

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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**FORM 8-K**

CURRENT REPORT

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

Date of Report  
(Date of earliest event reported):

May 3, 2013

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**THERMO FISHER SCIENTIFIC INC.**

(Exact name of Registrant as specified in its Charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

1-8002  
(Commission File Number)

04-2209186  
(I.R.S. Employer  
Identification Number)

81 Wyman Street  
Waltham, Massachusetts  
(Address of principal executive offices)

02451  
(Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

## THERMO FISHER SCIENTIFIC INC.

### Item 8.01 Other Events

In February 2013, in connection with a change in management responsibility for two product lines, the company transferred its water analysis and research serum media product lines to the Laboratory Products and Services segment from the Analytical Technologies segment. The Company has historically moved a product line between segments when a shift in strategic focus of either the product line or a segment more closely aligns the product line with a segment different than that in which it had previously been reported. The results of the transferred product lines were reported as part of the Laboratory Products and Services segment for each period presented in the Company's first quarter 2013 Quarterly Report on Form 10-Q filed with the SEC on May 3, 2013.

Exhibit 99.1 of this Form 8-K updates Items 7 and 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2012 (the "2012 Form 10-K"), which was filed with the Securities and Exchange Commission on February 27, 2013, to reflect the reclassification of segment information due to the two product line transfers discussed above. The segment reclassification had no effect on the Company's historical reported net income or earnings per share.

The information set forth in Exhibit 99.1 continues to report and disclose information as of February 27, 2013, the date the 2012 Form 10-K was filed, and the Company has not updated or amended the disclosures contained therein to reflect events that have occurred since the filing of the 2012 Form 10-K, or modified or updated those disclosures in any way other than as required to update the segment disclosures for all periods presented to reflect the transfer of two product lines to the Laboratory Products and Services segment from the Analytical Technologies segment. Accordingly, Exhibit 99.1 should be read in conjunction with the Company's filings made with the SEC subsequent to the filing of the 2012 Form 10-K.

This Current Report on Form 8-K contains forward-looking statements that involve a number of risks and uncertainties. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are set forth in the Company's Quarterly Report on Form 10-Q for the quarter ended March 30, 2013, under the caption "Risk Factors," which is on file with the Securities and Exchange Commission and available in the "Investors" section of our Website under the heading "SEC Filings." Important factors that could cause actual results to differ materially from those indicated by forward-looking statements include risks and uncertainties relating to: the need to develop new products and adapt to significant technological change; implementation of strategies for improving internal growth; general worldwide economic conditions and related uncertainties; dependence on customers' capital spending policies and government funding policies; the effect of exchange rate fluctuations on international operations; the effect of healthcare reform legislation; use and protection of intellectual property; the effect of changes in governmental regulations; the effect of laws and regulations governing government contracts; and the effect of competing with certain of our customers and suppliers. While we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, even if our estimates change and, therefore, you should not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Current Report on Form 8-K.

### Item 9.01 Financial Statements and Exhibits

(d)	Exhibits	
	23.1	Consent of PricewaterhouseCoopers LLP
	99.1	Form 10-K Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and Form 10-K Item 8. Financial Statements and Schedule
	101.INS	XBRL Instance Document.
	101.SCH	XBRL Taxonomy Extension Schema Document.
	101.CAL	XBRL Taxonomy Calculation Linkbase Document.
	101.DEF	XBRL Taxonomy Definition Linkbase Document.
	101.LAB	XBRL Taxonomy Label Linkbase Document.
	101.PRE	XBRL Taxonomy Presentation Linkbase Document.

**THERMO FISHER SCIENTIFIC INC.**

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets at December 31, 2012, and 2011 (ii) Consolidated Statements of Income for the years ended December 31, 2012, 2011 and 2010, (iii) Consolidated Statement of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010, (v) Consolidated Statement of Shareholders' Equity for the years ended December 31, 2012, 2011 and 2010 and (vi) Notes to Consolidated Financial Statements.

**THERMO FISHER SCIENTIFIC INC.**

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, on this 3rd day of May, 2013.

THERMO FISHER SCIENTIFIC INC.

By: /s/ Peter E. Hornstra  
Peter E. Hornstra  
Vice President and Chief Accounting Officer

## THERMO FISHER SCIENTIFIC INC.

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Reference is made throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations to Notes to Consolidated Financial Statements, which begin on page F-1 of this report.

#### Overview of Results of Operations and Liquidity

The company develops, manufactures and sells a broad range of products that are sold worldwide. The company expands the product lines and services it offers by developing and commercializing its own technologies and by making strategic acquisitions of complementary businesses. The company's continuing operations fall into three business segments (see Note 3): Analytical Technologies, Specialty Diagnostics and Laboratory Products and Services.

The results of two businesses sold in April 2011 and a business sold in October 2012, have been classified as discontinued operations in the accompanying financial statements. Prior period results have been adjusted to conform to this presentation. The results discussed below refer to the company's continuing operations unless otherwise noted.

(Dollars in millions)	2012		2011	
<b>Revenues</b>				
Analytical Technologies	\$ 4,017.9	32.1%	\$ 3,739.7	32.4%
Specialty Diagnostics	2,962.3	23.7%	2,469.9	21.4%
Laboratory Products and Services	6,053.7	48.4%	5,831.2	50.4%
Eliminations	(524.0)	(4.2)%	(482.0)	(4.2)%
	<u>\$ 12,509.9</u>	<u>100%</u>	<u>\$ 11,558.8</u>	<u>100%</u>

Sales in 2012 were \$12.51 billion, an increase of \$951 million from 2011. The increase was due to acquisitions, including Phadia and Dionex, and higher sales at existing businesses, offset in part by the unfavorable effects of currency translation. Had Phadia, Dionex and the company been combined from the beginning of 2011, revenues would have increased \$403 million (3%) over pro forma 2011 revenues. Aside from the effects of currency translation and other acquisitions, net of divestitures, revenues in 2012 increased \$474 million (4%) over pro forma 2011 revenues (discussed in total and by segment below). The pro forma increase in revenues was primarily due to increased demand. Demand from customers in academic and government markets slowed such that growth was nominal in 2012 and demand from customers in industrial markets slowed such that growth was nominal in the second half of 2012. The company expects weakness in academic and government markets will continue in the near term due in part to uncertainty in government funding expectations in the U.S. and Europe. The company expects slowness in industrial markets will continue in the near term due to global economic uncertainty.

The company's strategy is to augment internal growth at existing businesses with complementary acquisitions such as those completed in 2012 and 2011. The company's principal recent acquisitions are described below.

- One Lambda, a provider of transplant diagnostics, was acquired in September 2012 to enhance the company's presence in specialty *in vitro* diagnostics and add new capabilities to the company's transplant-testing workflow.
- Doe & Ingalls, a channel for specialty production chemicals and provider of customized supply-chain services to life sciences and microelectronics industries, was acquired in May 2012 to expand the company's products and services that address the production market.
- Phadia, a global leader in the development, manufacturing and marketing of complete blood-test systems to support the clinical diagnosis and monitoring of allergy and autoimmune diseases, was acquired in August 2011 to expand the company's specialty diagnostics offerings.

## THERMO FISHER SCIENTIFIC INC.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Overview of Results of Operations and Liquidity (continued)

- Dionex, a global leader in the manufacturing and marketing of ion and liquid chromatography and sample preparation systems, consumables, and software for chemical analysis, was acquired in May 2011 to expand the company's chromatography systems portfolio.

In 2012, total company operating income and operating income margin were \$1.48 billion and 11.8%, respectively, compared with \$1.25 billion and 10.8%, respectively, in 2011. The increase in operating income was primarily due to profit on incremental sales from acquisitions and existing businesses and, to a lesser extent, productivity improvements, net of inflationary cost increases and \$84 million of lower acquisition-related charges in 2012. The increase was offset in part by commercial investments and an increase in amortization expense of \$100 million in 2012, primarily related to the acquisitions of Phadia and Dionex. The company's references throughout this discussion to productivity improvements generally refer to improved cost efficiencies from its Practical Process Improvement (PPI) processes, reduced costs resulting from global sourcing initiatives and a lower cost structure following restructuring actions including headcount reductions and consolidation of facilities.

The company's effective tax rates were 0.9% and 9.7% in 2012 and 2011, respectively. Due primarily to the non-deductibility of intangible asset amortization, the company's cash payments for income taxes for its continuing operations were higher than its income tax expense for financial reporting purposes and totaled \$331 million and \$353 million in 2012 and 2011, respectively. The decrease in the effective tax rate was due in part to increased earnings in lower tax jurisdictions including the effect of the Phadia acquisition. The tax provision in 2012 was favorably affected by \$53 million, or 4.1 percentage points, as a result of adjustments to deferred tax balances due to changes in tax rates, particularly a lower tax rate in Sweden. The tax provision in 2011 was unfavorably affected by \$12 million, or 1.0 percentage points, as a result of adjustments to deferred tax balances due to changes in tax rates, offset in part by \$8 million, or 0.7 percentage points, by the ability to use tax loss carryforwards as a result of the Phadia acquisition. The company expects its effective tax rate in 2013 will be between 5% and 7% based on currently forecasted rates of profitability in the countries in which the company conducts business. The tax provision in 2013 will benefit from an estimated \$13 million of U.S. tax credits for research and development activities in both 2012 and 2013 as a result of legislation enacted in January 2013.

Income from continuing operations increased to \$1.26 billion in 2012, from \$1.02 billion in 2011, primarily due to increased operating income and lower income taxes, offset in part by higher interest expense associated with debt to fund acquisitions.

During 2012, the company's cash flow from operations totaled \$2.04 billion (after deducting \$28 million used by discontinued operations), compared with \$1.69 billion (including \$14 million from discontinued operations) for 2011. The increase resulted primarily from higher income before amortization and depreciation in 2012 compared to 2011.

As of December 31, 2012, the company's short-term debt totaled \$93 million, including \$50 million of commercial paper obligations. The company has revolving credit facilities with a bank group that provide up to \$2.0 billion of unsecured multi-currency revolving credit. The credit facilities include a \$1 billion 5-year credit agreement, with the ability to request an additional \$500 million, plus a \$500 million 364-day credit agreement. If the company borrows under these facilities, it intends to leave undrawn an amount equivalent to outstanding commercial paper to provide a source of funds in the event that commercial paper markets are not available. As of December 31, 2012, no borrowings were outstanding under either facility, although available capacity was reduced by approximately \$50 million as a result of outstanding letters of credit.

The company believes that its existing cash and short-term investments of \$855 million as of December 31, 2012, and the company's future cash flow from operations together with available borrowing capacity under its revolving credit agreements are sufficient to meet the cash requirements of its existing businesses for the foreseeable future, including at least the next 24 months.

**THERMO FISHER SCIENTIFIC INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
**AND RESULTS OF OPERATIONS**

**Critical Accounting Policies and Estimates**

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 management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure of contingent liabilities. On an on-going basis, management evaluates its estimates, including those related to bad debts, inventories, business combinations, intangible assets and goodwill, equity investments, sales returns, warranty obligations, income taxes, contingencies and litigation, pension costs and stock-based compensation. Management believes the most complex and sensitive judgments, because of their significance to the consolidated financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management 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) *Accounts Receivable*

The company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to pay amounts due. Such allowances totaled \$56 million at December 31, 2012. The company estimates the amount of customer receivables that are uncollectible based on the age of the receivable, the creditworthiness of the customer and any other information that is relevant to the judgment. If the financial condition of the company's customers were to deteriorate, reducing their ability to make payments, additional allowances would be required.

(b) *Inventories*

The company writes down its inventories for estimated excess quantities and obsolescence based on differences between the cost and estimated net realizable value taking into consideration usage in the preceding 12 months, expected demand and any other information that is relevant to the judgment. If ultimate usage or demand varies significantly from expected usage or demand, additional writedowns may be required.

(c) *Intangible Assets and Goodwill*

The company uses assumptions and estimates in determining the fair value of assets acquired and liabilities assumed in a business combination. The determination of the fair value of intangible assets, which represent a significant portion of the purchase price in many of the company's acquisitions, requires the use of significant judgment with regard to (i) the fair value; and (ii) whether such intangibles are amortizable or non-amortizable and, if the former, the period and the method by which the intangible asset will be amortized. The company estimates the fair value of acquisition-related intangible assets principally based on projections of cash flows that will arise from identifiable intangible assets of acquired businesses. The projected cash flows are discounted to determine the present value of the assets at the dates of acquisition. Definite-lived intangible assets totaled \$6.46 billion at December 31, 2012. The company reviews definite-lived intangible assets for impairment when indication of potential impairment exists, such as a significant reduction in cash flows associated with the assets. Actual cash flows arising from a particular intangible asset could vary from projected cash flows which could imply different carrying values from those established at the dates of acquisition and which could result in impairment of such asset.

**THERMO FISHER SCIENTIFIC INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

**Critical Accounting Policies and Estimates (continued)**

The company evaluates goodwill and indefinite-lived intangible assets for impairment annually and when events occur or circumstances change that may reduce the fair value of the asset below its carrying amount. Events or circumstances that might require an interim evaluation include unexpected adverse business conditions, economic factors, unanticipated technological changes or competitive activities, loss of key personnel and acts by governments and courts. Goodwill and indefinite-lived intangible assets totaled \$12.47 billion and \$1.34 billion, respectively, at December 31, 2012. Estimates of future cash flows require assumptions related to revenue and operating income growth, asset-related expenditures, working capital levels and other factors. Different assumptions from those made in the company's analysis could materially affect projected cash flows and the company's evaluation of goodwill and indefinite-lived intangible assets for impairment.

Growth at some of the company's businesses slowed in 2011 and 2012 which the company believes was in part due to uncertainty in funding expectations of customers in academic and government markets and economic uncertainty including a slow-down in Southern Europe. Projections of profitability for 2013 and thereafter and indicated fair values based on peer revenues and earnings trading multiples were sufficient to conclude that no impairment of goodwill or indefinite-lived intangible assets existed at the end of the tenth fiscal month of 2012, the date of the company's impairment testing. There can be no assurance, however, that the slowing of growth experienced in 2011 and 2012 at some businesses will not continue or worsen in 2013 and that a downturn will not materially adversely affect peer trading multiples and the company's businesses such that they do not achieve their forecasted profitability and these assets become impaired. Should the fair value of the company's goodwill or indefinite-lived intangible assets decline because of reduced operating performance, market declines, or other indicators of impairment, or as a result of changes in the discount rate, charges for impairment may be necessary.

The company's ImmunoDiagnostics reporting unit was created with the acquisition of the Phadia Group in August 2011. Because this reporting unit consists solely of the acquired business, its book value equaled its fair value as of the acquisition date and thus, no cushion of fair value over book value existed at that date. During its 2012 goodwill impairment testing, the company determined that the ImmunoDiagnostics reporting unit's cushion of fair value over book value had increased from 0% at the acquisition date to 9% as of November 2, 2012. Despite this favorable increase, given that the fair value is not substantially in excess of the book value, relatively small decreases in future cash flows from forecasted results or changes in discount rates or other assumptions could result in impairment of goodwill. The key variables that drive the cash flows of the reporting unit are levels of profitability and terminal value growth rate assumptions, as well as the weighted average cost of capital (WACC) rate applied. The estimates used for these assumptions represent management's best estimates, which the company believes are reasonable. These assumptions, however, are subject to uncertainty, including the degree to which the acquired business will grow revenue and profitability levels. The ImmunoDiagnostics reporting unit had \$1.78 billion of goodwill, and had an overall carrying value of \$3.30 billion as of December 31, 2012.

*(d) Other Long-lived Assets*

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. Other long-lived assets totaled \$2.33 billion at December 31, 2012, including \$1.73 billion of fixed assets. In testing a long-lived asset for impairment, assumptions are made concerning projected cash flows associated with the asset. Estimates of future cash flows require assumptions related to revenue and operating income growth and asset-related expenditures associated with the asset being reviewed for impairment. Should future cash flows decline significantly from estimated amounts, charges for impairment of other long-lived assets may be necessary.



**THERMO FISHER SCIENTIFIC INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
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**Critical Accounting Policies and Estimates (continued)**

(e) *Revenues*

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.

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.

The company's software license agreements generally include multiple products and services, or "elements." The company recognizes software license revenue based on the residual method after all elements have either been delivered or vendor specific objective evidence (VSOE) of fair value exists for any undelivered elements. In the event VSOE is not available for any undelivered element, revenue for all elements is deferred until delivery of all elements other than post-contract support is completed. Revenues from software maintenance and support contracts are recognized on a straight-line basis over the term of the contract. VSOE of fair value of software maintenance and support is determined based on the price charged for the maintenance and support when sold separately. Revenues from training and consulting services are recognized as services are performed, based on VSOE, which is determined by reference to the price customers pay when the services are sold separately.

The company records reductions to revenue for estimated product returns by customers. Should a greater or lesser number of products be returned, additional adjustments to revenue may be required.

(f) *Warranty Obligations*

At the time the company recognizes revenue, it provides for the estimated cost of standard product warranties in cost of product revenues based primarily on historical experience and knowledge of any specific warranty problems that indicate projected warranty costs may vary from historical patterns. The liability for warranty obligations of the company's continuing operations totaled \$49 million at December 31, 2012. Should product failure rates or the actual cost of correcting product failures vary from estimates, revisions to the estimated warranty liability would be necessary.

(g) *Income Taxes*

In the ordinary course of business there is inherent uncertainty in quantifying the company's income tax positions. The company assesses income tax positions and records tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances and information available at the reporting date. For those tax positions where it is more likely than not that a tax benefit will be sustained, the company has recorded the largest amount of tax benefit with a greater than 50 percent likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. The company's reserve for these matters totaled \$165 million at December 31, 2012. Where applicable, associated interest expense has also been recognized as a component of the provision for income taxes.

**THERMO FISHER SCIENTIFIC INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

**Critical Accounting Policies and Estimates (continued)**

The company operates in numerous countries under many legal forms and, as a result, is subject to the jurisdiction of numerous domestic and non-U.S. tax authorities, as well as to tax agreements and treaties among these governments. Determination of taxable income in any jurisdiction requires the interpretation of the related tax laws and regulations and the use of estimates and assumptions regarding significant future events, such as the amount, timing and character of deductions, permissible revenue recognition methods under the tax law and the sources and character of income and tax credits. Changes in tax laws, regulations, agreements and treaties, currency exchange restrictions or the company's level of operations or profitability in each taxing jurisdiction could have an impact upon the amount of current and deferred tax balances and hence the company's net income.

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. Any such reversals are recorded as a reduction of the company's tax provision. The company's tax valuation allowance totaled \$114 million at December 31, 2012. Should the company's actual future taxable income by tax jurisdiction vary from estimates, additional allowances or reversals thereof may be necessary.

The company provides a liability for future income tax payments in the worldwide tax jurisdictions in which it operates. Should tax return positions that the company expects are sustainable not be sustained upon audit, the company could be required to record an incremental tax provision for such taxes. Should previously unrecognized tax benefits ultimately be sustained, a reduction in the company's tax provision would result.

(h) *Contingencies and Litigation*

The company records accruals for various contingencies, including legal proceedings, environmental, workers' compensation, product, general and auto liabilities, and other claims that arise in the normal course of business. The accruals are based on management's judgment, historical claims experience, the probability of losses and, where applicable, the consideration of opinions of internal and or external legal counsel and actuarial estimates. Reserves of acquired businesses, including product liability and environmental reserves, were initially recorded at fair value and discounted to their net present value. Additionally, the company records receivables from third-party insurers when recovery has been determined to be probable.

(i) *Pension and Other Retiree Benefits*

Several of the company's U.S. and non-U.S. subsidiaries sponsor defined benefit pension and other retiree benefit plans. The cost and obligations of these arrangements are calculated using many assumptions to estimate the benefits that the employee earns while working, the amount of which cannot be completely determined until the benefit payments cease. Major assumptions used in the accounting for these employee benefit plans include the discount rate, expected return on plan assets and rate of increase in employee compensation levels. Assumptions are determined based on company data and appropriate market indicators in consultation with third-party actuaries, and are evaluated each year as of the plans' measurement date. Net periodic pension costs for the company's pension and other postretirement benefit plans totaled \$17 million in 2012. The company's unfunded benefit obligation totaled \$408 million at year-end 2012 compared with \$346 million at year-end 2011. Should any of these assumptions change, they would have an effect on net periodic pension costs and the unfunded benefit obligation. For example, a 10% decrease in the discount rate would result in an annual increase in pension and other postretirement benefit expense of approximately \$11 million and an increase in the benefit obligation of approximately \$77 million.

The company expects to contribute between \$60 and \$70 million to its defined benefit pension plans in 2013.

**THERMO FISHER SCIENTIFIC INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
**AND RESULTS OF OPERATIONS**

**Critical Accounting Policies and Estimates (continued)**

(j) *Stock-based Compensation*

The fair value of most stock options granted by the company is estimated using the Black-Scholes option pricing model. For option grants and restricted stock units that require achievement of both service and market conditions, a lattice model is used to estimate fair value. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. Management estimates expected volatility based on the historical volatility of the company's stock. Historical data on exercise patterns is the basis for determining the expected life of an option. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term which approximates the expected life assumed at the date of grant. The dividend yield is based on the company's most recent quarterly dividend rate. Changes in these input variables would affect the amount of expense associated with stock-based compensation. The compensation expense recognized for all stock-based awards is net of estimated forfeitures. The company estimates forfeiture rates based on historical analysis of option forfeitures. If actual forfeitures should vary from estimated forfeitures, adjustments to compensation expense may be required.

**Results of Operations**

**2012 Compared With 2011**

*Continuing Operations*

Sales in 2012 were \$12.51 billion, an increase of \$951 million from 2011. The increase was due to acquisitions, including Phadia and Dionex, and, higher sales at existing businesses, offset in part by the unfavorable effects of currency translation. Had Phadia, Dionex and the company been combined from the beginning of 2011, revenues would have increased \$403 million (3%) over pro forma 2011 revenues, including \$474 million (4%) due to higher revenues at existing businesses and \$156 million due to other acquisitions, net of divestitures, offset in part by \$227 million due to the unfavorable effects of currency translation. The pro forma increase in revenues was primarily due to increased demand. Sales growth was strong in Asia and moderate in North America and Europe. Demand from customers in academic and government markets slowed such that growth was nominal in 2012 and demand from customers in industrial markets slowed such that growth was nominal in the second half of 2012. The company expects weakness in academic and government markets will continue in the near term due in part to uncertainty in government funding expectations in the U.S. and Europe. The company expects slowness in industrial markets will continue in the near term due to global economic uncertainty.

In 2012, total company operating income and operating income margin were \$1.48 billion and 11.8%, respectively, compared with \$1.25 billion and 10.8%, respectively, in 2011. The increase in operating income was primarily due to profit on incremental sales from acquisitions and existing businesses and, to a lesser extent, productivity improvements, net of inflationary cost increases and \$84 million of lower acquisition-related charges in 2012. The increase was offset in part by commercial investments and an increase in amortization expense of \$100 million in 2012, primarily related to the acquisitions of Phadia and Dionex. The company's references throughout this discussion to productivity improvements generally refer to improved cost efficiencies from its Practical Process Improvement (PPI) processes, reduced costs resulting from global sourcing initiatives and a lower cost structure following restructuring actions including headcount reductions and consolidation of facilities.

In 2012, the company recorded restructuring and other costs, net, of \$150 million, including \$56 million of charges to cost of revenues related primarily to the sale of inventories revalued at the date of acquisition and \$13 million of charges to selling, general and administrative expenses consisting primarily of transaction costs related to the acquisition of One Lambda. The company incurred \$67 million of cash restructuring costs primarily for continued headcount reductions and facility consolidations in an effort to streamline operations, including severance to reduce headcount at several businesses and abandoned facility expenses at businesses that have been or are being consolidated, such as the consolidation of several facilities in the U.S. and Europe (see Note 14). The company also

## THERMO FISHER SCIENTIFIC INC.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Results of Operations (continued)

recorded \$15 million of non-cash expense, net, primarily for the impairment of intangible assets at several small business units and, to a lesser extent, real estate writedowns related to facility consolidations partially offset by a \$6 million gain from the settlement of pre-acquisition litigation.

In 2011, the company recorded restructuring and other costs, net, of \$231 million, including \$73 million of charges to cost of revenues primarily related to the sale of inventories revalued at the date of acquisition and \$62 million of charges to selling, general and administrative expenses primarily for transaction costs related to the acquisitions of Dionex and Phadia. The company incurred \$81 million of cash restructuring costs, including \$21 million of cash compensation from monetizing equity awards held by Dionex employees at the date of acquisition. The cash costs also include continuing costs associated with headcount reductions and facility consolidations in an effort to streamline operations, including severance to reduce headcount at several businesses and abandoned facility expenses at businesses that have been or are being consolidated. The company also recorded \$15 million of non-cash expense, net, primarily for the impairment of intangible assets at several small business units and, to a lesser extent, a loss on sale of a heating equipment business.

As of February 27, 2013, the company has identified restructuring actions that will result in additional charges of approximately \$80 million in 2013 and expects to identify additional actions during 2013. The restructuring projects for which charges were incurred in 2012 are expected to result in annual cost savings of approximately \$85 million beginning in part in 2012 and, to a greater extent, in 2013, including \$40 million in the Analytical Technologies segment, \$20 million in the Specialty Diagnostics segment and \$25 million in the Laboratory Products and Services segment. The restructuring actions for which charges were incurred in 2011 resulted in annual cost savings of approximately \$80 million beginning in part in 2011 and to a greater extent in 2012, including \$30 million in the Analytical Technologies segment, \$15 million in the Specialty Diagnostics segment and \$35 million in the Laboratory Products and Services segment.

On February 3, 2012, the Internal Revenue Service issued proposed regulations that provide guidance on the excise tax imposed on the sale of medical devices under Internal Revenue Code Section 4191. The tax applies to the sale in the U.S. of certain medical devices by a manufacturer, producer or importer of the device. The tax is in the amount of 2.3% of the sale price and will apply to all devices that are sold beginning January 1, 2013. Based on the company's estimate of product revenue that is expected to be subject to the regulations, the company currently expects that imposition of the tax will result in an increase in cost of product revenues of approximately \$20 to \$25 million annually, beginning in 2013.

#### *Segment Results*

The company's management evaluates segment operating performance using operating income before certain charges/credits to cost of revenues and selling, general and administrative expenses, principally associated with acquisition-related activities; restructuring and other costs/income including costs arising from facility consolidations such as severance and abandoned lease expense and gains and losses from the sale of real estate and product lines; and amortization of acquisition-related intangible assets. The company also refers to this measure as adjusted operating income. The company uses this measure because it helps management understand and evaluate the segments' core operating results and facilitate comparison of performance for determining compensation (Note 3). Accordingly, the following segment data is reported on this basis.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
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**Results of Operations (continued)**

(Dollars in millions)	2012	2011	Change
<b>Revenues</b>			
Analytical Technologies	\$ 4,017.9	\$ 3,739.7	7%
Specialty Diagnostics	2,962.3	2,469.9	20%
Laboratory Products and Services	6,053.7	5,831.2	4%
Eliminations	(524.0)	(482.0)	9%
Consolidated Revenues	<u>\$ 12,509.9</u>	<u>\$ 11,558.8</u>	8%
<b>Segment Income</b>			
Analytical Technologies	\$ 749.1	\$ 694.8	8%
Specialty Diagnostics	761.2	598.4	27%
Laboratory Products and Services	869.6	836.1	4%
Subtotal Reportable Segments	2,379.9	2,129.3	12%
Cost of Revenues Charges	(55.6)	(72.6)	
Selling, General and Administrative Income (Charges), Net	(12.5)	(61.5)	
Restructuring and Other Costs, Net	(82.1)	(96.5)	
Amortization of Acquisition-related Intangible Assets	(747.6)	(647.9)	
Consolidated Operating Income	<u>\$ 1,482.1</u>	<u>\$ 1,250.8</u>	18%
Reportable Segments Operating Income Margin	19.0%	18.4%	
Consolidated Operating Income Margin	11.8%	10.8%	

Income from the company's reportable segments increased 12% to \$2.38 billion in 2012 due primarily to profit on incremental sales from acquisitions and, to a lesser extent, existing businesses and productivity improvements offset in part by inflationary cost increases.

*Analytical Technologies*

(Dollars in millions)	2012	2011	Change
Revenues	<u>\$ 4,017.9</u>	<u>\$ 3,739.7</u>	<u>7%</u>
Operating Income Margin	<u>18.6%</u>	<u>18.6%</u>	<u>-</u>

Sales in the Analytical Technologies segment increased \$278 million to \$4.02 billion in 2012. The increase was due to acquisitions, including Dionex, and higher revenue at existing businesses, offset in part by the unfavorable effects of currency translation. Had Dionex and the company been combined from the beginning of 2011, revenues would have increased \$104 million (3%) over pro forma 2011 revenues, including an increase of \$183 million (5%) due to higher revenues at existing businesses and \$2 million due to acquisitions, net of a disposition, offset in part by \$81 million due to the unfavorable effects of currency translation. The pro forma increase in revenue at existing businesses was primarily due to increased demand across the segment's range of analytical instruments and for bioscience products, offset in part by lower sales to customers in academic and government markets.

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**Results of Operations (continued)**

Operating income margin was 18.6% in both 2012 and 2011. Profit from productivity improvements, net of inflationary cost increases and, to a lesser extent, from incremental sales at existing businesses was substantially offset by higher spending on commercial initiatives and unfavorable currency translation.

*Specialty Diagnostics*

(Dollars in millions)	2012	2011	Change
Revenues	\$ 2,962.3	\$ 2,469.9	20%
Operating Income Margin	25.7%	24.2%	1.5

Sales in the Specialty Diagnostics segment increased \$492 million to \$2.96 billion in 2012. The increase was due to acquisitions, including Phadia, and higher revenue at existing businesses, offset in part by the unfavorable effects of currency translation. Had Phadia and the company been combined from the beginning of 2011, revenues would have increased \$118 million (4%) over pro forma 2011 revenues, including increases of \$103 million (4%) due to higher revenues at existing businesses and \$80 million due to other acquisitions, offset in part by \$65 million due to the unfavorable effects of currency translation. The pro forma increase in revenue at existing businesses was primarily due to increased demand for clinical diagnostic products and, to a lesser extent, microbiology products.

Operating income margin was 25.7% in 2012 and 24.2% in 2011. The increase resulted primarily from the accretive Phadia acquisition and, to a lesser extent, productivity improvements, net of inflationary cost increases and profit on incremental sales at existing businesses. The increases were offset in part by higher spending on commercial initiatives.

*Laboratory Products and Services*

(Dollars in millions)	2012	2011	Change
Revenues	\$ 6,053.7	\$ 5,831.2	4%
Operating Income Margin	14.4%	14.3%	0.1

Sales in the Laboratory Products and Services segment increased \$223 million to \$6.05 billion in 2012. Sales increased \$74 million due to acquisitions. The unfavorable effects of currency translation resulted in a decrease in revenues of \$89 million in 2012. In addition to the changes in revenue resulting from acquisitions and currency translation, revenues increased \$238 million (4%) primarily due to increased demand for laboratory consumables and, to a lesser extent, clinical trial logistics services. The increase in demand was offset in part by lower sales of laboratory equipment, particularly to customers in academic and government markets.

Operating income margin was 14.4% in 2012 and 14.3% in 2011. The increase resulted from productivity improvements, net of inflationary cost increases, offset in part by lower sales of higher margin laboratory equipment and higher spending on commercial initiatives.

*Other Expense, Net*

The company reported other expense, net, of \$213 million and \$118 million in 2012 and 2011, respectively (Note 4). The increase was primarily due to an increase of \$66 million in interest expense related to the debt issued to fund the Phadia and Dionex acquisitions. In 2011, other items, net included a \$28 million gain on currency exchange contracts associated with the Phadia acquisition and repayment of its multi-currency debt and an \$18 million gain on

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**Results of Operations (continued)**

the sale of an investment accounted for under the cost method, offset in part by \$10 million of fees associated with short-term financing commitments to fund the Phadia acquisition.

*Provision for Income Taxes*

The company's effective tax rates were 0.9% and 9.7% in 2012 and 2011, respectively. Due primarily to the non-deductibility of intangible asset amortization, the company's cash payments for income taxes for its continuing operations were higher than its income tax expense for financial reporting purposes and totaled \$331 million and \$353 million in 2012 and 2011, respectively. The decrease in the effective tax rate was due in part to increased earnings in lower tax jurisdictions including the effect of the Phadia acquisition. The tax provision in 2012 was favorably affected by \$53 million, or 4.1 percentage points, as a result of adjustments to deferred tax balances due to changes in tax rates, particularly a lower tax rate in Sweden. The tax provision in 2011 was unfavorably affected by \$12 million, or 1.0 percentage points, as a result of adjustments to deferred tax balances due to changes in tax rates, offset in part by \$8 million, or 0.7 percentage points, by the ability to use tax loss carryforwards as a result of the Phadia acquisition. The company expects its effective tax rate in 2013 will be between 5% and 7% based on currently forecasted rates of profitability in the countries in which the company conducts business. The tax provision in 2013 will benefit from an estimated \$13 million of U.S. tax credits for research and development activities in both 2012 and 2013 as a result of legislation enacted in January 2013.

*Discontinued Operations*

On June 22, 2012, in an effort to exit a non-core business, the company's senior management made a decision to pursue a sale of its laboratory workstations business, part of the Laboratory Products and Services segment. The company completed the sale in October 2012 for nominal proceeds. The results of the laboratory workstations business have been classified and presented as discontinued operations in the accompanying financial statements. Prior period results have been adjusted to conform to this presentation. Revenues of the laboratory workstations business were \$147 million in the 2012 period prior to the sale, compared to \$180 million in 2011. The business incurred a pre-tax loss of \$30 million in 2012 compared with a pre-tax loss of \$6 million in 2011 due to inventory write-offs, higher manufacturing costs and restructuring and other transition costs associated with relocation of the business. In 2012, the company recorded after-tax charges aggregating \$63 million as the loss on the divestiture. (Note 15).

In addition, the company recorded an after-tax gain of \$2 million in 2012 for additional proceeds from a prior divestiture.

On April 4, 2011, the company sold, in separate transactions, its Athena Diagnostics business (Athena) for \$740 million in cash and its Lancaster Laboratories business (Lancaster) for \$180 million in cash and escrowed proceeds of \$20 million, substantially all of which was received in October 2012. The sale of these businesses resulted in an after-tax gain of \$304 million or \$0.79 per diluted share. Revenues and operating income of the two businesses aggregated approximately \$225 million and \$60 million, respectively, in 2010. The results of both businesses have been included in the accompanying financial statements as discontinued operations for all periods presented.

The company also received additional proceeds from a previously divested business in 2011, resulting in an after-tax gain of \$1 million.

*Recent Accounting Pronouncements*

In February 2013, the FASB issued new guidance which requires disclosure of information about significant reclassification adjustments from accumulated other comprehensive income in a single note or on the face of the financial statements. This guidance will be effective for the company in 2013. Adoption of this standard, which is related to disclosure only, will not have an impact on the company's consolidated financial position, results of operations or cash flows.

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#### **Results of Operations (continued)**

In July 2012, the FASB modified existing rules to allow entities to use a qualitative approach to test indefinite-lived intangible asset for impairment. The revised standard allows an entity the option to first assess qualitatively whether it is more likely than not (that is, a likelihood of more than 50 percent) that an indefinite-lived intangible asset is impaired. An entity is not required to calculate the fair value of an indefinite-lived intangible asset and perform the quantitative impairment test unless the entity determines that it is more likely than not that the asset is impaired. This guidance will be effective for the company in 2013. Adoption of this standard will not have an impact on the company's consolidated financial position, results of operations or cash flows.

In December 2011, the FASB issued new guidance which requires enhanced disclosures on offsetting amounts within the balance sheet, including disclosing gross and net information about instruments and transactions eligible for offset or subject to a master netting or similar agreement. The guidance is effective for the company beginning January 1, 2013 and is to be applied retrospectively. The adoption of this guidance, which is related to disclosure only, will not have an impact on the company's consolidated financial position, results of operations or cash flows.

In September 2011, the FASB modified existing rules to allow entities to use a qualitative approach to test goodwill for impairment. The revised guidance permits an entity to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If impairment is deemed more likely than not, management would perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. This guidance was effective for the company on January 1, 2012. Adoption of this standard did not have an impact on the company's consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued new guidance pertaining to the presentation of comprehensive income. The new rule eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. The standard is intended to provide a more consistent method of presenting non-owner transactions that affect the company's equity. Under the new guidance, an entity can present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. The new guidance was effective for the company on January 1, 2012 and did not have an impact on the company's consolidated financial position, results of operations or cash flows.

In May 2011, the FASB amended existing rules covering fair value measurement and disclosure to clarify guidance and minimize differences between U.S. GAAP and International Financial Reporting Standards (IFRS). The new guidance requires entities to provide information about valuation techniques and unobservable inputs used in Level 3 fair value measurements and provide a narrative description of the sensitivity of Level 3 measurements to changes in unobservable inputs. The guidance was effective for the company on January 1, 2012 and did not have an impact on the company's consolidated financial position, results of operations or cash flows.

#### ***Contingent Liabilities***

The company is contingently liable with respect to certain legal proceedings and related matters. In view of the company's financial condition and the accruals established for these matters, management does not believe that the ultimate liability, if any, related to these matters will have a material adverse effect on the company's financial condition, results of operations or cash flows. However, an outcome that differs materially from current reserve estimates for one or more of the matters described in Note 10 could have a material adverse effect on the company's financial position as well as its results of operations and cash flows.



## THERMO FISHER SCIENTIFIC INC.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Results of Operations (continued)

#### 2011 Compared With 2010

##### *Continuing Operations*

Sales in 2011 were \$11.56 billion, an increase of \$1.17 billion from 2010. The increase was due to acquisitions, including Phadia and Dionex, and, to a lesser extent, higher revenues at existing businesses and the favorable effects of currency translation. Had Phadia, Dionex and the company been combined from the beginning of 2010, pro forma revenues would have increased \$797 million (7%) over pro forma 2010 revenues, including \$125 million due to other acquisitions, net of divestitures, \$266 million due to the favorable effects of currency translation and \$406 million (4%) due to higher revenues at existing businesses. The increase in pro forma revenues at existing businesses was primarily due to increased demand, offset in part by lower sales resulting from cessation of a supply contract, discussed below, and lower stimulus-funded sales in Japan as compared to 2010, which together decreased sales by approximately 1 percentage point. Sales growth was strong in Asia and modest in Europe and North America. The results in North America and Asia were affected by the cessation of the supply contract and the lower stimulus-funded sales in Japan, respectively. The company had lower sales to academic and government markets in the second half of 2011 which it believes may be due to uncertainty in funding expectations in the U.S. and Europe. These markets represent approximately a quarter of the company's revenues and the decrease in sales to this customer base reduced the company's overall growth in the second half of 2011 by approximately 1 percentage point, although the decline moderated in the fourth quarter.

In 2011, operating income and operating income margin were \$1.25 billion and 10.8%, respectively, compared with \$1.19 billion and 11.4%, respectively, in 2010. The decrease in operating income margin was primarily due to \$124 million of higher acquisition-related charges and an increase in amortization expense of \$93 million in 2011 primarily related to the acquisitions of Phadia and Dionex. The decrease in operating margin was offset in part by productivity improvements and profit on incremental sales from acquisitions and existing businesses.

In 2011, the company recorded restructuring and other costs, net, of \$231 million, including \$73 million of charges to cost of revenues primarily related to the sale of inventories revalued at the date of acquisition and \$62 million of charges to selling, general and administrative expenses primarily for transaction costs related to the acquisitions of Dionex and Phadia. The company incurred \$81 million of cash restructuring costs, including \$21 million of cash compensation from monetizing equity awards held by Dionex employees at the date of acquisition. The cash costs also include continuing costs associated with headcount reductions and facility consolidations in an effort to streamline operations, including severance to reduce headcount at several businesses and abandoned facility expenses at businesses that have been or are being consolidated, such as the following: the consolidation of facilities of acquired businesses in Finland and Australia with existing facilities in those countries; the consolidation of facilities in the U.S.; and the restructuring of the commercial organization of a business across six European countries to increase productivity and efficiency in serving customers. The company also recorded \$15 million of non-cash expense, net, primarily for the impairment of intangible assets at several small business units and, to a lesser extent, a loss on sale of a heating equipment business.

In 2010, the company recorded restructuring and other costs, net, of \$76 million, including \$13 million of charges to cost of revenues related to the sale of inventories revalued at the date of acquisition and, to a lesser extent, accelerated depreciation on manufacturing assets to be abandoned due to facility consolidations and \$3 million of charges to selling, general and administrative expenses for transaction costs, net, primarily related to the acquisition of Dionex and revisions of estimated contingent consideration, principally related to the acquisition of Ahura Scientific, offset in part by a gain of \$11 million on settlement with product liability insurers. The company incurred \$33 million of cash costs, primarily for actions initiated in 2009 and, to a lesser extent, 2010 in response to the downturn in the economy and reduced revenues, including severance to reduce headcount at several businesses and abandoned facility expenses at businesses that have been or are being consolidated. The company recorded impairment charges of \$17 million for intangible assets associated with several small business units. The company also recorded a \$6 million

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**Results of Operations (continued)**

charge on a patent infringement claim initiated prior to a business unit's acquisition by the company and \$3 million of asset writedowns associated with abandoned facilities held for sale.

The restructuring actions for which charges were incurred in 2010 resulted in annual cost savings beginning primarily in 2011 of approximately \$45 million, including \$5 million in the Analytical Technologies segment, \$10 million in the Specialty Diagnostics segment and \$30 million in the Laboratory Products and Services segment.

*Segment Results*

(Dollars in millions)	2011	2010	Change
<b>Revenues</b>			
Analytical Technologies	\$ 3,739.7	\$ 3,137.1	19%
Specialty Diagnostics	2,469.9	2,149.0	15%
Laboratory Products and Services	5,831.2	5,539.8	5%
Eliminations	(482.0)	(432.8)	11%
Consolidated Revenues	<u>\$ 11,558.8</u>	<u>\$ 10,393.1</u>	11%
<b>Segment Income</b>			
Analytical Technologies	\$ 694.8	\$ 525.0	32%
Specialty Diagnostics	598.4	487.9	23%
Laboratory Products and Services	836.1	806.3	4%
Subtotal Reportable Segments	2,129.3	1,819.2	17%
Cost of Revenues Charges	(72.6)	(13.2)	
Selling, General and Administrative Costs, Net	(61.5)	(3.0)	
Restructuring and Other Costs, Net	(96.5)	(60.2)	
Amortization of Acquisition-related Intangible Assets	(647.9)	(554.7)	
Consolidated Operating Income	<u>\$ 1,250.8</u>	<u>\$ 1,188.1</u>	5%
Reportable Segments Operating Income Margin	18.4%	17.5%	
Consolidated Operating Income Margin	10.8%	11.4%	

Income from the company's reportable segments increased 17% to \$2.13 billion in 2011 due primarily to profit on incremental sales from acquisitions and, to a lesser extent, existing businesses as well as from productivity improvements.

*Analytical Technologies*

(Dollars in millions)	2011	2010	Change
Revenues	<u>\$ 3,739.7</u>	<u>\$ 3,137.1</u>	19%
Operating Income Margin	<u>18.6%</u>	<u>16.7%</u>	1.9

Sales in the Analytical Technologies segment increased \$603 million to \$3.74 billion in 2011. The increase was due to acquisitions, including Dionex, higher revenue at existing businesses and, to a lesser extent, the favorable

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effects of currency translation. Had Dionex and the company been combined from the beginning of 2010, pro forma revenues would have increased \$345 million (10%) over pro forma 2010 revenues, including increases of \$47 million due to other acquisitions, \$94 million due to the favorable effects of currency translation and \$204 million (6%) due to higher revenues at existing businesses. The increase in pro forma revenue at existing businesses was primarily due to increased demand. Demand was particularly strong for instruments serving industrial and applied markets. The increase in revenues was offset in part by lower stimulus-funded sales in Japan in the first quarter of 2011 which decreased pro forma growth by 1 percentage point.

Operating income margin was 18.6% in 2011 and 16.7% in 2010. The increase resulted from productivity improvements and, to a lesser extent, accretive acquisitions, price increases and profit on incremental sales at existing businesses. These increases were offset in part by higher spending on research and development initiatives.

*Specialty Diagnostics*

(Dollars in millions)	2011	2010	Change
Revenues	\$ 2,469.9	\$ 2,149.0	15%
Operating Income Margin	24.2%	22.7%	1.5

Sales in the Specialty Diagnostics segment increased \$321 million to \$2.47 billion in 2011. The increase was due to acquisitions, including Phadia, higher revenue at existing businesses and the favorable effects of currency translation. Had Phadia and the company been combined from the beginning of 2010, pro forma revenues would have increased \$210 million (8%) over pro forma 2010 revenues, including increases of \$21 million due to other acquisitions, \$68 million due to the favorable effects of currency translation and \$121 million (5%) due to higher revenues at existing businesses. The increase in pro forma revenue at existing businesses was primarily due to increased demand. Demand was particularly strong for immunodiagnostics and clinical diagnostics products. The increase in demand was offset in part by cessation of a supply contract, discussed below, which decreased pro forma growth by 2 percentage points.

In November 2009, a significant supplier of the company's healthcare market channel notified the company that it intended to cease an existing supply arrangement in mid-2010. The company believes this was in part a response to the company's strategic decision to expand its product offerings to provide its customers with a broader menu of diagnostic solutions. The company signed an agreement with an alternative supplier of laboratory products and is selling these and other products from the new supplier, offsetting a portion of the drop in revenue. As a result of these events, sales were unfavorably affected by \$54 million, net, in the first half of 2011.

Operating income margin was 24.2% in 2011 and 22.7% in 2010. The increase resulted from productivity improvements and, to a lesser extent, profit on incremental sales at existing businesses and accretive acquisitions.

*Laboratory Products and Services*

(Dollars in millions)	2011	2010	Change
Revenues	\$ 5,831.2	\$ 5,539.8	5%
Operating Income Margin	14.3%	14.6%	(0.3)

Sales in the Laboratory Products and Services segment increased \$291 million to \$5.83 billion in 2011. The favorable effects of currency translation resulted in an increase in revenues of \$107 million in 2011. Sales increased

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\$57 million due to acquisitions. In addition to the changes in revenue resulting from currency translation and acquisitions, revenues increased \$127 million (2%) primarily due to increased demand. Demand for clinical trials logistics services was particularly strong.

Operating income margin decreased to 14.3% in 2011 from 14.6% in 2010, primarily due to inflationary pressures on costs, particularly oil-based raw materials such as plastic resin, and, to a lesser extent, commercial investments including expansion of sales and marketing staff in the Asia/Pacific region and information technology initiatives in Europe. These decreases were offset in part by productivity improvements.

*Other Expense, Net*

The company reported other expense, net, of \$118 million and \$100 million in 2011 and 2010, respectively (Note 4). The increase was primarily due to a \$91 million increase in interest expense, offset in part by higher other items, net and higher interest income. The increase in interest expense was related to the debt issued to fund the Phadia and Dionex acquisitions, offset in part by having refinanced higher-rate debt during 2010. In 2011, other items, net includes a \$28 million gain on currency exchange contracts associated with the Phadia acquisition and repayment of its multi-currency debt and an \$18 million gain on the sale of an investment accounted for under the cost method, offset in part by \$10 million of fees associated with short-term financing commitments to fund the Phadia acquisition. In 2010, other items, net includes a \$17 million loss on the early extinguishment of debt and \$8 million of fees associated with short-term financing commitments for the Dionex acquisition.

*Provision for Income Taxes*

The company's effective tax rates were 9.7% and 9.3% in 2011 and 2010, respectively. The increase in the effective tax rate was primarily due to the items discussed below, offset in part by increased earnings in lower tax jurisdictions including the effect of the Phadia acquisition. The tax provision in 2011 was unfavorably affected by \$12 million, or 1.0 percentage points, as a result of adjustments to deferred tax balances due to changes in tax rates, offset in part by \$8 million, or 0.7 percentage points, by the ability to use tax loss carryforwards as a result of the Phadia acquisition. The tax provision in 2010 was favorably affected by \$17 million or 1.6 percentage points resulting primarily from the resolution of tax audits and the impact on deferred tax balances of changes in tax rates.

*Discontinued Operations*

As described above, the company sold two businesses in April 2011, and another business in October 2012. The results of these businesses have been included in the accompanying financial statements as discontinued operations for all periods presented (Note 15). After-tax income from discontinued operations was \$1.7 million and \$47.0 million, in 2011 and 2010, respectively. The sale of the two businesses sold in 2011 resulted in an after-tax gain of \$304 million or \$0.79 per diluted share. The company also received additional proceeds from a previously divested business in 2011, resulting in an after-tax gain of \$1 million.

During 2010, the company recorded additional proceeds related to a business divested in 2003, resulting in an after-tax gain of \$2.5 million.

**Liquidity and Capital Resources**

Consolidated working capital was \$2.74 billion at December 31, 2012, compared with \$1.71 billion at December 31, 2011. Included in working capital were cash, cash equivalents and short-term investments of \$855 million at December 31, 2012 and \$1.02 billion at December 31, 2011. The increase in working capital is primarily due to earnings before amortization and depreciation, offset in part by the repurchase of the company's common stock.

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**Liquidity and Capital Resources (continued)**

2012

Cash provided by operating activities was \$2.04 billion during 2012. An increase in inventories used cash of \$60 million, primarily to support growth in sales. An increase in other assets used cash of \$100 million primarily related to the timing of tax refunds. An increase in other liabilities provided cash of \$127 million, primarily due to the timing of payments for incentive compensation and income taxes. Cash payments for income taxes of continuing operations totaled \$331 million during 2012, compared with \$353 million in the prior year. Payments for restructuring actions, principally severance costs and lease and other expenses of real estate consolidation, used cash of \$64 million during 2012.

During 2012, the company's primary investing activities included acquisitions and the purchase of property, plant and equipment. The company expended \$1.08 billion for acquisitions and \$315 million for purchases of property, plant and equipment. The company's discontinued operations provided \$59 million of cash, primarily tax benefits from the loss on sale of the laboratory workstations business and receipt of escrowed proceeds from the 2011 sale of Lancaster Laboratories.

The company's financing activities used \$918 million of cash during 2012, principally for the repurchase of \$1.15 billion of the company's common stock and to reduce commercial paper obligations by \$849 million, offset in part by the issuance of \$1.3 billion in senior notes (Note 9). The company's financing activities also included the repayment of \$355 million of long-term debt and \$254 million of proceeds from employee stock option exercises. In February 2012, the company initiated a quarterly cash dividend. Cash dividend payments totaled \$142 million during 2012. On November 8, 2012, the Board of Directors authorized the repurchase of up to \$1 billion of the company's common stock beginning January 1, 2013.

As of December 31, 2012, the company's short-term debt totaled \$93 million, including \$50 million of commercial paper obligations. The company has revolving credit facilities with a bank group that provide up to \$2.0 billion of unsecured multi-currency revolving credit. The credit facilities include a \$1 billion 5-year credit agreement, with the ability to request an additional \$500 million, plus a \$500 million 364-day credit agreement. If the company borrows under these facilities, it intends to leave undrawn an amount equivalent to outstanding commercial paper to provide a source of funds in the event that commercial paper markets are not available. As of December 31, 2012, no borrowings were outstanding under either facility, although available capacity was reduced by approximately \$50 million as a result of outstanding letters of credit.

The company believes that its existing cash and short-term investments of \$855 million as of December 31, 2012, and the company's future cash flow from operations together with available borrowing capacity under its revolving credit agreements are sufficient to meet the cash requirements of its existing businesses for the foreseeable future, including at least the next 24 months.

2011

Cash provided by operating activities was \$1.69 billion during 2011. Increases in accounts receivable and inventories used cash of \$101 million and \$29 million, respectively, primarily to support growth in sales. An increase in other assets used cash of \$137 million primarily due to the timing of tax refunds. An increase in accounts payable provided cash of \$34 million, primarily due to higher inventory purchases. Payments for restructuring actions, principally severance costs and lease and other expenses of real estate consolidation, used cash of \$69 million during 2011.

During 2011, the company's primary investing activities included acquisitions and the purchase of property, plant and equipment. The company expended \$5.69 billion for acquisitions and \$261 million for purchases of property, plant and equipment. The company's continuing operations had cash proceeds from a divestiture of \$14 million and

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**Liquidity and Capital Resources (continued)**

the company's discontinued operations had net cash proceeds of \$746 million, primarily from the sale of Athena and Lancaster.

The company's financing activities provided \$3.55 billion of cash during 2011, principally \$5.15 billion from the issuance of debt to fund acquisitions, offset in part by the repurchase of \$1.34 billion of the company's common stock. Following issuance of a redemption notice for the remaining \$329 million principal outstanding of the company's 3.25% Senior Subordinated Convertible Notes due 2024, all of the balance was converted or redeemed for a total cash outlay of \$452 million. The company's financing activities in 2011 also included \$158 million of proceeds from employee stock option exercises.

2010

Cash provided by operating activities was \$1.50 billion during 2010. Increases in accounts receivable and inventories used cash of \$71 million and \$24 million, respectively, primarily to support growth in sales. Increases in other assets used cash of \$78 million, primarily due to the timing of value added tax (VAT) refunds and prepaid expenses. Cash payments for income taxes totaled \$370 million in 2010, compared with \$330 million in 2009 due to an increase in taxable income. Payments for restructuring actions, principally severance costs and lease and other expenses of real estate consolidation, used cash of \$47 million during 2010.

During 2010, the company's primary investing activities included acquisitions and the purchase of property, plant and equipment. The company expended \$606 million for acquisitions and \$245 million for purchases of property, plant and equipment.

The company's financing activities used \$1.30 billion of cash during 2010, principally for the extinguishment of debt and repurchase of \$1.01 billion of the company's common stock, offset in part by the net proceeds for the issuance of long-term debt of \$741 million. The company used the net proceeds from the issuance of debt and existing cash balances to convert all of the \$326 million principal outstanding on its Floating Rate Convertible Debentures due 2033 for a total cash outlay of \$573 million and to redeem all of its \$500 million outstanding 6 1/8% Senior Subordinated Notes at a redemption price of \$1,030.63 per \$1,000 principal amount for a total cash outlay of \$515 million. The company's financing activities in 2010 also included \$77 million of proceeds from employee stock option exercises.

*Off-Balance Sheet Arrangements*

The company did not use special purpose entities or other off-balance-sheet financing arrangements in 2010 - 2012 except for letters of credit, bank guarantees, a build-to-suit lease arrangement entered in 2012, surety bonds and other guarantees disclosed in the table or discussed below. Of the amounts disclosed in the table below for letters of credit, bank guarantees, surety bonds and other guarantees, \$35.6 million relates to guarantees of the performance of third parties, principally in connection with businesses that were sold. The balance relates to guarantees of the company's own performance, primarily in the ordinary course of business.

**THERMO FISHER SCIENTIFIC INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

**Liquidity and Capital Resources (continued)**

*Contractual Obligations and Other Commercial Commitments*

The table below summarizes, by period due or expiration of commitment, the company's contractual obligations and other commercial commitments as of December 31, 2012.

(In millions)	Payments due by Period or Expiration of Commitment				Total
	2013	2014 and 2015	2016 and 2017	2018 and Thereafter	
<b>Contractual Obligations and Other Commercial Commitments</b>					
Debt principal, including short-term debt (a)	\$ 92.6	\$ 1,409.6	\$ 1,901.2	\$ 3,700.5	\$ 7,103.9
Interest	223.9	422.1	303.5	479.1	1,428.6
Capital lease obligations	0.5	0.4	—	—	0.9
Operating lease obligations	107.2	145.7	63.4	43.0	359.3
Unconditional purchase obligations (b)	248.8	25.8	—	—	274.6
Letters of credit and bank guarantees	88.0	9.0	0.7	11.9	109.6
Surety bonds and other guarantees	38.6	4.9	—	—	43.5
Pension obligations on balance sheet	28.1	61.8	70.7	247.6	408.2
Asset retirement obligations	4.7	8.1	6.2	9.3	28.3
Acquisition-related contingent consideration accrued on balance sheet	4.6	14.7	0.8	—	20.1
Other (c)	3.4	—	—	—	3.4
	\$ 840.4	\$ 2,102.1	\$ 2,346.5	\$ 4,491.4	\$ 9,780.4

(a) Amounts represent the expected cash payments for debt and do not include any deferred issuance costs.

(b) Unconditional purchase obligations include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable at any time without penalty.

(c) Obligation represents funding commitments pursuant to investments held by the company.

Reserves for unrecognized tax benefits of \$165 million have not been included in the above table due to the inability to predict the timing of tax audit resolutions.

The company has no material commitments for purchases of property, plant and equipment but expects that for 2013, such expenditures for its existing business will approximate \$300 to \$325 million.

A guarantee of residual value under a build-to-suit lease arrangement for a facility that will be leased upon completion of construction has not been included in the above table due to the inability to predict if and when the guarantee may require payment. Upon completion of construction in 2014, a five-year lease will commence with options to purchase the facility or renew the lease for up to three 5-year terms. The residual value guarantee becomes operative at the end of the lease for up to a maximum of \$58 million.

**THERMO FISHER SCIENTIFIC INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
**AND RESULTS OF OPERATIONS**

**Liquidity and Capital Resources (continued)**

In disposing of assets or businesses, the company often provides representations, warranties and/or indemnities to cover various risks including, for example, unknown damage to the assets, environmental risks involved in the sale of real estate, liability to investigate and remediate environmental contamination at waste facilities, and unidentified tax liabilities and related legal fees. The company does not have the ability to estimate the potential liability from such indemnities because they relate to unknown conditions. However, the company has no reason to believe that these uncertainties would have a material adverse effect on its financial position, annual results of operations or cash flows.

The company has recorded liabilities for known indemnifications included as part of environmental liabilities. See Item 1. Business – Environmental Matters for a discussion of these liabilities.



**THERMO FISHER SCIENTIFIC INC.**

**INDEX OF CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE**

The following Consolidated Financial Statements of the Registrant and its subsidiaries are required to be included in Item 15:

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheet as of December 31, 2012 and 2011	F-3
Consolidated Statement of Income for the years ended December 31, 2012, 2011 and 2010	F-5
Consolidated Statement of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010	F-6
Consolidated Statement of Cash Flows for the years ended December 31, 2012, 2011 and 2010	F-7
Consolidated Statement of Shareholders' Equity for the years ended December 31, 2012, 2011 and 2010	F-9
Notes to Consolidated Financial Statements	F-10

The following Consolidated Financial Statement Schedule of the Registrant and its subsidiaries is filed as part of this Report as required to be included in Item 15(a):

Schedule II – Valuation and Qualifying Accounts	F-62
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Note: All other financial statement schedules are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or in the notes thereto.

**THERMO FISHER SCIENTIFIC INC.**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of Thermo Fisher Scientific Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Thermo Fisher Scientific Inc. and its subsidiaries at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A of Thermo Fisher Scientific Inc.'s Annual Report on Form 10-K. Our responsibility is to express opinions on these financial statements, on the financial statement schedule and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts

February 27, 2013, except for the effects of Note 3 as to which the date is May 3, 2013

**THERMO FISHER SCIENTIFIC INC.**

**CONSOLIDATED BALANCE SHEET**

(In millions)	December 31, 2012	December 31, 2011
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 851.0	\$ 1,016.3
Short-term investments, at quoted market value (cost of \$4.8 and \$4.8)	4.3	4.3
Accounts receivable, less allowances of \$55.5 and \$65.8	1,804.9	1,763.7
Inventories	1,443.3	1,330.1
Deferred tax assets	182.0	157.8
Other current assets	549.3	549.7
	4,834.8	4,821.9
Property, Plant and Equipment, at Cost, Net	1,726.4	1,611.3
Acquisition-related Intangible Assets, Net	7,804.5	7,815.9
Other Assets	604.4	611.3
Goodwill	12,474.5	11,973.3
	\$ 27,444.6	\$ 26,833.7

**THERMO FISHER SCIENTIFIC INC.**

**CONSOLIDATED BALANCE SHEET (Continued)**

(In millions except share amounts)	December 31, 2012	December 31, 2011
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Short-term obligations and current maturities of long-term obligations	\$ 93.1	\$ 1,272.8
Accounts payable	641.4	612.3
Accrued payroll and employee benefits	388.0	324.4
Deferred revenue	196.5	192.5
Other accrued expenses	774.3	711.1
	2,093.3	3,113.1
Deferred Income Taxes	2,047.2	2,229.3
Other Long-term Liabilities	808.2	698.0
Long-term Obligations	7,031.2	5,755.2
Commitments and Contingencies (Note 10)		
Shareholders' Equity:		
Preferred stock, \$100 par value, 50,000 shares authorized; none issued		
Common stock, \$1 par value, 1,200,000,000 shares authorized; 413,491,691 and 406,416,940 shares issued	413.5	406.4
Capital in excess of par value	10,501.1	10,152.0
Retained earnings	7,697.3	6,716.3
Treasury stock at cost, 56,047,926 and 35,033,919 shares	(2,996.8)	(1,837.1)
Accumulated other comprehensive items	(150.4)	(399.5)
	15,464.7	15,038.1
	\$ 27,444.6	\$ 26,833.7

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

**THERMO FISHER SCIENTIFIC INC.**

**CONSOLIDATED STATEMENT OF INCOME**

(In millions except per share amounts)	Year Ended		
	December 31, 2012	December 31, 2011	December 31, 2010
<b>Revenues</b>			
Product revenues	\$ 10,777.6	\$ 9,896.6	\$ 8,977.7
Service revenues	1,732.3	1,662.2	1,415.4
	<u>12,509.9</u>	<u>11,558.8</u>	<u>10,393.1</u>
<b>Costs and Operating Expenses:</b>			
Cost of product revenues	6,101.3	5,733.4	5,264.7
Cost of service revenues	1,113.1	1,031.4	866.9
Selling, general and administrative expenses	3,354.9	3,106.5	2,728.8
Research and development expenses	376.4	340.2	284.4
Restructuring and other costs, net	82.1	96.5	60.2
	<u>11,027.8</u>	<u>10,308.0</u>	<u>9,205.0</u>
Operating Income	1,482.1	1,250.8	1,188.1
Other Expense, Net	<u>(212.7)</u>	<u>(118.0)</u>	<u>(100.4)</u>
Income from Continuing Operations Before Income Taxes	1,269.4	1,132.8	1,087.7
Provision for Income Taxes	<u>(11.0)</u>	<u>(109.4)</u>	<u>(101.6)</u>
Income from Continuing Operations	1,258.4	1,023.4	986.1
(Loss) Income from Discontinued Operations (net of income tax (benefit) provision of \$(10.8), \$1.2 and \$29.9)	(19.2)	1.7	47.0
(Loss) Gain on Disposal of Discontinued Operations, Net (net of income tax (benefit) provision of \$(33.2), \$190.3 and \$1.5)	<u>(61.3)</u>	<u>304.8</u>	<u>2.5</u>
<b>Net Income</b>	<u>\$ 1,177.9</u>	<u>\$ 1,329.9</u>	<u>\$ 1,035.6</u>
<b>Earnings per Share from Continuing Operations</b>			
Basic	<u>\$ 3.46</u>	<u>\$ 2.69</u>	<u>\$ 2.45</u>
Diluted	<u>\$ 3.43</u>	<u>\$ 2.66</u>	<u>\$ 2.41</u>
<b>Earnings per Share</b>			
Basic	<u>\$ 3.24</u>	<u>\$ 3.49</u>	<u>\$ 2.57</u>
Diluted	<u>\$ 3.21</u>	<u>\$ 3.46</u>	<u>\$ 2.53</u>
<b>Weighted Average Shares</b>			
Basic	<u>363.8</u>	<u>380.8</u>	<u>403.3</u>
Diluted	<u>366.6</u>	<u>384.8</u>	<u>409.4</u>
Cash Dividends Declared per Common Share	<u>\$ .54</u>	<u>\$ —</u>	<u>\$ —</u>

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

**THERMO FISHER SCIENTIFIC INC.**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(In millions)	Year Ended		
	December 31, 2012	December 31, 2011	December 31, 2010
<b>Comprehensive Income (Loss)</b>			
Net Income	\$ 1,177.9	\$ 1,329.9	\$ 1,035.6
Other Comprehensive Items:			
Currency translation adjustment	293.7	(340.8)	(27.2)
Unrealized gains on available-for-sale investments (net of tax provision of \$0.1, \$1.1 and \$0.5)	0.7	3.6	1.0
Unrealized gains (losses) on hedging instruments (net of tax provision (benefit) of \$2.0, \$(21.7) and \$0.1)	3.3	(35.4)	0.2
Pension and other postretirement benefit liability adjustments (net of tax benefit of \$18.4, \$36.9 and \$9.7)	(48.6)	(70.5)	(22.4)
	<u>249.1</u>	<u>(443.1)</u>	<u>(48.4)</u>
	<u>\$ 1,427.0</u>	<u>\$ 886.8</u>	<u>\$ 987.2</u>

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

**THERMO FISHER SCIENTIFIC INC.**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

(In millions)	Year Ended		
	December 31, 2012	December 31, 2011	December 31, 2010
<b>Operating Activities</b>			
Net Income	\$ 1,177.9	\$ 1,329.9	\$ 1,035.6
Loss (income) from discontinued operations	19.2	(1.7)	(47.0)
Loss (gain) on disposal of discontinued operations	61.3	(304.8)	(2.5)
Income from continuing operations	1,258.4	1,023.4	986.1
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	983.7	859.6	739.7
Change in deferred income taxes	(301.6)	(123.1)	(266.5)
Non-cash stock-based compensation	78.2	80.0	81.6
Non-cash charges for sale of inventories revalued at the date of acquisition	52.4	69.5	11.4
Tax benefits from stock-based compensation awards	(22.7)	(16.9)	(12.8)
Other non-cash expenses, net	53.8	49.5	72.8
Changes in assets and liabilities, excluding the effects of acquisitions and dispositions:			
Accounts receivable	12.0	(101.2)	(70.8)
Inventories	(59.9)	(28.6)	(24.1)
Other assets	(100.3)	(136.8)	(78.0)
Accounts payable	10.0	33.8	(0.5)
Other liabilities	127.2	(7.3)	35.6
Contributions to retirement plans	(23.3)	(25.3)	(24.4)
Net cash provided by continuing operations	2,067.9	1,676.6	1,450.1
Net cash (used in) provided by discontinued operations	(28.4)	14.4	47.7
Net cash provided by operating activities	2,039.5	1,691.0	1,497.8
<b>Investing Activities</b>			
Acquisitions, net of cash acquired	(1,083.4)	(5,690.3)	(606.2)
Purchase of property, plant and equipment	(315.1)	(260.9)	(245.4)
Proceeds from sale of property, plant and equipment	12.8	8.2	10.2
Proceeds from sale of investments	1.9	19.5	9.0
Proceeds from sale of businesses, net of cash divested	—	13.8	—
Proceeds from derivative instruments related to Phadia acquisition	—	27.6	—
Other investing activities, net	(0.8)	(6.0)	(10.1)
Net cash used in continuing operations	(1,384.6)	(5,888.1)	(842.5)
Net cash provided by (used in) discontinued operations	58.8	745.9	(16.4)
Net cash used in investing activities	\$ (1,325.8)	\$ (5,142.2)	\$ (858.9)

**THERMO FISHER SCIENTIFIC INC.**

**CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)**

(In millions)	Year Ended		
	December 31, 2012	December 31, 2011	December 31, 2010
<b>Financing Activities</b>			
Net proceeds from issuance of long-term debt	\$ 1,282.1	\$ 4,254.1	\$ 741.4
(Decrease) increase in commercial paper, net	(849.3)	899.3	—
Settlement of convertible debt	—	(452.0)	(600.8)
Redemption and repayment of long-term obligations	(354.5)	(1.4)	(505.4)
Purchases of company common stock	(1,150.0)	(1,337.5)	(1,012.5)
Dividends paid	(142.2)	—	—
Net proceeds from issuance of company common stock	254.1	158.1	77.3
Tax benefits from stock-based compensation awards	22.7	16.9	12.8
Increase (decrease) in short-term notes payable	24.0	9.2	(7.9)
Other financing activities, net	(4.6)	3.9	—
Net cash (used in) provided by financing activities	(917.7)	3,550.6	(1,295.1)
Exchange Rate Effect on Cash	38.7	(0.2)	9.2
(Decrease) Increase in Cash and Cash Equivalents	(165.3)	99.2	(647.0)
Cash and Cash Equivalents at Beginning of Period	1,016.3	917.1	1,564.1
Cash and Cash Equivalents at End of Period	\$ 851.0	\$ 1,016.3	\$ 917.1

See Note 13 for supplemental cash flow information.

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



**THERMO FISHER SCIENTIFIC INC.**

**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**

(In millions)	Common Stock		Capital in Excess of Par Value	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Items	Total Shareholders' Equity
	Shares	Amount			Shares	Amount		
<b>Balance at December 31, 2009</b>	423.9	\$ 423.9	\$ 11,140.7	\$ 4,350.8	14.6	\$ (576.5)	\$ 92.0	\$ 15,430.9
Retirement of treasury shares	(25.0)	(25.0)	(1,081.3)	—	(25.0)	1,106.3	—	—
Issuance of shares under employees' and directors' stock plans	2.9	2.9	80.5	—	0.1	(7.8)	—	75.6
Settlement of convertible debt	—	—	(216.1)	—	—	—	—	(216.1)
Stock-based compensation	—	—	83.1	—	—	—	—	83.1
Tax benefit related to employees' and directors' stock plans	—	—	10.9	—	—	—	—	10.9
Purchases of company common stock	—	—	—	—	20.7	(1,012.5)	—	(1,012.5)
Net income	—	—	—	1,035.6	—	—	—	1,035.6
Other comprehensive items	—	—	—	—	—	—	(48.4)	(48.4)
Other	—	—	1.9	—	—	—	—	1.9
<b>Balance at December 31, 2010</b>	401.8	\$ 401.8	\$ 10,019.7	\$ 5,386.4	10.4	\$ (490.5)	\$ 43.6	\$ 15,361.0
Issuance of shares under employees' and directors' stock plans	4.6	4.6	160.3	—	0.1	(9.1)	—	155.8
Settlement of convertible debt	—	—	(122.8)	—	—	—	—	(122.8)
Stock-based compensation	—	—	80.2	—	—	—	—	80.2
Tax benefit related to employees' and directors' stock plans	—	—	14.6	—	—	—	—	14.6
Purchases of company common stock	—	—	—	—	24.5	(1,337.5)	—	(1,337.5)
Net income	—	—	—	1,329.9	—	—	—	1,329.9
Other comprehensive items	—	—	—	—	—	—	(443.1)	(443.1)
<b>Balance at December 31, 2011</b>	406.4	\$ 406.4	\$ 10,152.0	\$ 6,716.3	35.0	\$ (1,837.1)	\$ (399.5)	\$ 15,038.1
Issuance of shares under employees' and directors' stock plans	7.1	7.1	254.7	—	0.2	(9.7)	—	252.1
Stock-based compensation	—	—	78.2	—	—	—	—	78.2
Tax benefit related to employees' and directors' stock plans	—	—	18.7	—	—	—	—	18.7
Purchases of company common stock	—	—	—	—	20.8	(1,150.0)	—	(1,150.0)
Dividends declared	—	—	—	(196.9)	—	—	—	(196.9)
Net income	—	—	—	1,177.9	—	—	—	1,177.9
Other comprehensive items	—	—	—	—	—	—	249.1	249.1
Other	—	—	(2.5)	—	—	—	—	(2.5)
<b>Balance at December 31, 2012</b>	<u>413.5</u>	<u>\$ 413.5</u>	<u>\$ 10,501.1</u>	<u>\$ 7,697.3</u>	<u>56.0</u>	<u>\$ (2,996.8)</u>	<u>\$ (150.4)</u>	<u>\$ 15,464.7</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Nature of Operations and Summary of Significant Accounting Policies**

*Nature of Operations*

Thermo Fisher Scientific Inc. (the company) enables customers to make the world healthier, cleaner and safer by providing analytical instruments, equipment, reagents and consumables, software and services for research, manufacturing, analysis, discovery and diagnostics. Markets served include pharmaceutical and biotech companies, hospitals and clinical diagnostic labs, universities, research institutions and government agencies, as well as environmental and industrial process control settings.

*Principles of Consolidation*

The accompanying financial statements include the accounts of the company and its wholly and majority-owned subsidiaries. All material intercompany accounts and transactions have been eliminated. The company accounts for investments in businesses in which it owns between 20% and 50% using the equity method.

*Presentation*

The results of several businesses have been classified and presented as discontinued operations in the accompanying financial statements (Note 15). Prior period results have been adjusted to conform to this presentation. The discontinued operations have been excluded from the following notes unless they were material. In such instances, the amounts related to the discontinued operations have been separately disclosed.

Certain reclassifications of prior year amounts have been made to conform to the current year presentation.

*Revenue Recognition and Accounts Receivable*

Revenue is recognized after all significant obligations have been met, collectability is probable and title has passed, which typically occurs upon shipment or delivery or completion of services. If customer-specific acceptance criteria exist, the company recognizes revenue after demonstrating adherence to the acceptance criteria. The company recognizes revenue and related costs for arrangements with multiple deliverables, such as equipment and installation, as each element is delivered or completed based upon its relative fair value. When a portion of the customer's payment is not due until installation or other deliverable occurs, the company defers that portion of the revenue until completion of installation or transfer of the deliverable. Provisions for discounts, warranties, rebates to customers, returns and other adjustments are provided for in the period the related sales are recorded.

The company recognizes revenue from the sale of software. License fee revenues relate primarily to sales of perpetual licenses to end-users and are recognized when a formal agreement exists, the license fee is fixed and determinable, delivery of the software has occurred and collection is probable. Software arrangements with customers often include multiple elements, including software products, maintenance and support. The company recognizes software license fees based on the residual method after all elements have either been delivered or vendor specific objective evidence (VSOE) of fair value exists for such undelivered elements. In the event VSOE is not available for any undelivered element, revenue for all elements is deferred until delivery is completed. Revenues from software maintenance and support contracts are recognized on a straight-line basis over the term of the contract, which is generally a period of one year. VSOE of fair value of software maintenance and support is determined based on the price charged for the maintenance and support when sold separately. Revenues from training and consulting services are recognized as services are performed, based on VSOE, which is determined by reference to the price customers pay when the services are sold separately.

Service revenues represent the company's service offerings including clinical trial logistics, asset management, diagnostic testing, training, service contracts, and field service including related time and materials. Service revenues

**THERMO FISHER SCIENTIFIC INC.**

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

are recognized as the service is performed. Revenues for service contracts are recognized ratably over the contract period.

Accounts receivable are recorded at the invoiced amount and do not bear interest. The company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to pay amounts due. The allowance for doubtful accounts is the company's best estimate of the amount of probable credit losses in existing accounts receivable. The company determines the allowance based on the age of the receivable, the creditworthiness of the customer and any other information that is relevant to the judgment. Account balances are charged off against the allowance when the company believes it is probable the receivable will not be recovered. The company does not have any off-balance-sheet credit exposure related to customers.

The company records shipping and handling charges billed to customers in net sales and records shipping and handling costs in cost of product revenues for all periods presented.

Deferred revenue in the accompanying balance sheet consists primarily of unearned revenue on service contracts, which is recognized ratably over the terms of the contracts. Substantially all of the deferred revenue in the accompanying 2012 balance sheet will be recognized within one year.

*Warranty Obligations*

The company provides for the estimated cost of standard product warranties, primarily from historical information, in cost of product revenues at the time product revenue is recognized. While the company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its component supplies, the company's warranty obligation is affected by product failure rates, utilization levels, material usage, service delivery costs incurred in correcting a product failure and supplier warranties on parts delivered to the company. Should actual product failure rates, utilization levels, material usage, service delivery costs or supplier warranties on parts differ from the company's estimates, revisions to the estimated warranty liability would be required. The liability for warranties is included in other accrued expenses in the accompanying balance sheet. The changes in the carrying amount of warranty obligations are as follows:

(In millions)	Year Ended	
	December 31, 2012	December 31, 2011
<b>Beginning Balance</b>	\$ 42.2	\$ 41.7
Provision charged to income	66.2	54.4
Usage	(59.3)	(55.1)
Acquisitions	—	3.0
Adjustments to previously provided warranties, net	0.1	(1.2)
Other, net	(0.5)	(0.6)
<b>Ending Balance</b>	<u>\$ 48.7</u>	<u>\$ 42.2</u>

*Research and Development*

The company conducts research and development activities to increase its depth of capabilities in technologies, software and services. Research and development costs include salaries and benefits, consultants, facilities related costs, material costs, depreciation and travel. Research and development costs are expensed as incurred.

*Income Taxes*

The company recognizes deferred income taxes based on the expected future tax consequences of differences between the financial statement basis and the tax basis of assets and liabilities, calculated using enacted tax rates in effect for the year in which the differences are expected to be reflected in the tax return.

## THERMO FISHER SCIENTIFIC INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The financial statements reflect expected future tax consequences of uncertain tax positions that the company has taken or expects to take on a tax return presuming the taxing authorities' full knowledge of the positions and all relevant facts, but without discounting for the time value of money (Note 7).

#### *Earnings per Share*

Basic earnings per share has been computed by dividing net income by the weighted average number of shares outstanding during the year. Except where the result would be antidilutive to income from continuing operations, diluted earnings per share has been computed using the treasury stock method for the convertible obligations and the exercise of stock options, as well as their related income tax effects (Note 8).

#### *Cash and Cash Equivalents*

Cash equivalents consists principally of money market funds, commercial paper and other marketable securities purchased with an original maturity of three months or less. These investments are carried at cost, which approximates market value.

#### *Investments*

The company's marketable equity and debt securities that are part of its cash management activities are considered short-term investments in the accompanying balance sheet. Such securities principally represent available-for-sale investments. In addition, the company owns marketable equity securities that represent less than 20% ownership and for which the company does not have the ability to exert significant influence. Such investments are also considered available-for-sale. All available-for-sale securities are carried at fair market value, with the difference between cost and fair market value, net of related tax effects, recorded in the "accumulated other comprehensive items" component of shareholders' equity (Notes 11 and 12). Decreases in fair market values of individual securities below cost for a duration of six to nine months are deemed indicative of other than temporary impairment, and the company assesses the need to write down the carrying amount of the investments to fair market value through other expense, net, in the accompanying statement of income. Should a decrease in the fair market value of debt securities be deemed attributable to non-credit loss conditions, however, no impairment is recorded in the statement of income if the company has the ability and intent to hold the investment to maturity.

Other investments for which there are not readily determinable market values are accounted for under the cost method of accounting. The company periodically evaluates the carrying value of its investments accounted for under the cost method of accounting, which provides that they are recorded at the lower of cost or estimated net realizable value. At December 31, 2012 and 2011, the company had cost method investments with carrying amounts of \$12.2 million and \$11.9 million, respectively, which are included in other assets.

#### *Inventories*

Inventories are valued at the lower of cost or market, cost being determined principally by the first-in, first-out (FIFO) method with certain of the company's businesses utilizing the last-in, first-out (LIFO) method. The company periodically reviews quantities of inventories on hand and compares these amounts to the expected use of each product or product line. In addition, the company has certain inventory that is subject to fluctuating market pricing. The company assesses the carrying value of this inventory based on a lower of cost or market analysis. The company records a charge to cost of sales for the amount required to reduce the carrying value of inventory to net realizable value. Costs associated with the procurement of inventories, such as inbound freight charges, purchasing and receiving costs, and internal transfer costs, are included in cost of revenues in the accompanying statement of income. The components of inventories are as follows:

**THERMO FISHER SCIENTIFIC INC.**

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

(In millions)	December 31, 2012	December 31, 2011
Raw Materials	\$ 362.0	\$ 335.2
Work in Process	149.7	129.3
Finished Goods	931.6	865.6
	<u>\$ 1,443.3</u>	<u>\$ 1,330.1</u>

The value of inventories maintained using the LIFO method was \$190.6 million and \$181.5 million at December 31, 2012 and 2011, respectively, which was below estimated replacement cost by \$25.1 million and \$22.5 million, respectively. The company recorded a reduction in cost of revenues as a result of the liquidation of LIFO inventories of \$0.3 million, \$0.2 million and \$0.9 million in 2012, 2011 and 2010, respectively.

*Property, Plant and Equipment*

Property, plant and equipment are recorded at cost. The costs of additions and improvements are capitalized, while maintenance and repairs are charged to expense as incurred. The company provides for depreciation and amortization using the straight-line method over the estimated useful lives of the property as follows: buildings and improvements, 25 to 40 years; machinery and equipment (including software), 3 to 10 years; and leasehold improvements, the shorter of the term of the lease or the life of the asset. When assets are retired or otherwise disposed of, the assets and related accumulated depreciation are eliminated from the accounts and the resulting gain or loss is reflected in the accompanying statement of income. Property, plant and equipment consists of the following:

(In millions)	December 31, 2012	December 31, 2011
Land	\$ 216.6	\$ 179.9
Buildings and Improvements	805.5	747.4
Machinery, Equipment and Leasehold Improvements	1,829.9	1,647.6
	2,852.0	2,574.9
Less: Accumulated Depreciation and Amortization	1,125.6	963.6
	<u>\$ 1,726.4</u>	<u>\$ 1,611.3</u>

Depreciation and amortization expense of property, plant and equipment including amortization of assets held under capital leases, was \$236.1 million, \$211.7 million and \$185.0 million in 2012, 2011 and 2010, respectively.

*Acquisition-related Intangible Assets*

Acquisition-related intangible assets include the costs of acquired customer relationships, product technology, patents, tradenames and other specifically identifiable intangible assets, and are being amortized using the straight-line method over their estimated useful lives, which range from 3 to 20 years. In addition, the company has tradenames and in-process research and development that have indefinite lives and which are not amortized. The company reviews other intangible assets for impairment when indication of potential impairment exists, such as a significant reduction in cash flows associated with the assets. Intangible assets with indefinite lives are reviewed for impairment annually or whenever events or changes in circumstances indicate they may be impaired. Acquisition-related intangible assets are as follows:

**THERMO FISHER SCIENTIFIC INC.**

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

(In millions)	December 31, 2012			December 31, 2011		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
<b>Continuing Operations:</b>						
<i>Definite Lives:</i>						
Customer relationships	\$ 7,047.0	\$ (2,617.6)	\$ 4,429.4	\$ 6,572.6	\$ (2,146.5)	\$ 4,426.1
Product technology	2,512.9	(958.6)	1,554.3	2,268.5	(726.7)	1,541.8
Tradenames	807.8	(330.5)	477.3	763.0	(264.9)	498.1
Patents	19.7	(19.2)	0.5	19.5	(18.5)	1.0
Other	15.7	(13.3)	2.4	13.6	(12.7)	0.9
	10,403.1	(3,939.2)	6,463.9	9,637.2	(3,169.3)	6,467.9
<i>Indefinite Lives:</i>						
Tradenames	1,326.9	—	1,326.9	1,326.9	—	1,326.9
In-process research and development	13.7	—	13.7	21.1	—	21.1
	1,340.6	—	1,340.6	1,348.0	—	1,348.0
	\$ 11,743.7	\$ (3,939.2)	\$ 7,804.5	\$ 10,985.2	\$ (3,169.3)	\$ 7,815.9

The estimated future amortization expense of acquisition-related intangible assets with definite lives is as follows:

(In millions)	
2013	\$ 765.7
2014	742.2
2015	724.9
2016	687.0
2017	679.0
2018 and thereafter	2,865.1
	\$ 6,463.9

Amortization of acquisition-related intangible assets in continuing operations was \$747.6 million, \$647.9 million and \$554.7 million in 2012, 2011 and 2010, respectively and for discontinued operations was \$4.2 million and \$17.0 million in 2011 and 2010, respectively.

*Other Assets*

Other assets in the accompanying balance sheet include deferred tax assets, insurance recovery receivables related to product liability matters, investments in joint ventures, cash surrender value of life insurance, deferred debt expense, cost-method investments, notes receivable, capitalized catalog costs, other assets and, in 2011, the long-term assets of discontinued operations.

The company owns 49% - 50% interests in two joint ventures and records its pro rata share of the joint ventures' results in other expense, net, in the accompanying statement of income, using the equity method of accounting. The joint ventures were formed to combine the company's capabilities with those of businesses contributed by the respective joint venture partners in the fields of integrated response technology services and disposable laboratory glass products. The results of the joint ventures were not material for any period presented. The company made

**THERMO FISHER SCIENTIFIC INC.**

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

purchases of products for resale from the glass products joint venture totaling \$48.3 million, \$45.1 million and \$44.0 million in 2012, 2011 and 2010, respectively.

*Goodwill*

The company assesses the realizability of goodwill annually and whenever events or changes in circumstances indicate it may be impaired. Such events or circumstances generally include the occurrence of operating losses or a significant decline in earnings associated with one or more of the company's reporting units. The company estimates the fair value of its reporting units by using forecasts of discounted future cash flows and peer market multiples. When an impairment is indicated, any excess of carrying value over the implied fair value of goodwill is recorded as an operating loss. The company completed annual tests for impairment at November 2, 2012 and November 4, 2011, and determined that goodwill was not impaired.

The changes in the carrying amount of goodwill by segment are as follows:

(In millions)	Analytical Technologies	Specialty Diagnostics	Laboratory Products and Services	Total
<b>Balance at December 31, 2010</b>	\$ 1,786.4	\$ 2,192.9	\$ 5,001.6	\$ 8,980.9
Acquisitions	1,316.9	1,828.8	18.4	3,164.1
Finalization of purchase price allocations for 2010 acquisitions	(4.4)	—	5.0	0.6
Sale of businesses	(0.1)	—	(9.9)	(10.0)
Currency translation	(7.7)	(150.1)	(1.9)	(159.7)
Other	(0.7)	(1.0)	(0.9)	(2.6)
<b>Balance at December 31, 2011</b>	3,090.4	3,870.6	5,012.3	11,973.3
Acquisitions	15.6	273.5	81.1	370.2
Finalization of purchase price allocations for 2011 acquisitions	(0.9)	(3.4)	—	(4.3)
Revision to goodwill allocable to discontinued operations	—	—	13.1	13.1
Currency translation	10.0	106.7	6.0	122.7
Other	16.7	(18.2)	1.0	(0.5)
<b>Balance at December 31, 2012</b>	<u>\$ 3,131.8</u>	<u>\$ 4,229.2</u>	<u>\$ 5,113.5</u>	<u>\$ 12,474.5</u>

Goodwill of the discontinued operations of \$14.7 million at December 31, 2011, is included in other assets in the accompanying balance sheet. In 2012, the company reduced its earlier estimate of goodwill allocable to discontinued operations by \$13.1 million, based on the actual selling price of the business.

*Asset Retirement Obligations*

The company reviews legal obligations associated with the retirement of long-lived assets that result from contractual obligations or the acquisition, construction, development and/or normal use of the assets. If it is determined that a legal obligation exists, regardless of whether the obligation is conditional on a future event, the fair value of the liability for an asset retirement obligation is recognized in the period in which it is incurred, if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset, and this additional carrying amount is depreciated over the life of the asset. The difference between the gross expected future cash flow and its present value is accreted over the life of the related lease as interest expense. At December 31, 2012 and 2011, the company had recorded asset retirement obligations of \$28.3 million and \$23.7 million, respectively.

## THERMO FISHER SCIENTIFIC INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### *Loss Contingencies*

Accruals are recorded for various contingencies, including legal proceedings, environmental, workers' compensation, product, general and auto liabilities, self-insurance and other claims that arise in the normal course of business. The accruals are based on management's judgment, historical claims experience, the probability of losses and, where applicable, the consideration of opinions of internal and/or external legal counsel and actuarial estimates. Additionally, the company records receivables from third-party insurers up to the amount of the loss when recovery has been determined to be probable. Liabilities acquired in acquisitions have been recorded at their fair value and, as such, were discounted to their present value at the dates of acquisition.

#### *Advertising*

The company records advertising costs as expenses as incurred, except for certain direct-response advertising, which is capitalized and amortized on a straight-line basis over its expected period of future benefit, generally one to three years. The company has capitalized advertising costs of \$1.9 million and \$5.7 million at December 31, 2012 and 2011, respectively, included in other assets in the accompanying balance sheet. Direct-response advertising consists of external catalog production and mailing costs, and amortization begins on the date the catalogs are first mailed. Advertising expense, which includes amortization of capitalized direct-response advertising, as described above, was \$39.5 million, \$29.6 million and \$27.2 million in 2012, 2011 and 2010, respectively. Included in advertising expense was catalog amortization of \$5.6 million, \$7.2 million and \$6.8 million for 2012, 2011 and 2010, respectively.

#### *Currency Translation*

All assets and liabilities of the company's non-U.S. subsidiaries are translated at year-end exchange rates, and revenues and expenses are translated at average exchange rates for the year. Resulting translation adjustments are reflected in the "accumulated other comprehensive items" component of shareholders' equity. Currency transaction gains and losses are included in the accompanying statement of income and in aggregate were net losses of \$11.0 million, \$1.0 million and \$6.4 million in 2012, 2011 and 2010, respectively.

#### *Derivative Contracts*

The company is exposed to certain risks relating to its ongoing business operations including changes to interest rates, currency exchange rates and commodity prices. The company uses derivative instruments primarily to manage currency exchange and interest rate risks. The company recognizes derivative instruments as either assets or liabilities and measures those instruments at fair value. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of the hedged item through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. Derivatives that are not designated as hedges are recorded at fair value through earnings.

The company uses short-term forward and option currency-exchange contracts primarily to hedge certain balance sheet and operational exposures resulting from changes in currency exchange rates, predominantly intercompany loans and cash balances that are denominated in currencies other than the functional currencies of the respective operations. These contracts principally hedge transactions denominated in euro, British pounds sterling, Chinese yuan, Japanese yen, Swedish krona and Australian dollars. The company does not hold or engage in transactions involving derivative instruments for purposes other than risk management. As of December 31, 2012, the company had no outstanding foreign exchange contracts that were hedging anticipated purchases or sales.

*Cash flow hedges.* For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. As of December 31, 2012 and 2011, the company had no outstanding derivative contracts that were accounted for as cash flow hedges.



## THERMO FISHER SCIENTIFIC INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Fair value hedges.* For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in earnings. During 2010 and 2011, in connection with new debt issuances, the company entered into interest rate swap arrangements. The company includes the gain or loss on the hedged items (fixed-rate debt) in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. All of the company's interest rate swap arrangements were terminated in 2011 (Note 9).

#### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In addition, significant estimates were made in estimating future cash flows to assess potential impairment of assets, and in determining the ultimate loss from selling discontinued operations and abandoning leases at facilities being exited (Note 14). Actual results could differ from those estimates.

#### *Recent Accounting Pronouncements*

In February 2013, the FASB issued new guidance which requires disclosure of information about significant reclassification adjustments from accumulated other comprehensive income in a single note or on the face of the financial statements. This guidance will be effective for the company in 2013. Adoption of this standard, which is related to disclosure only, will not have an impact on the company's consolidated financial position, results of operations or cash flows.

In July 2012, the FASB modified existing rules to allow entities to use a qualitative approach to test indefinite-lived intangible asset for impairment. The revised standard allows an entity the option to first assess qualitatively whether it is more likely than not (that is, a likelihood of more than 50 percent) that an indefinite-lived intangible asset is impaired. An entity is not required to calculate the fair value of an indefinite-lived intangible asset and perform the quantitative impairment test unless the entity determines that it is more likely than not that the asset is impaired. This guidance will be effective for the company in 2013. Adoption of this standard will not have an impact on the company's consolidated financial position, results of operations or cash flows.

In December 2011, the FASB issued new guidance which requires enhanced disclosures on offsetting amounts within the balance sheet, including disclosing gross and net information about instruments and transactions eligible for offset or subject to a master netting or similar agreement. The guidance is effective for the company beginning January 1, 2013 and is to be applied retrospectively. The adoption of this guidance, which is related to disclosure only, will not have an impact on the company's consolidated financial position, results of operations or cash flows.

In September 2011, the FASB modified existing rules to allow entities to use a qualitative approach to test goodwill for impairment. The revised guidance permits an entity to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If impairment is deemed more likely than not, management would perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. This guidance was effective for the company on January 1, 2012. Adoption of this standard did not have an impact on the company's consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued new guidance pertaining to the presentation of comprehensive income. The new rule eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. The standard is intended to provide a more consistent method of presenting non-owner transactions that affect the company's equity. Under the new guidance, an entity can present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. The new guidance was effective for the company on January 1, 2012 and did not have an impact on the company's consolidated financial position, results of operations or cash flows.

## THERMO FISHER SCIENTIFIC INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In May 2011, the FASB amended existing rules covering fair value measurement and disclosure to clarify guidance and minimize differences between U.S. GAAP and International Financial Reporting Standards (IFRS). The new guidance requires entities to provide information about valuation techniques and unobservable inputs used in Level 3 fair value measurements and provide a narrative description of the sensitivity of Level 3 measurements to changes in unobservable inputs. The guidance was effective for the company on January 1, 2012 and did not have an impact on the company's consolidated financial position, results of operations or cash flows.

#### Note 2. Acquisitions and Dispositions

##### *2012 Acquisitions*

In September 2012, the Specialty Diagnostics segment acquired One Lambda, a provider of transplant diagnostics, for approximately \$885 million, net of cash acquired, including related real estate and subject to a post-closing adjustment, plus up to \$25 million of additional contingent consideration based upon the achievement of specified operating results in the year following the acquisition. The company recorded \$13 million as the fair value of contingent consideration at the acquisition date. The acquisition of One Lambda enhances the segment's presence in specialty *in vitro* diagnostics and adds new capabilities to the company's transplant-testing workflow. Revenues of One Lambda were \$182 million in 2011. The purchase price exceeded the fair value of the identifiable net assets and, accordingly, \$274 million was allocated to goodwill, all of which is tax deductible.

In May 2012, the Laboratory Products and Services segment acquired Doe & Ingalls Management, LLC, a North Carolina-based channel for specialty production chemicals and provider of customized supply-chain services to the life sciences and microelectronics industries, for \$175 million plus up to \$3 million of contingent consideration. The acquisition expands the segment's products and services that address the production market. Revenues of Doe & Ingalls totaled approximately \$110 million in 2011. The purchase price exceeded the fair value of the identifiable net assets and, accordingly, \$81 million was allocated to goodwill, \$53 million of which is tax deductible.

In addition, in 2012, the Analytical Technologies segment acquired a manufacturer and supplier of radioactive isotope identifiers, x-ray and gamma-ray detectors and spectroscopy systems used to detect radioactive and other nuclear materials in security and environmental settings and a manufacturer of miniature NMR spectrometers. The Specialty Diagnostics segment acquired a business that holds proprietary technology for tests to diagnose pre-eclampsia and eclampsia. The aggregate consideration for these acquisitions was \$25 million plus contingent consideration of up to \$15 million.

The company made contingent purchase price and post closing adjustment payments totaling \$6 million in 2012, for acquisitions completed prior to 2012. The contingent purchase price payments were contractually due to the sellers upon achievement of certain performance criteria at the acquired businesses.

##### *2011 Acquisitions*

In August 2011, the Specialty Diagnostics segment completed the acquisition of the Phadia group, a global leader in allergy and autoimmunity diagnostics, headquartered in Sweden, for a total purchase price of \$3.54 billion, net of cash acquired, including the repayment of \$2.14 billion of indebtedness owed by Phadia to the seller and third-party lenders. Phadia develops, manufactures and markets complete blood-test systems to support the clinical diagnosis and monitoring of allergy and autoimmune diseases. Phadia has been a pioneer in bringing new allergy diagnostic tests to market and is a global leader for *in vitro* allergy diagnostics and a European leader in autoimmunity diagnostics. Phadia's revenues in 2010 totaled €367 million (approximately \$525 million based on exchange rates at the time of the acquisition agreement announcement). The purchase price exceeded the fair value of the identifiable net assets and, accordingly, \$1.81 billion was recorded as goodwill, substantially none of which is tax deductible.

In May 2011, the Analytical Technologies segment completed the acquisition of Dionex Corporation, a leading manufacturer and marketer of chromatography systems, for a total purchase price of \$2.03 billion, net of cash acquired. Dionex, headquartered in Sunnyvale, California, is a global leader in the manufacturing and marketing of ion

## THERMO FISHER SCIENTIFIC INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and liquid chromatography and sample preparation systems, consumables, and software for chemical analysis. Dionex systems are used worldwide in environmental analysis and by the life sciences, chemical, petrochemical, food and beverage, power generation, and electronics industries. Their expertise in applications and instrumentation helps analytical scientists to evaluate and develop pharmaceuticals, establish environmental regulations, and produce better industrial products. Revenues of Dionex totaled \$420 million in its fiscal year ended June 30, 2010. The purchase price exceeded the fair value of the identifiable net assets and, accordingly, \$1.32 billion was recorded as goodwill, substantially none of which is tax deductible.

In addition, in 2011, the Laboratory Products and Services segment acquired a U.S.-based manufacturer of clinical and diagnostic assays and platforms for rapid and sensitive protein biomarker analysis; a U.K.-based provider of single-use plastic products serving the microbiology, life sciences and clinical markets and certain operating assets of a Singapore-based distributor of laboratory equipment and consumables. The Specialty Diagnostics segment also acquired a provider of microbiology solutions, including blood culture identification and antibiotic susceptibility testing products with operations in both the U.S. and U.K. The aggregate consideration paid for these acquisitions was \$97 million, net of cash acquired. Separately, the company's discontinued operations acquired a manufacturer of laboratory workstations and fume hoods for \$8 million.

The company made contingent purchase price and post closing adjustment payments totaling \$35 million in 2011, for acquisitions completed prior to 2011. The contingent purchase price payments were contractually due to the sellers upon achievement of certain performance criteria at the acquired businesses.

#### *2010 Acquisitions*

In February 2010, the Analytical Technologies segment acquired Ahura Scientific, Inc., a U.S.-based provider of handheld spectroscopy instruments that are used worldwide in the identification of chemicals for safety, security and pharmaceutical applications, for \$147 million, net of cash acquired, plus up to \$25 million of additional contingent consideration based upon the achievement of specified operating results in 2010, of which the company recorded \$20 million as the fair value at the acquisition date and an additional \$5 million as a charge to selling, general and administrative expense in December 2010. The \$25 million was paid in early 2011. The acquisition expands the segment's portfolio of portable analytical devices. Revenues of Ahura Scientific totaled \$45 million in 2009. The purchase price exceeded the fair value of the identifiable net assets and, accordingly, \$110 million was allocated to goodwill, none of which is tax deductible.

In March 2010, the Analytical Technologies segment acquired Finnzymes, a Finland-based provider of integrated tools for molecular biology analysis, including reagents, instruments, consumables and kits, for \$58 million, net of cash acquired. The acquisition expands the company's portfolio of reagents and other consumables for the molecular biology research and diagnostics markets. Finnzymes reported revenues of \$20 million in 2009. The purchase price exceeded the fair value of the identifiable net assets and, accordingly, \$25 million was allocated to goodwill, none of which is tax deductible.

In July 2010, the Analytical Technologies segment acquired Fermentas International Inc., a manufacturer and global distributor of enzymes, reagents and kits for molecular and cellular biology research, with principal operations in Lithuania, for \$260 million, net of cash acquired. The acquisition expands the company's ability to provide complete workflows for genomics research. Fermentas reported revenues of approximately \$55 million in 2009. The purchase price exceeded the fair value of the identifiable net assets and, accordingly, \$117 million was allocated to goodwill, none of which is tax deductible.

In addition, in 2010, the Analytical Technologies segment acquired a developer of tunable diode-based spectroscopy systems; a provider of liquid chromatography and software solutions for proteomics analysis; a developer and manufacturer of miniature handheld near-infrared analyzers; a developer and manufacturer of low-frequency microwave moisture analyzers; a life sciences custom media developer; a developer and manufacturer of laboratory water purification systems, and an India-based distributor of scientific bulk elemental and other products. The Laboratory Products and Services segment acquired an Australian-based provider of laboratory chemicals,

**THERMO FISHER SCIENTIFIC INC.**

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

consumables and instruments. The aggregate consideration for these acquisitions was \$146 million plus \$3 million of contingent consideration, paid primarily in 2011.

The company made contingent purchase price payments totaling \$5 million in 2010, for acquisitions completed prior to 2010.

The company's acquisitions have historically been made at prices above the fair value of the acquired identifiable assets, resulting in goodwill, due to expectations of the synergies that will be realized by combining the businesses. These synergies include the elimination of redundant facilities, functions and staffing; use of the company's existing commercial infrastructure to expand sales of the acquired businesses' products; and use of the commercial infrastructure of the acquired businesses to cost-effectively expand sales of company products.

Acquisitions have been accounted for using the purchase method of accounting, and the acquired companies' results have been included in the accompanying financial statements from their respective dates of acquisition. Acquisition transaction costs are recorded in selling, general and administrative expenses. The net assets acquired have been recorded based on estimates of fair value and, for acquisitions completed within the past year, are subject to adjustment upon finalization of the valuation process. The company is not aware of any information that indicates the final valuations will differ materially from preliminary estimates.

The components of the purchase price and net assets acquired for 2012 acquisitions are as follows:

(In millions)	One Lambda	Doe & Ingalls	Other	Total
<b>Purchase Price</b>				
Cash paid	\$ 878.8	\$ 174.8	\$ 25.4	\$ 1,079.0
Purchase price payable	7.3	—	—	7.3
Fair value of contingent consideration	13.1	1.5	5.3	19.9
Cash acquired	(1.3)	—	—	(1.3)
	<u>\$ 897.9</u>	<u>\$ 176.3</u>	<u>\$ 30.7</u>	<u>\$ 1,104.9</u>
<b>Net Assets Acquired</b>				
Current assets	\$ 110.1	\$ 21.9	\$ 2.2	\$ 134.2
Property, plant and equipment	30.3	11.6	0.1	42.0
Intangible assets:				
Customer relationships	330.7	68.1	3.2	402.0
Product technology	172.5	1.1	13.9	187.5
Tradenames and other	17.2	16.8	—	34.0
Goodwill	273.5	81.1	15.6	370.2
Other assets	—	0.5	—	0.5
Liabilities assumed	(36.4)	(24.8)	(4.3)	(65.5)
	<u>\$ 897.9</u>	<u>\$ 176.3</u>	<u>\$ 30.7</u>	<u>\$ 1,104.9</u>

The weighted-average amortization periods for intangible assets acquired in 2012 are 13 years for customer relationships, 11 years for product technology and 13 years for tradenames and other. The weighted average amortization period for all intangible assets acquired in 2012 is 13 years.

**THERMO FISHER SCIENTIFIC INC.**

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

The components of the purchase price and net assets acquired for 2011 acquisitions, as revised in 2012 for finalization of the valuation process are as follows:

(In millions)	Phadia	Dionex	Other	Total
<b>Purchase Price</b>				
Cash paid	\$ 3,655.2	\$ 2,140.8	\$ 97.7	\$ 5,893.7
Debt assumed	0.3	3.2	—	3.5
Purchase price payable	—	—	0.4	0.4
Fair value of contingent consideration	—	—	1.4	1.4
Cash acquired	(117.2)	(114.9)	(0.9)	(233.0)
	<u>\$ 3,538.3</u>	<u>\$ 2,029.1</u>	<u>\$ 98.6</u>	<u>\$ 5,666.0</u>
<b>Net Assets Acquired</b>				
Current assets	\$ 328.1	\$ 227.8	\$ 25.0	\$ 580.9
Property, plant and equipment	150.2	87.8	29.0	267.0
Intangible assets:				
Customer relationships	956.8	495.3	17.6	1,469.7
Product technology	696.3	350.2	20.0	1,066.5
In-process research and development	—	18.3	—	18.3
Tradenames and other	132.6	35.7	3.6	171.9
Goodwill	1,813.6	1,317.8	30.2	3,161.6
Other assets	67.9	3.1	1.2	72.2
Liabilities assumed	(607.2)	(506.9)	(28.0)	(1,142.1)
	<u>\$ 3,538.3</u>	<u>\$ 2,029.1</u>	<u>\$ 98.6</u>	<u>\$ 5,666.0</u>

The weighted-average amortization periods for intangible assets acquired in 2011 are 14 years for customer relationships, 11 years for product technology and 14 years for tradenames and other. The weighted average amortization period for all intangible assets in the above table is 13 years.

**THERMO FISHER SCIENTIFIC INC.**

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

The components of the purchase price and net assets acquired for 2010 acquisitions, as revised in 2011 for finalization of the valuation process are as follows:

(In millions)	Ahura Scientific	Finnzymes	Fermentas	Other	Total
<b>Purchase Price</b>					
Cash paid	\$ 164.0	\$ 59.0	\$ 278.7	\$ 150.6	\$ 652.3
Debt assumed	0.6	—	3.6	1.1	5.3
Fair value of contingent consideration	19.6	—	—	3.9	23.5
Cash acquired	(17.8)	(0.7)	(21.9)	(5.4)	(45.8)
	<u>\$ 166.4</u>	<u>\$ 58.3</u>	<u>\$ 260.4</u>	<u>\$ 150.2</u>	<u>\$ 635.3</u>
<b>Net Assets Acquired</b>					
Current assets	\$ 22.3	\$ 6.1	\$ 23.3	\$ 29.4	\$ 81.1
Property, plant and equipment	3.3	3.4	9.6	4.1	20.4
Intangible assets:					
Customer relationships	46.1	16.1	67.9	40.6	170.7
Product technology	30.4	18.6	73.5	24.8	147.3
In-process research and development	—	—	—	4.4	4.4
Tradenames and other	0.4	0.1	5.3	4.4	10.2
Goodwill	109.9	24.8	117.2	62.5	314.4
Other assets	0.1	2.0	3.0	9.0	14.1
Liabilities assumed	(46.1)	(12.8)	(39.4)	(29.0)	(127.3)
	<u>\$ 166.4</u>	<u>\$ 58.3</u>	<u>\$ 260.4</u>	<u>\$ 150.2</u>	<u>\$ 635.3</u>

The weighted-average amortization periods for intangible assets acquired in 2010 are 10 years for customer relationships, 9 years for product technology and 10 years for tradenames and other. The weighted average amortization period for all intangible assets in the above table is 9 years.

*Unaudited Pro Forma Information*

The company acquired Dionex Corporation in May 2011, the Phadia group in August 2011 and One Lambda in September 2012. Had the acquisitions of Dionex and Phadia been completed as of the beginning of 2010, and the acquisition of One Lambda been completed as of the beginning of 2011, the company's pro forma results for 2012 and 2011 would have been as follows:

(In millions except per share amounts)	2012	2011
Revenues	\$ 12,643.0	\$ 12,292.1
Income from Continuing Operations	\$ 1,338.5	\$ 1,133.9
Net Income	\$ 1,258.0	\$ 1,440.3
Earnings per Share from Continuing Operations:		
Basic	\$ 3.68	\$ 2.98
Diluted	\$ 3.65	\$ 2.95
Earnings per Share:		
Basic	\$ 3.46	\$ 3.78
Diluted	\$ 3.43	\$ 3.74

## THERMO FISHER SCIENTIFIC INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Pro forma results include non-recurring pro forma adjustments that were directly attributable to the business combinations. The following non-recurring pro forma adjustments relating to charges recorded in 2012 have been assumed to have occurred in 2011 for pro forma purposes:

- Pre-tax increase in income of \$16.1 million in 2012, relating to acquisition-related transaction costs incurred by the company and One Lambda.
- Pre-tax increase in income of \$14.1 million in 2012, for the sale of One Lambda inventory revalued at the date of acquisition.

Additionally, the following non-recurring pro forma adjustments relating to charges recorded in 2011 have been assumed to have occurred in 2010 for pro forma purposes:

- Pre-tax increase in income of \$21.2 million for 2011, relating to monetizing equity awards held by Dionex employees at the date of acquisition.
- Pre-tax increase in income of \$32.4 million and \$61.7 million in 2012 and 2011, respectively, for the sale of Dionex and Phadia inventories revalued at the date of acquisition.
- Pre-tax increase in income of \$80.6 million in 2011, for acquisition-related transaction costs incurred by the company, Dionex and Phadia.

The company's results would not have been materially different from its pro forma results had the company's other 2012 and 2011 acquisitions occurred at the beginning of 2011 or 2010, respectively.

#### *Dispositions*

On October 22, 2012, the company sold its laboratory workstations business and on April 4, 2011, the company sold its Athena Diagnostics business and its Lancaster Laboratories business (See Note 15).

In May 2011, the company sold a manufacturer of heating equipment for \$14 million and recorded a pre-tax loss on the sale of \$3 million, included in restructuring and other costs, net. Operating results of the business were not material.

#### **Note 3. Business Segment and Geographical Information**

The company's continuing operations fall into three business segments as follows:

**Analytical Technologies:** provides a broad offering of instruments, reagents, consumables, software and services that are used for a range of applications in the laboratory, on the production line and in the field. These products and services are used by customers in pharmaceutical, biotechnology, academic, government and other research and industrial markets, as well as the clinical laboratory.

**Specialty Diagnostics:** provides a wide range of diagnostic test kits, reagents, culture media, instruments and associated products used to increase the speed and accuracy of diagnoses. These products are used primarily by customers in healthcare, clinical, pharmaceutical, industrial and food safety laboratories.

**Laboratory Products and Services:** provides virtually everything needed for the laboratory, including a combination of self-manufactured and sourced products and an extensive service offering. These products and services are used by customers in pharmaceutical, biotechnology, academic, government and other research and industrial markets, as well as the clinical laboratory.

In February 2013, in connection with a change in management responsibility for two product lines, the company transferred its water analysis and research serum media product lines to the Laboratory Products and Services segment from the Analytical Technologies segment. The company has historically moved a product line between segments when a shift in strategic focus of either the product line or a segment more closely aligns the product line with a

**THERMO FISHER SCIENTIFIC INC.**

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

segment different than that in which it had previously been reported. Prior period segment information has been reclassified to reflect these transfers.

The company's management evaluates segment operating performance based on operating income before certain charges/credits to cost of revenues and selling, general and administrative expenses, principally associated with acquisition accounting; restructuring and other costs/income including costs arising from facility consolidations such as severance and abandoned lease expense and gains and losses from the sale of real estate and product lines; and amortization of acquisition-related intangible assets. The company uses this measure because it helps management understand and evaluate the segments' core operating results and facilitates comparison of performance for determining compensation.

*Business Segment Information*

(In millions)	2012	2011	2010
<b>Revenues</b>			
Analytical Technologies	\$ 4,017.9	\$ 3,739.7	\$ 3,137.1
Specialty Diagnostics	2,962.3	2,469.9	2,149.0
Laboratory Products and Services	6,053.7	5,831.2	5,539.8
Eliminations	<u>(524.0)</u>	<u>(482.0)</u>	<u>(432.8)</u>
Consolidated revenues	<u>12,509.9</u>	<u>11,558.8</u>	<u>10,393.1</u>
<b>Segment Income</b>			
Analytical Technologies (a)	749.1	694.8	525.0
Specialty Diagnostics (a)	761.2	598.4	487.9
Laboratory Products and Services (a)	<u>869.6</u>	<u>836.1</u>	<u>806.3</u>
Subtotal reportable segments (a)	<u>2,379.9</u>	<u>2,129.3</u>	<u>1,819.2</u>
Cost of revenues charges	(55.6)	(72.6)	(13.2)
Selling, general and administrative charges, net	(12.5)	(61.5)	(3.0)
Restructuring and other costs, net	(82.1)	(96.5)	(60.2)
Amortization of acquisition-related intangible assets	<u>(747.6)</u>	<u>(647.9)</u>	<u>(554.7)</u>
Consolidated operating income	1,482.1	1,250.8	1,188.1
Other expense, net (b)	<u>(212.7)</u>	<u>(118.0)</u>	<u>(100.4)</u>
Income from continuing operations before income taxes	<u>\$ 1,269.4</u>	<u>\$ 1,132.8</u>	<u>\$ 1,087.7</u>
<b>Depreciation</b>			
Analytical Technologies	\$ 64.0	\$ 59.9	\$ 53.9
Specialty Diagnostics	73.0	50.1	37.3
Laboratory Products and Services	<u>99.1</u>	<u>101.7</u>	<u>93.8</u>
Consolidated depreciation	<u>\$ 236.1</u>	<u>\$ 211.7</u>	<u>\$ 185.0</u>

(a) Represents operating income before certain charges to cost of revenues and selling, general and administrative expenses; restructuring and other costs, net; and amortization of acquisition-related intangibles.

(b) The company does not allocate other expense, net to its segments.



**THERMO FISHER SCIENTIFIC INC.**

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

(In millions)	2012	2011	2010
<b>Total Assets</b>			
Analytical Technologies	\$ 5,676.2	\$ 6,085.0	\$ 4,100.6
Specialty Diagnostics	9,841.0	8,319.6	4,575.9
Laboratory Products and Services	11,275.8	10,891.7	10,933.9
Corporate/Other (c)	<u>651.6</u>	<u>1,537.4</u>	<u>1,739.0</u>
Consolidated total assets	<u>\$ 27,444.6</u>	<u>\$ 26,833.7</u>	<u>\$ 21,349.4</u>
<b>Capital Expenditures</b>			
Analytical Technologies	\$ 75.1	\$ 69.5	\$ 43.2
Specialty Diagnostics	97.6	63.2	51.0
Laboratory Products and Services	106.4	115.7	125.8
Corporate/Other	<u>36.0</u>	<u>12.5</u>	<u>25.4</u>
Consolidated capital expenditures	<u>\$ 315.1</u>	<u>\$ 260.9</u>	<u>\$ 245.4</u>

(c) Corporate assets consist primarily of cash and cash equivalents, short-term investments, property and equipment at the company's corporate offices and assets of the discontinued operations.

*Geographical Information*

(In millions)	2012	2011	2010
<b>Revenues (d)</b>			
United States	\$ 6,424.4	\$ 6,023.9	\$ 5,806.8
China	735.8	559.6	405.3
Germany	681.5	698.3	592.9
United Kingdom	507.1	472.3	409.6
Other	<u>4,161.1</u>	<u>3,804.7</u>	<u>3,178.5</u>
	<u>\$ 12,509.9</u>	<u>\$ 11,558.8</u>	<u>\$ 10,393.1</u>
<b>Long-lived Assets (e)</b>			
United States	\$ 862.4	\$ 797.9	\$ 708.5
United Kingdom	223.9	209.2	170.4
Germany	165.2	158.6	121.7
Other	<u>474.9</u>	<u>445.6</u>	<u>319.3</u>
	<u>\$ 1,726.4</u>	<u>\$ 1,611.3</u>	<u>\$ 1,319.9</u>

(d) Revenues are attributed to countries based on customer location.

(e) Includes property, plant and equipment, net.

**THERMO FISHER SCIENTIFIC INC.**

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

**Note 4. Other Expense, Net**

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

(In millions)	2012	2011	2010
Interest Income	\$ 25.2	\$ 26.8	\$ 12.4
Interest Expense	(241.6)	(175.3)	(84.7)
Other Items, Net	3.7	30.5	(28.1)
	<u>\$ (212.7)</u>	<u>\$ (118.0)</u>	<u>\$ (100.4)</u>

*Other Items, Net*

In 2011, other items, net includes \$28 million of gains on currency exchange contracts associated with the acquisition of Phadia and an \$18 million gain on the sale of an equity investment accounted for under the cost method, offset in part by \$10 million of fees associated with a short-term financing commitment to fund the Phadia acquisition.

During 2010, the company redeemed all of its outstanding 6 1/8% Senior Subordinated Notes due 2015. The company recorded a loss on the early extinguishment of debt of \$17 million, principally as a result of this redemption. The company recorded \$8 million of fees associated with short-term financing commitments for the purchase of Dionex.

**Note 5. Stock-based Compensation Plans**

The company has stock-based compensation plans for its key employees, directors and others. These plans permit the grant of a variety of stock and stock-based awards, including restricted stock units, stock options or performance-based shares, as determined by the compensation committee of the company's Board of Directors or for certain non-officer grants, by the company's employee equity committee, which consists of its chief executive officer. Options granted under these plans generally vest over 3-5 years with terms of 7-10 years, assuming continued employment with certain exceptions. The company's practice is to grant options at fair market value. The company generally issues new shares of its common stock to satisfy option exercises. Grants of stock options and restricted stock on or after November 9, 2006, provide that in the event of both a change in control of the company and a qualifying termination of an option holder's employment, all options and service-based restricted stock awards held by the recipient become immediately vested (unless an employment or other agreement with the employee provides for different treatment).

Compensation cost is based on the grant-date fair value and is recognized ratably over the requisite vesting period or to the date based on qualifying retirement eligibility, if earlier.

**THERMO FISHER SCIENTIFIC INC.**

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

The components of pre-tax stock-based compensation expense are as follows:

(In millions)	2012	2011	2010
Stock Option Awards	\$ 39.3	\$ 49.4	\$ 48.6
Restricted Share/Unit Awards	38.9	30.6	33.0
Total Stock-based Compensation Expense	<u>\$ 78.2</u>	<u>\$ 80.0</u>	<u>\$ 81.6</u>

Stock-based compensation expense is included in the accompanying statement of income as follows:

(In millions)	2012	2011	2010
Cost of Revenues	\$ 5.4	\$ 5.7	\$ 5.8
Selling, General and Administrative Expenses	70.7	72.4	74.0
Research and Development Expenses	2.1	1.9	1.8
Total Stock-based Compensation Expense	<u>\$ 78.2</u>	<u>\$ 80.0</u>	<u>\$ 81.6</u>

The company has elected to recognize any excess income tax benefits from stock option exercises in capital in excess of par value only if an incremental income tax benefit would be realized after considering all other tax attributes presently available to the company. The company measures the tax benefit associated with excess tax deductions related to stock-based compensation expense by multiplying the excess tax deductions by the statutory tax rates. The company uses the incremental tax benefit approach for utilization of tax attributes. Tax benefits recognized in capital in excess of par value on the accompanying balance sheet were \$18.7 million, \$14.6 million and \$10.9 million, respectively, in 2012, 2011 and 2010.

*Stock Options*

The fair value of most option grants is estimated using the Black-Scholes option pricing model. For option grants that require the achievement of both service and market conditions, a lattice model is used to estimate fair value. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. Expected volatility was calculated based on the historical volatility of the company's stock. Historical data on exercise patterns is the basis for estimating the expected life of an option. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term which approximates the expected life assumed at the date of grant. The expected annual dividend rate was calculated by dividing the company's annual dividend, based on the most recent quarterly dividend rate, by the closing stock price on the grant date. The compensation expense recognized for all stock-based awards is net of estimated forfeitures. Forfeitures are estimated based on an analysis of actual option forfeitures.

The weighted average assumptions used in the Black-Scholes option pricing model are as follows:

	2012	2011	2010
Expected Stock Price Volatility	34%	33%	32%
Risk Free Interest Rate	0.8%	1.7%	2.0%
Expected Life of Options (years)	4.5	4.1	4.1
Expected Annual Dividend	0.9%	0.0%	0.0%

The weighted average per share grant-date fair values of options granted during 2012, 2011 and 2010 were \$15.36, \$15.79 and \$14.12, respectively. The total intrinsic value of options exercised during the same periods was

**THERMO FISHER SCIENTIFIC INC.**

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

\$125.4 million, \$85.3 million and \$48.1 million, respectively. The intrinsic value is the difference between the market value of the shares on the exercise date and the exercise price of the option.

A summary of option activity as of December 31, 2012 and changes during the three years then ended is presented below:

	Shares (in millions)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (a) (in millions)
<b>Outstanding at December 31, 2009</b>	19.9	\$ 39.39		
Granted	4.3	49.61		
Exercised	(2.4)	31.96		
Canceled / Expired	<u>(0.8)</u>	44.55		
<b>Outstanding at December 31, 2010</b>	21.0	42.15		
Granted	3.7	54.74		
Exercised	(4.1)	38.46		
Canceled / Expired	<u>(1.0)</u>	48.11		
<b>Outstanding at December 31, 2011</b>	19.6	45.00		
Granted	2.9	57.17		
Exercised	(6.4)	39.77		
Canceled / Expired	<u>(0.8)</u>	52.55		
<b>Outstanding at December 31, 2012</b>	<u>15.3</u>	49.07	4.2	
<b>Vested and Unvested Expected to Vest at December 31, 2012</b>	<u>14.8</u>	48.84	4.1	<u>\$ 220.6</u>
<b>Exercisable at December 31, 2012</b>	<u>8.0</u>	44.58	3.0	<u>\$ 153.1</u>

(a) Market price per share on December 31, 2012 was \$63.78. The intrinsic value is zero for options with exercise prices above the market price.

As of December 31, 2012, there was \$76 million of total unrecognized compensation cost related to unvested stock options granted. The cost is expected to be recognized through 2016 with a weighted average amortization period of 2.3 years.

*Restricted Share/Unit Awards*

The company awards to a number of key employees restricted company common stock or restricted units that convert into an equivalent number of shares of common stock. The awards generally vest in annual installments over three to four years, assuming continued employment, with some exceptions. Vesting of the awards is contingent upon meeting certain service conditions and may also be contingent upon meeting certain performance and/or market conditions. The fair market value of the award at the time of the grant is amortized to expense over the period of vesting. Recipients of restricted shares have the right to vote such shares and receive cash dividends, whereas recipients of restricted units have no voting rights but are entitled to receive dividend equivalents. The fair value of service- and performance-based restricted share/unit awards is determined based on the number of shares/units granted and the market value of the company's shares on the grant date. For awards with market-based vesting conditions, the company uses a lattice model to estimate the grant-date fair value of the award.

**THERMO FISHER SCIENTIFIC INC.**

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

A summary of the status of the company's restricted shares/units as of December 31, 2012 and changes during the three years then ended are presented below:

	<u>Shares</u> <u>(in thousands)</u>	<u>Weighted</u> <u>Average</u> <u>Grant-Date</u> <u>Fair Value</u>
<b>Unvested at December 31, 2009</b>	1,671	\$ 41.99
Granted	704	49.43
Vested	(499)	42.00
Forfeited	<u>(92)</u>	39.56
<b>Unvested at December 31, 2010</b>	1,784	45.05
Granted	572	54.96
Vested	(504)	42.14
Forfeited	<u>(104)</u>	48.03
<b>Unvested at December 31, 2011</b>	1,748	48.96
Granted	1,014	57.12
Vested	(520)	44.25
Forfeited	<u>(191)</u>	51.92
<b>Unvested at December 31, 2012</b>	<u><u>2,051</u></u>	53.91

The total fair value of shares vested during 2012, 2011 and 2010 was \$23.0 million, \$21.2 million and \$21.0 million, respectively.

As of December 31, 2012, there was \$56 million of total unrecognized compensation cost related to unvested restricted stock unit awards. The cost is expected to be recognized through 2015 with a weighted average amortization period of 2.0 years.

*Employee Stock Purchase Plans*

Qualifying employees are eligible to participate in an employee stock purchase plan sponsored by the company. Shares may be purchased under the program at 95% of the fair market value at the end of the purchase period and the shares purchased are not subject to a holding period. Shares are purchased through payroll deductions of up to 10% of each participating employee's gross wages. The company issued 151,000, 139,000 and 127,000 shares, respectively, of its common stock for the 2012, 2011 and 2010 plan years, which ended on December 31.

**THERMO FISHER SCIENTIFIC INC.**

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

**Note 6. Pension and Other Postretirement Benefit Plans**

*401(k) Savings Plan and Other Defined Contribution Plans*

The company's 401(k) savings and other defined contribution plans cover the majority of the company's eligible U.S. and certain non-U.S. employees. Contributions to the plans are made by both the employee and the company. Company contributions are based on the level of employee contributions. Company contributions to these plans are based on formulas determined by the company. In 2012, 2011 and 2010, the company charged to expense \$86.0 million, \$79.4 million and \$57.8 million, respectively, related to its defined contribution plans.

*Defined Benefit Pension Plans*

Employees of a number of the company's non-U.S. and certain U.S. subsidiaries participate in defined benefit pension plans covering substantially all full-time employees at those subsidiaries. Some of the plans are unfunded, as permitted under the plans and applicable laws. The company also maintains postretirement healthcare programs at several acquired businesses where certain employees are eligible to participate. The costs of the postretirement healthcare programs are funded on a self-insured and insured-premium basis.

The company recognizes the funded status of defined benefit pension and other postretirement benefit plans as an asset or liability. This amount is defined as the difference between the fair value of plan assets and the benefit obligation. The company is required to recognize as a component of other comprehensive income, net of tax, the actuarial gains/losses and prior service costs/credits that arise but were not previously required to be recognized as components of net periodic benefit cost. Other comprehensive income is adjusted as these amounts are later recognized in income as components of net periodic benefit cost.

When a company with a pension plan is acquired, any excess of projected benefit obligation over the plan assets is recognized as a liability and any excess of plan assets over the projected benefit obligation is recognized as an asset. The recognition of a new liability or a new asset results in the elimination of (a) previously existing unrecognized net gain or loss and (b) unrecognized prior service cost or credits.

The company funds annually, at a minimum, the statutorily required minimum amount as actuarially determined. During 2012, 2011 and 2010, the company made contributions of approximately \$23.3 million, \$25.3 million and \$24.4 million, respectively. Contributions are estimated at between \$60 and \$70 million for 2013.

**THERMO FISHER SCIENTIFIC INC.**

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

The following table provides a reconciliation of benefit obligations and plan assets of the company's domestic and non-U.S. pension plans:

(In millions)	Domestic Pension Benefits		Non-U.S. Pension Benefits	
	2012	2011	2012	2011
<b>Change in Projected Benefit Obligations</b>				
Benefit Obligation at Beginning of Year	\$ 452.2	\$ 413.6	\$ 709.2	\$ 656.3
Business combinations	—	—	1.2	8.3
Service costs	—	—	11.8	13.7
Interest costs	19.8	21.3	30.7	32.1
Settlements and curtailments	—	—	(0.4)	(2.7)
Plan participants' contributions	—	—	3.4	3.5
Actuarial losses	25.8	37.9	79.7	26.0
Benefits paid	(22.9)	(20.6)	(24.8)	(21.3)
Currency translation and other	—	—	20.2	(6.7)
	<u>\$ 474.9</u>	<u>\$ 452.2</u>	<u>\$ 831.0</u>	<u>\$ 709.2</u>
<b>Benefit Obligation at End of Year</b>				
<b>Change in Fair Value of Plan Assets</b>				
Fair Value of Plan Assets at Beginning of Year	\$ 344.3	\$ 362.5	\$ 524.2	\$ 510.5
Business combinations	—	—	0.2	2.6
Actual return on plan assets	45.7	2.4	46.0	11.1
Employer contribution	—	—	21.4	23.5
Plan participants' contributions	—	—	3.4	3.5
Benefits paid	(22.9)	(20.6)	(24.8)	(21.3)
Currency translation and other	—	—	18.0	(5.7)
	<u>\$ 367.1</u>	<u>\$ 344.3</u>	<u>\$ 588.4</u>	<u>\$ 524.2</u>
Fair Value of Plan Assets at End of Year				
<b>Funded Status</b>	<u>\$ (107.8)</u>	<u>\$ (107.9)</u>	<u>\$ (242.6)</u>	<u>\$ (185.0)</u>
Accumulated Benefit Obligation	<u>\$ 474.9</u>	<u>\$ 452.2</u>	<u>\$ 788.7</u>	<u>\$ 663.0</u>
<b>Amounts Recognized in Balance Sheet</b>				
Non-current asset	\$ —	\$ —	\$ 0.7	\$ 0.8
Current liability	—	—	(4.4)	(4.1)
Non-current liability	(107.8)	(107.9)	(238.9)	(181.7)
	<u>\$ (107.8)</u>	<u>\$ (107.9)</u>	<u>\$ (242.6)</u>	<u>\$ (185.0)</u>
Net amount recognized				
<b>Amounts Recognized in Accumulated Other Comprehensive Loss</b>				
Net actuarial loss	\$ 177.4	\$ 172.6	\$ 142.8	\$ 81.2
Prior service credits	—	—	(2.7)	(0.6)
	<u>\$ 177.4</u>	<u>\$ 172.6</u>	<u>\$ 140.1</u>	<u>\$ 80.6</u>
Net amount recognized				

**THERMO FISHER SCIENTIFIC INC.**

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

The actuarial assumptions used to compute the funded status for the plans are based upon information available as of December 31, 2012 and 2011 and are as follows:

(In millions)	Domestic Pension Benefits		Non-U.S. Pension Benefits	
	2012	2011	2012	2011
<b>Weighted Average Assumptions Used to Determine Projected Benefit Obligations</b>				
Discount rate	4.00%	4.50%	3.65%	4.37%
Average rate of increase in employee compensation	4.00%	4.00%	2.94%	3.08%

The actuarial assumptions used to compute the net periodic pension benefit cost (income) are based upon information available as of the beginning of the year, as presented in the following table:

(In millions)	Domestic Pension Benefits			Non-U.S. Pension Benefits		
	2012	2011	2010	2012	2011	2010
<b>Weighted Average Assumptions Used to Determine the Net Benefit Cost (Income)</b>						
Discount rate	4.50%	5.25%	5.50%	4.37%	4.77%	5.37%
Average rate of increase in employee compensation	4.00%	4.00%	4.00%	3.23%	3.35%	3.24%
Expected long-term rate of return on assets	7.75%	7.75%	7.75%	5.17%	5.32%	5.59%



**THERMO FISHER SCIENTIFIC INC.**

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

Prior to the November 2006 merger with Fisher Scientific International, Inc., Fisher maintained a supplemental non-qualified executive retirement program (SERP) for certain executives. Accrual of future benefits under the plan ceased following the merger. The following table provides a reconciliation of benefit obligations and plan assets of the company's SERP and other postretirement benefit plans:

(In millions)	SERP Benefits		Postretirement Benefits	
	2012	2011	2012	2011
<b>Change in Projected Benefit Obligations</b>				
Benefit Obligation at Beginning of Year	\$ 13.9	\$ 12.4	\$ 38.9	\$ 34.9
Service costs	—	—	0.7	0.6
Interest costs	0.6	0.6	1.8	1.9
Plan participants' contributions	—	—	1.3	1.4
Actuarial losses	1.1	1.4	1.6	3.2
Benefits paid	(0.5)	(0.5)	(2.7)	(2.7)
Currency translation and other	—	—	0.4	(0.4)
	<u>\$ 15.1</u>	<u>\$ 13.9</u>	<u>\$ 42.0</u>	<u>\$ 38.9</u>
<b>Benefit Obligation at End of Year</b>				
	<u>\$ 15.1</u>	<u>\$ 13.9</u>	<u>\$ 42.0</u>	<u>\$ 38.9</u>
<b>Change in Fair Value of Plan Assets</b>				
Fair Value of Plan Assets at Beginning of Year	\$ —	\$ —	\$ —	\$ —
Employer contribution	0.5	0.5	1.4	1.3
Plan participants' contributions	—	—	1.3	1.4
Benefits paid	(0.5)	(0.5)	(2.7)	(2.7)
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Fair Value of Plan Assets at End of Year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
<b>Funded Status</b>	<u>\$ (15.1)</u>	<u>\$ (13.9)</u>	<u>\$ (42.0)</u>	<u>\$ (38.9)</u>
Accumulated Benefit Obligation	<u>\$ 15.1</u>	<u>\$ 13.9</u>		
<b>Amounts Recognized in Balance Sheet</b>				
Current liability	\$ (0.6)	\$ (0.5)	\$ (2.0)	\$ (2.2)
Non-current liability	(14.5)	(13.4)	(40.0)	(36.7)
	<u>\$ (15.1)</u>	<u>\$ (13.9)</u>	<u>\$ (42.0)</u>	<u>\$ (38.9)</u>
<b>Amounts Recognized in Accumulated Other Comprehensive Loss (Income)</b>				
Net actuarial loss	\$ 2.8	\$ 1.8	\$ 4.6	\$ 3.1
Prior service credits	—	—	(0.5)	(0.6)
	<u>\$ 2.8</u>	<u>\$ 1.8</u>	<u>\$ 4.1</u>	<u>\$ 2.5</u>
<b>Weighted Average Assumptions Used to Determine Benefit Obligations</b>				
Discount rate	4.00%	4.50%	4.20%	4.88%
Average rate of increase in employee compensation	4.00%	4.00%	—	—
Initial healthcare cost trend rate			7.14%	7.21%
Ultimate healthcare cost trend rate			5.47%	5.51%

**THERMO FISHER SCIENTIFIC INC.**

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

(In millions)	SERP Benefits			Postretirement Benefits		
	2012	2011	2010	2012	2011	2010
<b>Weighted Average Assumptions Used to Determine the Net Benefit Cost</b>						
Discount rate	4.50%	5.25%	5.50%	4.88%	5.44%	5.94%
Average rate of increase in employee compensation	4.00%	4.00%	4.00%	—	—	—

The ultimate healthcare cost trend rates for the postretirement benefit plans are expected to be reached between 2018 and 2027.

The discount rate reflects the rate the company would have to pay to purchase high-quality investments that would provide cash sufficient to settle its current pension obligations. The discount rate is determined based on a range of factors, including the rates of return on high-quality, fixed-income corporate bonds and the related expected duration of the obligations or, in certain instances, the company has used a hypothetical portfolio of high quality instruments with maturities that mirror the benefit obligation in order to accurately estimate the discount rate relevant to a particular plan.

The expected long-term rate of return on plan assets reflects the average rate of earnings expected on the funds invested, or to be invested, to provide for the benefits included in the projected benefit obligations. In determining the expected long-term rate of return on plan assets, the company considers the relative weighting of plan assets, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance. In addition, the company may consult with and consider the opinions of financial and other professionals in developing appropriate return benchmarks.

Asset management objectives include maintaining an adequate level of diversification to reduce interest rate and market risk and providing adequate liquidity to meet immediate and future benefit payment requirements.

The expected rate of compensation increase reflects the long-term average rate of salary increases and is based on historic salary increase experience and management's expectations of future salary increases.

The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost in 2013 are as follows:

(In millions)	Domestic Pension Benefits	Non-U.S. Pension Benefits	SERP Benefits	Post- retirement Benefits
Net Actuarial Loss	\$ 5.0	\$ 6.4	\$ 0.1	\$ 0.3
Net Prior Service Credit	—	(0.4)	—	(0.1)
	\$ 5.0	\$ 6.0	\$ 0.1	\$ 0.2

**THERMO FISHER SCIENTIFIC INC.**

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

The projected benefit obligation and fair value of plan assets for the company's qualified and non-qualified pension plans with projected benefit obligations in excess of plan assets are as follows:

(In millions)	Pension Plans	
	2012	2011
<b>Pension Plans with Projected Benefit Obligations in Excess of Plan Assets</b>		
Projected benefit obligation	\$ 1,162.0	\$ 1,165.6
Fair value of plan assets	795.7	858.0

The accumulated benefit obligation and fair value of plan assets for the company's qualified and non-qualified pension plans with accumulated benefit obligations in excess of plan assets are as follows:

(In millions)	Pension Plans	
	2012	2011
<b>Pension Plans with Accumulated Benefit Obligations in Excess of Plan Assets</b>		
Accumulated benefit obligation	\$ 1,120.2	\$ 987.9
Fair value of plan assets	793.1	717.8

The company has other postretirement benefit plans discussed elsewhere in this note with an accumulated post-retirement benefit obligation of \$42.0 million that is unfunded. These plans are excluded from the above table.

The measurement date used to determine benefit information is December 31 for all plan assets and benefit obligations.

The net periodic pension benefit cost (income) includes the following components for 2012, 2011 and 2010:

(In millions)	Domestic Pension Benefits			Non-U.S. Pension Benefits		
	2012	2011	2010	2012	2011	2010
<b>Components of Net Benefit Cost (Income)</b>						
Service cost-benefits earned	\$ —	\$ —	\$ 0.3	\$ 11.8	\$ 13.7	\$ 11.4
Interest cost on benefit obligation	19.8	21.3	21.1	30.7	32.1	30.7
Expected return on plan assets	(28.1)	(29.4)	(29.9)	(27.3)	(27.8)	(24.9)
Amortization of actuarial net loss	3.5	1.5	0.7	3.3	1.6	1.3
Amortization of prior service benefit	—	—	—	(0.1)	—	—
Settlement/curtailment loss	—	—	—	—	—	0.1
Special termination benefit	—	—	—	0.5	0.9	0.5
Net periodic benefit cost (income)	<u>\$ (4.8)</u>	<u>\$ (6.6)</u>	<u>\$ (7.8)</u>	<u>\$ 18.9</u>	<u>\$ 20.5</u>	<u>\$ 19.1</u>

**THERMO FISHER SCIENTIFIC INC.**

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

The net periodic SERP and other postretirement benefit cost includes the following components for 2012, 2011 and 2010:

(In millions)	SERP Benefits			Postretirement Benefits		
	2012	2011	2010	2012	2011	2010
<b>Components of Net Benefit Cost</b>						
Service cost-benefits earned	\$ —	\$ —	\$ —	\$ 0.7	\$ 0.6	\$ 0.4
Interest cost on benefit obligation	0.6	0.6	0.6	1.8	1.9	1.8
Amortization of actuarial net loss (gain)	0.1	—	—	—	—	(0.2)
Amortization of prior service benefit	—	—	—	—	(0.1)	(0.1)
Settlement/curtailment gain	—	—	—	(0.1)	(0.1)	—
Net periodic benefit cost	\$ 0.7	\$ 0.6	\$ 0.6	\$ 2.4	\$ 2.3	\$ 1.9

Expected benefit payments are estimated using the same assumptions used in determining the company's benefit obligation at December 31, 2012. Benefit payments will depend on future employment and compensation levels, average years employed and average life spans, among other factors, and changes in any of these factors could significantly affect these estimated future benefit payments. Estimated future benefit payments during the next five years and in the aggregate for the five fiscal years thereafter, are as follows:

(In millions)	Domestic Pension Benefits	Non-U.S. Pension Benefits	SERP Benefits	Post- retirement Benefits
2013	\$ 24.2	\$ 25.5	\$ 0.6	\$ 2.0
2014	24.7	26.6	1.8	2.1
2015	25.2	27.7	1.6	2.0
2016	25.7	30.9	0.6	2.1
2017	25.8	31.4	3.7	2.0
2018-2022	135.9	183.1	4.3	10.1

A change in the assumed healthcare cost trend rate by one percentage point effective January 2012 would change the accumulated postretirement benefit obligation as of December 31, 2012 and the 2012 aggregate of service and interest costs, as follows:

(In millions)	Increase	Decrease
<b>One Percentage Point</b>		
Effect on total of service and interest cost components	\$ 0.5	\$ (0.4)
Effect on postretirement healthcare benefit obligation	5.7	(4.4)

*Domestic Pension Plan Assets*

The company's overall objective is to manage the assets in a liability framework by investing in a portfolio of both return-seeking and liability-hedging assets, primarily through the use of institutional collective funds, to achieve long-term growth and to insulate the funded position from interest rate volatility. The strategic asset allocation uses a combination of risk controlled and index strategies in fixed income and global equities. The company also has a small portfolio (comprising less than 2% of invested assets) of private equity investments. The target allocations for the remaining investments are approximately 29% to funds investing in U.S. equities, including a sub-allocation of approximately 6% to real estate-related equities, approximately 20% to funds investing in international equities and approximately 49% to funds investing in fixed income securities. The portfolio maintains enough liquidity at all times to meet the near-term benefit payments.

**THERMO FISHER SCIENTIFIC INC.**

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

The fair values of the company's domestic plan assets at December 31, 2012 and 2011, by asset category are as follows:

(In millions)	December 31, 2012	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Asset Category</b>				
U.S. equity funds	\$ 105.1	\$ —	\$ 105.1	\$ —
International equity funds	75.1	—	75.1	—
Fixed income funds	173.9	—	173.9	—
Private equity funds	6.6	—	—	6.6
Money market funds	6.4	—	6.4	—
<b>Total Assets</b>	<b>\$ 367.1</b>	<b>\$ —</b>	<b>\$ 360.5</b>	<b>\$ 6.6</b>

(In millions)	December 31, 2011	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Asset Category</b>				
U.S. equity funds	\$ 112.5	\$ —	\$ 112.5	\$ —
International equity funds	82.8	—	82.8	—
Fixed income funds	132.2	—	132.2	—
Private equity funds	9.1	—	—	9.1
Money market funds	7.7	—	7.7	—
<b>Total Assets</b>	<b>\$ 344.3</b>	<b>\$ —</b>	<b>\$ 335.2</b>	<b>\$ 9.1</b>

The tables above present the fair value of the company's plan assets in accordance with the fair value hierarchy (Note 12). Certain pension plan assets are measured using net asset value per share (or its equivalent) and are reported as a level 2 investment above due to the company's ability to redeem its investment either at the balance sheet date or within limited time restrictions. The fair value of the company's private equity investments, which are classified as level 3 investments, are based on valuations provided by the respective funds. The following table represents a rollforward of the fair value, as determined by level 3 inputs.

**THERMO FISHER SCIENTIFIC INC.**

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

(In millions)	Private Equity Funds
<b>Balance at December 31, 2010</b>	\$ 13.0
Actual return on plan assets:	
Relating to assets held at reporting date	(2.2)
Relating to assets sold/distributed during period	3.7
Purchases, capital contributions, sales and settlements	(5.4)
<b>Balance at December 31, 2011</b>	\$ 9.1
Actual return on plan assets:	
Relating to assets held at reporting date	0.5
Relating to assets sold/distributed during period	3.4
Purchases, capital contributions, sales and settlements	(6.4)
<b>Balance at December 31, 2012</b>	\$ 6.6

The table below presents, as of December 31, 2012, the fair value measurements of investments in certain domestic plan assets that calculate and provide the company with a net asset value per share (or its equivalent). These plan investments are all classified as level 2 or 3 according to the fair value hierarchy:

(In millions)	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
<b>Asset Category</b>				
U.S. equity funds	\$ 105.1	\$ —	At least monthly	No more than 3 days
International equity funds	75.1	—	At least monthly	No more than 3 days
Fixed income funds	173.9	—	At least monthly	No more than 3 days
Private equity funds	6.6	1.0	Restricted	Restricted
Money market funds	6.4	—	Daily	Daily
	\$ 367.1	\$ 1.0		

The domestic plan receives distributions from the private equity funds as those funds' assets are liquidated. The duration of the funds vary by investment with the longest ending in 2015.

*Non-U.S. Pension Plan Assets*

The company maintains specific plan assets for many of the individual pension plans outside the U.S. The investment strategy of each plan has been uniquely established based on the country specific standards and characteristics of the plans. Several of the plans have contracts with insurance companies whereby the market risks of the benefit obligations are borne by the insurance companies. When assets are held directly in investments, generally the objective is to invest in a portfolio of diversified assets with a variety of fund managers. The investments are substantially limited to funds investing in global equities and fixed income securities with the target asset allocations ranging from approximately 50% - 60% for equities and 40% - 50% for fixed income securities. Each plan maintains enough liquidity at all times to meet the near-term benefit payments.

**THERMO FISHER SCIENTIFIC INC.**

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

The fair values of the company's non-U.S. plan assets at December 31, 2012 and 2011, by asset category are as follows:

(In millions)	December 31, 2012	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Asset Category</b>				
Equity funds	\$ 273.9	\$ 52.6	\$ 221.3	\$ —
Fixed income funds	213.3	20.5	192.8	—
Insurance contracts	94.6	—	94.6	—
Cash / money market funds	<u>6.6</u>	<u>6.4</u>	<u>0.2</u>	<u>—</u>
Total Assets	<u>\$ 588.4</u>	<u>\$ 79.5</u>	<u>\$ 508.9</u>	<u>\$ —</u>

(In millions)	December 31, 2011	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Asset Category</b>				
Equity funds	\$ 232.8	\$ 46.8	\$ 186.0	\$ —
Fixed income funds	200.1	20.3	179.8	—
Insurance contracts	86.8	—	86.8	—
Cash / money market funds	<u>4.5</u>	<u>4.3</u>	<u>0.2</u>	<u>—</u>
Total Assets	<u>\$ 524.2</u>	<u>\$ 71.4</u>	<u>\$ 452.8</u>	<u>\$ —</u>

The table below presents the fair value measurements of investments in certain non-U.S. plan assets that calculate and provide the company with a net asset value per share (or its equivalent). These plan investments are all classified as level 2 according to the fair value hierarchy:

(In millions)	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
<b>Asset Category</b>				
Equity funds	\$ 221.3	\$ —	At least monthly	No more than 1 month
Fixed income funds	192.8	—	At least weekly	No more than 5 days
Insurance contracts	94.6	—	Not applicable	Not applicable
Money market funds	<u>0.2</u>	<u>—</u>	Daily	Daily
	<u>\$ 508.9</u>	<u>\$ —</u>		

**THERMO FISHER SCIENTIFIC INC.**

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

**Note 7. Income Taxes**

The components of income from continuing operations before provision for income taxes are as follows:

(In millions)	2012	2011	2010
U.S.	\$ 908.5	\$ 812.1	\$ 710.3
Non-U.S.	360.9	320.7	377.4
	<u>\$ 1,269.4</u>	<u>\$ 1,132.8</u>	<u>\$ 1,087.7</u>

The components of the provision for income taxes of continuing operations are as follows:

(In millions)	2012	2011	2010
<b>Current Income Tax Provision</b>			
Federal	\$ 160.5	\$ 149.7	\$ 226.0
Non-U.S.	92.1	68.5	104.5
State	16.1	14.6	32.5
	<u>268.7</u>	<u>232.8</u>	<u>363.0</u>
<b>Deferred Income Tax Provision (Benefit)</b>			
Federal	\$ (40.8)	\$ (11.4)	\$ (169.1)
Non-U.S.	(205.2)	(107.0)	(68.3)
State	(11.7)	(5.0)	(24.0)
	<u>(257.7)</u>	<u>(123.4)</u>	<u>(261.4)</u>
	<u>\$ 11.0</u>	<u>\$ 109.4</u>	<u>\$ 101.6</u>

The income tax provision (benefit) included in the accompanying statement of income is as follows:

(In millions)	2012	2011	2010
Continuing Operations	\$ 11.0	\$ 109.4	\$ 101.6
Discontinued Operations	(44.0)	191.5	31.4
	<u>\$ (33.0)</u>	<u>\$ 300.9</u>	<u>\$ 133.0</u>

The company receives a tax deduction upon the exercise of non-qualified stock options by employees for the difference between the exercise price and the market price of the underlying common stock on the date of exercise. The provision for income taxes that is currently payable does not reflect \$18.7 million and \$14.6 million of such benefits that have been allocated to capital in excess of par value in 2012 and 2011, respectively.



**THERMO FISHER SCIENTIFIC INC.**

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

The provision for income taxes in the accompanying statement of income differs from the provision calculated by applying the statutory federal income tax rate of 35% to income from continuing operations before provision for income taxes due to the following:

(In millions)	2012	2011	2010
Provision for Income Taxes at Statutory Rate	\$ 444.3	\$ 396.5	\$ 380.7
Increases (Decreases) Resulting From:			
Foreign rate differential	(319.5)	(279.6)	(156.0)
Impact of change in tax laws and apportionment on deferred taxes	(53.7)	11.7	(11.0)
Income tax credits	(52.1)	(24.8)	(79.5)
Manufacturing deduction	(27.3)	(27.0)	(31.5)
State income taxes, net of federal tax	(8.6)	0.3	2.8
Nondeductible expenses	8.1	17.5	5.8
Provision (reversal) of tax reserves, net	14.8	0.6	(6.4)
Tax return reassessments and settlements	—	3.0	(1.3)
Other, net	5.0	11.2	(2.0)
	<u>\$ 11.0</u>	<u>\$ 109.4</u>	<u>\$ 101.6</u>

The impact of change in tax laws and apportionment on deferred taxes in 2012 includes \$54.8 million of benefit from a tax rate reduction enacted in Sweden.

Net deferred tax asset (liability) in the accompanying balance sheet consists of the following:

(In millions)	2012	2011
<b>Deferred Tax Asset (Liability)</b>		
Depreciation and amortization	\$ (2,543.9)	\$ (2,778.3)
Net operating loss and credit carryforwards	504.9	497.4
Reserves and accruals	116.0	132.0
Accrued compensation	210.0	206.4
Inventory basis difference	67.4	38.1
Available-for-sale investments	2.9	4.5
Non U.S. earnings expected to be repatriated	1.6	1.6
Other capitalized costs	35.6	45.1
Unrealized losses on hedging instruments	21.0	22.3
Other, net	44.4	46.4
	(1,540.1)	(1,784.5)
Less: Valuation allowance	113.7	141.9
	<u>\$ (1,653.8)</u>	<u>\$ (1,926.4)</u>

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 and credit carryforwards that it believes will more likely than not go unused. At December 31, 2012, all of the company's valuation allowance relates to deferred tax assets for which any subsequently recognized tax benefits will reduce income tax expense.

At December 31, 2012, the company had federal, state and non-U.S. net operating loss carryforwards of \$141.7 million, \$793.8 million and \$1.35 billion, respectively. Use of the carryforwards is limited based on the future income of certain subsidiaries. The federal and state net operating loss carryforwards expire in the years 2013 through 2032.

**THERMO FISHER SCIENTIFIC INC.**

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

Of the non-U.S. net operating loss carryforwards, \$150.5 million expire in the years 2013 through 2031, and the remainder do not expire. The company also had \$110.3 million of federal foreign tax credit carryforwards as of December 31, 2012, which expire in the years 2013 through 2022.

A provision has not been made for U.S. or additional non-U.S. taxes on \$5.42 billion of undistributed earnings of international subsidiaries that could be subject to taxation if remitted to the U.S. because the company plans to keep these amounts permanently reinvested overseas except for instances where the company can remit such earnings to the U.S. without an associated net tax cost. During 2009, the company changed its position regarding the undistributed earnings of a Japan subsidiary and a portion of the earnings of the subsidiary are no longer considered permanently reinvested. During 2010, the company repatriated part of those earnings and as a result, the company provided deferred U.S. income taxes of \$14.0 million, offset by a U.S. foreign tax credit of \$15.6 million, on the remaining undistributed earnings not considered permanently reinvested overseas.

*Unrecognized Tax Benefits*

As of December 31, 2012, the company had \$164.8 million of unrecognized tax benefits which, if recognized, would reduce the effective tax rate.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

(In millions)	2012	2011	2010
Balance at beginning of year	\$ 120.3	\$ 62.1	\$ 76.2
Additions for tax positions of current year	20.5	43.2	1.3
Additions for tax positions of prior years	31.8	18.6	2.9
Reductions for tax positions of prior years	—	(2.1)	—
Closure of tax years	(7.8)	—	(7.8)
Settlements	—	(1.5)	(10.5)
	<u>\$ 164.8</u>	<u>\$ 120.3</u>	<u>\$ 62.1</u>

During 2012, the company's liability for unrecognized tax benefits increased primarily due to additional tax benefits associated with foreign currency transactions and interest deductions. Of the total \$165 million of liability, \$24 million is classified as a current liability and the remainder is long-term.

During 2012, the statute of limitations on certain unrecognized tax benefits lapsed which resulted in a decrease in the liability for unrecognized tax benefits of \$7.8 million, all of which reduced income tax expense.

During 2011, the company's liability for unrecognized tax benefits increased primarily due to additional unrecognized tax benefits associated with the liquidation of a U.S. subsidiary, utilization of capital loss carryforwards and acquisitions.

In 2011, the company settled the IRS audit of a refund claim relating to the 2000 and 2001 tax years which resulted in a \$1.5 million decrease in the liability for unrecognized tax benefits. The company is also under audit by the IRS for the 2008 and 2009 tax years. It is likely that the examination phase of this audit will be completed within 12 months. There were no significant changes to the status of these examinations during 2012.

During 2010, the statute of limitations on certain unrecognized tax benefits lapsed which resulted in a decrease in the liability for unrecognized tax benefits of \$7.8 million, all of which reduced income tax expense.

In 2010, the company settled a Swiss audit of one of its subsidiary's 2006 and 2007 tax years which resulted in a \$8.5 million decrease in the liability for unrecognized tax benefits. The company also settled the IRS audit of its 2007 tax year and the IRS completed the examination phase of its 2006 tax year and the 2006 pre-acquisition tax years of certain Fisher subsidiaries in 2010 which resulted in a \$1.2 million decrease in the liability for unrecognized tax

**THERMO FISHER SCIENTIFIC INC.**

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

benefits. Completion of the audits of the 2006 tax year and the 2006 pre-acquisition tax years of certain Fisher subsidiaries is pending appeals at the IRS. In addition, the company settled various state income tax audits during 2010, which resulted in a \$0.8 million decrease in the liability for unrecognized tax benefits.

The company classified interest and penalties related to unrecognized tax benefits as income tax expense. The total amount of interest and penalties related to uncertain tax positions and recognized in the balance sheet as of December 31, 2012 and 2011 was \$10.9 million.

The company conducts business globally and, as a result, Thermo Fisher or one or more of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business, the company is subject to examination by taxing authorities throughout the world, including such major jurisdictions as Australia, Canada, China, Denmark, Finland, France, Germany, Italy, Japan, the United Kingdom and the United States. With few exceptions, the company is no longer subject to U.S. federal, state and local, or non-U.S., income tax examinations for years before 2007.

**Note 8. Earnings per Share**

(In millions except per share amounts)	2012	2011	2010
Income from Continuing Operations	\$ 1,258.4	\$ 1,023.4	\$ 986.1
(Loss) Income from Discontinued Operations	(19.2)	1.7	47.0
(Loss) Gain on Disposal of Discontinued Operations, Net	(61.3)	304.8	2.5
Net Income	1,177.9	1,329.9	1,035.6
Less: Income Allocable to Participating Securities	—	—	(0.2)
Net Income for Earnings per Share	<u>\$ 1,177.9</u>	<u>\$ 1,329.9</u>	<u>\$ 1,035.4</u>
Basic Weighted Average Shares	363.8	380.8	403.3
Plus Effect of:			
Convertible debentures	—	0.6	2.9
Stock options and restricted units	2.8	3.4	3.2
Diluted Weighted Average Shares	<u>366.6</u>	<u>384.8</u>	<u>409.4</u>
Basic Earnings per Share:			
Continuing operations	\$ 3.46	\$ 2.69	\$ 2.45
Discontinued operations	(0.22)	0.80	0.12
	<u>\$ 3.24</u>	<u>\$ 3.49</u>	<u>\$ 2.57</u>
Diluted Earnings per Share:			
Continuing operations	\$ 3.43	\$ 2.66	\$ 2.41
Discontinued operations	(0.22)	0.80	0.12
	<u>\$ 3.21</u>	<u>\$ 3.46</u>	<u>\$ 2.53</u>

Options to purchase 7.2 million, 6.9 million and 8.1 million shares of common stock were not included in the computation of diluted earnings per share for 2012, 2011 and 2010, respectively, because their effect would have been antidilutive.

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

**Note 9. Debt and Other Financing Arrangements**

(In millions except per share amounts)	2012	2011
Commercial Paper	\$ 50.0	\$ 900.0
2.15% Senior Notes, Due 2012	—	350.0
2.05% Senior Notes, Due 2014 (effective interest rate 1.11%)	300.0	300.0
3.25% Senior Notes, Due 2014 (effective interest rate 1.53%)	400.0	400.0
3.20% Senior Notes, Due 2015 (effective interest rate 1.56%)	450.0	450.0
5.00% Senior Notes, Due 2015 (effective interest rate 5.14%)	250.0	250.0
3.20% Senior Notes, Due 2016 (effective interest rate 3.21%)	900.0	900.0
2.25% Senior Notes, Due 2016 (effective interest rate 2.29%)	1,000.0	1,000.0
1.85% Senior Notes, Due 2018 (effective interest rate 1.85%)	500.0	—
4.70% Senior Notes, Due 2020 (effective interest rate 4.70%)	300.0	300.0
4.50% Senior Notes, Due 2021 (effective interest rate 4.58%)	1,000.0	1,000.0
3.60% Senior Notes, Due 2021 (effective interest rate 4.29%)	1,100.0	1,100.0
3.15% Senior Notes, Due 2023 (effective interest rate 3.21%)	800.0	—
Other	54.8	35.0
<b>Total Borrowings at Par Value</b>	<b>7,104.8</b>	<b>6,985.0</b>
Fair Value Hedge Accounting Adjustments	33.8	55.0
Unamortized Discount	(14.3)	(12.0)
<b>Total Borrowings at Carrying Value</b>	<b>7,124.3</b>	<b>7,028.0</b>
Less: Short-term Obligations and Current Maturities	93.1	1,272.8
<b>Long-term Obligations</b>	<b>\$ 7,031.2</b>	<b>\$ 5,755.2</b>

The effective interest rates for the fixed-rate debt include the stated interest on the notes, the accretion of any discount and, if applicable, adjustments related to hedging, as discussed below.

The annual repayment requirements for debt obligations are as follows:

(In millions)	
2013	\$ 93.1
2014	701.2
2015	708.8
2016	1,900.7
2017	0.5
2018 and thereafter	3,700.5
	<u>\$ 7,104.8</u>

See Note 12 for fair value information pertaining to the company's long-term obligations.

Short-term obligations and current maturities of long-term obligations in the accompanying balance sheet included \$91.7 million and \$917.1 million at year-end 2012 and 2011, respectively, of commercial paper, short-term bank borrowings and borrowings under lines of credit of certain of the company's subsidiaries. The weighted average interest rate for short-term borrowings was 1.01% and 0.51% at December 31, 2012 and 2011, respectively. In addition to available borrowings under the company's revolving credit agreements, discussed below, the company had unused lines of credit of \$57.9 million as of December 31, 2012. These unused lines of credit generally provide for short-term unsecured borrowings at various interest rates.

## THERMO FISHER SCIENTIFIC INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### *Credit Facilities*

On April 11, 2012, the company terminated both of its prior revolving credit agreements and entered into new revolving credit facilities with a bank group that provide for up to \$2.0 billion of unsecured multi-currency revolving credit. The new credit facilities include a \$1 billion 5-year credit agreement, with the ability to request an additional \$500 million, plus a \$500 million 364-day credit agreement. The agreements call for interest at either a LIBOR-based rate or a rate based on the prime lending rate of the agent bank, at the company's option. The agreements contain affirmative, negative and financial covenants, and events of default customary for financings of this type. The financial covenant requires the company to maintain a Consolidated Leverage Ratio of debt to EBITDA (as defined in the agreements) below 3.5 to 1.0. The credit agreements permit the company to use the facilities for working capital; acquisitions; repurchases of common stock, debentures and other securities; the refinancing of debt; and general corporate purposes. The 5-year credit agreement allows for the issuance of letters of credit, which reduces the amount available for borrowing. If the company borrows under these facilities, it intends to leave undrawn an amount equivalent to outstanding commercial paper (\$50 million at December 31, 2012) to provide a source of funds in the event that commercial paper markets are not available. As of December 31, 2012, no borrowings were outstanding under either facility, although available capacity was reduced by approximately \$50 million as a result of outstanding letters of credit.

#### *Commercial Paper Program*

In August 2011, the Company established a U.S. commercial paper program pursuant to which it may issue and sell unsecured, short-term promissory notes (CP Notes). Maturities may not exceed 397 days from the date of issue and the CP Notes rank pari passu with all of the company's other unsecured and unsubordinated indebtedness. CP Notes are issued on a private placement basis under customary terms in the commercial paper market and are not redeemable prior to maturity nor subject to voluntary prepayment. CP Notes are issued at a discount from par, or, alternatively, are sold at par and bear varying interest rates on a fixed or floating basis. As of December 31, 2012, outstanding borrowings under this program were \$50 million, with a weighted average remaining period to maturity of 10 days. The weighted average interest rate on the outstanding CP Notes as of December 31, 2012 was 0.44%.

#### *Senior Notes*

Interest on each of the senior notes is payable semi-annually. Each of the notes may be redeemed at any time at a redemption price of 100% of the principal amount plus a specified make-whole premium plus accrued interest. The company is subject to certain affirmative and negative covenants under the indentures governing the senior notes, the most restrictive of which limits the ability of the company to pledge principal properties as security under borrowing arrangements.

#### *Termination of Interest Rate Swap Arrangements*

In August 2011, the company terminated its fixed to floating rate swap arrangements on its 2.15% Senior Notes due 2012, 2.05% Senior Notes due 2014, 3.25% Senior Notes due 2014 and 3.20% Senior Notes due 2015. These swap arrangements were accounted for as fair value hedges. As a result of terminating these arrangements, the company received \$63 million (excluding accrued interest) in cash. The proceeds were recorded as part of the carrying value of the underlying debt, which will be amortized as a reduction of interest expense over the remaining terms of the respective debt instruments.

#### *Cash Flow Hedge Arrangements*

In 2005, prior to issuing the 5% Senior Notes due 2015, the company entered into forward starting pay fixed swap agreements with several banks to mitigate the risk of interest rates rising prior to completion of a debt offering. Based on the company's conclusion that a debt offering was probable and that such debt would carry semi-annual interest payments over a 10-year term, the swaps hedged the cash flow risk for each of the semi-annual fixed-rate interest payments on \$250 million of principal amount of the 10-year fixed-rate debt issue (or any subsequent

## THERMO FISHER SCIENTIFIC INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

refinancing of such debt). The unfavorable change in the fair value of the hedge upon termination was \$2.0 million, net of tax, and was classified as a reduction of accumulated other comprehensive items within shareholders' equity and is being amortized to interest expense over the term of the debt through 2015.

In 2011, prior to issuing the 3.60% Senior Notes due 2021, the company entered into hedging agreements (treasury locks) with several banks to mitigate the risk of interest rates rising prior to completion of a debt offering. Based on the company's conclusion that a debt offering was probable and that such debt would carry semi-annual interest payments over a 10-year term, the agreements hedged the cash flow risk for each of the semi-annual fixed-rate interest payments on a significant portion of principal amount of the 10-year fixed rate debt issue (or subsequent financings of such debt). The company paid \$59 million at the termination of this agreement. The unfavorable change in the fair value of the hedge upon termination was \$37 million, net of tax, and was classified as a reduction of accumulated other comprehensive items within shareholders' equity and is being amortized to interest expense over the term of the debt through 2021.

#### *3.25% Senior Subordinated Convertible Notes due 2024*

During the first quarter of 2011 following issuance of a redemption notice by the company, holders of the company's 3.25% Senior Subordinated Convertible Notes due 2024 exercised conversion rights for substantially all of the remaining \$329 million principal outstanding. The balance not converted by holders was redeemed by the company. The company paid the principal and the premium due upon conversion/redemption in cash for a total outlay of \$452 million. The premium was charged to capital in excess of par value when paid.

#### *Floating Rate Senior Convertible Debentures due 2033*

During 2010, following issuance of a redemption notice by the company, holders of the company's Floating Rate Convertible Senior Debentures due 2033 exercised conversion rights for the remaining \$326 million in par value. The company paid the principal and the premium due upon conversion in cash for a total outlay of \$573 million. The premium was charged to capital in excess of par value when paid.

#### *6 1/8% Senior Subordinated Notes due 2015*

The 6 1/8% Senior Subordinated Notes due 2015 were redeemed in 2010 for a total cash outlay of \$515 million plus accrued interest. The company recorded a loss of \$15 million in 2010 on the early extinguishment of this debt in other expense, net on the accompanying statement of income.

#### *2.50% Senior Convertible Notes due 2023*

During 2010, the company purchased all of the remaining \$13 million aggregate principal amount of the 2.50% Senior Convertible Notes due 2023 for an aggregate of \$28 million. The premium was charged to capital in excess of par value when paid.

### **Note 10. Commitments and Contingencies**

#### *Operating Leases*

The company leases certain logistics, office, and manufacturing facilities. Income from continuing operations includes expense from operating leases of \$125.5 million, \$125.3 million and \$128.6 million in 2012, 2011 and 2010, respectively. The following is a summary of annual future minimum lease and rental commitments under noncancelable operating leases as of December 31, 2012:

**THERMO FISHER SCIENTIFIC INC.**

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

(In millions)

2013	\$ 107.2
2014	83.2
2015	62.5
2016	37.1
2017	26.3
Thereafter	43.0
	\$ 359.3

*Purchase Obligations*

The company has entered into unconditional purchase obligations, in the ordinary course of business, that include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable at any time without penalty. The aggregate amount of the company's unconditional purchase obligations totaled \$274.6 million at December 31, 2012 and the majority of these obligations are expected to be settled during 2013.

*Letters of Credit, Guarantees and Other Commitments*

Outstanding letters of credit and bank guarantees totaled \$109.6 million at December 31, 2012. Substantially all of these letters of credit and guarantees expire before 2020.

Outstanding surety bonds and other guarantees totaled \$43.5 million at December 31, 2012. The expiration of these bonds and guarantees ranges through 2015.

The letters of credit, bank guarantees and surety bonds principally secure performance obligations, and allow the holder to draw funds up to the face amount of the letter of credit, bank guarantee or surety bond if the applicable business unit does not perform as contractually required. The outstanding letters of credit, bank guarantees and surety bonds disclosed above include \$35.6 million for businesses that have been sold.

In connection with the sale of businesses of the company, the buyers have assumed certain contractual obligations of such businesses and have agreed to indemnify the company with respect to those assumed liabilities. In the event a third-party to a transferred contract does not recognize the transfer of obligations or a buyer defaults on its obligations under the transferred contract, the company could be liable to the third-party for such obligations. However, in such event, the company would be entitled to seek indemnification from the buyer.

The company has funding commitments totaling \$3.4 million at December 31, 2012, related to investments it owns.

In 2012, the company entered into an off-balance sheet build-to-suit financing arrangement with a financial institution to fund construction of an operating facility in the U.S. Upon completion of construction in 2014, a five-year lease will commence with options to purchase the facility or renew the lease for up to three 5-year terms. The company has agreed with the lessor to comply with certain financial covenants consistent with its other debt arrangements (Note 9). and has guaranteed the facility's residual value at the end of the lease, up to a maximum of \$58 million.

*Indemnifications*

In conjunction with certain transactions, primarily divestitures, the company has agreed to indemnify the other parties with respect to certain liabilities related to the businesses that were sold or leased properties that were abandoned (e.g., retention of certain environmental, tax, employee and product liabilities). The scope and duration of

## THERMO FISHER SCIENTIFIC INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

such indemnity obligations vary from transaction to transaction. Where appropriate, an obligation for such indemnifications is recorded as a liability. Generally, a maximum obligation cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of divestiture, historically the company has not made significant payments for these indemnifications.

In connection with the company's efforts to reduce the number of facilities that it occupies, the company has vacated some of its leased facilities or sublet them to third parties. When the company sublets a facility to a third-party, it remains the primary obligor under the master lease agreement with the owner of the facility. As a result, if a third-party vacates the sublet facility, the company would be obligated to make lease or other payments under the master lease agreement. The company believes that the financial risk of default by sublessors is individually and in the aggregate not material to the company's financial position or results of operations.

In connection with the sale of products in the ordinary course of business, the company often makes representations affirming, among other things, that its products do not infringe on the intellectual property rights of others and agrees to indemnify customers against third-party claims for such infringement. The company has not been required to make material payments under such provisions.

#### *Litigation and Related Contingencies*

There are various lawsuits and claims pending against the company involving product liability, contract, commercial and other issues. In view of the company's financial condition and the accruals established for these matters, management does not believe that the ultimate liability, if any, related to these matters will have a material adverse effect on the company's financial condition, results of operations or cash flows.

The company establishes a liability that is an estimate of amounts needed to pay damages in the future for events that have already occurred. The accrued liabilities are based on management's judgment as to the probability of losses for asserted and unasserted claims and, where applicable, actuarially determined estimates. The reserve estimates are adjusted as additional information becomes known or payments are made.

The company accrues the most likely amount or at least the minimum of the range of probable loss when a range of probable loss can be estimated. The range of probable loss for product liability, workers compensation and other personal injury matters of the company's continuing operations at December 31, 2012, was approximately \$215 million to \$311 million on an undiscounted basis. The portion of these liabilities assumed in the 2006 merger with Fisher was recorded at its fair (present) value at the date of merger. The company's reserve for these matters in total, including the discounted liabilities, was \$166 million at December 31, 2012 (or \$216 million undiscounted). The reserve includes estimated defense costs and is gross of estimated amounts due from insurers of \$91 million at December 31, 2012 (or \$122 million undiscounted). The portion of these insurance assets assumed in the merger with Fisher was also recorded at its fair value at the date of merger. In addition to the above reserves, as of December 31, 2012, the company had product liability reserves of \$9 million (undiscounted) relating to divested businesses.

The assets and liabilities assumed at the acquisition date were ascribed a fair value based on the present value of expected future cash flows, using a discount rate equivalent to the risk free rate of interest for monetary assets with comparable maturities (weighted average discount rate of 4.67%). The discount on the liabilities of approximately \$50 million and the discount on the assets of approximately \$31 million (net discount \$19 million) are being accreted to interest expense over the expected settlement period.

Although the company believes that the amounts reserved and estimated recoveries are probable and appropriate based on available information, including actuarial studies of loss estimates, the process of estimating losses and insurance recoveries involves a considerable degree of judgment by management and the ultimate amounts could vary materially. Insurance contracts do not relieve the company of its primary obligation with respect to any losses incurred. The collectability of amounts due from its insurers is subject to the solvency and willingness of the insurer to pay, as well as the legal sufficiency of the insurance claims. Management monitors the financial condition and ratings of its insurers on an ongoing basis.



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

The company is currently involved in various stages of investigation and remediation related to environmental matters. The company cannot predict all potential costs related to environmental remediation matters and the possible impact on future operations given the uncertainties regarding the extent of the required cleanup, the complexity and interpretation of applicable laws and regulations, the varying costs of alternative cleanup methods and the extent of the company's responsibility. Expenses for environmental remediation matters related to the costs of permit requirements and installing, operating and maintaining groundwater-treatment systems and other remedial activities related to historical environmental contamination at the company's domestic and international facilities were not material in any period presented. The company records accruals for environmental remediation liabilities, based on current interpretations of environmental laws and regulations, when it is probable that a liability has been incurred and the amount of such liability can be reasonably estimated. The company calculates estimates based upon several factors, including reports prepared by environmental specialists and management's knowledge of and experience with these environmental matters. The company includes in these estimates potential costs for investigation, remediation and operation and maintenance of cleanup sites.

Having assumed environmental liabilities in the merger with Fisher, the company was required to discount the estimate of loss to fair (present) value. This fair value was ascribed by using a discount rate of 4.73%, which was the risk free interest rate for monetary assets with maturities comparable to that of the environmental liability. The remaining discount of \$6 million is being accreted by charges to interest expense over the estimated maturity period of 30 years. At December 31, 2012 and 2011, the company's total environmental liability was approximately \$23 million and \$22 million, respectively.

Management believes that its reserves for environmental matters are adequate for the remediation costs the company expects to incur. As a result, the company believes that the ultimate liability with respect to environmental remediation matters will not have a material adverse effect on the company's financial position, results of operations or cash flows. However, the company may be subject to additional remedial or compliance costs due to future events, such as changes in existing laws and regulations, changes in agency direction or enforcement policies, developments in remediation technologies or changes in the conduct of the company's operations, which could have a material adverse effect on the company's financial position, results of operations or cash flows. Although these environmental remediation liabilities do not include third-party recoveries, the company may be able to bring indemnification claims against third parties for liabilities relating to certain sites.

**Note 11. Comprehensive Income and Shareholders' Equity**

*Comprehensive Income*

Comprehensive income combines net income and other comprehensive items. Other comprehensive items represent certain amounts that are reported as components of shareholders' equity in the accompanying balance sheet.

Accumulated other comprehensive items in the accompanying balance sheet consist of the following:

(In millions)	December 31, 2012	December 31, 2011
Cumulative Translation Adjustment	\$ 87.4	\$ (206.3)
Net Unrealized Gain on Available-for-sale Investments, Net of Tax	7.7	7.0
Net Unrealized Losses on Hedging Instruments, Net of Tax	(32.9)	(36.2)
Pension and Other Postretirement Benefit Liability Adjustments, Net of Tax	(212.6)	(164.0)
	\$ (150.4)	\$ (399.5)

The gains and losses on available-for-sale investments reclassified from accumulated other comprehensive items to net income were nominal in 2012, 2011 and 2010.

## THERMO FISHER SCIENTIFIC INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The unrealized losses on hedging instruments relate to the company's 5% Senior Notes due 2015 and 3.60% Senior Notes due 2021 (see Note 9). The losses are being amortized as an increase in interest expense over the term of the related debt. The after-tax charges recognized in net income were \$3.3 million, \$1.3 million and \$0.2 million, respectively, in 2012, 2011 and 2010.

The after-tax pension and other postretirement benefit liability adjustments recognized in net income in 2012, 2011 and 2010 were \$4.4 million, \$1.9 million and \$1.2 million, respectively.

#### *Shareholders' Equity*

At December 31, 2012, the company had reserved 31,713,756 unissued shares of its common stock for possible issuance under stock-based compensation plans and for possible conversion of the company's convertible debentures.

The company has 50,000 shares of authorized but unissued \$100 par value preferred stock.

The company has distributed rights under a shareholder rights plan adopted by the company's Board of Directors to holders of outstanding shares of the company's common stock. Each right entitles the holder to purchase one hundred-thousandth of a share (a Unit) of Series B Junior Participating Preferred Stock, \$100 par value, at a purchase price of \$200 per Unit, subject to adjustment. The rights will not be exercisable until the earlier of (i) 10 business days following a public announcement that a person or group of affiliated or associated persons (an Acquiring Person) has acquired, or obtained the right to acquire, beneficial ownership of 15% or more of the outstanding shares of common stock (the Stock Acquisition Date), or (ii) 10 business days following the commencement of a tender offer or exchange offer for 15% or more of the outstanding shares of common stock.

In the event that a person becomes the beneficial owner of 15% or more of the outstanding shares of common stock, except pursuant to an offer for all outstanding shares of common stock that at least 75% of the Board of Directors determines to be fair to, and otherwise in the best interests of, stockholders, each holder of a right (except for the Acquiring Person) will thereafter have the right to receive, upon exercise, that number of shares of common stock (or, in certain circumstances, units of preferred stock, cash, property or other securities of the company) which equals the exercise price of the right divided by one-half of the current market price of the common stock. In the event that, at any time after any person has become an Acquiring Person, (i) the company is acquired in a merger or other business combination transaction in which the company is not the surviving corporation or its common stock is changed or exchanged (other than a merger that follows an offer approved by the Board of Directors), or (ii) 50% or more of the company's assets or earning power is sold or transferred, each holder of a right (except for the Acquiring Person) shall thereafter have the right to receive, upon exercise, the number of shares of common stock of the acquiring company that equals the exercise price of the right divided by one-half of the current market price of such common stock.

At any time until the Stock Acquisition Date, the company may redeem the rights in whole, but not in part, at a price of \$.01 per right (payable in cash or stock). The rights expire on September 29, 2015, unless earlier redeemed or exchanged.

#### **Note 12. Fair Value Measurements and Fair Value of Financial Instruments**

##### *Fair Value Measurements*

The company uses the market approach technique to value its financial instruments and there were no changes in valuation techniques during 2012. The company's financial assets and liabilities carried at fair value are primarily comprised of investments in money market funds, mutual funds holding publicly traded securities, derivative contracts used to hedge the company's currency and interest rate risks and other investments in unit trusts and insurance contracts held as assets to satisfy outstanding retirement liabilities.

The fair value accounting guidance requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

**THERMO FISHER SCIENTIFIC INC.**

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

Level 1: Quoted market prices in active markets for identical assets or liabilities that the company has the ability to access.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data such as quoted prices, interest rates and yield curves.

Level 3: Inputs are unobservable data points that are not corroborated by market data.

The following table presents information about the company's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2012:

(In millions)	December 31, 2012	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Cash equivalents	\$ 73.6	\$ 73.6	\$ —	\$ —
Investments in mutual funds, unit trusts and other similar instruments	36.6	36.6	—	—
Insurance contracts	62.5	—	62.5	—
Auction rate securities	4.3	—	—	4.3
Derivative contracts	1.6	—	1.6	—
<b>Total Assets</b>	<b>\$ 178.6</b>	<b>\$ 110.2</b>	<b>\$ 64.1</b>	<b>\$ 4.3</b>
<b>Liabilities</b>				
Derivative contracts	\$ 0.8	\$ —	\$ 0.8	\$ —
Contingent consideration	20.1	—	—	20.1
<b>Total Liabilities</b>	<b>\$ 20.9</b>	<b>\$ —</b>	<b>\$ 0.8</b>	<b>\$ 20.1</b>

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

The following table presents information about the company's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2011:

(In millions)	December 31, 2011	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Cash equivalents	\$ 377.1	\$ 377.1	\$ —	\$ —
Investments in mutual funds, unit trusts and other similar instruments	35.6	35.6	—	—
Insurance contracts	56.7	—	56.7	—
Auction rate securities	4.3	—	—	4.3
Derivative contracts	0.9	—	0.9	—
<b>Total Assets</b>	<b><u>\$ 474.6</u></b>	<b><u>\$ 412.7</u></b>	<b><u>\$ 57.6</u></b>	<b><u>\$ 4.3</u></b>
<b>Liabilities</b>				
Derivative contracts	\$ 1.2	\$ —	\$ 1.2	\$ —
Contingent consideration	1.7	—	—	1.7
<b>Total Liabilities</b>	<b><u>\$ 2.9</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 1.2</u></b>	<b><u>\$ 1.7</u></b>

Available-for-sale investments are carried at fair value and are included in the tables above. The aggregate market value, cost basis and gross unrealized gains and losses of available-for-sale investments by major security type are as follows:

(In millions)	Market Value	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses
<b>2012</b>				
Mutual Fund and Unit Trust Investments	\$ 36.6	\$ 25.4	\$ 11.2	\$ —
Auction Rate Securities	4.3	4.8	—	0.5
	<b><u>\$ 40.9</u></b>	<b><u>\$ 30.2</u></b>	<b><u>\$ 11.2</u></b>	<b><u>\$ 0.5</u></b>
<b>2011</b>				
Mutual Fund and Unit Trust Investments	\$ 35.6	\$ 25.2	\$ 10.4	\$ —
Auction Rate Securities	4.3	4.8	—	0.5
	<b><u>\$ 39.9</u></b>	<b><u>\$ 30.0</u></b>	<b><u>\$ 10.4</u></b>	<b><u>\$ 0.5</u></b>

The cost of available-for-sale investments that were sold was based on specific identification in determining realized gains and losses recorded in the accompanying statement of income. Gross realized gains and gross realized losses on the sale of available-for-sale investments were nominal in 2012, 2011 and 2010.

The company determines the fair value of its insurance contracts by obtaining the cash surrender value of the contracts from the issuer. The fair value of derivative contracts is the estimated amount that the company would receive/pay upon liquidation of the contracts, taking into account the change in currency exchange rates. The company determines the fair value of the auction rate securities by obtaining indications of value from brokers/dealers. The company determines the fair value of acquisition-related contingent consideration based on assessment of the probability that the company would be required to make such future payment. Changes to the fair value of contingent

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

consideration are recorded in selling, general and administrative expense. The following tables provide a rollforward of the fair value, as determined by Level 3 inputs, of the auction rate securities and contingent consideration.

(In millions)	2012	2011
<b>Auction Rate Securities</b>		
Beginning Balance	\$ 4.3	\$ 4.6
Sale of securities	—	(0.6)
Total unrealized gains included in other comprehensive income	—	0.3
Ending Balance	<u>\$ 4.3</u>	<u>\$ 4.3</u>

The company has the ability and intent to hold the auction rate securities to maturity unless they are redeemed earlier by the issuer.

(In millions)	2012	2011
<b>Contingent Consideration</b>		
Beginning Balance	\$ 1.7	\$ 28.7
Additions	19.9	1.4
Payments	(1.0)	(27.3)
Change in fair value included in earnings	(0.5)	(1.2)
Currency translation	—	0.1
Ending Balance	<u>\$ 20.1</u>	<u>\$ 1.7</u>

The notional amounts of derivative contracts outstanding, consisting of foreign currency exchange contracts, totaled \$719 million and \$449 million at December 31, 2012 and December 31, 2011, respectively.

The following tables present the fair value of derivative instruments in the consolidated balance sheet and statement of income.

(In millions)	Fair Value – Assets		Fair Value – Liabilities	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
<b>Derivatives Not Designated as Hedging Instruments</b>				
Foreign currency exchange contracts (a)	\$ 1.6	\$ 0.9	\$ 0.8	\$ 1.2

(a) The fair value of the foreign currency exchange contracts is included in the consolidated balance sheet under the captions other current assets or other accrued expenses.

(In millions)	Gain (Loss) Recognized	
	2012	2011
<b>Derivatives Designated as Fair Value Hedges</b>		
Interest rate swaps	\$ —	\$ 16.5
<b>Derivatives Not Designated as Fair Value Hedges</b>		
Foreign currency exchange contracts		
Included in cost of revenues	3.0	—
Included in other expense, net	(10.4)	47.2

Gains and losses recognized on interest rate swap and foreign currency exchange contracts are included in the consolidated statement of income together with the corresponding, offsetting losses and gains on the underlying

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

hedged transactions except for the exchange rate hedges entered in anticipation of completing the 2011 acquisition of Phadia (discussed below). The gains on these contracts had no underlying offset in the company's income statement.

On May 19, 2011, in connection with the planned acquisition of Phadia, the company entered into several foreign currency forward contracts to partly mitigate the currency exchange risk associated with the payment of the euro-denominated purchase price and the repayment of multi-currency debt on the Phadia books. The currencies purchased included the euro, Swedish krona and Japanese yen, with the aggregate notional amount totaling \$2.34 billion. These currency forward contracts were not able to be designated as hedging instruments and therefore the change in the derivative fair value was marked to market through income/expense, resulting in a \$28 million gain included in other expense, net, during 2011.

*Fair Value of Other Financial Instruments*

The carrying amount and fair value of the company's notes receivable and debt obligations are as follows:

(In millions)	December 31, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Notes Receivable</b>	\$ 4.7	\$ 4.7	\$ 6.5	\$ 6.5
<b>Debt Obligations:</b>				
Senior notes	7,019.5	7,455.2	6,093.0	6,454.6
Commercial paper	50.0	50.0	900.0	900.0
Other	54.8	54.8	35.0	35.0
	\$ 7,124.3	\$ 7,560.0	\$ 7,028.0	\$ 7,389.6

The fair value of debt obligations was determined based on quoted market prices and on borrowing rates available to the company at the respective period ends which represent level 2 measurements.

**Note 13. Supplemental Cash Flow Information**

(In millions)	2012	2011	2010
<b>Cash Paid (Refunded) For:</b>			
Interest	\$ 230.0	\$ 120.6	\$ 82.5
Income Taxes - Continuing Operations	\$ 331.1	\$ 352.9	\$ 339.0
Income Taxes - Discontinued Operations	\$ (44.0)	\$ 149.1	\$ 31.4
<b>Non-cash Activities</b>			
Fair value of assets of acquired businesses and product lines	\$ 1,171.7	\$ 7,043.0	\$ 805.0
Cash paid for acquired businesses and product lines	(1,079.0)	(5,898.8)	(651.5)
Liabilities assumed of acquired businesses and product lines	\$ 92.7	\$ 1,144.2	\$ 153.5
Declared but unpaid dividends	\$ 54.7	\$ —	\$ —
Issuance of restricted stock	\$ —	\$ —	\$ 1.4
Issuance of stock upon vesting of restricted stock units	\$ 29.3	\$ 22.7	\$ 16.3

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

**Note 14. Restructuring and Other Costs, Net**

Restructuring and other costs in 2012 primarily included continuing charges for headcount reductions and facility consolidations in an effort to streamline operations, including the closure and consolidation of operations within several facilities in the U.S., Europe and Asia.

Restructuring and other costs in 2011 primarily included cash compensation from monetizing equity awards held by Dionex employees at the date of acquisition as well as continuing charges for headcount reductions and facility consolidations in an effort to streamline operations, including the following: the consolidation of facilities in Finland and Australia of acquired businesses with existing facilities in those countries; the consolidation of facilities in the U.S.; and the restructuring of the commercial organization of a business across six European countries to increase productivity and efficiency in serving customers.

Restructuring and other costs in 2010 primarily included charges for actions in response to the downturn in the economy and reduced revenues in several businesses, as well as the consolidation of manufacturing and research and development operations at a site in Germany with an existing site in the U.S. and the consolidation of production operations at a plant in Iowa with plants in Ohio and North Carolina.

As of February 27, 2013, the company has identified restructuring actions that will result in additional charges of approximately \$80 million, primarily in the first half of 2013.

2012

During 2012, the company recorded net restructuring and other costs as follows:

<u>(In millions)</u>	<u>Analytical Technologies</u>	<u>Specialty Diagnostics</u>	<u>Laboratory Products and Services</u>	<u>Corporate</u>	<u>Total</u>
Cost of Revenues	\$ 1.4	\$ 52.8	\$ 1.4	\$ —	\$ 55.6
Selling, General and Administrative Expenses	(0.1)	13.7	(0.9)	(0.2)	12.5
Restructuring and Other Costs, Net	<u>42.3</u>	<u>15.0</u>	<u>23.8</u>	<u>1.0</u>	<u>82.1</u>
	<u>\$ 43.6</u>	<u>\$ 81.5</u>	<u>\$ 24.3</u>	<u>\$ 0.8</u>	<u>\$ 150.2</u>

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

Analytical Technologies

In 2012, the Analytical Technologies segment recorded \$43.6 million of net restructuring and other charges. The segment recorded charges to cost of revenues of \$1.4 million primarily for accelerated depreciation at facilities closing due to real estate consolidation; \$0.1 million as a reduction of selling, general and administrative expenses; and \$42.3 million of other restructuring costs, net, \$33.8 million of which were cash costs. The cash costs, which were associated with headcount reductions and facility consolidations including the consolidation and closure of several facilities in the U.S. and Europe, consisted of \$21.7 million of severance for approximately 590 employees; \$9.5 million of abandoned facility costs; and \$2.6 million of other cash costs, primarily for retention, relocation and moving expenses associated with facility consolidations. The segment also recorded \$8.5 million of non-cash expense, net, primarily for real estate writedowns related to facility consolidations.

Specialty Diagnostics

In 2012, the Specialty Diagnostics segment recorded \$81.5 million of net restructuring and other charges. The segment recorded charges to cost of revenues of \$52.8 million primarily for the sale of inventories revalued at the date

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

of acquisition; charges to selling, general and administrative expenses of \$13.7 million for transaction costs related to the One Lambda acquisition; and \$15.0 million of other restructuring costs, \$14.3 million of which were cash costs associated with headcount reductions and facility consolidations to streamline operations. The cash costs consisted of \$11.3 million of severance for approximately 240 employees; \$0.6 million of abandoned facility costs; and \$2.4 million of other cash costs. The non-cash charges of \$0.7 million consisted of writedowns to estimated disposal value of real estate held for sale.

Laboratory Products and Services

In 2012, the Laboratory Products and Services segment recorded \$24.3 million of net restructuring and other charges. The segment recorded charges to cost of revenues of \$1.4 million primarily for the sale of inventories revalued at the date of acquisition and, to a lesser extent, accelerated depreciation at facilities closing due to real estate consolidation; \$0.9 million, net, as a reduction of selling, general and administrative expenses for revisions of estimated contingent consideration; and \$23.8 million of other restructuring costs, \$17.5 million of which were cash costs. The cash costs, which consisted of headcount reductions and facility consolidations to streamline operations, included \$10.9 million of severance for approximately 290 employees; \$3.2 million of abandoned facility costs; and \$3.4 million of other cash costs, primarily retention, relocation and moving expenses associated with facility consolidations. The segment recorded \$6.3 million of non-cash costs, net, primarily related to impairment of intangible assets of a business unit and fixed asset writedowns associated with facility consolidations, partially offset by a \$5.9 million gain on a pre-acquisition litigation-related matter.

Corporate

The company recorded \$1.0 million of cash costs primarily for severance at its corporate operations, offset in part by a reduction of selling, general and administrative expenses of \$0.2 million, net, associated with product liability litigation.

*2011*

During 2011, the company recorded net restructuring and other costs as follows:

(In millions)	Analytical Technologies	Specialty Diagnostics	Laboratory Products and Services	Corporate	Total
Cost of Revenues	\$ 30.5	\$ 39.0	\$ 3.1	\$ —	\$ 72.6
Selling, General and Administrative Expenses	34.5	24.0	—	3.0	61.5
Restructuring and Other Costs, Net	54.3	8.4	31.7	2.1	96.5
	<u>\$ 119.3</u>	<u>\$ 71.4</u>	<u>\$ 34.8</u>	<u>\$ 5.1</u>	<u>\$ 230.6</u>

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

Analytical Technologies

In 2011, the Analytical Technologies segment recorded \$119.3 million of net restructuring and other charges. The segment recorded charges to cost of revenues of \$30.5 million primarily for the sale of inventories revalued at the date of acquisition; charges to selling, general and administrative expenses of \$34.5 million primarily for transaction costs related to the Dionex acquisition; and \$54.3 million of other restructuring costs, net, \$48.9 million of which were cash costs. These costs included \$21.2 million of cash compensation from monetizing equity awards held by Dionex employees at the date of acquisition. The segment also recorded continuing cash costs associated with headcount reductions and facility consolidations to streamline operations, which consisted of \$19.3 million of severance for approximately 460 employees; \$7.0 million of abandoned facility costs; and \$1.4 million of other cash costs, primarily



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

retention, relocation and moving expenses associated with facility consolidations. The segment also recorded \$5.4 million of non-cash charges, net, primarily for the impairment of intangible assets associated with a small business unit.

Specialty Diagnostics

In 2011, the Specialty Diagnostics segment recorded \$71.4 million of net restructuring and other charges. The segment recorded charges to cost of revenues of \$39.0 million primarily for the sale of inventories revalued at the date of acquisition; charges to selling, general and administrative expenses of \$24.0 million primarily for transaction costs related to the Phadia acquisition; and \$8.4 million of other restructuring costs, including cash costs of \$8.0 million associated with headcount reductions and facility consolidations to streamline operations, including the consolidation of facilities in Finland and Australia of acquired businesses with existing facilities in those countries. The cash costs consisted of \$6.7 million of severance for approximately 80 employees; \$0.7 million of abandoned facility costs; and \$0.6 million of other cash costs, primarily retention, relocation and moving expenses associated with facility consolidations. The non-cash charges, net, of \$0.4 million consisted of \$1.2 million of writedowns to estimated disposal value of real estate held for sale, partially offset by \$0.8 million of income from termination of a post-retirement benefit plan.

Laboratory Products and Services

In 2011, the Laboratory Products and Services segment recorded \$34.8 million of net restructuring and other charges. The segment recorded charges to cost of revenues of \$3.1 million for accelerated depreciation at facilities closing due to real estate consolidation and sale of inventories revalued at the date of acquisition and \$31.7 million of other restructuring costs, net, \$22.0 million of which were cash costs. The cash costs were associated with the consolidation of facilities in the U.S. and the restructuring of the commercial organization of a business across six European countries to increase productivity and efficiency in serving customers, as well as other headcount reductions and facility consolidations. The cash costs included \$15.6 million of severance for approximately 750 employees; \$4.2 million of abandoned facility costs; and \$2.2 million of other cash costs, primarily retention, relocation and moving expenses associated with facility consolidations. The segment recorded \$9.7 million of non-cash costs primarily related to impairment of intangible assets associated with two small business units and, to a lesser extent, a loss on sale of a heating equipment business.

Corporate

The company recorded \$5.1 million in restructuring and other charges at its corporate operations in 2011, including a charge to selling, general and administrative expense of \$3.0 million associated with product liability litigation and \$2.1 million of cash costs for severance.

*2010*

During 2010, the company recorded net restructuring and other costs as follows:

<u>(In millions)</u>	<u>Analytical Technologies</u>	<u>Specialty Diagnostics</u>	<u>Laboratory Products and Services</u>	<u>Corporate</u>	<u>Total</u>
Cost of Revenues	\$ 7.9	\$ 3.3	\$ 2.0	\$ —	\$ 13.2
Selling, General and Administrative Expenses	14.9	(0.8)	(0.2)	(10.9)	3.0
Restructuring and Other Costs, Net	<u>28.9</u>	<u>8.2</u>	<u>22.7</u>	<u>0.4</u>	<u>60.2</u>
	<u>\$ 51.7</u>	<u>\$ 10.7</u>	<u>\$ 24.5</u>	<u>\$ (10.5)</u>	<u>\$ 76.4</u>

## THERMO FISHER SCIENTIFIC INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

#### Analytical Technologies

The Analytical Technologies segment recorded \$51.7 million of net restructuring and other charges in 2010. The segment recorded charges to cost of revenues of \$7.9 million primarily for the sale of inventories revalued at the date of acquisition; charges to selling, general and administrative expenses of \$14.9 million for transaction costs primarily related to the Dionex acquisition and, to a lesser extent, revisions of estimated contingent consideration, principally related to the acquisition of Ahura; and \$28.9 million of other costs, net. These other costs consisted of \$12.6 million of cash costs, primarily associated with headcount reductions and facility consolidations in an effort to streamline operations, including \$8.4 million of severance for approximately 125 employees primarily in manufacturing and sales and service functions; \$2.3 million of abandoned facility costs; and \$1.9 million of other cash costs, primarily retention, relocation and moving expenses associated with facility consolidations as well as other costs associated with restructuring actions. The segment also recorded \$16.3 million of other charges, net, primarily due to impairment of intangible assets associated with several small business units.

#### Specialty Diagnostics

The Specialty Diagnostics segment recorded \$10.7 million of net restructuring and other charges in 2010. The segment recorded charges to cost of revenues of \$3.3 million primarily for the sale of inventories revalued at the date of acquisition; \$0.8 million of income for adjustments to transaction costs related to the B.R.A.H.M.S. acquisition and revisions of estimated contingent consideration; and \$8.2 million of other costs, net. These other costs consisted of \$6.8 million of cash costs, primarily associated with headcount reductions and facility consolidations in an effort to streamline operations, including \$4.9 million of severance for approximately 45 employees primarily in manufacturing and sales and service functions; \$0.9 million of abandoned facility costs; and \$1.0 million of other cash costs, primarily retention, relocation and moving expenses associated with facility consolidations as well as other costs associated with restructuring actions. The segment also recorded non-cash costs of \$1.4 million primarily due to impairment of intangible assets associated with a small business unit.

#### Laboratory Products and Services

The Laboratory Products and Services segment recorded \$24.5 million of net restructuring and other charges in 2010. The segment recorded charges to cost of revenues of \$2.0 million primarily for accelerated depreciation at facilities closing due to real estate consolidation; \$13.6 million in cash costs described below; and \$9.1 million in other costs, net. The cash costs, which were associated with headcount reductions and facility consolidations in an effort to streamline operations, included \$4.7 million of severance for approximately 75 employees primarily in manufacturing, administrative, and sales and service functions; \$3.8 million of abandoned facility costs; and \$5.1 million of other cash costs, primarily retention, relocation, moving and related expenses associated with facility consolidations. The non-cash costs of \$9.1 million were related to a provision for loss on a patent infringement claim that arose at a business unit prior to its acquisition by the company and, to a lesser extent, writedowns to estimated disposal value of real estate held for sale.

#### Corporate

The company recorded \$10.5 million, net, of income including \$10.9 million as a reduction of selling, general and administrative expenses at its corporate office in 2010, the majority of which was a gain on settlement with product liability insurers.

The following table summarizes the cash components of the company's restructuring plans. The non-cash components and other amounts reported as restructuring and other costs, net, in the accompanying statement of income have been summarized in the notes to the tables. Accrued restructuring costs are included in other accrued expenses in the accompanying balance sheet.

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

(In millions)	Severance	Abandonment of Excess Facilities	Other (a)	Total
<b>Pre-2011 Restructuring Plans</b>				
<b>Balance At December 31, 2009</b>	\$ 22.2	\$ 6.6	\$ 2.1	\$ 30.9
Costs incurred in 2010 (c)	20.5	7.8	8.6	36.9
Reserves reversed (b)	(2.3)	(0.8)	(0.4)	(3.5)
Payments	(29.2)	(8.0)	(10.0)	(47.2)
Currency translation	(1.0)	0.1	(0.2)	(1.1)
<b>Balance At December 31, 2010</b>	10.2	5.7	0.1	16.0
Costs incurred in 2011 (d)	2.9	2.2	0.7	5.8
Reserves reversed (b)	(0.5)	—	(0.1)	(0.6)
Payments	(9.0)	(4.2)	(0.6)	(13.8)
Currency translation	0.1	(0.1)	—	—
<b>Balance At December 31, 2011</b>	3.7	3.6	0.1	7.4
Costs incurred in 2012 (e)	1.7	4.3	0.3	6.3
Reserves reversed (b)	(0.3)	—	—	(0.3)
Payments	(3.2)	(3.6)	(0.4)	(7.2)
Currency translation	(0.1)	—	—	(0.1)
<b>Balance At December 31, 2012</b>	<u>\$ 1.8</u>	<u>\$ 4.3</u>	<u>\$ —</u>	<u>\$ 6.1</u>
<b>2011 Restructuring Plans</b>				
Costs incurred in 2011 (d)	\$ 41.3	\$ 9.7	\$ 24.8	\$ 75.8
Payments	(26.7)	(6.2)	(22.3)	(55.2)
Currency translation	(0.5)	0.1	—	(0.4)
<b>Balance At December 31, 2011</b>	14.1	3.6	2.5	20.2
Costs incurred in 2012 (e)	0.8	2.6	1.9	5.3
Reserves reversed (b)	(1.3)	—	(0.6)	(1.9)
Payments	(10.8)	(4.6)	(3.4)	(18.8)
Currency translation	(0.4)	—	—	(0.4)
<b>Balance At December 31, 2012</b>	<u>\$ 2.4</u>	<u>\$ 1.6</u>	<u>\$ 0.4</u>	<u>\$ 4.4</u>
<b>2012 Restructuring Plans</b>				
Costs incurred in 2012 (e)	\$ 43.8	\$ 6.4	\$ 7.0	\$ 57.2
Payments	(28.8)	(4.1)	(4.6)	(37.5)
Currency translation	0.8	0.1	—	0.9
<b>Balance At December 31, 2012</b>	<u>\$ 15.8</u>	<u>\$ 2.4</u>	<u>\$ 2.4</u>	<u>\$ 20.6</u>

- (a) Other includes cash compensation from monetizing equity awards held by Dionex employees at the date of acquisition and employee retention costs which are accrued ratably over the period through which employees must work to qualify for a payment.
- (b) Represents reductions in cost of plans.
- (c) Excludes an aggregate of \$27 million of non-cash charges, net, which are detailed by segment above.
- (d) Excludes an aggregate of \$15 million of non-cash charges, net, which are detailed by segment above.
- (e) Excludes an aggregate of \$15 million of non-cash charges, net, which are detailed by segment above.

The company expects to pay accrued restructuring costs as follows: severance, employee-retention obligations and other costs, primarily through 2013; and abandoned-facility payments, over lease terms expiring through 2018.

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

**Note 15. Discontinued Operations**

On June 22, 2012, in an effort to exit a non-core business, the company's senior management made a decision to pursue a sale of its laboratory workstations business, part of the Laboratory Products and Services segment. The company completed the sale in October 2012 for nominal proceeds. The results of the laboratory workstations business have been classified and presented as discontinued operations in the accompanying financial statements. Prior period results have been adjusted to conform to this presentation. A product line with annual revenues of approximately \$4 million that was reported within the laboratory workstations business in 2011 was retained and is now reported in the Specialty Diagnostics segment.

In 2012, the company recorded an after-tax loss of \$63 million on the divestiture. In addition, the company recorded an after-tax gain of \$2 million upon receipt of additional proceeds from a prior divestiture.

Operating results of the laboratory workstations business were as follows:

(In millions)	2012	2011	2010
Revenues	\$ 147.1	\$ 179.6	\$ 185.8
Pre-tax (Loss) Income	(30.0)	(6.2)	18.0

On April 4, 2011, the company sold, in separate transactions, its Athena Diagnostics business for \$740 million in cash and its Lancaster Laboratories business for \$180 million in cash and escrowed proceeds of \$20 million, substantially all of which was received in October 2012. The sale of these businesses resulted in an after-tax gain of approximately \$304 million or \$0.79 per diluted share in the second quarter of 2011. The results of both businesses have been included in the accompanying financial statements as discontinued operations. Operating results of these businesses were as follows:

(In millions)	2011	2010
Revenues	\$ 54.3	\$ 226.2
Pre-tax Income	9.1	58.9

**Note 16. Unaudited Quarterly Information**

(In millions except per share amounts)	2012			
	First (a)	Second (b)	Third (c)	Fourth (d)
Revenues	\$ 3,056.8	\$ 3,108.1	\$ 3,085.7	\$ 3,259.3
Gross Profit	1,289.7	1,321.3	1,298.4	1,386.1
Income from Continuing Operations	280.8	292.4	299.4	385.8
Net Income	277.3	233.8	290.4	376.4
Earnings per Share from Continuing Operations:				
Basic	.76	.80	.83	1.08
Diluted	.76	.79	.82	1.07
Earnings per Share:				
Basic	.76	.64	.80	1.05
Diluted	.75	.63	.79	1.04
Cash Dividend Declared per Common Share	.13	.13	.13	.15

Amounts reflect aggregate restructuring and other items, net, and non-operating items, net, as follows:

- (a) Costs of \$31.1 million and after-tax loss of \$3.5 million related to the company's discontinued operations.
- (b) Costs of \$38.9 million and after-tax loss of \$58.6 million related to the company's discontinued operations.
- (c) Costs of \$37.3 million and after-tax loss of \$9.0 million related to the company's discontinued operations.
- (d) Costs of \$42.9 million and after-tax loss of \$9.4 million related to the company's discontinued operations.

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

(In millions except per share amounts)	2011			
	First (a)	Second (b)	Third (c)	Fourth (d)
Revenues	\$ 2,682.6	\$ 2,854.0	\$ 2,932.9	\$ 3,089.3
Gross Profit	1,116.3	1,161.0	1,218.9	1,297.8
Income from Continuing Operations	247.5	217.1	266.3	292.5
Net Income	252.2	523.4	265.4	288.9
Earnings per Share from Continuing Operations:				
Basic	.64	.57	.70	.78
Diluted	.63	.56	.70	.78
Earnings per Share:				
Basic	.65	1.37	.70	.77
Diluted	.64	1.36	.69	.77

Amounts reflect aggregate restructuring and other items, net, and non-operating items, net, as follows:

- (a) Costs of \$21.2 million and after-tax income of \$4.7 million related to the company's discontinued operations.
- (b) Costs of \$93.2 million and after-tax income of \$306.3 million related to the company's discontinued operations.
- (c) Costs of \$56.5 million and after-tax loss of \$0.9 million related to the company's discontinued operations.
- (d) Costs of \$59.7 million and after-tax loss of \$3.6 million related to the company's discontinued operations.

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**SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS**

<u>(In millions)</u>	<u>Balance at Beginning of Year</u>	<u>Provision Charged to Expense</u>	<u>Accounts Recovered</u>	<u>Accounts Written Off</u>	<u>Other (a)</u>	<u>Balance at End of Year</u>
<b>Allowance for Doubtful Accounts</b>						
Year Ended December 31, 2012	\$ 65.8	\$ 0.7	\$ 0.3	\$ (4.6)	\$ (6.7)	\$ 55.5
Year Ended December 31, 2011	\$ 39.2	\$ 11.2	\$ 0.2	\$ (5.7)	\$ 20.9	\$ 65.8
Year Ended December 31, 2010	\$ 46.2	\$ 2.1	\$ 0.3	\$ (10.1)	\$ 0.7	\$ 39.2

<u>(In millions)</u>	<u>Balance at Beginning of Year</u>	<u>Provision Charged to Expense (c)</u>	<u>Activity Charged to Reserve</u>	<u>Other (d)</u>	<u>Balance at End of Year</u>
<b>Accrued Restructuring Costs (b)</b>					
Year Ended December 31, 2012	\$ 27.6	\$ 66.6	\$ (63.5)	\$ 0.4	\$ 31.1
Year Ended December 31, 2011	\$ 16.0	\$ 81.0	\$ (69.0)	\$ (0.4)	\$ 27.6
Year Ended December 31, 2010	\$ 30.9	\$ 33.4	\$ (47.2)	\$ (1.1)	\$ 16.0

(a) Includes allowance of businesses acquired and sold during the year as described in Note 2 and the effect of currency translation.

(b) The nature of activity in this account is described in Note 14.

(c) Excludes \$15 million, \$15 million and \$27 million, respectively, of non-cash expense, net, in 2012 and 2011 and 2010, as described in Note 14.

(d) Represents the effects of currency translation.