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Studies in Large Capitalization Stocks

February 4, 2010

Thermo Fisher Scientific Inc.

(Buy)

Price:	\$47.58	Ticker:	TMO
52-wk. range:	\$30.83 - \$49.70	Dividend:	None
Shares out:	420m	Yield:	N/A
Market cap:	\$19,993m		

Valuations in this report are based on a \$46.58 share price

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Investment Thesis

Thermo Fisher Scientific is one of the largest companies in the world that supplies the scientific community with various forms of equipment. It was created in 2006 through the reverse merger of Fisher Scientific and Thermo Electron. Combined, the company manufactures and distributes hundreds of thousands of products ranging from biotechnology laboratory equipment to radiation and explosive device detection systems. Its products serve a vital function in the research and development programs of pharmaceutical and biopharmaceutical companies, the diagnostic and testing functions of the medical industry, the research laboratories of universities, and in the environmental research area of the industrial community.

Clearly, Thermo Fisher is a very well-diversified company. Prior to their merger, Thermo Electron and Fisher Scientific both practiced aggressive acquisition strategies, which continue presently through the merged entity. The manufacture and supply of life science equipment and products is very much a fragmented industry; it is characterized by specialized products that are produced by small companies. However, Thermo Fisher has done its part to consolidate the industry and, through this strategy, has become one of the world's largest scientific device suppliers, as measured by revenues. Through years of acquisitions, its product diversity is quite vast.

The company's earnings are inevitably a function of the R&D spending patterns of the healthcare, higher education, government, and industrial communities. Most recently, R&D spending for most corporations and private organizations declined in response to the global recession. While scientific research is a steady and growing field, it is not immune to economic and corporate profit pressure. In fact, Thermo Fisher experienced a somewhat rare earnings disruption during 2009, which will amount to roughly an 11% decline from the 2008 level. Yet, given the severity of the economic climate during 2008 and 2009, and the drastic cost reduction programs implemented by corporations worldwide that followed, Thermo Fisher appears to have navigated through the depths of the recession remarkably well. So, while the company is cyclical, the Thermo Fisher earnings are only modestly sensitive to economic pressure, since R&D spending cannot be reduced dramatically by most research-driven companies.

Over the longer term, given the technological advancement that continues to dominate both economic and societal growth, the spending curve on scientific and technology research will almost surely be upward sloping. Thermo Fisher, which serves as an enabling mechanism for the R&D industry, is neatly positioned within this supply chain. Importantly, too, one is not required to undertake the extreme earnings and valuation risk often associated with technological promise, such as investments in biotechnology or high technology shares. Thermo Fisher will clearly not provide the exponential return optionality of a young biotechnology firm; however, it will lower one's risk profile while providing meaningful exposure to the technology industry.

The company trades at 13.8x the 2010 consensus earnings estimate, which is a very reasonable multiple for this type of company. These earnings are actually adjusted to

exclude the annual amortization charges associated with the intangible asset value acquired in the 2006 merger, and in the company's numerous and ongoing acquisitions. It seems reasonable to exclude this expense, as the amortization amounts are substantial (\$0.89 per share), but are non-cash or non-operational.

If one were to take the 2010 consensus earnings estimate of \$3.38 per share, adjust or add on a pre-tax basis the \$0.89 per share of expensed amortization charges (\$575 million), and add the roughly \$186 million of depreciation expense, the Thermo Fisher cash earnings would be approximately \$1.807 billion. The capital investment requirements of its business are quite low such that total capital spending this year will amount to \$168 million. Thus, subtracting capital expenditures, the company's free cash flow of \$1.639 billion represents, on a yield basis, 8.4%. Alternatively, the shares trade at 11.9x free cash flow.

At the present valuation, considering that the company makes use of its free cash flow by repurchasing its shares, and by purchasing other scientific research supply firms, thereby adding to its earnings base, and given even a mid-single digit organic revenue/earnings growth rate from the normal expansion of domestic R&D spending, in addition to the resumption of inflation-related growth, it is not difficult to imagine a scenario under which the shares could produce a 10%-15% annual return. Since this return possibility does not require extraordinary or overly optimistic assumptions, the risk/reward profile is particularly attractive. Therefore, the shares are recommended for purchase.

Company Description

Background

Prior to their merger, Thermo Electron and Fisher Scientific were acquisition oriented companies operating in similar product fields. Fisher Scientific was a dominant provider of research laboratory equipment while Thermo Electron produced a wide array of analytical and software-related scientific tools. It is interesting to note that during the 1980s, Thermo Electron began a process of carving out many of its subsidiary companies that had been acquired into publicly traded companies. These were not formal spin-off transactions because Thermo Electron generally maintained ownership of these entities following the transactions. Nevertheless, by 1997 the company had carved out 22 publicly traded subsidiaries, and in essence was a holding company of sorts. However, in January 2000 this strategy was abandoned and Thermo Electron repurchased all of its public subsidiaries, sold non-core businesses, and reorganized into a consolidated structure once again.

Then, in 2006 Thermo Electron and Fisher Scientific announced a merger transaction under which two shares of Thermo would be issued for each Fisher share, in essence creating a reverse merger, with Fisher shareholders owning 61% of the combined company. Fisher was clearly the larger company, as it produced \$5.6 billion of revenues in 2005 while Thermo reported \$2.6 billion. Neither company was financially leveraged,

such that the balance sheet remained sensibly arranged; however, the intangible asset value assumed in the transaction consisting of patents, customer relationships, and trade names was enormous. Currently, there exists \$14.9 billion of goodwill and intangible asset value on the balance sheet against \$15.4 billion of shareholder's equity. This dynamic is not uncommon for technology-related companies, as the intangible asset value often creates tangible earnings on the income statement.

The combined company continues to acquire companies within the scientific research supply industry to complement its existing business segments. Since the merger, Thermo Scientific has acquired companies such as Qualigens, Priority, NanoDrop, and La-Pha-Pack for a total of \$517 million. As will be demonstrated later in this report, after decades of experience, the company appears to be a skilled and prudent acquirer capable of integrating various businesses into a diverse and complex arrangement of products.

Business Segments Description

The products of Thermo Fisher are separated into two operating segments, which are Analytical Technologies and Laboratory products. This coincides with the pre-merger product sets of both companies, since Thermo Electron provided mostly analytical and technology-related equipment, now called Analytical Technologies, and Fisher Scientific had focused on laboratory equipment, now named Laboratory Products. However, the overall product portfolio is mostly complimentary such that the company's end customers are dominated by corporate R&D departments and other research-focused clients.

The company's products are highly technical, so the following product description is intended to merely provide a broad classification of products, rather than a detailed portfolio analysis, since the technical aspects of its products are not necessarily germane to the current investment thesis.

Analytical Technologies

The range of products offered by this division includes analytical instruments used to analyze prepared biological samples, software interpretation tools, laboratory information management systems, environmental instruments, reagent and diagnostic kits used in the diagnosis of infection disease or testing for bacterial contamination, and tools and kits used in drug discovery and biopharmaceutical production.

In order to demonstrate, by a few illustrated examples, the vastness of the company's product portfolio, Thermo Fisher is a leading producer of mass spectrometry systems that range in end user complexity from routine compound identification in food safety and environmental regulation to the sophisticated analysis of low-abundance components in complex biological matrices vital to the biopharmaceutical industry. The company also produces elemental analysis instrumentation equipment used in the analysis of sulfur content in petroleum fuels to ensure that energy producers are in compliance with international regulations. Other industrial products include water quality testing systems that measure pH, ions, conductivity, dissolved oxygen, and turbidity for overall water and wastewater use by municipalities.

Thermo Fisher is also a large supplier of testing and diagnostic equipment to the medical and biopharmaceutical industries. For instance, through its Genomics division, the company manufactures gene silencing, gene expression, and nucleic acid amplification products critical to the study of RNA and DNA in the biopharmaceutical industry.

Laboratory Products

The legacy Fisher Scientific business includes products such as laboratory workstations, sample preparation equipment, controlled environment storage, liquid handling pumps, diagnostic tools, protective gear, biospecimen storage, and sample preparation tubes and containers. Many of these products are available for purchase through the company's catalog-based distribution system, or via the internet on the Thermo Fisher website.

At the individual product level, Thermo Fisher is the industry-leading firm that produces laboratory refrigerators and freezers, including ultralow temperature mechanisms such as cryopreservation storage tanks. It also manufactures centrifuges, which are used to separate biological matrices and inorganic materials. The company's water purification products, which facilitate distillation, reverse osmosis, deionization, and ultrafiltration, and which are used to feed water baths or for hydrating reagents and buffers, are utilized by a diverse base of research laboratories.

Revenue Attribution

As one might expect, the equipment portion of the business including storage containers and basic laboratory supplies is less profitable than the actual testing kits or analytical devices. One business is more prone to product replication from competition, while the other is largely based on proprietary technology. For example, the Analytical Technologies business produced \$2.961 billion of revenues and \$578 million of operating income during the first nine months of 2009, which represents an operating margin of 19.5%. On the other hand, the Laboratory Products segment generated \$628 million of operating income from \$4.654 billion in sales for a 13.5% level of profitability. In the aggregate, Analytical Technologies represents 39% of total company revenues and 48% of operating income, while Laboratory Products generates 61% of total revenues and 52% of operating income.

Historical Scientific Research Spending Patterns

The Pharmaceutical Example

Research and development expense is generally associated with traditional pharmaceutical and biopharmaceutical drug manufacturing. It is, however, an expense that reaches far beyond the medical industry, and increasingly into the industrial sector. Industrial products, such as those produced by Honeywell and General Electric, are becoming increasingly dependent on their ability to reduce the environmental liability component of their usage. This requires technological advancement through years of scientific research and development. Government organizations such as NASA or the FDA are also obvious non-pharmaceutical entities that rely heavily on R&D expenditure.

Nevertheless, the healthcare industry continues to be the dominant end market for R&D equipment. It is also the most visible example through which one may study the spending patterns of Thermo Fisher customers.

The organization known as PhRMA, which gathers and disseminates data concerning the healthcare industry, reported \$2 billion of R&D spending in 1980 by member companies, which are predominantly pharmaceutical and biopharmaceutical companies. Since that time, spending by these companies has risen to \$50.3 billion in 2008, which represents an annual increase of 11.8%. In the table below, it is evident that the great advancement in drug discovery spending really occurred in 1990 and beyond. This is rather intuitive as well, since the biotechnology industry was essentially created, and began to prosper, during the 1990s.

Table 1: PhRMA Industry R&D Spending

Year	PhRMA Members	Total Industry
2008	\$50.3	\$65.2
2007	\$47.9	\$63.2
2006	\$43.4	\$56.1
2005	\$39.9	\$51.8
2004	\$37.0	\$47.6
2000	\$26.0	n/a
1990	\$8.4	n/a
1980	\$2.0	n/a
<i>1980-2008 Annlz'd %:</i>	<i>11.8%</i>	
<i>5-yr Annlz'd %: (\$ in billions)</i>	<i>6.3%</i>	

While many cogent arguments can be made for the continued increase in R&D spending over time, even if one is positively inclined towards this position, the upward growth pattern will not always be smooth. That is, drug manufacturers are not immune to economic recession. While not extremely cyclical, demand for pharmaceutical products or, perhaps properly stated, the ability of customers to purchase pharmaceutical products, will fluctuate during periods of recession.

The following table provides the recent annual R&D spending of some of the largest pharmaceutical and biopharmaceutical companies. During the current year, R&D spending may well decline by -3.1% from the 2008 level. This is not a dramatic change, in the common cyclical sense, but nevertheless represents a reduction in spending.

Table 2: Annual R&D Spending Statistics of Largest Pharmaceutical Firms

Company	2006	2007	2008	2009 (1)
Pfizer	\$7,599	\$8,089	\$7,945	\$6,709
GlaxoSmithKline	5,571	5,362	5,933	6,402
Eli Lilly	3,129	3,487	3,841	4,147
Merck	4,783	4,883	4,805	5,165
Amgen	3,366	3,266	3,030	2,631
Genzyme	650	738	1308	849
Celgene	260	400	931	791
Gilead Sciences	384	591	722	933
Total	\$25,742	\$26,816	\$28,515	\$27,627
YOY change %:		4.2%	6.3%	-3.1%

(\$ in millions)

(1) 2009 run-rate

The Effect of Recession on Thermo Fisher

In addition to the pharmaceutical industry, other Thermo-Fisher customers such as hospitals, municipalities, universities, and many industrial clients have recently curtailed their R&D spending due to either budget, funding, or margin pressure factors. While this is most likely temporary, it does have the immediate impact on the Thermo Fisher earnings.

During the first nine months of 2009, the company's revenues declined by 7.4% from the same period in 2008. This caused operating income to fall by 12.5%. At the earnings per share level, the company on a run-rate basis will earn \$3 this year, which is -4% below the 2008 level of \$3.13. This represents an unusual earnings disruption for the company; however, it appears to merely indicate a modest cyclical manifestation.

Table 3: Thermo Fisher 3rd Quarter 2009 Financial Results

	Nine Months Ended September,		
	2009	2008	% change
Revenues			
Analytical Technologies	\$2,961	\$3,333	-11.2%
Laboratory Products & Services	\$4,654	\$4,836	-3.8%
Eliminations	(\$344)	(\$317)	
Consolidated Revenues	\$7,270	\$7,852	-7.4%

Operating Income			
Analytical Technologies	\$578	\$702	-17.7%
Laboratory Products & Services	\$628	\$676	-7.1%
Total Operating Income	\$1,205	\$1,377	-12.5%
Operating %	16.6%	17.5%	

The Profitability Benefits of the Merger

Margin Features

Prior to their merger, both companies were steadily growing franchises, although with different margin characteristics. In the exhibit below, one will view the pre-merger operating results from Thermo Electron and Fisher Scientific.

Table 4: Pre-Merger Margin History

Thermo Electron				
Year	Revenues	Net Income	Net Margin	EPS
2005	\$2,633	\$256	9.7%	\$1.55
2004	\$2,206	\$210	9.5%	\$1.25
2003	\$1,899	\$186	9.8%	\$1.09
2002	\$1,849	\$183	9.9%	\$0.98

Fisher Scientific				
Year	Revenues	Net Income	Net Margin	EPS
2005	\$5,579	\$372	6.7%	\$2.92
2004	\$4,627	\$162	3.5%	\$1.75
2003	\$3,554	\$77	2.2%	\$1.26
2002	\$3,238	\$97	3.0%	\$1.67

Prior to 2006, the standalone Thermo Electron net margin was below 10% in 2004. Following steady increases, the net profitability at the actual date of the merger was 10.2% in 2006. In reality, the first full year of combined operation was in 2007 during which Thermo Fisher produced a 12% net margin. Hence, it accomplished about 180 basis points of net margin expansion in the consolidation. Profitability was further improved during 2008, when the company reached a 13% net margin, although the 2009 results will likely demonstrate some erosion to the 12.5% level. Nevertheless, based on

the consensus 2010 earnings and revenue estimates, the profit margin is expected to be 13.4% this year. Evidently, the integration progress for these two companies has been well achieved such that over 300 basis points of net margin progress has been accomplished since immediately prior to the merger. This is presented in the table below.

Table 5: Thermo Fisher Historical Margin Progress

	2004	2005	2006	2007	2008	2009 (1)
Revenues	\$2,206	\$2,633	\$3,792	\$9,746	\$10,498	\$9,693
Adj. Operating Income	\$262	\$351	\$573	\$1,637	\$1,869	\$1,607
Operating %	11.9%	13.3%	15.1%	16.8%	17.8%	16.6%
Adj. Net Income	\$197	\$242	\$385	\$1,165	\$1,362	\$1,207
Net %	8.9%	9.2%	10.2%	12.0%	13.0%	12.5%
Adj. Earnings per share	\$1.18	\$1.47	\$1.90	\$2.62	\$3.13	\$3.00

(1) Run-rate

The logical consequence of the merger, though, despite margin expansion, is that Thermo Fisher will not likely expand its revenues at the rate that was previously possible, which, with acquisitions, was in excess of 15% per annum. This is simply a mathematical consequence of a revenue base that has been expanded from \$3 billion to \$10 billion. On current revenues of \$10-\$10.5 billion, the future growth rate might be more in the range of 5%-10%, including acquisitions, such as was achieved during 2008. This, nonetheless, is still an attractive growth profile for the company.

Balance Sheet Aspects

In the merger, Thermo Electron assumed about \$1.9 billion of Fisher Scientific net debt. The current balance sheet configuration is certainly sensible, and not leveraged. The company maintains \$2.034 billion of total debt, about \$968 million of which is convertible debt. This will be viewed against \$1.746 billion of cash. On an aggregate basis, the \$277 million of net debt is equivalent to 1.8% of shareholders' equity. On a tangible basis, or excluding the \$15 billion of goodwill and intangible asset value, the net debt-to-tangible book ratio is 59%. Yet, even if viewed on a tangible asset basis, Thermo Fisher is an extremely credit worthy company with a solid balance sheet.

Valuation

Historical Experience

One is not really equipped with much of a historical basis for the Thermo Fisher valuation, since the true operating period of the combined company only began in 2007. However, it is possible, and worthwhile to view pre-2007 data, which in essence would have been the Thermo Electron valuation. Bearing in mind that it was a smaller company and more capable of achieving high growth rates, it is shown below that the p/e ratio range from 2004-2006 was 19.4x-24.2x.

Table 6: Historical Thermo Fisher Valuation

Year	P/E Ratio
2009	15.9x
2008	10.9x
2007	22.0x
2006	23.8x
2005	19.4x
2004	24.2x

*'04-'05 P/E Ratio based on Thermo Electron
EPS and share price

These rather high valuations were not apparently due solely to the growth aspirations of Thermo Electron. When the companies combined, the shares traded at 22x consolidated earnings in 2007.

Then, in 2008, the valuation collapsed by roughly 50% to a low level of 10.9x earnings in response to the worldwide credit crisis. This proved to be the nadir for the shares, as well as for the equity markets in general, as the current p/e ratio has recovered to 13.8x 2010 consensus earnings estimates. But, given that the pre-credit crisis p/e was over 20x, and the company's longer-term earnings prospects appear not dramatically different from that period, the current valuation appears unusually low.

Comparable Company Approach

There exists a fairly wide range of potential companies to which Thermo Fisher might be compared, although no one single company manifests its breadth of product offering. In addition, Thermo Fisher is considerably larger than others in its industry, as its revenues are 2x the level of its nearest competitor, Agilent Technologies. However, the valuations of these companies and, in most cases, their net profitability are generally consistent. On average, the companies contained in the following table trade at 16.4x forward year earnings. In terms of profitability, the estimated net margin of this composite group ranges from 11.5% - 22.4%.

Table 7: Scientific Equipment Industry Valuation Summary

Company	Market Cap	Est. Net Margin	Forward Year P/E
Bruker Corporation	\$2,043	7.7%	21.9x
Dionex Corp	\$1,263	15.2%	19.0x
Agilent Technologies	\$10,034	11.8%	16.8x
Mettler-Toledo International	\$3,325	11.5%	16.0x
Millipore Corp	\$3,868	13.8%	15.7x
Sigma-Adrich	\$5,889	16.6%	15.4x
Waters Corp	\$5,501	22.4%	15.3x
Life Technologies Corp	\$8,888	16.7%	15.0x
Beckman Coulter	\$4,597	8.2%	14.8x
PerkinElmer	\$2,356	8.5%	14.6x
<i>Average</i>			<i>16.4x</i>
Thermo Fisher Scientific	\$19,564	13.4%	13.8x

On this basis, considering Thermo Fisher is not inferior in the profitability sense and, given its more diverse and stable base of earnings, the 16% valuation discount applied to its shares appears slightly illogical. Yet, one must account for the company's policy of adding back its intangible asset amortization charges, a practice not adopted by its competitors, which could artificially inflate the non-GAAP earnings per share estimates. However, on balance, many of these companies listed above do not incur substantial non-cash charges such that it is a fairly equal comparison. It stands to reason that one, if not the only, factor contributing to the discount is the company's lower growth profile.

Return Scenario

Let us presume that Thermo Fisher is indeed a mature company, yet seemingly still capable of producing modest growth both organically and through small-scale acquisitions. It is expected to earn \$3.38 per share this year, which includes \$0.89 per share of amortization charges based on the company's estimate of this expense. On a GAAP basis, or less the amortization, the company's net income would be \$2.49 per share, or \$1.046 billion.

In order to calculate the cash earnings, one should multiply the \$0.89 of amortization by the diluted shares outstanding of 420 million, which would total \$374 million. Since this is an after-tax figure, the pre-tax estimate would be \$575 million ($\$374 \div 0.65$). This may be referenced against the company's own amortization schedule listed in its 2008 Form 10-K, which states \$578 million of acquisition-related intangible asset amortization charges for 2009.

There is also normal asset depreciation expense of \$186 million on a 2009 run-rate basis. Thus, the so-called cash earnings of Thermo Fisher would be \$1.807 billion during 2010.

Annualized 2009 capital expenditures amount to merely \$168 million, which is less than depreciation, indicating very little capital replacement requirement for the company's assets. The free cash flow of \$1.639 billion represents a yield of 8.4%. This is an alluring return if viewed against bond yields, in this case representing more or less a high yield bond-like return. While the company's cash flow, if considered to be "equity coupon payments", have more risk than the coupon payment of, say, a high-grade corporate bond, at an 8.4% yield, it almost certainly offers a superior risk profile relative to a junk bond.

The current market capitalization is \$19.5 billion. The free cash flow, as just calculated, and preferred over net earnings due to the substantial annual non-cash charges, of \$1.6 billion, suggests that the price/free cash flow multiple is 11.9x. Assuming that Thermo Fisher would use its free cash flow to provide the equivalent 8.4% yield/return to shareholders, one is not assuming much risk at the current valuation.

However, the company still maintains ambitions for growth, and continues acquisitions to achieve this result. For instance, in January 2010 it announced the acquisition of Ahura Scientific, which manufactures portable handheld analyzing systems. As these words are being written, it is closing on a small acquisition (less than \$100mm), but nevertheless symbolic of its objectives.

Let us presume that in a normal environment, the company can increase its earnings by 3% per annum merely as a function of inflation. All that is required for a 15% annual growth record is 3.6 points of either internal or acquisition-related expansion. Since annual R&D spending, at least in the pharmaceutical industry, has averaged over 6% recently, the company's probability of achieving a 3.6%+ growth rate is rather high. Ergo, given that one is paying less than a 12x multiple for a potential 10%-15% annual increase in free cash flow, the risks have been reduced by the low valuation while the appreciation above the current yield is a form of free optionality.

Investment Summary

Thermo Fisher is a critical component in the global R&D supply chain. Its analytical and laboratory products are used by the medical and pharmaceutical industries, universities, governments, and industrial clients. As the dominant supplier of scientific equipment to these industries, it is clearly going to benefit from the propensity to invest in technological and medical advancement. At the moment, however, it trades at roughly 12x free cash flow due to a modest earnings disruption in 2009, as R&D spending by corporations has been under pressure in response to the global recession. Yet, at the current price, all that is required for a potential double-digit return is the resumption of normal inflation-related growth of perhaps 3%. The return spectrum is widened, as well,

when the company's acquisition-related growth strategy, or normal R&D industry spending is considered in the earnings equation. Thus, the combination of a low valuation and rather high earnings growth presents a unique opportunity. Accordingly, the shares are recommended for purchase.

THERMO FISHER SCIENTIFIC INC.

Consolidated Balance Sheet
(Unaudited)

(In millions)	September 26, 2009	December 31, 2008
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,745.7	\$ 1,280.5
Short-term investments, at quoted market value (amortized cost of \$11.4 and \$8.5)	10.6	7.5
Accounts receivable, less allowances of \$49.4 and \$43.1	1,482.0	1,478.1
Inventories:		
Raw materials	291.8	310.6
Work in process	123.5	120.3
Finished goods	754.3	740.5
Deferred tax assets	162.3	161.7
Other current assets	227.4	246.7
	<u>4,797.6</u>	<u>4,345.9</u>
Property, Plant and Equipment, at Cost	1,976.0	1,854.8
Less: Accumulated depreciation and amortization	(703.7)	(579.5)
	<u>1,272.3</u>	<u>1,275.3</u>
Acquisition-related Intangible Assets, net of Accumulated Amortization of \$1,902.3 and \$1,433.2	6,144.0	6,423.2
Other Assets	416.0	367.9
Goodwill	8,788.6	8,677.7
	<u>21,418.5</u>	<u>21,090.0</u>
	<u>\$ 5</u>	<u>\$ 0</u>

Consolidated Balance Sheet (continued)
(Unaudited)

(In millions except share amounts)	September 26, 2009	December 31, 2008
Liabilities and Shareholders' Equity		
Current Liabilities:		
Short-term obligations and current maturities of long-term obligations	\$ 70.1	\$ 14.8
Accounts payable	593.5	539.5
Accrued payroll and employee benefits	280.1	296.2
Accrued income taxes	26.1	32.9
Deferred revenue	139.5	135.3
Other accrued expenses	484.5	521.5
	<u>1,593.8</u>	<u>1,540.2</u>
Deferred Income Taxes	1,873.8	1,994.2
Other Long-term Liabilities	586.9	601.7
Long-term Obligations	<u>1,952.2</u>	<u>2,003.2</u>
Incremental Convertible Debt Obligation	12.4	24.2
Shareholders' Equity:		
Preferred stock, \$100 par value, 50,000 shares authorized; none issued		
Common stock, \$1 par value, 1,200,000,000 shares authorized; 422,829,078 and 421,791,009 shares issued	422.8	421.8
Capital in excess of par value	11,394.	11,301.
Retained earnings	5	3
Treasury stock at cost, 14,514,448 and 3,825,245 shares	4,077.5	3,500.5
Accumulated other comprehensive items	(574.2)	(151.3)
	78.8	(145.8)
	<u>15,399.</u>	<u>14,926.</u>
	4	5
	<u>21,418.</u>	<u>21,090.</u>
	<u>\$ 5</u>	<u>\$ 0</u>

THERMO FISHER SCIENTIFIC INC.

 Consolidated Statement of Income
 (Unaudited)

	Nine Months Ended	
	September 26, 2009	September 27, 2008
(In millions except per share amounts)		
Revenues		
Product revenues	\$ 6,129.9	\$ 6,612.7
Service revenues	1,140.4	1,239.0
	<u>7,270.3</u>	<u>7,851.7</u>
Costs and Operating Expenses:		
Cost of product revenues	3,717.8	3,982.8
Cost of service revenues	666.1	729.7
Selling, general and administrative expenses	1,948.0	2,029.2
Research and development expenses	176.8	188.2
Restructuring and other costs, net	37.0	14.9
	<u>6,545.7</u>	<u>6,944.8</u>
Operating Income	724.6	906.9
Other Expense, Net	(78.4)	(74.0)
Income from Continuing Operations Before Provision for Income Taxes	646.2	832.9
Provision for Income Taxes	(69.2)	(145.0)
Income from Continuing Operations	577.0	687.9
Gain on Disposal of Discontinued Operations (net of income tax provision of \$3.7 in 2008)	—	6.0
Net Income	<u>\$ 577.0</u>	<u>\$ 693.9</u>
Earnings per Share from Continuing Operations		
Basic	<u>\$ 1.39</u>	<u>\$ 1.64</u>
Diluted	<u>\$ 1.36</u>	<u>\$ 1.57</u>
Earnings per Share		
Basic	<u>\$ 1.39</u>	<u>\$ 1.66</u>
Diluted	<u>\$ 1.36</u>	<u>\$ 1.58</u>

Weighted Average Shares

Basic	<u>413.6</u>	<u>418.2</u>
Diluted	<u>423.0</u>	<u>437.1</u>