

THERMO FISHER SCIENTIFIC INC.
Form 10-Q
August 05, 2016

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

FORM 10-Q

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarter Ended July 2, 2016

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

Commission File Number 1-8002

THERMO FISHER SCIENTIFIC INC.

(Exact name of Registrant as specified in its charter)

Delaware 04-2209186

(State of incorporation or organization) (I.R.S. Employer Identification No.)

81 Wyman Street

Waltham, Massachusetts 02451

(Address of principal executive offices) (Zip Code)

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

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

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

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

Large accelerated filer ý Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ý

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

Class	Outstanding at July 2, 2016
Common Stock, \$1.00 par value	394,262,866

THERMO FISHER SCIENTIFIC INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JULY 2, 2016
TABLE OF CONTENTS

	Page
PART I	
Item 1. <u>Financial Statements (Unaudited)</u>	<u>3</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>30</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>42</u>
Item 4. <u>Controls and Procedures</u>	<u>42</u>
PART II	
Item 1. <u>Legal Proceedings</u>	<u>43</u>
Item 1A. <u>Risk Factors</u>	<u>43</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>48</u>
Item 6. <u>Exhibits</u>	<u>48</u>

THERMO FISHER SCIENTIFIC INC.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEET

(Unaudited)

	July 2, 2016	December 31, 2015
(In millions except share and per share amounts)		
Assets		
Current Assets:		
Cash and cash equivalents	\$663.1	\$452.1
Accounts receivable, less allowances of \$72.0 and \$70.1	2,709.1	2,544.9
Inventories	2,086.3	1,991.7
Other current assets	872.5	752.5
Total current assets	6,331.0	5,741.2
Property, Plant and Equipment, Net	2,451.6	2,448.8
Acquisition-related Intangible Assets, Net	12,842.2	12,758.3
Other Assets	1,081.8	1,058.4
Goodwill	19,546.8	18,827.6
Total Assets	\$42,253.4	\$40,834.3
Liabilities and Shareholders' Equity		
Current Liabilities:		
Short-term obligations and current maturities of long-term obligations	\$2,515.9	\$1,051.8
Accounts payable	846.5	822.2
Accrued payroll and employee benefits	521.6	598.2
Accrued income taxes	21.8	212.5
Deferred revenue	358.5	317.9
Other accrued expenses	1,263.9	1,143.7
Total current liabilities	5,528.2	4,146.3
Deferred Income Taxes	2,481.5	2,622.6
Other Long-term Liabilities	1,347.9	1,295.0
Long-term Obligations	11,631.9	11,420.2
Shareholders' Equity:		
Preferred stock, \$100 par value, 50,000 shares authorized; none issued		
Common stock, \$1 par value, 1,200,000,000 shares authorized; 414,011,817 and 411,944,301 shares issued	414.0	411.9
Capital in excess of par value	12,016.9	11,801.2
Retained earnings	12,942.5	12,142.3
Treasury stock at cost, 19,748,951 and 12,314,200 shares	(2,027.4)	(1,007.9)
Accumulated other comprehensive items	(2,082.1)	(1,997.3)

Total shareholders' equity	21,263.9	21,350.2
Total Liabilities and Shareholders' Equity	\$42,253.4	\$40,834.3

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

3

THERMO FISHER SCIENTIFIC INC.

CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

(In millions except per share amounts)	Three Months Ended		Six Months Ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
Revenues				
Product revenues	\$3,896.1	\$3,677.2	\$7,586.5	\$7,064.8
Service revenues	639.1	593.7	1,243.5	1,124.9
Total revenues	4,535.2	4,270.9	8,830.0	8,189.7
Costs and Operating Expenses:				
Cost of product revenues	2,039.3	1,907.0	3,972.9	3,627.8
Cost of service revenues	417.4	422.1	820.7	797.6
Selling, general and administrative expenses	1,223.1	1,151.0	2,436.0	2,288.4
Research and development expenses	182.4	174.6	358.9	340.4
Restructuring and other costs, net	35.4	20.4	86.0	52.4
Total costs and operating expenses	3,897.6	3,675.1	7,674.5	7,106.6
Operating Income	637.6	595.8	1,155.5	1,083.1
Other Expense, Net	(116.5)	(92.2)	(211.4)	(197.5)
Income from Continuing Operations Before Income Taxes	521.1	503.6	944.1	885.6
(Provision for) Benefit from Income Taxes	(4.3)	8.0	(25.0)	11.1
Income from Continuing Operations	516.8	511.6	919.1	896.7
Loss from Discontinued Operations (net of income tax benefit of \$0.1, \$0.0, \$0.2 and \$0.0)	(0.2)	—	(0.3)	—
Net Income	\$516.6	\$511.6	\$918.8	\$896.7
Earnings per Share from Continuing Operations				
Basic	\$1.31	\$1.28	\$2.33	\$2.25
Diluted	\$1.30	\$1.27	\$2.31	\$2.23
Earnings per Share				
Basic	\$1.31	\$1.28	\$2.33	\$2.25
Diluted	\$1.30	\$1.27	\$2.31	\$2.23
Weighted Average Shares				
Basic	393.9	398.4	394.9	398.1
Diluted	396.7	401.5	397.7	401.5
Cash Dividends Declared per Common Share	\$0.15	\$0.15	\$0.30	\$0.30

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

THERMO FISHER SCIENTIFIC INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Unaudited)

(In millions)	Three Months Ended		Six Months Ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
Comprehensive Income				
Net Income	\$516.6	\$511.6	\$918.8	\$896.7
Other Comprehensive Items:				
Currency translation adjustment	(220.7)	220.9	(50.8)	(342.0)
Unrealized losses on available-for-sale investments:				
Unrealized holding losses arising during the period (net of tax benefit of (\$0.1), \$0.0, \$0.3 and \$0.0)	—	(0.1)	(1.5)	—
Unrealized gains and losses on hedging instruments:				
Unrealized gains (losses) on hedging instruments (net of tax provision (benefit) of \$0.0, \$19.0, (\$22.4) and \$14.1)	—	31.0	(36.6)	23.0
Reclassification adjustment for losses included in net income (net of tax benefit of \$0.9, \$0.5, \$1.4 and \$0.6)	1.7	0.8	2.5	1.9
Pension and other postretirement benefit liability adjustments:				
Pension and other postretirement benefit liability adjustments arising during the period (net of tax (provision) benefit of (\$1.0), \$1.2, \$0.1 and (\$1.7))	2.3	(3.2)	(1.1)	3.4
Amortization of net loss and prior service benefit included in net periodic pension cost (net of tax benefit of \$0.6, \$0.5, \$0.9 and \$1.2)	1.3	1.9	2.7	3.6
Total other comprehensive items	(215.4)	251.3	(84.8)	(310.1)
Comprehensive Income	\$301.2	\$762.9	\$834.0	\$586.6

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

THERMO FISHER SCIENTIFIC INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(In millions)	Six Months Ended	
	July 2, 2016	June 27, 2015
Operating Activities		
Net income	\$918.8	\$896.7
Loss from discontinued operations	0.3	—
Income from continuing operations	919.1	896.7
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	851.2	836.0
Change in deferred income taxes	(304.5)	(218.0)
Net gains on sale of businesses	—	(7.6)
Non-cash stock-based compensation	67.1	59.3
Tax benefits from stock-based compensation awards	(44.6)	(49.0)
Non-cash charges for sale of inventories revalued at the date of acquisition	22.4	0.7
Other non-cash expenses, net	26.1	24.1
Changes in assets and liabilities, excluding the effects of acquisitions and dispositions:		
Accounts receivable	(95.0)	(201.7)
Inventories	(25.9)	(122.1)
Other assets	(85.4)	(14.9)
Accounts payable	39.9	21.7
Other liabilities	(163.6)	(354.8)
Contributions to retirement plans	(26.3)	(21.2)
Net cash provided by continuing operations	1,180.5	849.2
Net cash used in discontinued operations	(1.9)	(4.3)
Net cash provided by operating activities	1,178.6	844.9
Investing Activities		
Acquisitions, net of cash acquired	(1,033.1)	(298.6)
Purchase of property, plant and equipment	(229.9)	(192.5)
Proceeds from sale of property, plant and equipment	21.7	6.2
Other investing activities, net	(6.7)	15.6
Net cash used in investing activities	\$(1,248.0)	\$(469.3)

THERMO FISHER SCIENTIFIC INC.

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
(Unaudited)

(In millions)	Six Months Ended	
	July 2, 2016	June 27, 2015
Financing Activities		
Net proceeds from issuance of debt	\$1,985.6	\$—
Repayment of debt	(1,632.4)	(1,554.7)
Increase in commercial paper, net	936.1	1,121.5
Purchases of company common stock	(1,000.0)	(500.0)
Dividends paid	(119.4)	(120.5)
Net proceeds from issuance of company common stock under employee stock plans	97.9	81.7
Tax benefits from stock-based compensation awards	44.6	49.0
Other financing activities, net	(13.6)	(6.3)
Net cash provided by (used in) financing activities	298.8	(929.3)
Exchange Rate Effect on Cash	(18.4)	(21.4)
Increase (Decrease) in Cash and Cash Equivalents	211.0	(575.1)
Cash and Cash Equivalents at Beginning of Period	452.1	1,343.5
Cash and Cash Equivalents at End of Period	\$663.1	\$768.4

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
(Unaudited)

(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		
Balance at December 31, 2014	408.5	\$ 408.5	\$ 11,473.6	\$ 10,406.9	8.0	\$(455.9)	\$(1,285.0)	\$ 20,548.1
Issuance of shares under employees' and directors' stock plans	2.1	2.1	87.8	—	0.3	(32.8)	—	57.1
Stock-based compensation	—	—	59.3	—	—	—	—	59.3
Tax benefit related to employees' and directors' stock plans	—	—	48.6	—	—	—	—	48.6
Purchases of company common stock	—	—	—	—	3.9	(500.0)	—	(500.0)
Dividends declared	—	—	—	(119.9)	—	—	—	(119.9)
Net income	—	—	—	896.7	—	—	—	896.7
Other comprehensive items	—	—	—	—	—	—	(310.1)	(310.1)
Balance at June 27, 2015	410.6	\$ 410.6	\$ 11,669.3	\$ 11,183.7	12.2	\$(988.7)	\$(1,595.1)	\$ 20,679.8
Balance at December 31, 2015	411.9	\$ 411.9	\$ 11,801.2	\$ 12,142.3	12.3	\$(1,007.9)	\$(1,997.3)	\$ 21,350.2
Issuance of shares under employees' and directors' stock plans	2.1	2.1	104.6	—	0.1	(19.5)	—	87.2
Stock-based compensation	—	—	67.1	—	—	—	—	67.1
Tax benefit related to employees' and directors' stock plans	—	—	44.0	—	—	—	—	44.0
Purchases of company common stock	—	—	—	—	7.3	(1,000.0)	—	(1,000.0)
Dividends declared	—	—	—	(118.6)	—	—	—	(118.6)
Net income	—	—	—	918.8	—	—	—	918.8
Other comprehensive items	—	—	—	—	—	—	(84.8)	(84.8)
Balance at July 2, 2016	414.0	\$ 414.0	\$ 12,016.9	\$ 12,942.5	19.7	\$(2,027.4)	\$(2,082.1)	\$ 21,263.9

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

THERMO FISHER SCIENTIFIC INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

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

Nature of Operations

Thermo Fisher Scientific Inc. (the company or Thermo Fisher) 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, academic and government, industrial and applied, as well as healthcare and diagnostics.

Interim Financial Statements

The interim consolidated financial statements presented herein have been prepared by the company, are unaudited and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair statement of the financial position at July 2, 2016, the results of operations for the three- and six-month periods ended July 2, 2016 and June 27, 2015, and the cash flows for the six-month periods ended July 2, 2016 and June 27, 2015. Interim results are not necessarily indicative of results for a full year.

The consolidated balance sheet presented as of December 31, 2015, has been derived from the audited consolidated financial statements as of that date. The consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain all information that is included in the annual financial statements and notes thereto of the company. The consolidated financial statements and notes included in this report should be read in conjunction with the 2015 financial statements and notes included in the company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC).

Note 1 to the consolidated financial statements for 2015 describes the significant accounting estimates and policies used in preparation of the consolidated financial statements. There have been no material changes in the company's significant accounting policies during the six months ended July 2, 2016.

Inventories

The components of inventories are as follows:

	July 2, 2016	December 31, 2015
Raw Materials	\$437.5	\$421.1
Work in Process	266.4	236.8
Finished Goods	1,382.4	1,333.8

Inventories \$2,086.3 \$1,991.7

Property, Plant and Equipment

Property, plant and equipment consists of the following:

	July 2, 2016	December 31, 2015
Land	\$268.7	\$276.4
Buildings and Improvements	1,075.4	1,050.5
Machinery, Equipment and Leasehold Improvements	2,927.0	2,786.8
Property, Plant and Equipment, at Cost	4,271.1	4,113.7
Less: Accumulated Depreciation and Amortization	1,819.5	1,664.9

Property, Plant and Equipment, Net

\$2,451.6 \$2,448.8

9

THERMO FISHER SCIENTIFIC INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 (Unaudited)

Acquisition-related Intangible Assets

Acquisition-related intangible assets are as follows:

(In millions)	Balance at July 2, 2016			Balance at December 31, 2015		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Definite Lived:						
Customer relationships	\$12,323.9	\$ (4,490.6)	\$7,833.3	\$11,844.4	\$ (4,086.9)	\$7,757.5
Product technology	5,012.3	(2,012.3)	3,000.0	4,799.8	(1,819.0)	2,980.8
Tradenames	1,357.9	(600.5)	757.4	1,316.7	(548.2)	768.5
Other	33.3	(33.3)	—	33.2	(33.0)	0.2
	18,727.4	(7,136.7)	11,590.7	17,994.1	(6,487.1)	11,507.0
Indefinite Lived:						
Tradenames	1,234.8	—	1,234.8	1,234.8	—	1,234.8
In-process research and development	16.7	—	16.7	16.5	—	16.5
	1,251.5	—	1,251.5	1,251.3	—	1,251.3

Acquisition-related Intangible Assets \$19,978.9 \$ (7,136.7) \$12,842.2 \$19,245.4 \$ (6,487.1) \$12,758.3
 Warranty Obligations

The liability for warranties is included in other accrued expenses in the accompanying balance sheet. The changes in the carrying amount of standard product warranty obligations are as follows:

(In millions)	Six Months Ended	
	July 2, 2016	June 27, 2015
Beginning Balance	\$55.8	\$57.5
Provision charged to income	45.2	38.3
Usage	(42.4)	(38.2)
Acquisitions	1.1	0.5
Adjustments to previously provided warranties, net	(1.0)	(2.0)
Currency translation	(0.2)	(1.8)
Ending Balance	\$58.5	\$54.3

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 fair value of acquired intangible assets (Note 2) and the ultimate loss from abandoning leases at facilities being exited (Note 14). Actual results could differ from those estimates.

Recent Accounting Pronouncements

In March 2016, the FASB issued new guidance which affects the accounting for stock-based compensation. The new guidance simplifies the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance is effective for the

10

THERMO FISHER SCIENTIFIC INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

company in 2017. Early adoption is permitted. The company expects to adopt this guidance on January 1, 2017. Adoption of this guidance is not expected to have a material impact on the company's consolidated financial statements; however, the impact in any given period will be dependent upon changes in the company's stock price, the volume of employee stock option exercises and the timing of service- and performance-based restricted unit vestings. In February 2016, the FASB issued new guidance which requires lessees to record most leases on their balance sheets as lease liabilities, initially measured at the present value of the future lease payments, with corresponding right-of-use assets. The new guidance also sets forth new disclosure requirements related to leases. The guidance is effective for the company in 2019 and must be adopted using a modified retrospective method. Early adoption is permitted. The company is currently evaluating the impact the standard will have on its consolidated financial statements.

In January 2016, the FASB issued new guidance which affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. This guidance retains the current accounting for classifying and measuring investments in debt securities and loans, but requires equity investments to be measured at fair value with subsequent changes recognized in net income, except for those accounted for under the equity method or requiring consolidation. The guidance also changes the accounting for investments without a readily determinable fair value and that do not qualify for the practical expedient permitted by the guidance to estimate fair value. A policy election can be made for these investments whereby estimated fair value may be measured at cost and adjusted in subsequent periods for any impairment or changes in observable prices of identical or similar investments. The guidance is effective for the company in 2018. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the company's consolidated financial statements.

In September 2015, the FASB issued new guidance which eliminates the requirement for an acquirer in a business combination to restate prior period financial statements for measurement period adjustments. The new guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The new guidance also sets forth new disclosure requirements related to the adjustments. The guidance is effective for the company in 2016. Adoption of this standard did not have a material impact on the company's consolidated balance sheet.

In July 2015, the FASB issued new guidance which requires an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This guidance does not apply to inventory that is measured using last-in, first-out (LIFO). The guidance is effective for the company in 2017. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the company's consolidated financial statements.

In April 2015, the FASB issued new guidance which requires the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability, consistent with the current treatment of debt discounts. The guidance is effective for the company in 2016. As a result of adoption of this standard, debt issuance costs of \$55 million were reclassified from other assets to reduce long-term debt as of December 31, 2015.

In May 2014, the FASB issued new revenue recognition guidance which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most current revenue recognition guidance. The new standard also requires significantly expanded disclosures regarding the qualitative and quantitative information of an entity's nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. During the first and second quarters of 2016, the FASB issued additional guidance and clarification relating to identifying performance obligations, assessing collectability, licensing, principal versus agent considerations, sales tax, non-cash consideration, contract modification, disclosures and the handling of completed contracts at transition. The guidance is currently effective for the company in 2018. Early adoption is permitted in 2017. The company is currently evaluating the impact the standard will have on its consolidated financial statements.

Note 2. Acquisitions

The company's acquisitions have historically been made at prices above the determined 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.

THERMO FISHER SCIENTIFIC INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 as incurred.

2016

In May 2016, the company signed an agreement to acquire, within the Analytical Instruments segment, FEI Company, a North America-based provider of high-performance electron microscopy, for approximately \$4.2 billion in cash. The acquisition will strengthen the company's analytical instrument portfolio with the addition of high-end electron microscopes. Revenues of FEI were \$930 million in 2015. The transaction, which is expected to close by the end of 2016, is subject to the approval of the FEI shareholders and the satisfaction of customary closing conditions, including applicable regulatory approvals. The company has committed debt financing for the acquisition (Note 9) although it intends to replace part of the committed financing with long-term debt prior to completing the acquisition and to use such borrowings and cash on hand to fund the transaction.

On March 31, 2016, the company acquired, within the Life Sciences Solutions segment, Affymetrix, Inc., a North America-based provider of cellular and genetic analysis products, for a total purchase price of \$1.34 billion, net of cash acquired, including the assumption of \$254 million of debt. The acquisition expands the company's existing portfolio of antibodies and assays for flow cytometry and single-cell biology applications. Revenues of Affymetrix were \$360 million in 2015. The purchase price exceeded the fair value of the identifiable net assets and, accordingly, \$702 million was allocated to goodwill, none of which is tax deductible.

In addition, in 2016, the company acquired, within the Analytical Instruments segment, a provider of X-ray diffraction solutions for material science and industrial applications and, within the Life Sciences Solutions segment, selected assets of an existing channel partner, for an aggregate purchase price of \$5 million.

During 2016, the company made contingent purchase price payments totaling \$1 million for acquisitions completed prior to 2016. The contingent purchase price payments were contractually due to the sellers upon achievement of certain performance criteria at the acquired businesses.

The components of the purchase price and net assets acquired for 2016 acquisitions are as follows:

(In millions)	Affymetrix	Other	Total
Purchase Price			
Cash paid	\$ 1,105.9	\$ 4.2	\$ 1,110.1
Debt assumed	254.2	0.6	254.8
Purchase price payable	59.5	0.1	59.6
Cash acquired	(77.8) (0.1)	(77.9)
	\$ 1,341.8	\$ 4.8	\$ 1,346.6
Net Assets Acquired			
Current assets	\$ 160.6	\$ 1.1	\$ 161.7
Property, plant and equipment	19.3	—	19.3
Definite-lived intangible assets:			
Customer relationships	413.2	1.7	414.9
Product technology	232.7	0.7	233.4
Tradenames and other	41.6	—	41.6
Indefinite-lived intangible assets:			
In-process research and development	11.0	—	11.0
Goodwill	702.0	3.0	705.0
Other assets	7.8	0.1	7.9

Liabilities assumed	(246.4)	(1.8)	(248.2)
	\$ 1,341.8	\$ 4.8	\$ 1,346.6

12

THERMO FISHER SCIENTIFIC INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The weighted-average amortization periods for definite-lived intangible assets acquired in 2016 are 15 years for customer relationships, 9 years for product technology and 9 years for tradenames and other. The weighted average amortization period for all definite-lived intangible assets acquired in 2016 is 12 years.

The company recorded a deferred tax liability of \$156 million in the acquisition accounting related to the outside basis difference of the Affymetrix Singapore operations as the company does not intend to permanently reinvest the pre-acquisition Singapore earnings.

The company's results would not have been materially different had the 2016 acquisitions occurred at the beginning of 2015.

Note 3. Business Segment Information

The company's financial performance is reported in four segments. A description of each segment follows.

Life Sciences Solutions: provides an extensive portfolio of reagents, instruments and consumables used in biological and medical research, discovery and production of new drugs and vaccines as well as diagnosis of disease. These products and services are used by customers in pharmaceutical, biotechnology, agricultural, clinical, academic, and government markets.

Analytical Instruments: provides a broad offering of instruments, 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, environmental 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 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.

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 as well as from significant litigation-related matters; 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.

THERMO FISHER SCIENTIFIC INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Business Segment Information

(In millions)	Three Months Ended		Six Months Ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
Revenues				
Life Sciences Solutions	\$1,277.6	\$1,129.3	\$2,410.6	\$2,149.2
Analytical Instruments	793.9	777.0	1,553.2	1,504.4
Specialty Diagnostics	851.3	817.1	1,705.9	1,602.3
Laboratory Products and Services	1,802.2	1,693.3	3,526.8	3,206.7
Eliminations	(189.8)	(145.8)	(366.5)	(272.9)
Consolidated revenues	4,535.2	4,270.9	8,830.0	8,189.7
Segment Income (a)				
Life Sciences Solutions	369.6	323.5	699.6	622.2
Analytical Instruments	144.9	139.6	256.6	261.3
Specialty Diagnostics	237.9	227.2	468.0	441.3
Laboratory Products and Services	279.8	260.0	538.0	482.1
Subtotal reportable segments (a)	1,032.2	950.3	1,962.2	1,806.9
Cost of revenues charges	(17.4)	(1.1)	(28.0)	(1.7)
Selling, general and administrative charges, net	(3.8)	(3.2)	(32.7)	(10.8)
Restructuring and other costs, net	(35.4)	(20.4)	(86.0)	(52.4)
Amortization of acquisition-related intangible assets	(338.0)	(329.8)	(660.0)	(658.9)
Consolidated operating income	637.6	595.8	1,155.5	1,083.1
Other expense, net (b)	(116.5)	(92.2)	(211.4)	(197.5)
Income from continuing operations before income taxes	\$521.1	\$503.6	\$944.1	\$885.6
Depreciation				
Life Sciences Solutions	\$37.5	\$34.8	\$74.2	\$68.3
Analytical Instruments	9.9	9.4	19.5	18.7
Specialty Diagnostics	18.2	18.0	36.2	35.8
Laboratory Products and Services	31.5	27.7	61.3	54.3
Consolidated depreciation	\$97.1	\$89.9	\$191.2	\$177.1

(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)

(Unaudited)

Note 4. Other Expense, Net

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

(In millions)	Three Months Ended		Six Months Ended	
	July 2,	June 27,	July 2,	June 27,
	2016	2015	2016	2015
Interest Income	\$13.2	\$7.7	\$24.0	\$14.7
Interest Expense	(118.8)	(102.9)	(225.0)	(211.3)
Other Items, Net	(10.9)	3.0	(10.4)	(0.9)

Other Expense, Net \$(116.5) \$(92.2) \$(211.4) \$(197.5)

Other Items, Net

In the first six months of 2016, other items, net includes \$10 million of charges related to the amortization of fees paid to obtain bridge financing commitments for the pending acquisition of FEI (Note 2) and \$6 million of losses on the early extinguishment of debt, offset in part by \$2 million of gains on investments. In the first six months of 2015, other items, net includes costs of \$7.5 million associated with entering into interest rate swap arrangements and losses of \$3 million for the early extinguishment of debt.

Note 5. Stock-based Compensation Expense

The components of stock-based compensation expense are primarily included in selling, general and administrative expenses and are as follows:

(In millions)	Three Months Ended		Six Months Ended	
	July 2,	June 27,	July 2,	June 27,
	2016	2015	2016	2015
Stock Option Awards	\$10.0	\$10.9	\$20.6	\$21.3
Restricted Unit Awards	23.7	20.2	46.5	38.0

Total Stock-based Compensation Expense \$33.7 \$31.1 \$67.1 \$59.3

During the first six months of 2016, the company made equity compensation grants to employees consisting of 0.8 million service- and performance-based restricted stock units and options to purchase 1.7 million shares.

As of July 2, 2016, there was \$86 million of total unrecognized compensation cost related to unvested stock options granted. The cost is expected to be recognized through 2020 with a weighted average amortization period of 2.5 years.

As of July 2, 2016, there was \$159 million of total unrecognized compensation cost related to unvested restricted stock unit awards. The cost is expected to be recognized through 2019 with a weighted average amortization period of 2.2 years.

Note 6. Pension and Other Postretirement Benefit 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 generally funded on a self-insured and insured-premium basis.

THERMO FISHER SCIENTIFIC INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 (Unaudited)

The net periodic benefit cost for the company's defined benefit pension plans includes the following components:

	Three Months Ended		Six Months Ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
(In millions)				
Components of Net Benefit Cost				
Service cost-benefits earned	\$5.3	\$6.1	\$10.5	\$12.3
Interest cost on benefit obligation	19.5	19.3	39.0	38.7
Expected return on plan assets	(19.8)	(23.3)	(39.5)	(46.6)
Amortization of actuarial net loss	1.9	2.4	3.7	4.7
Amortization of prior service benefit	—	(0.1)	(0.1)	(0.1)
Settlement/curtailment loss	—	0.1	—	0.1
Net periodic benefit cost	\$6.9	\$4.5	\$13.6	\$9.1

Note 7. Income Taxes

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:

	Six Months Ended	
	July 2, 2016	June 27, 2015
(In millions)		
Provision for Income Taxes at Statutory Rate	\$330.4	\$310.0
Increases (Decreases) Resulting From:		
Foreign rate differential	(108.3)	(72.6)
Income tax credits	(187.6)	(204.1)
Manufacturing deduction	(15.7)	(17.6)
Singapore tax holiday	(8.6)	(7.5)
Impact of change in tax laws and apportionment on deferred taxes	8.8	(14.4)
Nondeductible expenses	3.9	4.4
Tax return reassessments and settlements	1.0	(7.0)
State income taxes, net of federal tax	(3.6)	(3.0)
Other, net	4.7	0.7
Provision for (benefit from) income taxes	\$25.0	\$(11.1)

In 2016, the company implemented tax planning initiatives related to non-U.S. subsidiaries. These non-U.S. subsidiaries incurred foreign tax obligations, and made cash and deemed distributions to the company's U.S. operations which resulted in no net tax cost. As a result of these distributions, the company benefitted from U.S. foreign tax credits of \$114 million, offset in part by additional U.S. income taxes of \$40 million on the related foreign

income (which reduced the benefit from the foreign rate differential in 2016). The foreign tax credits are the result of foreign earnings remitted or deemed remitted to the U.S. during the reporting year and the U.S. treatment of taxes paid in the foreign jurisdictions in the years those profits were originally earned.

The company has significant activities in Singapore and has received considerable tax incentives. The local taxing authority granted the company pioneer company status which provides an incentive encouraging companies to undertake activities that have the effect of promoting economic or technological development in Singapore. This incentive equates to a tax exemption on earnings associated with most of the company's manufacturing activities in Singapore and continues through December 31, 2021. In 2016 and 2015, the impact of this tax holiday decreased the annual effective tax rates by 0.9% and 0.8%, respectively, and increased diluted earnings per share by approximately \$0.02 and \$0.02, respectively.

THERMO FISHER SCIENTIFIC INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 (Unaudited)

The company's unrecognized tax benefits increased to \$391 million at July 2, 2016, from \$350 million at December 31, 2015. Of the total increase, \$43 million resulted from tax planning related to prior years which resulted in amended tax filings, offset in part by a reduction of \$1 million from the resolution of tax audits for which a reserve had previously been established.

Note 8. Earnings per Share

	Three Months Ended		Six Months Ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
(In millions except per share amounts)				
Income from Continuing Operations	\$516.8	\$511.6	\$919.1	\$896.7
Loss from Discontinued Operations	(0.2)	—	(0.3)	—
Net Income	\$516.6	\$511.6	\$918.8	\$896.7
Basic Weighted Average Shares	393.9	398.4	394.9	398.1
Plus Effect of:				
Stock options and restricted units	2.8	3.1	2.8	3.4
Diluted Weighted Average Shares	396.7	401.5	397.7	401.5
Basic Earnings per Share:				
Continuing operations	\$1.31	\$1.28	\$2.33	\$2.25
Discontinued operations	—	—	—	—
Basic Earnings per Share	\$1.31	\$1.28	\$2.33	\$2.25
Diluted Earnings per Share:				
Continuing operations	\$1.30	\$1.27	\$2.31	\$2.23
Discontinued operations	—	—	—	—
Diluted Earnings per Share	\$1.30	\$1.27	\$2.31	\$2.23

Options to purchase 1.8 million, 3.6 million, 2.7 million and 3.8 million shares of common stock were not included in the computation of diluted earnings per share for the second quarter of 2016 and 2015 and the first six months of 2016 and 2015, respectively, because their effect would have been antidilutive.

THERMO FISHER SCIENTIFIC INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note 9. Debt and Other Financing Arrangements

(Dollars in millions)	Effective Interest Rate at July 2, 2016	July 2, 2016	December 31, 2015
Commercial Paper	1.54	% \$989.4	\$49.6
Term Loan	1.56	% 625.0	—
2.25% 5-Year Senior Notes, Due 8/15/2016		—	1,000.0
1.30% 3-Year Senior Notes, Due 2/1/2017	1.21	% 900.0	900.0
1.85% 5-Year Senior Notes, Due 1/15/2018	2.01	% 500.0	500.0
2.15% 3-Year Senior Notes, Due 12/14/2018	2.35	% 450.0	450.0
2.40% 5-Year Senior Notes, Due 2/1/2019	2.59	% 900.0	900.0
6.00% 10-Year Senior Notes, Due 3/1/2020	2.97	% 750.0	750.0
4.70% 10-Year Senior Notes, Due 5/1/2020	4.23	% 300.0	300.0
1.50% 5-Year Senior Notes, Due 12/1/2020 (euro-denominated)	1.61	% 473.3	461.6
5.00% 10-Year Senior Notes, Due 1/15/2021	3.24	% 400.0	400.0
4.50% 10-Year Senior Notes, Due 3/1/2021	3.26	% 1,000.0	1,000.0
3.60% 10-Year Senior Notes, Due 8/15/2021	2.92	% 1,100.0	1,100.0
3.30% 7-Year Senior Notes, Due 2/15/2022	3.43	% 800.0	800.0
2.15% 7-Year Senior Notes, Due 7/21/2022 (euro-denominated)	2.28	% 556.8	543.1
3.15% 10-Year Senior Notes, Due 1/15/2023	3.31	% 800.0	800.0
3.00% 7-Year Senior Notes Due 4/15/2023	3.04	% 1,000.0	—
4.15% 10-Year Senior Notes, Due 2/1/2024	4.16	% 1,000.0	1,000.0
2.00% 10-Year Senior Notes, Due 4/15/2025 (euro-denominated)	2.09	% 712.7	695.2
3.65% 10-Year Senior Notes, Due 12/15/2025	3.77	% 350.0	350.0
5.30% 30-Year Senior Notes, Due 2/1/2044	5.37	% 400.0	400.0
Other		14.2	16.3
Total Borrowings at Par Value		14,021.4	12,415.8
Fair Value Hedge Accounting Adjustments		95.5	6.2
Unamortized Premium, Net		88.3	104.7
Unamortized Debt Issuance Costs (Note 1)		(57.4) (54.7
))
Total Borrowings at Carrying Value		14,147.8	12,472.0
Less: Short-term Obligations and Current Maturities		2,515.9	1,051.8
Long-term Obligations		\$11,631.9	\$11,420.2

The effective interest rates for the fixed-rate debt include the stated interest on the notes, the accretion of any discount or amortization of any premium, the amortization of any debt issuance costs and, if applicable, adjustments related to hedging.

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

Credit Facilities

In July 2016, the company replaced its existing revolving credit facility with a new facility with a bank group that provides for up to \$2.50 billion of unsecured multi-currency revolving credit. The facility expires in July 2021. The agreement calls for interest at either a LIBOR-based rate, a EURIBOR-based rate (for funds drawn in Euro) or a rate based on the prime lending rate of the agent bank, at the company's option. The agreement contains affirmative, negative and financial covenants, and events of default customary for financings of this type. The financial covenants require the company to maintain a Consolidated Leverage Ratio of debt to EBITDA (as defined in the agreement) below 3.5 to 1.0 prior to the closing of the pending acquisition of FEI (Note 2) and an Interest Coverage Ratio of EBITDA (as defined in the agreement) to interest expense of 3.0 to 1.0. On and after the closing date of the acquisition of FEI, the company must maintain a Consolidated Leverage Ratio of debt to EBITDA below 4.5 to 1.0 for the first two consecutive quarters after the closing date of the acquisition, stepping down to 4.0 to

THERMO FISHER SCIENTIFIC INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

1.0 for the two immediately following fiscal quarters and then stepping down to 3.5 to 1.0 each fiscal quarter thereafter. The credit agreement permits the company to use the facility for working capital; acquisitions; repurchases of common stock, debentures and other securities; the refinancing of debt; and general corporate purposes. The credit agreement allows for the issuance of letters of credit, which reduces the amount available for borrowing. If the company borrows under this facility, 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 July 2, 2016, no borrowings were outstanding under the facility, although available capacity was reduced by approximately \$64 million as a result of outstanding letters of credit.

Term Loans and Bridge Financing

In connection with the planned acquisition of FEI, the company entered into a bridge credit agreement and a term loan agreement. The bridge credit agreement is a 364-day unsecured committed bridge facility in the principal amount of \$2.00 billion. The term loan agreement is a 3-year unsecured \$2.00 billion term loan facility. Borrowing under both agreements is conditioned on, among other things, the consummation of the acquisition of FEI. The agreements call for interest at either a LIBOR-based rate, a EURIBOR-based rate (for funds drawn under the term loan in Euro) 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 covenants are consistent with those in the revolving credit facility described above. The company expects to issue long-term debt to replace the bridge facility.

In the first quarter of 2016, in connection with the acquisition of Affymetrix, the company entered into a 364-day \$1.00 billion unsecured term loan agreement. The term loan agreement called 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 term loan agreement contains affirmative, negative and financial covenants, and events of default customary for financings of this type. The financial covenants require the company to maintain a Consolidated Leverage Ratio of debt to EBITDA (as defined in the agreement) below 3.5 to 1.0 and an Interest Coverage Ratio of EBITDA (as defined in the agreement) to interest expense of 3.0 to 1.0. As of July 2, 2016, \$625 million remained outstanding under the term loan agreement.

Borrowings may be prepaid without penalty. The company intends to use a portion of the proceeds from the debt issuance described in Note 15 to repay all of this term loan.

Senior Notes

Interest on the euro-denominated senior notes is payable annually. Interest on each of the other senior notes is payable semi-annually. Each of the notes may be redeemed 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.

In April 2016, the company issued \$1.00 billion principal amount of 3.00% Senior Notes due 2023 and used the proceeds to repay all of the 2.25% Senior Notes due 2016. Prior to issuing the 3.00% Senior Notes due 2023, the company had entered into an agreement to hedge its exposure related to the interest rate on the anticipated borrowings (described under the heading "Cash Flow Hedge Arrangements" in Note 12) that was terminated in April 2016. The company had a cash outlay of \$75 million early in the second quarter of 2016 associated with termination of the arrangement, included in other financing activities, net, in the accompanying statement of cash flows.

Interest Rate Swap Arrangements

In the first quarter of 2016, the company terminated certain of its fixed to floating rate swap arrangements. The terminated swaps were accounted for as fair value hedges. As a result of terminating these arrangements, the company received \$61 million (excluding accrued interest) in cash in the second quarter of 2016, included in other financing activities, net, in the accompanying statement of cash flows. The proceeds were recorded as part of the carrying value of the underlying debt and will be amortized as a reduction to interest expense over the remaining terms of the respective debt instruments. Subsequently, the company entered into new swap arrangements which are included in

the table below.

19

THERMO FISHER SCIENTIFIC INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The company has entered into LIBOR-based interest rate swap arrangements with various banks on several of its outstanding senior notes. The aggregate amounts of the swaps are equal to the principal amounts of the notes and the payment dates of the swaps coincide with the interest payment dates of the notes. The swap contracts provide for the company to pay a variable interest rate and receive a fixed rate. The variable interest rates reset monthly. The swaps have been accounted for as fair value hedges of the notes. See Note 12 for additional information. The following table summarizes the outstanding interest rate swap arrangements on the company's senior notes at July 2, 2016:

(Dollars in millions)	Aggregate Notional Amount	Pay Rate	Pay Rate as of July 2, 2016	Receive Rate
1.30% Senior Notes due 2017	\$ 900.0	1-month LIBOR + 0.6616%	1.1282	% 1.30 %
4.50% Senior Notes due 2021	1,000.0	1-month LIBOR + 3.4420%	3.9086	% 4.50 %
3.60% Senior Notes due 2021	1,100.0	1-month LIBOR + 2.5150%	2.9571	% 3.60 %
3.00% Senior Notes due 2023	1,000.0	1-month LIBOR + 1.7640%	2.2061	% 3.00 %

Note 10. Commitments and Contingencies

Environmental Matters

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 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. At July 2, 2016, the company's total environmental liability was approximately \$51 million. While management believes the accruals for environmental remediation are adequate based on current estimates of remediation costs, 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.

Litigation and Related Contingencies

There are various lawsuits and claims pending against the company including matters involving product liability, intellectual property, employment and commercial issues. The company determines the probability and range of possible loss based on the current status of each of these matters. A liability is recorded in the financial statements if it is believed to be probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The company establishes a liability that is an estimate of amounts expected to be paid in the future for events that have already occurred. 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 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. Accrual estimates are adjusted as additional information becomes known or payments are made. The amount of ultimate loss may differ from these estimates. Due to the inherent uncertainties associated with pending litigation or

claims, the company cannot predict the outcome, nor, with respect to certain pending litigation or claims where no liability has been accrued, make a meaningful estimate of the reasonably possible loss or range of loss that could result from an unfavorable outcome. The company has no material accruals for pending litigation or claims for which accrual amounts are not disclosed below or in the company's 2015 Annual Report on Form 10-K filed with the SEC, nor are material losses deemed probable for such matters. It is reasonably possible, however, that an unfavorable outcome that exceeds the company's current accrual estimate, if any, for one or more of the matters described below could have a material adverse effect on the company's results of operations, financial position and cash flows.

THERMO FISHER SCIENTIFIC INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Product Liability, Workers Compensation and Other Personal Injury Matters

For product liability, workers compensation and other personal injury matters, the company accrues the most likely amount or at least the minimum of the range of possible loss when a range of possible loss can be estimated. The company records estimated amounts due from insurers related to certain product liabilities as an asset. Although the company believes that the amounts accrued 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 payment history as well as the financial condition and ratings of its insurers on an ongoing basis.

Intellectual Property Matters

On July 13 and 15, 2015, 454 Life Sciences (a member of the Roche Group) filed complaints against Ion Torrent Systems, Inc., Life Technologies Corp., and Thermo Fisher Scientific Inc. in the United States District Court for the District of Delaware and in Germany. Plaintiff alleges infringement of patents relating to methods of analyzing nucleic acid sequences using emulsion amplification, which plaintiff alleges are impermissibly used in Ion Torrent sequencing workflows. Plaintiff seeks damages for alleged willful infringement, attorneys' fees and costs, and injunctive relief.

On June 6, 2004, Enzo Biochem, Enzo Life Sciences and Yale University filed a complaint against Life Technologies in United States District Court for the District of Connecticut. The plaintiffs allege patent infringement by Applera's labeled DNA terminator products used in DNA sequencing and fragment analysis. The plaintiff sought damages for alleged willful infringement, attorneys' fees, costs, prejudgment interest, and injunctive relief. In November 2012, the jury awarded damages of \$49 million. Prejudgment interest of \$12 million was also granted. The \$61 million judgment and interest was accrued by Life Technologies and the liability was assumed by the company as of the date of the acquisition. In March 2015 the United States Court of Appeals for the Federal Circuit vacated the judgment and returned the case to the District Court for further proceedings. In February 2016, the District Court granted the company's motion for summary judgment of non-infringement and entered judgment in its favor. Enzo appealed that decision to the Federal Circuit in March 2016. The company has maintained the \$61 million accrual, pending appeals.

On January 30, 2012, Enzo Life Sciences filed a complaint against Life Technologies in United States District Court for the District of Delaware. The plaintiff alleged patent infringement by Life Technologies' Taqman probes and assays, Dynabead oligo-dT beads, NCode oligonucleotide array products, Ion Torrent beads and chips and SOLiD beads and chips. The plaintiff sought damages for alleged willful infringement, attorneys' fees, costs, prejudgment interest and injunctive relief. In May 2016, the parties reached a settlement of this litigation pursuant to which the company paid \$35 million and Enzo released the company from past damages and granted a license to the asserted patent families on products sold by the company and its affiliates.

On May 26, 2010, Promega Corp. & Max-Planck-Gesellschaft Zur Forderung Der Wissenschaften EV filed a complaint against Life Technologies in the United States District Court for the Western District of Wisconsin. The plaintiffs allege patent infringement by sales and uses of Applied Biosystems' short tandem repeat DNA identification products outside the scope of a 2006 license agreement. The plaintiff sought damages for alleged willful infringement, attorneys' fees, costs, prejudgment interest, and injunctive relief. Although a jury initially found willful infringement and assessed damages at \$52 million, the District Court subsequently overturned the verdict on the grounds that the plaintiff had failed to prove infringement. The District Court entered judgment in favor of Life Technologies; and plaintiffs and Life Technologies filed cross-appeals with the United States Court of Appeals for the Federal Circuit. The \$52 million award was accrued by Life Technologies and the liability was assumed by the company as of the date of the acquisition. On December 15, 2014, the Court of Appeals issued a decision invalidating four of the plaintiffs' patents, but finding infringement by Life Technologies of the remaining fifth patent. The Court of Appeals also

ordered a new trial on damages in the District Court. Life Technologies' petition to the U.S. Supreme Court seeking review of the Court of Appeals' judgment was granted on June 27, 2016, and the case is stayed in the District Court pending the outcome of the Supreme Court's review. The company has maintained the \$52 million accrual, pending conclusion of this matter.

On December 27, 2011, Illumina Inc. filed a complaint against Life Technologies in the United States District Court for the Southern District of California alleging infringement of a patent relating to methods for making bead arrays by Ion Torrent's semiconductor sequencing systems. Plaintiff seeks damages for alleged willful infringement, attorneys' fees, costs, pre- and post-judgment interest, and injunctive relief.

THERMO FISHER SCIENTIFIC INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

On June 3, 2013, Unisone Strategic IP filed a complaint against Life Technologies in the United States District Court for the Southern District of California alleging patent infringement by Life Technologies' supply chain management system software, which operates with product "supply centers" installed at customer sites. Plaintiff seeks damages for alleged willful infringement, attorneys' fees, costs, and injunctive relief.

Commercial Matters

On May 5, 2015, and February 12, 2016, the Academy of Allergy & Asthma in Primary Care and United Biologics, LLC d/b/a United Allergy Services, a provider of on-site services to physicians in the delivery of testing and treatment of allergies, filed a complaint against Phadia U.S. Inc. (a subsidiary of the company) and Thermo Fisher Scientific Inc., respectively, in the United States District Court for the Western District of Texas. The plaintiffs allege various claims of anticompetitive activities in violation of antitrust laws, tortious interference with contracts and existing and prospective business relations, and civil conspiracy. On March 28, 2016, the company filed a counterclaim against United Biologics, LLC alleging tortious interference with business relations and seeking a declaratory judgment and injunctive relief. The plaintiffs seek damages, attorneys' fees, costs, and injunctive relief. A trial date has been set for October 24, 2016.

Note 11. Comprehensive Income and Shareholders' Equity

Comprehensive Income (Loss)

Comprehensive income (loss) 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. Changes in each component of accumulated other comprehensive items, net of tax are as follows:

(In millions)	Currency Translation Adjustment	Unrealized Gains on Available-for- Sale Investments	Unrealized Losses on Hedging Instruments	Pension and Other Postretirement Benefit Liability Adjustment	Total
Balance at December 31, 2015	\$(1,776.7)	\$ 1.8	\$ (26.6)	\$ (195.8)	\$(1,997.3)
Other comprehensive income (loss) before reclassifications	(50.8)	(1.5)	(36.6)	(1.1)	(90.0)
Amounts reclassified from accumulated other comprehensive items	—	—	2.5	2.7	5.2
Net other comprehensive items	(50.8)	(1.5)	(34.1)	1.6	(84.8)
Balance at July 2, 2016	\$(1,827.5)	\$ 0.3	\$ (60.7)	\$ (194.2)	\$(2,082.1)

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 2016. The company's financial assets and liabilities carried at fair value are primarily comprised of insurance contracts, investments in money market funds, derivative contracts, mutual funds holding publicly traded securities and other investments in unit trusts held as assets to satisfy outstanding deferred compensation and retirement liabilities; and acquisition-related contingent consideration.

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:

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

THERMO FISHER SCIENTIFIC INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 (Unaudited)

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 tables present information about the company's financial assets and liabilities measured at fair value on a recurring basis as of July 2, 2016 and December 31, 2015:

(In millions)	July 2, 2016	Quoted	Significant	Significant
		Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets				
Cash equivalents	\$67.7	\$ 67.7	\$ —	\$ —
Bank time deposits	2.0	2.0	—	—
Investments in mutual funds and other similar instruments	7.7	7.7	—	—
Warrants	1.2	—	1.2	—
Insurance contracts	112.3	—	112.3	—
Derivative contracts	48.9	—	48.9	—
Total Assets	\$239.8	\$ 77.4	\$ 162.4	\$ —
Liabilities				
Derivative contracts	\$71.7	\$ —	\$ 71.7	\$ —
Contingent consideration	1.0	—	—	1.0
Total Liabilities	\$72.7	\$ —	\$ 71.7	\$ 1.0
(In millions)	December 31, 2015	Quoted	Significant	Significant
		Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets				
Cash equivalents	\$ 54.6	\$ 54.6	\$ —	\$ —
Bank time deposits	2.0	2.0	—	—
Investments in mutual funds and other similar instruments	7.6	7.6	—	—
Warrants	3.4	—	3.4	—
Insurance contracts	108.1	—	108.1	—
Derivative contracts	13.8	—	13.8	—
Total Assets	\$ 189.5	\$ 64.2	\$ 125.3	\$ —

Liabilities

Derivative contracts	\$ 41.8	\$ —	\$ 41.8	\$ —
Contingent consideration	1.9	—	—	1.9

Total Liabilities \$ 43.7 \$ — \$ 41.8 \$ 1.9

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 interest rates and currency exchange rates. The company determines the fair value of acquisition-related contingent consideration based on assessment of the probability that the

THERMO FISHER SCIENTIFIC INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 (Unaudited)

company would be required to make such future payment. Changes to the fair value of contingent consideration are recorded in selling, general and administrative expense. The following table provides a rollforward of the fair value, as determined by level 3 inputs, of the contingent consideration.

	Three Months Ended		Six Months Ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
(In millions)				
Contingent Consideration				
Beginning Balance	\$1.4	\$21.0	\$1.9	\$29.6
Payments	—	—	(0.4)	(8.0)
Change in fair value included in earnings	(0.4)	—	(0.5)	(0.5)
Sale of a product line	—	(13.4)	—	(13.4)
Currency translation	—	—	—	(0.1)
Ending Balance	\$1.0	\$7.6	\$1.0	\$7.6

The notional amounts of derivative contracts outstanding, consisting of interest rate swaps and currency exchange contracts, totaled \$7.30 billion and \$6.63 billion at July 2, 2016 and December 31, 2015, respectively.

While certain derivatives are subject to netting arrangements with counterparties, the company does not offset derivative assets and liabilities within the consolidated balance sheet. The following tables present the fair value of derivative instruments in the consolidated balance sheet and statement of income.

	Fair Value – Assets		Fair Value – Liabilities	
	July 2, 2016	December 31, 2015	July 2, 2016	December 31, 2015
(In millions)				

Derivatives Designated as
 Hedging Instruments

Interest rate swaps (a) \$30.7 \$ 0.2 \$ –\$ 16.4

Derivatives Not Designated as
 Hedging Instruments

Currency exchange contracts (b) 18.2 13.6 71.25.4

(a) The fair value of the interest rate swaps is included in the consolidated balance sheet under the captions other assets or other long-term liabilities.

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

	Gain (Loss) Recognized			
	Three Months Ended		Six Months Ended	
(In millions)	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015

Derivatives Designated as Fair Value Hedges				
Interest rate swaps - effective portion	\$4.6	\$9.5	\$12.1	\$16.2
Interest rate swaps - ineffective portion (a)	0.5	(0.2)	0.5	(7.2)
Derivatives Not Designated as Hedging Instruments				
Currency exchange contracts				
Included in cost of revenues	\$(7.5)	\$4.1	\$(15.0)	\$17.5
Included in other expense, net	(20.7)	17.1	(44.1)	137.0

(a) The ineffective portion of the loss recognized on interest rate swaps during the six months ended June 27, 2015 includes \$7.5 million of costs associated with entering into the swap arrangements.

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

THERMO FISHER SCIENTIFIC INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

transactions. Gains and losses recognized on the ineffective portion of interest rate swaps are included in other expense, net in the accompanying statement of income.

The company also uses foreign currency-denominated debt to partially hedge its net investments in foreign operations against adverse movements in exchange rates. The company's euro-denominated senior notes have been designated as, and are effective as, economic hedges of part of the net investment in a foreign operation. Accordingly, foreign currency transaction gains or losses due to spot rate fluctuations on the euro-denominated debt instruments are included in currency translation adjustment within other comprehensive income and shareholders' equity. In the first six months of 2016 and 2015, pre-tax net (losses)/gains of \$(43) million and \$59 million, respectively, from the euro-denominated notes were included in currency translation adjustment.

Cash Flow Hedge Arrangements

In 2015, the company entered into interest rate swap arrangements to mitigate the risk of interest rates rising prior to completion of a debt offering in 2016. Based on the company's conclusion that a debt offering was probable as a result of debt maturing in 2016 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 \$1.00 billion of principal amount of the planned fixed-rate debt issue. The change in the fair value of the hedge during 2016, \$37 million, net of tax, was classified as a decrease to accumulated other comprehensive items within shareholders' equity. The hedge was terminated in advance of completing a debt offering in April 2016 (Note 9). The fair value of the hedge at that time, \$46 million, net of tax, was classified as a reduction to accumulated other comprehensive items and will be amortized to interest expense over the term of the debt.

Fair Value of Other Financial Instruments

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

(In millions)	July 2, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Notes Receivable	\$11.7	\$13.9	\$12.1	\$14.9
Debt Obligations:				
Senior notes	\$12,519.6	\$13,063.9	\$12,406.1	\$12,618.8
Term loan	624.6	625.0	—	—
Commercial paper	989.4	989.4	49.6	49.6
Other	14.2	14.2	16.3	16.3
	\$14,147.8	\$14,692.5	\$12,472.0	\$12,684.7

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.

THERMO FISHER SCIENTIFIC INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 (Unaudited)

Note 13. Supplemental Cash Flow Information

(In millions)	Six Months Ended	
	July 2, 2016	June 27, 2015
Non-cash Activities		
Fair value of assets of acquired businesses	\$ 1,672.7	\$ 305.1
Cash paid for acquired businesses	(1,110.1)	(298.7)
Liabilities assumed of acquired businesses	\$ 562.6	\$ 6.4
Declared but unpaid dividends	\$ 60.6	\$ 61.2
Issuance of stock upon vesting of restricted stock units	\$ 48.7	\$ 79.7

Note 14. Restructuring and Other Costs, Net

Restructuring and other costs in the first six months of 2016 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; third-party acquisition transaction and integration costs primarily associated with the acquisition of Affymetrix; sales of inventories revalued at the date of acquisition; and synergy costs related to acquisitions, including severance and abandoned facility costs. These charges were partially offset by net gains on settlement of litigation and gains on sales of real estate. In the first six months of 2016, severance actions associated with facility consolidations and cost reduction measures affected approximately 1% of the company's workforce.

As of August 5, 2016, the company has identified restructuring actions that will result in additional charges of approximately \$40 million, primarily in 2016 which will be recorded when specified criteria are met, such as communication of benefit arrangements and abandonment of leased facilities.

Second Quarter of 2016

During the second quarter of 2016, the company recorded net restructuring and other costs by segment as follows:

(In millions)	Cost of Revenues	Selling, General and Administrative Expenses	Restructuring and Other Costs, Net	Total
Life Sciences Solutions	\$ 15.7	\$ (0.1)	\$ 18.4	\$ 34.0
Analytical Instruments	—	1.8	5.4	7.2
Specialty Diagnostics	—	—	(0.5)	(0.5)
Laboratory Products and Services	1.7	0.1	11.9	13.7
Corporate	—	2.0	0.2	2.2
	\$ 17.4	\$ 3.8	\$ 35.4	\$ 56.6

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

Life Sciences Solutions

In the second quarter of 2016, the Life Sciences Solutions segment recorded \$34.0 million of net restructuring and other charges. The segment recorded charges to cost of revenues of \$15.7 million primarily for sales of inventories

revalued at the date of acquisition. The segment also recorded \$0.1 million of income to selling, general and administrative expenses, including \$1.8 million of credits from contingent acquisition consideration, largely offset by \$1.4 million of third-party transaction and integration costs related to the acquisition of Affymetrix and \$0.3 million of accelerated depreciation at facilities closing due to real estate consolidation. In addition, the segment recorded \$18.4 million of restructuring and other costs, net, \$10.8 million of

26

THERMO FISHER SCIENTIFIC INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

which were cash costs, primarily associated with headcount reductions and related synergy actions in the U.S. The segment also recorded \$7.8 million of charges for litigation-related matters at acquired businesses.

Analytical Instruments

In the second quarter of 2016, the Analytical Instruments segment recorded \$7.2 million of net restructuring and other charges. The segment recorded \$1.8 million of charges to selling, general, and administrative expense primarily for third-party transaction costs related to the pending acquisition of FEI (Note 2). The segment also recorded \$5.4 million of cash restructuring costs primarily associated with headcount reductions and facility consolidations in the U.S. and Europe.

Specialty Diagnostics

In the second quarter of 2016, the Specialty Diagnostics segment recorded \$0.5 million of net restructuring and other income, including \$1.7 million of gains on the sale of real estate, offset in part by cash costs of \$1.2 million for severance and related costs associated with headcount reductions.

Laboratory Products and Services

In the second quarter of 2016, the Laboratory Products and Services segment recorded \$13.7 million of net restructuring and other charges. The segment recorded charges to cost of revenues of \$1.7 million for accelerated depreciation at facilities closing due to real estate consolidation, as well as \$5.1 million of cash restructuring costs, primarily for employee severance and other costs associated with headcount reductions and facility consolidations in the U.S. In addition, the segment recorded \$6.8 million of charges for an increase in environmental remediation cost estimates associated with a Superfund site in the U.S.

Corporate

In the second quarter of 2016, the company recorded \$2.2 million of restructuring and other costs, including \$2.0 million of selling, general, and administrative charges associated with accelerated depreciation on information systems to be abandoned due to acquisition synergies, and \$0.6 million of cash restructuring costs for severance at its corporate operations. These charges were offset in part by \$0.4 million of income from the settlement of a retirement plan.

First Six Months of 2016

During the first six months of 2016, the company recorded net restructuring and other costs by segment as follows:

(In millions)	Cost of Revenues	Selling, General and Administrative Expenses	Restructuring and Other Costs, Net	Total
Life Sciences Solutions	\$ 20.1	\$ 26.4	\$ 47.2	\$93.7
Analytical Instruments	—	1.8	24.5	26.3
Specialty Diagnostics	—	—	(0.1)	(0.1)
Laboratory Products and Services	7.9	0.5	13.9	22.3
Corporate	—	4.0	0.5	4.5
	\$ 28.0	\$ 32.7	\$ 86.0	\$146.7

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

Life Sciences Solutions

In the first six months of 2016, the Life Sciences Solutions segment recorded \$93.7 million of net restructuring and other charges. The segment recorded charges to cost of revenues of \$20.1 million, including \$16.2 million for the sales of inventories revalued at the date of acquisition and \$3.9 million to conform the accounting policies of Affymetrix with the company's accounting policies. The segment also recorded \$26.4 million of charges to selling, general and administrative expenses, including \$25.0 million of third-party transaction and integration costs related to

the acquisition of Affymetrix and \$3.3 million for accelerated depreciation at facilities closing due to real estate consolidation, which were offset in part by credits of \$1.9 million from contingent acquisition consideration. In addition, the segment recorded \$52.2 million of cash restructuring costs, including \$34.7 million of severance and related costs primarily associated with acquisition synergies, and \$17.5 million of

THERMO FISHER SCIENTIFIC INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

abandoned facilities costs principally for the consolidation of facilities in the U.S. These costs were offset in part by \$4.2 million of net gains on litigation-related matters at acquired businesses and \$0.8 million of other non-cash income, net.

Analytical Instruments

In the first six months of 2016, the Analytical Instruments segment recorded \$26.3 million of net restructuring and other charges, including \$1.8 million of charges to selling, general, and administrative expense, primarily for third-party transaction costs related to the pending acquisition of FEI. The segment also recorded \$27.2 million of cash restructuring costs primarily associated with abandoned facilities, including remediation and other closure costs of a manufacturing facility in the U.S. These costs were offset in part by \$2.7 million of gains on the sale of real estate.

Specialty Diagnostics

In the first six months of 2016, the Specialty Diagnostics segment recorded \$0.1 million of net restructuring and other income, including \$2.4 million of other income primarily due to gains on the sale of real estate. These gains were largely offset by cash restructuring costs of \$2.3 million, principally for severance and other costs associated with headcount reductions and facility consolidations.

Laboratory Products and Services

In the first six months of 2016, the Laboratory Products and Services segment recorded \$22.3 million of net restructuring and other charges. The segment recorded charges to cost of revenues of \$7.9 million, including \$6.2 million for sales of inventories revalued at the date of acquisition, and \$1.7 million for accelerated depreciation at facilities closing due to real estate consolidation. The segment also recorded \$0.5 million of charges to selling, general and administrative expenses for accelerated depreciation at facilities closing due to real estate consolidation. The segment recorded \$7.9 million of cash restructuring costs, primarily for employee severance and other costs associated with headcount reductions and facility consolidations. The segment also recorded \$6.8 million of charges for an increase in environmental remediation cost estimates associated with a Superfund site in the U.S., offset in part by \$1.3 million of gains on the settlement of litigation.

Corporate

In the first six months of 2016, the company recorded \$4.5 million of restructuring and other costs, including \$4.0 million of selling, general, and administrative charges associated with accelerated depreciation on information systems to be abandoned due to acquisition synergies, and \$0.9 million of cash restructuring costs for severance at its corporate operations. These charges were offset in part by \$0.4 million of income from the settlement of a retirement plan.

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.

(In millions)	Severance	Abandonment of Excess Facilities	Other (a)	Total
Balance at December 31, 2015	\$ 15.2	\$ 13.1	\$ 3.0	\$ 31.3
Costs incurred in 2016 (c)	47.9	36.8	6.8	91.5
Reserves reversed (b)	(0.7)	(0.2)	(0.1)	(1.0)
Payments	(24.1)	(11.7)	(7.2)	(43.0)
Currency translation	0.1	—	—	0.1
Balance at July 2, 2016	\$ 38.4	\$ 38.0	\$ 2.5	\$ 78.9

Other includes relocation and moving expenses associated with facility consolidations, as well as employee (a) 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 \$4.5 million of income, net, primarily associated with environmental and litigation-related matters and sales of real estate.

The company expects to pay accrued restructuring costs as follows: severance, employee-retention obligations and other costs, primarily through 2016; and abandoned-facility payments, over lease terms expiring through 2027.

THERMO FISHER SCIENTIFIC INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note 15. Subsequent Event

On August 2, 2016, the company agreed to issue €600 million aggregate principal amount of Floating Rate Senior Notes due 2018. The company expects to issue the notes on August 9, 2016. The company intends to use a portion of the net proceeds to repay all of the remaining balance under its 364-day term loan (Note 9).

THERMO FISHER SCIENTIFIC INC.

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

Forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934 are made throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "seeks," "estimates," and similar expressions are intended to identify forward-looking statements. While the company may elect to update forward-looking statements in the future, it specifically disclaims any obligation to do so, even if the company's estimates change, and readers should not rely on those forward-looking statements as representing the company's views as of any date subsequent to the date of the filing of this Quarterly Report.

A number of important factors could cause the results of the company to differ materially from those indicated by such forward-looking statements, including those detailed under the heading "Risk Factors" in Part II, Item 1A of this report on Form 10-Q.

Overview

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 four business segments (see Note 3): Life Sciences Solutions, Analytical Instruments, Specialty Diagnostics and Laboratory Products and Services.

Recent Acquisitions

The company's strategy is to augment internal growth at existing businesses with complementary acquisitions. The company's principal recent acquisitions and divestitures are described below.

On February 4, 2015, the company acquired Advanced Scientifics, Inc., a North America-based global provider of single-use technologies for customized bioprocessing solutions, for approximately \$289 million. Advanced Scientifics was integrated into the Life Sciences Solutions segment and expands the company's bioprocessing offerings. Revenues of Advanced Scientifics were approximately \$80 million in 2014.

On September 30, 2015, the company acquired, within the Laboratory Products and Services segment, Alfa Aesar, a U.K.-based global manufacturer of research chemicals from Johnson Matthey Plc, for £257 million (\$392 million) in cash. The acquisition expands the company's existing portfolio of chemicals, solvents and reagents. Revenues of Alfa Aesar were approximately £78 million in 2014.

On March 31, 2016, the company acquired, within the Life Sciences Solutions segment, Affymetrix, Inc., a North America-based provider of cellular and genetic analysis products, for a total purchase price of \$1.34 billion, net of cash acquired, including the assumption of \$254 million of debt. The acquisition expands the company's existing portfolio of antibodies and assays for flow cytometry and single-cell biology applications. Revenues of Affymetrix were \$360 million in 2015.

In May 2016, the company signed an agreement to acquire, within the Analytical Instruments segment, FEI Company, a North America-based provider of high-performance electron microscopy, for approximately \$4.2 billion in cash. The acquisition will strengthen the company's analytical instrument portfolio with the addition of high-end electron microscopes. Revenues of FEI were \$930 million in 2015. The transaction, which is expected to close by the end of 2016, is subject to the approval of the FEI shareholders and the satisfaction of customary closing conditions, including applicable regulatory approvals. The company has committed debt financing for the acquisition (Note 9) although it intends to replace part of the committed financing with long-term debt prior to completing the acquisition and to use such borrowings and cash on hand to fund the transaction.

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

Overview of Results of Operations and Liquidity

(Dollars in millions)	Three Months Ended		Six Months Ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
Revenues				
Life Sciences Solutions	\$1,277.6	28.2 %	\$1,129.3	26.4 %
Analytical Instruments	793.9	17.5 %	777.0	18.2 %
Specialty Diagnostics	851.3	18.8 %	817.1	19.1 %
Laboratory Products and Services	1,802.2	39.7 %	1,693.3	39.6 %
Eliminations	(189.8)	(4.2)%	(145.8)	(3.3)%
	\$4,535.2	100 %	\$4,270.9	100 %

Sales in the second quarter of 2016 were \$4.54 billion, an increase of \$264 million from 2015. Sales increased \$108 million due to acquisitions, net of divestitures. The unfavorable effects of currency translation resulted in a decrease in revenues of \$16 million in the second quarter of 2016. Aside from the effects of acquisitions, divestitures and currency translation, revenues increased \$173 million (4%) primarily due to increased demand in the fiscal quarter compared to the 2015 quarter. Sales to customers in the company's primary end markets grew. Demand from customers in pharmaceutical and biotech industries was particularly strong. Sales growth was modest in North America, moderate in Europe and strong in Asia.

In the second quarter of 2016, total company operating income and operating income margin were \$638 million and 14.1%, respectively, compared with \$596 million and 14.0%, respectively, in 2015. The increase in operating income was primarily due to productivity improvements, net of inflationary cost increases and profit on higher sales in local currencies. These increases were offset in part by strategic growth investments, unfavorable sales mix and higher restructuring and acquisition-related costs. The company's references throughout this discussion to productivity improvements generally refer to improved cost efficiencies from its Practical Process Improvement (PPI) business system, reduced costs resulting from global sourcing initiatives, a lower cost structure following restructuring actions, including headcount reductions and consolidation of facilities, and low cost region manufacturing.

The company's effective tax rate was 0.8% in the second quarter of 2016. In 2016, the company implemented tax planning initiatives related to non-U.S. subsidiaries. These non-U.S. subsidiaries incurred foreign tax obligations, and made cash and deemed distributions to the company's U.S. operations which resulted in no net tax cost. As a result of these distributions, the company benefitted from U.S. foreign tax credits of \$68 million, offset in part by additional U.S. taxes of \$24 million on the related foreign income (which reduced the benefit from the foreign rate differential in the second quarter of 2016). The net benefit (\$44 million) was a discrete item that reduced the company's effective rate by 8.4 percentage points in the second quarter of 2016. The foreign tax credits are the result of foreign earnings remitted or deemed remitted to the U.S. during the reporting year and the U.S. treatment of taxes paid in the foreign jurisdictions in the years those profits were originally earned. The company intends to make similar types of distributions from non-U.S. subsidiaries in 2016 when they can be made at no net tax cost. The ability of the company to make distributions in future periods of similar type and magnitude will depend on the level of earnings and cash flow in various foreign jurisdictions and on the applicable tax laws in effect at that time. Accordingly, the impact of foreign tax credits on the company's effective tax rate in future periods is likely to vary. The company expects its effective tax rate for all of 2016 will be between 2% and 4% based on currently forecasted rates of profitability in the countries in which the company conducts business. Due primarily to the non-deductibility of intangible asset amortization for tax purposes, the company's cash payments for income taxes are higher than its income tax expense for financial reporting purposes and are expected to total \$625 to \$675 million in 2016. The company recorded a benefit from income taxes in the second quarter of 2015. In the second quarter of 2015, the company implemented tax

planning initiatives related to non-U.S. subsidiaries. These initiatives resulted in additional foreign tax credits of \$46 million, offset in part by additional U.S. income taxes of \$16 million on the related foreign income (which reduced the benefit from the foreign rate differential in 2015). The net benefit (\$30 million) was a discrete item that reduced the company's effective rate by 6.0 percentage points in the second quarter of 2015. The tax provision in the second quarter of 2015 was favorably affected by \$15 million, or 3.0 percentage points, as a result of adjustments to deferred tax balances due to changes in tax rates. The effective rate in both periods was also affected by relatively significant earnings in lower tax jurisdictions.

Income from continuing operations increased to \$517 million in the second quarter of 2016, from \$512 million in the second quarter of 2015. The increase in operating income in the 2016 period (discussed above) was substantially offset by i)

THERMO FISHER SCIENTIFIC INC.

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

Overview of Results of Operations and Liquidity (continued)

charges related to obtaining bridge financing for the pending acquisition of FEI and early extinguishment of debt, ii) an increase in interest expense due to increases in outstanding debt and effective interest rates and iii) an increase in the income tax provision in the 2016 period (discussed above).

During the first six months of 2016, the company's cash flow from operations totaled \$1.18 billion compared with \$845 million for 2015. The increase primarily resulted from lower investments in working capital in the 2016 period. As of July 2, 2016, the company's short-term debt totaled \$2.52 billion, including \$0.90 billion of senior notes, due in February 2017, \$0.63 billion outstanding under a 364-day term loan agreement and \$0.99 billion of commercial paper obligations. The company has a revolving credit facility with a bank group that provides up to \$2.50 billion of unsecured multi-currency revolving credit. If the company borrows under this facility, 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 July 2, 2016, no borrowings were outstanding under the company's revolving credit facility, although available capacity was reduced by approximately \$64 million as a result of outstanding letters of credit. The company has committed financing to fund the planned acquisition of FEI, however it intends to issue long-term debt to replace the \$2.00 billion committed bridge financing prior to completing the acquisition.

On August 2, 2016, the company agreed to issue €600 million aggregate principal amount of Floating Rate Senior Notes due 2018. The company expects to issue the notes on August 9, 2016. The company intends to use a portion of the net proceeds to repay all of the remaining balance under its 364-day term loan (Note 9).

The company believes that its existing cash and cash equivalents of \$663 million as of July 2, 2016 and its future cash flow from operations together with available borrowing capacity under its revolving credit agreement and the committed financing for the acquisition of FEI will be sufficient to meet the cash requirements of its existing businesses for the foreseeable future, including at least the next 24 months.

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, sales returns, income taxes, contingencies and litigation, and pension costs. 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. Management's Discussion and Analysis and Note 1 to the Consolidated Financial Statements of the company's Form 10-K for 2015, describe the significant accounting estimates and policies used in preparation of the consolidated financial statements. There have been no significant changes in the company's critical accounting policies during the first six months of 2016.

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

Results of Operations

Second Quarter 2016 Compared With Second Quarter 2015

Three Months

Ended

(In millions) July 2, June 27, Total Currency Acquisitions/
2016 2015 Change Translation Divestitures Operations