industry. The Company's ownership interest in these funds ranges from 0.7% to 12.0%. The Company accounts for the investments in limited partnerships (LPs), which are variable interest entities, under the equity or cost method of accounting. The Company is not the primary beneficiary because it has no power to direct the activities that most significantly affect the LPs' economic performance. The Company accounts for the investments in limited liability companies, which are not variable interest entities, under the equity method of accounting.

The Company's total commitments to the entities as of April 1, 2017, were \$84.8 million, of which the Company funded \$42.0 million through April 1, 2017. During the three months ended April 1, 2017, the Company received dividends of \$4.4 million from the entities. During the three months ended March 26, 2016, the Company received no dividends from the entities. The Company recognized a gain of \$4.2 million and a gain of \$3.1 million related to these investments for the three months ended April 1, 2017, and March 26, 2016, respectively.

5. FAIR VALUE

The Company has certain assets and liabilities recorded at fair value, which have been classified as Level 1, 2, or 3 within the fair value hierarchy:

- Level 1 - Fair values are determined utilizing prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access;
- Level 2 - Fair values are determined by utilizing quoted prices for identical or similar assets and liabilities in active markets or other market observable inputs such as interest rates, yield curves, and foreign currency spot rates;
- Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

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The fair value hierarchy level is determined by asset and liability class based on the lowest level of significant input. The observability of inputs may change for certain assets or liabilities. This condition could cause an asset or liability to be reclassified between levels. The Company recognizes transfers between levels within the fair value hierarchy, if any, at the end of each quarter. During the three months ended April 1, 2017, and March 26, 2016, there were no transfers between levels.

Valuation methodologies used for assets and liabilities measured or disclosed at fair value are as follows:

- Cash equivalents - Valued at market prices determined through third-party pricing services;
- Mutual funds - Valued at the unadjusted quoted net asset value of shares held by the Company;
- Foreign currency forward contracts - Valued using market observable inputs, such as forward foreign exchange points and foreign exchange rates;
- Life insurance policies - Valued at cash surrender value based on the fair value of underlying investments;
- Contingent consideration - Valued based on a probability weighting of the future cash flows associated with the potential outcomes.

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

| | April 1, 2017 | | | |
|--|-------------------|-----------|----------|-----------|
| | Level 1 | Level 2 | Level 3 | Total |
| | (in thousands) | | | |
| Cash equivalents | \$ — | \$ 21 | \$ — | \$ 21 |
| Other assets: | | | | |
| Life insurance policies | — | 23,386 | — | 23,386 |
| Total assets measured at fair value | \$ — | \$ 23,407 | \$ — | \$ 23,407 |
| Other current liabilities: | | | | |
| Contingent consideration | \$ — | \$ — | \$ 3,201 | \$ 3,201 |
| Total liabilities measured at fair value | \$ — | \$ — | \$ 3,201 | \$ 3,201 |
| | December 31, 2016 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| | (in thousands) | | | |
| Cash equivalents | \$ — | \$ 21 | \$ — | \$ 21 |
| Other assets: | | | | |
| Life insurance policies | — | 22,121 | — | 22,121 |
| Total assets measured at fair value | \$ — | \$ 22,142 | \$ — | \$ 22,142 |
| Other current liabilities: | | | | |
| Contingent consideration | \$ — | \$ — | \$ 3,621 | \$ 3,621 |
| Total liabilities measured at fair value | \$ — | \$ — | \$ 3,621 | \$ 3,621 |

Contingent Consideration

The following table provides a rollforward of the contingent consideration related to the business acquisitions. See Note 2, “Business Acquisitions and Divestiture.”

| | Three Months Ended | |
|---|--------------------|----------------|
| | April 1, 2017 | March 26, 2016 |
| | (in thousands) | |
| Beginning balance | \$ 3,621 | \$ 1,370 |
| Additions | — | 600 |
| Payments | (406) | (674) |
| Total gains or losses (realized/unrealized): | | |
| Reversal of previously recorded contingent liability and change in fair value | (14) | 18 |
| Ending balance | \$ 3,201 | \$ 1,314 |

The unobservable inputs used in the fair value measurement of the Company’s contingent consideration are the probabilities of successful achievement of certain financial targets and a discount rate. Increases or decreases in any of the probabilities of success would result in a higher or lower fair value measurement, respectively. Increases or decreases in the discount rate would result in a lower or higher fair value measurement, respectively.

Debt Instruments

The book value of the Company’s term and revolving loans, which are variable rate loans carried at amortized cost, approximates the fair value based on current market pricing of similar debt. As the fair value is based on significant other observable inputs, including current interest and foreign currency exchange rates, it is deemed to be Level 2.

6. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The following table provides a rollforward of the Company’s goodwill:

| | December 31, 2016 | Adjustments to Goodwill | | | April 1, 2017 |
|---------------|-------------------|----------------------------------|-----------|------------------|---------------|
| | | Acquisitions / (Divestitures) | Transfers | Foreign Exchange | |
| | (in thousands) | | | | |
| DSA | \$ 563,476 | \$ (427) | \$ — | \$ 3,074 | \$ 566,123 |
| RMS | 56,397 | — | — | 182 | 56,579 |
| Manufacturing | 167,644 | (35,857) | — | 1,533 | 133,320 |
| Total | \$ 787,517 | \$ (36,284) | \$ — | \$ 4,789 | \$ 756,022 |

The reduction of goodwill of \$35.9 million relates to the divestiture of the CDMO business within the Manufacturing reportable segment.

Intangible Assets, Net

The following table displays intangible assets, net by major class:

| | April 1, 2017 | | | December 31, 2016 | | |
|----------------------------|----------------|-----------------------------|------------|-------------------|-----------------------------|------------|
| | Gross | Accumulated Amortization | Net | Gross | Accumulated Amortization | Net |
| | (in thousands) | | | | | |
| Backlog | \$ 7,782 | \$ (7,351) | \$ 431 | \$ 8,370 | \$ (6,390) | \$ 1,980 |
| Technology | 72,241 | (17,171) | 55,070 | 71,425 | (14,314) | 57,111 |
| Trademarks and trade names | 8,271 | (4,204) | 4,067 | 8,177 | (4,124) | 4,053 |
| Other | 16,794 | (6,026) | 10,768 | 16,775 | (5,628) | 11,147 |
| Other intangible assets | 105,088 | (34,752) | 70,336 | 104,747 | (30,456) | 74,291 |
| Client relationships | 506,406 | (206,929) | 299,477 | 519,123 | (198,966) | 320,157 |
| Intangible assets | \$ 611,494 | \$ (241,681) | \$ 369,813 | \$ 623,870 | \$ (229,422) | \$ 394,448 |

During the three months ended April 1, 2017, the Company divested the CDMO business, which resulted in a net decrease of \$16.8 million and \$0.3 million to client relationships and backlog, respectively. During the three months ended March 26, 2016, the Company determined that the carrying values of certain DSA intangible assets were not recoverable and recorded an impairment charge of \$1.9 million, which was included in costs of services provided (excluding amortization of intangible assets) within the Company's unaudited condensed consolidated statements of income.

7. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

Long-Term Debt

Long-term debt, net consists of the following:

| | April 1, 2017 | December 31, 2016 |
|---|----------------|-------------------|
| | (in thousands) | |
| Term loans | \$ 625,625 | \$ 633,750 |
| Revolving credit facility | 544,954 | 578,759 |
| Other long-term debt | 3,634 | 185 |
| Total debt | 1,174,213 | 1,212,694 |
| Less: current portion of long-term debt | (24,562) | (24,560) |
| Long-term debt | 1,149,651 | 1,188,134 |
| Debt discount and debt issuance costs | (7,163) | (7,633) |
| Long-term debt, net | \$ 1,142,488 | \$ 1,180,501 |

As of April 1, 2017 and December 31, 2016, the weighted average interest rate on the Company's debt was 2.07% and 1.89%, respectively.

On March 30, 2016, the Company amended and restated its \$1.3 billion credit facility creating a \$1.65 billion credit facility (\$1.65B Credit Facility) which (1) extends the maturity date for the credit facility and (2) makes certain other amendments in connection with the Company's acquisition of WIL Research. The amendment was accounted for as a debt modification with a partial extinguishment of debt. In connection with the amendment and restatement, the Company capitalized approximately \$3.3 million and expensed approximately \$1.4 million of debt issuance costs.

The \$1.65B Credit Facility provides for a \$650.0 million term loan and a \$1.0 billion multi-currency revolving facility. The term loan facility matures in 19 quarterly installments with the last installment due March 30, 2021. The revolving facility matures on March 30, 2021, and requires no scheduled payment before that date. Under specified circumstances, the Company has the ability to increase the term loan and/or revolving line of credit by up to \$500.0 million in the aggregate.

The interest rates applicable to the term loan and revolving loans under the \$1.65B Credit Facility are, at the Company's option, equal to either the base rate (which is the higher of (1) the prime rate, (2) the federal funds rate plus 0.50%, or (3) the one-month adjusted LIBOR rate plus 1.0%) or the adjusted LIBOR rate, plus an interest rate margin based upon the Company's leverage ratio.

The \$1.65B Credit Facility includes certain customary representations and warranties, events of default, notices of material adverse changes to the Company's business and negative and affirmative covenants. These covenants include (1) maintenance of a ratio of consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) less capital expenditures to consolidated cash interest expense, for any period of four consecutive fiscal quarters, of no less than 3.50 to 1.0 as well as (2) maintenance of a ratio of consolidated indebtedness to consolidated EBITDA for any period of four consecutive fiscal quarters, of no more than 4.25 to 1.0 with step downs to 3.50 to 1.0 by the last day of the three months ended December 30, 2017. As of April 1, 2017, the Company was compliant with all covenants.

The obligations of the Company under the \$1.65B Credit Facility are collateralized by substantially all of the assets of the Company.

Letters of Credit

As of April 1, 2017, and December 31, 2016, the Company had \$4.9 million in outstanding letters of credit.

Capital Lease Obligations

The Company's capital lease obligations amounted to \$30.3 million and \$29.9 million as of April 1, 2017, and December 31, 2016, respectively.

8. EQUITY AND REDEEMABLE NONCONTROLLING INTEREST

Earnings Per Share

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

| | Three Months Ended | |
|---|--------------------|----------------|
| | April 1, 2017 | March 26, 2016 |
| | (in thousands) | |
| Numerator: | | |
| Income from continuing operations, net of income taxes | \$ 46,963 | \$ 37,575 |
| Loss from discontinued operations, net of income taxes | (4) | (26) |
| Less: Net income attributable to noncontrolling interests | 181 | 406 |
| Net income attributable to common shareholders | \$ 46,778 | \$ 37,143 |
| Denominator: | | |
| Weighted-average shares outstanding - Basic | 47,546 | 46,642 |
| Effect of dilutive securities: | | |
| Stock options, restricted stock units, performance share units and restricted stock | 875 | 975 |
| Weighted-average shares outstanding - Diluted | 48,421 | 47,617 |

Options to purchase approximately 1.1 million and 1.0 million shares for the three months ended April 1, 2017 and March 26, 2016, respectively, as well as an insignificant number of restricted stock, restricted stock units (RSUs), and performance share units (PSUs), were not included in computing diluted earnings per share because their inclusion would have been anti-dilutive. Basic weighted average shares outstanding for both the three months ended April 1, 2017 and March 26, 2016 excluded the impact of approximately 1.1 million shares of non-vested restricted stock and restricted stock units.

Treasury Shares

During the three months ended April 1, 2017, the Company repurchased 0.4 million shares totaling \$32.1 million under its authorized stock repurchase program. The Company did not repurchase any shares under its authorized stock repurchase program in the three months ended March 26, 2016. As of April 1, 2017, the Company had \$37.6 million remaining on the authorized stock repurchase program. On May 9, 2017, the Company's Board of Directors increased the stock repurchase authorization by \$150.0 million, to an aggregate amount of \$1.3 billion. The Company's stock-based compensation plans permit the netting of common stock upon vesting of restricted stock, RSUs, and PSUs in order to satisfy individual statutory tax withholding requirements. During the three months ended April 1, 2017, and March 26, 2016, the Company acquired approximately 0.2 million shares for \$16.1 million and approximately 0.2 million shares for \$12.1 million, respectively.

Accumulated Other Comprehensive Income

Changes to each component of accumulated other comprehensive income, net of income taxes, are as follows:

| | Foreign Currency Translation Adjustment and Other | Pension and Other Post- Retirement Benefit Plans | Total |
|---|---|---|--------------|
| (in thousands) | | | |
| December 31, 2016 | \$ (154,595) | \$ (99,169) | \$ (253,764) |
| Other comprehensive loss before reclassifications | 11,104 | — | 11,104 |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | 854 | 854 |
| Net current period other comprehensive income | 11,104 | 854 | 11,958 |
| Income tax expense | — | 226 | 226 |
| April 1, 2017 | \$ (143,491) | \$ (98,541) | \$ (242,032) |

Nonredeemable Noncontrolling Interests

The Company has investments in several entities whose financial results are consolidated in the Company's financial statements, as it has the ability to exercise control over these entities. The interests of the respective noncontrolling parties in these entities have been recorded as noncontrolling interests. The activity within the nonredeemable noncontrolling interests was non-significant during the three months ended April 1, 2017, and March 26, 2016.

Redeemable Noncontrolling Interest

The Company's redeemable noncontrolling interest resulted from an acquisition of a 75% ownership interest in Vital River in January 2013 and a purchase of an additional 12% equity interest in Vital River in July 2016, totaling an ownership of 87%. Prior to the purchase of an additional 12% equity interest on July 7, 2016, the redeemable noncontrolling interest was reported at fair value.

Concurrent with the purchase of an additional equity interest, the original agreement was amended providing the Company with the right to purchase, and the noncontrolling interest holders with the right to sell, the remaining 13% equity interest at a contractually defined redemption value, subject to a redemption floor (embedded derivative). These rights are exercisable beginning in 2019 and are accelerated in certain events. The redeemable noncontrolling interest is measured at the greater of the amount that would be paid if settlement occurred as of the balance sheet date based on the contractually defined redemption value (\$14.1 million as of April 1, 2017) and its carrying amount adjusted for net income (loss) attributable to the noncontrolling interest. As the noncontrolling interest holders have the ability to require the Company to purchase the remaining 13% interest, the noncontrolling interest is classified in the mezzanine section of the consolidated balance sheet, which is presented above the equity section and below liabilities. The agreement does not limit the amount that the Company could be required to pay to purchase the remaining 13% equity interest.

The following table provides a rollforward of the activity related to the Company's redeemable noncontrolling interest:

| | Three Months Ended | |
|--|--------------------|----------------|
| | April 1, 2017 | March 26, 2016 |
| (in thousands) | | |
| Beginning balance | \$ 14,659 | \$ 28,008 |
| Purchase of additional equity interest | — | — |
| Total gains or losses (realized/unrealized): | | |
| Net income (loss) attributable to noncontrolling interest | (78) | 198 |
| Foreign currency translation | 117 | (186) |
| Change in fair value, included in additional paid-in capital | — | 724 |
| Ending balance | \$ 14,698 | \$ 28,744 |

9. INCOME TAXES

The Company's effective tax rate for the three months ended April 1, 2017, and March 26, 2016 was 39.8% and 27.1%, respectively. For the three months ended April 1, 2017, the increase was primarily attributable to the tax on the gain on the

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divestiture of the CDMO business of \$18.0 million, offset by the excess tax benefit associated with the stock compensation of \$7.5 million as a result of the adoption of ASU 2016-09.

During the three months ended April 1, 2017, the Company's unrecognized tax benefits increased by \$0.9 million to \$25.1 million, primarily due to an additional quarter of Canadian Scientific Research and Experimental Development credit reserves and unfavorable foreign exchange movement. The amount of unrecognized income tax benefits that would impact the effective tax rate increased by \$0.8 million to \$22.2 million, for the same reasons noted above. As of April 1, 2017, and March 26, 2016, the amount of accrued interest and penalties on unrecognized tax benefits was \$1.9 million and \$0.2 million, respectively. The Company estimates that it is reasonably possible that the unrecognized tax benefits will decrease by up to \$5.0 million over the next twelve-month period, primarily as a result of the outcome of a pending tax ruling and competent authority proceedings.

The Company conducts business in a number of tax jurisdictions. As a result, it is subject to tax audits in jurisdictions including the U.S., U.K., China, Japan, France, Germany, and Canada. With few exceptions, the Company is no longer subject to U.S. and international income tax examinations for years before 2013.

The Company and certain of its subsidiaries have ongoing tax controversies with various tax authorities in the U.S., Canada, Germany, and France. The Company does not believe that resolution of these controversies will have a material impact on its financial position or results of operations.

In accordance with the Company's policy, the remaining undistributed earnings of its non-U.S. subsidiaries remain indefinitely reinvested as of April 1, 2017, as they are required to fund needs outside the U.S. and cannot be repatriated in a manner that is substantially tax free.

Income tax expense related to change in unrecognized pension gains, losses, and prior service costs was \$0.2 million and \$0.1 million on the three months ended April 1, 2017, and March 26, 2016, respectively.

10. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

The following table provides the components of net periodic cost for the Company's Pension, Deferred Compensation, and Executive Supplemental Life Insurance Retirement plans:

| | Three Months Ended | |
|--------------------------------------|--------------------|----------------|
| | April 1, 2017 | March 26, 2016 |
| | (in thousands) | |
| Service cost | \$ 754 | \$ 554 |
| Interest cost | 2,826 | 3,364 |
| Expected return on plan assets | (3,450) | (3,992) |
| Amortization of prior service credit | (119) | (144) |
| Amortization of net loss | 966 | 546 |
| Net periodic cost | \$ 977 | \$ 328 |

The net periodic cost for the Company's post-retirement benefit plan for the three months ended April 1, 2017 and March 26, 2016 was non-significant.

11. STOCK-BASED COMPENSATION

The Company has stock-based compensation plans under which employees and non-employee directors may be granted stock-based awards such as stock options, restricted stock, RSUs, and PSUs.

The following table provides stock-based compensation by the financial statement line item in which it is reflected:

| | Three Months Ended | |
|---|--------------------|-----------------|
| | April 1, 2017 | March 26, 2016 |
| | (in thousands) | |
| Cost of revenue | \$ 1,546 | \$ 1,682 |
| Selling, general and administrative | 7,940 | 8,259 |
| Stock-based compensation, before income taxes | 9,486 | 9,941 |
| Provision for income taxes | (3,308) | (3,514) |
| Stock-based compensation, net of income taxes | <u>\$ 6,178</u> | <u>\$ 6,427</u> |

During the three months ended April 1, 2017, the Company issued approximately 0.6 million stock options with a per share weighted average grant date fair value of \$18.27, approximately 0.2 million RSUs with a per share weighted average grant date fair value of \$88.05, and approximately 0.2 million PSUs with a per share weighted average grant date fair value of \$99.24. The maximum number of common shares to be issued upon vesting of PSUs granted during the three months ended April 1, 2017, is approximately 0.4 million.

12. FOREIGN CURRENCY CONTRACTS

The Company enters into foreign exchange forward contracts to limit its foreign currency exposure related to intercompany loans that are not of a long-term investment nature. These contracts are recorded at fair value in the Company's unaudited condensed consolidated balance sheet and are not designated as hedging instruments. Any gains or losses on such contracts are immediately recognized in other income (expense), net, and are largely offset by the remeasurement of the underlying intercompany loan balances.

The Company did not have any foreign currency contracts open as of April 1, 2017, and December 31, 2016.

The following table summarizes gains recognized on foreign exchange forward contracts related to intercompany loans denominated in Euros on the Company's unaudited condensed consolidated statements of income:

| Location of Gain (Loss) | Three Months Ended | |
|-----------------------------|--------------------|----------------|
| | April 1, 2017 | March 26, 2016 |
| | (in thousands) | |
| Other income (expense), net | \$ — | \$ 2,243 |

13. COMMITMENTS AND CONTINGENCIES

Litigation

Various lawsuits, claims and proceedings of a nature considered normal to its business are pending against the Company. While the outcome of any of these proceedings cannot be accurately predicted, the Company does not believe the ultimate resolution of any of these existing matters would have a material adverse effect on the Company's business or financial condition.

In May 2013, the Company commenced an investigation into inaccurate billing with respect to certain government contracts. The Company promptly reported these matters to the relevant government contracting officers, the Department of Health and Human Services' Office of the Inspector General, and the Department of Justice, and the Company is cooperating with these agencies to ensure the proper repayment and resolution of this matter. The Company previously identified approximately \$1.5 million of excess amounts billed on these contracts since January 1, 2007, and recorded a liability for such amount. Based on its ongoing discussions with the government, the Company recorded an additional charge of \$0.3 million during the fiscal year 2016. On March 13, 2017, the Company entered into a final settlement with the Department of Justice and the Department of Health and Human Services' Office of the Inspector General and pursuant to the settlement paid the government \$1.8 million to resolve the matter.

Lease Commitments

During the three months ended April 1, 2017, the Company assumed or entered into new lease agreements or exercised options to extend the lease terms for certain existing leases. As a result, the Company's lease obligations through 2025 increased by \$6.1 million.

14. RESTRUCTURING AND ASSET IMPAIRMENTS

Workforce Reductions

In recent fiscal years the Company has been undertaking productivity improvement initiatives at various facilities. The following table provides a rollforward of the Company's severance and transition costs liabilities related to those initiatives:

| | Three Months Ended | |
|------------------------------|--------------------|-----------------|
| | April 1, 2017 | March 26, 2016 |
| | (in thousands) | |
| Beginning balance | \$ 3,680 | \$ 2,969 |
| Expense | 1,017 | 21 |
| Payments / utilization | (1,273) | (413) |
| Foreign currency adjustments | 27 | (56) |
| Ending balance | <u>\$ 3,451</u> | <u>\$ 2,521</u> |

As of April 1, 2017 and March 26, 2016, \$3.5 million and \$2.4 million of severance and other personnel related costs liability, respectively, was included in accrued compensation. As of March 26, 2016 there was a non-significant amount included in other long-term liabilities on the Company's unaudited condensed consolidated balance sheets.

The following table presents severance and transition costs by classification on the unaudited condensed consolidated statements of income:

| | Three Months Ended | |
|---|--------------------|----------------|
| | April 1, 2017 | March 26, 2016 |
| | (in thousands) | |
| Cost of services provided and products sold (excluding amortization of intangible assets) | \$ 923 | \$ 21 |
| Selling, general and administrative | 94 | — |
| Total severance and transition costs | <u>\$ 1,017</u> | <u>\$ 21</u> |

The following presents severance and transition related costs by reportable segment:

| | Three Months Ended | |
|--------------------------------------|--------------------|----------------|
| | April 1, 2017 | March 26, 2016 |
| | (in thousands) | |
| DSA | \$ 196 | \$ 21 |
| Manufacturing | 821 | — |
| Total severance and transition costs | <u>\$ 1,017</u> | <u>\$ 21</u> |

Facilities

During the three months ended April 1, 2017, the Company continued the consolidation of certain DSA facilities in the U.S., Ireland and the United Kingdom. As a result, an asset impairment charge of \$0.1 million and a gain of \$0.4 million was recorded related to the consolidation plans.

During the three months ended March 26, 2016, the Company continued a consolidation of certain RMS and DSA facilities in the U.S. and the United Kingdom. As a result, the Company recorded \$0.2 million of accelerated depreciation related to the consolidation plans.

15. SEGMENT INFORMATION

The Company revised the composition of its reportable segments during the three months ended June 25, 2016. See Note 1, "Basis of Presentation." The Company reported segment results on this basis retrospectively for all comparable prior periods presented.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents revenue and other financial information by reportable segment:

| | Three Months Ended | |
|-------------------------------|--------------------|----------------|
| | April 1, 2017 | March 26, 2016 |
| (in thousands) | | |
| RMS | | |
| Revenue | \$ 127,161 | \$ 123,339 |
| Operating income | 37,711 | 36,386 |
| Depreciation and amortization | 5,092 | 5,250 |
| Capital expenditures | 2,603 | 1,053 |
| DSA | | |
| Revenue | \$ 227,758 | \$ 157,983 |
| Operating income | 38,660 | 30,830 |
| Depreciation and amortization | 19,369 | 11,957 |
| Capital expenditures | 8,323 | 4,707 |
| Manufacturing | | |
| Revenue | \$ 90,844 | \$ 73,546 |
| Operating income | 26,601 | 19,615 |
| Depreciation and amortization | 5,962 | 5,976 |
| Capital expenditures | 2,292 | 2,129 |

For the three months ended April 1, 2017, and March 26, 2016, reconciliations of segment operating income, depreciation and amortization, and capital expenditures to the respective consolidated amounts are as follows:

| | Operating Income | | Depreciation and Amortization | | Capital Expenditures | |
|---------------------------|------------------|------------------|-------------------------------|------------------|----------------------|-----------------|
| | April 1, 2017 | March 26, 2016 | April 1, 2017 | March 26, 2016 | April 1, 2017 | March 26, 2016 |
| (in thousands) | | | | | | |
| Total reportable segments | \$ 102,972 | \$ 86,831 | \$ 30,423 | \$ 23,183 | \$ 13,218 | \$ 7,889 |
| Unallocated corporate | (33,500) | (35,359) | 1,988 | 1,472 | 2,702 | 361 |
| Total consolidated | \$ 69,472 | \$ 51,472 | \$ 32,411 | \$ 24,655 | \$ 15,920 | \$ 8,250 |

Revenue for each significant product or service offering is as follows:

| | Three Months Ended | |
|----------------------|--------------------|-------------------|
| | April 1, 2017 | March 26, 2016 |
| (in thousands) | | |
| RMS | \$ 127,161 | \$ 123,339 |
| DSA | 227,758 | 157,983 |
| Manufacturing | 90,844 | 73,546 |
| Total revenue | \$ 445,763 | \$ 354,868 |

A summary of unallocated corporate expense consists of the following:

| | Three Months Ended | |
|---|--------------------|----------------|
| | April 1, 2017 | March 26, 2016 |
| | (in thousands) | |
| Stock-based compensation | \$ 5,583 | \$ 6,108 |
| Compensation, benefits, and other employee-related expenses | 14,962 | 12,541 |
| External consulting and other service expenses | 5,767 | 5,176 |
| Information technology | 2,393 | 3,132 |
| Depreciation | 1,987 | 1,472 |
| Acquisition and integration | 21 | 3,763 |
| Other general unallocated corporate | 2,787 | 3,167 |
| Total unallocated corporate expense | \$ 33,500 | \$ 35,359 |

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

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

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes of this Quarterly Report on Form 10-Q and our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for fiscal year 2016. The following discussion contains forward-looking statements. Actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ materially from those projected in the forward-looking statements include, but are not limited to, those discussed in "Risk Factors" in our Annual Report on Form 10-K for fiscal year 2016. Certain percentage changes may not recalculate due to rounding.

Overview

We are a full service, early-stage contract research organization (CRO). For 70 years, we have been in the business of providing the research models required in research and development of new drugs, devices and therapies. Over this time, we have built upon our original core competency of laboratory animal medicine and science (research model technologies) to develop a diverse portfolio of discovery and safety assessment services, both Good Laboratory Practice (GLP) and non-GLP, that are able to support our clients from target identification through non-clinical development. We also provide a suite of products and services to support our clients' manufacturing activities. Utilizing our broad portfolio of products and services enables our clients to create a more flexible drug development model, which reduces their costs, enhances their productivity and effectiveness, and increases speed to market.

Our client base includes all of the major global biopharmaceutical companies, many biotechnology companies, CROs, agricultural and industrial chemical companies, life science companies, veterinary medicine companies, contract manufacturing organizations, medical device companies, and diagnostic and other commercial entities, as well as leading hospitals, academic institutions, and government agencies around the world.

Segment Reporting

Our RMS reportable segment includes the commercial production and sale of small research models, as well as the supply of large research models. RMS services includes: Genetically Engineered Models and Services, which performs contract breeding and other services associated with genetically engineered models; Research Animal Diagnostic Services (RADS), which provides health monitoring and diagnostics services related to research models; and Insourcing Solutions (IS), which provides colony management of our clients' research operations (including recruitment, training, staffing, and management services). Our DSA reportable segment includes services required to take a drug through the early development process including discovery services, which are non-regulated services to assist clients with the identification, screening, and selection of a lead compound for drug development, and regulated and non-regulated safety assessment services. Our Manufacturing reportable segment includes Microbial Solutions, which provides *in vitro* (non-animal) lot-release testing products, microbial detection products, and species identification services; Biologics Testing Services (Biologics), which performs specialized testing of biologics; Avian Vaccine Services (Avian), which supplies specific-pathogen-free fertile chicken eggs and chickens; and Contract Manufacturing, which, until we divested this business on February 10, 2017, allowed us to provide formulation design and development, manufacturing, and analytical and stability testing for small molecules.

Results of Operations

Three Months Ended April 1, 2017 Compared to the Three Months Ended March 26, 2016

Revenue

The following table presents consolidated revenue by reportable segment:

| | Three Months Ended | | \$ change | % change | Impact of FX |
|-----------------------------------|--------------------|----------------|-----------|----------|--------------|
| | April 1, 2017 | March 26, 2016 | | | |
| (in millions, except percentages) | | | | | |
| RMS | \$ 127.2 | \$ 123.3 | \$ 3.9 | 3.1% | (1.6)% |
| DSA | 227.8 | 158.0 | 69.8 | 44.2% | (2.5)% |
| Manufacturing | 90.8 | 73.6 | 17.2 | 23.5% | (2.0)% |
| Total revenue | \$ 445.8 | \$ 354.9 | \$ 90.9 | 25.6% | (2.1)% |

Revenue for the three months ended April 1, 2017, increased \$90.9 million, or 25.6%, compared to the corresponding period in 2016. The negative effect of changes in foreign currency exchange rates decreased revenue by \$7.5 million, or 2.1%, when compared to the corresponding period in 2016.

RMS revenue increased by \$3.9 million due to higher research model revenue in North America, Europe, and Asia, and higher research model services revenue; partially offset by the negative effect of changes in foreign currency exchange rates.

DSA revenue increased \$69.8 million due primarily to higher revenue in the Safety Assessment business, as a result of the WIL Research acquisition that contributed \$57.5 million to revenue growth, as well as increased study volume in our legacy business; higher revenue in the Discovery Services business, as a result of the acquisition of Agilux Laboratories, Inc. (Agilux) that contributed \$8.3 million to revenue growth, and the negative effect of changes in foreign currency exchange rates.

Manufacturing revenue increased \$17.2 million due primarily to higher revenue in the Microbial Solutions business; higher revenue in the Biologics business, which includes the acquisition of Blue Stream Laboratories, Inc. (Blue Stream) that contributed \$1.8 million to revenue growth; and Contract Manufacturing revenue related to the CDMO business, which was divested on February 10, 2017, that contributed \$1.8 million to revenue growth; partially offset by the negative effect of changes in foreign currency exchange rates.

The following table presents consolidated revenue by type:

| | Three Months Ended | | \$ change | % change |
|-----------------------------------|--------------------|----------------|-----------|----------|
| | April 1, 2017 | March 26, 2016 | | |
| (in millions, except percentages) | | | | |
| Service revenue | \$ 304.5 | \$ 220.7 | \$ 83.8 | 38.0% |
| Product revenue | 141.3 | 134.2 | 7.1 | 5.3% |
| Total revenue | \$ 445.8 | \$ 354.9 | \$ 90.9 | 25.6% |

Service revenue increased \$83.8 million due primarily to higher revenue in the Safety Assessment business, as a result of the WIL Research acquisition that contributed \$57.5 million to service revenue growth, and increased study volume in our legacy business; higher revenue in the Discovery Services business, as a result of the acquisition of Agilux that contributed \$8.3 million to revenue growth; Contract Manufacturing revenue related to the CDMO business of WIL Research that contributed \$1.8 million to revenue growth; higher revenue in the Biologics business, which includes the Blue Stream acquisition that contributed \$1.8 million to revenue growth; and higher research model services revenue; partially offset by the negative effect of changes in foreign currency exchange rates.

Product revenue increased \$7.1 million due to higher revenue in the Microbial Solutions business; and higher research model revenue in North America, Europe, and Asia; partially offset by the negative effect of changes in foreign currency exchange rates.

Cost of Services Provided and Products Sold (Excluding Amortization of Intangible Assets)

The following table presents consolidated cost of services provided and products sold (excluding amortization of intangible assets) (Costs) by reportable segment:

| | Three Months Ended | | | |
|--|-----------------------------------|-----------------|----------------|--------------|
| | April 1, 2017 | March 26, 2016 | \$ change | % change |
| | (in millions, except percentages) | | | |
| RMS | \$ 74.3 | \$ 71.1 | \$ 3.2 | 4.5% |
| DSA | 155.7 | 106.9 | 48.8 | 45.6% |
| Manufacturing | 44.0 | 36.1 | 7.9 | 22.1% |
| Total cost of services provided and products sold (excluding amortization of intangible assets) | <u>\$ 274.0</u> | <u>\$ 214.1</u> | <u>\$ 59.9</u> | <u>28.0%</u> |

Costs for the three months ended April 1, 2017, increased \$59.9 million, or 28.0%, compared to the corresponding period in 2016. Costs as a percentage of revenue for the three months ended April 1, 2017 were 61.5%, an increase of 1.2%, from 60.3% for the corresponding period in 2016.

RMS Costs increased \$3.2 million due primarily to the growth of the business partially offset by the favorable effect of changes in foreign currency exchange rates. RMS Costs as a percentage of revenue for the three months ended April 1, 2017 were 58.5%, an increase of 0.8%, from 57.7% for the corresponding period in 2016.

DSA Costs increased \$48.8 million due primarily to an increase in Safety Assessment Costs, which included a higher cost base due to the acquisition of WIL Research and the growth of the legacy business; an increase in Discovery Services Costs, which included a higher cost base due to the acquisition of Agilux; partially offset by the favorable effect of changes in foreign currency exchange rates. DSA Costs as a percentage of revenue for the three months ended April 1, 2017 were 68.4%, an increase of 0.7%, from 67.7% for the corresponding period in 2016.

Manufacturing Costs increased \$7.9 million due primarily to an increase in Biologics Costs resulting from the growth of the business and the acquisition of Blue Stream; an increase in Contract Manufacturing Costs related to the acquisition of the CDMO business of WIL Research; an increase in Microbial Solutions Costs resulting from the growth of the business; partially offset by the favorable effect of changes in foreign currency exchange rates. Manufacturing Costs as a percentage of revenue for the three months ended April 1, 2017 were 48.5%, a decrease of 0.5%, from 49.0% for the corresponding period in 2016.

The following table presents Costs by type:

| | Three Months Ended | | | |
|--|-----------------------------------|-----------------|----------------|--------------|
| | April 1, 2017 | March 26, 2016 | \$ change | % change |
| | (in millions, except percentages) | | | |
| Cost of services provided | \$ 206.8 | \$ 147.3 | \$ 59.5 | 40.4% |
| Cost of products sold | 67.2 | 66.8 | 0.4 | 0.7% |
| Total cost of services provided and products sold (excluding amortization of intangible assets) | <u>\$ 274.0</u> | <u>\$ 214.1</u> | <u>\$ 59.9</u> | <u>28.0%</u> |

Costs of services provided for the three months ended April 1, 2017 were \$206.8 million, an increase of \$59.5 million, or 40.4%, compared to \$147.3 million for the corresponding period in 2016. The increase was due to higher Safety Assessment Costs, which included a higher cost base due to the acquisition of WIL Research and the growth in our legacy business; higher Discovery Services Costs, which included a higher cost base due to the acquisition of Agilux; higher Biologics Costs, which included a higher cost base due to the growth of the business and the acquisition of Blue Stream; an increase in Contract Manufacturing Costs related to the CDMO business of WIL Research; and increased Costs as a result of an increase in research model services revenue in Europe and Japan; partially offset by the favorable effect of changes in foreign currency exchange rates.

Costs of products sold for the three months ended April 1, 2017 were \$67.2 million, an increase of \$0.4 million, or 0.7%, compared to \$66.8 million for the corresponding period in 2016. The increase was due primarily to higher Costs as result of an increase in research models revenue; and higher Microbial Solutions Costs due to the growth of the business; partially offset by the favorable effect of changes in foreign currency exchanges rates.

Selling, General and Administrative Expenses

| | Three Months Ended | | | |
|---|-----------------------------------|----------------|-----------|----------|
| | April 1, 2017 | March 26, 2016 | \$ change | % change |
| | (in millions, except percentages) | | | |
| RMS | \$ 14.7 | \$ 15.2 | \$ (0.5) | (3.7)% |
| DSA | 25.8 | 17.1 | 8.7 | 50.6 % |
| Manufacturing | 17.5 | 15.2 | 2.3 | 15.1 % |
| Unallocated corporate | 33.5 | 35.4 | (1.9) | (5.3)% |
| Total selling, general and administrative | \$ 91.5 | \$ 82.9 | \$ 8.6 | 10.3 % |

Selling, general and administrative expenses (SG&A) for three months ended April 1, 2017 increased \$8.6 million, or 10.3%, compared to the corresponding period in 2016. SG&A as a percentage of revenue for the three months ended April 1, 2017 was 20.5%, a decrease of 2.9%, from 23.4% for the corresponding period in 2016.

The decrease in RMS SG&A of \$0.5 million was related to a decrease of \$0.7 million in operating expenses, including information technology infrastructure and facility expenses; a decrease of \$0.4 million in compensation, benefits, and other employee-related expenses; and a decrease of \$0.3 million in depreciation expense; partially offset by an increase of \$0.4 million in external consulting and other service expenses; and an increase of \$0.5 million in other expenses. RMS SG&A as a percentage of revenue for the three months ended April 1, 2017 was 11.5%, a decrease of 0.8%, from 12.3% for the corresponding period in 2016.

The increase in DSA SG&A of \$8.7 million was related to an increase of \$6.0 million in compensation, benefits, and other employee-related expenses; an increase of \$1.1 million in bad debt reserves; an increase of \$1.0 million in operating expenses, including information technology infrastructure and facility expenses; an increase of \$0.3 million in external consulting and other service expenses; and an increase of \$1.0 million in other expenses; partially offset by a decrease of \$0.5 million in depreciation expense; a decrease of \$0.1 million in costs associated with the evaluation and integration of acquisitions; and a decrease of \$0.1 million in stock-based compensation expense. DSA SG&A as a percentage of revenue for the three months ended April 1, 2017 was 11.3%, an increase of 0.5%, from 10.8% for the corresponding period in 2016.

The increase in Manufacturing SG&A of \$2.3 million was related to an increase of \$1.6 million in compensation, benefits, and other employee-related expenses; an increase of \$0.5 million in operating expenses, including information technology infrastructure and facility expenses; an increase of \$0.4 million in bad debt reserves; an increase of \$0.2 million in external consulting and other service expenses; an increase of \$0.2 million in stock-based compensation expense; and an increase of \$0.3 million in other expenses; partially offset by a decrease of \$0.7 million in depreciation expense; and a decrease of \$0.2 million in costs associated with the evaluation and integration of acquisitions. Manufacturing SG&A as a percentage of revenue for the three months ended April 1, 2017 was 19.3%, a decrease of 1.4%, from 20.7% for the corresponding period in 2016.

The decrease in unallocated corporate SG&A of \$1.9 million was related to a decrease of \$3.8 million in costs associated with the evaluation and integration of acquisitions; a decrease of \$0.7 million in information technology expenses; a decrease of \$0.5 million in stock-based compensation expense; and a decrease of \$0.4 million in other expenses; partially offset by an increase of \$2.4 million in compensation, benefits, and other employee-related expenses; an increase of \$0.6 million in external consulting and other service expenses; and an increase of \$0.5 million in depreciation expense.

Amortization of Intangible Assets

Amortization of intangible assets for the three months ended April 1, 2017 was \$10.7 million, an increase of \$4.3 million, or 69.0%, from \$6.4 million for the corresponding period in 2016, due primarily to certain intangible assets acquired in connection with the Agilux, Blue Stream, and WIL Research acquisitions.

Interest Income

Interest income, which represents earnings on held cash, cash equivalents, and time deposits, was \$0.2 million for the three months ended April 1, 2017, a decrease of \$0.1 million, or 23.2%, compared to \$0.3 million for the corresponding period in 2016.

Interest Expense

Interest expense for the three months ended April 1, 2017 was \$7.0 million, an increase of \$2.8 million, or 65.8%, compared to \$4.2 million for the corresponding period in 2016. The increase was due primarily to higher average balances outstanding and higher average interest rates under our \$1.65B Credit Facility as a result of a higher leverage ratio.

Other Income (Expense), Net

Other income (expense), net was a net other income of \$15.4 million for the three months ended April 1, 2017, an increase of \$11.4 million, or 281.4%, compared to a net other income of \$4.0 million for the corresponding period in 2016. The increase in other income (expense), net was driven by a \$10.6 million gain recognized as a result of the divestiture of the CDMO business; a higher net gain of \$1.5 million on life insurance policy investments; an increase of \$1.1 million in gains recognized related to our venture capital investments; and an increase of \$0.2 million in other activity; partially offset by a decrease of \$1.9 million from changes in foreign currency exchange rates.

Income Taxes

Income tax expense for the three months ended April 1, 2017 was \$31.1 million, an increase of \$17.1 million compared to \$14.0 million for the corresponding period in 2016. Our effective tax rate was 39.8% for the three months ended April 1, 2017, compared to 27.1% for the corresponding period in 2016. The increase was primarily attributable to the tax on the gain on the divestiture of the CDMO business of \$18.0 million, offset by the excess tax benefit associated with the stock compensation of \$7.5 million as a result of the adoption of ASU 2016-09.

Liquidity and Capital Resources

We currently require cash to fund our working capital needs, capital expansion, acquisitions, to pay our debt and pension obligations. Our principal sources of liquidity have been our cash flows from operations, supplemented by long-term borrowings. Based on our current business plan, we believe that our existing funds, when combined with cash generated from operations and our access to financing resources, are sufficient to fund our operations for the foreseeable future.

The following table presents our cash, cash equivalents and investments:

| | April 1, 2017 | December 31, 2016 |
|--|---------------|-------------------|
| | (in millions) | |
| Cash and cash equivalents: | | |
| Held in the U.S. entities | \$ 11.3 | \$ 10.6 |
| Held in non-U.S. entities | 120.2 | 107.0 |
| Total cash and cash equivalents | 131.5 | 117.6 |
| Investments: | | |
| Held in non-U.S. entities | 3.9 | 3.8 |
| Total cash, cash equivalents and investments | \$ 135.4 | \$ 121.4 |

Borrowings

On March 30, 2016, we amended and restated our \$1.3 billion credit facility, creating a \$1.65 billion credit facility (\$1.65B Credit Facility) which (1) extends the maturity date for the credit facility, and (2) makes certain other amendments in connection with our acquisition of WIL Research. The \$1.65B Credit Facility provides for up to approximately \$1.65 billion in financing, including a \$650.0 million term loan facility and a \$1.0 billion multi-currency revolving credit facility. The term loan facility matures in 19 quarterly installments, with the last installment due March 30, 2021. The revolving credit facility matures on March 30, 2021, and requires no scheduled payment before that date.

Amounts outstanding under the \$1.65B Credit Facility were as follows:

| | April 1, 2017 | December 31, 2016 |
|---------------------------|---------------|-------------------|
| | (in millions) | |
| Term loans | \$ 625.6 | \$ 633.8 |
| Revolving credit facility | 545.0 | 578.8 |
| Total | \$ 1,170.6 | \$ 1,212.6 |

Under specified circumstances, we have the ability to increase the term loans and/or revolving line of credit by up to \$500.0 million in the aggregate. The interest rates applicable to term loan and revolving loans under the \$1.65B Credit Facility are, at our option, equal to either the base rate (which is the higher of (1) the prime rate, (2) the federal funds rate plus 0.50%, or (3) the one-month adjusted LIBOR rate plus 1%) or the adjusted LIBOR rate, plus an interest rate margin based upon our leverage ratio.

Repurchases of Common Stock

During the three months ended April 1, 2017, we repurchased 0.4 million shares for \$32.1 million under our authorized stock repurchase program. As of April 1, 2017, we had \$37.6 million remaining on the authorized stock repurchase program. On May 9, 2017, our Board of Directors increased the stock repurchase authorization by \$150 million, to an aggregate amount of \$1.3 billion. Our stock-based compensation plans permit the netting of common stock upon vesting of restricted stock, restricted stock units, and performance share units in order to satisfy individual statutory tax withholding requirements. During the three months ended April 1, 2017, we acquired approximately 0.2 million shares for \$16.1 million.

Cash Flows

The following table presents our net cash provided by operating activities:

| | Three Months Ended | |
|---|--------------------|----------------|
| | April 1, 2017 | March 26, 2016 |
| | (in millions) | |
| Income from continuing operations | \$ 47.0 | \$ 37.6 |
| Adjustments to reconcile net income from continuing operations to net cash provided by operating activities | 58.1 | 45.8 |
| Changes in operating assets and liabilities | (71.1) | (37.6) |
| Net cash provided by operating activities | <u>\$ 34.0</u> | <u>\$ 45.8</u> |

Net cash provided by cash flows from operating activities represent the cash receipts and disbursements related to all of our activities other than investing and financing activities. Operating cash flow is derived by adjusting our income from continuing operations for (1) non-cash operating items such as depreciation and amortization, stock-based compensation, gains (losses) on venture capital investments, and gains on divestitures, as well as (2) changes in operating assets and liabilities, which reflect timing differences between the receipt and payment of cash associated with transactions and when they are recognized in our results of operations. For the three months ended April 1, 2017, compared to the three months ended March 26, 2016, the decrease in cash provided by operating activities was primarily driven by the negative change in operating assets and liabilities; a gain on divestiture; partially offset by other non-cash adjustments for depreciation and amortization, deferred income taxes, as well as, an increase in income from continuing operations. Our days sales outstanding, which includes deferred revenue as an offset to accounts receivable but is not adjusted for an allowance for doubtful accounts in the calculation, was 52 days as of April 1, 2017, and 52 days as of December 31, 2016.

The following table presents our net cash provided by (used) in investing activities:

| | Three Months Ended | |
|--|--------------------|-----------------|
| | April 1, 2017 | March 26, 2016 |
| | (in millions) | |
| Acquisition of businesses and assets, net of cash acquired | \$ — | \$ (0.3) |
| Capital expenditures | (15.9) | (8.2) |
| Investments, net | (3.6) | (0.7) |
| Proceeds from divestiture | 72.5 | — |
| Other, net | — | 2.8 |
| Net cash provided by (used in) investing activities | <u>\$ 53.0</u> | <u>\$ (6.4)</u> |

For the three months ended April 1, 2017, the primary source of net cash provided by investing activities related to the proceeds from the divestiture of the CDMO business. The primary use of cash in investing activities in the three months ended April 1, 2017 and March 26, 2016 was related to our capital expenditures.

The following table presents our net cash used in financing activities:

| | Three Months Ended | |
|--|--------------------|----------------|
| | April 1, 2017 | March 26, 2016 |
| | (in millions) | |
| Proceeds from long-term debt and revolving credit facility | \$ 112.7 | \$ 49.4 |
| Proceeds from exercises of stock options | 19.7 | 12.5 |
| Payments on long-term debt, capital lease obligation and revolving credit facility | (158.1) | (49.4) |
| Purchase of treasury stock | (48.2) | (12.1) |
| Other, net | (0.4) | (0.7) |
| Net cash used in financing activities | \$ (74.3) | \$ (0.3) |

For the three months ended April 1, 2017, net cash used in financing activities reflected treasury stock purchases of \$48.2 million made pursuant to our authorized stock repurchase program and the netting of common stock upon vesting of stock-based awards in order to satisfy individual statutory tax withholding requirements; net borrowings of \$45.4 million, and other activity; partially offset by proceeds from exercises of employee stock options of \$19.7 million. For the three months ended March 26, 2016, net cash used by financing activities reflected treasury stock purchases of \$12.1 million due to the netting of common stock upon vesting of stock based awards in order to satisfy individual statutory tax withholding requirements and other activity; partially offset by proceeds from exercises of employee stock options of \$12.5 million.

Contractual Commitments and Obligations

The disclosure of our contractual obligations and commitments was reported in our Annual Report on Form 10-K for fiscal 2016. There have been no material changes from the contractual commitments and obligations previously disclosed in our Annual Report on Form 10-K for fiscal 2016 other than the changes described in Note 5, "Fair Value," Note 7, "Long-Term Debt and Capital Lease Obligations" and Note 13, "Commitments and Contingencies" in this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

As of April 1, 2017, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K promulgated under the Exchange Act, except as disclosed below.

Venture Capital Investments

We invest in several venture capital funds that invest in start-up companies, primarily in the life sciences industry. Our total commitment to the funds as of April 1, 2017 was \$84.8 million, of which we funded \$42.0 million through April 1, 2017. Refer to Note 4, "Venture Capital Investments" for additional information.

Letters of Credit

Our off-balance sheet commitments related to our outstanding letters of credit as of April 1, 2017 were \$4.9 million.

Critical Accounting Policies and Estimates

Our discussion and analysis of our liquidity, capital resources and results of operations is based upon our unaudited condensed consolidated financial statements prepared in accordance with generally accepted accounting principles in the U.S. The preparation of these financial statements requires us to make certain estimates and assumptions that may affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses during the reported periods and related disclosures. These estimates and assumptions are monitored and analyzed by us for changes in facts and circumstances, and material changes in these estimates could occur in the future. We base our estimates on our historical experience, trends in the industry and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from our estimates under different assumptions or conditions.

We believe that our application of the following accounting policies, each of which require significant judgments and estimates on the part of management, is the most critical to aid in fully understanding and evaluating our reported financial results: (1) revenue recognition, (2) income taxes, (3) goodwill and intangible assets, (4) valuation and impairment of long-lived assets, (5) pension and other retirement benefit plans, and (6) stock-based compensation. Our critical accounting policies are described in our Annual Report on Form 10-K for fiscal year 2016.

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements please refer to Note 1, “Basis of Presentation,” in this Quarterly Report on Form 10-Q. Other than ASU 2016-18 and 2016-09 discussed in Note 1, “Basis of Presentation,” we did not adopt any other new accounting pronouncements during the three months ended April 1, 2017 that had a material effect on our unaudited condensed consolidated financial statements included in this report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in interest rates and currency exchange rates, which could affect our future results of operations and financial condition. We manage our exposure to these risks through our regular operating and financing activities.

Interest Rate Risk

We are exposed to changes in interest rates while conducting normal business operations as a result of ongoing financing activities. As of April 1, 2017, our debt portfolio was comprised primarily of floating interest rate borrowings. A 100-basis point increase in interest rates would increase our annual pre-tax interest expense by approximately \$11.7 million.

Foreign Currency Exchange Rate Risk

We operate on a global basis and have exposure to some foreign currency exchange rate fluctuations for our financial position, results of operations, and cash flows.

While the financial results of our global activities are reported in U.S. dollars, our foreign subsidiaries typically conduct their operations in their respective local currency. The principal functional currencies of the Company’s foreign subsidiaries are the Euro, British Pound, Canadian Dollar, Chinese Yuan Renminbi, and Japanese Yen. During the three months ended April 1, 2017, the most significant drivers of foreign currency translation adjustment the Company recorded as part of other comprehensive income (loss) were the Euro, British Pound, Japanese Yen, and Canadian Dollar.

Fluctuations in the foreign currency exchange rates of the countries in which we do business will affect our financial position, results of operations, and cash flows. As the U.S. dollar strengthens against other currencies, the value of our non-U.S. revenue, expenses, assets, liabilities, and cash flows will generally decline when reported in U.S. dollars. The impact to net income as a result of a U.S. dollar strengthening will be partially mitigated by the value of non-U.S. expense, which will decline when reported in U.S. dollars. As the U.S. dollar weakens versus other currencies, the value of the non-U.S. revenue and expenses, assets, liabilities, and cash flows will generally increase when reported in U.S. dollars. For the three months ended April 1, 2017, our revenue would have decreased by approximately \$17.2 million and our operating income would have decreased by approximately \$1.7 million, if the U.S. dollar exchange rate had strengthened by 10.0%, with all other variables held constant.

We attempt to minimize this exposure by using certain financial instruments in accordance with our overall risk management and our hedge policies. We do not enter into speculative derivative agreements.

During the three months ended April 1, 2017, we utilized foreign exchange contracts, principally to hedge certain balance sheet exposures resulting from foreign currency fluctuations. No foreign currency contracts were open as of April 1, 2017.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Based on their evaluation, required by paragraph (b) of Rules 13a-15 or 15d-15, promulgated by the Securities Exchange Act of 1934, as amended (Exchange Act), the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, are effective, at a reasonable assurance level to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, as of April 1, 2017. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the 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, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objectives, and management necessarily was required to apply its judgment in designing and evaluating the controls and procedures.

(b) Changes in Internal Controls

The Company continued to execute a plan to centralize certain accounting transaction processing functions to internal shared service centers during the three months ended April 1, 2017. There were no other material changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of the Exchange Act Rules 13a-15 or 15d-15 that occurred during the quarter ended April 1, 2017 that materially affected, or were reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Please refer to Note 13, “Commitments and Contingencies” in this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for fiscal year 2016, which could materially affect our business, financial condition, and/or future results. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and/or operating results. There have been no material changes to the risk factors set forth in our Annual Report on Form 10-K for fiscal year 2016.

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

The following table provides information relating to the purchases of shares of our common stock during the three months ended April 1, 2017.

| | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs |
|---------------------------------------|--|------------------------------------|--|---|
| | | | | (in thousands) |
| January 1, 2017 to January 28, 2017 | — | \$ — | — | \$ 69,694 |
| January 29, 2017 to February 25, 2017 | 146,289 | 80.16 | — | 69,694 |
| February 26, 2017 to April 1, 2017 | 412,673 | 86.19 | 363,000 | 37,638 |
| Total | <u>558,962</u> | | <u>363,000</u> | |

As of April 1, 2017, we had \$37.6 million remaining on the authorized stock repurchase program. On May 9, 2017, our Board of Directors increased the stock repurchase authorization by \$150.0 million, to an aggregate amount of \$1.3 billion.

Additionally, our stock-based compensation plans permit the netting of common stock upon vesting of restricted stock, restricted stock units, and performance share units in order to satisfy individual statutory tax withholding requirements.

Item 6. Exhibits

(a) Exhibits Description of Exhibits

- 10.1 Charles River Laboratories International, Inc. Incentive Compensation Plan
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
- 32.1+Certification of the Principal Executive Officer and the Principal Financial Officer required by Rule 13a-14(a) of 15d-14(a) of the Exchange Act.
- 101.INS eXtensible Business Reporting Language (XBRL) Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Calculation Linkbase Document.
- 101.DEF XBRL Taxonomy Definition Linkbase Document.
- 101.LAB XBRL Taxonomy Label Linkbase Document.
- 101.PRE XBRL Taxonomy Presentation Linkbase Document.

+ Furnished herein.

SIGNATURES

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

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

May 10, 2017

/s/ JAMES C. FOSTER

James C. Foster
Chairman, President and Chief Executive Officer

May 10, 2017

/s/ DAVID R. SMITH

David R. Smith
Corporate Executive Vice President and Chief Financial Officer

**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
INCENTIVE COMPENSATION PLAN**

Charles River Laboratories International, Inc. (“CRL”), a corporation existing under the laws of the State of Delaware, has established and adopted the Incentive Compensation Plan (the “Plan”) to provide annual cash incentive awards to key employees of the Company, including, in the case of executive officers and certain other key executives of the Company, awards which are intended to qualify as “performance-based compensation” within the meaning of Section 162(m) of the Code.

1. PURPOSES OF THE PLAN

The purposes of the Plan are to provide the opportunity for cash incentives and financial rewards to key employees of the Company designated by the Committee, who, because of the extent of their responsibilities, can make significant contributions to the Company’s performance by their ability, industry, loyalty, leadership and individual achievement. Providing recognition and financial rewards to such individuals based on the performance of the Company and their contributions will advance the interests of CRL and its shareholders and will assist the Company in attracting and retaining management of the highest caliber and ability.

2. DEFINITIONS

2.1 “*Annual Base Salary*” means a Covered Participant’s base rate of pay, annualized, as of the last day of the fiscal year. It does not include any additional payments that may have been made such as commissions, bonus payments, overtime pay or imputed income.

2.2 “*Award*” means, subject to Section 4, the right granted to a Covered Participant for a Year to be eligible to receive an Award Payment from the Pool in which he or she is participating for such Year based on the attainment of the Performance Objective for the Pool, the attainment of his or her individual performance criteria and such other subjective or objective factors as the Committee may determine. For the avoidance of doubt, all Awards are intended to qualify as “performance-based compensation” within the meaning of Section 162(m) of the Code.

2.3 “*Award Payment*” means the amount paid in cash to a Covered Participant for a given Year in respect of an Award.

2.4 “*Board*” means the Board of Directors of CRL.

2.5 “*Code*” means the U.S. Internal Revenue Code of 1986 as from time to time amended and in effect, or any successor statute as from time to time in effect.

2.6 “*Committee*” means the Compensation Committee of the Board. If at any time no Committee shall be in office, then, subject to satisfying the requirements of Section 162(m)(4)(C) of the Code and the listing requirements of the New York Stock Exchange, the functions of the Committee specified in the Plan shall be exercised by the Board or by a committee of Board members. As used in the Plan, where applicable, the term “Committee” also shall mean one or more officers or employees, or committees thereof, to which the Committee has delegated the authority to take actions on its behalf pursuant to Section 3.2(c) below.

2.7 “*Company*” means CRL and all domestic and foreign corporations, partnerships and other legal entities of which at least 20% of the voting securities or ownership interests of such entities are owned directly or indirectly by CRL.

2.8 “*Covered Participant*” has the meaning set forth in Section 3.1 below.

2.9 “*CRL*” has the meaning set forth in the recitals above.

2.10 “*EICP*” means the Executive Incentive Compensation Program and any successor plan that is designed to implement annual cash incentive awards for executive officers and other key employees of the Company.

2.11 “*Non-GAAP OP*” has the meaning set forth in Section 4.2 below.

2.12 “*Performance Objective*” means a financial performance objective to be achieved during a Year and which is used to determine the funding level for the Pool.

2.13 “*Pool*” means the amount allocated for payment of Awards in any Year, based on the achievement of the Performance Objective during such Year.

2.14 “*Year*” means the calendar year, or the fiscal year of CRL, if other than a calendar year, to which the Award applies.

3. ELIGIBILITY AND ADMINISTRATION

3.1 Eligibility. The individuals entitled to participate in the Plan shall be those key employees of the Company who are selected by the Committee to be eligible to receive an Award for the Year. No later than 90 days after the commencement of each Year, the Committee shall, in writing, designate the participants eligible to receive an Award for the Year (“*Covered Participants*”). The Committee shall designate as Covered Participants the employees of the Company who are executive officers of CRL and may designate other participants who are expected to be a “covered employee” within the meaning of Section 162(m)(3) of the Code in the Year in which CRL would become entitled to take a compensation deduction as a result of the Award Payment (determined without regard to the limitation on deductibility imposed by Section 162(m) of the Code). Covered Participants shall not participate in any other cash-based short-term incentive plan.

3.2 Administration. (a) The Plan shall be administered by the Committee. Subject to the provisions of the Plan and to such orders or resolutions not inconsistent with the provisions of the Plan as may from time to time be adopted by the Board: (i) the Committee may from time to time establish rules for the administration of the Plan; (ii) the Committee shall have authority to determine the degree of attainment of the Performance Objective, the actual amount of the Pool and the amount of the Award Payment for each Covered Participant in respect of a Year, including, without limitation, the authority to make factual determinations, to construe and interpret the Plan and any instrument or agreement entered into in connection with the Plan, to correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent that the Committee shall deem desirable to carry it into effect, and to decide all matters arising thereunder or in connection with the administration of the Plan; and (iii) the decisions of the Committee, to the extent permitted by law, shall be final, conclusive and binding on all persons, including the Company and any Covered Participant, having or claiming to have any right or interest in or under the Plan or any Award.

(b) In addition, subject to the provisions of the Plan and to such orders or resolutions not inconsistent with the provisions of the Plan as may from time to time be adopted by the Board, the Committee shall have full power and authority to do the following: (i) select the Covered Participants for each Year; (ii) determine the terms and conditions of each Award, consistent with the provisions of the Plan; (iii) determine the time when Awards will be made; (iv) establish and determine the target amount of the Pool and the Performance Objective for the Pool, consistent with Section 4.1 and Section 4.2 below; (v) certify the Award Payment in respect of Awards, consistent with Section 4.5 below; (vi) appoint such agents as the Committee shall deem appropriate for the proper administration of the Plan; and (vii) make any other determination and take any other action that the Committee deems necessary or desirable for administration of the Plan.

(c) To the extent not inconsistent with applicable law, Section 162(m) of the Code and the listing requirements of the New York Stock Exchange, the Committee may delegate to one or more officers or employees of the Company, or one or more committees thereof, the authority to take actions on its behalf pursuant to the Plan; *provided, however*, that the Committee may not delegate its authority with respect to Section 4, Section 5.1 or Section 5.2 below, or in respect of an Award, and that a person to whom such authority is delegated may not further delegate such authority unless specifically authorized by the Committee.

4. AWARDS

4.1 Pool; Maximum Award. At or near the start of the applicable Year, the Committee shall: (i) specify the Performance Objective for the Pool; (ii) identify the Covered Participants eligible to receive a share of the Pool; and (iii) determine the target amount and the maximum amount of the Pool, which maximum amount shall not exceed 300% of the aggregate Annual Base Salary of all Covered Participants in the Pool. For each Year, no Award for any individual Covered Participant shall exceed \$5,000,000.

4.2 Performance Objective. The Performance Objective for the Pool is the attainment of 50% of target Non-GAAP Operating Income (“*Non-GAAP OI*”) approved by the Committee for the applicable Year. Non-GAAP OI is defined as

operating income that excludes the effect of certain items not deemed to represent core operating performance, including, without limitation, items such as discontinued operations, amortization of intangible assets, inventory purchase accounting adjustments, charges related to modifications of purchase options on remaining noncontrolled equity interests, and re-measurement of previously held equity interests; expenses associated with evaluating and integrating acquisitions, fair value adjustments associated with contingent consideration and other changes related to the Company's acquisitions, including acquisitions under consideration; expenses, losses, income and/or gains attributable to businesses and/or properties that the Company closes, consolidates and/or divests, including such transactions under consideration; severance, executive transition and similar costs; costs and fees related to financings and refinancings; costs related to billing adjustments and related expenses; impairments and similar items; accelerated depreciation charges; charges related to counterparty disputes, litigation, arbitration and investigations; the cumulative effect of changes in accounting policy for the relevant Year; gains or losses that are the direct result of a major casualty; the cumulative effect of changes in newly enacted or promulgated regulation for the relevant Year; gain on bargain purchase; gains on life insurance policies; taxes and fees associated with repatriation; and other expenses, losses, income and/or gains that are unusual in nature or infrequent in occurrence. For purposes of determining the attainment of the Performance Objective, the calculation of Non-GAAP OI may be different from the calculation for determining the attainment of the financial and/or operational objectives under the EICP. Any adjustment pursuant to this Section 4.2 shall be done in accordance with this Section 4 and Section 162(m) of the Code.

4.3 Determination of the Pool. As soon as reasonably practicable following the conclusion of each Year, the Committee shall determine the actual amount of the Pool, based on the attainment of the Performance Objective for the Pool for such Year. If the Company achieves its Performance Objective, the maximum amount of the Pool will be funded.

4.4 Award Payment. The Award Payment in respect of each Award shall be an amount in cash equal to or less than the maximum amount authorized under such Award, as determined by the Committee in its sole discretion. Actual payment of any Award Payment shall be under the EICP. For the avoidance of doubt, any payment to a Covered Participant shall be made in accordance with Section 162(m) of the Code. For the avoidance of doubt, the Committee shall not have any discretion or authority to increase the Award Payment payable under an Award, and in no event will the exercise of negative discretion with respect to one Covered Participant result in an increase in the amount payable to another Covered Participant.

4.5 Certification. As soon as reasonably practicable following the conclusion of each Year and prior to the payment of any Award Payments in respect of Awards, the Committee shall certify, in writing, the achievement of Non-GAAP OI and the amount of the Award Payment in respect of each Award for the Year. For the avoidance of doubt, the Committee's ability to effect adjustments from time to time in connection with determining the degree of achievement of Non-GAAP OI shall be only to the extent permitted under Section 162(m) of the Code.

5. MISCELLANEOUS

5.1 Amendment and Termination of the Plan. The Committee or the Board may, from time to time, alter, amend, suspend or terminate the Plan as it shall deem advisable subject to any requirement for shareholder approval imposed by applicable law, including Section 162(m) of the Code, and to the listing requirements of the New York Stock Exchange.

5.2 Section 162(m) of the Code. Unless otherwise determined by the Committee, or expressly provided herein, the provisions of this Plan shall be administered and interpreted in accordance with Section 162(m) of the Code to ensure the maximum tax deductibility by the Company of the payment of Awards.

5.3 Tax Withholding. The Committee will make such provision for the withholding of taxes as it deems necessary.

5.4 Right of Discharge Reserved; Claims to Awards. Nothing in the Plan shall be construed as giving any person the right to continued employment or service with the Company. The loss of existing or potential profit in Awards will not constitute an element of damages in the event of termination of employment or service for any reason, even if the termination is in violation of an obligation of the Company to the Covered Participant. No Covered Participant or other person shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Covered Participants under the Plan. The terms and conditions of Awards need not be the same with respect to each recipient. Any Award granted under the Plan shall be a one-time Award that does not constitute a promise of future grants. Any Award granted under the Plan shall not be a part of a Covered Participant's base salary or wages and will not be taken into account in determining any other employment-related rights he or she may have, such as rights to deferred compensation, pension or severance pay, except as expressly provided in such a plan. The Company, in its sole discretion, maintains the right to make available future grants under the Plan. Unless stated herein, no Covered Participant or other person shall acquire any rights, remedies, benefits or obligations. Nothing contained in the Plan shall prevent the Company from adopting or continuing in effect other or additional compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases.

Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and a Covered Participant or any other person. To the extent that any person acquires a right to receive payments from the Company pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company.

5.5 Nature of Payments. All Awards made pursuant to the Plan are in consideration of services performed or to be performed for the Company, division or business unit of the Company. Any income or gain realized pursuant to Awards under the Plan constitute a special incentive payment to the Covered Participant and shall not be taken into account, to the extent permissible under applicable law, as compensation for purposes of any of the employee benefit plans of the Company except as specifically provided under the applicable plan or as may otherwise be determined by the Committee or by the Board.

5.6 Recovery Policy. Awards under the Plan shall be subject to the requirements of any applicable policy of CRL regarding the recoupment of incentive compensation, and all amounts paid or payable to a Covered Participant under or in respect of the Plan shall be subject to recovery or other action pursuant to such policy, as and to the extent provided thereby.

5.7 Other Plans. Nothing contained in the Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to shareholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

5.8 Unfunded Status of the Plan. The Plan is intended to constitute an “unfunded” plan for incentive compensation, and deferred compensation if permitted by the Committee. With respect to any payments not yet made to a Covered Participant by the Company, nothing contained herein shall give him or her any rights that are greater than those of a general unsecured creditor of the Company.

5.9 Governing Law. The Plan and all determinations made and actions taken thereunder, to the extent not otherwise governed by the Code or the laws of the United States, shall be governed by the laws of the Commonwealth of Massachusetts.

5.10 Effective Date of Plan. The Plan shall be effective as of the date of its approval by the Board, subject to its approval by the shareholders of the Company.

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

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

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended April 1, 2017 of the registrant;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ James C. Foster

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

May 10, 2017

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

I, David R. Smith, Corporate Executive Vice President, Chief Financial Officer and Chief Accounting Officer of Charles River Laboratories International, Inc. (the registrant) certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended April 1, 2017 of the registrant;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ David R. Smith

David R. Smith
Corporate Executive Vice President and Chief Financial Officer
Charles River Laboratories International, Inc.

May 10, 2017

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

In connection with the quarterly report on Form 10-Q for the quarter ended April 1, 2017 of Charles River Laboratories International, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, James C. Foster, Chairman, Chief Executive Officer and President of the Company, and David R. Smith, Corporate Executive Vice President, Chief Financial Officer and Chief Accounting Officer of the Company, each hereby certifies, to the best of his knowledge and pursuant to 18 U.S.C. Section 1350, that:

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

/s/ James C. Foster

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

May 10, 2017

/s/ David R. Smith

David R. Smith
Corporate Executive Vice President and Chief Financial Officer
Charles River Laboratories International, Inc.

May 10, 2017

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