THERMO FISHER SCIENTIFIC INC.
Form 10-K/A
March 05, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014**

or

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 Commission file number 1-8002**

THERMO FISHER SCIENTIFIC INC.

(Exact name of Registrant as specified in its charter)

Delaware	**04-2209186**
(State of incorporation or organization)	**(I.R.S. Employer Identification No.)**

81 Wyman Street Waltham, Massachusetts	**02451**
(Address of principal executive offices)	**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $1.00 par value	**New York Stock Exchange**
Preferred Stock Purchase Rights	**New York Stock Exchange**
2.000% Notes due 2025	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

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

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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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. (Check one):

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of June 28, 2014, the aggregate market value of the voting stock held by nonaffiliates of the Registrant was approximately $47,112,558,000 (based on the last reported sale of common stock on the New York Stock Exchange Composite Tape reporting system on June 28, 2014).

As of January 31, 2015, the Registrant had 396,782,757 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Sections of Thermo Fisher s definitive Proxy Statement for the 2015 Annual Meeting of Shareholders are incorporated by reference into Parts II and III of this report.

EXPLANATORY NOTE

Thermo Fisher Scientific Inc. (the Company) is filing this Amendment No. 1 (Form 10-K/A) to its Annual Report on Form 10-K (Form 10-K) for the fiscal year ended December 31, 2014 filed with the Securities and Exchange Commission on February 26, 2015, solely to amend the table under Results of Operations 2014 Compared With 2013 Continuing Operations (which table appeared on page 34 of the Form 10-K and appears on page 9 of this Form 10-K/A). There are no other changes to the Form 10-K.

This Form 10-K/A speaks as of the original filing date of the Form 10-K, does not reflect events that may have occurred subsequent to the original filing date, and, except as noted above, does not modify or update in any way disclosures made in the original Form 10-K. As required by applicable SEC rules, all of Item 7, as amended, is restated below.

PART II

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

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

Overview

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 and Divestitures

The company s strategy is to augment internal growth at existing businesses with complementary acquisitions such as its 2014 acquisition of Life Technologies.

On February 3, 2014, the company completed the acquisition of Life Technologies Corporation for a total purchase price of $15.30 billion, net of cash acquired, including the assumption of $2.28 billion of debt. The company issued debt and common stock in late 2013 and early 2014 to partially fund the acquisition discussed below under the caption Liquidity and Capital Resources . Life Technologies was integrated into the Life Sciences Solutions segment and provides innovative products and services to customers conducting scientific research and genetic analysis, as well as those in applied markets, such as forensics and food safety testing. Life Technologies revenues totaled $3.87 billion in 2013.

On March 21, 2014, the company sold its legacy sera and media, gene modulation and magnetic beads businesses to GE Healthcare for $1.06 billion, net of cash divested. The sale of these businesses resulted in a pre-tax gain of approximately $761 million included in restructuring and other costs (income), net. The businesses fell principally in the Life Sciences Solutions segment. Divestiture of these businesses was a condition to obtaining antitrust approval for the Life Technologies acquisition. Revenues and operating income of the businesses sold were approximately $250 million and $64 million, respectively, for the year ended December 31, 2013 and $61 million and $12 million, respectively, in 2014 through the date of sale.

On August 15, 2014, the company sold its Cole-Parmer specialty channel business, part of the Laboratory Products and Services segment, for $480 million in cash, net of cash divested. The sale of this business resulted in a pre-tax gain of approximately $134 million, included in restructuring and other costs (income), net. Revenues and operating income of the business sold were approximately $232 million and $43 million, respectively, for the year ended December 31, 2013 and $149 million and $28 million, respectively, in 2014 through the date of sale.

Overview of Results of Operations and Liquidity

(Dollars in millions)	2014		2013	
Revenues				
Life Sciences Solutions	$ 4,195.7	24.8%	$ 712.5	5.4%
Analytical Instruments	3,252.2	19.3%	3,154.2	24.1%
Specialty Diagnostics	3,343.6	19.8%	3,191.7	24.4%
Laboratory Products and Services	6,601.5	39.1%	6,398.8	48.9%
Eliminations	(503.4)	(3.0)%	(366.9)	(2.8)%
	$ 16,889.6	100%	$ 13,090.3	100%

Sales in 2014 were $16.89 billion, an increase of $3.80 billion from 2013. Sales increased $3.31 billion due to acquisitions, net of divestitures. The unfavorable effects of currency translation resulted in a decrease in revenues of $60 million in 2014. Aside from the effects of currency translation and acquisitions/divestitures, revenues increased $549 million (4%) primarily due to increased demand. Demand from biopharma customers remained strong. Sales to customers in healthcare and industrial markets grew moderately while sales to academic and government markets grew modestly in 2014. Sales growth was strong in Europe and moderate in North America and Asia. Revenues and operating income of the company s non-U.S. operations are translated into U.S. dollars to report consolidated results. Based on weakening of currency exchange rates against the U.S. dollar that occurred in late 2014 and early 2015, the company currently expects that there will be a significant adverse effect on reported amounts of revenues and operating income in 2015 as a result of the stronger U.S. dollar.

In 2014, total company operating income and operating income margin were $2.50 billion and 14.8%, respectively, compared with $1.61 billion and 12.3%, respectively, in 2013. The increase in operating income and operating income margin was primarily due to net gains of $895 million on the sale of businesses, inclusion of Life Technologies results from the date of acquisition and, to a lesser extent, productivity improvements, net of inflationary cost increases. These increases were offset in part by $450 million of charges associated with the acquisition, as discussed below, as well as $569 million of higher amortization expenses, also primarily related to the acquisition. The company s references throughout this discussion to productivity improvements generally refer to improved cost efficiencies from its Practical Process Improvement (PPI) business system, reduced costs resulting from global sourcing initiatives, a lower cost structure following restructuring actions, including headcount reductions and consolidation of facilities, and low cost region manufacturing.

The company s effective tax rates were 9.2% and 3.1% in 2014 and 2013, respectively. The 2014 provision for income taxes includes $390 million related to gains on the sales of businesses. Aside from the discrete tax on the gains, the company had a benefit from income taxes primarily due to restructuring and other costs associated with the acquisition of Life Technologies as well as an increase in the expected benefit from foreign tax credits. In 2014, non-U.S. subsidiaries of the company 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 generated U.S. foreign tax credits of $172 million, offset in part by additional U.S. income taxes of $55 million on the related foreign income. The net result of these transactions favorably affected the income tax provision by $117 million and reduced the company s effective tax rate by 5.6 percentage points in 2014. The federal tax credit for 2014 research and development activities favorably affected the tax provision in 2014 by $20.1 million, or 1.0 percentage point. In 2014, the company recognized a discrete tax benefit of $15.4 million, or 0.7 percentage points, attributable to tax rulings related to non-U.S. subsidiaries. Due primarily to the non-deductibility of intangible asset amortization, the company s cash payments (net of refunds) for income taxes were higher than its income tax expense for financial reporting purposes and totaled $586 million and $230 million in 2014 and 2013, respectively. The effective tax rate in both periods was also affected by relatively significant earnings in lower tax jurisdictions. The tax provision in the 2014 period was favorably affected by $5.5 million, or 0.3 percentage points, as a result of adjustments to deferred tax balances due to changes in tax rates. The U.S. Congress has not extended the tax credit for research and development activities in 2015 as of February 26, 2015.

In 2013, non-U.S. subsidiaries of the company 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 generated U.S. foreign tax credits of $160 million offset by additional U.S. income taxes of $56 million on the related foreign income. The net result of these transactions favorably affected the income tax provision by $104 million and reduced the company s effective tax rate by 7.9 percentage points in 2013. In addition, the effective tax rate in 2013 was also reduced by the U.S. Congress renewal in January 2013 of a tax credit for research and development activities for 2012 and 2013 and, to a lesser extent, financing costs associated with the acquisition of Life Technologies that are deductible in the U.S. The federal tax credit for 2012 and 2013 research and development activities favorably affected the tax provision in 2013 by $15.4 million, or 1.2 percentage points. The tax provision in the 2013 period was unfavorably affected by $5.4 million, or 0.4 percentage points, as a result of adjustments to deferred tax balances due to changes in tax rates and audit settlements.

The company expects its effective tax rate in 2015 will be less than 3% based on currently forecasted rates of profitability in the countries in which the company conducts business.

Income from continuing operations increased to $1.90 billion in 2014, from $1.28 billion in 2013. The increase in operating income in the 2014 period (discussed above) was offset in part by an increase in the income tax provision in the 2014 period (discussed above) and an increase in interest expense of $218 million as a result of debt issued and assumed in connection with the acquisition of Life Technologies.

During 2014, the company s cash flow from operations totaled $2.62 billion compared with $2.01 billion for 2013. The increase resulted from cash flow from the acquired Life Technologies operations and a lower investment in working capital items, principally due to income tax refunds and the timing of tax payments, offset in part by cash disbursements totaling $325 million related to the acquisition of Life Technologies, including severance obligations, third-party transaction/integration costs and monetizing certain equity awards held by Life Technologies employees at the date of acquisition.

As of December 31, 2014, the company s short-term debt totaled $2.21 billion, including $1.21 billion of senior notes, due in the first half of 2015 and $1.00 billion of minimum payments due in the next twelve months on the company s term loan. The company has a revolving credit facility with a bank group that provides unsecured multi-currency revolving credit. In February 2015, the maximum capacity of this facility was increased from $1.50 billion to $2.00 billion. 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 December 31, 2014, no borrowings were outstanding under the company s revolving credit facility, although available capacity was reduced by approximately $59 million as a result of outstanding letters of credit.

The company believes that its existing cash and short-term investments of $1.35 billion as of December 31, 2014 and its future cash flow from operations together with available borrowing capacity under its revolving credit agreement will be sufficient to meet the cash requirements of its existing businesses for the foreseeable future, including at least the next 24 months.

Critical Accounting Policies and Estimates

The company s discussion and analysis of its financial condition and results of operations is based upon its financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure of contingent liabilities. On an on-going basis, management evaluates its estimates, including those related to bad debts, inventories, business combinations, intangible assets and goodwill, equity investments, sales returns, warranty obligations, income taxes, contingencies and litigation, pension costs and stock-based compensation. Management

believes the most complex and sensitive judgments, because of their significance to the consolidated financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management bases its estimates on historical experience, current market and economic conditions and other assumptions that management believes are reasonable. The results of these estimates form the basis for judgments about the carrying value of assets and liabilities where the values are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The company believes the following represent its critical accounting policies and estimates used in the preparation of its financial statements:

(a) *Accounts Receivable*

The company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to pay amounts due. Such allowances totaled $74 million at December 31, 2014. The company estimates the amount of customer receivables that are uncollectible based on the age of the receivable, the creditworthiness of the customer and any other information that is relevant to the judgment. If the financial condition of the company s customers were to deteriorate, reducing their ability to make payments, additional allowances would be required.

(b) *Inventories*

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

(c) *Intangible Assets and Goodwill*

The company uses assumptions and estimates in determining the fair value of assets acquired and liabilities assumed in a business combination. The determination of the fair value of intangible assets, which represent a significant portion of the purchase price in many of the company s acquisitions, requires the use of significant judgment with regard to (i) the fair value; and (ii) whether such intangibles are amortizable or non-amortizable and, if the former, the period and the method by which the intangible asset will be amortized. The company estimates the fair value of acquisition-related intangible assets principally based on projections of cash flows that will arise from identifiable intangible assets of acquired businesses. The projected cash flows are discounted to determine the present value of the assets at the dates of acquisition. Definite-lived intangible assets totaled $12.81 billion at December 31, 2014. The company reviews definite-lived intangible assets for impairment when indication of potential impairment exists, such as a significant reduction in cash flows associated with the assets. Actual cash flows arising from a particular intangible asset could vary from projected cash flows which could imply different carrying values from those established at the dates of acquisition and which could result in impairment of such asset.

The company evaluates goodwill and indefinite-lived intangible assets for impairment annually and when events occur or circumstances change that may reduce the fair value of the asset below its carrying amount. Events or circumstances that might require an interim evaluation include unexpected adverse business conditions, economic factors, unanticipated technological changes or competitive activities, loss of key personnel and acts by governments and courts. Goodwill and indefinite-lived intangible assets totaled $18.84 billion and $1.30 billion, respectively, at December 31, 2014. Estimates of future cash flows require assumptions related to revenue and operating income growth, asset-related expenditures, working capital levels and other factors. Different assumptions from those made in the company s analysis could materially affect projected cash flows and the company s evaluation of goodwill and indefinite-lived intangible assets for impairment.

Projections of profitability for 2015 and thereafter and indicated fair values based on peer revenues and earnings trading multiples were sufficient to conclude that no impairment of goodwill or indefinite-lived intangible assets existed at the end of the tenth fiscal month of 2014, the date of the company s impairment testing. There can be no assurance, however, that an economic downturn will not materially adversely affect peer trading multiples and the company s businesses such that they do not achieve their forecasted profitability and these assets become impaired. Should the fair value of the company s goodwill or indefinite-lived intangible assets decline because of reduced operating performance, market declines, or other indicators of impairment, or as a result of changes in the discount rate, charges for impairment may be necessary.

With the completion of the Life Technologies acquisition in February 2014, the company established a new segment and reporting unit called Life Sciences Solutions. This new segment consists of the majority of the former Life Technologies businesses and the remaining Thermo Fisher biosciences businesses following anti-trust required divestitures in March 2014. Because this segment consists primarily of the acquired business, the book value of which equaled its fair value as of the acquisition date, the company believes minimal cushion of fair value over book value existed at that date. During its 2014 goodwill impairment testing, the company determined that the Life Sciences Solutions segment s cushion of fair value over book value had increased to 9% as of October 31, 2014. Despite this favorable increase, given that the fair value is not substantially in excess of the book value, relatively small decreases in future cash flows from forecasted results or changes in discount rates or other assumptions could result in impairment of goodwill. The key variables that drive the cash flows of the reporting unit are levels of profitability and terminal value growth rate assumptions, as well as the weighted average cost of capital (WACC) rate applied. The estimates used for these assumptions represent management s best estimates, which the company believes are reasonable. These assumptions, however, are subject to uncertainty, including the degree to which the acquired business will grow revenue and profitability levels. The Life Sciences Solutions segment had $7.25 billion of goodwill, and had an overall carrying value of $14.75 billion as of December 31, 2014.

(d) *Other Long-lived Assets*

The company reviews other long-lived assets for impairment when indication of potential impairment exists, such as a significant reduction in cash flows associated with the assets. Other long-lived assets totaled $3.36 billion at December 31, 2014, including $2.43 billion of fixed assets. In testing a long-lived asset for impairment, assumptions are made concerning projected cash flows associated with the asset. Estimates of future cash flows require assumptions related to revenue and operating income growth and asset-related expenditures associated with the asset being reviewed for impairment. Should future cash flows decline significantly from estimated amounts, charges for impairment of other long-lived assets may be necessary.

(e) *Revenues*

In instances where the company sells equipment with a related installation obligation, the company generally recognizes revenue related to the equipment when title passes. The company recognizes revenue related to the installation when it performs the installation. The allocation of revenue between the equipment and the installation is based on relative selling price at the time of sale. Should the relative value of either the equipment or the installation change, the company s revenue recognition would be affected.

In instances where the company sells equipment with customer-specified acceptance criteria, the company must assess whether it can demonstrate adherence to the acceptance criteria prior to the customer s acceptance testing to determine the timing of revenue recognition. If the nature of customer-specified acceptance criteria were to change or grow in complexity such that the company could not demonstrate adherence, the company would be required to defer additional revenues upon shipment of its products until completion of customer acceptance testing.

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

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

(f) *Warranty Obligations*

At the time the company recognizes revenue, it provides for the estimated cost of standard product warranties in cost of product revenues based primarily on historical experience and knowledge of any specific warranty problems that indicate projected warranty costs may vary from historical patterns. The liability for standard warranty obligations of the company s continuing operations totaled $58 million at December 31, 2014. Should product failure rates or the actual cost of correcting product failures vary from estimates, revisions to the estimated warranty liability would be necessary.

(g) *Income Taxes*

In the ordinary course of business there is inherent uncertainty in quantifying the company s income tax positions. The company assesses income tax positions and records tax benefits for all years subject to examination based upon management s evaluation of the facts, circumstances and information available at the reporting date. For those tax positions where it is more likely than not that a tax benefit will be sustained, the company has recorded the largest amount of tax benefit with a greater than 50 percent likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. The company s reserve for these matters totaled $214 million at December 31, 2014. Where applicable, associated interest expense has also been recognized as a component of the provision for income taxes.

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

The company estimates the degree to which tax assets and loss carryforwards will result in a benefit based on expected profitability by tax jurisdiction, and provides a valuation allowance for tax assets and loss carryforwards that it believes will more likely than not go unused. If it becomes more likely than not that a tax asset or loss carryforward will be used, the company reverses the related valuation allowance. Any such reversals are recorded as a reduction of the company s tax provision. The company s tax valuation allowance totaled $116 million at December 31, 2014.

Should the company s actual future taxable income by tax jurisdiction vary from estimates, additional allowances or reversals thereof may be necessary.

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

(h) *Contingencies and Litigation*

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

(i) *Pension and Other Retiree Benefits*

Several of the company s U.S. and non-U.S. subsidiaries sponsor defined benefit pension and other retiree benefit plans. The cost and obligations of these arrangements are calculated using many assumptions to estimate the benefits that the employee earns while working, the amount of which cannot be completely determined until the benefit payments cease. Major assumptions used in the accounting for these employee benefit plans include the discount rate, expected return on plan assets and rate of increase in employee compensation levels. Assumptions are determined based on company data and appropriate market indicators in consultation with third-party actuaries, and are evaluated each year as of the plans measurement date. Net periodic pension costs for the company s pension and other postretirement benefit plans totaled $56 million in 2014. The company s unfunded benefit obligation totaled $540 million at year-end 2014 (including plan obligations assumed in the acquisition of Life Technologies) compared with $301 million at year-end 2013. Should any of these assumptions change, they would have an effect on net periodic pension costs and the unfunded benefit obligation. For example, a 10% decrease in the discount rate would result in an annual increase in pension and other postretirement benefit expense of approximately $1 million and an increase in the benefit obligation of approximately $108 million.

As of December 31, 2014, the company expects to contribute between $40 and $60 million to its existing defined benefit pension plans in 2015.

(j) *Stock-based Compensation*

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

Results of Operations

2014 Compared With 2013

Continuing Operations

(In millions)	2014	2013	Total Change	Currency Translation	Acquisitions/ Divestitures	Operations
Revenues						
Life Sciences Solutions	$ 4,195.7	$ 712.5	$ 3,483.2	$ (0.2)	$ 3,446.2	$ 37.2
Analytical Instruments	3,252.2	3,154.2	98.0	(29.9)	15.3	112.6
Specialty Diagnostics	3,343.6	3,191.7	151.9	(12.4)	10.1	154.2
Laboratory Products and Services	6,601.5	6,398.8	202.7	(16.9)	(92.5)	312.1
Eliminations	(503.4)	(366.9)	(136.5)	(0.3)	(69.3)	(66.9)
Consolidated Revenues	$ 16,889.6	$ 13,090.3	$ 3,799.3	$ (59.7)	$ 3,309.8	$ 549.2

Sales in 2014 were $16.89 billion, an increase of $3.80 billion from 2013. Sales increased $3.31 billion due to acquisitions, net of divestitures. The unfavorable effects of currency translation resulted in a decrease in revenues of $60 million in 2014. Aside from the effects of currency translation and acquisitions/divestitures, revenues increased $549 million (4%) primarily due to increased demand. Demand from biopharma customers remained strong. Sales to customers in healthcare and industrial markets grew moderately while sales to academic and government markets grew modestly in 2014. Sales growth was strong in Europe and moderate in North America and Asia. Revenues and operating income of the company s non-U.S. operations are translated into U.S. dollars to report consolidated results. Based on weakening of currency exchange rates against the U.S. dollar that occurred in late 2014 and early 2015, the company currently expects that there will be a significant adverse effect on reported amounts of revenues and operating income in 2015 as a result of the stronger U.S. dollar.

In 2014, total company operating income and operating income margin were $2.50 billion and 14.8%, respectively, compared with $1.61 billion and 12.3%, respectively, in 2013. The increase in operating income and operating income margin was primarily due to net gains of $895 million on the sale of businesses, inclusion of Life Technologies results from the date of acquisition and, to a lesser extent, productivity improvements, net of inflationary cost increases. These increases were offset in part by $450 million of charges associated with the acquisition, as discussed below, as well as $569 million of higher amortization expenses, also primarily related to the acquisition. 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.

In 2014, the company recorded restructuring and other income, net, of $140 million, including net gains on the sale of businesses and real estate of $895 million and $15 million, respectively, offset in part by $328 million of charges to cost of revenues primarily for the sale of inventories revalued at the date of acquisition; $131 million of charges to selling, general and administrative expenses primarily for transaction costs related to the acquisition of Life Technologies; and $29 million of charges for pension settlements. The company incurred $268 million of cash restructuring costs primarily associated with the Life Technologies acquisition including cash compensation to monetize certain equity awards held by Life Technologies employees at the date of acquisition and severance obligations to former executives and employees of Life Technologies. In addition, 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 (see Note 14).

In 2013, the company recorded restructuring and other costs, net, of $180 million, including $29 million of charges to cost of revenues primarily related to the sale of inventories revalued at the date of acquisition and, to a lesser extent, accelerated depreciation on manufacturing assets to be abandoned due to facility consolidations and $74 million of charges to selling, general and administrative expenses primarily consisting of transaction costs related to the acquisition of Life Technologies, changes in estimates of contingent consideration for an acquisition and a charge associated with product liability litigation. The company incurred $78 million of cash restructuring costs primarily 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 were being consolidated. The cash costs also included $4 million of transaction expenses related to the agreement to sell its sera and media, gene modulation and magnetic beads businesses (see Note 2).

As of February 26, 2015, the company has identified restructuring actions that will result in additional charges of approximately $70 million in 2015 and expects to identify additional actions during 2015 which will be recorded when specified criteria are met, such as abandonment of leased facilities. Approximately half of the additional charges will be incurred in the Life Sciences Solutions segment, with the remainder incurred across the company s remaining segments. The restructuring projects for which charges were incurred in 2014 are expected to result in annual cost savings of approximately $120 million beginning in part in 2014 and, to a greater extent, in 2015, including $80 million in the Life Sciences Solutions segment, $10 million in the Analytical Instruments segment, $10 million in the Specialty Diagnostics segment and $20 million in the Laboratory Products and Services segment. The restructuring actions for which charges were incurred in 2013 resulted in annual cost savings of approximately $80 million beginning in part in 2013 and to a greater extent in 2014, including $5 million in the Life Sciences Solutions segment, $30 million in the Analytical Instruments segment, $20 million in the Specialty Diagnostics segment and $25 million in the Laboratory Products and Services segment.

Segment Results

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

(Dollars in millions)	2014	2013	Change
Revenues			
Life Sciences Solutions	$ 4,195.7	$ 712.5	489%
Analytical Instruments	3,252.2	3,154.2	3%
Specialty Diagnostics	3,343.6	3,191.7	5%
Laboratory Products and Services	6,601.5	6,398.8	3%
Eliminations	(503.4)	(366.9)	37%
Consolidated Revenues	$ 16,889.6	$ 13,090.3	29%
Segment Income			
Life Sciences Solutions	$ 1,214.9	$ 169.7	616%
Analytical Instruments	581.1	558.7	4%
Specialty Diagnostics	916.0	863.7	6%
Laboratory Products and Services	982.8	960.4	2%
Subtotal Reportable Segments	3,694.8	2,552.5	45%
Cost of Revenues Charges	(327.6)	(28.6)	
Selling, General and Administrative Charges, Net	(130.7)	(73.5)	
Restructuring and Other Income (Costs), Net	598.2	(77.7)	
Amortization of Acquisition-related Intangible Assets	(1,331.7)	(763.1)	
Consolidated Operating Income	$ 2,503.0	$ 1,609.6	56%
Reportable Segments Operating Income Margin	21.9%	19.5%	
Consolidated Operating Income Margin	14.8%	12.3%	

Income from the company s reportable segments increased 45% to $3.69 billion in 2014 due primarily to the acquisition of Life Technologies and to a lesser extent, productivity improvements, net of inflationary costs increases, offset in part by strategic growth investments.

Life Sciences Solutions

(Dollars in millions)	2014	2013	Change
Revenues	$ 4,195.7	$ 712.5	489%
Operating Income Margin	29.0%	23.8%	5.2pt

Sales in the Life Sciences Solutions segment increased $3.48 billion to $4.20 billion in 2014 primarily due to the acquisition of Life Technologies, net of divestitures. Had the acquisition of Life Technologies been completed at the beginning of 2013, pro forma revenues for the 2014 period would have decreased $38 million compared to pro forma 2013 revenues, including a decrease of $151 million due to dispositions, net of other acquisitions and a decrease of $45 million due to the unfavorable effects of currency translation, offset in part by an increase of $158 million (4%) due to higher revenues at existing businesses. The increase in pro forma revenue at existing businesses was primarily due to increased demand for biosciences and bioprocess production products, offset in part by lower licensing revenues.

Operating income margin was 29.0% in 2014 compared to 23.8% in 2013. The increase resulted primarily from higher operating margins in Life Technologies businesses relative to the segment s legacy operations and, to a lesser extent, productivity improvements, net of inflationary cost increases. The company expects the segment s operating income margin in the first quarter of 2015 will be lower than the 29.3% reported in the first quarter of 2014. This is due to excluding the results of Life Technologies prior to the February 3, 2014 acquisition date. Results for January commonly have a lower margin rate than results for the balance of the quarter, due to the phasing of revenue and costs.

Analytical Instruments

(Dollars in millions)	2014	2013	Change
Revenues	$ 3,252.2	$ 3,154.2	3%
Operating Income Margin	17.9%	17.7%	0.2pt

Sales in the Analytical Instruments segment increased $98 million to $3.25 billion in 2014. Sales increased $113 million (4%) due to higher revenues at existing businesses and $15 million due to acquisitions, offset in part by a decrease of $30 million due to the unfavorable effects of currency translation. The increase in revenue at existing businesses was primarily due to increased demand for chromatography and mass spectrometry instruments and, to a lesser extent, environmental instruments. These increases were offset in part by modestly lower sales of chemical analysis products due primarily to softness in certain commodity markets such as minerals.

Operating income margin was 17.9% in 2014 compared to 17.7% in 2013. The increase resulted primarily from productivity improvements, net of inflationary cost increases and, to a lesser extent, profit from favorable sales mix. The increases were offset in part by strategic growth investments.

Specialty Diagnostics

(Dollars in millions)	2014	2013	Change
Revenues	$ 3,343.6	$ 3,191.7	5%
Operating Income Margin	27.4%	27.1%	0.3pt

Sales in the Specialty Diagnostics segment increased $152 million to $3.34 billion in 2014. Sales increased $154 million (5%) due to higher revenues at existing businesses and $10 million due to an acquisition net of a divestiture, offset in part by a decrease of $12 million due to the unfavorable effects of currency translation. The increase in revenue at existing businesses was primarily due to increased demand for immunodiagnostics products, products sold through the segment s healthcare market channel and, to a lesser extent, clinical diagnostics products.

Operating income margin was 27.4% in 2014 and 27.1% in 2013. The increase resulted primarily from favorable sales mix and, to a lesser extent, productivity improvements, net of inflationary cost increases. These increases were offset in part by strategic growth investments.

Laboratory Products and Services

(Dollars in millions)	2014	2013	Change
Revenues	$ 6,601.5	$ 6,398.8	3%
Operating Income Margin	14.9%	15.0%	(0.1)pt

Sales in the Laboratory Products and Services segment increased $203 million to $6.60 billion in 2014. Sales increased $312 million (5%) due to higher revenues at existing businesses. The increase was offset in part by a decrease of $93 million due to dispositions and $17 million due to the unfavorable effects of currency translation. The increase in revenue at existing businesses was primarily due to increased demand for laboratory products and, to a lesser extent, clinical trial logistics services.

Operating income margin was 14.9% in 2014 and 15.0% in 2013. The decrease resulted primarily from strategic growth investments offset in part by productivity improvements, net of inflationary cost increases.

Other Expense, Net

The company reported other expense, net, of $416 million and $290 million in 2014 and 2013, respectively (Note 4). Interest expense increased $218 million primarily due to the debt issued and assumed in connection with the acquisition of Life Technologies. In 2014, the company realized net gains of $9 million from equity and available-for-sale investments. In 2013, the company recorded $74 million of charges related to amortization of fees paid to obtain bridge financing commitments related to the acquisition of Life Technologies. Also in 2013, the company irrevocably contributed appreciated available-for-sale investments that had a fair value of $27 million to two of its U.K. defined benefit plans, resulting in realization of a previously unrecognized gain of $11 million.

Provision for Income Taxes

The company s effective tax rates were 9.2% and 3.1% in 2014 and 2013, respectively. The 2014 provision for income taxes includes $390 million related to gains on the sales of businesses. Aside from the discrete tax on the gains, the company had a benefit from income taxes primarily due to restructuring and other costs associated with the acquisition of Life Technologies as well as an increase in the expected benefit from foreign tax credits. In 2014, non-U.S. subsidiaries of the company 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 generated U.S. foreign tax credits of $172 million, offset in part by additional U.S. income taxes of $55 million on the related foreign income. The net result of these transactions favorably affected the income tax provision by $117 million and reduced the company s effective tax rate by 5.6 percentage points in 2014. The federal tax credit for 2014 research and development activities favorably affected the tax provision in 2014 by $20.1 million, or 1.0 percentage point. In 2014, the company recognized a discrete tax benefit of $15.4 million, or 0.7 percentage points, attributable to tax rulings related to non-U.S. subsidiaries. Due primarily to the non-deductibility of intangible asset amortization, the company s cash payments (net of refunds) for income taxes were higher than its income tax expense for financial reporting purposes and totaled $586 million and $230 million in 2014 and 2013, respectively. The effective tax rate in both periods was also affected by relatively significant earnings in lower tax jurisdictions. The tax provision in the 2014 period was favorably affected by $5.5 million, or 0.3 percentage points, as a result of adjustments to deferred tax balances due to changes in tax rates. The U.S. Congress has not extended the tax credit for research and development activities in 2015 as of February 26, 2015.

In 2013, non-U.S. subsidiaries of the company 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 generated U.S. foreign tax credits of $160 million offset by additional U.S. income taxes of $56 million on the related foreign income. The net result of these transactions favorably affected the income tax provision by $104 million and reduced the company s effective tax rate by 7.9 percentage points in 2013. In addition, the effective tax rate in 2013 was also reduced by the U.S. Congress renewal in January 2013 of a tax credit for research and development activities for 2012 and 2013 and, to a lesser extent, financing costs associated with the acquisition of Life Technologies that are deductible in the U.S. The federal tax credit for 2012 and 2013 research and development activities favorably affected the tax provision in 2013 by $15.4 million, or 1.2 percentage points. The tax provision in the 2013 period was unfavorably affected by $5.4 million, or 0.4 percentage points, as a result of adjustments to deferred tax balances due to changes in tax rates and audit settlements.

The company expects its effective tax rate in 2015 will be less than 3% based on currently forecasted rates of profitability in the countries in which the company conducts business.

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.

Discontinued Operations

In June 2012, in an effort to exit a non-core business, the company pursued a sale of its laboratory workstations business, part of the Laboratory Products and Services segment. The company completed the sale in October 2012 for nominal proceeds. In 2013, the company recorded an after-tax charge of $4.2 million for the estimated cost to raze certain abandoned facilities of the discontinued operations prior to the planned sale of the land.

Recent Accounting Pronouncements

In January 2015, the FASB issued new guidance to simplify income statement classification by removing the concept of extraordinary items from U.S. GAAP. As a result, items that are both unusual and infrequent will no longer be separately reported net of tax after continuing operations. The company adopted this guidance effective January 2015. The adoption of this standard in 2015 is not expected to have a material impact on the company s consolidated financial statements.

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. The guidance is effective for the company in 2017. Early adoption is not permitted. The company is currently evaluating the impact the standard will have on its consolidated financial statements.

In April 2014, the FASB issued new guidance on reporting discontinued operations and disclosures of disposals. Under the new guidance, only disposals representing a strategic shift in operations will be presented as discontinued operations. The new guidance also requires disclosure of the pre-tax income attributable to a disposal of a significant part of the company that does not qualify for discontinued operations reporting. The company adopted this guidance effective January 2015. The adoption of this standard in 2015 is not expected to have a material impact on the company s consolidated financial statements.

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* and *Intellectual Property 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.

2013 Compared With 2012

Continuing Operations

(In millions)	2013	2012	Total Change	Currency Translation	Acquisitions/ Divestitures	Operations
Revenues						
Life Sciences Solutions	$ 712.5	$ 658.8	$ 53.7	$ (1.1)	$	$ 54.8
Analytical Instruments	3,154.2	3,114.7	39.5	(23.2)	9.4	53.3
Specialty Diagnostics	3,191.7	2,961.5	230.2	(5.4)	143.0	92.6
Laboratory Products and Services	6,398.8	6,102.8	296.0	(5.7)	35.7	266.0
Eliminations	(366.9)	(327.9)	(39.0)	(1.0)		(38.0)
Consolidated Revenues	$ 13,090.3	$ 12,509.9	$ 580.4	$ (36.4)	$ 188.1	$ 428.7

Sales in 2013 were $13.09 billion, an increase of $580 million from 2012. Sales increased $188 million due to acquisitions. The unfavorable effects of currency translation resulted in a decrease in revenues of $36 million in 2013. Aside from the effects of currency translation and acquisitions, revenues increased $429 million (3%) primarily due to increased demand offset in part by modestly lower sales to customers in academic and government markets which the company believes was due in part to uncertainty in government funding expectations in the U.S. Sales remained strong to customers in pharmaceutical and biotech industries while sales growth was modest to customers in industrial markets. Sales growth was strong in Asia and modest in Europe and North America.

In 2013, total company operating income and operating income margin were $1.61 billion and 12.3%, respectively, compared with $1.48 billion and 11.8%, respectively, in 2012. The increase in operating income and operating income margin was primarily due to productivity improvements, net of inflationary cost increases, and, to a lesser extent, profit on incremental sales from acquisitions. The increase was offset in part by strategic growth investments, unfavorable foreign currency exchange and, to a lesser extent, $24 million of higher acquisition-related charges in 2013, an increase in amortization expense of $16 million in 2013 primarily related to the acquisitions of One Lambda and Doe & Ingalls and imposition of a medical device excise tax in 2013.

In 2013, the company recorded restructuring and other costs, net, of $180 million, including $29 million of charges to cost of revenues related primarily for the sale of inventories revalued at the date of acquisition and, to a lesser extent, accelerated depreciation on manufacturing assets to be abandoned due to facility consolidations and $74 million of charges to selling, general and administrative expenses consisting primarily of transaction costs related to the acquisition of Life Technologies, revisions of estimated contingent consideration for an acquisition and a charge associated with product liability litigation. The company incurred $78 million of cash restructuring costs primarily 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, such as the consolidation of several facilities in the U.S. and Europe (see Note 14). The cash costs also included $4 million of transaction expenses related to the agreement to sell its sera and media, gene modulation and magnetic beads businesses (see Note 2).

In 2012, the company recorded restructuring and other costs, net, of $150 million, including $56 million of charges to cost of revenues primarily related to the sale of inventories revalued at the date of acquisition and $13 million of charges to selling, general and administrative expenses primarily consisting of transaction costs related to the acquisition of One Lambda. The company incurred $67 million of cash restructuring costs primarily for continued headcount reductions and facility consolidations in an effort to streamline operations, including severance at several businesses and abandoned facility expenses at businesses that have been or are being consolidated. The company also recorded $15 million of non-cash expense, net, primarily for the impairment of intangible asset at several small business units and, to a lesser extent, real estate writedowns related to facility consolidations partially offset by a $6 million gain from the settlement of pre-acquisition litigation.

The restructuring actions for which charges were incurred in 2012 resulted in annual cost savings of approximately $85 million beginning in part in 2012 and to a greater extent in 2013, including $10 million in the Life Sciences Solutions segment, $25 million in the Analytical Instruments segment, $20 million in the Specialty Diagnostics segment and $30 million in the Laboratory Products and Services segment.

Segment Results

(Dollars in millions)	2013	2012	Change
Revenues			
Life Sciences Solutions	$ 712.5	$ 658.8	8%
Analytical Instruments	3,154.2	3,114.7	1%
Specialty Diagnostics	3,191.7	2,961.5	8%
Laboratory Products and Services	6,398.8	6,102.8	5%
Eliminations	(366.9)	(327.9)	12%
Consolidated Revenues	$ 13,090.3	$ 12,509.9	5%
Segment Income			
Life Sciences Solutions	$ 169.7	$ 154.8	10%
Analytical Instruments	558.7	554.6	1%
Specialty Diagnostics	863.7	758.1	14%
Laboratory Products and Services	960.4	912.4	5%
Subtotal Reportable Segments	2,552.5	2,379.9	7%
Cost of Revenues Charges	(28.6)	(55.6)	
Selling, General and Administrative Costs, Net	(73.5)	(12.5)	
Restructuring and Other Costs, Net	(77.7)	(82.1)	
Amortization of Acquisition-related Intangible Assets	(763.1)	(747.6)	
Consolidated Operating Income	$ 1,609.6	$ 1,482.1	9%
Reportable Segments Operating Income Margin	19.5%	19.0%	
Consolidated Operating Income Margin	12.3%	11.8%	

Income from the company s reportable segments increased 7% to $2.55 billion in 2013 due primarily to productivity improvements, net of inflationary costs increases, and, to a lesser extent, profit on incremental sales from acquisitions, offset in part by strategic growth investments and unfavorable foreign currency exchange.

Life Sciences Solutions

(Dollars in millions)	2013	2012	Change

Revenues	$ 712.5	$ 658.8	8%
Operating Income Margin	23.8%	23.5%	0.3pt

Sales in the Life Sciences Solutions segment increased $54 million to $713 million in 2013. Sales increased $55 million (8%) due to higher revenues at existing businesses 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 bioscience products.

Operating income margin was 23.8% in 2013 compared to 23.5% in 2012. Operating margin was favorably affected by productivity improvements, net of inflationary cost increases, offset in part by strategic growth investments.

Analytical Instruments

(Dollars in millions)	2013	2012	Change
Revenues	$ 3,154.2	$ 3,114.7	1%
Operating Income Margin	17.7%	17.8%	(0.1)pt

Sales in the Analytical Instruments segment increased $40 million to $3.15 billion in 2013. Sales increased $53 million (2%) due to higher revenues at existing businesses and $9 million due to acquisitions. These increases were offset in part by a decrease of $23 million due to the unfavorable effects of currency translation. The increase in revenue at existing businesses was primarily due to increased demand for chromatography and mass spectrometry instruments, offset in part by lower sales of chemical analysis products which the company believes were affected by macro economic conditions facing customers in industrial markets.

Operating income margin was 17.7% in 2013 compared to 17.8% in 2012. Operating margin was unfavorably affected by strategic growth investments and, to a lesser extent, unfavorable foreign currency exchange, offset in part by productivity improvements, net of inflationary cost increases.

Specialty Diagnostics

(Dollars in millions)	2013	2012	Change
Revenues	$ 3,191.7	$ 2,961.5	8%
Operating Income Margin	27.1%	25.6%	1.5pt

Sales in the Specialty Diagnostics segment increased $230 million to $3.19 billion in 2013. Sales increased $143 million due to an acquisition and $93 million (3%) due to higher revenues at existing businesses. These increases were offset in part by a decrease of $5 million due to the unfavorable effects of currency translation. The increase in revenue at existing businesses was primarily due to increased demand, particularly for clinical diagnostics products and, to a lesser extent, microbiology and allergy products in part as a result of strong flu and pollen seasons, partially offset by weakness from reduced healthcare utilization and lower sales of instruments to diagnostic laboratories due in part to lower healthcare reimbursement rates in the U.S. for anatomical pathology tests.

Operating income margin was 27.1% in 2013 and 25.6% in 2012. The increase resulted from profit on incremental sales from an acquisition and, to a lesser extent, at existing businesses as well as productivity improvements, net of inflationary cost increases. The increases were offset in part by strategic growth investments and imposition of the medical device excise tax in 2013.

Laboratory Products and Services

(Dollars in millions)	2013	2012	Change
Revenues	$ 6,398.8	$ 6,102.8	5%
Operating Income Margin	15.0%	15.0%	0.0pt

Sales in the Laboratory Products and Services segment increased $296 million to $6.40 billion in 2013. Sales increased $266 million (4%) due to higher revenues at existing businesses and $36 million due to an acquisition. The unfavorable effects of currency translation resulted in a decrease in revenues of $6 million in 2013. The increase in revenue at existing businesses was primarily due to increased demand for laboratory products and clinical trial logistics services. Sales of laboratory equipment increased only modestly due to weakness in demand from customers in academic and government markets.

Operating income margin was 15.0% in both 2013 and 2012. Productivity improvements, net of inflationary cost increases and, to a lesser extent, price increases were offset by strategic growth investments and unfavorable sales mix.

Other Expense, Net

The company reported other expense, net, of $290 million and $213 million in 2013 and 2012, respectively (Note 4). In the first quarter of 2013, the company irrevocably contributed appreciated available-for-sale investments that had a fair value of $27 million to two of its U.K. defined benefit plans, resulting in realization of a previously unrecognized gain of $11 million. In 2013, other items, net also includes $74 million of charges related to amortization of fees paid to obtain bridge financing commitments related to the Life Technologies Acquisition, offset in part by gains totaling $5 million from sales of equity investments. Interest expense increased $21 million primarily due to the debt issued to fund the One Lambda and Life Technologies acquisitions.

Provision for Income Taxes

The company s effective tax rates were 3.1% and 0.9% in 2013 and 2012, respectively. Due primarily to the non-deductibility of intangible asset amortization, the company s cash payments (net of refunds) for income taxes for its continuing operations were higher than its income tax expense for financial reporting purposes and totaled $230 million and $331 million in 2013 and 2012, respectively. Tax payments decreased in 2013 due primarily to refunds of taxes paid in 2012. In 2013, non-U.S. subsidiaries of the company made cash and deemed distributions to the U.S. which resulted in no net tax cost. As a result of these distributions, the company generated U.S. foreign tax credits of $160 million offset by additional U.S. income taxes of $56 million on the related foreign income. The net result of these transactions favorably affected the income tax provision by $104 million and reduced the company s effective tax rate by 7.9 percentage points in 2013. In addition, the effective tax rate in 2013 was also reduced by the U.S. Congress renewal in January 2013 of a tax credit for research and development activities for 2012 and 2013 and, to a lesser extent, increased earnings in lower tax jurisdictions and financing costs associated with the acquisition of Life Technologies that are deductible in the U.S. The tax credit for 2012 and 2013 research and development activities favorably affected the tax provision in 2013 by $15.4 million, or 1.2 percentage points. The tax provision in the 2013 period was unfavorably affected by $5.4 million, or 0.4 percentage points, as a result of adjustments to deferred tax balances due to changes in tax rates and audit settlements. The tax provision in 2012 was favorably affected by $53 million, or 4.1 percentage points, as a result of adjustments to deferred tax balances due to changes in tax rates, particularly a lower tax rate in Sweden.

Discontinued Operations

The company completed the sale of its laboratory workstations business in October 2012 for nominal proceeds. The business was included in the Laboratory Products and Services segment prior to being reclassified to discontinued operations for all periods presented in June 2012. Revenues of the laboratory workstations business were $147 million in the 2012 period prior to the sale. The business incurred a pre-tax loss of $30 million in 2012 in part due to inventory write-offs, higher manufacturing costs and restructuring and other transition costs associated with relocation of the business. In 2012, the company recorded after-tax charges aggregating $63 million as the loss on the divestiture. The loss in 2013 for discontinued operations primarily represents a charge for the cost of razing abandoned facilities of the business prior to sale of the land.

Liquidity and Capital Resources

Consolidated working capital was $1.19 billion at December 31, 2014, compared with $6.75 billion at December 31, 2013. Included in working capital were cash, cash equivalents and short-term investments of $1.35 billion at December 31, 2014 and $5.83 billion at December 31, 2013. The decrease in working capital is primarily due to the cash used to fund the Life Technologies acquisition and an increase in short-term debt of $1.2 billion, also principally due to the acquisition.

2014

Cash provided by operating activities was $2.62 billion during 2014, primarily from the company s earnings. Increases in accounts receivable and inventories used cash of $145 million and $110 million, respectively, primarily to support growth in sales. Other assets decreased by $163 million primarily due to collection of tax refunds including those related to legacy Life Technologies operations. Other liabilities increased by $308 million primarily due to the timing of payments for incentive compensation and income taxes. In 2014, the company made cash payments including severance obligations, third-party transaction/integration costs and monetizing certain equity awards totaling $325 million related to the acquisition of Life Technologies. The company made cash contributions to its pension and postretirement benefit plans totaling $50 million during 2014. Cash payments for income taxes increased to $586 million during 2014, compared with $230 million in 2013, in part due to taxes on the gains from the sale of businesses.

During 2014, the company s investing activities used $11.78 billion of cash, principally for the acquisition of Life Technologies. Acquisitions used cash of $13.06 billion. Proceeds from the sale of businesses provided $1.52 billion. The company s investing activities also included the purchase of $428 million of property, plant and equipment. In February 2015, the company completed an acquisition for approximately $300 million in cash (Note 17).

The company s financing activities provided $4.80 billion of cash during 2014. To partially fund the acquisition of Life Technologies, the company borrowed $5.00 billion under an unsecured term loan (Note 9) and issued 34.9 million shares of its common stock for net proceeds of $2.94 billion in cash (Note 11). Other long-term borrowings totaled $1.59 billion. Repayments of long-term debt, principally the term loan, totaled $4.43 billion. A decrease in commercial paper obligations used cash of $250 million. The company s financing activities also included $155 million of proceeds from employee stock option exercises offset by the payment of $235 million in cash dividends. On November 8, 2012, the Board of Directors authorized the repurchase of up to $1.00 billion of the company s common stock beginning January 1, 2013. At December 31, 2014, $910 million was available for future repurchases of the company s common stock under this authorization. In the first quarter of 2015 through February 26, 2015, the company repurchased $500 million of its common stock under this authorization. In February 2015, the company notified holders of its 5.00% Senior Notes due June 2015 that it will redeem all $250 million principal amount outstanding on March 6, 2015.

As of December 31, 2014, the company s short-term debt totaled $2.21 billion, including $1.21 billion of senior notes, due in the first half of 2015 and $1.00 billion of minimum payments due in the next twelve months on the company s term loan. The company has a revolving credit facility with a bank group that provides unsecured multi-currency revolving credit. In February 2015, the maximum capacity of this facility was increased from $1.50 billion to $2.00 billion. 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

December 31, 2014, no borrowings were outstanding under the company s revolving credit facility, although available capacity was reduced by approximately $59 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.

The company believes that its existing cash and short-term investments of $1.35 billion as of December 31, 2014 and its future cash flow from operations together with available borrowing capacity under its revolving credit agreement will be sufficient to meet the cash requirements of its existing businesses for the foreseeable future, including at least the next 24 months.

2013

Cash provided by operating activities was $2.01 billion during 2013, primarily from the company s earnings. Increases in accounts receivable and inventories used cash of $148 million and $72 million, respectively, primarily to support growth in sales. A decrease in other assets provided cash of $169 million primarily due to timing of income tax refunds. An increase in accounts payable provided cash of $47 million, primarily due to higher inventory purchases. An increase in other liabilities provided cash of $163 million primarily due to the timing of payments for income taxes and incentive compensation. In the 2013, the company paid fees to obtain bridge financing commitments and other transaction costs totaling $108 million related to the acquisition of Life Technologies. The company made cash contributions to its pension and postretirement benefit plans totaling $38 million during 2013. Cash payments for income taxes of continuing operations totaled $230 million. Payments for restructuring actions, principally severance costs and lease and other expenses of real estate consolidation, used cash of $69 million during 2013.

During 2013, the company s primary investing activity was the purchase of $282 million of property, plant and equipment.

The company s financing activities provided $3.31 billion of cash during 2013. To partially fund the acquisition of Life Technologies, the company issued $3.20 billion of senior notes. The company s financing activities also included the receipt of $230 million of proceeds from employee stock option exercises offset by the repurchase of $90 million of the company s common stock and the payment of $216 million in cash dividends.

2012

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

During 2012, the company s primary investing activities included acquisitions and the purchase of property, plant and equipment. The company expended $1.08 billion for acquisitions and $315 million for purchases of property, plant and equipment. The company s investing activities also included a $45 million increase in restricted cash to collateralize short-term borrowings in Asia. The company s discontinued operations provided $59 million of cash, primarily tax benefits from the loss on sale of the laboratory workstations business and receipt of escrowed proceeds from the 2011 sale of Lancaster Laboratories.

The company s financing activities used $918 million of cash during 2012, principally for the repurchase of $1.15 billion of the company s common stock and to reduce commercial paper obligations by $849 million, offset in part by the issuance of $1.3 billion in senior notes. The company s financing activities in 2012 also included the repayment of $355 million of long-term debt and the receipt of $254 million of proceeds from employee stock option exercises. Cash dividend payments totaled $142 million during 2012.

Off-Balance Sheet Arrangements

The company did not use special purpose entities or other off-balance-sheet financing arrangements in 2012 - 2014 except for letters of credit, bank guarantees, a build-to-suit lease arrangement entered in 2012, surety bonds and other guarantees disclosed in the table or discussed below. Of the amounts disclosed in the table below for letters of credit, bank guarantees, surety bonds and other guarantees, $32.1 million relates to guarantees of the performance of third parties, principally in connection with businesses that were sold. The balance relates to guarantees of the company s own performance, primarily in the ordinary course of business.

Contractual Obligations and Other Commercial Commitments

The table below summarizes, by period due or expiration of commitment, the company s contractual obligations and other commercial commitments as of December 31, 2014.

	Payments due by Period or Expiration of Commitment				
(In millions)	2015	2016 and 2017	2018 and 2019	2020 and Thereafter	Total
Contractual Obligations and Other Commercial Commitments					
Debt principal, including short- term debt (a)	$ 2,202.6	$ 3,476.0	$ 1,400.6	$ 7,324.2	$ 14,403.4
Interest	408.3	703.6	624.7	1,160.0	2,896.6
Capital lease obligations	4.2	4.7	3.6	6.6	19.1
Operating lease obligations	150.8	203.8	123.9	193.5	672.0
Unconditional purchase obligations (b)	315.5	37.1	4.0	1.2	357.8
Letters of credit and bank guarantees	105.3	18.3	3.8	12.2	139.6
Surety bonds and other guarantees	44.0	1.9			45.9
Pension obligations on balance sheet	31.4	70.5	79.1	425.4	606.4
Asset retirement obligations	11.7	9.5	5.6	12.2	39.0
Acquisition-related contingent consideration accrued on balance sheet	17.9	1.2	0.2	10.3	29.6
Other (c)	5.4				5.4
	$ 3,297.1	$ 4,526.6	$ 2,245.5	$ 9,145.6	$ 19,214.8

(a) Amounts represent the expected cash payments for debt and do not include any deferred issuance costs.
(b) Unconditional purchase obligations include agreements to purchase goods, services or fixed assets that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable at any time without penalty.
(c) Obligation represents funding commitments pursuant to investments held by the company.

Reserves for unrecognized tax benefits of $214 million have not been included in the above table due to the inability to predict the timing of tax audit resolutions.

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The company has no material commitments for purchases of property, plant and equipment, other than those included in the above table, but expects that for 2015, such expenditures will approximate $450 to $470 million.

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

A guarantee of pension plan obligations of a divested business has not been included in the preceding table due to the inability to predict if and when the guarantee may require payment. The purchaser of the divested business has agreed to pay for the pension benefits, however the company was required to guarantee payment of these pension benefits should the purchaser fail to do so. The amount of the guarantee at December 31, 2014 was $49 million.

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

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

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(3) The following documents are filed as a part of this report:

Exhibit No.	Title
31.1	Certification of Chief Executive Officer required by the Securities 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 the Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Thermo Fisher Scientific Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 5, 2015	**THERMO FISHER SCIENTIFIC INC.**
	By: /s/ Peter E. Hornstra Peter E. Hornstra Vice President and Chief Accounting Officer