

THERMO FISHER SCIENTIFIC INC.  
Form 10-Q  
November 04, 2016

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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 October 1, 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.)

168 Third Avenue

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 October 1, 2016 |
|--------------------------------|--------------------------------|
| Common Stock, \$1.00 par value | 395,025,225                    |

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THERMO FISHER SCIENTIFIC INC.  
QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTER ENDED OCTOBER 1, 2016  
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## THERMO FISHER SCIENTIFIC INC.

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

## CONSOLIDATED BALANCE SHEET

(Unaudited)

|   | October<br>1,<br>2016 | December<br>31,<br>2015 |
|---|-----------------------|-------------------------|
| (In millions except share and per share amounts)  |                       |                         |
| Assets  |                       |                         |
| Current Assets:   |                       |                         |
| Cash and cash equivalents   | \$1,970.0             | \$452.1                 |
| Accounts receivable, less allowances of \$82.3 and \$70.1   | 2,895.1               | 2,544.9                 |
| Inventories   | 2,390.9               | 1,991.7                 |
| Other current assets  | 948.4                 | 752.5                   |
| Total current assets  | 8,204.4               | 5,741.2                 |
| Property, Plant and Equipment, Net  | 2,599.3               | 2,448.8                 |
| Acquisition-related Intangible Assets, Net  | 14,522.4              | 12,758.3                |
| Other Assets  | 1,104.6               | 1,058.4                 |
| Goodwill  | 21,580.0              | 18,827.6                |
| Total Assets  | \$48,010.7            | \$40,834.3              |
| Liabilities and Shareholders' Equity  |                       |                         |
| Current Liabilities:  |                       |                         |
| Short-term obligations and current maturities of long-term obligations                                  | \$1,972.1             | \$1,051.8               |
| Accounts payable  | 941.7                 | 822.2                   |
| Accrued payroll and employee benefits   | 611.2                 | 598.2                   |
| Accrued income taxes  | 23.7                  | 212.5                   |
| Deferred revenue  | 492.2                 | 317.9                   |
| Other accrued expenses  | 1,219.0               | 1,143.7                 |
| Total current liabilities   | 5,259.9               | 4,146.3                 |
| Deferred Income Taxes   | 2,715.0               | 2,622.6                 |
| Other Long-term Liabilities   | 1,436.8               | 1,295.0                 |
| Long-term Obligations   | 16,940.4              | 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; 414,958,014 and 411,944,301 shares issued | 415.0                 | 411.9                   |
| Capital in excess of par value  | 12,097.1              | 11,801.2                |
| Retained earnings   | 13,356.5              | 12,142.3                |
| Treasury stock at cost, 19,932,789 and 12,314,200 shares  | (2,055.3 )            | (1,007.9 )              |
| Accumulated other comprehensive items   | (2,154.7 )            | (1,997.3 )              |

|  |            |            |
|--|------------|------------|
| Total shareholders' equity                 | 21,658.6   | 21,350.2   |
| Total Liabilities and Shareholders' Equity | \$48,010.7 | \$40,834.3 |

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

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## THERMO FISHER SCIENTIFIC INC.

CONSOLIDATED STATEMENT OF INCOME  
(Unaudited)

|  | Three Months Ended    |                          | Nine Months Ended     |                          |
|--|-----------------------|--------------------------|-----------------------|--------------------------|
|  | October<br>1,<br>2016 | September<br>26,<br>2015 | October<br>1,<br>2016 | September<br>26,<br>2015 |
| (In millions except per share amounts)   |                       |                          |                       |                          |
| Revenues   |                       |                          |                       |                          |
| Product revenues   | \$3,866.5             | \$3,570.3                | \$11,453.0            | \$10,635.1               |
| Service revenues   | 624.4                 | 552.9                    | 1,867.9               | 1,677.8                  |
| Total revenues   | 4,490.9               | 4,123.2                  | 13,320.9              | 12,312.9                 |
| Costs and Operating Expenses:  |                       |                          |                       |                          |
| Cost of product revenues   | 2,024.3               | 1,853.9                  | 5,997.2               | 5,481.7                  |
| Cost of service revenues   | 412.7                 | 386.0                    | 1,233.4               | 1,183.6                  |
| Selling, general and administrative expenses   | 1,274.6               | 1,133.3                  | 3,710.6               | 3,421.7                  |
| Research and development expenses  | 183.3                 | 171.6                    | 542.2                 | 512.0                    |
| Restructuring and other costs, net   | 54.9                  | 15.5                     | 140.9                 | 67.9                     |
| Total costs and operating expenses   | 3,949.8               | 3,560.3                  | 11,624.3              | 10,666.9                 |
| Operating Income   | 541.1                 | 562.9                    | 1,696.6               | 1,646.0                  |
| Other Expense, Net   | (113.2 )              | (94.8 )                  | (324.6 )              | (292.3 )                 |
| Income from Continuing Operations Before Income Taxes  | 427.9                 | 468.1                    | 1,372.0               | 1,353.7                  |
| Benefit from Income Taxes  | 45.6                  | 9.2                      | 20.6                  | 20.3                     |
| Income from Continuing Operations  | 473.5                 | 477.3                    | 1,392.6               | 1,374.0                  |
| Loss from Discontinued Operations (net of income tax benefit of \$0.0, \$0.7, \$0.2 and \$0.7) | —                     | (1.2 )                   | (0.3 )                | (1.2 )                   |
| Net Income   | \$473.5               | \$476.1                  | \$1,392.3             | \$1,372.8                |
| Earnings per Share from Continuing Operations  |                       |                          |                       |                          |
| Basic  | \$1.20                | \$1.20                   | \$3.53                | \$3.45                   |
| Diluted  | \$1.19                | \$1.19                   | \$3.50                | \$3.42                   |
| Earnings per Share   |                       |                          |                       |                          |
| Basic  | \$1.20                | \$1.19                   | \$3.53                | \$3.45                   |
| Diluted  | \$1.19                | \$1.18                   | \$3.50                | \$3.42                   |
| Weighted Average Shares  |                       |                          |                       |                          |
| Basic  | 394.7                 | 399.0                    | 394.8                 | 398.4                    |
| Diluted  | 397.4                 | 402.0                    | 397.6                 | 401.7                    |
| Cash Dividends Declared per Common Share   | \$0.15                | \$0.15                   | \$0.45                | \$0.45                   |

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 |                    | Nine Months Ended |                    |
|--|--------------------|--------------------|-------------------|--------------------|
|  | October 1, 2016    | September 26, 2015 | October 1, 2016   | September 26, 2015 |
| Comprehensive Income   |                    |                    |                   |                    |
| Net Income   | \$473.5            | \$ 476.1           | \$1,392.3         | \$1,372.8          |
| Other Comprehensive Items:   |                    |                    |                   |                    |
| Currency translation adjustment  | (77.0 )            | (263.6 )           | (127.8 )          | (605.6 )           |
| Unrealized gains and losses on available-for-sale investments:   |                    |                    |                   |                    |
| Unrealized holding gains (losses) arising during the period (net of tax provision (benefit) of \$0.1, (\$0.2), (\$0.2) and (\$0.2))                            | 0.5                | (0.2 )             | (1.0 )            | (0.2 )             |
| Reclassification adjustment for losses included in net income (net of tax benefit of \$0.2 and \$0.2)  | 0.7                | —                  | 0.7               | —                  |
| Unrealized gains and losses on hedging instruments:  |                    |                    |                   |                    |
| Unrealized gains (losses) on hedging instruments (net of tax provision (benefit) of \$0.0, (\$17.7), (\$22.4) and (\$3.6))                                     | —                  | (28.7 )            | (36.6 )           | (5.7 )             |
| Reclassification adjustment for losses included in net income (net of tax benefit of \$1.2, \$0.5, \$2.6 and \$1.1)  | 1.8                | 0.6                | 4.3               | 2.5                |
| Pension and other postretirement benefit liability adjustments:  |                    |                    |                   |                    |
| Pension and other postretirement benefit liability adjustments arising during the period (net of tax provision (benefit) of \$0.1, (\$0.2), (\$0.0) and \$1.5) | —                  | (1.0 )             | (1.1 )            | 2.4                |
| Amortization of net loss and prior service benefit included in net periodic pension cost (net of tax benefit of \$0.5, \$0.7, \$1.4 and \$1.9)                 | 1.4                | 1.6                | 4.1               | 5.2                |
| Total other comprehensive items  | (72.6 )            | (291.3 )           | (157.4 )          | (601.4 )           |
| Comprehensive Income   | \$400.9            | \$ 184.8           | \$1,234.9         | \$ 771.4           |

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

## THERMO FISHER SCIENTIFIC INC.

CONSOLIDATED STATEMENT OF CASH FLOWS  
(Unaudited)

| (In millions)  | Nine Months Ended     |                          |
|--|-----------------------|--------------------------|
|  | October<br>1,<br>2016 | September<br>26,<br>2015 |
| <b>Operating Activities</b>  |                       |                          |
| Net income   | \$1,392.3             | \$1,372.8                |
| Loss from discontinued operations  | 0.3                   | 1.2                      |
| Income from continuing operations  | 1,392.6               | 1,374.0                  |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities: |                       |                          |
| Depreciation and amortization  | 1,284.2               | 1,263.7                  |
| Change in deferred income taxes  | (514.8 )              | (285.9 )                 |
| Net gains on sale of businesses  | —                     | (7.6 )                   |
| Non-cash stock-based compensation  | 102.0                 | 91.8                     |
| Tax benefits from stock-based compensation awards  | (54.9 )               | (55.6 )                  |
| Non-cash charges for sale of inventories revalued at the date of acquisition                             | 38.7                  | 0.7                      |
| Other non-cash expenses, net   | 49.0                  | 39.5                     |
| Changes in assets and liabilities, excluding the effects of acquisitions and dispositions:               |                       |                          |
| Accounts receivable  | (112.4 )              | (145.9 )                 |
| Inventories  | 22.3                  | (175.3 )                 |
| Other assets   | (92.3 )               | (213.7 )                 |
| Accounts payable   | 66.1                  | (26.9 )                  |
| Other liabilities  | (194.0 )              | (236.3 )                 |
| Contributions to retirement plans  | (33.1 )               | (25.7 )                  |
| Net cash provided by continuing operations   | 1,953.4               | 1,596.8                  |
| Net cash used in discontinued operations   | (3.0 )                | (8.0 )                   |
| Net cash provided by operating activities  | 1,950.4               | 1,588.8                  |
| <b>Investing Activities</b>  |                       |                          |
| Acquisitions, net of cash acquired   | (5,153.0 )            | (306.0 )                 |
| Purchase of property, plant and equipment  | (310.9 )              | (293.5 )                 |
| Proceeds from sale of property, plant and equipment  | 23.1                  | 7.5                      |
| Other investing activities, net  | (3.2 )                | 16.0                     |
| Net cash used in investing activities  | \$(5,444.0)           | \$(576.0 )               |



## THERMO FISHER SCIENTIFIC INC.

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)  
(Unaudited)

| (In millions)   | Nine Months Ended     |                          |
|---|-----------------------|--------------------------|
|   | October<br>1,<br>2016 | September<br>26,<br>2015 |
| Financing Activities  |                       |                          |
| Net proceeds from issuance of debt  | \$7,605.8             | \$ 542.8                 |
| Repayment of debt   | (2,307.1 )            | (2,481.0 )               |
| Increase in commercial paper, net   | 768.8                 | 725.5                    |
| Purchases of company common stock   | (1,000.0 )            | (500.0 )                 |
| Dividends paid  | (179.2 )              | (180.7 )                 |
| Net proceeds from issuance of company common stock under employee stock plans | 122.5                 | 96.6                     |
| Tax benefits from stock-based compensation awards                             | 54.9                  | 55.6                     |
| Other financing activities, net   | (13.6 )               | (5.9 )                   |
| Net cash provided by (used in) financing activities                           | 5,052.1               | (1,747.1 )               |
| Exchange Rate Effect on Cash  | (40.6 )               | (105.8 )                 |
| Increase (Decrease) in Cash and Cash Equivalents                              | 1,517.9               | (840.1 )                 |
| Cash and Cash Equivalents at Beginning of Period                              | 452.1                 | 1,343.5                  |
| Cash and Cash Equivalents at End of Period                                    | \$1,970.0             | \$ 503.4                 |

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<br>Excess of<br>Par Value | Retained<br>Earnings | Treasury Stock |             | Accumulated<br>Other<br>Comprehensive<br>Items | Total<br>Shareholders'<br>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 | 2.9          | 2.9      | 112.6                                | —                    | 0.4            | (51.4)      | —  | 64.1                             |
| Stock-based compensation                                       | —            | —        | 91.8                                 | —                    | —              | —           | —  | 91.8                             |
| Tax benefit related to employees' and directors' stock plans   | —            | —        | 54.8                                 | —                    | —              | —           | —  | 54.8                             |
| Purchases of company common stock                              | —            | —        | —                                    | —                    | 3.9            | (500.0)     | —  | (500.0)                          |
| Dividends declared   | —            | —        | —                                    | (180.0)              | —              | —           | —  | (180.0)                          |
| Net income   | —            | —        | —                                    | 1,372.8              | —              | —           | —  | 1,372.8                          |
| Other comprehensive items                                      | —            | —        | —                                    | —                    | —              | —           | (601.4)  | (601.4)                          |
| Balance at September 26, 2015                                  | 411.4        | \$ 411.4 | \$ 11,732.8                          | \$ 11,599.7          | 12.3           | \$(1,007.3) | \$( 1,886.4 )                                  | \$ 20,850.2                      |
| 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 | 3.1          | 3.1      | 139.7                                | —                    | 0.3            | (47.4)      | —  | 95.4                             |
| Stock-based compensation                                       | —            | —        | 102.0                                | —                    | —              | —           | —  | 102.0                            |
| Tax benefit related to employees' and directors' stock plans   | —            | —        | 54.2                                 | —                    | —              | —           | —  | 54.2                             |
| Purchases of company common stock                              | —            | —        | —                                    | —                    | 7.3            | (1,000.0)   | —  | (1,000.0)                        |
| Dividends declared   | —            | —        | —                                    | (178.1)              | —              | —           | —  | (178.1)                          |
| Net income   | —            | —        | —                                    | 1,392.3              | —              | —           | —  | 1,392.3                          |
| Other comprehensive items                                      | —            | —        | —                                    | —                    | —              | —           | (157.4)  | (157.4)                          |
| Balance at October 1, 2016                                     | 415.0        | \$ 415.0 | \$ 12,097.1                          | \$ 13,356.5          | 19.9           | \$(2,055.3) | \$( 2,154.7 )                                  | \$ 21,658.6                      |

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 October 1, 2016, the results of operations for the three- and nine-month periods ended October 1, 2016 and September 26, 2015, and the cash flows for the nine-month periods ended October 1, 2016 and September 26, 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 nine months ended October 1, 2016.

Inventories

The components of inventories are as follows:

|                 | October<br>1,<br>2016 | December<br>31,<br>2015 |
|-----------------|-----------------------|-------------------------|
| (In millions)   |                       |                         |
| Raw Materials   | \$498.1               | \$421.1                 |
| Work in Process | 367.3                 | 236.8                   |
| Finished Goods  | 1,525.5               | 1,333.8                 |

Inventories \$2,390.9 \$1,991.7

Property, Plant and Equipment

Property, plant and equipment consists of the following:

|   | October<br>1,<br>2016 | December<br>31,<br>2015 |
|---|-----------------------|-------------------------|
| (In millions)                                   |                       |                         |
| Land  | \$291.2               | \$276.4                 |
| Buildings and Improvements                      | 1,118.6               | 1,050.5                 |
| Machinery, Equipment and Leasehold Improvements | 3,055.0               | 2,786.8                 |
| Property, Plant and Equipment, at Cost          | 4,464.8               | 4,113.7                 |
| Less: Accumulated Depreciation and Amortization | 1,865.5               | 1,664.9                 |

|                                    |           |           |
|------------------------------------|-----------|-----------|
| Property, Plant and Equipment, Net | \$2,599.3 | \$2,448.8 |
|------------------------------------|-----------|-----------|

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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 October 1, 2016 |                          |            | Balance at December 31, 2015 |                          |            |
|-------------------------------------|----------------------------|--------------------------|------------|------------------------------|--------------------------|------------|
|                                     | Gross                      | Accumulated Amortization | Net        | Gross                        | Accumulated Amortization | Net        |
| <b>Definite Lived:</b>              |                            |                          |            |                              |                          |            |
| Customer relationships              | \$ 13,374.8                | \$ (4,691.1 )            | \$ 8,683.7 | \$ 11,844.4                  | \$ (4,086.9 )            | \$ 7,757.5 |
| Product technology                  | 5,751.6                    | (2,116.4 )               | 3,635.2    | 4,799.8                      | (1,819.0 )               | 2,980.8    |
| Tradenames                          | 1,486.3                    | (628.4 )                 | 857.9      | 1,316.7                      | (548.2 )                 | 768.5      |
| Other                               | 33.8                       | (33.8 )                  | —          | 33.2                         | (33.0 )                  | 0.2        |
|                                     | 20,646.5                   | (7,469.7 )               | 13,176.8   | 17,994.1                     | (6,487.1 )               | 11,507.0   |
| <b>Indefinite Lived:</b>            |                            |                          |            |                              |                          |            |
| Tradenames                          | 1,234.8                    | —                        | 1,234.8    | 1,234.8                      | —                        | 1,234.8    |
| In-process research and development | 110.8                      | —                        | 110.8      | 16.5                         | —                        | 16.5       |
|                                     | 1,345.6                    | —                        | 1,345.6    | 1,251.3                      | —                        | 1,251.3    |

Acquisition-related Intangible Assets \$ 21,992.1 \$ (7,469.7 ) \$ 14,522.4 \$ 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)                                      | Nine Months Ended |                    |
|--|-------------------|--------------------|
|  | October 1, 2016   | September 26, 2015 |
| Beginning Balance                                  | \$ 55.8           | \$ 57.5            |
| Provision charged to income                        | 68.6              | 59.9               |
| Usage  | (64.5 )           | (59.0 )            |
| Acquisitions                                       | 16.8              | 0.5                |
| Adjustments to previously provided warranties, net | (1.8 )            | (2.1 )             |
| Currency translation                               | 0.5               | (2.2 )             |
| Ending Balance                                     | \$ 75.4           | \$ 54.6            |

## 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 August 2016, the FASB issued new guidance intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. 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 statement of cash flows.

THERMO FISHER SCIENTIFIC INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 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

verses 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 expects to adopt this guidance on January 1, 2018. The company is currently evaluating the impact the standard will have on its consolidated financial statements.



THERMO FISHER SCIENTIFIC INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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. 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

On September 19, 2016, the company acquired, within the Analytical Instruments segment, FEI Company, a North America-based provider of high-performance electron microscopy, for a total purchase price of \$4.08 billion, net of cash acquired. The acquisition strengthens the company's analytical instrument portfolio with the addition of high-end electron microscopes. Revenues of FEI were \$930 million in 2015. The purchase price exceeded the fair value of the identifiable net assets and, accordingly, \$2.06 billion was allocated to goodwill, approximately \$65 million of which is tax deductible.

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. Additionally, the acquisition expands the company's genetic analysis portfolio through the addition of microarrays. 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.

## THERMO FISHER SCIENTIFIC INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

| (In millions)                       | FEI       | Affymetrix | Other  | Total      |
|-------------------------------------|-----------|------------|--------|------------|
| <b>Purchase Price</b>               |           |            |        |            |
| Cash paid                           | \$4,432.8 | \$ 1,162.2 | \$4.2  | \$5,599.2  |
| Debt assumed                        | —         | 254.2      | 0.6    | 254.8      |
| Purchase price payable              | 18.4      | 3.3        | 0.1    | 21.8       |
| Cash acquired                       | (369.1 )  | (77.9 )    | (0.1 ) | (447.1 )   |
|                                     | \$4,082.1 | \$ 1,341.8 | \$4.8  | \$5,428.7  |
| <b>Net Assets Acquired</b>          |           |            |        |            |
| Current assets                      | \$625.6   | \$ 160.6   | \$1.1  | \$787.3    |
| Property, plant and equipment       | 162.6     | 19.3       | —      | 181.9      |
| Definite-lived intangible assets:   |           |            |        |            |
| Customer relationships              | 1,051.1   | 413.2      | 1.7    | 1,466.0    |
| Product technology                  | 739.8     | 232.7      | 0.7    | 973.2      |
| Tradenames and other                | 130.0     | 41.6       | —      | 171.6      |
| Indefinite-lived intangible assets: |           |            |        |            |
| In-process research and development | 104.7     | 11.0       | —      | 115.7      |
| Goodwill                            | 2,057.3   | 702.1      | 3.1    | 2,762.5    |
| Other assets                        | 56.5      | 7.8        | 0.1    | 64.4       |
| Liabilities assumed                 | (845.5 )  | (246.5 )   | (1.9 ) | (1,093.9 ) |
|                                     | \$4,082.1 | \$ 1,341.8 | \$4.8  | \$5,428.7  |

The weighted-average amortization periods for definite-lived intangible assets acquired in 2016 are 16 years for customer relationships, 8 years for product technology and 8 years for tradenames and other. The weighted average amortization period for all definite-lived intangible assets acquired in 2016 is 13 years.

The preliminary allocation of the purchase price for the 2016 acquisitions was based on estimates of the fair value of the net assets acquired and is subject to adjustment upon finalization of the valuation of the acquired intangible assets in the fourth quarter of 2016. 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.

Revenues of FEI in the third quarter of 2016 subsequent to the date of acquisition were approximately \$100 million. Operating profits were not material due to acquisition-related charges.

THERMO FISHER SCIENTIFIC INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

|  | Three Months Ended    |                          | Nine Months Ended     |                          |
|--|-----------------------|--------------------------|-----------------------|--------------------------|
|  | October<br>1,<br>2016 | September<br>26,<br>2015 | October<br>1,<br>2016 | September<br>26,<br>2015 |
| (In millions)  |                       |                          |                       |                          |
| <b>Revenues</b>  |                       |                          |                       |                          |
| Life Sciences Solutions                                      | \$1,231.5             | \$1,080.4                | \$3,642.1             | \$3,229.6                |
| Analytical Instruments                                       | 898.0                 | 778.5                    | 2,451.2               | 2,282.9                  |
| Specialty Diagnostics  | 798.9                 | 776.9                    | 2,504.8               | 2,379.2                  |
| Laboratory Products and Services                             | 1,746.2               | 1,638.2                  | 5,273.0               | 4,844.9                  |
| Eliminations   | (183.7 )              | (150.8 )                 | (550.2 )              | (423.7 )                 |
| <b>Consolidated revenues</b>                                 | <b>4,490.9</b>        | <b>4,123.2</b>           | <b>13,320.9</b>       | <b>12,312.9</b>          |
| <b>Segment Income (a)</b>                                    |                       |                          |                       |                          |
| Life Sciences Solutions                                      | 370.1                 | 332.7                    | 1,069.7               | 954.9                    |
| Analytical Instruments                                       | 190.1                 | 146.5                    | 446.7                 | 407.8                    |
| Specialty Diagnostics  | 214.4                 | 204.9                    | 682.4                 | 646.2                    |
| Laboratory Products and Services                             | 257.9                 | 249.6                    | 795.9                 | 731.7                    |
| <b>Subtotal reportable segments (a)</b>                      | <b>1,032.5</b>        | <b>933.7</b>             | <b>2,994.7</b>        | <b>2,740.6</b>           |
| <b>Cost of revenues charges</b>                              | <b>(32.4 )</b>        | <b>(0.8 )</b>            | <b>(60.4 )</b>        | <b>(2.5 )</b>            |
| <b>Selling, general and administrative charges, net</b>      | <b>(62.5 )</b>        | <b>(24.6 )</b>           | <b>(95.2 )</b>        | <b>(35.4 )</b>           |
| <b>Restructuring and other costs, net</b>                    | <b>(54.9 )</b>        | <b>(15.5 )</b>           | <b>(140.9 )</b>       | <b>(67.9 )</b>           |
| <b>Amortization of acquisition-related intangible assets</b> | <b>(341.6 )</b>       | <b>(329.9 )</b>          | <b>(1,001.6 )</b>     | <b>(988.8 )</b>          |
| <b>Consolidated operating income</b>                         | <b>541.1</b>          | <b>562.9</b>             | <b>1,696.6</b>        | <b>1,646.0</b>           |
| <b>Other expense, net (b)</b>                                | <b>(113.2 )</b>       | <b>(94.8 )</b>           | <b>(324.6 )</b>       | <b>(292.3 )</b>          |
| <b>Income from continuing operations before income taxes</b> | <b>\$427.9</b>        | <b>\$468.1</b>           | <b>\$1,372.0</b>      | <b>\$1,353.7</b>         |
| <b>Depreciation</b>  |                       |                          |                       |                          |
| Life Sciences Solutions                                      | \$34.1                | \$38.4                   | \$108.3               | \$106.7                  |
| Analytical Instruments                                       | 11.4                  | 9.9                      | 30.9                  | 28.6                     |
| Specialty Diagnostics  | 17.3                  | 18.8                     | 53.5                  | 54.6                     |
| Laboratory Products and Services                             | 28.6                  | 30.7                     | 89.9                  | 85.0                     |
| <b>Consolidated depreciation</b>                             | <b>\$91.4</b>         | <b>\$97.8</b>            | <b>\$282.6</b>        | <b>\$274.9</b>           |

(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 |               | Nine Months Ended |               |
|------------------|--------------------|---------------|-------------------|---------------|
|                  | October 1,         | September 26, | October 1,        | September 26, |
|                  | 2016               | 2015          | 2016              | 2015          |
| Interest Income  | \$10.4             | \$ 7.2        | \$34.4            | \$ 21.9       |
| Interest Expense | (113.3 )           | (100.6 )      | (338.3 )          | (311.9 )      |
| Other Items, Net | (10.3 )            | (1.4 )        | (20.7 )           | (2.3 )        |

Other Expense, Net \$(113.2) \$(94.8 ) \$(324.6) \$(292.3 )

Other Items, Net

In the first nine months of 2016, other items, net includes \$22 million of charges related to the amortization of fees paid to obtain bridge financing commitments for the acquisition of FEI (Note 2) and \$6.5 million of losses on the early extinguishment of debt, offset in part by \$4 million of gains on investments. In the first nine months of 2015, other items, net includes costs of \$7.5 million associated with entering into interest rate swap arrangements and losses of \$6 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 |               | Nine Months Ended |               |
|------------------------|--------------------|---------------|-------------------|---------------|
|                        | October 1,         | September 26, | October 1,        | September 26, |
|                        | 2016               | 2015          | 2016              | 2015          |
| Stock Option Awards    | \$10.4             | \$ 11.1       | \$31.0            | \$ 32.4       |
| Restricted Unit Awards | 24.5               | 21.4          | 71.0              | 59.4          |

Total Stock-based Compensation Expense \$34.9 \$ 32.5 \$102.0 \$ 91.8

During the first nine 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 October 1, 2016, there was \$75 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 2.3 years.

As of October 1, 2016, there was \$137 million of total unrecognized compensation cost related to unvested restricted stock unit awards. The cost is expected to be recognized through 2020 with a weighted average amortization period of 2.0 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 |               | Nine Months   |                |
|---------------------------------------|--------------|---------------|---------------|----------------|
|                                       | Ended        |               | Ended         |                |
|                                       | October      | September     | October       | September      |
|                                       | 1,           | 26,           | 1,            | 26,            |
| (In millions)                         | 2016         | 2015          | 2016          | 2015           |
| <b>Components of Net Benefit Cost</b> |              |               |               |                |
| Service cost-benefits earned          | \$5.3        | \$ 7.7        | \$15.8        | \$ 20.0        |
| Interest cost on benefit obligation   | 19.1         | 19.4          | 58.1          | 58.1           |
| Expected return on plan assets        | (19.3)       | (23.4 )       | (58.8 )       | (70.0 )        |
| Amortization of actuarial net loss    | 1.9          | 2.3           | 5.6           | 7.0            |
| Amortization of prior service benefit | —            | (0.1 )        | (0.1 )        | (0.2 )         |
| Settlement/curtailment loss           | —            | —             | —             | 0.1            |
| <b>Net periodic benefit cost</b>      | <b>\$7.0</b> | <b>\$ 5.9</b> | <b>\$20.6</b> | <b>\$ 15.0</b> |

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:

|  | Nine Months      |                   |
|--|------------------|-------------------|
|  | Ended            |                   |
|  | October          | September         |
|  | 1,               | 26,               |
| (In millions)  | 2016             | 2015              |
| Provision for Income Taxes at Statutory Rate                     | \$480.2          | \$ 473.8          |
| <b>Increases (Decreases) Resulting From:</b>                     |                  |                   |
| Foreign rate differential  | (189.7 )         | (148.9 )          |
| Income tax credits   | (233.6 )         | (241.4 )          |
| Manufacturing deduction  | (25.5 )          | (27.2 )           |
| Singapore tax holiday  | (14.0 )          | (11.5 )           |
| Impact of change in tax laws and apportionment on deferred taxes | 0.3              | (13.5 )           |
| Nondeductible expenses   | 6.3              | 6.9               |
| Tax return reassessments and settlements                         | (41.0 )          | (51.0 )           |
| State income taxes, net of federal tax                           | (6.3 )           | (4.8 )            |
| Other, net   | 2.7              | (2.7 )            |
| <b>Benefit from income taxes</b>                                 | <b>\$(20.6 )</b> | <b>\$ (20.3 )</b> |

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 1.0% and 0.8%, respectively, and increased diluted earnings per share by approximately \$0.04 and \$0.03, respectively.



THERMO FISHER SCIENTIFIC INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
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The company's unrecognized tax benefits increased to \$458 million at October 1, 2016, from \$350 million at December 31, 2015. Of the total increase, \$51 million resulted from acquisitions, \$43 million resulted from tax planning related to prior years that resulted in amended tax filings and \$14 million resulted from the utilization of deferred tax assets.

Note 8. Earnings per Share

|  | Three Months Ended |                    | Nine Months Ended |                    |
|--|--------------------|--------------------|-------------------|--------------------|
|  | October 1, 2016    | September 26, 2015 | October 1, 2016   | September 26, 2015 |
| (In millions except per share amounts) |                    |                    |                   |                    |
| Income from Continuing Operations      | \$473.5            | \$ 477.3           | \$1,392.6         | \$1,374.0          |
| Loss from Discontinued Operations      | —                  | (1.2 )             | (0.3 )            | (1.2 )             |
| Net Income                             | \$473.5            | \$ 476.1           | \$1,392.3         | \$1,372.8          |
| Basic Weighted Average Shares          | 394.7              | 399.0              | 394.8             | 398.4              |
| Plus Effect of:                        |                    |                    |                   |                    |
| Stock options and restricted units     | 2.7                | 3.0                | 2.8               | 3.3                |
| Diluted Weighted Average Shares        | 397.4              | 402.0              | 397.6             | 401.7              |
| Basic Earnings per Share:              |                    |                    |                   |                    |
| Continuing operations                  | \$1.20             | \$ 1.20            | \$3.53            | \$3.45             |
| Discontinued operations                | —                  | —                  | —                 | —                  |
| Basic Earnings per Share               | \$1.20             | \$ 1.19            | \$3.53            | \$3.45             |
| Diluted Earnings per Share:            |                    |                    |                   |                    |
| Continuing operations                  | \$1.19             | \$ 1.19            | \$3.50            | \$3.42             |
| Discontinued operations                | —                  | —                  | —                 | —                  |
| Diluted Earnings per Share             | \$1.19             | \$ 1.18            | \$3.50            | \$3.42             |

Options to purchase 0.1 million, 3.5 million, 1.8 million and 3.7 million shares of common stock were not included in the computation of diluted earnings per share for the third quarter of 2016 and 2015 and the first nine 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<br>October 1,<br>2016 | October<br>1,<br>2016 | December<br>31,<br>2015 |
|---|--|-----------------------|-------------------------|
| Commercial Paper  | 1.32   | % \$820.5             | \$49.6                  |
| Term Loan   | 1.70   | % 1,950.0             | —                       |
| 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                   |
| Floating Rate 2-Year Senior Notes, Due 8/9/2018<br>(euro-denominated) | 0.15   | % 674.1               | —                       |
| 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                              | 2.98   | % 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<br>(euro-denominated)        | 1.61   | % 477.5               | 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                              | 3.48   | % 1,000.0             | 1,000.0                 |
| 3.60% 10-Year Senior Notes, Due 8/15/2021                             | 3.15   | % 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<br>(euro-denominated)        | 2.28   | % 561.8               | 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                               | 3.18   | % 1,000.0             | —                       |
| 4.15% 10-Year Senior Notes, Due 2/1/2024                              | 4.16   | % 1,000.0             | 1,000.0                 |
| 0.75% 8-Year Senior Notes, Due 9/12/2024<br>(euro-denominated)        | 0.94   | % 1,123.5             | —                       |
| 2.00% 10-Year Senior Notes, Due 4/15/2025<br>(euro-denominated)       | 2.09   | % 719.0               | 695.2                   |
| 3.65% 10-Year Senior Notes, Due 12/15/2025                            | 3.77   | % 350.0               | 350.0                   |
| 2.95% 10-Year Senior Notes, Due 9/19/2026                             | 3.19   | % 1,200.0             | —                       |
| 1.375% 12-Year Senior Notes, 9/12/2028<br>(euro-denominated)          | 1.46   | % 674.1               | —                       |
| 5.30% 30-Year Senior Notes, Due 2/1/2044                              | 5.37   | % 400.0               | 400.0                   |
| Other   |  | 13.7                  | 16.3                    |
| Total Borrowings at Par Value   |  | 18,864.2              | 12,415.8                |
| Fair Value Hedge Accounting Adjustments                               |  | 73.9                  | 6.2                     |
| Unamortized Premium, Net  |  | 56.5                  | 104.7                   |
| Unamortized Debt Issuance Costs (Note 1)                              |  | (82.1                 | ) (54.7                 |
| Total Borrowings at Carrying Value                                    |  | 18,912.5              | 12,472.0                |
| Less: Short-term Obligations and Current Maturities                   |  | 1,972.1               | 1,051.8                 |

Long-term Obligations \$16,940.4 \$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

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Leverage Ratio of debt to EBITDA (as defined in the agreement) below 4.5 to 1.0 for the first two consecutive quarters after the closing date of the acquisition of FEI (see Note 2), stepping down to 4.0 to 1.0 for the two immediately following fiscal quarters and then stepping down to 3.5 to 1.0 each fiscal quarter thereafter. The agreement also requires the company to maintain an Interest Coverage Ratio of EBITDA (as defined in the agreement) to interest expense of 3.0 to 1.0. 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 October 1, 2016, no borrowings were outstanding under the facility, although available capacity was reduced by approximately \$67 million as a result of outstanding letters of credit.

#### Term Loans

In connection with the acquisition of FEI, the company entered into a term loan agreement. The term loan agreement is a 3-year unsecured \$2.00 billion term loan facility. The agreement calls 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.

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. In August 2016, the company used the proceeds from the issuance of the floating rate senior notes due 2018 to repay the remaining balance of this term loan.

#### Senior Notes

Interest on the floating rate senior notes is payable quarterly. Interest is payable annually on the other euro-denominated senior notes and semi-annually on all other senior notes. 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.

In August 2016, Thermo Fisher Scientific (Finance I) B.V., a wholly-owned finance subsidiary of the company issued the Floating Rate Senior Notes due 2018 included in the table above. This subsidiary has no independent function other than financing activities. The Floating Rate Senior Notes due 2018 are fully and unconditionally guaranteed by the company and no other subsidiaries of the company have guaranteed the obligations.

During the third quarter of 2016, the company issued the 0.75% Senior Notes due 2024, the 2.95% Senior Notes due 2026 and the 1.375% Senior Notes due 2028, included in the table above. The proceeds from these issuances, along with the proceeds from the 3-year unsecured term loan facility described above, were used to fund the acquisition of FEI and, in October 2016, to redeem the 1.30% Senior Notes due 2017.

#### 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.

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

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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 October 1, 2016:

| (Dollars in millions)       | Aggregate          |                         | Pay Rate as of<br>October 1,<br>2016 | Receive Rate |   |
|-----------------------------|--------------------|-------------------------|--------------------------------------|--------------|---|
|                             | Notional<br>Amount | Pay Rate                |                                      |              |   |
| 1.30% Senior Notes due 2017 | \$ 900.0           | 1-month LIBOR + 0.6616% | 1.1888                               | % 1.30       | % |
| 4.50% Senior Notes due 2021 | 1,000.0            | 1-month LIBOR + 3.4420% | 3.9692                               | % 4.50       | % |
| 3.60% Senior Notes due 2021 | 1,100.0            | 1-month LIBOR + 2.5150% | 3.0393                               | % 3.60       | % |
| 3.00% Senior Notes due 2023 | 1,000.0            | 1-month LIBOR + 1.7640% | 2.2883                               | % 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 October 1, 2016, the company's total environmental liability was approximately \$49 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.

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(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 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.

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.

## THERMO FISHER SCIENTIFIC INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## 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.

## 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<br>Translation<br>Adjustment | Unrealized<br>Gains on<br>Available-for-<br>Sale<br>Investments | Unrealized<br>Losses<br>Hedging<br>Instruments | Pension<br>and<br>Other<br>Postretirement<br>Benefit<br>Liability<br>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      | (127.8 )                              | (1.0 )  | (36.6 )  | (1.1 )  | (166.5 )     |
| Amounts reclassified from accumulated other comprehensive items | —                                     | 0.7   | 4.3  | 4.1   | 9.1          |
| Net other comprehensive items                                   | (127.8 )                              | (0.3 )  | (32.3 )  | 3.0   | (157.4 )     |
| Balance at October 1, 2016                                      | \$(1,904.5 )                          | \$ 1.5  | \$ (58.9 )                                     | \$ (192.8 )   | \$(2,154.7 ) |

## 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.

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.

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
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The following tables present information about the company's financial assets and liabilities measured at fair value on a recurring basis as of October 1, 2016 and December 31, 2015:

| (In millions)   | October<br>1,<br>2016   | Quoted  | Significant                                | Significant                         |
|---|-------------------------|---|--|-------------------------------------|
|   |                         | Prices<br>in<br>Active<br>Markets<br>(Level<br>1) | Other<br>Observable<br>Inputs<br>(Level 2) | Unobservable<br>Inputs<br>(Level 3) |
| <b>Assets</b>   |                         |   |  |                                     |
| Cash equivalents  | \$851.0                 | \$ 851.0  | \$ —                                       | \$ —                                |
| Bank time deposits  | 2.0                     | 2.0   | —  | —                                   |
| Investments in mutual funds and other similar instruments | 17.3                    | 17.3  | —  | —                                   |
| Warrants  | 2.8                     | —   | 2.8  | —                                   |
| Insurance contracts                                       | 117.8                   | —   | 117.8                                      | —                                   |
| Derivative contracts                                      | 27.8                    | —   | 27.8                                       | —                                   |
| <b>Total Assets</b>                                       | <b>\$1,018.7</b>        | <b>\$ 870.3</b>                                   | <b>\$ 148.4</b>                            | <b>\$ —</b>                         |
| <b>Liabilities</b>  |                         |   |  |                                     |
| Derivative contracts                                      | \$11.0                  | \$—   | \$ 11.0                                    | \$ —                                |
| Contingent consideration                                  | 1.0                     | —   | —  | 1.0                                 |
| <b>Total Liabilities</b>                                  | <b>\$12.0</b>           | <b>\$—</b>  | <b>\$ 11.0</b>                             | <b>\$ 1.0</b>                       |
| (In millions)   | December<br>31,<br>2015 | Quoted  | Significant                                | Significant                         |
|   |                         | Prices<br>in<br>Active<br>Markets<br>(Level<br>1) | Other<br>Observable<br>Inputs<br>(Level 2) | Unobservable<br>Inputs<br>(Level 3) |
| <b>Assets</b>   |                         |   |  |                                     |
| 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                                       | —                                   |
| <b>Total Assets</b>                                       | <b>\$ 189.5</b>         | <b>\$ 64.2</b>                                    | <b>\$ 125.3</b>                            | <b>\$ —</b>                         |
| <b>Liabilities</b>  |                         |   |  |                                     |
| 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 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 notional amounts of derivative contracts outstanding, consisting of interest rate swaps and currency exchange contracts, totaled \$8.28 billion and \$6.63 billion at October 1, 2016 and December 31, 2015, respectively.

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
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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 –<br>Assets |                 | Fair Value –<br>Liabilities |                 |
|---------------|------------------------|-----------------|-----------------------------|-----------------|
|               | October<br>1,          | December<br>31, | October<br>1,               | December<br>31, |
| (In millions) | 2016                   | 2015            | 2016                        | 2015            |

Derivatives Designated as  
 Hedging Instruments

|                         |        |        |      |         |
|-------------------------|--------|--------|------|---------|
| Interest rate swaps (a) | \$13.0 | \$ 0.2 | \$ – | \$ 16.4 |
|-------------------------|--------|--------|------|---------|

Derivatives Not Designated as  
 Hedging Instruments

|                                 |      |      |      |     |
|---------------------------------|------|------|------|-----|
| Currency exchange contracts (b) | 14.8 | 13.6 | 11.0 | 5.4 |
|---------------------------------|------|------|------|-----|

(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<br>Ended  |                  | Nine Months<br>Ended |                  |
|               | October<br>1,          | September<br>26, | October<br>1,        | September<br>26, |
| (In millions) | 2016                   | 2015             | 2016                 | 2015             |

Derivatives Designated as Fair Value Hedges

|   |       |        |        |         |
|---|-------|--------|--------|---------|
| Interest rate swaps - effective portion | \$4.9 | \$ 9.5 | \$17.0 | \$ 25.7 |
|---|-------|--------|--------|---------|

|   |     |        |     |        |
|---|-----|--------|-----|--------|
| Interest rate swaps - ineffective portion (a) | 1.1 | (0.2 ) | 1.6 | (7.4 ) |
|---|-----|--------|-----|--------|

Derivatives Not Designated as Hedging Instruments

Currency exchange contracts

|                              |         |          |          |         |
|------------------------------|---------|----------|----------|---------|
| Included in cost of revenues | \$(3.7) | \$(6.0 ) | \$(18.7) | \$ 11.5 |
|------------------------------|---------|----------|----------|---------|

|                                |     |        |         |       |
|--------------------------------|-----|--------|---------|-------|
| Included in other expense, net | 1.2 | (6.4 ) | (42.9 ) | 130.6 |
|--------------------------------|-----|--------|---------|-------|

(a) The ineffective portion of the loss recognized on interest rate swaps during the nine months ended September 26, 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 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 nine months of 2016 and 2015, pre-tax net (losses)/gains of \$(54) million and \$43 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 is being amortized to interest expense over the term of the debt.

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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)    | October 1, 2016 |            | December 31, 2015 |            |
|------------------|-----------------|------------|-------------------|------------|
|                  | Carrying Value  | Fair Value | Carrying Value    | Fair Value |
| Notes Receivable | \$12.4          | \$14.4     | \$12.1            | \$14.9     |

Debt Obligations:

|                  |            |            |            |            |
|------------------|------------|------------|------------|------------|
| Senior notes     | \$16,132.3 | \$16,816.1 | \$12,406.1 | \$12,618.8 |
| Term loan        | 1,946.0    | 1,950.0    | —          | —          |
| Commercial paper | 820.5      | 820.5      | 49.6       | 49.6       |
| Other            | 13.7       | 13.7       | 16.3       | 16.3       |

\$18,912.5 \$19,600.3 \$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.

Note 13. Supplemental Cash Flow Information

| (In millions)  | Nine Months Ended |                    |
|--|-------------------|--------------------|
|  | October 1, 2016   | September 26, 2015 |
| Non-cash Activities                                      |                   |                    |
| Fair value of assets of acquired businesses              | \$6,969.7         | \$ 315.6           |
| Cash paid for acquired businesses                        | (5,599.2 )        | (307.6 )           |
| Liabilities assumed of acquired businesses               | \$1,370.5         | \$ 8.0             |
| Declared but unpaid dividends                            | \$60.2            | \$ 61.1            |
| Issuance of stock upon vesting of restricted stock units | \$125.2           | \$ 129.4           |

Note 14. Restructuring and Other Costs, Net

Restructuring and other costs in the first nine months of 2016 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 acquisitions of FEI and Affymetrix; sales of inventories revalued at the date of acquisition; costs to conform the accounting policies of FEI and Affymetrix with the company's accounting policies; costs to achieve synergies related to acquisitions, including severance and abandoned facility costs; and net charges for litigation matters. These charges were partially offset by gains on sales of real estate. In the first nine months of 2016, severance actions associated with facility consolidations and cost reduction measures affected approximately 2% of the company's workforce.

As of November 4, 2016, the company has identified restructuring actions that will result in additional charges of approximately \$70 million, primarily in 2016 and 2017, which will be recorded when specified criteria are met, such



as communication of benefit arrangements and abandonment of leased facilities.

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Third Quarter of 2016

During the third 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          | \$ 10.8          | \$ 6.2                                       | \$ 10.2                            | \$27.2  |
| Analytical Instruments           | 21.6             | 39.1   | 30.9                               | 91.6    |
| Specialty Diagnostics            | —                | —  | 11.7                               | 11.7    |
| Laboratory Products and Services | —                | —  | 1.5                                | 1.5     |
| Corporate                        | —                | 17.2   | 0.6                                | 17.8    |
|                                  | \$ 32.4          | \$ 62.5                                      | \$ 54.9                            | \$149.8 |

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

Life Sciences Solutions

In the third quarter of 2016, the Life Sciences Solutions segment recorded \$27.2 million of net restructuring and other charges, including charges to cost of revenues of \$10.8 million for sales of inventories revalued at the date of acquisition. The segment also recorded \$6.2 million of charges to selling, general and administrative expenses principally for third-party transaction and integration costs related to the acquisition of Affymetrix. In addition, the segment recorded \$10.2 million of restructuring and other costs, net, most of which were cash costs associated with headcount reductions and actions to achieve related synergies in the U.S.

Analytical Instruments

In the third quarter of 2016, the Analytical Instruments segment recorded \$91.6 million of net restructuring and other charges. The segment recorded charges to cost of revenues of \$21.6 million, including \$16.1 million to conform the accounting policies of FEI with the company's accounting policies and \$5.5 million for the sales of inventory revalued at the date of acquisition. The segment recorded \$39.1 million of charges to selling, general, and administrative expense, including \$30.5 million for third-party transaction costs related to the acquisition of FEI (Note 2), as well as \$8.5 million to conform the accounting policies of FEI with the company's accounting policies. The segment also recorded \$30.9 million of cash restructuring costs, primarily for severance obligations payable to former FEI executives.

Specialty Diagnostics

In the third quarter of 2016, the Specialty Diagnostics segment recorded \$11.7 million of net restructuring and other costs, including \$10.0 million of charges for litigation-related matters, with the remainder principally for severance associated with headcount reductions in Europe.

Laboratory Products and Services

In the third quarter of 2016, the Laboratory Products and Services segment recorded \$1.5 million of net restructuring and other charges, including \$2.2 million of cash restructuring costs primarily for employee severance and other costs associated facility consolidations in the U.S. These cash costs were partially offset by \$0.7 million of net gains associated with litigation-related matters of a divested business.

Corporate

In the third quarter of 2016, the company recorded \$17.8 million of restructuring and other costs, principally within selling, general, and administrative expense, including \$17.2 million of charges for product liability litigation. The company also recorded \$0.6 million of cash restructuring costs associated with facility consolidation at its corporate operations.



## THERMO FISHER SCIENTIFIC INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## First Nine Months of 2016

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

| (In millions)                    | Cost of<br>Revenues | Selling,<br>General and<br>Administrative<br>Expenses | Restructuring<br>and Other<br>Costs, Net | Total   |
|----------------------------------|---------------------|---|--|---------|
| Life Sciences Solutions          | \$ 30.9             | \$ 32.6   | \$ 57.4                                  | \$120.9 |
| Analytical Instruments           | 21.6                | 40.9  | 55.4                                     | 117.9   |
| Specialty Diagnostics            | —                   | —   | 11.6                                     | 11.6    |
| Laboratory Products and Services | 7.9                 | 0.5   | 15.4                                     | 23.8    |
| Corporate                        | —                   | 21.2  | 1.1                                      | 22.3    |
|                                  | \$ 60.4             | \$ 95.2   | \$ 140.9                                 | \$296.5 |

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

## Life Sciences Solutions

In the first nine months of 2016, the Life Sciences Solutions segment recorded \$120.9 million of net restructuring and other charges. The segment recorded charges to cost of revenues of \$30.9 million, including \$27.0 million for 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 \$32.6 million of charges to selling, general and administrative expenses, including \$30.9 million of third-party transaction and integration costs related to the acquisition of Affymetrix and \$3.6 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 \$62.3 million of cash restructuring costs, including \$44.6 million of severance and related costs primarily to achieve acquisition synergies, and \$17.7 million of abandoned facilities costs principally for the consolidation of facilities in the U.S. These costs were offset in part by \$4.3 million of net gains on litigation-related matters at acquired businesses and \$0.6 million of other non-cash income, net.

## Analytical Instruments

In the first nine months of 2016, the Analytical Instruments segment recorded \$117.9 million of net restructuring and other charges. The segment recorded charges to cost of revenues of \$21.6 million, including \$16.1 million to conform the accounting policies of FEI with the company's accounting policies and \$5.5 million for the sales of inventory revalued at the date of acquisition. The segment recorded \$40.9 million of charges to selling, general, and administrative expense, including \$32.2 million for third-party transaction costs related to the acquisition of FEI, as well as \$8.5 million of charges to conform the accounting policies of FEI with the company's accounting policies. The segment also recorded \$58.1 million of cash restructuring costs primarily for severance obligations payable to former FEI executives, and charges 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 nine months of 2016, the Specialty Diagnostics segment recorded \$11.6 million of net restructuring and other charges including \$10.0 million of charges for litigation-related matters, as well as \$3.7 million of cash restructuring costs for severance and other costs associated with headcount reductions and facility consolidations. These charges were partially offset by \$2.1 million of other income, primarily gains on the sale of real estate.

## Laboratory Products and Services

In the first nine months of 2016, the Laboratory Products and Services segment recorded \$23.8 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 company recorded \$10.1 million of cash restructuring costs, primarily for employee severance and other costs associated with headcount reductions and facility

## THERMO FISHER SCIENTIFIC INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

consolidations. 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., offset in part by \$1.3 million of gain on the settlement of litigation.

## Corporate

In the first nine months of 2016, the company recorded \$22.3 million of restructuring and other costs, principally within selling, general, and administrative expenses, including \$17.2 million of charges for product liability litigation and \$4.0 million of accelerated depreciation on information system to be abandoned due to integration synergies. The segment also recorded \$1.5 million of restructuring charges for severance and costs associated with facility consolidation 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<br>of Excess<br>Facilities | Other<br>(a) | Total   |
|------------------------------|-----------|--|--------------|---------|
| Balance at December 31, 2015 | \$ 15.2   | \$ 13.1                                | \$3.0        | \$31.3  |
| Costs incurred in 2016 (c)   | 84.9      | 43.4                                   | 8.5          | 136.8   |
| Reserves reversed (b)        | (0.7 )    | (0.2 )                                 | (0.2 )       | (1.1 )  |
| Payments                     | (36.2 )   | (16.6 )                                | (8.9 )       | (61.7 ) |
| Currency translation         | 0.2       | —                                      | —            | 0.2     |
| Balance at October 1, 2016   | \$ 63.4   | \$ 39.7                                | \$2.4        | \$105.5 |

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 \$5.2 million of charges, 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.

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. Additionally, the acquisition expands the company's genetic analysis portfolio through the addition of microarrays. Revenues of Affymetrix were \$360 million in 2015.

On September 19, 2016, the company acquired, within the Analytical Instruments segment, FEI Company, a North America-based provider of high-performance electron microscopy, for a total purchase price of \$4.08 billion, net of cash acquired. The acquisition strengthens the company's analytical instrument portfolio with the addition of high-end electron microscopes. Revenues of FEI were \$930 million in 2015.

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 |                       | Nine Months Ended  |                       |
|----------------------------------|--------------------|-----------------------|--------------------|-----------------------|
|                                  | October 1,<br>2016 | September 26,<br>2015 | October 1,<br>2016 | September 26,<br>2015 |
| Revenues                         |                    |                       |                    |                       |
| Life Sciences Solutions          | \$1,231.5          | 27.4 %                | \$1,080.4          | 26.2 %                |
| Analytical Instruments           | 898.0              | 20.0 %                | 778.5              | 18.9 %                |
| Specialty Diagnostics            | 798.9              | 17.8 %                | 776.9              | 18.8 %                |
| Laboratory Products and Services | 1,746.2            | 38.9 %                | 1,638.2            | 39.7 %                |
| Eliminations                     | (183.7 )           | (4.1 )%               | (150.8 )           | (3.6 )%               |
|                                  | \$4,490.9          | 100 %                 | \$4,123.2          | 100 %                 |
|                                  | \$13,320.9         | 100 %                 | \$12,312.9         | 100 %                 |

Sales in the third quarter of 2016 were \$4.49 billion, an increase of \$368 million from 2015. Sales increased \$201 million due to acquisitions, net of divestitures. The unfavorable effects of currency translation resulted in a decrease in revenues of \$13 million in the third quarter of 2016. Aside from the effects of acquisitions, divestitures and currency translation, revenues increased \$179 million (4%) primarily due to increased demand in the fiscal quarter compared to the 2015 quarter. Demand from customers in pharmaceutical and biotech industries was particularly strong. Sales to customers in the company's primary end markets grew except for industrial and applied markets where sales decreased slightly. Sales growth was modest in North America, moderate in Europe and strong in Asia.

In the third quarter of 2016, total company operating income and operating income margin were \$541 million and 12.0%, respectively, compared with \$563 million and 13.7%, respectively, in 2015. The decrease in operating income was primarily due to higher restructuring and acquisition-related costs and, to a lesser extent, strategic growth investments, offset in part by productivity improvements, net of inflationary cost increases and profit on higher sales in local currencies. The company's references to strategic growth investments generally refer to targeted spending for enhancing commercial capabilities, including expansion of geographic sales reach and e-commerce platforms, marketing initiatives, focused research projects and other expenditures to enhance the customer experience. 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 recorded a \$46 million benefit from income taxes in the third quarter of 2016 including discrete benefits totaling \$39 million, or 9.1 percentage points, related to prior year tax filings. The tax provision in the third quarter of 2016 was also favorably affected by \$9 million, or 2.0 percentage points, as a result of adjustments to deferred tax balances due to changes in tax rates. The company expects its effective tax rate for all of 2016 will be less than 2% 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 \$630 to \$700 million in 2016. The company recorded a \$9 million benefit from income taxes in the third quarter of 2015 including discrete benefits totaling \$44 million related to additional prior year foreign tax and other credits as well as restructuring and other costs associated with the 2014 acquisition of Life Technologies. The effective rate in both periods was also affected by relatively significant earnings in lower tax jurisdictions.

Income from continuing operations decreased to \$474 million in the third quarter of 2016, from \$477 million in the third quarter of 2015 due to i) the decrease in operating income in the 2016 period (discussed above), ii) an increase in interest expense due to increases in outstanding debt and effective interest rates and iii) charges related to obtaining bridge financing for the pending acquisition of FEI. These decreases were substantially offset by an increase in the



income tax benefit in the 2016 period (discussed above),

During the first nine months of 2016, the company's cash flow from operations totaled \$1.95 billion compared with \$1.59 billion for 2015. The increase primarily resulted from lower investments in working capital in the 2016 period. As of October 1, 2016, the company's short-term debt totaled \$1.97 billion, including \$0.90 billion of senior notes, which were repaid in October 2016, \$250 million due within the next twelve months under a 3-year term loan agreement and \$821 million of commercial paper obligations. The company has a revolving credit facility with a bank group that provides up to

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## THERMO FISHER SCIENTIFIC INC.

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

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

\$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 October 1, 2016, no borrowings were outstanding under the company's revolving credit facility, although available capacity was reduced by approximately \$67 million as a result of outstanding letters of credit.

The company believes that its existing cash and cash equivalents of \$1.97 billion as of October 1, 2016 and its future cash flow from operations together with available borrowing capacity under its revolving credit agreement will be sufficient to fund the debt repayment made in October 2016 and 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 nine months of 2016.

## Results of Operations

## Third Quarter 2016 Compared With Third Quarter 2015

| (In millions)                    | Three Months Ended |                       | Total<br>Change | Currency<br>Translation | Acquisitions/<br>Divestitures | Operations      |
|----------------------------------|--------------------|-----------------------|-----------------|-------------------------|-------------------------------|-----------------|
|                                  | October 1,<br>2016 | September 26,<br>2015 |                 |                         |                               |                 |
| <b>Revenues</b>                  |                    |                       |                 |                         |                               |                 |
| Life Sciences Solutions          | \$1,231.5          | \$ 1,080.4            | \$151.1         | \$ (0.9 )               | \$ 75.9                       | \$ 76.1         |
| Analytical Instruments           | 898.0              | 778.5                 | 119.5           | (0.3 )                  | 98.8                          | 21.0            |
| Specialty Diagnostics            | 798.9              | 776.9                 | 22.0            | (1.5 )                  | —                             | 23.5            |
| Laboratory Products and Services | 1,746.2            | 1,638.2               | 108.0           | (14.3 )                 | 28.2                          | 94.1            |
| Eliminations                     | (183.7 )           | (150.8 )              | (32.9 )         | 4.1                     | (1.6 )                        | (35.4 )         |
| <b>Consolidated Revenues</b>     | <b>\$4,490.9</b>   | <b>\$ 4,123.2</b>     | <b>\$367.7</b>  | <b>\$ (12.9 )</b>       | <b>\$ 201.3</b>               | <b>\$ 179.3</b> |

Sales in the third quarter of 2016 were \$4.49 billion, an increase of \$368 million from the third quarter of 2015. Sales increased \$201 million due to acquisitions, net of divestitures. The unfavorable effects of currency translation resulted in a decrease in revenues of \$13 million in 2016. Aside from the effects of acquisitions/divestitures and currency translation, revenues increased \$179 million (4%) primarily due to increased demand in the fiscal quarter compared to the 2015 quarter. Demand from customers in pharmaceutical and biotech industries was particularly strong. Sales to

customers in the company's primary end markets grew except for industrial and applied markets where sales decreased slightly. Sales growth was modest in North America, moderate in Europe and strong in Asia.

In the third quarter of 2016, total company operating income and operating income margin were \$541 million and 12.0%, respectively, compared with \$563 million and 13.7%, respectively, in 2015. The decrease in operating income was primarily due to higher restructuring and acquisition-related costs and, to a lesser extent, strategic growth investments, offset in part by productivity improvements, net of inflationary cost increases and profit on higher sales in local currencies.

THERMO FISHER SCIENTIFIC INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
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Results of Operations (continued)

In the third quarter of 2016, the company recorded restructuring and other costs, net, of \$150 million, including \$32 million of charges to cost of revenues for the sale of inventories revalued at the date of acquisition and to conform the accounting policies of FEI with the company's accounting policies. The company recorded \$63 million of charges to selling, general and administrative expenses, primarily for third-party transaction costs related to the acquisitions of FEI and Affymetrix as well as product liability litigation. In addition, the company recorded \$45 million of cash restructuring costs, primarily to achieve acquisition synergies, including severance and abandoned facilities costs associated with the closure and consolidation of facilities in the U.S. The company's other businesses incurred costs for continued headcount reductions and facility consolidations in an effort to streamline operations including severance at several businesses and abandoned facility expenses at businesses that have been or are being consolidated in the U.S., Europe and Asia. The company also recorded \$10 million of other charges, net, principally associated with litigation-related matters (see Note 14).

In the third quarter of 2015, the company recorded restructuring and other costs, net, of \$41 million primarily for charges associated with product liability litigation and costs of streamlining operations, including severance and other costs associated with headcount reductions at several businesses. These charges also were for actions to achieve synergies from the Life Technologies acquisition.

As of November 4, 2016, the company has identified restructuring actions that will result in additional charges of approximately \$70 million in 2016 and 2017, and expects to identify additional actions during 2016 which will be recorded when specified criteria are met, such as communication of benefit arrangements and abandonment of leased facilities.

#### Segment Results

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

THERMO FISHER SCIENTIFIC INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS  
Results of Operations (continued)

| (Dollars in millions)                                 | Three Months Ended    |                          | Change |   |
|---|-----------------------|--------------------------|--------|---|
|   | October<br>1,<br>2016 | September<br>26,<br>2015 |        |   |
| Revenues  |                       |                          |        |   |
| Life Sciences Solutions                               | \$1,231.5             | \$1,080.4                | 14     | % |
| Analytical Instruments                                | 898.0                 | 778.5                    | 15     | % |
| Specialty Diagnostics                                 | 798.9                 | 776.9                    | 3      | % |
| Laboratory Products and Services                      | 1,746.2               | 1,638.2                  | 7      | % |
| Eliminations  | (183.7 )              | (150.8 )                 | 22     | % |
| Consolidated Revenues                                 | \$4,490.9             | \$4,123.2                | 9      | % |
| Segment Income  |                       |                          |        |   |
| Life Sciences Solutions                               | \$370.1               | \$332.7                  | 11     | % |
| Analytical Instruments                                | 190.1                 | 146.5                    | 30     | % |
| Specialty Diagnostics                                 | 214.4                 | 204.9                    | 5      | % |
| Laboratory Products and Services                      | 257.9                 | 249.6                    | 3      | % |
| Subtotal Reportable Segments                          | 1,032.5               | 933.7                    | 11     | % |
| Cost of Revenues Charges                              | (32.4 )               | (0.8 )                   |        |   |
| Selling, General and Administrative Charges, Net      | (62.5 )               | (24.6 )                  |        |   |
| Restructuring and Other Costs, Net                    | (54.9 )               | (15.5 )                  |        |   |
| Amortization of Acquisition-related Intangible Assets | (341.6 )              | (329.9 )                 |        |   |
| Consolidated Operating Income                         | \$541.1               | \$562.9                  | (4 )   | % |
| Reportable Segments Operating Income Margin           | 23.0                  | % 22.6                   | %      |   |
| Consolidated Operating Income Margin                  | 12.0                  | % 13.7                   | %      |   |

Income from the company's reportable segments increased 11% to \$1.03 billion in the third quarter of 2016 due primarily 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 and unfavorable sales mix.

Life Sciences Solutions

| (Dollars in millions)   | Three Months Ended    |                          | Change    |   |
|-------------------------|-----------------------|--------------------------|-----------|---|
|                         | October<br>1,<br>2016 | September<br>26,<br>2015 |           |   |
| Revenues                | \$1,231.5             | \$1,080.4                | 14        | % |
| Operating Income Margin | 30.1                  | % 30.8                   | % -0.7 pt |   |

Sales in the Life Sciences Solutions segment increased \$151 million to \$1.23 billion in the third quarter of 2016. Sales increased \$76 million (7%) due to higher revenues at existing businesses and \$76 million due to an acquisition, offset in part by a decrease of \$1 million due to the unfavorable effects of currency translation. The increase in revenue at existing businesses was primarily due to increased demand for bioprocess production products as well as biosciences products and next generation sequencing offerings.

Operating income margin was 30.1% in the third quarter of 2016 compared to 30.8% in the third quarter of 2015. The decrease resulted primarily from unfavorable sales mix, acquisition dilution and strategic growth investments, offset in part by productivity improvements, net of inflationary cost increases and, to a lesser extent, profit on higher sales in local currencies.

THERMO FISHER SCIENTIFIC INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS  
Results of Operations (continued)

## Analytical Instruments

|                       | Three Months Ended    |                          | Change |   |
|-----------------------|-----------------------|--------------------------|--------|---|
|                       | October<br>1,<br>2016 | September<br>26,<br>2015 |        |   |
| (Dollars in millions) |                       |                          |        |   |
| Revenues              | \$898.0               | \$778.5                  | 15     | % |

Operating Income Margin 21.2 % 18.8 % 2.4 pt

Sales in the Analytical Instruments segment increased \$120 million to \$898 million in the third quarter of 2016. Sales increased \$99 million due to acquisitions and \$21 million (3%) due to higher revenues at existing businesses. The increase in revenue at existing businesses was primarily due to increased demand for products sold by the segment's chromatography and mass spectrometry business and, to a lesser extent, by its environmental instruments business. These increases were offset in part by lower sales of chemical analysis products due primarily to softness in certain industrial end markets.

Operating income margin was 21.2% in the third quarter of 2016 compared to 18.8% in the third quarter of 2015. The increase resulted primarily from productivity improvements, net of inflationary cost increases and, to a lesser extent, favorable foreign currency exchange and the effect of acquisitions, offset in part by unfavorable sales mix and strategic growth investments.

## Specialty Diagnostics

|                       | Three Months Ended    |                          | Change |   |
|-----------------------|-----------------------|--------------------------|--------|---|
|                       | October<br>1,<br>2016 | September<br>26,<br>2015 |        |   |
| (Dollars in millions) |                       |                          |        |   |
| Revenues              | \$798.9               | \$776.9                  | 3      | % |

Operating Income Margin 26.8 % 26.4 % 0.4 pt

Sales in the Specialty Diagnostics segment increased \$22 million to \$799 million in the third quarter of 2016. Sales increased \$24 million (3%) due to higher revenues at existing businesses, offset in part by a decrease of \$2 million due to the unfavorable effects of currency translation. The increase in revenue at existing businesses was primarily due to increased demand for products sold through the segment's healthcare market channel and transplant diagnostics products.

Operating income margin was 26.8% in the third quarter of 2016 and 26.4% in the third quarter of 2015. The increase resulted primarily from productivity improvements, net of inflationary cost increases and, to a lesser extent, profit on higher sales in local currencies and favorable foreign currency exchange, offset in part by strategic growth investments.

## Laboratory Products and Services

|                       | Three Months Ended    |                          | Change |   |
|-----------------------|-----------------------|--------------------------|--------|---|
|                       | October<br>1,<br>2016 | September<br>26,<br>2015 |        |   |
| (Dollars in millions) |                       |                          |        |   |
| Revenues              | \$1,746.2             | \$1,638.2                | 7      | % |

Operating Income Margin 14.8 % 15.2 % -0.4 pt

Sales in the Laboratory Products and Services segment increased \$108 million to \$1.75 billion in the third quarter of 2016. Sales increased \$94 million (6%) due to higher revenues at existing businesses and \$28 million due to an acquisition. These increases were offset in part by \$14 million due to the unfavorable effects of currency translation. The increase in revenue at existing businesses was primarily due to increased demand for products sold through the segment's channel business as well as clinical trial logistics services.

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THERMO FISHER SCIENTIFIC INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
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Results of Operations (continued)

Operating income margin was 14.8% in the third quarter of 2016 and 15.2% in the third quarter of 2015. The decrease was primarily due to unfavorable sales mix and strategic growth investments, offset in part by productivity improvements, net of inflationary cost increases and, to a lesser extent, profit on higher sales in local currencies.

Other Expense, Net

The company reported other expense, net, of \$113 million and \$95 million in the third quarter of 2016 and 2015, respectively (Note 4). Interest expense increased \$13 million primarily due to increases in outstanding debt to fund acquisitions. In 2016, other items, net includes \$12 million of charges related to the amortization of fees paid to obtain bridge financing commitments for the acquisition of FEI. In 2015, other items, net includes a \$3 million loss on the early extinguishment of debt.

Provision for Income Taxes

The company recorded a \$46 million benefit from income taxes in the third quarter of 2016 including discrete benefits totaling \$39 million, or 9.1 percentage points, related to prior year tax filings. The tax provision in the third quarter of 2016 was also favorably affected by \$9 million, or 2.0 percentage points, as a result of adjustments to deferred tax balances due to changes in tax rates. The company expects its effective tax rate for all of 2016 will be less than 2% 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 \$630 to \$700 million in 2016. The company recorded a \$9 million benefit from income taxes in the third quarter of 2015 including discrete benefits totaling \$44 million related to additional prior year foreign tax and other credits as well as restructuring and other costs associated with the 2014 acquisition of Life Technologies. The effective rate in both periods was also affected by relatively significant earnings in lower tax jurisdictions.

The company has operations and a taxable presence in approximately 50 countries outside the U.S. All of these countries except one have a lower tax rate than the U.S. The countries in which the company has a material presence that have significantly lower tax rates than the U.S. include Germany, the Netherlands, Singapore, Sweden, Switzerland and the United Kingdom. The company's ability to obtain a benefit from lower tax rates outside the U.S. is dependent on its relative levels of income in countries outside the U.S. and on the statutory tax rates in those countries. Based on the dispersion of the company's non-U.S. income tax provision among many countries, the company believes that a change in the statutory tax rate in any individual country is not likely to materially affect the company's income tax provision or net income, aside from any resulting one-time adjustment to the company's deferred tax balances to reflect a new rate.

First Nine Months of 2016 Compared With First Nine Months of 2015

| (In millions)                    | Nine Months Ended |                    |                  | Currency Translation | Acquisitions/<br>Divestitures | Operations      |
|----------------------------------|-------------------|--------------------|------------------|----------------------|-------------------------------|-----------------|
|                                  | October 1, 2016   | September 26, 2015 | Total Change     |                      |                               |                 |
| <b>Revenues</b>                  |                   |                    |                  |                      |                               |                 |
| Life Sciences Solutions          | \$3,642.1         | \$ 3,229.6         | \$412.5          | \$ (23.5 )           | \$ 169.8                      | \$ 266.2        |
| Analytical Instruments           | 2,451.2           | 2,282.9            | 168.3            | (14.0 )              | 99.1                          | 83.2            |
| Specialty Diagnostics            | 2,504.8           | 2,379.2            | 125.6            | (11.2 )              | (0.7 )                        | 137.5           |
| Laboratory Products and Services | 5,273.0           | 4,844.9            | 428.1            | (49.8 )              | 89.3                          | 388.6           |
| Eliminations                     | (550.2 )          | (423.7 )           | (126.5 )         | 8.3                  | (3.3 )                        | (131.5 )        |
| <b>Consolidated Revenues</b>     | <b>\$13,320.9</b> | <b>\$ 12,312.9</b> | <b>\$1,008.0</b> | <b>\$ (90.2 )</b>    | <b>\$ 354.2</b>               | <b>\$ 744.0</b> |

Sales in the first nine months of 2016 were \$13.32 billion, an increase of \$1.01 billion from the first nine months of 2015. Sales increased \$354 million due to acquisitions. The unfavorable effects of currency translation resulted in a

decrease in revenues of \$90 million in 2016. Aside from the effects of currency translation and acquisitions, revenues increased \$744 million (6%) primarily due to increased demand and four extra selling days in the first quarter compared to the 2015 quarter. (The company's fourth quarter of 2016 will have four fewer selling days than the corresponding 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 strong in each of the company's primary geographic regions.

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THERMO FISHER SCIENTIFIC INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

Results of Operations (continued)

In the first nine months of 2016, total company operating income and operating income margin were \$1.70 billion and 12.7%, respectively, compared with \$1.65 billion and 13.4%, respectively, in the first nine months of 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 higher restructuring and acquisition-related charges in the 2016 period, strategic growth investments and unfavorable sales mix.

In the first nine months of 2016, the company recorded restructuring and other costs, net, of \$297 million, including \$60 million of charges to cost of revenues for the sale of inventories revalued at the date of acquisition and to conform the accounting policies of FEI and Affymetrix with the company's accounting policies; \$95 million of charges to selling, general and administrative expenses primarily for third-party transaction and integration costs related to the acquisitions of FEI and Affymetrix. In addition, the company recorded \$136 million of cash restructuring costs, primarily to achieve acquisition synergies, including severance and abandoned facilities costs associated with the closure and consolidation of facilities in the U.S. The company's other businesses incurred costs for continued headcount reductions and facility consolidations in an effort to streamline operations, including severance at several businesses and abandoned facility expenses at businesses that have been or are being consolidated in the U.S., Europe and Asia (see Note 14).

In the first nine months of 2015, the company recorded restructuring and other costs, net, of \$106 million, including \$3 million of charges to cost of revenues for accelerated depreciation at facilities closing due to real estate consolidation and the sale of inventories revalued at the date of acquisition; \$35 million of charges to selling, general and administrative expenses primarily for charges associated with product liability litigation, third-party transaction and integration costs related to the acquisitions of Life Technologies and Alfa Aesar, and, to a lesser extent, accelerated depreciation at facilities closing due to real estate consolidation. In addition, the company recorded \$66 million of cash restructuring costs primarily for actions to achieve synergies from the Life Technologies acquisition and for abandoned facilities costs associated with a manufacturing facility in the U.S. The company's other businesses incurred costs for continued headcount reductions and facility consolidations in an effort to streamline operations, including severance at several businesses and abandoned facility expenses at businesses that have been or are being consolidated, including the consolidation of operations within several facilities in the U.S., Europe and Asia. The company also recorded charges for litigation-related matters associated with acquired and divested businesses. These costs were partially offset by gains on the sale of a small product line and real estate.

THERMO FISHER SCIENTIFIC INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS  
Results of Operations (continued)

## Segment Results

| (Dollars in millions)                                 | Nine Months Ended     |                          | Change   |          |
|---|-----------------------|--------------------------|----------|----------|
|   | October<br>1,<br>2016 | September<br>26,<br>2015 |          |          |
| <b>Revenues</b>                                       |                       |                          |          |          |
| Life Sciences Solutions                               | \$3,642.1             | \$3,229.6                | 13       | %        |
| Analytical Instruments                                | 2,451.2               | 2,282.9                  | 7        | %        |
| Specialty Diagnostics                                 | 2,504.8               | 2,379.2                  | 5        | %        |
| Laboratory Products and Services                      | 5,273.0               | 4,844.9                  | 9        | %        |
| Eliminations  | (550.2 )              | (423.7 )                 | 30       | %        |
| <b>Consolidated Revenues</b>                          | <b>\$13,320.9</b>     | <b>\$12,312.9</b>        | <b>8</b> | <b>%</b> |
| <b>Segment Income</b>                                 |                       |                          |          |          |
| Life Sciences Solutions                               | \$1,069.7             | \$954.9                  | 12       | %        |
| Analytical Instruments                                | 446.7                 | 407.8                    | 10       | %        |
| Specialty Diagnostics                                 | 682.4                 | 646.2                    | 6        | %        |
| Laboratory Products and Services                      | 795.9                 | 731.7                    | 9        | %        |
| <b>Subtotal Reportable Segments</b>                   | <b>2,994.7</b>        | <b>2,740.6</b>           | <b>9</b> | <b>%</b> |
| Cost of Revenues Charges                              | (60.4 )               | (2.5 )                   |          |          |
| Selling, General and Administrative Charges, Net      | (95.2 )               | (35.4 )                  |          |          |
| Restructuring and Other Costs, Net                    | (140.9 )              | (67.9 )                  |          |          |
| Amortization of Acquisition-related Intangible Assets | (1,001.6 )            | (988.8 )                 |          |          |
| <b>Consolidated Operating Income</b>                  | <b>\$1,696.6</b>      | <b>\$1,646.0</b>         | <b>3</b> | <b>%</b> |
| <b>Reportable Segments Operating Income Margin</b>    | <b>22.5</b>           | <b>% 22.3</b>            | <b>%</b> |          |
| <b>Consolidated Operating Income Margin</b>           | <b>12.7</b>           | <b>% 13.4</b>            | <b>%</b> |          |

Income from the company's reportable segments increased 9% to \$2.99 billion in the first nine months of 2016 due primarily 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 and unfavorable sales mix. The impact of having four extra selling days in the 2016 first quarter versus the 2015 first quarter benefited revenues for the company's segments, particularly those with higher levels of consumables sales. In segments with a lower relative mix of consumable revenues, the extra days had a negative effect on operating margins, however, as the incremental revenues were less than the quarter's daily average revenues while fixed costs were incurred irrespective of the level of incremental revenues from extra days in the quarter. The company expects a corresponding opposite effect in the fourth quarter of 2016 which has four fewer selling days than the fourth quarter of 2015.

## Life Sciences Solutions

Nine Months Ended

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| (Dollars in millions)   | October<br>1,<br>2016 | September<br>26,<br>2015 | Change |         |
|-------------------------|-----------------------|--------------------------|--------|---------|
| Revenues                | \$3,642.1             | \$3,229.6                | 13     | %       |
| Operating Income Margin | 29.4                  | % 29.6                   | %      | -0.2 pt |

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THERMO FISHER SCIENTIFIC INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS  
Results of Operations (continued)

Sales in the Life Sciences Solutions segment increased \$413 million to \$3.64 billion in the first nine months of 2016. Sales increased \$266 million (8%) due to higher revenues at existing businesses and \$170 million due to acquisitions, offset in part by a decrease of \$24 million due to the unfavorable effects of currency translation. The increase in revenue at existing businesses was primarily due to increased demand for bioprocess production products and biosciences products as well as four extra selling days in the first quarter of 2016.

Operating income margin was 29.4% in the first nine months of 2016 compared to 29.6% in the first nine months of 2015. The decrease in operating margin resulted from unfavorable sales mix, acquisition dilution and strategic growth investments, offset by productivity improvements, net of inflationary cost increases and, to a lesser extent, profit on higher sales in local currencies.

Analytical Instruments

|                       | Nine Months Ended     |                          | Change |   |
|-----------------------|-----------------------|--------------------------|--------|---|
|                       | October<br>1,<br>2016 | September<br>26,<br>2015 |        |   |
| (Dollars in millions) |                       |                          |        |   |
| Revenues              | \$2,451.2             | \$2,282.9                | 7      | % |

Operating Income Margin 18.2 % 17.9 % 0.3 pt

Sales in the Analytical Instruments segment increased \$168 million to \$2.45 billion in the first nine months of 2016. Sales increased \$99 million due to acquisitions and \$83 million (4%) due to higher revenues at existing businesses, offset in part by a decrease of \$14 million due to the unfavorable effects of currency translation. The increase in revenue at existing businesses was primarily due to increased demand for products sold by the segment's chromatography and mass spectrometry business and, to a lesser extent, sales of service offerings by its environmental instruments business. These increases were offset in part by lower sales of chemical analysis products due primarily to softness in certain industrial end markets.

Operating income margin was 18.2% in the first nine months of 2016 compared to 17.9% in the first nine months of 2015. The increase resulted primarily from profit on higher sales in local currencies and productivity improvements, net of inflationary cost increases, offset in part by unfavorable sales mix, strategic growth investments and higher costs from four additional selling days in the first quarter of 2016.

Specialty Diagnostics

|                       | Nine Months Ended     |                          | Change |   |
|-----------------------|-----------------------|--------------------------|--------|---|
|                       | October<br>1,<br>2016 | September<br>26,<br>2015 |        |   |
| (Dollars in millions) |                       |                          |        |   |
| Revenues              | \$2,504.8             | \$2,379.2                | 5      | % |

Operating Income Margin 27.2 % 27.2 % 0.0 pt

Sales in the Specialty Diagnostics segment increased \$126 million to \$2.50 billion in the first nine months of 2016. Sales increased \$138 million (6%) due to higher revenues at existing businesses, offset in part by decreases of \$11 million due to the unfavorable effects of currency translation and \$1 million due to a divestiture. The increase in revenue at existing businesses was primarily due to increased demand for products sold through the segment's healthcare market channel, immunodiagnostics products and clinical diagnostics products as well as four extra selling days in the first quarter of 2016.

Operating income margin was 27.2% in both the first nine months of 2016 and the first nine months of 2015. Increases resulting primarily from profit on higher sales in local currencies and, to a lesser extent, productivity improvements, net of inflationary cost increase were offset by strategic growth investments and unfavorable sales mix.

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THERMO FISHER SCIENTIFIC INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS  
Results of Operations (continued)

Laboratory Products and Services

|                       | Nine Months Ended     |                          | Change |   |
|-----------------------|-----------------------|--------------------------|--------|---|
|                       | October<br>1,<br>2016 | September<br>26,<br>2015 |        |   |
| (Dollars in millions) |                       |                          |        |   |
| Revenues              | \$5,273.0             | \$4,844.9                | 9      | % |

Operating Income Margin 15.1 % 15.1 % 0.0 pt

Sales in the Laboratory Products and Services segment increased \$428 million to \$5.27 billion in 2016. Sales increased \$389 million (8%) due to higher revenues at existing businesses and \$89 million due to an acquisition. These increases were offset in part by \$50 million due to the unfavorable effects of currency translation. The increase in revenue at existing businesses was primarily due to increased demand for products in each of the segment's principal businesses and four extra selling days in the first quarter of 2016.

Operating income margin was 15.1% in both the first nine months of 2016 and the first nine months of 2015.

Increases resulting primarily from profit on higher sales in local currencies and productivity improvements, net of inflationary cost increases were offset by strategic growth investments, unfavorable sales mix and incremental costs associated with four extra selling days in the first quarter of 2016.

Other Expense, Net

The company reported other expense, net, of \$325 million and \$292 million in the first nine months of 2016 and 2015, respectively (Note 4). Interest expense increased \$26 million primarily due to an increase in outstanding debt. In the first nine months of 2016, other items, net includes \$22 million of charges related to the amortization of fees paid to obtain bridge financing commitments for the acquisition of FEI and \$6.5 million of losses on the early extinguishment of debt, offset in part by \$4 million of gains on investments. In 2015, other items, net includes costs of \$7.5 million associated with entering into interest rate swap arrangements and a \$6 million loss on the early extinguishment of debt.

Provision for Income Taxes

The company recorded a benefit from income taxes in the first nine months 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 \$114 million, offset in part by additional U.S. taxes of \$40 million on the related foreign income (which reduced the benefit from the foreign rate differential in 2016). The net benefit (\$74 million) was a discrete item that reduced the company's effective rate by 5.4 percentage points in the first nine months 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. In addition, the company recorded discrete benefits totaling \$39 million, or 2.8 percentage points, related to prior year tax filings.

The company recorded a benefit from income taxes in the first nine months of 2015. In 2015, the company implemented tax planning initiatives related to non-U.S. subsidiaries. These initiatives resulted in additional foreign tax credits of \$112 million, offset in part by additional U.S. income taxes of \$39 million on the related foreign income (which reduced the benefit from the foreign rate differential in 2015). The net benefit (\$73 million) was a discrete item



that reduced the company's effective rate by 5.4 percentage points in the first nine months of 2015. In addition, the company recorded discrete benefits totaling \$51 million, or 3.8 percentage points, related to additional prior year foreign tax and other credits as well as restructuring and other costs associated with the 2014 acquisition of Life Technologies. The tax provision in the 2015 period was favorably affected by \$13.5 million, or 1.0 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.

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THERMO FISHER SCIENTIFIC INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS  
Results of Operations (continued)

Recent Accounting Pronouncements

A description of recently issued accounting standards is included under the heading "Recent Accounting Pronouncements" in Note 1.

Contingent Liabilities

The company is contingently liable with respect to certain legal proceedings and related matters. An unfavorable outcome that differs materially from current accrual estimates, if any, for one or more of the matters described under the headings "Product Liability, Workers Compensation and Other Personal Injury Matters," "Intellectual Property Matters" and "Commercial Matters" in Note 10 could have a material adverse effect on the company's financial position as well as its results of operations and cash flows.

Liquidity and Capital Resources

Consolidated working capital was \$2.94 billion at October 1, 2016, compared with \$1.59 billion at December 31, 2015. Included in working capital were cash and cash equivalents of \$1.97 billion at October 1, 2016 and \$452 million at December 31, 2015. The increase in working capital is primarily due to the increase in cash. In October 2016, the company repaid \$1.4 billion of debt obligations.

First Nine Months of 2016

Cash provided by operating activities was \$1.95 billion during the first nine months of 2016. An increase in accounts receivable used cash of \$112 million primarily to support growth in sales in local currencies. An increase in other assets used cash of \$92 million primarily due to the timing of payments. A decrease in other liabilities used cash of \$194 million primarily due to the timing of payments for income taxes and incentive compensation. Cash payments for income taxes increased to \$630 million during the first nine months of 2016, compared with \$426 million in the first nine months of 2015. The company made cash contributions to its pension and postretirement benefit plans totaling \$33 million during the first nine months of 2016. Payments for restructuring actions, principally severance costs and lease and other expenses of real estate consolidation, used cash of \$62 million during the first nine months of 2016.

During the first nine months of 2016, the company's investing activities used \$5.44 billion of cash. Acquisitions used cash of \$5.15 billion. The company's investing activities also included the purchase of \$311 million of property, plant and equipment.

The company's financing activities provided \$5.05 billion of cash during the first nine months of 2016. Issuance of senior notes and borrowings under term loans provided cash of \$7.61 billion and an increase in commercial paper obligations provided cash of \$769 million. Repayment of senior notes, the 364-day term loan and acquired debt used cash of \$2.31 billion. The company's financing activities also included the repurchase of \$1.00 billion of the company's common stock and the payment of \$179 million in cash dividends, offset in part by \$123 million of proceeds from employee stock option exercises. On July 7, 2016, the Board of Directors authorized the repurchase of up to \$1.50 billion of the company's common stock. At October 1, 2016, \$1.50 billion was available for future repurchases of the company's common stock under this authorization.

The company's commitments for purchases of property, plant and equipment, contractual obligations and other commercial commitments did not change materially between December 31, 2015 and October 1, 2016. The company expects that for all of 2016, expenditures for property, plant and equipment, net of disposals, will approximate \$435 to \$445 million.

As of October 1, 2016, the company's short-term debt totaled \$1.97 billion, including \$0.90 billion of senior notes, which were repaid in October 2016, \$250 million due within the next twelve months under a 3-year term loan agreement and \$821 million 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 October 1, 2016, no borrowings were

outstanding under the company's revolving credit facility, although available capacity was reduced by approximately \$67 million as a result of outstanding letters of credit.

Approximately half of the company's cash balances and cash flows from operations are from outside the U.S. The company uses its non-U.S. cash for needs outside of the U.S. including acquisitions and repayment of acquisition-related intercompany debt to the U.S. In addition, the company also transfers cash to the U.S. using non-taxable returns of capital as well as dividends where the related U.S. foreign tax credit equals or exceeds any tax cost arising from the dividends. As a result of using such means of transferring cash to the U.S., the company does not expect any material adverse liquidity effects from its significant non-U.S. cash balances for the foreseeable future.

THERMO FISHER SCIENTIFIC INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS  
Liquidity and Capital Resources (continued)

The company believes that its existing cash and cash equivalents of \$1.97 billion as of October 1, 2016 and its future cash flow from operations together with available borrowing capacity under its revolving credit agreement will be sufficient to fund the debt repayment made in October 2016 and to meet the cash requirements of its existing businesses for the foreseeable future, including at least the next 24 months.

First Nine Months of 2015

Cash provided by operating activities was \$1.59 billion during the first nine months of 2015. Increases in accounts receivable and inventories used cash of \$146 million and \$175 million, respectively, primarily to support growth in sales in local currencies. An increase in other assets used cash of \$214 million primarily related to the timing of tax refunds. Other liabilities decreased by \$236 million primarily due to the timing of payments for incentive compensation and income taxes. Cash payments for income taxes totaled \$426 million. The company made cash contributions to its pension and postretirement benefit plans totaling \$26 million during the first nine months of 2015. Payments for restructuring actions, principally severance costs and lease and other expenses of real estate consolidation, used cash of \$79 million during the first three months of 2015.

During the first nine months of 2015, the company's investing activities used \$576 million of cash. Acquisitions used cash of \$306 million. The company's investing activities also included the purchase of \$294 million of property, plant and equipment.

The company's financing activities used \$1.75 billion of cash during the first nine months of 2015. Repayments of long-term debt totaled \$2.48 billion. Issuance of euro denominated senior notes provided cash of \$543 million and an increase in commercial paper obligations provided cash of \$726 million. The company's financing activities also included the repurchase of \$500 million of the company's common stock and the payment of \$181 million in cash dividends, offset in part by \$97 million of proceeds from employee stock option exercises.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The company's exposure to market risk from changes in interest rates and currency exchange rates has not changed materially from its exposure at year-end 2015.

Item 4. Controls and Procedures

Management's Evaluation of Disclosure Controls and Procedures

The company's management, with the participation of the company's chief executive officer and chief financial officer, evaluated the effectiveness of the company's disclosure controls and procedures as of October 1, 2016. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the company's disclosure controls and procedures as of October 1, 2016, the company's chief executive officer and chief financial officer concluded that, as of such date, the company's disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There have been no changes in the company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the fiscal quarter ended October 1, 2016, that have materially affected or are reasonably likely to materially affect the company's internal control over financial reporting.

THERMO FISHER SCIENTIFIC INC.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

There are various lawsuits and claims against the company involving product liability, intellectual property, employment and commercial issues. See “Note 10 to our Consolidated Financial Statements – Commitments and Contingencies.”

Item 1A. Risk Factors

Set forth below are the risks that we believe are material to our investors. This section contains forward-looking statements. You should refer to the explanation of the qualifications and limitations on forward-looking statements beginning on page 30.

We must develop new products, adapt to rapid and significant technological change and respond to introductions of new products by competitors to remain competitive. Our growth strategy includes significant investment in and expenditures for product development. We sell our products in several industries that are characterized by rapid and significant technological changes, frequent new product and service introductions and enhancements and evolving industry standards. Competitive factors include technological innovation, price, service and delivery, breadth of product line, customer support, e-business capabilities and the ability to meet the special requirements of customers. Our competitors may adapt more quickly to new technologies and changes in customers’ requirements than we can. Without the timely introduction of new products, services and enhancements, our products and services will likely become technologically obsolete over time, in which case our revenue and operating results would suffer. Many of our existing products and those under development are technologically innovative and require significant planning, design, development and testing at the technological, product and manufacturing-process levels. Our customers use many of our products to develop, test and manufacture their own products. As a result, we must anticipate industry trends and develop products in advance of the commercialization of our customers’ products. If we fail to adequately predict our customers’ needs and future activities, we may invest heavily in research and development of products and services that do not lead to significant revenue.

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

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

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

Our business is affected by general economic conditions and related uncertainties affecting markets in which we operate. Our business is affected by general economic conditions, both inside and outside the U.S. If the global economy and financial markets, or economic conditions in Europe, the U.S. or other key markets, are unstable, it could adversely affect the business, results of operations and financial condition of the company and its customers, distributors, and suppliers, having the effect of

- reducing demand for some of our products;
- increasing the rate of order cancellations or delays;
- increasing the risk of excess and obsolete inventories;
- increasing pressure on the prices for our products and services; and



THERMO FISHER SCIENTIFIC INC.

Risk Factors (continued)

•creating longer sales cycles and greater difficulty in collecting sales proceeds.

For example, recent developments in Europe have created uncertainty with respect to the ability of certain European countries to continue to service their sovereign debt obligations. This debt crisis could result in customers in Europe taking longer to pay for products they have purchased from us, or being unable to pay at all. The continued weakness in world economies makes the strength and timing of any economic recovery uncertain, and there can be no assurance that global economic conditions will not deteriorate further.

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

Spending by some of these customers fluctuates based on budget allocations and the timely passage of the annual federal budget. An impasse in federal government budget decisions could lead to substantial delays or reductions in federal spending. In fiscal year 2013, the U.S. Government was unable to reach agreement on budget reduction measures required by the Budget Control Act of 2011. As a result, in early 2013, an enforcement mechanism known as sequestration went into effect, which triggered one year of budget reductions. In subsequent years, statutory spending caps have constrained federal funding levels. Despite agreement not to impose similar cuts in fiscal years 2014 through 2017, it is possible that Congress will allow similar cuts to occur again in fiscal year 2018 and beyond.

As a multinational corporation, we are exposed to fluctuations in currency exchange rates, which could adversely affect our cash flows and results of operations. International markets contribute a substantial portion of our revenues, and we intend to continue expanding our presence in these regions. The exposure to fluctuations in currency exchange rates takes on different forms. International revenues and costs are subject to the risk that fluctuations in exchange rates could adversely affect our reported revenues and profitability when translated into U.S. dollars for financial reporting purposes. These fluctuations could also adversely affect the demand for products and services provided by us. As a multinational corporation, our businesses occasionally invoice third-party customers in currencies other than the one in which they primarily do business (the “functional currency”). Movements in the invoiced currency relative to the functional currency could adversely impact our cash flows and our results of operations. Should our international sales grow, exposure to fluctuations in currency exchange rates could have a larger effect on our financial results. In the first nine months of 2016, currency translation had an unfavorable effect of \$90 million on revenues due to the strengthening of the U.S. dollar relative to other currencies in which the company sells products and services.

The approval of the Brexit Referendum in the United Kingdom may have an adverse impact on our results of operations. In a referendum vote held on June 23, 2016, the United Kingdom voted to leave the European Union. In 2015, 4.6% of our revenues came from sales to the United Kingdom, which is our second largest market in Europe. The announcement of Brexit adversely impacted global markets, including currencies, and resulted in a sharp decline in the value of the British pound, as compared to the U.S. dollar and other currencies. The announcement of Brexit may create further global economic uncertainty, which may cause our customers in the U.K. and elsewhere to closely monitor their costs and reduce their spending budget on our products and services.

Healthcare reform legislation could adversely impact us. The Patient Protection and Affordable Care Act could have an adverse impact on us. Some of the potential consequences, such as a reduction in governmental support of healthcare services or adverse changes to the delivery or pricing of healthcare services or products or mandated benefits, may cause healthcare-industry participants to purchase fewer of our products and services or to reduce the prices they are willing to pay for our products or services.

Our inability to protect our intellectual property could have a material adverse effect on our business. In addition, third parties may claim that we infringe their intellectual property, and we could suffer significant litigation or licensing expense as a result. We place considerable emphasis on obtaining patent and trade secret protection for significant new technologies, products and processes because of the length of time and expense associated with bringing new



products through the development process and into the marketplace. Our success depends in part on our ability to develop patentable products and obtain and enforce patent protection for our products both in the United States and in other countries. We own numerous U.S. and foreign patents, and we intend to file additional applications, as appropriate, for patents covering our products. Patents may not be issued for any pending or future patent applications owned by or licensed to us, and the claims allowed under any issued patents may not be sufficiently broad to protect our technology. Any issued patents owned by or licensed to us may be challenged, invalidated or circumvented, and the rights under these patents may not provide us with competitive advantages. In addition, competitors may design around our technology or develop competing technologies. Intellectual property rights may also be unavailable or limited in some foreign countries, which could make it easier for competitors to capture increased market

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THERMO FISHER SCIENTIFIC INC.

Risk Factors (continued)

position. We could incur substantial costs to defend ourselves in suits brought against us or in suits in which we may assert our patent rights against others. An unfavorable outcome of any such litigation could materially adversely affect our business and results of operations.

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

Third parties may assert claims against us to the effect that we are infringing on their intellectual property rights. With our acquisition of Life Technologies, we became party to several lawsuits in which plaintiffs claim we infringe their intellectual property (Note 10). We could incur substantial costs and diversion of management resources in defending these claims, which could have a material adverse effect on our business, financial condition and results of operations. In addition, parties making these claims could secure a judgment awarding substantial damages, as well as injunctive or other equitable relief, which could effectively block our ability to make, use, sell, distribute, or market our products and services in the United States or abroad. In the event that a claim relating to intellectual property is asserted against us, or third parties not affiliated with us hold pending or issued patents that relate to our products or technology, we may seek licenses to such intellectual property or challenge those patents. However, we may be unable to obtain these licenses on commercially reasonable terms, if at all, and our challenge of the patents may be unsuccessful. Our failure to obtain the necessary licenses or other rights could prevent the sale, manufacture, or distribution of our products and, therefore, could have a material adverse effect on our business, financial condition and results of operations.

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

If our security products do not operate as designed and fail to detect explosives or radiation, we could be exposed to product liability and related claims for which we may not have adequate insurance coverage. Products currently or previously sold by our environmental and process instruments and radiation measurement and security instruments businesses include fixed and portable instruments used for chemical, radiation and trace explosives detection. These products are used in airports, embassies, cargo facilities, border crossings and other high-threat facilities for the detection and prevention of terrorist acts. If any of these products were to malfunction, it is possible that explosive or radioactive material could fail to be detected by our product, which could lead to product liability claims. There are also many other factors beyond our control that could lead to liability claims, such as the reliability and competence of the customers' operators and the training of such operators. Any such product liability claims brought against us could be significant and any adverse determination may result in liabilities in excess of our insurance coverage. Although we carry product liability insurance, we cannot be certain that our current insurance will be sufficient to cover these claims or that it can be maintained on acceptable terms, if at all.

Our inability to complete pending acquisitions or to successfully integrate any new or previous acquisitions could have a material adverse effect on our business. Our business strategy includes the acquisition of technologies and businesses that complement or augment our existing products and services. Certain acquisitions may be difficult to complete for a number of reasons, including the need for antitrust and/or other regulatory approvals. Any acquisition we may complete may be made at a substantial premium over the fair value of the net identifiable assets of the acquired company. Further, we may not be able to integrate acquired businesses successfully into our existing businesses, make such businesses profitable, or realize anticipated cost savings or synergies, if any, from these

acquisitions, which could adversely affect our business.

Moreover, we have acquired many companies and businesses. As a result of these acquisitions, we recorded significant goodwill and indefinite-lived intangible assets (primarily tradenames) on our balance sheet, which amount to approximately \$21.58 billion and \$1.35 billion, respectively, as of October 1, 2016. In addition, we have definite-lived intangible assets totaling \$13.18 billion as of October 1, 2016. We assess the realizability of goodwill and indefinite-lived intangible assets annually as well as whenever events or changes in circumstances indicate that these assets may be impaired. We assess the realizability of definite-lived intangible assets whenever events or changes in circumstances indicate that these assets may be impaired. These events or circumstances would generally include operating losses or a significant decline in earnings associated with the acquired business or asset. Our ability to realize the value of the goodwill and intangible assets will depend on the future cash flows of these businesses. These cash flows in turn depend in part on how well we have integrated these businesses.

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THERMO FISHER SCIENTIFIC INC.

Risk Factors (continued)

If we are not able to realize the value of the goodwill and intangible assets, we may be required to incur material charges relating to the impairment of those assets.

We are subject to laws and regulations governing government contracts, and failure to address these laws and regulations or comply with government contracts could harm our business by leading to a reduction in revenue associated with these customers. We have agreements relating to the sale of our products to government entities and, as a result, we are subject to various statutes and regulations that apply to companies doing business with the government. The laws governing government contracts differ from the laws governing private contracts and government contracts may contain pricing terms and conditions that are not applicable to private contracts. We are also subject to investigation for compliance with the regulations governing government contracts. A failure to comply with these regulations could result in suspension of these contracts, criminal, civil and administrative penalties or debarment.

Because we compete directly with certain of our larger customers and product suppliers, our results of operations could be adversely affected in the short term if these customers or suppliers abruptly discontinue or significantly modify their relationship with us. Our largest customer in the laboratory products business is also a significant competitor. Our business may be harmed in the short term if our competitive relationship in the marketplace with certain of our large customers results in a discontinuation of their purchases from us. In addition, we manufacture products that compete directly with products that we source from third-party suppliers. We also source competitive products from multiple suppliers. Our business could be adversely affected in the short term if any of our large third-party suppliers abruptly discontinues selling products to us.

Because we rely heavily on third-party package-delivery services, a significant disruption in these services or significant increases in prices may disrupt our ability to ship products, increase our costs and lower our profitability. We ship a significant portion of our products to our customers through independent package delivery companies, such as Federal Express in the U.S. and DHL in Europe. We also maintain a small fleet of vehicles dedicated to the delivery of our products and ship our products through other carriers, including national and regional trucking firms, overnight carrier services and the U.S. Postal Service. If one or more of these third-party package-delivery providers were to experience a major work stoppage, preventing our products from being delivered in a timely fashion or causing us to incur additional shipping costs we could not pass on to our customers, our costs could increase and our relationships with certain of our customers could be adversely affected. In addition, if one or more of these third-party package-delivery providers were to increase prices, and we were not able to find comparable alternatives or make adjustments in our delivery network, our profitability could be adversely affected.

We are required to comply with a wide variety of laws and regulations, and are subject to regulation by various federal, state and foreign agencies. For example, some of our operations are subject to regulation by the U.S. Food and Drug Administration and similar international agencies. These regulations govern a wide variety of product activities, from design and development to labeling, manufacturing, promotion, sales and distribution. If we fail to comply with the U.S. Food and Drug Administration's regulations or those of similar international agencies, we may have to recall products and/or cease their manufacture and distribution, which would increase our costs and reduce our revenues. We are also subject to a variety of federal, state, local and international laws and regulations that govern, among other things, the importation and exportation of products, the handling, transportation and manufacture of substances that could be classified as hazardous, and our business practices in the U.S. and abroad such as anti-corruption and anti-competition laws. A failure to comply with these laws and regulations could result in criminal, civil and administrative penalties.

Regulations related to "conflict minerals" may cause us to incur additional expenses and could limit the supply and increase the cost of certain metals used in manufacturing our products. In 2012 the SEC adopted a rule requiring disclosures by public companies of specified minerals, known as conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured. The rule requires an annual disclosure report to be filed, and requires companies to perform due diligence and disclose and report whether or not

such minerals originate from the Democratic Republic of Congo or an adjoining country. The rule could affect sourcing at competitive prices and availability in sufficient quantities of certain minerals used in the manufacture of our products, including tantalum, tin, gold and tungsten. The number of suppliers who provide conflict-free minerals may be limited. In addition, there may be material costs associated with complying with the disclosure requirements, such as costs related to determining the source of certain minerals used in our products, as well as costs of possible changes to products, processes, or sources of supply as a consequence of such verification activities. As our supply chain is complex, we may not be able to sufficiently verify the origins of the relevant minerals used in our products through the due diligence procedures that we undertake, which may harm our reputation. In addition, we may encounter challenges to satisfy those customers who require that all of the components of our products be certified as conflict-free, which could place us at a competitive disadvantage if we are unable to do so. Our business could be adversely affected by disruptions at our sites. We rely upon our manufacturing operations to produce many of the products we sell and our warehouse facilities to store products, pending sale. Any significant disruption of those

## THERMO FISHER SCIENTIFIC INC.

## Risk Factors (continued)

operations for any reason, such as strikes or other labor unrest, power interruptions, fire, or other events beyond our control could adversely affect our sales and customer relationships and therefore adversely affect our business. We have significant operations in California, near major earthquake faults, which make us susceptible to earthquake risk. Although most of our raw materials are available from a number of potential suppliers, our operations also depend upon our ability to obtain raw materials at reasonable prices. If we are unable to obtain the materials we need at a reasonable price, we may not be able to produce certain of our products or we may not be able to produce certain of these products at a marketable price, which could have an adverse effect on our results of operations.

Fluctuations in our effective tax rate may adversely affect our results of operations and cash flows. As a global company, we are subject to taxation in numerous countries, states and other jurisdictions. In preparing our financial statements, we record the amount of tax that is payable in each of the countries, states and other jurisdictions in which we operate. Our future effective tax rate, however, may be lower or higher than experienced in the past due to numerous factors, including a change in the mix of our profitability from country to country, changes in accounting for income taxes and recently enacted and future changes in tax laws in jurisdictions in which we operate. Any of these factors could cause us to experience an effective tax rate significantly different from previous periods or our current expectations, which could have an adverse effect on our business, results of operations and cash flows.

We may incur unexpected costs from increases in fuel and raw material prices, which could reduce our earnings and cash flow. Our primary commodity exposures are for fuel, petroleum-based resins and steel. While we may seek to minimize the impact of price increases through higher prices to customers and various cost-saving measures, our earnings and cash flows could be adversely affected in the event these measures are insufficient to cover our costs. Unforeseen problems with the implementation and maintenance of our information systems could have an adverse effect on our operations. As a part of our ongoing effort to upgrade our current information systems, we periodically implement new enterprise resource planning software and other software applications to manage certain of our business operations. As we implement and add functionality, problems could arise that we have not foreseen. Such problems could adversely impact our ability to provide quotes, take customer orders and otherwise run our business in a timely manner. In addition, if our new systems fail to provide accurate pricing and cost data our results of operations and cash flows could be adversely affected.

We also rely on our technology infrastructure, among other functions, to interact with suppliers, sell our products and services, fulfill orders and bill, collect and make payments, ship products, provide services and support to customers, track customers, fulfill contractual obligations and otherwise conduct business. Our systems may be vulnerable to damage or interruption from natural disasters, power loss, telecommunication failures, terrorist attacks, computer viruses, computer denial-of-service attacks, unauthorized access to customer or employee data or company trade secrets, and other attempts to harm our systems. When we upgrade or change systems, we may suffer interruptions in service, loss of data or reduced functionality. Certain of our systems are not redundant, and our disaster recovery planning is not sufficient for every eventuality. Despite any precautions we may take, such problems could result in, among other consequences, interruptions in our services, which could harm our reputation and financial results.

Our debt may restrict our investment opportunities or limit our activities. As of October 1, 2016, we had approximately \$18.91 billion in outstanding indebtedness. In addition, we have availability to borrow under a revolving credit facility that provides for up to \$2.50 billion of unsecured multi-currency revolving credit. We may also obtain additional long-term debt and lines of credit to meet future financing needs, which would have the effect of increasing our total leverage.

Our leverage could have negative consequences, including increasing our vulnerability to adverse economic and industry conditions, limiting our ability to obtain additional financing and limiting our ability to acquire new products and technologies through strategic acquisitions.

Our ability to make scheduled payments, refinance our obligations or obtain additional financing will depend on our future operating performance and on economic, financial, competitive and other factors beyond our control. Our business may not generate sufficient cash flow to meet our obligations. If we are unable to service our debt, refinance

our existing debt or obtain additional financing, we may be forced to delay strategic acquisitions, capital expenditures or research and development expenditures.

Additionally, the agreements governing our debt require that we maintain certain financial ratios, and contain affirmative and negative covenants that restrict our activities by, among other limitations, limiting our ability to incur additional indebtedness, merge or consolidate with other entities, make investments, create liens, sell assets and enter into transactions with affiliates. The covenants in our revolving credit facility and our term facility (each, a "Facility" and together, the "Facilities") include a total debt-to-Consolidated EBITDA ratio and an interest coverage ratio. Specifically, the company has agreed that, so long as any lender has any commitment under the revolving credit facility, any letter of credit is outstanding

THERMO FISHER SCIENTIFIC INC.

Risk Factors (continued)

under the revolving credit facility, or any loan or other obligation is outstanding under the revolving credit facility, it will not permit (as the following terms are defined in the credit agreement governing the revolving credit facility) the Consolidated Leverage Ratio (the ratio of consolidated Indebtedness to Consolidated EBITDA) to be greater than 4.5 to 1.0 as of the last day of any fiscal quarter for the first two consecutive quarters following the acquisition of FEI (see Note 2), with such ratio stepping down to 4.0 to 1.0 for the two immediately following fiscal quarters and then stepping down to 3.5 to 1.0 for each fiscal quarter thereafter. The company's term facility includes Consolidated Leverage Ratio covenants substantively the same as the covenant included in the revolving credit facility.

The company has also agreed that so long as any lender has any commitment under the revolving credit facility or any letter of credit is outstanding under the revolving credit facility, or any loan or other obligation is outstanding under any Facility (including the term loan and bridge facilities), it will not permit the Consolidated Interest Coverage Ratio (the ratio of Consolidated EBITDA to Consolidated Interest Expense) to be less than 3.0 to 1.0 as at the last day of any fiscal quarter.

Our ability to comply with these financial restrictions and covenants is dependent on our future performance, which is subject to prevailing economic conditions and other factors, including factors that are beyond our control such as foreign exchange rates and interest rates. Our failure to comply with any of these restrictions or covenants may result in an event of default under the applicable debt instrument, which could permit acceleration of the debt under that instrument and require us to prepay that debt before its scheduled due date. Also, an acceleration of the debt under certain of our debt instruments would trigger an event of default under other of our debt instruments.

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

Issuer Purchases of Equity Securities

There was no share repurchase activity for the company's third quarter of 2016. On July 7, 2016, the Board of Directors authorized the repurchase of up to \$1.50 billion of the company's common stock. At October 1, 2016, \$1.50 billion was available for future repurchases of the company's common stock under this authorization.

Item 6. Exhibits

See Exhibit Index on page [50](#).



SIGNATURES

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

Date: November 4, 2016 THERMO FISHER SCIENTIFIC INC.

/s/ Stephen Williamson  
Stephen Williamson  
Senior Vice President and Chief Financial Officer

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

THERMO FISHER SCIENTIFIC INC.  
EXHIBIT INDEX

| Exhibit Number | Description of Exhibit  |
|----------------|---|
| 4.1            | Indenture, dated as of August 9, 2016, among Thermo Fisher Scientific (Finance I) B.V., as issuer, the Company, as guarantor, and The Bank of New York Mellon Trust Company, N.A., as trustee (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed August 9, 2016 [File No. 1-8002] and incorporated in this document by reference).                    |
| 4.2            | First Supplemental Indenture, dated as of August 9, 2016, among Thermo Fisher Scientific (Finance I) B.V., as issuer, the Company, as guarantor, and The Bank of New York Mellon Trust Company, N.A., as trustee (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed August 9, 2016 [File No. 1-8002] and incorporated in this document by reference). |
| 4.3            | Thirteenth Supplemental Indenture, dated as of September 12, 2016, between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed September 12, 2016 [File No. 1-8002] and incorporated in this document by reference).   |
| 4.4            | Fourteenth Supplemental Indenture, dated as of September 19, 2016, between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed September 19, 2016 [File No. 1-8002] and incorporated in this document by reference).   |
| 31.1           | Certification of Chief Executive Officer required by Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 31.2           | Certification of Chief Financial Officer required by Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32.1           | Certification of Chief Executive Officer required by Exchange Act Rules 13a-14(b) and 15d-14(b), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**  |
| 32.2           | Certification of Chief Financial Officer required by Exchange Act Rules 13a-14(b) and 15d-14(b), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**  |
| 101.INS        | XBRL Instance Document.   |
| 101.SCH        | XBRL Taxonomy Extension Schema Document.  |
| 101.CAL        | XBRL Taxonomy Calculation Linkbase Document.  |
| 101.DEF        | XBRL Taxonomy Definition Linkbase Document.   |
| 101.LAB        | XBRL Taxonomy Label Linkbase Document.  |
| 101.PRE        | XBRL Taxonomy Presentation Linkbase Document.   |

The Registrant agrees, pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, to furnish to the Commission, upon request, a copy of each instrument with respect to long-term debt of the Registrant or its consolidated subsidiaries.

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\*Indicates management contract or compensatory plan, contract or arrangement.

\*\* Certification is not deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section. Such certification is not deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act except to the extent that the registrant specifically incorporates it by reference. Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheet at October 1, 2016 and December 31, 2015, (ii) Consolidated Statement of Income for the three and nine months ended October 1, 2016 and September 26, 2015, (iii) Consolidated Statement of Comprehensive Income for the three and nine months ended October 1, 2016 and September 26, 2015, (iv) Consolidated Statement of Cash Flows for the nine months ended October 1, 2016 and September 26, 2015, (v) Consolidated Statement of Shareholders’ Equity for the nine months ended October 1, 2016 and September 26, 2015 and (vi) Notes to Consolidated Financial Statements.