

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 Quarter Ended September 27, 2003

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 1-8002

THERMO ELECTRON CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

04-2209186
(I.R.S. Employer Identification No.)

81 Wyman Street, P.O. Box 9046
Waltham, Massachusetts
(Address of principal executive offices)

02454-9046
(Zip Code)

Registrant's telephone number, including area code: (781) 622-1000

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 and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

<u>Class</u>
Common Stock, \$1.00 par value

<u>Outstanding at October 24, 2003</u>
162,822,224

PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements

THERMO ELECTRON CORPORATION

Consolidated Balance Sheet (Unaudited)

Assets

(In thousands)	September 27, 2003	December 28, 2002
Current Assets:		
Cash and cash equivalents	\$ 207,546	\$ 339,038
Short-term available-for-sale investments, at quoted market value (amortized cost of \$113,185 and \$493,002)	185,840	536,430
Accounts receivable, less allowances of \$26,896 and \$25,576	423,945	429,740
Inventories:		
Raw materials and supplies	140,020	134,039
Work in process	51,037	50,894
Finished goods (includes \$8,310 and \$18,982 at customer locations)	147,382	147,871
Deferred tax assets	78,914	79,057
Other current assets	<u>63,066</u>	<u>54,490</u>
	<u>1,297,750</u>	<u>1,771,559</u>
Property, Plant, and Equipment, at Cost	570,603	553,349
Less: Accumulated depreciation and amortization	<u>303,246</u>	<u>280,441</u>
	<u>267,357</u>	<u>272,908</u>
Other Assets (Notes 10 and 11)	<u>116,693</u>	<u>186,390</u>
Goodwill	<u>1,440,986</u>	<u>1,416,205</u>
	<u>\$ 3,122,786</u>	<u>\$ 3,647,062</u>

THERMO ELECTRON CORPORATION

Consolidated Balance Sheet (continued) (Unaudited)

Liabilities and Shareholders' Equity

(In thousands except share amounts)	September 27, 2003	December 28, 2002
Current Liabilities:		
Short-term obligations and current maturities of long-term obligations	\$ 36,165	\$ 484,480
Accounts payable	94,054	111,994
Accrued payroll and employee benefits	89,539	97,856
Accrued income taxes	53,423	44,519
Deferred revenue	62,484	58,490
Accrued restructuring costs (Note 14)	21,906	41,579
Other accrued expenses (Notes 2 and 12)	168,631	170,996
Net liabilities of discontinued operations	<u>68,048</u>	<u>93,806</u>
	<u>594,250</u>	<u>1,103,720</u>
Long-term Deferred Income Taxes and Other Long-term Liabilities	<u>69,118</u>	<u>58,678</u>
Long-term Obligations:		
Senior notes (Note 11)	141,468	141,032
Subordinated convertible obligations (Note 13)	77,375	304,549
Other	<u>5,105</u>	<u>5,760</u>
	<u>223,948</u>	<u>451,341</u>
Shareholders' Equity:		
Preferred stock, \$100 par value, 50,000 shares authorized; none issued		
Common stock, \$1 par value, 350,000,000 shares authorized; 173,067,334 and 169,952,419 shares issued	173,067	169,952
Capital in excess of par value	1,249,369	1,212,145
Retained earnings	957,492	819,411
Treasury stock at cost, 10,207,125 and 7,098,501 shares	(187,798)	(129,675)
Deferred compensation	(3,565)	(4,852)
Accumulated other comprehensive items (Notes 7 and 11)	<u>46,905</u>	<u>(33,658)</u>
	<u>2,235,470</u>	<u>2,033,323</u>
	<u>\$3,122,786</u>	<u>\$3,647,062</u>

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

THERMO ELECTRON CORPORATION

Consolidated Statement of Income (Unaudited)

(In thousands except per share amounts)	Three Months Ended	
	September 27, 2003	September 28, 2002
Revenues	<u>\$497,116</u>	<u>\$517,171</u>
Costs and Operating Expenses:		
Cost of revenues	271,213	288,514
Selling, general, and administrative expenses	134,349	139,326
Research and development expenses	34,900	37,553
Restructuring and other costs, net (Note 14)	<u>14,273</u>	<u>6,907</u>
	<u>454,735</u>	<u>472,300</u>
Operating Income	42,381	44,871
Other Income, Net (Note 5)	<u>10,004</u>	<u>11,790</u>
Income from Continuing Operations Before Provision for Income Taxes	52,385	56,661
Provision for Income Taxes	<u>(13,388)</u>	<u>(17,644)</u>
Income from Continuing Operations	38,997	39,017
Gain on Disposal of Discontinued Operations (includes tax benefit of \$2,600; Note 16)	<u>9,518</u>	<u>—</u>
Net Income	<u>\$ 48,515</u>	<u>\$ 39,017</u>
Earnings per Share from Continuing Operations (Note 6):		
Basic	<u>\$.24</u>	<u>\$.24</u>
Diluted	<u>\$.24</u>	<u>\$.23</u>
Earnings per Share (Note 6):		
Basic	<u>\$.30</u>	<u>\$.24</u>
Diluted	<u>\$.29</u>	<u>\$.23</u>
Weighted Average Shares (Note 6):		
Basic	<u>162,531</u>	<u>165,701</u>
Diluted	<u>169,155</u>	<u>176,342</u>

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

THERMO ELECTRON CORPORATION

Consolidated Statement of Income (Unaudited)

(In thousands except per share amounts)	Nine Months Ended	
	September 27, 2003	September 28, 2002
Revenues (Note 4)	<u>\$1,513,726</u>	<u>\$1,517,610</u>
Costs and Operating Expenses:		
Cost of revenues	830,840	835,509
Selling, general, and administrative expenses	416,327	417,610
Research and development expenses	109,353	116,933
Restructuring and other costs, net (Note 14)	<u>27,247</u>	<u>30,777</u>
	<u>1,383,767</u>	<u>1,400,829</u>
Operating Income	129,959	116,781
Other Income, Net (Note 5)	<u>28,100</u>	<u>110,041</u>
Income from Continuing Operations Before Provision for Income Taxes and Minority Interest	158,059	226,822
Provision for Income Taxes (Note 15)	(34,532)	(74,945)
Minority Interest Income	<u>—</u>	<u>331</u>
Income from Continuing Operations	123,527	152,208
Gain on Disposal of Discontinued Operations (net of income tax provision of \$964 in 2003; includes tax benefit of \$13,408 in 2002; Note 16)	<u>14,554</u>	<u>70,370</u>
Net Income	<u>\$ 138,081</u>	<u>\$ 222,578</u>
Earnings per Share from Continuing Operations (Note 6):		
Basic	<u>\$.76</u>	<u>\$.89</u>
Diluted	<u>\$.75</u>	<u>\$.86</u>
Earnings per Share (Note 6):		
Basic	<u>\$.85</u>	<u>\$ 1.31</u>
Diluted	<u>\$.83</u>	<u>\$ 1.23</u>
Weighted Average Shares (Note 6):		
Basic	<u>162,474</u>	<u>170,358</u>
Diluted	<u>171,703</u>	<u>190,399</u>

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

THERMO ELECTRON CORPORATION

Consolidated Statement of Cash Flows (Unaudited)

(In thousands)	Nine Months Ended	
	September 27, 2003	September 28, 2002
Operating Activities:		
Net income	\$ 138,081	\$ 222,578
Gain on disposal of discontinued operations (Note 16)	<u>(14,554)</u>	<u>(70,370)</u>
Income from continuing operations	123,527	152,208
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	43,586	42,199
Noncash restructuring and other costs, net (Note 14)	6,821	10,070
Provision for losses on accounts receivable	3,352	2,015
Change in deferred income taxes	2,637	(6,183)
Gain on sale of businesses	(253)	(8,544)
Gain on investments, net (Note 5)	(28,603)	(103,381)
Equity in earnings of unconsolidated subsidiaries (Note 5)	(416)	(2,169)
Minority interest income	—	(331)
Other	5,416	4,475
Changes in current accounts, excluding the effects of acquisitions and dispositions:		
Accounts receivable	21,467	15,612
Inventories	8,787	4,962
Other current assets	(9,466)	(4,900)
Accounts payable	(21,797)	(15,465)
Other current liabilities	<u>(46,287)</u>	<u>(34,152)</u>
Net cash provided by continuing operations	108,771	56,416
Net cash used in discontinued operations	<u>(5,961)</u>	<u>(53,594)</u>
Net cash provided by (used in) operating activities	<u>102,810</u>	<u>2,822</u>
Investing Activities:		
Proceeds from maturities of available-for-sale investments	308,568	151,812
Proceeds from sale of available-for-sale investments	102,162	96,247
Purchases of property, plant, and equipment	(31,449)	(36,183)
Proceeds from sale of property, plant, and equipment	6,309	8,779
Acquisitions, net of cash acquired (Note 2)	(3,120)	(78,259)
Proceeds from sale of businesses, net of cash divested	559	24,405
Proceeds from sale of other investments	1,961	65,251
Collection of note receivable	69,136	73,980
Acquisition of minority interest of subsidiary	—	(22,076)
Increase in other assets	(5,092)	(11,806)
Other	<u>969</u>	<u>2,792</u>
Net cash provided by continuing operations	450,003	274,942
Net cash provided by discontinued operations	<u>3,037</u>	<u>106,031</u>
Net cash provided by investing activities	<u>453,040</u>	<u>380,973</u>

THERMO ELECTRON CORPORATION

Consolidated Statement of Cash Flows (continued) (Unaudited)

(In thousands)	Nine Months Ended	
	September 27, 2003	September 28, 2002
Financing Activities:		
Redemption and repayment of long-term obligations (Note 13)	\$(269,812)	\$(462,101)
Purchases of company common stock and subordinated convertible debentures	(84,135)	(292,688)
Net proceeds from issuance of company common stock	35,456	15,032
Increase (decrease) in short-term notes payable	(375,564)	276,479
Other	<u>(38)</u>	<u>2,967</u>
Net cash used in continuing operations	(694,093)	(460,311)
Net cash provided by (used in) discontinued operations	<u>(3,708)</u>	<u>371</u>
Net cash used in financing activities	<u>(697,801)</u>	<u>(459,940)</u>
Exchange Rate Effect on Cash of Continuing Operations	10,453	8,650
Exchange Rate Effect on Cash of Discontinued Operations	<u>(23)</u>	<u>328</u>
Decrease in Cash and Cash Equivalents	(131,521)	(67,167)
Cash and Cash Equivalents at Beginning of Period	<u>339,067</u>	<u>305,200</u>
	207,546	238,033
Cash and Cash Equivalents of Discontinued Operations at End of Period	<u>—</u>	<u>(4,429)</u>
Cash and Cash Equivalents at End of Period	<u>\$ 207,546</u>	<u>\$ 233,604</u>
Noncash Investing Activities:		
Fair value of assets of acquired businesses and product lines	\$ 4,845	\$ 94,668
Cash paid for acquired businesses and product lines	<u>(3,269)</u>	<u>(78,401)</u>
Liabilities assumed of acquired businesses and product lines	<u>\$ 1,576</u>	<u>\$ 16,267</u>

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

THERMO ELECTRON CORPORATION

Notes to Consolidated Financial Statements

1. General

The interim consolidated financial statements presented have been prepared by Thermo Electron Corporation (the company or the Registrant), are unaudited and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair statement of the financial position at September 27, 2003, the results of operations for the three- and nine-month periods ended September 27, 2003, and September 28, 2002, and the cash flows for the nine-month periods ended September 27, 2003, and September 28, 2002. Certain prior-period amounts have been reclassified to conform to the presentation in the current financial statements. Interim results are not necessarily indicative of results for a full year.

The consolidated balance sheet presented as of December 28, 2002, has been derived from the audited consolidated financial statements as of that date. The consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain all of the information that is included in the annual financial statements and notes of the company. The consolidated financial statements and notes included in this report should be read in conjunction with the financial statements and notes included in the company's Annual Report on Form 10-K for the fiscal year ended December 28, 2002, filed with the Securities and Exchange Commission (SEC). During the first quarter of 2003, the company changed its year end to December 31 from the Saturday closest to December 31. This change is effective in 2003 and thereafter.

2. Acquisitions

In January 2003, the Measurement and Control segment acquired a product line of emission monitoring instruments for \$2.6 million in cash, net of cash acquired. In June 2003, the segment acquired a product line of online rheology instruments for \$0.5 million in cash. The segment recorded \$2.6 million of intangible assets related to these acquisitions consisting of product technology, which is being amortized over 10 years. Intangible assets are included in other assets in the accompanying balance sheet. In September 2003, the company announced that it had reached agreement for its Life and Laboratory Sciences segment to acquire Jouan SA, a manufacturer of laboratory equipment, for 110.9 million euros and the assumption of approximately 7.1 million euros of consolidated net debt. The acquisition is subject to various regulatory approvals. The company expects to complete the acquisition before the end of 2003.

The company has undertaken restructuring activities at acquired businesses. These activities, which were accounted for in accordance with Emerging Issues Task Force Issue (EITF) No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination," have primarily included reductions in staffing levels and the abandonment of excess facilities. In connection with these restructuring activities, as part of the cost of acquisitions, the company established reserves, primarily for severance and excess facilities. In accordance with EITF No. 95-3, the company finalizes its restructuring plans no later than one year from the respective dates of the acquisitions. Accrued acquisition expenses are included in other accrued expenses in the accompanying balance sheet.

No material acquisition expenses have been recorded for acquisitions completed in 2003. A summary of the changes in accrued acquisition expenses for acquisitions completed during 2002 is as follows:

(In thousands)	Severance	Abandonment of Excess Facilities	Other	Total
Balance at December 28, 2002	\$1,319	\$ 588	\$ 499	\$2,406
Payments	(888)	(120)	(124)	(1,132)
Decrease recorded as a reduction in goodwill and other intangible assets	(453)	(401)	(175)	(1,029)
Currency translation	<u>34</u>	<u>(48)</u>	<u>10</u>	<u>(4)</u>
Balance at September 27, 2003	<u>\$ 12</u>	<u>\$ 19</u>	<u>\$ 210</u>	<u>\$ 241</u>

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2. Acquisitions (continued)

The 2002 acquisitions primarily included CRS Robotics Corporation (Thermo CRS) and the radiation-monitoring products business (RMP) of St. Gobain Corporation. The principal accrued acquisition expenses for 2002 acquisitions were for severance for approximately 102 employees at the acquired businesses, primarily in manufacturing, research and development, and sales and service; closure of a Thermo CRS manufacturing facility in Austria, with a lease that expired in 2003 and whose operations were consolidated into other existing facilities; and relocation of RMP employees from the seller's operations in Ohio and the United Kingdom to the company's facilities. Upon finalization of restructuring plans or settlement of obligations for less than the expected amount, any excess reserves are reversed with a corresponding decrease in goodwill or other intangible assets when no goodwill exists. The company expects to pay amounts accrued for acquisition expenses primarily through 2003.

A summary of the changes in accrued acquisition expenses for acquisitions completed before 2002 is as follows:

(In thousands)	Abandonment of Excess Facilities
Balance at December 28, 2002	\$6,422
Payments	(490)
Currency translation	<u>266</u>
Balance at September 27, 2003	<u>\$6,198</u>

The remaining accrued acquisition expenses for pre-2002 acquisitions represent lease obligations for four abandoned operating facilities in the United Kingdom with leases expiring through 2014.

3. Business Segment Information

(In thousands)	Three Months Ended		Nine Months Ended	
	September 27, 2003	September 28, 2002	September 27, 2003	September 28, 2002
Revenues:				
Life and Laboratory Sciences	\$ 301,451	\$ 300,040	\$ 914,707	\$ 871,545
Measurement and Control	146,667	155,176	452,981	460,379
Optical Technologies	52,141	64,910	154,941	194,640
Intersegment (a)	<u>(3,143)</u>	<u>(2,955)</u>	<u>(8,903)</u>	<u>(8,954)</u>
	<u>\$ 497,116</u>	<u>\$ 517,171</u>	<u>\$1,513,726</u>	<u>\$1,517,610</u>
Income from Continuing Operations Before Provision for Income Taxes and Minority Interest:				
Life and Laboratory Sciences (b)	\$ 43,674	\$ 42,771	\$ 126,582	\$ 125,310
Measurement and Control (c)	10,882	8,762	35,076	36,065
Optical Technologies (d)	(5,376)	274	(10,884)	(23,229)
Intersegment	<u>—</u>	<u>(130)</u>	<u>324</u>	<u>272</u>
Total Operating Income - Segments	49,180	51,677	151,098	138,418
Corporate/Other (e)	<u>3,205</u>	<u>4,984</u>	<u>6,961</u>	<u>88,404</u>
	<u>\$ 52,385</u>	<u>\$ 56,661</u>	<u>\$ 158,059</u>	<u>\$ 226,822</u>

THERMO ELECTRON CORPORATION

3. Business Segment Information (continued)

(In thousands)	Three Months Ended		Nine Months Ended	
	September 27, 2003	September 28, 2002	September 27, 2003	September 28, 2002
Depreciation:				
Life and Laboratory Sciences	\$ 5,873	\$ 5,260	\$ 17,459	\$ 16,213
Measurement and Control	2,382	2,723	7,680	8,516
Optical Technologies	2,965	2,901	8,669	9,808
Corporate	<u>842</u>	<u>731</u>	<u>2,376</u>	<u>2,154</u>
	<u>\$ 12,062</u>	<u>\$ 11,615</u>	<u>\$ 36,184</u>	<u>\$ 36,691</u>
Amortization:				
Life and Laboratory Sciences	\$ 1,662	\$ 1,659	\$ 4,907	\$ 3,856
Measurement and Control	600	286	1,799	850
Optical Technologies	<u>208</u>	<u>267</u>	<u>696</u>	<u>802</u>
	<u>\$ 2,470</u>	<u>\$ 2,212</u>	<u>\$ 7,402</u>	<u>\$ 5,508</u>

During the first quarter of 2003, the company transferred management responsibility for several businesses between segments as follows: (1) the compositional-metrology business was moved to the Life and Laboratory Sciences segment from the Optical Technologies segment; (2) the ultra-high vacuum systems and semiconductor testing businesses were moved to the Measurement and Control segment from the Optical Technologies segment; and (3) Thermo Euroglas was moved to the Life and Laboratory Sciences segment from the Measurement and Control segment. In addition to these changes, during the first quarter of 2003, the company began allocating certain costs to the business segments previously classified as corporate expenses based on the estimated extent to which the segment benefited from the cost. Allocated costs principally include e-commerce, global sourcing, and marketing as well as some legal, human resources, and information systems costs. Prior-period segment information has been conformed to reflect these changes.

- (a) Intersegment sales are accounted for at prices that are representative of transactions with unaffiliated parties.
- (b) Includes restructuring and other costs, net, of \$4.9 million, \$3.5 million, \$11.4 million, and \$7.1 million in the third quarter of 2003 and 2002 and the first nine months of 2003 and 2002, respectively.
- (c) Includes restructuring and other costs, net, of \$2.7 million, \$5.6 million, \$6.1 million, and \$6.5 million in the third quarter of 2003 and 2002 and the first nine months of 2003 and 2002, respectively.
- (d) Includes restructuring and other costs, net, of \$5.8 million, \$7.4 million, and \$18.3 million in the third quarter of 2003 and the first nine months of 2003 and 2002, respectively, and restructuring and other income, net, of \$1.0 million in the third quarter of 2002.
- (e) Includes corporate general and administrative expenses and other income and expense. Includes corporate restructuring and other costs of \$1.0 million, \$0.6 million, \$2.4 million, and \$2.1 million in the third quarter of 2003 and 2002 and the first nine months of 2003 and 2002, respectively. Other income, net, includes gains on the sale of shares of Thoratec Corporation of \$10.3 million in the third quarter and first nine months of 2003, and gains on the sale of shares of FLIR Systems, Inc. of \$6.6 million, \$13.7 million, and \$94.5 million in the third quarter of 2002 and the first nine months of 2003 and 2002, respectively.

THERMO ELECTRON CORPORATION

4. Revenue Recognition

In November 2002, the EITF reached a consensus on EITF No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." The company elected to early adopt the provisions of EITF No. 00-21 and began applying the consensus prospectively in the first quarter of 2003. Under EITF No. 00-21, the company recognizes revenue and related costs for arrangements with customers that have multiple deliverables such as equipment and installation as each of these is delivered or completed based on their fair value. Previously, when installation was essential to functionality and not deemed inconsequential or perfunctor, all revenue was deferred until completion of installation. Revenues for products sold where installation was not essential to functionality and was deemed inconsequential or perfunctor were previously recognized upon shipment with estimated installation costs accrued. The adoption of EITF No. 00-21 increased revenues and diluted earnings per share by \$7.6 million and \$.01, respectively, during the first quarter of 2003.

5. Other Income, Net

The components of other income, net, in the accompanying statement of income are as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 27, 2003	September 28, 2002	September 27, 2003	September 28, 2002
Interest Income	\$ 2,909	\$ 11,210	\$ 17,671	\$ 38,189
Interest Expense (Note 11)	(3,551)	(8,864)	(15,888)	(32,559)
Gain on Investments, Net	12,614	9,395	28,603	103,381
Equity in Earnings of Unconsolidated Subsidiaries	271	—	416	2,169
Other Items, Net	<u>(2,239)</u>	<u>49</u>	<u>(2,702)</u>	<u>(1,139)</u>
	<u>\$ 10,004</u>	<u>\$ 11,790</u>	<u>\$ 28,100</u>	<u>\$110,041</u>

The company sold 1,000,000 shares of Thoratec Corporation common stock during the third quarter of 2003 and realized a gain of \$10.3 million. In addition, the company sold 194,000, 334,175, and 2,200,000 shares of FLIR Systems, Inc. common stock during the third quarter of 2002 and the first nine months of 2003 and 2002, respectively, and realized gains of \$6.6 million, \$13.7 million, and \$94.5 million, respectively. These gains included \$2.3 million, \$3.9 million, and \$25.5 million in the third quarter of 2002 and the first nine months of 2003 and 2002, respectively, from the recovery of amounts written down in prior years. At September 27, 2003, the company owns 6.7 million shares of Thoratec with a fair market value of \$108 million and no longer owns shares of FLIR.

THERMO ELECTRON CORPORATION

6. Earnings per Share

Basic and diluted earnings per share were calculated as follows:

(In thousands except per share amounts)	Three Months Ended		Nine Months Ended	
	September 27, 2003	September 28, 2002	September 27, 2003	September 28, 2002
Income from Continuing Operations	\$ 38,997	\$ 39,017	\$123,527	\$152,208
Gain on Disposal of Discontinued Operations, Net	<u>9,518</u>	<u>—</u>	<u>14,554</u>	<u>70,370</u>
Net Income for Basic Earnings per Share	48,515	39,017	138,081	222,578
Effect of Convertible Debentures	<u>871</u>	<u>1,938</u>	<u>4,417</u>	<u>11,832</u>
Income Available to Common Shareholders, as Adjusted for Diluted Earnings per Share	<u>\$ 49,386</u>	<u>\$ 40,955</u>	<u>\$142,498</u>	<u>\$234,410</u>
Basic Weighted Average Shares	162,531	165,701	162,474	170,358
Effect of:				
Stock options	2,455	1,396	1,995	2,141
Convertible debentures	3,969	9,245	7,034	17,900
Contingently issuable shares	<u>200</u>	<u>—</u>	<u>200</u>	<u>—</u>
Diluted Weighted Average Shares	<u>169,155</u>	<u>176,342</u>	<u>171,703</u>	<u>190,399</u>
Basic Earnings per Share:				
Continuing operations	\$.24	\$.24	\$.76	\$.89
Discontinued operations	<u>.06</u>	<u>—</u>	<u>.09</u>	<u>.41</u>
	<u>\$.30</u>	<u>\$.24</u>	<u>\$.85</u>	<u>\$ 1.31</u>
Diluted Earnings per Share:				
Continuing operations	\$.24	\$.23	\$.75	\$.86
Discontinued operations	<u>.06</u>	<u>—</u>	<u>.08</u>	<u>.37</u>
	<u>\$.29</u>	<u>\$.23</u>	<u>\$.83</u>	<u>\$ 1.23</u>

Options to purchase 4,753,000, 12,111,000, 8,124,000, and 10,195,000 shares of common stock for the third quarter of 2003 and 2002 and the first nine months of 2003 and 2002, respectively, were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price for the common stock and their effect would have been antidilutive.

The computation of diluted earnings per share excludes the effect of assuming the conversion of the following convertible debentures because the effect would be antidilutive: in the first nine months of 2003 and 2002, the company's 4 3/8% subordinated convertible debentures; and in the third quarter of 2002, the company's 4 3/8% and 4 7/8% subordinated convertible debentures and 4 1/2% senior convertible debentures. The company's 4 3/8% and 4 7/8% subordinated convertible debentures and 4 1/2% senior convertible debentures were convertible at \$111.83, \$32.50, and \$34.42 per share, respectively. These debentures were no longer outstanding at September 27, 2003, having previously been redeemed. In the third quarter of 2003, there were no convertible debentures outstanding that if converted would be antidilutive.

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7. Comprehensive Income

Comprehensive income combines net income and other comprehensive items. Other comprehensive items represents certain amounts that are reported as components of shareholders' equity in the accompanying balance sheet, including currency translation adjustments, unrealized gains and losses, net of tax, on available-for-sale investments and hedging instruments, and minimum pension liability adjustment. During the third quarter of 2003 and 2002, the company had comprehensive income of \$51.2 million and \$28.7 million, respectively. During the first nine months of 2003 and 2002, the company had comprehensive income of \$236.6 million and \$209.9 million, respectively. Comprehensive income in the first nine months of 2002 excludes the effect of unrealized gains of \$111 million that existed at the date the company reclassified equity interests in FLIR and Thoratec Corporation to available-for-sale investments. The change in accumulated other comprehensive items between December 28, 2002 and September 27, 2003 was principally due to a change in cumulative translation adjustment due to the weakening of the U.S. dollar relative to the currencies of the company's non-U.S. subsidiaries.

8. Stock-based Compensation Plans and Pro Forma Stock-based Compensation Expense

The company applies Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock-based compensation plans. Accordingly, no accounting recognition is given to stock options granted at fair market value until they are exercised. Upon exercise, net proceeds, including tax benefits realized, are credited to shareholders' equity.

In October 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," which sets forth a fair-value-based method of recognizing stock-based compensation expense. As permitted by SFAS No. 123, the company has elected to continue to apply APB No. 25 to account for its stock-based compensation plans. Had compensation cost for awards granted after 1994 under the company's stock-based compensation plans been determined based on the fair value at the grant dates consistent with the method set forth under SFAS No. 123, the effect on certain financial information of the company would have been as follows:

(In thousands except per share amounts)	Three Months Ended		Nine Months Ended	
	September 27, 2003	September 28, 2002	September 27, 2003	September 28, 2002
Income from Continuing Operations:				
As reported	\$ 38,997	\$ 39,017	\$123,527	\$152,208
Add: Stock-based employee compensation expense included in reported results, net of tax	378	313	1,331	1,063
Deduct: Total stock-based employee compensation expense determined under the fair-value-based method for all awards, net of tax	<u>(5,759)</u>	<u>(5,880)</u>	<u>(18,992)</u>	<u>(19,131)</u>
Pro forma	<u>\$ 33,616</u>	<u>\$ 33,450</u>	<u>\$105,866</u>	<u>\$134,140</u>

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8. Stock-based Compensation Plans and Pro Forma Stock-based Compensation Expense (continued)

(In thousands except per share amounts)	Three Months Ended		Nine Months Ended	
	September 27, 2003	September 28, 2002	September 27, 2003	September 28, 2002
Basic Earnings per Share from Continuing Operations:				
As reported	\$.24	\$.24	\$.76	\$.89
Pro forma	\$.21	\$.20	\$.65	\$.79
Diluted Earnings per Share from Continuing Operations:				
As reported	\$.24	\$.23	\$.75	\$.86
Pro forma	\$.20	\$.20	\$.64	\$.77
Net Income:				
As reported	\$ 48,515	\$ 39,017	\$138,081	\$222,578
Add: Stock-based employee compensation expense included in reported net income, net of tax	378	313	1,331	1,063
Deduct: Total stock-based employee compensation expense determined under the fair-value-based method for all awards, net of tax	<u>(5,759)</u>	<u>(5,880)</u>	<u>(18,992)</u>	<u>(19,131)</u>
Pro forma	<u>\$ 43,134</u>	<u>\$ 33,450</u>	<u>\$120,420</u>	<u>\$204,510</u>
Basic Earnings per Share:				
As reported	\$.30	\$.24	\$.85	\$ 1.31
Pro forma	\$.27	\$.20	\$.74	\$ 1.20
Diluted Earnings per Share:				
As reported	\$.29	\$.23	\$.83	\$ 1.23
Pro forma	\$.26	\$.20	\$.73	\$ 1.14

9. Recent Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs and is effective in 2003. The adoption of this new standard did not have a material impact on the company's financial statements.

In May 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The company adopted this standard in the first quarter of 2003. Under the standard, all of the transactions previously classified by the company as extraordinary items are no longer treated as such, but instead are reported in other income, net, in the accompanying statement of income. Prior period results were reclassified to conform to this presentation.

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9. Recent Accounting Pronouncements (continued)

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which supersedes EITF No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." The standard affects the accounting for restructuring charges and related activities and generally lengthens the timeframe for reporting of expenses relating to restructuring activities beyond the period in which a plan is initiated. The company adopted the provisions of this statement for exit or disposal activities that were initiated in 2003. The provisions of EITF No. 94-3 continue to apply with regard to the company's restructuring plans that commenced prior to 2003.

In November 2002, the FASB issued FASB Interpretation (FIN) No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of FIN No. 45 became applicable for guarantees issued or modified after December 31, 2002. The company is complying with the requirements of FIN No. 45, the adoption of which did not materially affect the company's financial statements.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB 51." The primary objectives of FIN No. 46 are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights ("variable interest entities" or "VIEs") and how to determine when and which business enterprise should consolidate the VIE. This new model for consolidation applies to an entity for which either: (a) the equity investors (if any) do not have a controlling financial interest; or (b) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN No. 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. The company is required to apply FIN No. 46 to all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the company will be required to apply FIN No. 46 on December 31, 2003. The company does not expect FIN No. 46 will materially affect its financial statements.

10. Note Receivable

In April 2003, the company received cash of \$36.7 million, including \$31.0 million of principal payments, plus interest, from Trimble Navigation Limited as partial and early payment of Trimble's note to the company. In June 2003, Trimble paid the company \$39.0 million in cash including the remaining principal balance of the note of \$38.2 million plus interest.

11. Derivative Instruments and Hedging

The company uses forward currency-exchange contracts primarily to hedge certain operational (cash-flow hedges) and balance sheet (fair-value hedges) exposures resulting from changes in currency exchange rates. Such exposures result from sales that are denominated in currencies other than the functional currencies of the respective operations. The company enters into these currency-exchange contracts to hedge anticipated product sales and recorded accounts receivable made in the normal course of business. Accordingly, the hedges are not speculative in nature. As part of the company's overall strategy to manage the level of exposure to the risk of currency-exchange fluctuations, some operating units hedge a portion of their currency exposures anticipated over the ensuing 12-month period, using exchange contracts that have maturities of 12 months or less. The company does not hold or engage in transactions involving derivative instruments for purposes other than risk management.

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11. Derivative Instruments and Hedging (continued)

The company records its forward currency-exchange contracts at fair value in its balance sheet as other current assets or other accrued expenses and, for cash-flow hedges, the related gains or losses on these contracts are deferred as a component of accumulated other comprehensive items in the accompanying balance sheet. These deferred gains and losses are recognized in income in the period in which the underlying anticipated transaction occurs. Unrealized gains and losses resulting from the impact of currency exchange rate movements on fair-value hedges are recognized in earnings in the period in which the exchange rates change and offset the currency losses and gains on the underlying exposure being hedged. Cash flows resulting from currency-exchange contracts qualifying as cash-flow hedges are recorded in the accompanying statement of cash flows in the same category as the item being hedged. At September 27, 2003, the company had deferred losses, net of income taxes, relating to forward currency-exchange contracts of approximately \$2.1 million, substantially all of which is expected to be recognized as expense over the next 12 months to approximately offset gains on the exposures being hedged. The ineffective portion of the gain or loss on derivative instruments is recorded in other income, net, in the accompanying statement of income and is not material.

During 2002, the company entered into interest-rate swap arrangements for its \$128.7 million principal amount 7.625% senior notes, due in 2008, with the objective of reducing interest costs. The arrangements provide that the company will receive a fixed interest rate of 7.625%, and will pay a variable rate of 90-day LIBOR plus 2.19% (3.36% as of September 27, 2003). The swaps have terms expiring at the maturity of the debt. The swaps are designated as fair-value hedges and as such, are carried at fair value, which resulted in an increase in other long-term assets and long-term debt of \$12.7 million at September 27, 2003. The swap arrangements are with different counterparties than the holders of the underlying debt. Management believes that any credit risk associated with the swaps is remote based on the creditworthiness of the financial institutions issuing the swaps.

12. Warranty Obligations

Product warranties are included in other accrued expenses in the accompanying balance sheet. A summary of the changes in the carrying amount of product warranties is as follows:

(In thousands)

Balance at December 28, 2002	\$ 27,361
Provision charged to income	19,282
Usage	(17,027)
Adjustments to previously provided warranties, net	(2,498)
Other, net (a)	<u>1,304</u>
Balance at September 27, 2003	<u>\$ 28,422</u>

(a) Primarily represents the effects of currency translation.

13. Redemption of Subordinated Convertible Debentures

In April 2003, the company redeemed all of its outstanding 4 3/8% subordinated convertible debentures due 2004 with the objective of reducing interest costs. The principal amount redeemed for these debentures was \$70.9 million. The redemption price was 100% of the principal amount of the debentures, plus accrued interest.

In July 2003, the company redeemed all of its outstanding 4% subordinated convertible debentures due 2005 with the objective of reducing interest costs. The principal amount redeemed for these debentures was \$197.1 million. The redemption price was 100% of the principal amount of the debentures, plus accrued interest.

These transactions resulted in a charge of \$1.0 million in the first nine months of 2003, included in other income, net, in the accompanying statement of income.

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14. Restructuring and Other Costs, Net

In response to a continued downturn in markets served by the company and in connection with the company's overall reorganization, restructuring actions were initiated in 2002 in a number of business units to reduce costs and redundancies, principally through headcount reductions and consolidation of facilities. Certain costs associated with these actions are recorded when incurred. Further actions were initiated in the first nine months of 2003. The company expects to incur an additional \$8 - \$10 million of restructuring costs through the remainder of 2003 and in 2004 for charges associated with these actions that cannot be recorded until incurred and for new actions being undertaken in the fourth quarter of 2003. The company believes that restructuring actions undertaken in 2002 and the first half of 2003 will be substantially completed in 2003 and that the actions undertaken in the second half of 2003 will be substantially completed in 2004.

During the third quarter of 2003, the company recorded net restructuring and other costs by segment as follows:

(In thousands)	Life and Laboratory Sciences	Measurement and Control	Optical Technologies	Corporate	Total
Restructuring and Other Costs, Net	<u>\$ 4,870</u>	<u>\$ 2,662</u>	<u>\$ 5,770</u>	<u>\$ 971</u>	<u>\$14,273</u>

During the first nine months of 2003, the company recorded net restructuring and other costs by segment as follows:

(In thousands)	Life and Laboratory Sciences	Measurement and Control	Optical Technologies	Corporate	Total
Restructuring and Other Costs, Net	<u>\$11,351</u>	<u>\$ 6,115</u>	<u>\$ 7,422</u>	<u>\$ 2,359</u>	<u>\$27,247</u>

The components of net restructuring and other costs by segment are as follows:

Life and Laboratory Sciences

The Life and Laboratory Sciences segment recorded \$4.9 million of net restructuring and other charges in the third quarter of 2003, substantially all of which were cash costs principally associated with facility consolidations. The cash costs included \$3.5 million of severance for 71 employees across all functions; \$0.7 million of net abandoned-facility lease costs for facilities described below; \$0.1 million of employee-retention costs at facilities being closed; and \$0.6 million of other cash costs, primarily relocation expenses. The charges for abandoned facilities are primarily for the closure of a manufacturing facility in the United Kingdom, the activities of which were transferred to a facility in the United States, and revised estimates of future lease costs for two sales offices in the United Kingdom that were abandoned in 2001.

In the second quarter of 2003, this segment recorded \$3.9 million of net restructuring and other charges, substantially all of which were cash costs. The cash costs included \$2.5 million of severance for 220 employees across all functions; \$0.7 million of employee-retention costs at facilities being closed; \$0.2 million of net abandoned-facility lease costs for facilities described below; and \$0.5 million of other cash costs, primarily relocation expenses. The charges for severance are net of reversals of \$0.5 million that the segment had provided primarily in 2001, which were not required due to employee attrition. The charges for abandoned facilities included costs of \$0.6 million, primarily for consolidation of distribution facilities in Japan, and are net of reversals of \$0.4 million, which represent revised estimates of future lease costs for facilities that the segment abandoned prior to 2003.

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14. Restructuring and Other Costs, Net (continued)

In the first quarter of 2003, this segment recorded \$2.6 million of net restructuring and other charges. These charges included \$2.7 million of cash costs principally associated with facility consolidations. The cash costs included \$1.0 million of net abandoned-facility lease costs for facilities described below; \$0.7 million of employee-retention costs at facilities being closed; \$0.6 million of severance for 25 employees, primarily in administrative, sales, and service functions; and \$0.4 million of other cash costs, primarily relocation expenses. The charges for abandoned facilities include costs of \$1.2 million, net of reversals of \$0.2 million, and primarily represent revised estimates of future lease costs for facilities in Europe that the segment provided for in 2001. The charges for severance are net of reversals of \$0.3 million that the segment had provided in 2002, which are no longer required due to employee attrition. In addition, the segment recorded a charge of \$0.4 million to write down the carrying value of a building held for sale to net realizable value, offset by \$0.5 million of net gains, primarily from the sale of a product line.

Measurement and Control

The Measurement and Control segment recorded \$2.7 million of net restructuring and other charges in the third quarter of 2003, all of which were cash costs principally associated with facility consolidations. The cash costs included \$1.9 million of severance for 41 employees across all functions; \$0.3 million of abandoned-facility lease costs for facilities described below; \$0.1 million of employee-retention costs at facilities being closed; and \$0.4 million of other cash costs, primarily relocation expenses. The charges for abandoned facilities are primarily for the closure of a sales office in the Netherlands, the activities of which were transferred to other facilities in the region, and other occupancy costs at facilities previously abandoned.

In the second quarter of 2003, this segment recorded \$0.2 million of net restructuring and other income. Net restructuring and other income included a gain of \$2.1 million on the sale of a building in Germany. The gain was offset by \$1.9 million of restructuring and other charges, including \$1.6 million of cash costs principally associated with facility consolidations. The cash costs included \$0.8 million of severance for 17 employees across all functions; \$0.2 million of employee-retention costs at facilities being closed; \$0.1 million of net abandoned-facility lease costs for facilities described below; and \$0.5 million of other cash costs, primarily relocation expenses. The charges for severance are net of reversals of \$0.3 million that the segment had provided primarily in 2001, which were not required due to employee attrition. The charges for abandoned facilities included costs of \$0.2 million, primarily for the consolidation of manufacturing facilities in Massachusetts, and are net of reversals of \$0.1 million, which represent revised estimates of future lease costs for facilities that the segment abandoned in 2001 and 2002. In addition, the segment recorded a charge of \$0.3 million for the writedown of assets at facilities being consolidated.

In the first quarter of 2003, this segment recorded \$3.6 million of net restructuring and other charges. These charges included \$2.0 million of cash costs principally associated with facility consolidations. The cash costs included \$1.1 million of severance for 46 employees across all functions; \$0.2 million of employee-retention costs at facilities being closed; \$0.1 million of abandoned-facility lease costs; and \$0.6 million of other cash costs, primarily relocation expenses. The charges for severance are net of reversals of \$0.4 million that the segment had provided previously, which are no longer required due to employee attrition. In addition, the segment recorded a charge of \$1.6 million, primarily for the writedown of goodwill related to the segment's test and measurement business to reduce the carrying value of the business to estimated disposal value. The test and measurement business was sold in October 2003 (Note 18).

Optical Technologies

The Optical Technologies segment recorded \$5.8 million of net restructuring and other charges in the third quarter of 2003. These charges included a charge of \$4.7 million for the writedown of the segment's molecular beam epitaxy product line that was sold in October 2003. The writedown was to reduce the carrying value of the product line assets to disposal value and primarily consisted of fixed assets. In addition, the segment recorded \$0.8 million of cash costs principally associated with facility consolidations. The cash costs included \$0.5 million of net abandoned-facility

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14. Restructuring and Other Costs, Net (continued)

lease costs for facilities described below; \$0.2 million of severance for 23 employees across all functions; and \$0.1 million of employee-retention costs at facilities being closed. The charges for abandoned facilities included costs of \$0.8 million for the consolidation of manufacturing facilities in California and Massachusetts, and are net of reversals of \$0.3 million for the favorable settlement of lease obligations on abandoned equipment. The charges for severance are net of reversals of \$0.3 million, primarily for the favorable resolution of accrued amounts that were in dispute. In addition, the segment recorded writedowns of \$0.3 million for abandoned fixed assets.

In the second quarter of 2003, this segment recorded \$0.4 million of net restructuring and other charges. These charges included \$0.9 million of cash costs principally associated with facility consolidations. The cash costs included \$0.7 million of severance for 65 employees across all functions and \$0.2 million of employee-retention costs at facilities being closed. In addition, the segment recorded writedowns of \$0.2 million for abandoned assets, net of recoveries. These charges were offset by a gain of \$0.7 million for the reversal of contract cancellation fees provided for in 2001 that were disputed and ultimately not required.

In the first quarter of 2003, this segment recorded \$1.3 million of net restructuring and other charges. These charges included \$1.0 million for the writedown of a facility held for sale to estimated disposal value. In addition, the segment recorded \$0.3 million of cash costs, including \$0.1 million of severance for 21 employees, primarily in manufacturing functions; \$0.1 million of employee-retention costs at facilities being closed; and \$0.1 million of other cash costs.

Corporate

The company recorded \$1.0 million of corporate restructuring and other charges in the third quarter of 2003, all of which were cash costs. The cash costs included \$0.4 million of third-party advisory fees, \$0.3 million of severance for 6 administrative employees, and \$0.3 million of relocation expenses for the consolidation of administrative facilities in France. While the company no longer has any public subsidiaries, it has numerous non-U.S. subsidiaries through which the formerly public subsidiaries conducted business. The third-party advisory fees are being incurred to simplify this legal structure.

In the second quarter of 2003, the company recorded \$0.8 million of restructuring and other charges at its corporate office, all of which were cash costs, primarily for third-party advisory fees.

In the first quarter of 2003, the company recorded \$0.6 million of restructuring and other charges at its corporate office, all of which were cash costs, primarily for third-party advisory fees.

General

The following table summarizes the company's severance actions in 2003.

<u>2001 Restructuring Plans</u>	<u>Number of Employees</u>
Remaining Terminations at December 28, 2002	30
Terminations Occurring to Date in 2003	(28)
Adjustment to Plan	<u>(2)</u>
Remaining Terminations at September 27, 2003	<u><u>—</u></u>

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14. Restructuring and Other Costs, Net (continued)

2002 Restructuring Plans

Remaining Terminations at December 28, 2002	311
Terminations Occurring to Date in 2003	(286)
Adjustment to Plan	<u>(10)</u>
Remaining Terminations at September 27, 2003	<u>15</u>

2003 Restructuring Plans

Terminations Announced in 2003	539
Terminations Occurring to Date in 2003	<u>(425)</u>
Remaining Terminations at September 27, 2003	<u>114</u>

The following table summarizes the cash components of the company's restructuring plans. The noncash components and other amounts reported as restructuring and other costs, net, in the accompanying 2003 statement of income have been summarized in the notes to the table.

(In thousands)	Severance	Employee Retention (a)	Abandonment of Excess Facilities	Other	Total
Pre-2000 Restructuring Plans					
Balance at December 28, 2002	\$ 264	\$ —	\$ —	\$ —	\$ 264
Payments	<u>(221)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(221)</u>
Balance at September 27, 2003	<u>\$ 43</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 43</u>
2000 Restructuring Plans					
Balance at December 28, 2002	\$ 426	\$ 233	\$ 65	\$ 80	\$ 804
Reserves reversed (b)	(93)	—	(68)	(75)	(236)
Transfer to accrued pension costs (c)	(290)	—	—	—	(290)
Payments	(76)	(140)	—	(5)	(221)
Currency translation	<u>33</u>	<u>—</u>	<u>3</u>	<u>—</u>	<u>36</u>
Balance at September 27, 2003	<u>\$ —</u>	<u>\$ 93</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 93</u>
2001 Restructuring Plans					
Balance at December 28, 2002	\$ 5,605	\$ 417	\$ 11,501	\$ 1,665	\$ 19,188
Costs incurred in 2003	100	115	1,672	208	2,095
Reserves reversed (b)	(1,245)	(90)	(882)	(814)	(3,031)
Payments	(2,083)	(413)	(6,058)	(618)	(9,172)
Currency translation	<u>384</u>	<u>—</u>	<u>428</u>	<u>14</u>	<u>826</u>
Balance at September 27, 2003	<u>\$ 2,761</u>	<u>\$ 29</u>	<u>\$ 6,661</u>	<u>\$ 455</u>	<u>\$ 9,906</u>

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14. Restructuring and Other Costs, Net (continued)

(In thousands)	Severance	Employee Retention (a)	Abandonment of Excess Facilities	Other	Total
2002 Restructuring Plans					
Balance at December 28, 2002	\$ 11,868	\$ 967	\$ 7,800	\$ 688	\$ 21,323
Costs incurred in 2003	1,946	1,421	471	1,858	5,696
Reserves reversed (b)	(645)	(56)	(332)	—	(1,033)
Payments	(10,610)	(2,008)	(3,731)	(2,475)	(18,824)
Currency translation	<u>625</u>	<u>18</u>	<u>219</u>	<u>102</u>	<u>964</u>
Balance at September 27, 2003	<u>\$ 3,184</u>	<u>\$ 342</u>	<u>\$ 4,427</u>	<u>\$ 173</u>	<u>\$ 8,126</u>
2003 Restructuring Plans					
Costs incurred in 2003 (d)	\$ 12,240	\$ 836	\$ 2,789	\$ 3,492	\$ 19,357
Reserves reversed (b)	(414)	—	(819)	(263)	(1,496)
Payments	(9,283)	(656)	(1,324)	(3,125)	(14,388)
Currency translation	<u>178</u>	<u>2</u>	<u>36</u>	<u>49</u>	<u>265</u>
Balance at September 27, 2003	<u>\$ 2,721</u>	<u>\$ 182</u>	<u>\$ 682</u>	<u>\$ 153</u>	<u>\$ 3,738</u>

- (a) Employee-retention costs are accrued ratably over the period through which employees must work to qualify for a payment.
- (b) Represents reductions in cost of plans as described in the discussion of restructuring actions by segment.
- (c) Balance of accrued restructuring costs for severance from 2000 plans related to pension liability associated with employees terminated in 2000, which was transferred to accrued pension costs in 2003.
- (d) Excludes net gains of \$0.2 million, primarily from the sale of a product line, in the Life and Laboratory Sciences segment; net gains of \$0.1 million, primarily from the sale of a building, offset by a writedown to disposal value of a business sold in October 2003, in the Measurement and Control segment; and noncash charges of \$6.1 million, primarily from the writedown to disposal value of a product line sold in October 2003 and a building held for sale, in the Optical Technologies segment.

The company expects to pay accrued restructuring costs as follows: severance, employee-retention obligations, and other costs, which principally consist of cancellation/termination fees, primarily through 2004; and abandoned-facility payments, over lease terms expiring through 2012.

15. Provision for Income Taxes

The company reversed a tax valuation allowance in the second quarter of 2003 totaling \$9.0 million, which reduced the company's income tax provision. The valuation allowance related to foreign tax credit carryforwards that the company expects will more likely than not be used following tax planning actions undertaken during the second quarter.

16. Discontinued Operations

During the third quarter of 2003, the company had a gain on disposal of discontinued operations of \$9.5 million. The company resolved several disputes and related claims in the quarter that it had retained following the sale of businesses in its discontinued operations. In connection with the resolution of these matters on favorable terms relative to the damages claimed and amount of established reserves, the company's pre-tax gain on disposal of the related businesses increased by \$6.9 million. The company recorded a tax provision of \$2.5 million on this gain. In addition, the company realized \$5.1 million of additional tax benefits from the disposal of businesses sold prior to 2003, principally foreign tax credits.

THERMO ELECTRON CORPORATION

16. Discontinued Operations (continued)

During the first quarter of 2003, the company recorded an after-tax gain on disposal of discontinued operations of \$5.0 million, resulting primarily from the sale of the last remaining business in discontinued operations, Peter Brotherhood Ltd., and a favorable post-closing adjustment resulting from the 2002 sale of its Trophy Radiologie business.

17. Litigation

Continuing Operations

The company has been named a defendant, along with many other companies, in a patent-infringement lawsuit brought by the Lemelson Medical, Education & Research Foundation, L.P. The suit asserts that products manufactured, used, or sold by the defendants infringe one or more patents related to methods of machine vision or computer-image analysis. The Lemelson action seeks damages, including enhanced damages for alleged willful infringement, attorney's fees, and injunctive relief.

The company intends to vigorously defend this matter. In the opinion of management, an unfavorable outcome could have a material adverse effect on the company's financial position as well as its results of operations and cash flows for a particular quarter or annual period.

Discontinued Operations

The company's Thermo Coleman Corporation subsidiary was named a defendant in a lawsuit initiated by two former employees. The suit alleged, among other things, that Thermo Coleman violated the Federal False Claims Act in connection with the performance of a government contract. The complaint sought the award of treble damages in an unspecified amount, plus other penalties. Thermo Coleman sold its core business in 2000, but retained this litigation as a term of the sale. This matter was dismissed in October 2003 and in connection with a settlement agreement among the former employees, the company, and other defendants, the company agreed to make a payment of \$450,000.

The company's continuing and discontinued operations are defendants in a number of other pending legal proceedings incidental to present and former operations. The company does not expect the outcome of these proceedings, either individually or in the aggregate, to have a material adverse effect on its financial position, results of operations, or cash flows.

18. Subsequent Events

Divestitures

In October 2003, the Measurement and Control segment sold its test and measurement business to SPX Corporation. Also in October 2003, the Optical Technologies segment sold its molecular beam epitaxy (MBE) product line to Oxford Instruments PLC. Aggregate proceeds from these transactions were \$23.8 million in cash, subject to post-closing adjustments. In the first nine months of 2003, the test and measurement business had revenues of \$19.4 million and an operating loss of \$0.9 million, including a \$1.6 million writedown to estimated disposal value. In the first nine months of 2003, the MBE product line had revenues of \$5.3 million and an operating loss of \$6.0 million, including a writedown of \$4.7 million to disposal value (Note 14).

Acquisitions

In October 2003, the Measurement and Control segment acquired the electronic personal dosimetry business of Siemens plc for approximately \$4.5 million in cash, subject to a post-closing adjustment.

In November 2003, the Life and Laboratory Sciences segment acquired Laboratory Management Services, Inc., a supplier of regulatory instrument and consulting services to the pharmaceutical and related industries, for \$5 million in cash and up to \$4 million of additional consideration through 2005 based on post-acquisition results of the acquired business. The purchase price is subject to a post-closing adjustment.

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Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, are made throughout this Management’s Discussion and Analysis of Financial Condition and Results of Operations. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words “believes,” “anticipates,” “plans,” “expects,” “seeks,” “estimates,” and similar expressions are intended to identify forward-looking statements. While the company may elect to update forward-looking statements in the future, it specifically disclaims any obligation to do so, even if the company’s estimates change, and readers should not rely on those forward-looking statements as representing the company’s views as of any date subsequent to the date of the filing of this Quarterly Report. There are a number of important factors that could cause the actual results of the company to differ materially from those indicated by such forward-looking statements, including those detailed under the heading “Forward-looking Statements” in this report on Form 10-Q.

The company’s discussion and analysis of its financial condition and results of operations is based upon its financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent liabilities. On an on-going basis, the company evaluates its estimates, including those related to bad debts, inventories, intangible assets, warranty obligations, income taxes, contingencies and litigation, restructuring, and discontinued operations. The company bases its estimates on historical experience, current market and economic conditions, and other assumptions that management believes are reasonable. The results of these estimates form the basis for judgments about the carrying value of assets and liabilities where the values are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The company believes the following represent its critical accounting policies and estimates used in the preparation of its financial statements:

- (a) The company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to pay amounts due. If the financial condition of the company’s customers were to deteriorate, reducing their ability to make payments, additional allowances would be required.
- (b) The company writes down its inventories for estimated obsolescence for differences between the cost and estimated net realizable value based on recent usage and expected demand. If ultimate usage or demand varies significantly from expected usage or demand, additional writedowns may be required.
- (c) The company periodically evaluates goodwill for impairment using market comparables for similar businesses or forecasts of discounted future cash flows. Should the fair value of the company’s goodwill decline because of reduced operating performance, market declines, or other indicators of impairment, charges for impairment of goodwill may be necessary.
- (d) The company reviews other long-lived assets for impairment when indication of potential impairment exists, such as a significant reduction in cash flows associated with the assets. Should future cash flows decline significantly from estimated amounts, charges for impairment of other long-lived assets may be necessary.
- (e) In instances where the company sells equipment with a related installation obligation, the company generally recognizes revenue related to the equipment when title passes. The company recognizes revenue related to the installation when it performs the installation. The allocation of revenue between the equipment and the installation is based on relative fair value at the time of sale. Should the fair value of either the equipment or the installation change, the company’s revenue recognition would be affected.

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Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations (continued)

- (f) In instances where the company sells equipment with customer-specified acceptance criteria, the company must assess whether it can demonstrate adherence to the acceptance criteria prior to the customer’s acceptance testing to determine the timing of revenue recognition. If the nature of customer-specified acceptance criteria were to change or grow in complexity such that the company could not demonstrate adherence, the company would be required to defer additional revenues upon shipment of its products until completion of customer acceptance testing.
- (g) At the time the company recognizes revenue it provides for the estimated cost of product warranties based primarily on historical experience. Should product failure rates or the actual cost of correcting product failures vary from estimates, revisions to the estimated warranty liability would be necessary.
- (h) The company estimates the degree to which tax assets and loss carryforwards will result in a benefit based on expected profitability by tax jurisdiction, and provides a valuation allowance for tax assets and loss carryforwards that it believes will more likely than not go unused. If it becomes more likely than not that a tax asset or loss carryforward will be used, the company reverses the related valuation allowance. Should the company’s actual future taxable income by tax jurisdiction vary from estimates, additional allowances or reversals thereof may be necessary.
- (i) The company estimates losses on contingencies and litigation and provides a reserve for these losses. Should the ultimate losses on contingencies and litigation vary from estimates, adjustments to those reserves may be required.
- (j) The company records restructuring charges for the cost of vacating facilities based on expected sub-rental income. Should actual cash flows associated with sub-rental income from vacated facilities vary from estimated amounts, adjustments may be required.
- (k) The company estimates the expected proceeds from any businesses held for sale and, when necessary, records losses to reduce the carrying value of these businesses to estimated realizable value. Should the actual or estimated proceeds, which would include post-closing purchase price adjustments, vary from current estimates, results could differ from expected amounts.

Results of Operations

During the first quarter of 2003, the company transferred management responsibility for several businesses between segments as follows: (1) the compositional-metrology business was moved to the Life and Laboratory Sciences segment from the Optical Technologies segment; (2) the ultra-high vacuum systems and semiconductor testing businesses were moved to the Measurement and Control segment from the Optical Technologies segment; and (3) Thermo Euroglas was moved to the Life and Laboratory Sciences segment from the Measurement and Control segment. In addition to these changes, during the first quarter of 2003, the company began allocating certain costs to the business segments previously classified as corporate expenses based on the estimated extent to which the segment benefited from the cost. Allocated costs principally include e-commerce, global sourcing, and marketing as well as some legal, human resources, and information systems costs. Prior-period segment information has been conformed to reflect these changes.

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Third Quarter 2003 Compared With Third Quarter 2002

Continuing Operations

Sales in the third quarter of 2003 were \$497.1 million, a decrease of \$20.1 million, or 4%, from the third quarter of 2002. The favorable effects of currency translation resulted in an increase in revenues of \$20.2 million in 2003. Sales decreased \$4.1 million due to divestitures, net of acquisitions. In addition to the changes in revenue resulting from currency translation, acquisitions, and divestitures, revenues decreased \$36.2 million, or 7%, primarily due to lower demand, as detailed below.

Operating income was \$42.4 million in the third quarter of 2003, compared with \$44.9 million in the third quarter of 2002. Operating income in the third quarter of 2003 was reduced by additional charges associated with restructuring plans initiated prior to 2003, other restructuring actions initiated in 2003, and certain other costs, net (Note 14). Operating income in the third quarter of 2002 was reduced by charges associated with restructuring plans initiated during 2001 and 2002, and certain other costs, net. The restructuring and other items totaled \$14.3 million and \$6.9 million in 2003 and 2002, respectively, and are discussed by segment below. Operating income decreased primarily due to higher restructuring and other costs, net, in 2003, offset by a lower cost base following recent restructuring actions. Among the factors contributing to a lower cost base is lower spending for selling, general and administrative expenses, which decreased 4% to \$134.3 million in the third quarter of 2003, primarily due to cost reduction measures including facility consolidations. In addition, spending on research and development activities declined 7% to \$34.9 million in the third quarter of 2003. The company has focused its spending on those projects with the highest estimated returns and expects to continue spending on research and development at an annual rate of 7% - 7.5% of revenues for at least the near term.

In response to a continued downturn in markets served by the company and in connection with the company's overall reorganization, restructuring actions were initiated in 2002 in a number of business units to reduce costs and redundancies, principally through headcount reductions and consolidation of facilities. Certain costs associated with these actions are recorded when incurred. Further actions were initiated in the first nine months of 2003. The company expects to incur an additional \$8 - \$10 million of restructuring costs through the remainder of 2003 and in 2004 for charges associated with these actions that cannot be recorded until incurred and for new actions being undertaken in the fourth quarter of 2003. The company believes that restructuring actions undertaken in 2002 and the first half of 2003 will be substantially completed in 2003 and that the actions undertaken in the second half of 2003 will be substantially completed in 2004.

Life and Laboratory Sciences

Sales in the Life and Laboratory Sciences segment increased \$1.4 million to \$301.5 million in the third quarter of 2003. The favorable effects of currency translation resulted in an increase in revenues of \$13.7 million in 2003. Sales decreased \$2.9 million due to product line divestitures. In addition to the changes in revenue resulting from currency translation and divestitures, revenues decreased \$9.4 million, or 3%, primarily due to lower demand. A \$16.7 million decrease in sales of instrumentation and scientific equipment, principally due to a downturn in demand from industrial markets, was offset in part by increased revenues from the segment's other products including clinical diagnostic and laboratory informatics tools. The company believes that the economic downturn in the manufacturing sector has affected the buying patterns of industrial customers, resulting in lower expenditures on capital spending.

Operating income margin increased to 14.5% in the third quarter of 2003 from 14.3% in the third quarter of 2002. (Operating income margin is operating income divided by revenues.) Operating income margin was affected by restructuring and other costs, net, of \$4.9 million and \$3.5 million in 2003 and 2002, respectively. The improved margin resulted from cost savings from material sourcing and facility consolidations and, to a lesser extent, a \$1.6 million improvement in operating income at a small business unit that had a loss in 2002. These improvements were offset in part by \$1.4 million of higher restructuring and other costs and, to a lesser extent, higher marketing and selling expenses due to several key commercial initiatives. The segment's commercial initiatives include key customer account management, increased advertising for a branding transition, and establishment of divisional call centers.

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Third Quarter 2003 Compared With Third Quarter 2002 (continued)

In the third quarter of 2003, the segment recorded restructuring and other costs, net, of \$4.9 million, substantially all of which were cash costs, primarily for severance, employee retention, abandoned facilities, and relocation expenses at businesses being consolidated (Note 14). Restructuring and other costs, net, in 2002 included \$2.7 million of cash costs, primarily for severance, abandoned facilities, and relocation expenses at businesses being consolidated. In addition, the segment recorded charges to cost of revenues of \$0.4 million for discontinued product lines and the sale of inventories revalued at the date of acquisition, and \$0.4 million of other charges, primarily for asset writedowns associated with facility consolidations.

Measurement and Control

Sales in the Measurement and Control segment decreased \$8.5 million, or 5%, to \$146.7 million in the third quarter of 2003. The favorable effects of currency translation resulted in an increase in revenues of \$5.5 million in 2003. Sales decreased \$1.2 million due to divestitures, net of an acquisition. In addition to the changes in revenue resulting from currency translation, divestitures, and an acquisition, revenues decreased \$12.8 million, or 8%, primarily due to weaker demand. The decrease in sales occurred primarily due to weaker demand in the process instruments and control technologies businesses, which had revenue declines approximately equal to one another. The weaker demand was primarily due to the continuing slowdown in the semiconductor and other industrial markets that has adversely affected customers in some of the segment's businesses. The decrease in revenues was offset in part by slightly higher revenues from the segment's environmental instruments business, primarily due to increased sales of equipment used in homeland security. The company expects that the inclusion of \$26.8 million of revenues in the fourth quarter of 2002 from the sale of explosives-detection equipment under a single order from the U.S. government and a continuing downturn in some markets served by the segment will unfavorably affect the segment's revenue comparisons with corresponding prior-year periods through at least the fourth quarter of 2003. A prolonged downturn could adversely affect the realizability of the segment's assets, which may result in charges for impairment. As of September 27, 2003, the segment's goodwill totaled \$419 million.

Operating income margin increased to 7.4% in the third quarter of 2003 from 5.6% in the third quarter of 2002. Operating income margin was affected by restructuring and other costs, net, of \$2.7 million in 2003 and \$5.6 million in 2002. The increase in the segment's operating income margin was due to \$2.9 million of lower restructuring and other costs, net, and a reduction in operating costs following restructuring actions in 2002 and 2003, offset in part by the effect on operating income margin of lower revenues.

In the third quarter of 2003, the segment recorded restructuring and other costs, net, of \$2.7 million, all of which were cash costs, primarily for severance, abandoned facilities, and relocation expenses at businesses being consolidated (Note 14). Restructuring and other costs, net, in 2002 included cash costs of \$10.4 million, principally for severance, abandoned facilities, relocation, and other costs of facility consolidations. The segment also recorded charges to cost of revenues of \$1.3 million for the sale of inventory revalued at the date of acquisition. These costs were offset by \$6.1 million of net gains, primarily on the sales of businesses, principally the July 2002 sale of Thermo BLH and Thermo Nobel.

Optical Technologies

Sales in the Optical Technologies segment decreased \$12.8 million, or 20%, to \$52.1 million in the third quarter of 2003. The favorable effects of currency translation resulted in an increase in revenues of \$1.0 million in 2003. In addition to the change in revenue resulting from currency translation, revenues decreased \$13.8 million, or 21%, primarily due to weaker demand. The weaker demand was primarily due to the continuing slowdown in the semiconductor and other industrial markets that has adversely affected the segment's customers. These industries are highly cyclical and have experienced downturns that began in 2001. Research funding for the scientific laser market has also remained slow and this, together with the downturn in industrial markets, has heightened competition in sales

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Third Quarter 2003 Compared With Third Quarter 2002 (continued)

to academic and research customers. During the first nine months of 2003, the segment's backlog decreased 4% to \$53.3 million. The company expects that the slowdowns in semiconductor and other industrial markets will continue to result in unfavorable revenue comparisons with corresponding prior-year periods through at least the fourth quarter of 2003. A prolonged downturn could adversely affect the realizability of the segment's assets, which may result in charges for impairment. As of September 27, 2003, the segment's goodwill totaled \$122 million.

Operating income margin was negative 10.3% in the third quarter of 2003, compared with 0.4% in the third quarter of 2002. Operating income margin was affected by restructuring and other costs, net, of \$5.8 million in 2003 and restructuring and other income, net, of \$1.0 million in 2002. The decrease in the segment's operating income margin was due to higher restructuring and other costs, offset in part by lower operating costs following restructuring actions in 2002 and 2003.

In the third quarter of 2003, the segment recorded \$5.8 million of restructuring and other costs, net. These costs included a charge of \$4.7 million for the writedown of a noncore product line that was sold in October 2003. In addition, the segment recorded cash costs of \$0.8 million, principally for abandoned facilities and severance costs at businesses being consolidated. These charges are net of a gain of \$0.3 million from favorable negotiations concerning leases for abandoned equipment. The segment also recorded asset writedowns of \$0.3 million for abandoned assets (Note 14). In connection with the sale of a noncore product line in October 2003, discussed above, the segment abandoned a manufacturing facility in the U.K. and expects to record a related charge in the fourth quarter of 2003 of approximately \$2 million for future lease obligations. Restructuring and other income, net, in 2002 included the reversal of \$0.6 million of severance reserves previously established in 2001 that were ultimately not required due to attrition and \$0.5 million of proceeds from the disposal of assets that were previously written down, offset by a \$0.1 million loss on the sale of a small business unit.

Other Income, Net

The company reported other income, net, of \$10.0 million and \$11.8 million in the third quarter of 2003 and 2002, respectively (Note 5). Other income, net, includes interest income, interest expense, gain on investments, net, equity in earnings of unconsolidated subsidiaries, and other items, net. Interest income decreased to \$2.9 million in 2003 from \$11.2 million in 2002, primarily due to lower invested cash balances following the repurchase and redemption of company securities, the payment of short-term notes payable, and, to a lesser extent, lower prevailing interest rates. The company expects that the lower short-term market interest rates existing in 2003 will continue to adversely affect the yield it earns as maturing investments originally invested at higher rates are reinvested at current lower market rates. Following redemptions of convertible debentures in April and July 2003 (Note 13) and the repurchase of \$84.1 million of the company's debt and equity securities in the first nine months of 2003, lower invested cash will also contribute to an expected reduction in interest income. Interest expense decreased to \$3.6 million in 2003 from \$8.9 million in 2002 as a result of the redemption, maturity, and repurchase of debentures, offset in part by interest on borrowings under securities-lending arrangements.

During 2003 and 2002, the company had gains on investments, net, of \$12.6 million and \$9.4 million, respectively. The gains included \$10.3 million in 2003 from the sale of shares of Thoratec Corporation, and \$6.6 million in 2002 from the sale of shares of FLIR Systems, Inc. Of the total gain from the sale of FLIR shares, \$2.3 million represents a recovery of amounts written down in prior years. At September 27, 2003, the company owns 6.7 million shares of Thoratec common stock with a fair market value of \$108 million and no longer owns shares of FLIR. In addition, during the third quarter of 2003, the company redeemed debentures, resulting in a charge of \$1.0 million (Note 13).

THERMO ELECTRON CORPORATION

Third Quarter 2003 Compared With Third Quarter 2002 (continued)

Provision for Income Taxes

The company's effective tax rate was 25.6% and 31.1% in the third quarter of 2003 and 2002, respectively. The effective tax rate for the third quarter of 2003 includes a reduction of 2.0% to adjust the year-to-date rate to the expected rate for the full year before the effect of the reversal of \$9.0 million of valuation allowance (Note 15). The effective tax rate decreased in 2003 primarily due to the full-year impact on the 2003 effective tax rate from a reorganization of the company's subsidiaries in several European countries throughout 2002 that resulted in a more tax-efficient corporate structure. In addition, the company reduced the estimate of its effective tax rate in 2003 based on tax planning, including repatriation of cash from non-U.S. subsidiaries, resulting in foreign tax credits.

Contingent Liabilities

The company is contingently liable with respect to certain lawsuits. An unfavorable outcome in the matter described in Note 17 could materially affect the company's financial position as well as its results of operations and cash flows for a particular quarterly or annual period.

Income from Continuing Operations

Income from continuing operations was flat at \$39.0 million in the third quarter of 2003 and 2002, respectively. Results in both periods were affected by restructuring, gains on the sale of Thoratec and FLIR shares, and other items, discussed above.

Discontinued Operations

During the third quarter of 2003, the company had a gain on disposal of discontinued operations of \$9.5 million. The company resolved several disputes and related claims in the quarter that it had retained following the sale of businesses in its discontinued operations. In connection with the resolution of these matters on favorable terms relative to the damages claimed and amount of established reserves, the company's pre-tax gain on disposal of the related businesses increased by \$6.9 million. The company recorded a tax provision of \$2.5 million on this gain. In addition, the company realized \$5.1 million of additional tax benefits from the disposal of businesses sold prior to 2003, principally foreign tax credits.

First Nine Months 2003 Compared With First Nine Months 2002

In November 2002, the EITF reached a consensus on EITF No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." The company elected to early adopt the provisions of EITF No. 00-21 and began applying the consensus prospectively in the first quarter of 2003. Under EITF No. 00-21, the company recognizes revenue and related costs for arrangements with customers that have multiple deliverables such as equipment and installation as each of these is delivered or completed based on their fair value. Previously, when installation was essential to functionality and not deemed inconsequential or perfunctory, all revenue was deferred until completion of installation. Revenues for products sold where installation was not essential to functionality and was deemed inconsequential or perfunctory were previously recognized upon shipment with estimated installation costs accrued. The adoption of EITF No. 00-21 increased revenues and diluted earnings per share by \$7.6 million and \$.01, respectively, during the first quarter of 2003. Where EITF No. 00-21 has had an impact, the company has presented below its percentage revenue changes between 2002 and 2003 both including and excluding the effect on the first quarter of 2003 of the adoption of EITF No. 00-21.

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First Nine Months 2003 Compared With First Nine Months 2002 (continued)

Continuing Operations

Sales in the first nine months of 2003 were \$1.514 billion, a decrease of \$3.9 million from the first nine months of 2002. The favorable effects of currency translation resulted in an increase in revenues of \$82.7 million in 2003. Sales decreased \$4.1 million due to divestitures, net of acquisitions. In addition to the changes in revenue resulting from currency translation, acquisitions, and divestitures, revenues decreased \$82.5 million, or 6%, primarily due to lower demand, as detailed below.

Operating income was \$130.0 million in the first nine months of 2003, compared with \$116.8 million in the first nine months of 2002. Operating income in the first nine months of 2003 was reduced by additional charges associated with restructuring plans initiated prior to 2003, other restructuring actions initiated in 2003, and certain other costs, net (Note 14). Operating income in the first nine months of 2002 was reduced by charges associated with restructuring plans initiated during 2001 and 2002, and certain other costs, net. The restructuring and other items totaled \$27.2 million and \$30.8 million in 2003 and 2002, respectively, and are discussed by segment below. Operating income increased primarily due to a lower cost base following recent restructuring actions and, to a lesser extent, lower restructuring and other costs, net, in 2003. Among the actions contributing to a lower cost base is lower spending on research and development activities, which decreased 6% to \$109.4 million in the first nine months of 2003 as the company focuses on those projects with the highest estimated returns.

Life and Laboratory Sciences

Sales in the Life and Laboratory Sciences segment increased \$43.2 million, or 5%, to \$914.7 million in the first nine months of 2003. The favorable effects of currency translation resulted in an increase in revenues of \$59.1 million in 2003. Sales decreased \$9.0 million due to product line divestitures, net of acquisitions. In addition to the changes in revenue resulting from currency translation, acquisitions, and divestitures, revenues decreased \$6.9 million, or 1%. An \$18.1 million decrease in sales of instrumentation and scientific equipment, principally due to a downturn in demand from industrial markets, was offset in part by increased sales of the segment's other products including clinical diagnostic and laboratory informatics tools.

Operating income margin decreased to 13.8% in the first nine months of 2003 from 14.4% in the first nine months of 2002. Operating income margin was affected by restructuring and other costs, net, of \$11.4 million and \$7.1 million in 2003 and 2002, respectively. In addition to the increase in restructuring and other costs in 2003, the decrease in operating income margin resulted from higher marketing and selling expenses due to several key commercial initiatives. The segment's commercial initiatives include key customer account management, increased advertising costs for a branding transition, and establishment of divisional call centers.

In the first nine months of 2003, the segment recorded restructuring and other costs, net, of \$11.4 million, including \$11.5 million of cash costs, primarily for severance, abandoned facilities, employee retention, and relocation expenses at businesses being consolidated. In addition, the segment recorded a charge of \$0.4 million to write down the carrying value of a building held for sale to net realizable value, offset by \$0.5 million of net gains, primarily from the sale of a product line (Note 14). Restructuring and other costs, net, in 2002 included \$6.4 million of cash costs, primarily for severance and employee retention at businesses being consolidated and charges to costs of revenue of \$1.2 million for discontinued product lines and the sale of inventories revalued at the date of acquisition. In addition, the segment wrote down \$0.4 million of fixed assets and realized a net gain of \$0.9 million on the sale of a product line, two small business units, and a building.

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First Nine Months 2003 Compared With First Nine Months 2002 (continued)

Measurement and Control

Sales in the Measurement and Control segment decreased \$7.4 million, or 2%, to \$453.0 million in the first nine months of 2003. The favorable effects of currency translation resulted in an increase in revenues of \$21.6 million in 2003. Sales increased \$6.4 million due to acquisitions, net of divestitures. In addition to the changes in revenue resulting from currency translation, acquisitions, and divestitures, revenues decreased \$35.4 million, or 8%, primarily due to weaker demand. The weaker demand was primarily due to economic conditions facing customers, particularly in the process instruments business where approximately 60% of the decrease occurred. The decrease in sales was offset in part by higher revenues from equipment used in homeland security.

Operating income margin decreased to 7.7% in the first nine months of 2003 from 7.8% in the first nine months of 2002. Operating income margin was affected by restructuring and other costs, net, of \$6.1 million and \$6.5 million in 2003 and 2002, respectively. The decrease in operating income margin resulted primarily from the effect of lower revenues, offset in part by cost reduction measures following restructuring actions in 2002 and 2003 and, to a lesser extent, \$0.4 million of lower restructuring and other costs, net.

In the first nine months of 2003, the segment recorded restructuring and other costs, net, of \$6.1 million, including cash costs of \$6.2 million, principally for severance, abandoned facilities, employee retention, and relocation expenses at businesses being consolidated. In addition, the segment recorded charges of \$2.0 million, primarily for the writedown of goodwill in the test and measurement business to reduce the carrying value to estimated disposal value, and for the writedown of assets at facilities being consolidated, offset by a gain of \$2.1 million on the sale of a building (Note 14). Restructuring and other costs, net, in 2002 included \$13.7 million of cash costs principally for severance and abandoned facilities, and net gains totaling \$8.5 million from the sale of businesses, including Thermo BLH and Thermo Nobel, the favorable resolution of a dispute on a business sold in 2000 and the sale of two small business units and a building. In addition, the segment recorded charges to cost of revenues of \$1.3 million for the sale of inventory revalued at the date of acquisition.

Optical Technologies

Sales in the Optical Technologies segment decreased \$39.7 million to \$154.9 million in the first nine months of 2003. The favorable effects of currency translation resulted in an increase in revenues of \$2.0 million in 2003. Sales decreased \$1.5 million as a result of a divestiture. In addition to the changes in revenue resulting from currency translation and a divestiture, revenues decreased \$40.2 million, or 21% (22% excluding the effect of the adoption of EITF No. 00-21) primarily due to weaker demand. The weaker demand was primarily due to the severe slowdown in the semiconductor and other industrial markets that has adversely affected customers in the segment's businesses. These industries are highly cyclical and have experienced downturns that began in 2001.

Operating income margin was negative 7.0% in the first nine months of 2003, compared with negative 11.9% in the first nine months of 2002. Operating income margin was affected by restructuring and other costs, net, of \$7.4 million and \$18.3 million in 2003 and 2002, respectively. The decrease in the segment's operating loss was principally due to lower restructuring and other costs and, to a lesser extent, cost reduction and productivity measures undertaken in 2002 and the suspension of telecommunications activities in the second quarter of 2002. These improvements were offset in part by the impact of lower revenues.

In the first nine months of 2003, the segment recorded \$7.4 million of restructuring and other costs, net. These costs included a charge of \$4.7 million for the writedown of a noncore product line that was sold in October 2003. In addition, the segment recorded cash costs of \$2.2 million, principally for severance, abandoned facilities, and employee retention at businesses being consolidated. In addition, the segment recorded a charge of \$1.0 million for the writedown of a facility held for sale to estimated disposal value, and writedowns of \$0.5 million for abandoned assets,

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First Nine Months 2003 Compared With First Nine Months 2002 (continued)

net of recoveries. These charges were offset by a gain of \$1.0 million for the reversal of contract cancellation fees that were disputed and ultimately not required and the favorable settlement of abandoned equipment lease obligations (Note 14). Restructuring and other costs, net, in 2002 included \$11.1 million of cash costs principally for severance and abandoned-equipment leases associated with suspended telecom initiatives. The cash costs also included \$0.7 million for the settlement of litigation. In addition, this segment wrote off assets totaling \$5.7 million, including \$5.5 million of abandoned fixed assets and \$0.2 million of goodwill at a business held for sale. This segment also recorded a charge of \$0.8 million resulting from employee options to purchase shares of Spectra-Physics becoming options to purchase shares of Thermo Electron following the acquisition of the minority interest in this business in February 2002. During the first nine months of 2002, the segment also recorded \$0.7 million of charges to cost of revenues for discontinued product lines.

Other Income, Net

The company reported other income, net, of \$28.1 million and \$110.0 million in the first nine months of 2003 and 2002, respectively (Note 5). Interest income decreased to \$17.7 million in 2003 from \$38.2 million in 2002, primarily due to lower invested cash balances following the repurchase and redemption of company securities, the payment of short-term notes payable, and, to a lesser extent, lower prevailing interest rates. Interest expense decreased to \$15.9 million in 2003 from \$32.6 million in 2002 as a result of the redemption, maturity, and repurchase of debentures, as well as entering into interest-rate swap arrangements, offset in part by interest on borrowings under securities-lending arrangements.

During 2003 and 2002, the company had gains on investments, net, of \$28.6 million and \$103.4 million, respectively. The gains included \$10.3 million in 2003 from the sale of shares of Thoratec and \$13.7 million and \$94.5 million in 2003 and 2002, respectively, from the sale of shares of FLIR. Of the total gain from the sale of FLIR shares, \$3.9 million and \$25.5 million in 2003 and 2002, respectively, represent a recovery of amounts written down in prior years. The company recorded income from equity in earnings of unconsolidated subsidiaries of \$2.2 million in 2002, primarily related to the investment in FLIR. Following the first quarter of 2002, the company discontinued reporting its share of FLIR's earnings. In addition, the company repurchased and redeemed debentures, resulting in charges of \$1.0 million during the first nine months of 2003 and 2002, respectively.

Provision for Income Taxes

The company's effective tax rate was 21.8% and 33.0% in the first nine months of 2003 and 2002, respectively. The effective tax rate decreased in 2003 primarily due to \$9.0 million of tax benefit from the reversal of a valuation allowance due to expected utilization of foreign tax credit carryforwards (Note 15). This tax benefit reduced the company's 2003 effective tax rate by 5.8%. The decrease was also due in part to the full-year impact on the 2003 effective tax rate from a reorganization of the company's subsidiaries in several European countries throughout 2002 that resulted in a more tax-efficient corporate structure and from a decrease in 2003 of gains from the sale of investment securities. In addition, the company reduced the estimate of its effective tax rate in 2003 based on tax planning including repatriation of cash from non-U.S. subsidiaries, resulting in foreign tax credits.

Minority Interest Income

Minority interest income of \$0.3 million in the first nine months of 2002 represents minority shareholders' allocable share of losses at Spectra-Physics through the date on which the company acquired the minority interest in this subsidiary in February 2002.

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First Nine Months 2003 Compared With First Nine Months 2002 (continued)

Income from Continuing Operations

Income from continuing operations was \$123.5 million in the first nine months of 2003, compared with \$152.2 million in the first nine months of 2002. Results in both periods were affected by restructuring, gains on the sale of Thoratec and FLIR shares, and other items, discussed above.

Discontinued Operations

During the first quarter of 2003, the company recorded an after-tax gain on disposal of discontinued operations of \$5.0 million, resulting primarily from the sale of the last remaining business in discontinued operations, Peter Brotherhood Ltd., and a favorable post-closing adjustment resulting from the 2002 sale of its Trophy Radiologic business.

During the third quarter of 2003, the company had a gain on disposal of discontinued operations of \$9.5 million. The company resolved several disputes and related claims in the quarter that it had retained following the sale of businesses in its discontinued operations. In connection with the resolution of these matters on favorable terms relative to the damages claimed and amount of established reserves, the company's pre-tax gain on disposal of the related businesses increased by \$6.9 million. The company recorded a tax provision of \$2.5 million on this gain. In addition, the company realized \$5.1 million of additional tax benefits from the disposal of businesses sold prior to 2003, principally foreign tax credits.

In February 2002, the company's discontinued operations sold 6.9 million shares of Thoratec stock for net proceeds of \$104 million and realized an after-tax gain of \$38.4 million. As a result of new tax regulations concerning deductible losses from divested businesses, the company revised its estimate of the tax consequences of business disposals in discontinued operations and recorded a tax benefit of \$19.0 million in the first six months of 2002. In addition, the company sold the last remaining component of its former power-generation business and realized a gain from the disposition totaling \$13.0 million, primarily for previously unrecognized tax benefits that were realized upon the sale.

Liquidity and Capital Resources

First Nine Months 2003

Consolidated working capital was \$703.5 million at September 27, 2003, compared with \$667.8 million at December 28, 2002. Included in working capital were cash, cash equivalents, and short-term available-for-sale investments of \$393.4 million at September 27, 2003, compared with \$875.5 million at December 28, 2002. This decrease was due to cash of \$697.8 million used in financing activities, offset in part by cash provided by operating and investing activities, as discussed below.

Cash provided by operating activities was \$102.8 million during the first nine months of 2003, including \$108.8 million provided by continuing operations and \$6.0 million used by discontinued operations. Payments for restructuring actions of the company's continuing operations, principally severance, lease costs, and other expenses of real estate consolidation, used cash of \$27.8 million, net of taxes, in the first nine months of 2003. Aside from cash used for restructuring actions, a decrease in other current liabilities used cash of \$25.2 million, including \$11.7 million of accrued payroll and employee benefits due to the timing of payments and \$11.4 million for accrued income taxes. The use of cash of \$6.0 million for discontinued operations was principally due to the payment of liabilities, including settlement of litigation and lease payments on abandoned facilities.

THERMO ELECTRON CORPORATION

Liquidity and Capital Resources (continued)

In connection with restructuring actions undertaken by continuing operations, the company had accrued \$21.9 million for restructuring costs at September 27, 2003. The company expects to pay approximately \$10.1 million of this amount for severance, employee retention, and other costs primarily through 2004. The balance of \$11.8 million will be paid for lease obligations over the remaining terms of the leases, with approximately three-quarters to be paid through 2004 and the remainder through 2012. In addition, at September 27, 2003, the company had accrued \$6.4 million for acquisition expenses. Accrued acquisition expenses included \$0.2 million of severance and relocation obligations, which the company expects to pay primarily through 2003. The balance primarily represents abandoned-facility payments that will be paid over the remaining terms of the leases through 2014.

During the first nine months of 2003, the primary investing activities of the company's continuing operations, excluding available-for-sale investment activities, included the purchase of property, plant, equipment, and collection of a note receivable. The company's continuing operations expended \$31.4 million for purchases of property, plant, and equipment, and received proceeds from dispositions of \$6.3 million. In April and June 2003, the company received aggregate cash payments of \$75.6 million, including \$69.1 million of principal payments, plus interest, from Trimble Navigation Limited as complete and early payment of Trimble's note to the company. In addition, the company expended \$3.1 million, net of cash acquired, for product line acquisitions (Note 2). In October 2003, the company sold a business and a product line for aggregate proceeds of \$23.8 million in cash. In October and November 2003, the company acquired two businesses for \$9.5 million in cash (Note 18).

The company's financing activities used \$697.8 million of cash during the first nine months of 2003, including \$694.1 million for continuing operations. During the first nine months of 2003, the company's continuing operations expended \$375.6 million to reduce short-term notes payable. The company's continuing operations received net proceeds of \$35.5 million from the exercise of employee stock options. During the first nine months of 2003, the company expended \$352.2 million to redeem and repurchase its debt securities (Note 13) and repurchase its equity securities, of which \$53.7 million was used to repurchase 2.8 million shares of the company's common stock. As of September 27, 2003, the company had approximately \$77.4 million remaining under Board of Directors' authorizations to repurchase its own securities. The repurchases and redemptions of debt have been made with the objective of reducing interest costs.

The company has no material commitments for purchases of property, plant, and equipment and expects that for all of 2003, such expenditures will approximate \$45 - \$50 million. The company's contractual obligations and other commercial commitments did not change materially between December 28, 2002 and September 27, 2003.

The company has reached an agreement to acquire Jouan SA (Note 2) for 110.9 million euros and the assumption of approximately 7.1 million euros of consolidated net debt. Completion of the acquisition is subject to various regulatory approvals and is expected to occur before the end of 2003. The company expects to finance the acquisition with existing cash balances and, if necessary, borrowings under its revolving credit facility.

The company believes that its existing resources, including cash and investments, future cash flow from operations, and available borrowings under credit facilities are sufficient to meet the working capital requirements of its existing businesses for the foreseeable future, including at least the next 24 months.

First Nine Months 2002

Cash used by operating activities was \$1.3 million during the first nine months of 2002, including \$52.3 million provided by continuing operations and \$53.6 million used by discontinued operations. Payments for restructuring actions of the company's continuing operations, principally severance, lease costs, and other expenses of real estate consolidation, used cash of \$50.0 million, net of taxes, in the first nine months of 2002. Aside from cash used for restructuring actions, a decrease in other current liabilities used cash of \$20.3 million, including \$11.4 million of accrued payroll and employee benefits due to timing of payments, and \$8.8 million of accrued interest, principally due

THERMO ELECTRON CORPORATION

Liquidity and Capital Resources (continued)

to a debt redemption. The company's cash flow from continuing operations in the first nine months of 2002 was reduced by income tax payments of approximately \$34 million related to gains from the sale of investments. The use of cash of \$53.6 million from discontinued operations was principally due to the payment of liabilities, including the settlement of litigation.

During the first nine months of 2002, the primary investing activities of the company's continuing operations, excluding available-for-sale investment activities, included the sale of other investments, acquisitions, the collection of notes receivable, the purchase of shares of a majority-owned subsidiary, and the purchase of property, plant, and equipment. The company's continuing operations received proceeds of \$65.3 million from the sale of other investments, principally shares of FLIR. In addition, the company's continuing operations expended \$78.3 million for acquisitions, \$22.1 million to purchase the remaining minority-owned shares of its Spectra-Physics subsidiary, and \$36.2 million for purchases of property, plant, and equipment. The company's continuing operations collected \$74.0 million from notes receivable, principally the repayment of Viasys Healthcare Inc.'s \$33.4 million principal amount note in May 2002 and repayments from Trimble in March 2002. During the first nine months of 2002, investing activities of the company's discontinued operations provided \$106.0 million of cash, primarily representing proceeds of \$105 million from the sale of Thoratec common stock.

The company's financing activities used \$459.9 million of cash during the first nine months of 2002, substantially all for continuing operations. During the first nine months of 2002, the company's continuing operations expended \$456.3 million to redeem all of its outstanding 4 1/4% and 4 5/8% subordinated convertible debentures due 2003 and expended \$5.8 million for repayments of other long-term obligations. The redemption price was 100% of the principal amount of the debentures, plus accrued interest. The company increased short-term notes payable by \$276.5 million, primarily to partially fund the debt redemption. During the first nine months of 2002, the company's continuing operations received net proceeds of \$15.0 million from the exercise of employee stock options and expended \$292.7 million to repurchase its securities.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

The company's exposure to market risk from changes in interest rates, currency exchange rates, and equity prices has not changed materially from its exposure at year-end 2002.

Item 4 – Controls and Procedures

The company's management, with the participation of the company's chief executive officer and chief financial officer, evaluated the effectiveness of the company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 27, 2003. Based on this evaluation, the company's chief executive officer and chief financial officer concluded that, as of September 27, 2003, the company's disclosure controls and procedures were effective in providing reasonable assurance that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

There have been no changes in the company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the fiscal quarter ended September 27, 2003 that have materially affected or are reasonably likely to materially affect the company's internal control over financial reporting.

THERMO ELECTRON CORPORATION

Forward-looking Statements

In connection with the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, we caution readers that the following important factors, among others, in some cases have affected, and in the future could affect, our actual results and could cause our actual results in 2003 and beyond to differ materially from those expressed in any forward-looking statements made by us.

We must develop new products, adapt to rapid and significant technological change, and respond to introductions of new products in order to remain competitive. Our growth strategy includes significant investment in and expenditures for product development, including in the area of proteomics. We sell our products in several industries that are characterized by rapid and significant technological changes, frequent new product and service introductions, and enhancements and evolving industry standards. Without the timely introduction of new products, services, and enhancements, our products and services will likely become technologically obsolete over time, in which case our revenue and operating results would suffer.

Our customers use many of our products to develop, test, and manufacture their own products. As a result, we must anticipate industry trends and develop products in advance of the commercialization of our customers’ products. If we fail to adequately predict our customers’ needs and future activities, we may invest heavily in research and development of products and services that do not lead to significant revenue.

Many of our existing products and those under development are technologically innovative and require significant planning, design, development, and testing at the technological, product, and manufacturing-process levels. These activities require us to make significant investments.

Products in our markets undergo rapid and significant technological change because of quickly changing industry standards and the introduction of new products and technologies that make existing products and technologies uncompetitive or obsolete. Our competitors may adapt more quickly to new technologies and changes in customers’ requirements than we can. The products that we are currently developing, or those we will develop in the future, may not be technologically feasible or accepted by the marketplace, and our products or technologies could become uncompetitive or obsolete.

We sell our products and services to a number of companies that operate in cyclical industries, which would adversely affect our results of operations when those industries experience a downturn. The growth and profitability of some of our businesses depend in part on sales to industries that are subject to cyclical downturns and are experiencing slowing trends. For example, our Optical Technologies segment depends in part on sales to the semiconductor industry and our Measurement and Control segment depends in part on sales to the cement industry. A continued slowdown in these industries would adversely affect sales by these segments, which in turn would adversely affect our revenues and results of operations.

Our business is adversely impacted by the continuing general economic slowdown and related uncertainties affecting markets in which we operate. Continuing adverse economic conditions could adversely impact our business, resulting in:

- reduced demand for some of our products;
- increased risk of excess and obsolete inventories;
- increased pressure on the prices for our products and services; and
- greater difficulty in collecting accounts receivable.

For example, continued softness in the laboratory equipment, industrial manufacturing, and semiconductor markets could adversely affect our future operating results.

THERMO ELECTRON CORPORATION

Forward-looking Statements (continued)

Changes in governmental regulations may reduce demand for our products or increase our expenses. We compete in many markets in which we and our customers must comply with federal, state, local, and international regulations, such as environmental, health and safety, and food and drug regulations. We develop, configure, and market our products to meet customer needs created by those regulations. Any significant change in regulations could reduce demand for our products. For example, many of our instruments are marketed to the pharmaceutical industry for use in discovering and developing drugs. Changes in the U.S. Food and Drug Administration's regulation of the drug discovery and development process could have an adverse effect on the demand for these products.

Demand for most of our products depends on capital spending policies of our customers and on government funding policies. Our customers include manufacturers of semiconductors and products incorporating semiconductors, pharmaceutical and chemical companies, laboratories, universities, healthcare providers, government agencies, and public and private research institutions. Many factors, including public policy spending priorities, available resources, and product and economic cycles, have a significant effect on the capital spending policies of these entities. These policies in turn can have a significant effect on the demand for our products.

Our inability to protect our intellectual property could have a material adverse effect on our business. In addition, third parties may claim that we infringe their intellectual property, and we could suffer significant litigation or licensing expense as a result. We place considerable emphasis on obtaining patent and trade secret protection for significant new technologies, products, and processes because of the length of time and expense associated with bringing new products through the development process and into the marketplace. Our success depends in part on our ability to develop patentable products and obtain and enforce patent protection for our products both in the United States and in other countries. We own numerous U.S. and foreign patents, and we intend to file additional applications, as appropriate, for patents covering our products. Patents may not be issued for any pending or future patent applications owned by or licensed to us, and the claims allowed under any issued patents may not be sufficiently broad to protect our technology. Any issued patents owned by or licensed to us may be challenged, invalidated, or circumvented, and the rights under these patents may not provide us with competitive advantages. In addition, competitors may design around our technology or develop competing technologies. Intellectual property rights may also be unavailable or limited in some foreign countries, which could make it easier for competitors to capture increased market position. We could incur substantial costs to defend ourselves in suits brought against us or in suits in which we may assert our patent rights against others. An unfavorable outcome of any such litigation could materially adversely affect our business and results of operations.

We also rely on trade secrets and proprietary know-how which we seek to protect our products, in part, by confidentiality agreements with our collaborators, employees, and consultants. These agreements may be breached and we may not have adequate remedies for any breach. In addition, our trade secrets may otherwise become known or be independently developed by our competitors.

Third parties may assert claims against us to the effect that we are infringing on their intellectual property rights. We could incur substantial costs and diversion of management resources in defending these claims, which could have a material adverse effect on our business, financial condition, and results of operations. In addition, parties making these claims could secure a judgment awarding substantial damages, as well as injunctive or other equitable relief, which could effectively block our ability to make, use, sell, distribute, or market our products and services in the United States or abroad. In the event that a claim relating to intellectual property is asserted against us, or third parties not affiliated with us hold pending or issued patents that relate to our products or technology, we may seek licenses to such intellectual property or challenge those patents. However, we may be unable to obtain these licenses on commercially reasonable terms, if at all, and our challenge of the patents may be unsuccessful. Our failure to obtain the necessary licenses or other rights could prevent the sale, manufacture, or distribution of our products and, therefore, could have a material adverse effect on our business, financial condition, and results of operations.

THERMO ELECTRON CORPORATION

Forward-looking Statements (continued)

We have retained contingent liabilities from businesses that we have sold. From 1997 through 2002, we divested over 60 businesses with aggregate annual revenues in excess of \$2 billion. As part of these transactions, we retained responsibility for some of the contingent liabilities related to these businesses, such as lawsuits, product liability claims, and potential claims by buyers that representations and warranties we made about the businesses were inaccurate. The resolution of these contingencies has not had a material adverse effect on our results of operations or financial condition; however, we can not be certain that this favorable pattern will continue.

We face a number of challenges in integrating and consolidating our businesses. We have historically operated our businesses largely as autonomous, unaffiliated operations. For the past few years, we have been consolidating our operations and managing them in a more coordinated manner. The following factors may make it difficult to successfully complete the integration and consolidation of our operations:

- Our success in integrating our businesses depends on our ability to coordinate or consolidate geographically separate organizations and integrate personnel with different business backgrounds and corporate cultures.
- Our ability to combine our businesses requires coordination of previously autonomous administrative, sales and marketing, distribution, and accounting and finance functions, and expansion and integration of information and management systems.
- The integration and consolidation process could be disruptive to our businesses.

Moreover, we may not be able to realize all of the cost savings and other benefits that we expect to result from the integration and consolidation process.

Our results could be impacted if we are unable to realize potential future savings from new sourcing initiatives. As part of our corporate consolidation over the past two years, we have undertaken significant cost-savings initiatives relating to sourcing materials and services purchased by us throughout our businesses. While we anticipate continued significant savings from additional sourcing initiatives, future savings opportunities may be fewer and smaller in size, and may be more difficult to achieve.

Implementation of our new branding strategy may be difficult and could adversely affect our business. We historically operated our business largely as autonomous, unaffiliated companies and as a result each of our businesses independently created and developed its own brand names. We are implementing a new marketing and branding strategy which involves the transition from multiple, unrelated brands to two brands, Thermo Electron and Spectra-Physics. Several of our existing brands such as Finnigan, Nicolet, and Oriel command strong market recognition and customer loyalty. We believe the transition to the two new brands will enhance and strengthen our collective brand image and brand awareness across the entire company. Our success in transitioning our brands depends on many factors, including effective communication of the transition to our customers, acceptance and recognition by customers of these new brands, and successful execution of the branding campaign by our marketing and sales teams. If we are not successful in implementing this strategy and transitioning our brands, we may experience erosion in our product recognition, brand image and customer loyalty, and a decrease in demand for our products.

It may be difficult for us to implement our strategies for improving internal growth. Some of the markets in which we compete have been flat or declining over the past several years. To address this issue, we are pursuing a number of strategies to improve our internal growth, including:

- finding new markets for our products and expanding our service offerings;
- developing new applications for our technologies;
- combining sales and marketing operations in appropriate markets to compete more effectively;
- funding research and development;
- commencing key customer initiatives;
- strengthening our presence in selected geographic markets; and
- developing commercial tools and infrastructure to increase and support cross-selling opportunities of products and services to take advantage of our breadth in product offerings.

We may not be able to successfully implement these strategies, and these strategies may not result in the growth of our business.

THERMO ELECTRON CORPORATION

Forward-looking Statements (continued)

We have significant international operations, which entail the risk that exchange rate fluctuations may negatively affect demand for our products and our profitability. International revenues account for a substantial portion of our revenues, and we intend to continue expanding our presence in international markets. In 2002, our international revenues from continuing operations, including export revenues from the United States, accounted for approximately 52% of our total revenues. International revenues are subject to the risk that fluctuations in exchange rates may adversely affect product demand and the profitability in U.S. dollars of products and services provided by us in international markets, where payment for our products and services is made in the local currency. For example, while in fiscal 2002, currency translation had a favorable effect on revenues of our continuing operations of \$28.7 million, in fiscal 2001, the unfavorable effects of currency translation decreased revenues of our continuing operations by \$46.5 million.

We have acquired several companies and businesses; as a result we have recorded significant goodwill on our balance sheet, which we must continually evaluate for potential impairment. We have acquired significant intangible assets, including approximately \$1.4 billion of goodwill that we have recorded on our balance sheet as of September 27, 2003. We assess the realizability of the goodwill we have on our books annually as well as whenever events or changes in circumstances indicate that the goodwill may be impaired. These events or circumstances generally include operating losses or a significant decline in earnings associated with the acquired business or asset. Our ability to realize the value of the goodwill will depend on the future cash flows of these businesses. These cash flows in turn depend in part on how well we have integrated these businesses.

PART II – OTHER INFORMATION

Item 6 – Exhibits and Reports on Form 8-K

(a) Exhibits

See Exhibit Index on page immediately preceding exhibits.

(b) Report on Form 8-K

On July 23, 2003, the company furnished a Current Report on Form 8-K with respect to the company's financial results for the quarter ended June 28, 2003.

THERMO ELECTRON CORPORATION

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 as of the 6th day of November 2003.

THERMO ELECTRON CORPORATION

/s/ Theo Melas-Kyriazi

Theo Melas-Kyriazi

Vice President and Chief Financial Officer

/s/ Peter E. Hornstra

Peter E. Hornstra

Corporate Controller and Chief Accounting Officer

THERMO ELECTRON CORPORATION

EXHIBIT INDEX

Exhibit Number	Description
31.1	Certification of Chief Executive Officer required by Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer required by Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer required by Exchange Act Rules 13a-14(b) and 15d-14(b), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of Chief Financial Officer required by Exchange Act Rules 13a-14(b) and 15d-14(b), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

*Certification is not deemed “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section. Such certification is not deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.