THERMO FISHER SCIENTIFIC INC.
Form 10-Q
August 09, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(mark one)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarter Ended June 30, 2007

o 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, P.O. Box 9046	
Waltham, Massachusetts	02454-9046
(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 x No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. Large Accelerated Filer x Accelerated Filer o Non-Accelerated Filer 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 x

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 June 30, 2007
Common Stock, $1.00 par value	426,580,049

PART I — FINANCIAL INFORMATION

Item 1 — Financial Statements

THERMO FISHER SCIENTIFIC INC.

Consolidated Balance Sheet

Assets

(In millions)	June 30, 2007	December 31, 2006
	(Unaudited)	
Current Assets:		
Cash and cash equivalents	$ 951.2	$ 667.4
Short-term investments, at quoted market value (amortized cost of $25.7 and $23.8)	22.7	23.8
Accounts receivable, less allowances of $49.8 and $45.0	1,422.5	1,392.7
Inventories:		
Raw materials	318.8	307.7
Work in process	132.6	121.7
Finished goods	731.8	735.1
Deferred tax assets	194.5	209.2
Other current assets	233.0	201.9
	4,007.1	3,659.5
Property, Plant and Equipment, at Cost	1,585.4	1,533.0
Less: Accumulated depreciation and amortization	356.9	276.3
	1,228.5	1,256.7
Acquisition-related Intangible Assets, net of Accumulated Amortization of $577.1 and $276.4	7,208.0	7,511.6
Other Assets	276.9	309.4
Goodwill	8,551.6	8,525.0
	$ 21,272.1	$ 21,262.2

THERMO FISHER SCIENTIFIC INC.

Consolidated Balance Sheet (continued)

Liabilities and Shareholders' Equity

(In millions except share amounts)	June 30, 2007	December 31, 2006
	(Unaudited)	
Current Liabilities:		
Short-term obligations and current maturities of long-term obligations	$ 24.8	$ 483.3
Accounts payable	622.3	630.8
Accrued payroll and employee benefits	215.7	253.3
Accrued income taxes	66.1	60.3
Deferred revenue	139.9	121.3
Other accrued expenses (Notes 2, 10 and 11)	534.2	603.3
	1,603.0	2,152.3
Deferred Income Taxes	2,445.4	2,557.5
Other Long-term Liabilities	514.2	459.9
Long-term Obligations (Note 9)	2,177.7	2,180.7
Shareholders' Equity:		
Preferred stock, $100 par value, 50,000 shares authorized; none issued		
Common stock, $1 par value, 1,200,000,000 shares authorized; 434,228,110 and 424,240,292 shares issued	434.2	424.2
Capital in excess of par value	12,056.2	11,810.4
Retained earnings	2,076.2	1,773.4
Treasury stock at cost, 7,648,061 and 7,635,184 shares	(254.5)	(246.4)
Accumulated other comprehensive items (Note 6)	219.7	150.2
	14,531.8	13,911.8
	$ 21,272.1	$ 21,262.2

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

THERMO FISHER SCIENTIFIC INC.

Consolidated Statement of Income
(Unaudited)

(In millions except per share amounts)	Three Months Ended June 30, 2007		July 1, 2006	
Revenues	$	2,385.9	$	713.5
Costs and Operating Expenses:				
Cost of revenues		1,449.3		388.9
Selling, general and administrative expenses		626.6		206.9
Research and development expenses		58.7		40.7
Restructuring and other costs, net (Note 11)		8.3		4.8
		2,142.9		641.3
Operating Income		243.0		72.2
Other Expense, Net (Note 4)		(20.7)		(3.4)
Income from Continuing Operations Before Provision for Income Taxes		222.3		68.8
Provision for Income Taxes		(34.4)		(19.8)
Income from Continuing Operations		187.9		49.0
Loss on Disposal of Discontinued Operations (includes income tax provision of $1.8 in 2007 and income tax benefit of $0.6 in 2006; Note 14)		(24.0)		(1.1)
Net Income	$	163.9	$	47.9
Earnings per Share from Continuing Operations (Note 5):				
Basic	$	.44	$	.30
Diluted	$	.42	$	.30
Earnings per Share (Note 5):				
Basic	$	.39	$	.30
Diluted	$	.37	$	.29
Weighted Average Shares (Note 5):				
Basic		424.0		161.3
Diluted		446.5		165.5

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

THERMO FISHER SCIENTIFIC INC.

Consolidated Statement of Income
(Unaudited)

(In millions except per share amounts)	Six Months Ended June 30, 2007	July 1, 2006
Revenues	$ 4,724.1	$ 1,397.8
Costs and Operating Expenses:		
Cost of revenues	2,907.6	760.6
Selling, general and administrative expenses	1,246.9	409.4
Research and development expenses	118.5	79.4
Restructuring and other costs, net (Note 11)	15.7	8.4
	4,288.7	1,257.8
Operating Income	435.4	140.0
Other Expense, Net (Note 4)	(47.4)	(7.1)
Income from Continuing Operations Before Provision for Income Taxes	388.0	132.9
Provision for Income Taxes	(61.3)	(40.3)
Income from Continuing Operations	326.7	92.6
Income from Discontinued Operations (net of income tax provision of $0.1 in 2007; Note 14)	0.1	—
(Loss) Gain on Disposal of Discontinued Operations (includes income tax provision of $1.8 and $1.3; Note 14)	(24.0)	2.2
Net Income	$ 302.8	$ 94.8
Earnings per Share from Continuing Operations (Note 5):		
Basic	$ .77	$ .57
Diluted	$ .74	$ .56
Earnings per Share (Note 5):		
Basic	$ .72	$ .58
Diluted	$ .68	$ .57
Weighted Average Shares (Note 5):		
Basic	422.0	162.2
Diluted	443.8	166.3

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 June 30, 2007	July 1, 2006
Operating Activities:		
Net income	$ 302.8	$ 94.8
Income from discontinued operations	(0.1)	—
Loss (Gain) on disposal of discontinued operations	24.0	(2.2)
Income from continuing operations	326.7	92.6
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	372.4	76.4
Change in deferred income taxes	(10.3)	(10.7)
Noncash equity compensation	26.1	13.0
Noncash charges for sale of inventories revalued at the date of acquisition	47.6	—
Other noncash expenses, net	18.8	0.2
Changes in current accounts, excluding the effects of acquisitions and dispositions:		
Accounts receivable	(41.7)	36.6
Inventories	(57.8)	(28.4)
Other current assets	(25.6)	(3.8)
Accounts payable	(17.2)	(11.7)
Other current liabilities	(82.6)	(64.5)
Net cash provided by continuing operations	556.4	99.7
Net cash used in discontinued operations	(2.3)	(1.5)
Net cash provided by operating activities	554.1	98.2
Investing Activities:		
Acquisitions, net of cash acquired	(39.1)	(26.6)
Refund of acquisition purchase price	4.6	—
Proceeds from sale of available-for-sale investments	1.7	151.0
Purchases of available-for-sale investments	(1.8)	(77.9)
Purchases of property, plant and equipment	(71.8)	(21.8)
Proceeds from sale of property, plant and equipment	14.1	2.1
Proceeds from sale of product lines	—	8.9
Collection of notes receivable	48.2	2.8
Increase in other assets	(18.3)	(8.1)
Net cash (used in) provided by continuing operations	(62.4)	30.4
Net cash provided by discontinued operations	28.8	5.3

Net cash (used in) provided by investing activities	$	(33.6)	$	35.7

THERMO FISHER SCIENTIFIC INC.

Consolidated Statement of Cash Flows (continued)
(Unaudited)

(In millions)	Six Months Ended June 30, 2007	July 1, 2006
Financing Activities:		
(Decrease) increase in short-term notes payable	$ (452.5)	$ 36.6
Purchases of company common stock	—	(228.0)
Net proceeds from issuance of company common stock	223.6	22.1
Tax benefits from exercised stock options	17.0	5.6
Redemption and repayment of long-term obligations	(8.7)	—
Net cash used in financing activities	(220.6)	(163.7)
Exchange Rate Effect on Cash of Continuing Operations	(16.1)	5.2
Increase (Decrease) in Cash and Cash Equivalents	283.8	(24.6)
Cash and Cash Equivalents at Beginning of Period	667.4	214.3
Cash and Cash Equivalents at End of Period	$ 951.2	$ 189.7
Supplemental Cash Flow Information:		
Fair value of assets of acquired businesses	$ 39.8	$ 36.1
Cash paid for acquired businesses	(30.8)	(26.6)
Liabilities assumed of acquired businesses	$ 9.0	$ 9.5
Conversion of subordinated convertible debentures	$ 0.4	$ —
Issuance of restricted stock	$ 11.9	$ 0.9

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

THERMO FISHER SCIENTIFIC INC.

Notes to Consolidated Financial Statements
(Unaudited)

1. General

The interim consolidated financial statements presented herein have been prepared by Thermo Fisher Scientific Inc. (the company or Thermo Fisher), 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 June 30, 2007, the results of operations for the three- and six-month periods ended June 30, 2007, and July 1, 2006, and the cash flows for the six-month periods ended June 30, 2007, and July 1, 2006. Certain prior-period amounts have been reclassified to conform to the presentation in the current financial statements. Interim results are not necessarily indicative of results for a full year.

The consolidated balance sheet presented as of December 31, 2006, has been derived from the audited consolidated financial statements as of that date. The consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain all of the information that is included in the annual financial statements and notes of the company. The consolidated financial statements and notes included in this report should be read in conjunction with the financial statements and notes included in the company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2006, filed with the Securities and Exchange Commission (SEC).

2. Acquisitions

On January 15, 2007, the company’s Analytical Technologies segment acquired the Spectronex AG and Flux AG businesses (Spectronex/Flux) of Swiss Analytic Group AG. These Switzerland-based businesses include a distributor of mass spectrometry, chromatography and surface science instruments and a manufacturer of high performance liquid chromatography pumps and software. The purchase price totaled $24 million, net of cash acquired. The acquisition broadened the segment’s mass spectrometry offerings. Revenues of Spectronex/Flux totaled $22 million in fiscal 2006. The purchase price exceeded the fair value of the acquired net assets and, accordingly, $9 million was allocated to goodwill, none of which is tax deductible.

In addition to the acquisition of Spectronex/Flux, the Analytical Technologies segment acquired a small manufacturer of electrostatic discharge products and the Laboratory Products and Services segment acquired a cell culture product line in the first six months of 2007, for aggregate consideration of $7 million. The company also paid transaction costs and post-closing and contingent purchase price adjustments aggregating $8 million in the first half of 2007, for various acquisitions completed prior to 2007. The company obtained a refund of $5 million in the first quarter of 2007, related to a post-closing adjustment for the 2006 acquisition of GV Instruments Limited (GVI).

The company’s acquisitions have historically been made at prices above the fair value of the acquired assets, resulting in goodwill, due to expectations of synergies of combining the businesses. These synergies include elimination of duplicative facilities, functions and staffing; use of the company’s existing infrastructure such as sales force, distribution channels and customer relations to expand sales of the acquired businesses’ products; and use of the infrastructure of the acquired businesses to cost effectively expand sales of company products.

These 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. Allocation of the purchase price for acquisitions was based on estimates of the fair value of the net assets acquired and, for acquisitions completed within the past year, is subject to adjustment upon finalization of the purchase price allocation. The company is not aware of any information that indicates the final purchase price allocations will differ materially from the preliminary estimates.

THERMO FISHER SCIENTIFIC INC.

2. Acquisitions (continued)

The components of the preliminary purchase price allocation for 2007 acquisitions are as follows:

(In millions)	Spectronex/Flux	Other	Total
Purchase Price:			
Cash paid (a)	$ 25.8	$ 6.8	$ 32.6
Cash acquired	(1.8)	—	(1.8)
	$ 24.0	$ 6.8	$ 30.8
Allocation:			
Current assets	$ 8.1	$ 1.8	$ 9.9
Property, plant and equipment	0.4	0.3	0.7
Acquired intangible assets	14.8	3.4	18.2
Goodwill	9.1	1.9	11.0
Liabilities assumed	(8.4)	(0.6)	(9.0)
	$ 24.0	$ 6.8	$ 30.8

(a) Includes transaction costs.

Acquired intangible assets for 2007 acquisitions are as follows:

(In millions)	Spectronex/Flux	Other	Total
Customer Relationships	$ 12.9	$ 1.5	$ 14.4
Product Technology	1.5	1.9	3.4
Tradenames	0.4	—	0.4
	$ 14.8	$ 3.4	$ 18.2

The weighted-average amortization periods for the customer relationships, product technology and tradenames acquired in 2007 are 6 years each.

THERMO FISHER SCIENTIFIC INC.

2. Acquisitions (continued)

During the first quarter of 2007, the company refined estimates recorded in the fourth quarter of 2006 of acquisition-related intangible assets related to the November 2006 merger with Fisher Scientific International Inc. and the December 2006 acquisition of Cohesive Technologies Inc. and finalized the determination of such intangible assets. The purchase price allocations for Fisher and Cohesive, as revised, are as follows:

(In millions)	Fisher	Cohesive
Fair Value of Common Stock Issued to Fisher Shareholders	$ 9,777.8	$ —
Fair Value of Fisher Stock Options and Warrants Converted into Options in Company Common Stock	502.3	—
Debt Assumed	2,284.7	—
Cash Paid Including Transaction Costs	39.0	71.3
Cash Acquired	(392.0)	(0.3)
	$ 12,211.8	$ 71.0
Allocation:		
Current assets	$ 1,914.3	$ 5.6
Property, plant and equipment	944.8	1.0
Acquired intangible assets	7,082.0	37.0
Goodwill	6,552.4	32.9
Other assets	333.2	—
Liabilities assumed	(4,068.1)	(5.5)
Fair value of convertible debt allocable to equity	(546.8)	—
	$ 12,211.8	$ 71.0

The acquired intangible assets from the merger with Fisher and the acquisition of Cohesive are as follows:

(In millions)	Fisher	Cohesive
Indefinite Lives:		
Trademarks	$ 1,326.9	$ —
Definite Lives:		
Customer relationships	4,275.3	19.0
Product technology	844.8	14.6
Tradenames	635.0	3.4
	$ 7,082.0	$ 37.0

The weighted-average amortization periods for intangible assets with definite lives are: 14 years for customer relationships, 9 years for product technology and 10 years for tradenames. The weighted-average amortization period for all intangible assets with definite lives in the above table is 13 years.

The company will finalize the purchase price allocation for Fisher no later than one year from the date of merger. The company does not expect the purchase price allocation will change materially, however, certain restructuring actions (Note 11) are being finalized and additional information is being sought concerning several matters including pre-acquisition litigation claims. The resolution of these matters could result in changes to the purchase price allocation.

THERMO FISHER SCIENTIFIC INC.

2. Acquisitions (continued)

In November 2006, the company merged with Fisher. Had the merger with Fisher been completed as of the beginning of 2006, the company's pro forma results for 2006 would have been as follows:

(In millions except per share amounts)	Three Months Ended July 1, 2006 (a)	Six Months Ended July 1, 2006 (b)
Revenues	$ 2,188.7	$ 4,285.1
Net Income	$ 99.4	$ 93.1
Earnings per Share from Continuing Operations:		
Basic	$ .24	$ .22
Diluted	$ .23	$ .21
Earnings Per Share:		
Basic	$ .24	$ .23
Diluted	$ .23	$ .22

(a) Includes $17 million pre-tax charge to cost of revenues for sale of Fisher inventories revalued at the date of merger.
(b) Includes $114 million pre-tax charge to cost of revenues for the sale of Fisher inventories revalued at the date of merger, $15 million pre-tax charge for Fisher's in-process research and development and $37 million pre-tax charge for accelerated vesting of equity-based awards resulting from the change in control occurring at the date of the Fisher merger.

The company's results for 2006 would not have been materially different from its reported results had the company's other 2006 and 2007 acquisitions occurred at the beginning of 2006.

The Audit Committee of the company's Board of Directors has completed a voluntary investigation of the historical stock option granting practices and related accounting treatment at Fisher. The Audit Committee engaged independent outside legal counsel and accounting consultants to assist it in conducting the investigation. The investigation covered option grants made to all Fisher employees, executives and directors during the period from January 1998 to May 2006, and included a review of Fisher's stock option granting practices, accounting policies, related accounting records and other documentation, as well as interviews with people knowledgeable about Fisher's stock options. The Audit Committee concluded that during portions of this period Fisher followed practices that led to the setting of grant dates retrospectively for certain stock options granted to employees and executives, primarily new hires who received an exercise price set at the lowest closing price in a window, typically of up to 30 trading days prior to the date the grant was approved. In addition, certain grant dates, although not set retrospectively, were not sufficiently supported by documentation. Although the Audit Committee's investigation resulted in the company revising the measurement date of certain Fisher stock options for financial accounting purposes, no adjustments are required to the company's reported compensation expense or to the retained earnings balance on the company's balance sheet as a result of prior stock option grants made at Fisher due to purchase accounting treatment of the company's acquisition of Fisher. The company concluded that the impact of these non-cash charges was not material to the historical Fisher income statements and balance sheets incorporated by reference in the company's Form 8-K reporting the acquisition of Fisher.

In addition, due to the historical composition of the former Fisher compensation committee in certain years, the company believes that United States tax deductions taken by Fisher with respect to stock option grants and bonuses for certain Fisher executives in prior years may not be deductible under limitations imposed by Internal Revenue Code ("IRC") Section 162(m). Section 162(m) limits the deductibility of compensation above $1 million to certain executive officers of public companies when such compensation is not performance-based or if the compensation is not granted by a board committee comprised solely of directors who meet specified independence tests. As part of its voluntary investigation, the Audit Committee found that certain stock options and bonuses granted to Fisher executives may not qualify for deduction by Fisher under Section 162(m). The company expects that the resolution of these issues will not be material to either the company or Fisher.

THERMO FISHER SCIENTIFIC INC.

2. Acquisitions (continued)

The company intends to take actions in the second half of 2007 to address certain adverse tax consequences that may be incurred by the holders of option grants for which the Audit Committee has determined it is necessary to adjust measurement dates for financial accounting purposes. The primary adverse tax consequence is that re-measured stock options vesting after December 31, 2004, subject the option holder to a penalty tax under IRC Section 409A. The cost to the company of this option remediation program is not expected to exceed $4 million.

The company has undertaken restructuring activities at acquired businesses. These activities, which were accounted for in accordance with Emerging Issues Task Force (EITF) Issue No. 95-3, “Recognition of Liabilities in Connection with a Purchase Business Combination,” have primarily included reductions in staffing levels and the abandonment of excess facilities. In connection with these restructuring activities, as part of the cost of acquisitions, the company established reserves, primarily for severance and excess facilities. In accordance with EITF Issue No. 95-3, the company finalizes its restructuring plans no later than one year from the respective dates of the acquisitions. Upon finalization of restructuring plans or settlement of obligations for less than the expected amount, any excess reserves are reversed with a corresponding decrease in goodwill or other intangible assets when no goodwill exists. Accrued acquisition expenses are included in other accrued expenses in the accompanying balance sheet. No accrued acquisition expenses have been established for 2007 acquisitions.

The changes in accrued acquisition expenses for acquisitions completed during 2006 are as follows:

(In millions)	Severance	Abandonment of Excess Facilities	Other	Total
Balance at December 31, 2006	$ 26.0	$ 3.1	$ 1.3	$ 30.4
Reserves established	9.7	3.7	2.0	15.4
Payments	(24.1)	(0.2)	(0.5)	(24.8)
Decrease recorded as a reduction in goodwill	(0.1)	(0.5)	—	(0.6)
Currency translation	0.1	—	—	0.1
Balance at June 30, 2007	$ 11.6	$ 6.1	$ 2.8	$ 20.5

The principal acquisition expenses for 2006 acquisitions were for severance for approximately 284 employees across all functions and cost associated with various facility consolidations, primarily related to the company’s merger with Fisher.

The changes in accrued acquisition expenses for acquisitions completed prior to 2006 are as follows:

(In millions)	Severance	Abandonment of Excess Facilities	Other	Total
Balance at December 31, 2006	$ 2.2	$ 2.7	$ 0.1	$ $5.0
Payments	(1.6)	(0.6)	—	(2.2)
Decrease recorded as a reduction in goodwill	(0.2)	—	—	(0.2)
Balance at June 30, 2007	$ 0.4	$ 2.1	$ 0.1	$ $2.6

The remaining amounts accrued for pre-2006 acquisitions include severance related to the company's acquisition of Kendro in 2005 and abandoned facilities primarily related to the company's acquisitions of Life Sciences International PLC in 1997, the product monitoring businesses of Graseby Limited in 1998 and Kendro in 2005. The abandoned facilities for the 1997 and 1998 acquisitions include three operating facilities in England with leases expiring through 2014. In some instances, the facilities have been subleased but certain restoration obligations are payable at the end of the lease. The remaining amounts accrued for abandoned facilities also include facility obligations for a Kendro building vacated in Tennessee. The amounts captioned as "other" primarily represent employee relocation, contract termination and other exit costs. The severance and other costs are expected to be paid in 2007.

THERMO FISHER SCIENTIFIC INC.

3. Business Segment Information

Following the merger with Fisher in November 2006, the company reorganized management responsibility and its continuing operations now fall into two business segments: Analytical Technologies and Laboratory Products and Services. Prior year results have been reclassified to conform to the new segments.

	Three Months Ended		Six Months Ended	
(In millions)	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Revenues:				
Analytical Technologies	$ 1,038.5	$ 531.5	$ 2,044.7	$ 1,036.1
Laboratory Products and Services	1,433.7	182.0	2,850.2	361.7
Eliminations	(86.3)	—	(170.8)	—
Consolidated revenues	$ 2,385.9	$ 713.5	$ 4,724.1	$ 1,397.8
Operating Income:				
Analytical Technologies (a)	$ 205.7	$ 77.5	$ 395.5	$ 149.0
Laboratory Products and Services (a)	198.9	26.4	384.6	51.9
Subtotal reportable segments (a)	404.6	103.9	780.1	200.9
Cost of revenues charges	(11.2)	(1.3)	(47.6)	(1.3)
Restructuring and other costs, net	(8.3)	(4.8)	(15.7)	(8.4)
Amortization of acquisition-related intangible assets	(142.1)	(25.6)	(281.4)	(51.2)
Consolidated operating income	243.0	72.2	435.4	140.0
Other expense, net (b)	(20.7)	(3.4)	(47.4)	(7.1)
Income from continuing operations before provision for income taxes	$ 222.3	$ 68.8	$ 388.0	$ 132.9
Equity-based Compensation Expense:				
Analytical Technologies	$ 5.7	$ 5.1	$ 12.2	$ 9.7
Laboratory Products and Services	6.6	1.8	13.9	3.3
Consolidated equity-based compensation expense	$ 12.3	$ 6.9	$ 26.1	$ 13.0
Amortization:				
Analytical Technologies	$ 56.7	$ 6.5	$ 109.3	$ 13.0
Laboratory Products and Services	85.4	19.1	172.1	38.2
Consolidated amortization	$ 142.1	$ 25.6	$ 281.4	$ 51.2
Depreciation:				
Analytical Technologies	$ 20.4	$ 7.5	$ 40.8	$ 14.7
Laboratory Products and Services	24.6	5.9	50.2	10.5

Consolidated depreciation	$	45.0	$	13.4	$	91.0	$	25.2

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

(b) The company does not allocate other income and expenses to its segments.

THERMO FISHER SCIENTIFIC INC.

4. Other Expense, Net

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

(In millions)	Three Months Ended June 30, 2007	Three Months Ended July 1, 2006	Six Months Ended June 30, 2007	Six Months Ended July 1, 2006
Interest Income	$ 10.6	$ 3.4	$ 19.5	$ 6.9
Interest Expense	(33.2)	(8.0)	(70.4)	(15.7)
Other Items, Net	1.9	1.2	3.5	1.7
	$ (20.7)	$ (3.4)	$ (47.4)	$ (7.1)

5. Earnings per Share

Basic and diluted earnings per share were calculated as follows:

(In millions)	Three Months Ended June 30, 2007	Three Months Ended July 1, 2006	Six Months Ended June 30, 2007	Six Months Ended July 1, 2006
Income from Continuing Operations	$ 187.9	$ 49.0	$ 326.7	$ 92.6
Income from Discontinued Operations	—	—	0.1	—
(Loss) Gain on Disposal of Discontinued Operations	(24.0)	(1.1)	(24.0)	2.2
Net Income for Basic Earnings per Share	163.9	47.9	302.8	94.8
Effect of Convertible Debentures	—	0.4	—	0.8
Income Available to Common Shareholders, as Adjusted for Diluted Earnings per Share	$ 163.9	$ 48.3	$ 302.8	$ 95.6
Basic Weighted Average Shares	424.0	161.3	422.0	162.2
Effect of:				
Convertible debentures	13.7	1.8	12.7	1.8
Stock options, restricted stock awards and warrants	8.8	2.4	9.1	2.3
Diluted Weighted Average Shares	446.5	165.5	443.8	166.3
Basic Earnings per Share:				
Continuing operations	$ .44	$ .30	$ .77	$ .57
Discontinued operations	(.06)	(.01)	(.06)	.01
	$ .39	$ .30	$ .72	$ .58
Diluted Earnings per Share:				
Continuing operations	$ .42	$ .30	$ .74	$ .56
Discontinued operations	(.05)	(.01)	(.05)	.01

$	.37	$	.29	$	.68	$	.57

Options to purchase 5.8 million, 3.0 million, 5.8 million and 3.1 million shares of common stock were not included in the computation of diluted earnings per share for the second quarter of 2007 and 2006 and the first six months of 2007 and 2006, respectively, because their effect would have been antidilutive.

THERMO FISHER SCIENTIFIC INC.

6. Comprehensive Income

Comprehensive income combines net income and other comprehensive items. Other comprehensive items represents certain amounts that are reported as components of shareholders' equity in the accompanying balance sheet, including currency translation adjustments; unrealized gains and losses, net of tax, on available-for-sale investments and hedging instruments; and pension and other postretirement benefit liability adjustments. During the second quarter of 2007 and 2006, the company had comprehensive income of $168 million and $77 million, respectively. During the first six months of 2007 and 2006, the company had comprehensive income of $372 million and $128 million, respectively.

7. Equity-based Compensation Expense

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

	Three Months Ended		Six Months Ended	
(In millions)	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Stock Option Awards	$ 8.3	$ 6.4	$ 17.6	$ 11.8
Restricted Share/Unit Awards	4.0	0.5	8.5	1.2
Total Equity-based Compensation Expense	$ 12.3	$ 6.9	$ 26.1	$ 13.0

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

	Three Months Ended		Six Months Ended	
(In millions)	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Cost of Revenues	$ 0.8	$ 0.7	$ 2.1	$ 1.3
Selling, General and Administrative Expenses	10.9			