

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

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**FORM 10-Q**

(mark one)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarter Ended June 28, 2003

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

Commission File Number 1-8002

**THERMO ELECTRON CORPORATION**  
(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

04-2209186  
(I.R.S. Employer Identification No.)

81 Wyman Street, P.O. Box 9046  
Waltham, Massachusetts  
(Address of principal executive offices)

02454-9046  
(Zip Code)

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

<u>Class</u>	<u>Outstanding at July 25, 2003</u>
Common Stock, \$1.00 par value	162,284,423

## PART I – FINANCIAL INFORMATION

### Item 1 – Financial Statements

#### THERMO ELECTRON CORPORATION

##### Consolidated Balance Sheet (Unaudited)

###### Assets

<u>(In thousands)</u>	June 28, 2003	December 28, 2002
Current Assets:		
Cash and cash equivalents	\$ 264,442	\$ 339,038
Short-term available-for-sale investments, at quoted market value (amortized cost of \$208,616 and \$493,002)	281,918	536,430
Accounts receivable, less allowances of \$26,703 and \$25,576	405,598	429,740
Inventories:		
Raw materials and supplies	142,365	134,039
Work in process	52,763	50,894
Finished goods (includes \$9,122 and \$18,982 at customer locations)	148,148	147,871
Deferred tax assets	86,088	79,057
Other current assets	<u>57,703</u>	<u>54,490</u>
	<u>1,439,025</u>	<u>1,771,559</u>
Property, Plant, and Equipment, at Cost	571,513	553,349
Less: Accumulated depreciation and amortization	<u>297,829</u>	<u>280,441</u>
	<u>273,684</u>	<u>272,908</u>
Other Assets (Notes 10 and 11)	<u>123,108</u>	<u>186,390</u>
Goodwill	<u>1,444,054</u>	<u>1,416,205</u>
	<u>\$3,279,871</u>	<u>\$3,647,062</u>

**THERMO ELECTRON CORPORATION**

Consolidated Balance Sheet (continued)  
(Unaudited)

Liabilities and Shareholders' Equity

(In thousands except share amounts)	June 28, 2003	December 28, 2002
<b>Current Liabilities:</b>		
Short-term obligations and current maturities of long-term obligations (Note 18)	\$ 228,786	\$ 484,480
Accounts payable	93,863	111,994
Accrued payroll and employee benefits	80,708	97,856
Accrued income taxes	64,568	44,519
Deferred revenue	65,977	58,490
Accrued restructuring costs (Note 14)	25,272	41,579
Other accrued expenses (Notes 2 and 12)	165,794	170,996
Net liabilities of discontinued operations	<u>75,390</u>	<u>93,806</u>
	<u>800,358</u>	<u>1,103,720</u>
 Long-term Deferred Income Taxes and Other Long-term Liabilities	 <u>65,823</u>	 <u>58,678</u>
 <b>Long-term Obligations:</b>		
Senior notes (Note 11)	143,995	141,032
Subordinated convertible obligations	77,375	304,549
Other	<u>5,222</u>	<u>5,760</u>
	<u>226,592</u>	<u>451,341</u>
 <b>Shareholders' Equity:</b>		
Preferred stock, \$100 par value, 50,000 shares authorized; none issued		
Common stock, \$1 par value, 350,000,000 shares authorized; 171,880,812 and 169,952,419 shares issued	171,881	169,952
Capital in excess of par value	1,235,499	1,212,145
Retained earnings	908,977	819,411
Treasury stock at cost, 9,666,873 and 7,098,501 shares	(175,962)	(129,675)
Deferred compensation	(4,065)	(4,852)
Accumulated other comprehensive items (Notes 7 and 11)	<u>50,768</u>	<u>(33,658)</u>
	<u>2,187,098</u>	<u>2,033,323</u>
	<u>\$3,279,871</u>	<u>\$3,647,062</u>

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

## THERMO ELECTRON CORPORATION

### Consolidated Statement of Income (Unaudited)

(In thousands except per share amounts)	Three Months Ended	
	June 28, 2003	June 29, 2002
Revenues	<u>\$ 516,405</u>	<u>\$ 509,113</u>
Costs and Operating Expenses:		
Cost of revenues	283,260	279,325
Selling, general, and administrative expenses	142,859	139,371
Research and development expenses	37,132	39,754
Restructuring and other costs, net (Note 14)	<u>4,872</u>	<u>15,487</u>
	<u>468,123</u>	<u>473,937</u>
Operating Income	48,282	35,176
Other Income, Net (Note 5)	<u>12,195</u>	<u>38,330</u>
Income from Continuing Operations Before Provision for Income Taxes	60,477	73,506
Provision for Income Taxes (Note 15)	<u>(7,338)</u>	<u>(23,989)</u>
Income from Continuing Operations	53,139	49,517
Gain on Disposal of Discontinued Operations (represents tax benefit in 2002)	<u>—</u>	<u>19,000</u>
Net Income	<u>\$ 53,139</u>	<u>\$ 68,517</u>
Earnings per Share from Continuing Operations (Note 6):		
Basic	<u>\$ .33</u>	<u>\$ .29</u>
Diluted	<u>\$ .32</u>	<u>\$ .28</u>
Earnings per Share (Note 6):		
Basic	<u>\$ .33</u>	<u>\$ .40</u>
Diluted	<u>\$ .32</u>	<u>\$ .38</u>
Weighted Average Shares (Note 6):		
Basic	<u>162,048</u>	<u>171,122</u>
Diluted	<u>172,459</u>	<u>186,740</u>

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

## THERMO ELECTRON CORPORATION

### Consolidated Statement of Income (Unaudited)

(In thousands except per share amounts)	Six Months Ended	
	June 28, 2003	June 29, 2002
Revenues (Note 4)	<u>\$1,016,610</u>	<u>\$1,000,439</u>
Costs and Operating Expenses:		
Cost of revenues	559,627	546,995
Selling, general, and administrative expenses	281,978	278,284
Research and development expenses	74,453	79,380
Restructuring and other costs, net (Note 14)	<u>12,974</u>	<u>23,870</u>
	<u>929,032</u>	<u>928,529</u>
Operating Income	87,578	71,910
Other Income, Net (Note 5)	<u>18,096</u>	<u>98,251</u>
Income from Continuing Operations Before Provision for Income Taxes and Minority Interest	105,674	170,161
Provision for Income Taxes (Note 15)	(21,144)	(57,301)
Minority Interest Income	<u>—</u>	<u>331</u>
Income from Continuing Operations	84,530	113,191
Gain on Disposal of Discontinued Operations (net of income tax provision of \$3,564 in 2003; includes tax benefit of \$13,408 in 2002; Note 16)	<u>5,036</u>	<u>70,370</u>
Net Income	<u>\$ 89,566</u>	<u>\$ 183,561</u>
Earnings per Share from Continuing Operations (Note 6):		
Basic	<u>\$ .52</u>	<u>\$ .66</u>
Diluted	<u>\$ .51</u>	<u>\$ .62</u>
Earnings per Share (Note 6):		
Basic	<u>\$ .55</u>	<u>\$ 1.06</u>
Diluted	<u>\$ .54</u>	<u>\$ .98</u>
Weighted Average Shares (Note 6):		
Basic	<u>162,446</u>	<u>172,686</u>
Diluted	<u>172,977</u>	<u>195,464</u>

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

## THERMO ELECTRON CORPORATION

### Consolidated Statement of Cash Flows (Unaudited)

(In thousands)	Six Months Ended	
	June 28, 2003	June 29, 2002
<b>Operating Activities:</b>		
Net income	\$ 89,566	\$ 183,561
Gain on disposal of discontinued operations (Note 16)	<u>(5,036)</u>	<u>(70,370)</u>
Income from continuing operations	84,530	113,191
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	29,054	28,372
Noncash restructuring and other costs, net (Note 14)	1,957	9,653
Provision for losses on accounts receivable	1,966	1,447
Change in deferred income taxes	(6,397)	(12,430)
Gain on sale of businesses	(342)	(2,629)
Gain on investments, net (Note 5)	(15,989)	(93,986)
Equity in earnings of unconsolidated subsidiaries (Note 5)	(145)	(2,169)
Minority interest income	–	(331)
Other	3,506	3,738
Changes in current accounts, excluding the effects of acquisitions and dispositions:		
Accounts receivable	39,657	18,177
Inventories	4,833	(3,414)
Other current assets	(2,388)	(2,062)
Accounts payable	(22,144)	(16,504)
Other current liabilities	<u>(47,791)</u>	<u>(39,478)</u>
Net cash provided by continuing operations	70,307	1,575
Net cash used in discontinued operations	<u>(4,242)</u>	<u>(50,667)</u>
Net cash provided by (used in) operating activities	<u>66,065</u>	<u>(49,092)</u>
<b>Investing Activities:</b>		
Proceeds from maturities of available-for-sale investments	276,693	68,172
Proceeds from sale of available-for-sale investments	24,898	80,627
Purchases of available-for-sale investments	(171)	–
Purchases of property, plant, and equipment	(22,239)	(26,601)
Proceeds from sale of property, plant, and equipment	6,289	6,673
Acquisitions, net of cash acquired (Note 2)	(3,120)	(46,193)
Proceeds from sale of businesses, net of cash divested	384	4,674
Proceeds from sale of other investments	841	65,167
Collection of note receivable	69,136	48,630
Acquisition of minority interest of subsidiary	–	(22,022)
Increase in other assets	(1,792)	(6,981)
Other	<u>1,135</u>	<u>1,919</u>
Net cash provided by continuing operations	352,054	174,065
Net cash provided by discontinued operations	<u>1,745</u>	<u>106,397</u>
Net cash provided by investing activities	<u>353,799</u>	<u>280,462</u>

## THERMO ELECTRON CORPORATION

### Consolidated Statement of Cash Flows (continued) (Unaudited)

(In thousands)	Six Months Ended	
	June 28, 2003	June 29, 2002
<b>Financing Activities:</b>		
Redemption and repayment of long-term obligations (Note 13)	\$ (72,090)	\$(459,398)
Purchases of company common stock and subordinated convertible debentures	(74,113)	(208,507)
Net proceeds from issuance of company common stock	22,337	12,542
Increase (decrease) in short-term notes payable	(381,832)	345,937
Other	<u>35</u>	<u>2,958</u>
Net cash used in continuing operations	(505,663)	(306,468)
Net cash provided by (used in) discontinued operations	<u>(3,708)</u>	<u>86</u>
Net cash used in financing activities	<u>(509,371)</u>	<u>(306,382)</u>
Exchange Rate Effect on Cash of Continuing Operations	14,902	8,324
Exchange Rate Effect on Cash of Discontinued Operations	<u>(20)</u>	<u>(179)</u>
Decrease in Cash and Cash Equivalents	(74,625)	(66,867)
Cash and Cash Equivalents at Beginning of Period	<u>339,067</u>	<u>305,200</u>
	264,442	238,333
Cash and Cash Equivalents of Discontinued Operations at End of Period	<u>—</u>	<u>(3,423)</u>
Cash and Cash Equivalents at End of Period	<u>\$ 264,442</u>	<u>\$ 234,910</u>
<b>Noncash Investing Activities:</b>		
Fair value of assets of acquired businesses and product lines	\$ 4,845	\$ 56,636
Cash paid for acquired businesses and product lines	<u>(3,269)</u>	<u>(46,335)</u>
Liabilities assumed of acquired businesses and product lines	<u>\$ 1,576</u>	<u>\$ 10,301</u>

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

# THERMO ELECTRON CORPORATION

## Notes to Consolidated Financial Statements

### 1. General

The interim consolidated financial statements presented have been prepared by Thermo Electron Corporation (the company or the Registrant), are unaudited and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair statement of the financial position at June 28, 2003, the results of operations for the three- and six-month periods ended June 28, 2003, and June 29, 2002, and the cash flows for the six-month periods ended June 28, 2003, and June 29, 2002. Certain prior-period amounts have been reclassified to conform to the presentation in the current financial statements. Interim results are not necessarily indicative of results for a full year.

The consolidated balance sheet presented as of December 28, 2002, has been derived from the audited consolidated financial statements as of that date. The consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain all of the information that is included in the annual financial statements and notes of the company. The consolidated financial statements and notes included in this report should be read in conjunction with the financial statements and notes included in the company's Annual Report on Form 10-K for the fiscal year ended December 28, 2002, filed with the Securities and Exchange Commission (SEC). During the first quarter of 2003, the company changed its year end to December 31 from the Saturday closest to December 31. This change is effective in 2003 and thereafter.

### 2. Acquisitions

In January 2003, the Measurement and Control segment acquired a product line of emission monitoring instruments for \$2.6 million in cash, net of cash acquired. In June 2003, the segment acquired a product line of online rheology instruments for \$0.5 million in cash. The segment recorded \$2.6 million of intangible assets related to these acquisitions consisting of product technology, which is being amortized over 10 years. Intangible assets are included in other assets in the accompanying balance sheet.

The company has undertaken restructuring activities at acquired businesses. These activities, which were accounted for in accordance with Emerging Issues Task Force Issue (EITF) No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination," have primarily included reductions in staffing levels and the abandonment of excess facilities. In connection with these restructuring activities, as part of the cost of acquisitions, the company established reserves, primarily for severance and excess facilities. In accordance with EITF No. 95-3, the company finalizes its restructuring plans no later than one year from the respective dates of the acquisitions. Accrued acquisition expenses are included in other accrued expenses in the accompanying balance sheet.

A summary of the changes in accrued acquisition expenses for acquisitions completed during 2002 is as follows:

(In thousands)	Severance	Abandonment of Excess Facilities	Other	Total
<b>Balance at December 28, 2002</b>	\$1,319	\$ 588	\$ 499	\$2,406
Payments	(580)	(121)	(15)	(716)
Decrease recorded as a reduction in goodwill and other intangible assets	(155)	(401)	-	(556)
Currency translation	<u>37</u>	<u>(47)</u>	<u>13</u>	<u>3</u>
<b>Balance at June 28, 2003</b>	<u>\$ 621</u>	<u>\$ 19</u>	<u>\$ 497</u>	<u>\$1,137</u>



## THERMO ELECTRON CORPORATION

### 2. Acquisitions (continued)

The 2002 acquisitions primarily included Thermo CRS and the radiation-monitoring products business (RMP) of St. Gobain Corporation. The principal accrued acquisition expenses for 2002 acquisitions were for severance for approximately 102 employees at the acquired businesses, primarily in manufacturing, research and development, and sales and service; closure of a Thermo CRS manufacturing facility in Austria, with a lease that expired in 2003 and whose operations were consolidated into other existing facilities; and relocation of RMP employees from the seller's operations in Ohio and the United Kingdom to the company's facilities. Upon finalization of restructuring plans or settlement of obligations for less than the expected amount, any excess reserves are reversed with a corresponding decrease in goodwill or other intangible assets when no goodwill exists. The company expects to pay amounts accrued for acquisition expenses primarily through 2003.

A summary of the changes in accrued acquisition expenses for acquisitions completed before 2002 is as follows:

(In thousands)	Abandonment of Excess Facilities
<b>Balance at December 28, 2002</b>	\$6,422
Payments	(364)
Currency translation	<u>317</u>
<b>Balance at June 28, 2003</b>	<u>\$6,375</u>

The remaining accrued acquisition expenses for pre-2002 acquisitions represent lease obligations for four abandoned operating facilities in the United Kingdom with leases expiring through 2014.

### 3. Business Segment Information

(In thousands)	Three Months Ended		Six Months Ended	
	June 28, 2003	June 29, 2002	June 28, 2003	June 29, 2002
Revenues:				
Life and Laboratory Sciences	\$ 313,791	\$ 290,191	\$ 613,256	\$ 571,505
Measurement and Control	152,394	153,514	306,314	305,203
Optical Technologies	52,598	68,177	102,800	129,730
Intersegment (a)	<u>(2,378)</u>	<u>(2,769)</u>	<u>(5,760)</u>	<u>(5,999)</u>
	<u>\$ 516,405</u>	<u>\$ 509,113</u>	<u>\$1,016,610</u>	<u>\$1,000,439</u>
Income from Continuing Operations Before Provision for Income Taxes and Minority Interest:				
Life and Laboratory Sciences (b)	\$ 43,886	\$ 40,420	\$ 82,908	\$ 82,539
Measurement and Control (c)	13,375	13,472	24,194	27,303
Optical Technologies (d)	(1,831)	(11,605)	(5,508)	(23,503)
Intersegment	<u>—</u>	<u>511</u>	<u>324</u>	<u>402</u>
Total Segment Operating Income (e)	55,430	42,798	101,918	86,741
Corporate/Other (f)	<u>5,047</u>	<u>30,708</u>	<u>3,756</u>	<u>83,420</u>
	<u>\$ 60,477</u>	<u>\$ 73,506</u>	<u>\$ 105,674</u>	<u>\$ 170,161</u>

## THERMO ELECTRON CORPORATION

### 3. Business Segment Information (continued)

(In thousands)	Three Months Ended		Six Months Ended	
	June 28, 2003	June 29, 2002	June 28, 2003	June 29, 2002
Depreciation:				
Life and Laboratory Sciences	\$ 6,223	\$ 5,465	\$ 11,586	\$ 10,953
Measurement and Control	2,719	2,871	5,298	5,793
Optical Technologies	2,741	3,044	5,704	6,907
Corporate	797	727	1,534	1,423
	\$ 12,480	\$ 12,107	\$ 24,122	\$ 25,076
Amortization:				
Life and Laboratory Sciences	\$ 1,657	\$ 1,181	\$ 3,245	\$ 2,197
Measurement and Control	676	280	1,199	564
Optical Technologies	207	268	488	535
	\$ 2,540	\$ 1,729	\$ 4,932	\$ 3,296

During the first quarter of 2003, the company transferred management responsibility for several businesses between segments as follows: (1) the compositional-metrology business was moved to the Life and Laboratory Sciences segment from the Optical Technologies segment; (2) the ultra-high vacuum systems and semiconductor testing businesses were moved to the Measurement and Control segment from the Optical Technologies segment; and (3) Thermo Euroglas was moved to the Life and Laboratory Sciences segment from the Measurement and Control segment. In addition to these changes, during the first quarter of 2003, the company began allocating certain costs to the business segments previously classified as corporate expenses based on the estimated extent to which the segment benefited from the cost. Allocated costs principally include e-commerce, global sourcing, and marketing as well as some legal, human resources, and information systems costs. Prior-period segment information has been restated to reflect these changes.

- (a) Intersegment sales are accounted for at prices that are representative of transactions with unaffiliated parties.
- (b) Includes restructuring and other costs, net, of \$3.9 million, \$4.0 million, \$6.5 million, and \$3.6 million in the second quarter of 2003 and 2002 and the first six months of 2003 and 2002, respectively.
- (c) Includes restructuring and other income, net, of \$0.2 million in the second quarter of 2003, and restructuring and other costs, net, of \$1.1 million, \$3.5 million, and \$0.9 million in the second quarter of 2002 and the first six months of 2003 and 2002, respectively.
- (d) Includes restructuring and other costs, net, of \$0.4 million, \$11.0 million, \$1.7 million, and \$19.3 million in the second quarter of 2003 and 2002 and the first six months of 2003 and 2002, respectively.
- (e) Segment operating income is operating income excluding costs incurred at the company's corporate office that are not allocated to the segments.
- (f) Includes corporate general and administrative expenses and other income and expense. Includes corporate restructuring and other costs of \$0.8 million, \$0.9 million, \$1.4 million, and \$1.6 million in the second quarter of 2003 and 2002 and the first six months of 2003 and 2002, respectively. Other income, net, includes gains on the sale of shares of FLIR Systems, Inc. of \$10.0 million, \$31.6 million, \$13.7 million, and \$87.9 million in the second quarter of 2003 and 2002 and the first six months of 2003 and 2002, respectively.

## THERMO ELECTRON CORPORATION

### 4. Revenue Recognition

In November 2002, the EITF reached a consensus on EITF No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." The company elected to early adopt the provisions of EITF No. 00-21 and began applying the consensus prospectively in the first quarter of 2003. Under EITF No. 00-21, the company recognizes revenue and related costs for arrangements with customers that have multiple deliverables such as equipment and installation as each of these is delivered or completed based on their fair value. Previously, when installation was essential to functionality and not deemed inconsequential or perfunctory, all revenue was deferred until completion of installation. Revenues for products sold where installation was not essential to functionality and was deemed inconsequential or perfunctory were previously recognized upon shipment with estimated installation costs accrued. The adoption of EITF No. 00-21 increased revenues and diluted earnings per share by \$7.6 million and \$.01, respectively, during the first quarter of 2003.

### 5. Other Income, Net

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

(In thousands)	Three Months Ended		Six Months Ended	
	June 28, 2003	June 29, 2002	June 28, 2003	June 29, 2002
Interest Income	\$ 7,077	\$ 12,621	\$ 14,762	\$ 26,979
Interest Expense (Note 11)	(5,433)	(10,216)	(12,337)	(23,695)
Gain on Investments, Net	10,814	36,033	15,989	93,986
Equity in Earnings of Unconsolidated Subsidiaries	145	-	145	2,169
Other Items, Net	<u>(408)</u>	<u>(108)</u>	<u>(463)</u>	<u>(1,188)</u>
	<u>\$ 12,195</u>	<u>\$ 38,330</u>	<u>\$ 18,096</u>	<u>\$ 98,251</u>

The company sold 234,175, 756,000, 334,175, and 2,006,000 shares of FLIR Systems, Inc. common stock during the second quarter of 2003 and 2002 and the first six months of 2003 and 2002, respectively, and realized gains of \$10.0 million, \$31.6 million, \$13.7 million, and \$87.9 million, respectively. These gains included \$2.7 million, \$8.8 million, \$3.9 million, and \$23.2 million in the second quarter of 2003 and 2002 and the first six months of 2003 and 2002, respectively, from the recovery of amounts written down in prior years. At June 28, 2003, the company no longer owns shares of FLIR.

## THERMO ELECTRON CORPORATION

### 6. Earnings per Share

Basic and diluted earnings per share were calculated as follows:

(In thousands except per share amounts)	Three Months Ended		Six Months Ended	
	June 28, 2003	June 29, 2002	June 28, 2003	June 29, 2002
Income from Continuing Operations	\$ 53,139	\$ 49,517	\$ 84,530	\$113,191
Gain on Disposal of Discontinued Operations, Net	<u>—</u>	<u>19,000</u>	<u>5,036</u>	<u>70,370</u>
Net Income for Basic Earnings per Share	53,139	68,517	89,566	183,561
Effect of Convertible Debentures	<u>1,745</u>	<u>3,011</u>	<u>3,546</u>	<u>8,919</u>
Income Available to Common Shareholders, as Adjusted for Diluted Earnings per Share	<u>\$ 54,884</u>	<u>\$ 71,528</u>	<u>\$ 93,112</u>	<u>\$192,480</u>
Basic Weighted Average Shares	162,048	171,122	162,446	172,686
Effect of:				
Stock options	1,876	2,054	1,764	2,514
Convertible debentures	8,335	13,564	8,567	20,264
Contingently issuable shares	<u>200</u>	<u>—</u>	<u>200</u>	<u>—</u>
Diluted Weighted Average Shares	<u>172,459</u>	<u>186,740</u>	<u>172,977</u>	<u>195,464</u>
Basic Earnings per Share:				
Continuing operations	\$ .33	\$ .29	\$ .52	\$ .66
Discontinued operations	<u>—</u>	<u>.11</u>	<u>.03</u>	<u>.41</u>
	<u>\$ .33</u>	<u>\$ .40</u>	<u>\$ .55</u>	<u>\$ 1.06</u>
Diluted Earnings per Share:				
Continuing operations	\$ .32	\$ .28	\$ .51	\$ .62
Discontinued operations	<u>—</u>	<u>.10</u>	<u>.03</u>	<u>.36</u>
	<u>\$ .32</u>	<u>\$ .38</u>	<u>\$ .54</u>	<u>\$ .98</u>

Options to purchase 7,480,000, 10,898,000, 9,810,000, and 9,237,000 shares of common stock for the second quarter of 2003 and 2002 and the first six months of 2003 and 2002, respectively, were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price for the common stock and their effect would have been antidilutive.

The computation of diluted earnings per share for the reported periods excludes the effect of assuming the conversion of the company's 4 3/8% subordinated convertible debentures, convertible at \$111.83 per share, because the effect would be antidilutive. These debentures were redeemed in April 2003 (Note 13).

## THERMO ELECTRON CORPORATION

### 7. Comprehensive Income

Comprehensive income combines net income and other comprehensive items. Other comprehensive items represents certain amounts that are reported as components of shareholders' equity in the accompanying balance sheet, including currency translation adjustments, unrealized gains and losses, net of tax, on available-for-sale investments and hedging instruments, and minimum pension liability adjustment. During the second quarter of 2003 and 2002, the company had comprehensive income of \$118.0 million and \$121.7 million, respectively. During the first six months of 2003 and 2002, the company had comprehensive income of \$185.4 million and \$181.1 million, respectively. Comprehensive income in the first six months of 2002 excludes the effect of unrealized gains of \$111 million that existed at the date the company reclassified equity interests in FLIR and Thoratec Corporation to available-for-sale investments. The change in accumulated other comprehensive items between December 28, 2002 and June 28, 2003 was principally due to a change in cumulative translation adjustment due to the weakening of the U.S. dollar relative to the currencies of the company's non-U.S. subsidiaries.

### 8. Stock-based Compensation Plans and Pro Forma Stock-based Compensation Expense

The company applies Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock-based compensation plans. Accordingly, no accounting recognition is given to stock options granted at fair market value until they are exercised. Upon exercise, net proceeds, including tax benefits realized, are credited to shareholders' equity.

In October 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," which sets forth a fair-value-based method of recognizing stock-based compensation expense. As permitted by SFAS No. 123, the company has elected to continue to apply APB No. 25 to account for its stock-based compensation plans. Had compensation cost for awards granted after 1994 under the company's stock-based compensation plans been determined based on the fair value at the grant dates consistent with the method set forth under SFAS No. 123, the effect on certain financial information of the company would have been as follows:

(In thousands except per share amounts)	Three Months Ended		Six Months Ended	
	June 28, 2003	June 29, 2002	June 28, 2003	June 29, 2002
Income from Continuing Operations:				
As reported	\$ 53,139	\$ 49,517	\$ 84,530	\$113,191
Add: Stock-based employee compensation expense included in reported results, net of tax	469	364	953	750
Deduct: Total stock-based employee compensation expense determined under the fair-value-based method for all awards, net of tax	<u>(6,534)</u>	<u>(6,255)</u>	<u>(13,253)</u>	<u>(13,251)</u>
Pro forma	<u>\$ 47,074</u>	<u>\$ 43,626</u>	<u>\$ 72,230</u>	<u>\$100,690</u>

## THERMO ELECTRON CORPORATION

### 8. Stock-based Compensation Plans and Pro Forma Stock-based Compensation Expense (continued)

(In thousands except per share amounts)	Three Months Ended		Six Months Ended	
	June 28, 2003	June 29, 2002	June 28, 2003	June 29, 2002
Basic Earnings per Share from Continuing Operations:				
As reported	\$ .33	\$ .29	\$ .52	\$ .66
Pro forma	\$ .29	\$ .25	\$ .44	\$ .58
Diluted Earnings per Share from Continuing Operations:				
As reported	\$ .32	\$ .28	\$ .51	\$ .62
Pro forma	\$ .28	\$ .25	\$ .44	\$ .56
Net Income:				
As reported	\$ 53,139	\$ 68,517	\$ 89,566	\$183,561
Add: Stock-based employee compensation expense included in reported net income, net of tax	469	364	953	750
Deduct: Total stock-based employee compensation expense determined under the fair-value-based method for all awards, net of tax	<u>(6,534)</u>	<u>(6,255)</u>	<u>(13,253)</u>	<u>(13,251)</u>
Pro forma	<u>\$ 47,074</u>	<u>\$ 62,626</u>	<u>\$ 77,266</u>	<u>\$171,060</u>
Basic Earnings per Share:				
As reported	\$ .33	\$ .40	\$ .55	\$ 1.06
Pro forma	\$ .29	\$ .37	\$ .48	\$ .99
Diluted Earnings per Share:				
As reported	\$ .32	\$ .38	\$ .54	\$ .98
Pro forma	\$ .28	\$ .35	\$ .47	\$ .92

### 9. Recent Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs and is effective in 2003. The adoption of this new standard did not have a material impact on the company's financial statements.

In May 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The company adopted this standard in the first quarter of 2003. Under the standard, all of the transactions previously classified by the company as extraordinary items are no longer treated as such, but instead are reported in other income, net, in the accompanying statement of income. Prior periods were restated to conform to this presentation.

## THERMO ELECTRON CORPORATION

### 9. Recent Accounting Pronouncements (continued)

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which supersedes EITF No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." The standard affects the accounting for restructuring charges and related activities and generally lengthens the timeframe for reporting of expenses relating to restructuring activities beyond the period in which a plan is initiated. The company adopted the provisions of this statement for exit or disposal activities that were initiated in 2003. The provisions of EITF No. 94-3 continue to apply with regard to the company's restructuring plans that commenced prior to 2003.

In November 2002, the FASB issued FASB Interpretation (FIN) No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of FIN No. 45 became applicable for guarantees issued or modified after December 31, 2002. The company is complying with the requirements of FIN No. 45, the adoption of which did not materially affect the company's financial statements.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB 51." The primary objectives of FIN No. 46 are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights ("variable interest entities" or "VIEs") and how to determine when and which business enterprise should consolidate the VIE. This new model for consolidation applies to an entity for which either: (a) the equity investors (if any) do not have a controlling financial interest; or (b) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN No. 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. The company is required to apply FIN No. 46 to all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the company is required to apply FIN No. 46 on June 29, 2003. FIN No. 46 did not materially affect the company's financial statements.

### 10. Note Receivable

In April 2003, the company received cash of \$36.7 million, including \$31.0 million of principal payments, plus interest, from Trimble Navigation Limited as partial and early payment of Trimble's note to the company. In June 2003, Trimble paid the company \$39.0 million in cash including the remaining principal balance of the note of \$38.2 million plus interest.

### 11. Derivative Instruments and Hedging

The company uses forward currency-exchange contracts primarily to hedge certain operational (cash-flow hedges) and balance sheet (fair-value hedges) exposures resulting from changes in currency exchange rates. Such exposures result from sales that are denominated in currencies other than the functional currencies of the respective operations. The company enters into these currency-exchange contracts to hedge anticipated product sales and recorded accounts receivable made in the normal course of business. Accordingly, the hedges are not speculative in nature. As part of the company's overall strategy to manage the level of exposure to the risk of currency-exchange fluctuations, some operating units hedge a portion of their currency exposures anticipated over the ensuing 12-month period, using exchange contracts that have maturities of 12 months or less. The company does not hold or engage in transactions involving derivative instruments for purposes other than risk management.

## THERMO ELECTRON CORPORATION

### 11. Derivative Instruments and Hedging (continued)

The company records its forward currency-exchange contracts at fair value in its balance sheet as other current assets or other accrued expenses and, for cash-flow hedges, the related gains or losses on these contracts are deferred as a component of accumulated other comprehensive items in the accompanying balance sheet. These deferred gains and losses are recognized in income in the period in which the underlying anticipated transaction occurs. Unrealized gains and losses resulting from the impact of currency exchange rate movements on fair-value hedges are recognized in earnings in the period in which the exchange rates change and offset the currency losses and gains on the underlying exposure being hedged. Cash flows resulting from currency-exchange contracts qualifying as cash-flow hedges are recorded in the accompanying statement of cash flows in the same category as the item being hedged. At June 28, 2003, the company had deferred losses, net of income taxes, relating to forward currency-exchange contracts of approximately \$1.9 million, substantially all of which is expected to be recognized as expense over the next 12 months to approximately offset gains on the exposures being hedged. The ineffective portion of the gain or loss on derivative instruments is recorded in other income, net, in the accompanying statement of income and is not material.

During 2002, the company entered into interest-rate swap arrangements for its \$128.7 million principal amount 7.625% senior notes, due in 2008, with the objective of reducing interest costs. The arrangements provide that the company will receive a fixed interest rate of 7.625%, and will pay a variable rate of 90-day LIBOR plus 2.19% (3.31% as of June 28, 2003). The swaps have terms expiring at the maturity of the debt. The swaps are designated as fair-value hedges and as such, are carried at fair value, which resulted in an increase in other long-term assets and long-term debt of \$15.3 million at June 28, 2003. The swap arrangements are with different counterparties than the holders of the underlying debt. Management believes that any credit risk associated with the swaps is remote based on the creditworthiness of the financial institutions issuing the swaps.

### 12. Warranty Obligations

Product warranties are included in other accrued expenses in the accompanying balance sheet. A summary of the changes in the carrying amount of product warranties is as follows:

(In thousands)

<b>Balance at December 28, 2002</b>	<b>\$ 27,361</b>
Provision charged to income	11,616
Usage	(10,387)
Adjustments to previously provided warranties, net	(1,083)
Other, net (a)	<u>1,300</u>
<b>Balance at June 28, 2003</b>	<b><u>\$ 28,807</u></b>

(a) Primarily represents the effects of currency translation.

### 13. Redemption of Subordinated Convertible Debentures

In April 2003, the company redeemed all of its outstanding 4 3/8% subordinated convertible debentures due 2004 with the objective of reducing interest costs. The principal amount redeemed for these debentures was \$70.9 million. The redemption price was 100% of the principal amount of the debentures, plus accrued interest (Note 18).



## THERMO ELECTRON CORPORATION

### 14. Restructuring and Other Costs, Net

In response to a continued downturn in markets served by the company and in connection with the company's overall reorganization, restructuring actions were initiated in 2002 in a number of business units to reduce costs and redundancies, principally through headcount reductions and consolidation of facilities. Certain costs associated with these actions are recorded when incurred. Further actions were initiated in the first six months of 2003. The company expects to incur an additional \$8 million of restructuring costs through the remainder of 2003 for charges associated with these actions that cannot be recorded until incurred. The company believes that restructuring actions undertaken in 2002 and 2003 to date will be substantially completed in 2003. The company expects to identify additional sites to consolidate during the remainder of 2003 and will record charges in connection with any such actions. Although the company has not finalized its plans by segment, to date it has identified actions with estimated costs of approximately \$8 million and expects to identify additional actions during the second half of 2003. The company expects that the actions initiated during the remainder of 2003 will be substantially completed in 2004.

During the second quarter of 2003, the company recorded net restructuring and other costs by segment as follows:

(In thousands)	Life and Laboratory Sciences	Measurement and Control	Optical Technologies	Corporate	Total
Restructuring and Other Costs, Net	<u>\$ 3,908</u>	<u>\$ (177)</u>	<u>\$ 358</u>	<u>\$ 783</u>	<u>\$ 4,872</u>

During the first six months of 2003, the company recorded net restructuring and other costs by segment as follows:

(In thousands)	Life and Laboratory Sciences	Measurement and Control	Optical Technologies	Corporate	Total
Restructuring and Other Costs, Net	<u>\$ 6,481</u>	<u>\$ 3,453</u>	<u>\$ 1,652</u>	<u>\$ 1,388</u>	<u>\$12,974</u>

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

#### Life and Laboratory Sciences

The Life and Laboratory Sciences segment recorded \$3.9 million of net restructuring and other charges in the second quarter of 2003, substantially all of which were cash costs. The cash costs included \$2.5 million of severance for 220 employees across all functions; \$0.7 million of employee-retention costs at facilities being closed; \$0.2 million of net abandoned-facility lease costs for facilities described below; and \$0.5 million of other cash costs, primarily relocation expenses. The charges for severance are net of reversals of \$0.5 million that the segment had provided primarily in 2001, which were not required due to employee attrition. The charges for abandoned facilities included costs of \$0.6 million, primarily for consolidation of distribution facilities in Japan, and are net of reversals of \$0.4 million, which represent revised estimates of future lease costs for facilities that the segment abandoned prior to 2003.

In the first quarter of 2003, this segment recorded \$2.6 million of net restructuring and other charges. These charges included \$2.7 million of cash costs principally associated with facility consolidations. The cash costs included \$1.0 million of net abandoned-facility lease costs for facilities described below; \$0.7 million of employee-retention costs at facilities being closed; \$0.6 million of severance for 25 employees, primarily in administrative, sales, and service functions; and \$0.4 million of other cash costs, primarily relocation expenses. The charges for abandoned facilities include costs of \$1.2 million, net of reversals of \$0.2 million, and primarily represent revised estimates of

## THERMO ELECTRON CORPORATION

### 14. Restructuring and Other Costs, Net (continued)

future lease costs for facilities in Europe that the segment provided for in 2001. The charges for severance are net of reversals of \$0.3 million that the segment had provided in 2002, which are no longer required due to employee attrition. In addition, the segment recorded a charge of \$0.4 million to write down the carrying value of a building held for sale to net realizable value, offset by \$0.5 million of net gains, primarily from the sale of a product line.

#### Measurement and Control

The Measurement and Control segment recorded \$0.2 million of net restructuring and other income in the second quarter of 2003. Net restructuring and other income included a gain of \$2.1 million on the sale of a building in Germany. The gain was offset by \$1.9 million of restructuring and other charges, including \$1.6 million of cash costs principally associated with facility consolidations. The cash costs included \$0.8 million of severance for 17 employees across all functions; \$0.2 million of employee-retention costs at facilities being closed; \$0.1 million of net abandoned-facility lease costs for facilities described below; and \$0.5 million of other cash costs, primarily relocation expenses. The charges for severance are net of reversals of \$0.3 million that the segment had provided primarily in 2001, which were not required due to employee attrition. The charges for abandoned facilities included costs of \$0.2 million, primarily for the consolidation of manufacturing facilities in Massachusetts, and are net of reversals of \$0.1 million, which represent revised estimates of future lease costs for facilities that the segment abandoned in 2001 and 2002. In addition, the segment recorded a charge of \$0.3 million for the writedown of assets at facilities being consolidated.

In the first quarter of 2003, this segment recorded \$3.6 million of net restructuring and other charges. These charges included \$2.0 million of cash costs principally associated with facility consolidations. The cash costs included \$1.1 million of severance for 46 employees across all functions; \$0.2 million of employee-retention costs at facilities being closed; \$0.1 million of abandoned-facility lease costs; and \$0.6 million of other cash costs, primarily relocation expenses. The charges for severance are net of reversals of \$0.4 million that the segment had provided previously, which are no longer required due to employee attrition. In addition, the segment recorded a charge of \$1.6 million, primarily for the writedown of goodwill in a business held for sale to reduce the carrying value to estimated disposal value.

#### Optical Technologies

The Optical Technologies segment recorded \$0.4 million of net restructuring and other charges in the second quarter of 2003. These charges included \$0.9 million of cash costs principally associated with facility consolidations. The cash costs included \$0.7 million of severance for 65 employees across all functions and \$0.2 million of employee-retention costs at facilities being closed. In addition, the segment recorded writedowns of \$0.2 million for abandoned assets, net of recoveries. These charges were offset by a gain of \$0.7 million for the reversal of contract cancellation fees provided for in 2001 that were disputed and ultimately not required.

In the first quarter of 2003, this segment recorded \$1.3 million of net restructuring and other charges. These charges included \$1.0 million for the writedown of a facility held for sale to estimated disposal value. In addition, the segment recorded \$0.3 million of cash costs, including \$0.1 million of severance for 21 employees, primarily in manufacturing functions; \$0.1 million of employee-retention costs at facilities being closed; and \$0.1 million of other cash costs.

## THERMO ELECTRON CORPORATION

### 14. Restructuring and Other Costs, Net (continued)

#### Corporate

The company recorded \$0.8 million of restructuring and other charges at its corporate office in the second quarter of 2003, all of which were cash costs, primarily for third-party advisory fees. While the company no longer has any public subsidiaries, it has numerous non-U.S. subsidiaries through which the formerly public subsidiaries conducted business. The third-party advisory fees are being incurred to simplify this legal structure.

In the first quarter of 2003, the company recorded \$0.6 million of restructuring and other charges at its corporate office, all of which were cash costs, primarily for third-party advisory fees.

#### General

The following table summarizes the company's severance actions in 2003.

2001 Restructuring Plans	Number of Employees
Remaining Terminations at December 28, 2002	30
Terminations Occurring to Date in 2003	(28)
Adjustment to Plan	<u>(2)</u>
Remaining Terminations at June 28, 2003	<u>=</u>
<b>2002 Restructuring Plans</b>	
Remaining Terminations at December 28, 2002	311
Terminations Occurring to Date in 2003	(266)
Adjustment to Plan	<u>(10)</u>
Remaining Terminations at June 28, 2003	<u>35</u>
<b>2003 Restructuring Plans</b>	
Terminations Announced in 2003	398
Terminations Occurring to Date in 2003	<u>(306)</u>
Remaining Terminations at June 28, 2003	<u>92</u>

## THERMO ELECTRON CORPORATION

### 14. Restructuring and Other Costs, Net (continued)

The following table summarizes the cash components of the company's restructuring plans. The noncash components and other amounts reported as restructuring and other costs, net, in the accompanying 2003 statement of income have been summarized in the notes to the table.

(In thousands)	Severance	Employee Retention (a)	Abandonment of Excess Facilities	Other	Total
<b>Pre-2000 Restructuring Plans</b>					
<b>Balance at December 28, 2002</b>	\$ 264	\$ —	\$ —	\$ —	\$ 264
Payments	(158)	—	—	—	(158)
<b>Balance at June 28, 2003</b>	<u>\$ 106</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 106</u>
<b>2000 Restructuring Plans</b>					
<b>Balance at December 28, 2002</b>	\$ 426	\$ 233	\$ 65	\$ 80	\$ 804
Reserves reversed (b)	(93)	—	(68)	(75)	(236)
Transfer to accrued pension costs (c)	(290)	—	—	—	(290)
Payments	(76)	(76)	—	(5)	(157)
Currency translation	33	—	3	—	36
<b>Balance at June 28, 2003</b>	<u>\$ —</u>	<u>\$ 157</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 157</u>
<b>2001 Restructuring Plans</b>					
<b>Balance at December 28, 2002</b>	\$ 5,605	\$ 417	\$ 11,501	\$ 1,665	\$ 19,188
Costs incurred in 2003	11	115	1,316	216	1,658
Reserves reversed (b)	(907)	(90)	(497)	(787)	(2,281)
Payments	(1,680)	(175)	(4,869)	(558)	(7,282)
Currency translation	404	—	459	14	877
<b>Balance at June 28, 2003</b>	<u>\$ 3,433</u>	<u>\$ 267</u>	<u>\$ 7,910</u>	<u>\$ 550</u>	<u>\$ 12,160</u>
<b>2002 Restructuring Plans</b>					
<b>Balance at December 28, 2002</b>	\$ 11,868	\$ 967	\$ 7,800	\$ 688	\$ 21,323
Costs incurred in 2003	989	1,349	425	1,590	4,353
Reserves reversed (b)	(485)	(9)	(332)	—	(826)
Payments	(9,199)	(1,485)	(2,654)	(2,188)	(15,526)
Currency translation	644	21	204	105	974
<b>Balance at June 28, 2003</b>	<u>\$ 3,817</u>	<u>\$ 843</u>	<u>\$ 5,443</u>	<u>\$ 195</u>	<u>\$ 10,298</u>
<b>2003 Restructuring Plans</b>					
Costs incurred in 2003 (d)	\$ 6,565	\$ 592	\$ 533	\$ 1,688	\$ 9,378
Reserves reversed (b)	(39)	—	—	—	(39)
Payments	(4,203)	(590)	(464)	(1,678)	(6,935)
Currency translation	100	—	11	36	147
<b>Balance at June 28, 2003</b>	<u>\$ 2,423</u>	<u>\$ 2</u>	<u>\$ 80</u>	<u>\$ 46</u>	<u>\$ 2,551</u>

## THERMO ELECTRON CORPORATION

### 14. Restructuring and Other Costs, Net (continued)

- (a) Employee-retention costs are accrued ratably over the period through which employees must work to qualify for a payment.
- (b) Represents reductions in cost of plans as described in the discussion of restructuring actions by segment.
- (c) Balance of accrued restructuring costs for severance from 2000 plans related to pension liability associated with employees terminated in 2000, which was transferred to accrued pension costs in 2003.
- (d) Excludes net gains of \$0.1 million, primarily from the sale of a product line, in the Life and Laboratory Sciences segment; net gains of \$0.1 million, primarily from the sale of a building, offset by a writedown of a company held for sale, in the Measurement and Control segment; and noncash charges of \$1.2 million in the Optical Technologies segment.

The company expects to pay accrued restructuring costs as follows: severance, employee-retention obligations, and other costs, which primarily represent cancellation/termination fees, primarily through 2003; and abandoned-facility payments, over lease terms expiring through 2012.

### 15. Provision for Income Taxes

The company reversed a tax valuation allowance in the second quarter of 2003 totaling \$9.0 million, which reduced the company's income tax provision. The valuation allowance related to foreign tax credit carryforwards that the company expects will more likely than not be used following tax planning actions undertaken during the second quarter. The benefit was recorded in accordance with SFAS No. 109, "Accounting for Income Taxes."

### 16. Discontinued Operations

During the first quarter of 2003, the company recorded an after-tax gain on disposal of discontinued operations of \$5.0 million, resulting primarily from the sale of the last remaining business in discontinued operations, Peter Brotherhood Ltd., and a favorable post-closing adjustment resulting from the 2002 sale of its Trophy Radiologic business.

### 17. Litigation

#### *Continuing Operations*

The company has been named a defendant, along with many other companies, in a patent-infringement lawsuit brought by the Lemelson Medical, Education & Research Foundation, L.P. The suit asserts that products manufactured, used, or sold by the defendants infringe one or more patents related to methods of machine vision or computer-image analysis. The Lemelson action seeks damages, including enhanced damages for alleged willful infringement, attorney's fees, and injunctive relief.

#### *Discontinued Operations*

The company's Thermo Coleman Corporation subsidiary has been named as a defendant in a lawsuit initiated by two former employees. The suit alleges, among other things, that Thermo Coleman violated the Federal False Claims Act in connection with the performance of a government contract. The complaint seeks the award of treble damages in an unspecified amount, plus other penalties. The amount of billings under the contract activities in question were approximately \$7.6 million. Thermo Coleman sold its core business in 2000, but retained this litigation as a term of the sale.

## THERMO ELECTRON CORPORATION

### 17. Litigation (continued)

The company intends to vigorously defend the unresolved matters in continuing and discontinued operations described above. In the opinion of management, an unfavorable outcome in one or both of the unresolved matters described above could have a material adverse effect on the company's financial position as well as its results of operations and cash flows for a particular quarterly or annual period.

The company's continuing and discontinued operations are a defendant in a number of other pending legal proceedings incidental to present and former operations. The company does not expect the outcome of these proceedings, either individually or in the aggregate, to have a material adverse effect on its financial position, results of operations, or cash flows.

### 18. Subsequent Event

In July 2003, the company redeemed all of its outstanding 4% subordinated convertible debentures due 2005 with the objective of reducing interest costs. The principal amount redeemed for these debentures was \$197.1 million. The redemption price was 100% of the principal amount of the debentures, plus accrued interest. Accordingly, the obligations have been presented as current liabilities in the accompanying 2003 balance sheet.

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

Forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, are made throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "seeks," "estimates," and similar expressions are intended to identify forward-looking statements. While the company may elect to update forward-looking statements in the future, it specifically disclaims any obligation to do so, even if the company's estimates change, and readers should not rely on those forward-looking statements as representing the company's views as of any date subsequent to the date of the filing of this Quarterly Report. There are a number of important factors that could cause the actual results of the company to differ materially from those indicated by such forward-looking statements, including those detailed under the heading "Forward-looking Statements" in this report on Form 10-Q.

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 the company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent liabilities. On an on-going basis, the company evaluates its estimates, including those related to bad debts, inventories, intangible assets, warranty obligations, income taxes, contingencies and litigation, restructuring, and discontinued operations. The company 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) The company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to pay amounts due. If the financial condition of the company's customers were to deteriorate, reducing their ability to make payments, additional allowances would be required.

## THERMO ELECTRON CORPORATION

### Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations (continued)

- (b) The company writes down its inventories for estimated obsolescence for differences between the cost and estimated net realizable value based on recent usage and expected demand. If ultimate usage or demand varies significantly from expected usage or demand, additional writedowns may be required.
- (c) The company periodically evaluates goodwill for impairment using market comparables for similar businesses and forecasts of discounted future cash flows. Should the fair value of the company’s goodwill decline because of reduced operating performance, market declines, or other indicators of impairment, charges for impairment of goodwill may be necessary.
- (d) 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. Should future cash flows decline significantly from estimated amounts, charges for impairment of other long-lived assets may be necessary.
- (e) 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 fair value at the time of sale. Should the fair value of either the equipment or the installation change, the company’s revenue recognition would be affected.
- (f) 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.
- (g) At the time the company recognizes revenue it provides for the estimated cost of product warranties based primarily on historical experience. Should product failure rates or the actual cost of correcting product failures vary from estimates, revisions to the estimated warranty liability would be necessary.
- (h) 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. Should the company’s actual future taxable income by tax jurisdiction vary from estimates, additional allowances or reversals thereof may be necessary.
- (i) The company estimates losses on contingencies and litigation and provides a reserve for these losses. Should the ultimate losses on contingencies and litigation vary from estimates, adjustments to those reserves may be required.
- (j) The company records restructuring charges for the cost of vacating facilities based on expected sub-rental income. Should actual cash flows associated with sub-rental income from vacated facilities vary from estimated amounts, adjustments may be required.
- (k) The company estimates the expected proceeds from any businesses held for sale and, when necessary, records losses to reduce the carrying value of these businesses to estimated realizable value. Should the actual or estimated proceeds, which would include post-closing purchase price adjustments, vary from current estimates, results could differ from expected amounts.

## THERMO ELECTRON CORPORATION

### Results of Operations

During the first quarter of 2003, the company transferred management responsibility for several businesses between segments as follows: (1) the compositional-metrology business was moved to the Life and Laboratory Sciences segment from the Optical Technologies segment; (2) the ultra-high vacuum systems and semiconductor testing businesses were moved to the Measurement and Control segment from the Optical Technologies segment; and (3) Thermo Euroglas was moved to the Life and Laboratory Sciences segment from the Measurement and Control segment. In addition to these changes, during the first quarter of 2003, the company began allocating certain costs to the business segments previously classified as corporate expenses based on the estimated extent to which the segment benefited from the cost. Allocated costs principally include e-commerce, global sourcing, and marketing as well as some legal, human resources, and information systems costs. Prior-period segment information has been restated to reflect these changes.

#### Second Quarter 2003 Compared With Second Quarter 2002

##### *Continuing Operations*

Sales in the second quarter of 2003 were \$516.4 million, an increase of \$7.3 million, or 1%, from the second quarter of 2002. The favorable effects of currency translation resulted in an increase in revenues of \$32.9 million in 2003. Sales decreased \$0.9 million due to divestitures, net of acquisitions. In addition to the changes in revenue resulting from currency translation, acquisitions, and divestitures, revenues decreased \$24.7 million, or 5%, primarily due to lower demand in both the Optical Technologies and Measurement and Control segments, as detailed below. Currency translation had a net favorable effect on revenues as discussed below by segment, due to the weakening of the U.S. dollar relative to currencies of countries in which the company operates.

Operating income was \$48.3 million in the second quarter of 2003, compared with \$35.2 million in the second quarter of 2002. Segment operating income increased to \$55.4 million in 2003 from \$42.8 million in 2002. (Segment operating income is operating income excluding costs incurred at the company's corporate office that are not allocated to the segments as discussed above.) Operating and segment operating income in the second quarter of 2003 were reduced by additional charges associated with restructuring plans initiated prior to 2003 and other restructuring actions initiated in 2003, offset by certain other income, net (Note 14). Operating and segment operating income in the second quarter of 2002 were reduced by additional charges associated with a restructuring plan initiated during the fourth quarter of 2001, other restructuring actions initiated in 2002, and certain other costs, net. The segment restructuring and other items totaled \$4.1 million and \$16.1 million in 2003 and 2002, respectively, and are discussed by segment below. Segment operating income increased primarily due to lower restructuring and other costs, net, in 2003 and, to a lesser extent, a lower cost base following recent restructuring actions. Among the actions contributing to a lower cost base is lower spending on research and development activities, which declined 7% to \$37.1 million in the second quarter of 2003. The company has focused its spending on those projects with the highest estimated returns and expects to continue spending on research and development at a rate of 7-7.5% of revenues for at least the near term.

In response to a continued downturn in markets served by the company and in connection with the company's overall reorganization, restructuring actions were initiated in 2002 in a number of business units to reduce costs and redundancies, principally through headcount reductions and consolidation of facilities. Certain costs associated with these actions could not be recorded until incurred. Further actions were initiated in the first six months of 2003. The company expects to incur an additional \$8 million of restructuring costs through the remainder of 2003 for charges associated with these actions that cannot be recorded until incurred. The company believes that restructuring actions undertaken in 2002 and 2003 to date will be substantially completed in 2003. The company expects to identify additional sites to consolidate during the remainder of 2003 and will record charges in connection with any such actions. Although the company has not finalized its plans by segment, to date it has identified actions with estimated costs of approximately \$8 million and expects to identify additional actions during the second half of 2003. The company expects that the actions initiated during the remainder of 2003 will be substantially completed in 2004.



## THERMO ELECTRON CORPORATION

### Second Quarter 2003 Compared With Second Quarter 2002 (continued)

#### Life and Laboratory Sciences

Sales in the Life and Laboratory Sciences segment increased \$23.6 million to \$313.8 million in the second quarter of 2003. The favorable effects of currency translation resulted in an increase in revenues of \$23.5 million in 2003. Sales decreased \$3.5 million due to product line divestitures, net of acquisitions. In addition to the changes in revenue resulting from currency translation, acquisitions, and divestitures, revenues increased \$3.6 million, or 1%, primarily due to higher demand. An increase in sales of mass spectrometry equipment as well as rapid diagnostic tests and pathology products was offset in part by a 2% decrease in sales of laboratory equipment such as concentrators, freezers, and incubators, primarily due to economic pressures facing customers.

Operating income margin increased to 14.0% in the second quarter of 2003 from 13.9% in the second quarter of 2002. (Operating income margin is segment operating income divided by segment revenues.) Operating income margin was affected by restructuring and other costs, net, of \$3.9 million and \$4.0 million in 2003 and 2002, respectively. An improvement in operating income of \$1.4 million at a small business unit that had a loss in 2002 and, to a lesser extent, the effect of higher revenues were offset in part by higher marketing and selling expenses due to several key commercial initiatives and a lower operating margin in the Bioscience Technologies division primarily due to \$0.6 million of higher amortization expense. The increase in amortization expense followed the acquisition of CRS Robotics in the second quarter of 2002. The segment's commercial initiatives include key customer account management, increased advertising for a branding transition, and establishment of divisional call centers.

In the second quarter of 2003, the segment recorded restructuring and other costs, net, of \$3.9 million, substantially all of which were cash costs, primarily for severance, employee retention, abandoned facilities, and relocation expenses at businesses being consolidated (Note 14). Restructuring and other income, net, in 2002 included \$2.6 million of cash costs, primarily for severance, employee retention, and relocation expenses at businesses being consolidated. In addition, the segment sold two small operating units and a building for a net loss of \$0.5 million and had other asset writedowns of \$0.1 million. Also in 2002, the segment recorded charges to cost of revenues of \$0.8 million for discontinued product lines and the sale of inventories revalued at the date of acquisition.

#### Measurement and Control

Sales in the Measurement and Control segment decreased \$1.1 million to \$152.4 million in the second quarter of 2003. The favorable effects of currency translation resulted in an increase in revenues of \$8.5 million in 2003. Sales increased \$3.4 million due to acquisitions, net of divestitures. In addition to the changes in revenue resulting from currency translation, acquisitions, and divestitures, revenues decreased \$13.0 million, or 9%, primarily due to weaker demand. The weaker demand was primarily due to economic conditions facing customers, particularly in the process instruments business where over half of the decrease occurred and, to a lesser extent, in sales of equipment used in semiconductor manufacturing. The decrease in sales was offset in part by higher revenues from equipment used in homeland security. During the first six months of 2003, the segment's backlog decreased 6% to \$100.4 million. The company expects that a continued downturn in some markets served by the segment will unfavorably affect the segment's revenue comparisons with corresponding prior-year periods in the near term. A prolonged downturn could adversely affect the realizability of the segment's assets, which may result in charges for impairment.

Operating income margin remained flat at 8.8% in the second quarter of 2003 and 2002. Operating income margin was affected by restructuring and other income, net, of \$0.2 million in 2003 and restructuring and other costs, net, of \$1.1 million in 2002. The favorable impact of a \$2.1 million gain on the sale of a building in the second quarter of 2003 was offset by the effect on margin of lower revenues in the quarter.

## THERMO ELECTRON CORPORATION

### Second Quarter 2003 Compared With Second Quarter 2002 (continued)

In the second quarter of 2003, the segment recorded restructuring and other income, net, of \$0.2 million, including a gain of \$2.1 million on the sale of a building, offset by \$1.9 million of restructuring and other charges. Restructuring and other charges included \$1.6 million of cash costs, primarily for severance, employee retention, abandoned facilities, and relocation expenses at businesses being consolidated. In addition, the segment recorded a charge of \$0.3 million for the writedown of assets at facilities being consolidated (Note 14). Restructuring and other costs, net, in 2002 included cash costs of \$2.2 million, principally for severance, employee retention, relocation, and other costs of facility consolidations. These costs were offset in part by \$1.1 million of net gains on the sale of a small business unit and a building.

#### Optical Technologies

Sales in the Optical Technologies segment decreased \$15.6 million to \$52.6 million in the second quarter of 2003. The favorable effects of currency translation resulted in an increase in revenues of \$1.0 million in 2003. Sales decreased \$0.9 million as a result of a divestiture. In addition to the changes in revenue resulting from currency translation and a divestiture, revenues decreased \$15.7 million, or 23%, primarily due to weaker demand. The weaker demand was primarily due to the severe slowdown in the semiconductor and other industrial markets that has adversely affected customers in the segment's businesses. These industries are highly cyclical and have experienced downturns that began in 2001. During the first six months of 2003, the segment's backlog decreased 7% to \$52.1 million. The company expects that the slowdowns in semiconductor and other industrial markets will continue to result in unfavorable revenue and profitability comparisons with corresponding prior-year periods in the near term. A prolonged downturn could adversely affect the realizability of the segment's assets, which may result in charges for impairment.

Operating income margin was negative 3.5% in the second quarter of 2003, compared with negative 17.0% in the second quarter of 2002. Operating income margin was affected by restructuring and other costs, net, of \$0.4 million and \$11.0 million in 2003 and 2002, respectively. The decrease in the segment's operating loss was due to lower restructuring and other costs, as well as cost reduction and productivity measures undertaken in 2002 and the suspension of telecommunications activities in the second quarter of 2002. These improvements were offset in part by the impact of lower revenues in the second quarter of 2003.

In the second quarter of 2003, the segment recorded \$0.4 million of restructuring and other costs, net, including cash costs of \$0.9 million, principally for severance and employee-retention costs at businesses being consolidated. In addition, the segment recorded asset writedowns of \$0.2 million for abandoned assets, net of recoveries. These charges were offset by a gain of \$0.7 million for the reversal of contract cancellation fees that were disputed and ultimately not required (Note 14). Restructuring and other costs, net, in 2002 included \$4.8 million of cash costs, principally for severance and abandoned-equipment leases as well as \$0.7 million for the settlement of litigation. In addition, the segment wrote off assets totaling \$5.5 million, including \$5.3 million of abandoned telecommunications equipment and \$0.2 million of goodwill on a small business held for sale. The segment also recorded \$0.7 million of charges to cost of revenues, principally for a discontinued product line.

The segment is negotiating the sale of a noncore product line and has signed a nonbinding letter of intent with a prospective buyer. Were the sale to occur, the segment expects to record a loss on the disposal of approximately \$5 million in addition to approximately \$3 million for abandoned lease commitments. There can be no assurance the sale will close pursuant to the negotiated terms or at all.

#### Other Income, Net

The company reported other income, net, of \$12.2 million and \$38.3 million in the second quarter of 2003 and 2002, respectively (Note 5). Other income, net, includes interest income, interest expense, gain on investments, net, equity in earnings of unconsolidated subsidiaries, and other items, net. Interest income decreased to \$7.1 million in

## THERMO ELECTRON CORPORATION

### Second Quarter 2003 Compared With Second Quarter 2002 (continued)

2003 from \$12.6 million in 2002, primarily due to lower invested cash balances following the repurchase and redemption of company securities, the payment of short-term notes payable, and, to a lesser extent, lower prevailing interest rates. The company expects that the lower short-term market interest rates existing in 2003 will continue to adversely affect the yield it earns as maturing investments originally invested at higher rates and proceeds from the repayment of the company's note receivable from Trimble (Note 10) are reinvested at current lower market rates. Following redemptions of convertible debentures in April 2003 (Note 13) and July 2003 (Note 18) and the repurchase of \$74.1 million of the company's debt and equity securities in the first six months of 2003, lower invested cash will also contribute to an expected reduction in interest income. Interest expense decreased to \$5.4 million in 2003 from \$10.2 million in 2002 as a result of the redemption, maturity, and repurchase of debentures, offset in part by interest on borrowings under securities-lending arrangements. The company expects that interest expense will exceed interest income beginning in the third quarter of 2003.

During 2003 and 2002, the company had gains on investments, net, of \$10.8 million and \$36.0 million, respectively. The gains included \$10.0 million and \$31.6 million in 2003 and 2002, respectively, from the sale of shares of FLIR Systems, Inc. Of the total gain from the sale of FLIR shares, \$2.7 million and \$8.8 million in 2003 and 2002, respectively, represent a recovery of amounts written down in prior years. At June 28, 2003, the company no longer owns shares of FLIR.

### Provision for Income Taxes

The company's effective tax rate was 12.1% and 32.6% in the second quarter of 2003 and 2002, respectively. The effective tax rate decreased in 2003 primarily due to \$9.0 million of tax benefit from the reversal of a valuation allowance due to expected utilization of foreign tax credit carryforwards that has been recorded as a discrete event in the second quarter of 2003 (Note 15). The company undertook tax planning actions during the quarter to make the realizability of this asset more likely than not and as a result recorded the benefit in accordance with SFAS No. 109, "Accounting for Income Taxes." This benefit reduced the tax rate in the second quarter of 2003 by 15.0 percentage points. The decrease was also due in part to the full-year impact on the 2003 effective tax rate from a reorganization of the company's subsidiaries in several European countries throughout 2002 that resulted in a more tax-efficient corporate structure and to a decrease in 2003 of gains from the sale of investment securities. In addition, the company reduced the estimate of its effective tax rate in 2003 based on tax planning, including expected repatriation of cash from non-U.S. subsidiaries, resulting in foreign tax credits.

### Contingent Liabilities

The company is contingently liable with respect to certain lawsuits. An unfavorable outcome in one or both of the matters described in Note 17 could materially affect the company's financial position as well as its results of operations and cash flows for a particular quarterly or annual period.

### Income from Continuing Operations

Income from continuing operations was \$53.1 million in the second quarter of 2003, compared with \$49.5 million in the second quarter of 2002. Results in both periods were affected by restructuring, gains on the sale of FLIR shares, and other items, discussed above.

### *Discontinued Operations*

During the second quarter of 2002, as a result of new tax regulations concerning deductible losses from divested businesses, the company revised its estimate of the tax consequences of business disposals in discontinued operations and recorded a tax benefit of \$19.0 million.

## THERMO ELECTRON CORPORATION

### First Six Months 2003 Compared With First Six Months 2002

In November 2002, the EITF reached a consensus on EITF No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." The company elected to early adopt the provisions of EITF No. 00-21 and began applying the consensus prospectively in the first quarter of 2003. Under EITF No. 00-21, the company recognizes revenue and related costs for arrangements with customers that have multiple deliverables such as equipment and installation as each of these is delivered or completed based on their fair value. Previously, when installation was essential to functionality and not deemed inconsequential or perfunctory, all revenue was deferred until completion of installation. Revenues for products sold where installation was not essential to functionality and was deemed inconsequential or perfunctory were previously recognized upon shipment with estimated installation costs accrued. The adoption of EITF No. 00-21 increased revenues and diluted earnings per share by \$7.6 million and \$.01, respectively, during the first quarter of 2003. Where EITF No. 00-21 has had an impact, the company has presented below its percentage revenue changes between 2002 and 2003 both including and excluding the effect on the first quarter of 2003 of the adoption of EITF No. 00-21.

#### *Continuing Operations*

Sales in the first six months of 2003 were \$1.017 billion, an increase of \$16.2 million from the first six months of 2002. The favorable effects of currency translation resulted in an increase in revenues of \$62.5 million in 2003. Acquisitions, net of divestitures, had a nominal impact on sales. In addition to the changes in revenue resulting from currency translation, acquisitions, and divestitures, revenues decreased \$46.3 million, or 5% (6% excluding the effect of the adoption of EITF No. 00-21), primarily due to lower demand in both the Optical Technologies and Measurement and Control segments, as detailed below. Currency translation had a net favorable effect on revenues as discussed below by segment, due to the weakening of the U.S. dollar relative to currencies of countries in which the company operates.

Operating income was \$87.6 million in the first six months of 2003, compared with \$71.9 million in the first six months of 2002. Segment operating income increased to \$101.9 million in 2003 from \$86.7 million in 2002. Operating and segment operating income in the first six months of 2003 were reduced by additional charges associated with restructuring plans initiated prior to 2003, other restructuring actions initiated in 2003, and certain other costs, net (Note 14). Operating and segment operating income in the first six months of 2002 were reduced by charges associated with a restructuring plan initiated during the fourth quarter of 2001, other restructuring actions initiated in 2002, and certain other costs, net. The segment restructuring and other items totaled \$11.6 million and \$23.8 million in 2003 and 2002, respectively, and are discussed by segment below. Segment operating income increased primarily due to lower restructuring and other costs, net, in 2003 and, to a lesser extent, a lower cost base following recent restructuring actions. Among the actions contributing to a lower cost base is lower spending on research and development activities, which decreased 6% to \$74.5 million in the first six months of 2003 as the company focuses on those projects with the highest estimated returns.

#### Life and Laboratory Sciences

Sales in the Life and Laboratory Sciences segment increased \$41.8 million to \$613.3 million in the first six months of 2003. The favorable effects of currency translation resulted in an increase in revenues of \$45.4 million in 2003. Sales decreased \$6.0 million due to product line divestitures, net of acquisitions. In addition to the changes in revenue resulting from currency translation, acquisitions, and divestitures, revenues increased \$2.4 million, or 0.4% (a decrease of 0.5% excluding the effect of the adoption of EITF No. 00-21). Higher sales of mass spectrometry equipment as well as rapid diagnostic tests and pathology products were substantially offset by a 3% decrease in sales of laboratory equipment such as concentrators, freezers, and incubators, primarily due to economic pressures facing customers.

## THERMO ELECTRON CORPORATION

### First Six Months 2003 Compared With First Six Months 2002 (continued)

Operating income margin decreased to 13.5% in the first six months of 2003 from 14.4% in the first six months of 2002. Operating income margin was affected by restructuring and other costs, net, of \$6.5 million and \$3.6 million in 2003 and 2002, respectively. In addition to the increase in restructuring and other costs in 2003, the decrease in operating income margin resulted from higher marketing and selling expenses due to several key commercial initiatives and a lower operating margin in the Bioscience Technologies division due to lower sales and \$1.2 million of higher amortization expense. The increase in amortization expense followed the acquisition of CRS Robotics in the second quarter of 2002. The segment's commercial initiatives include key customer account management, increased advertising for a branding transition, and establishment of divisional call centers.

In the first six months of 2003, the segment recorded restructuring and other costs, net, of \$6.5 million, including \$6.6 million of cash costs, primarily for severance, employee retention, abandoned facilities, and relocation expenses at businesses being consolidated. In addition, the segment recorded a charge of \$0.4 million to write down the carrying value of a building held for sale to net realizable value, offset by \$0.5 million of net gains, primarily from the sale of a product line (Note 14). Restructuring and other income, net, in 2002 included \$3.7 million of cash costs, primarily for severance and employee retention at businesses being consolidated and charges to costs of revenue of \$0.8 million for discontinued product lines and the sale of inventories revalued at the date of acquisition. In addition, the segment wrote down \$0.1 million of fixed assets and realized a net gain of \$1.0 million on the sale of a product line, two small business units, and a building.

### Measurement and Control

Sales in the Measurement and Control segment increased \$1.1 million to \$306.3 million in the first six months of 2003. The favorable effects of currency translation resulted in an increase in revenues of \$16.0 million in 2003. Sales increased \$7.7 million due to acquisitions, net of divestitures. In addition to the changes in revenue resulting from currency translation, acquisitions, and divestitures, revenues decreased \$22.6 million, or 8%, primarily due to weaker demand. The weaker demand was primarily due to economic conditions facing customers, particularly in the process instruments business where over two-thirds of the decrease occurred. The decrease in sales was offset in part by higher revenues from equipment used in homeland security.

Operating income margin decreased to 7.9% in the first six months of 2003 from 8.9% in the first six months of 2002. Operating income margin was affected by restructuring and other costs, net, of \$3.5 million and \$0.9 million in 2003 and 2002, respectively. The decrease in operating income margin resulted primarily from the increase in restructuring and other costs.

In the first six months of 2003, the segment recorded restructuring and other costs, net, of \$3.5 million, including cash costs of \$3.6 million, principally for severance, employee retention, abandoned facilities, and relocation expenses at businesses being consolidated. In addition, the segment recorded charges of \$2.0 million, primarily for the writedown of goodwill in a business held for sale to reduce the carrying value to estimated disposal value, and for the writedown of assets at facilities being consolidated, offset by a gain of \$2.1 million on the sale of a building (Note 14). Restructuring and other income, net, in 2002 included \$3.3 million of cash costs associated with the restructuring actions initiated in 2001 and gains totaling \$2.6 million from the favorable resolution of a dispute on a business sold in 2000 and the sale of two small business units and a building, offset in part by a charge of \$0.2 million, primarily for asset impairment of a building held for sale.

## THERMO ELECTRON CORPORATION

### First Six Months 2003 Compared With First Six Months 2002 (continued)

#### Optical Technologies

Sales in the Optical Technologies segment decreased \$26.9 million to \$102.8 million in the first six months of 2003. The favorable effects of currency translation resulted in an increase in revenues of \$1.1 million in 2003. Sales decreased \$1.5 million as a result of a divestiture. In addition to the changes in revenue resulting from currency translation and a divestiture, revenues decreased \$26.5 million, or 21% (22% excluding the effect of the adoption of EITF No. 00-21) primarily due to weaker demand. The weaker demand was primarily due to the severe slowdown in the semiconductor and other industrial markets that has adversely affected customers in the segment's businesses. These industries are highly cyclical and have experienced downturns that began in 2001.

Operating income margin was negative 5.4% in the first six months of 2003, compared with negative 18.1% in the first six months of 2002. Operating income margin was affected by restructuring and other costs, net, of \$1.7 million and \$19.3 million in 2003 and 2002, respectively. The decrease in the segment's operating loss was principally due to lower restructuring and other costs and, to a lesser extent, cost reduction and productivity measures undertaken in 2002 and the suspension of telecommunications activities in the second quarter of 2002. These improvements were offset in part by the impact of lower revenues.

In the first six months of 2003, the segment recorded \$1.7 million of restructuring and other costs, net, including cash costs of \$1.2 million, principally for severance and employee retention at businesses being consolidated. In addition, the segment recorded a charge of \$1.0 million for the writedown of a facility held for sale to estimated disposal value, and writedowns of \$0.2 million for abandoned assets, net of recoveries. These charges were offset by a gain of \$0.7 million for the reversal of contract cancellation fees that were disputed and ultimately not required (Note 14). Restructuring and other costs, net, in 2002 included \$11.5 million of cash costs principally for abandoned-equipment leases and severance associated with suspended telecom initiatives. The cash costs also included \$0.7 million for the settlement of litigation. In addition, this segment wrote off assets totaling \$6.2 million, including \$6.0 million of abandoned fixed assets and \$0.2 million of goodwill at a business held for sale. This segment also recorded a charge of \$0.8 million resulting from employee options to purchase shares of Spectra-Physics becoming options to purchase shares of Thermo Electron following the acquisition of the minority interest in this business in February 2002. During the first six months of 2002, the segment also recorded \$0.8 million of charges to cost of revenues for discontinued product lines.

#### Other Income, Net

The company reported other income, net, of \$18.1 million and \$98.3 million in the first six months of 2003 and 2002, respectively (Note 5). Interest income decreased to \$14.8 million in 2003 from \$27.0 million in 2002, primarily due to lower invested cash balances following the repurchase and redemption of company securities, the payment of short-term notes payable, and, to a lesser extent, lower prevailing interest rates. Interest expense decreased to \$12.3 million in 2003 from \$23.7 million in 2002 as a result of the redemption, maturity, and repurchase of debentures, as well as entering into interest-rate swap arrangements, offset in part by interest on borrowings under securities-lending arrangements.

During 2003 and 2002, the company had gains on investments, net, of \$16.0 million and \$94.0 million, respectively. The gains included \$13.7 million and \$87.9 million in 2003 and 2002, respectively, from the sale of shares of FLIR. Of the total gain from the sale of FLIR shares, \$3.9 million and \$23.2 million in 2003 and 2002, respectively, represent a recovery of amounts written down in prior years. The company recorded income from equity in earnings of unconsolidated subsidiaries of \$2.2 million in 2002, primarily related to the investment in FLIR. Following the first quarter of 2002, the company discontinued reporting its share of FLIR's earnings. In addition, during the first six months of 2002, the company repurchased and redeemed debentures, resulting in a charge of \$1.0 million.

## THERMO ELECTRON CORPORATION

### First Six Months 2003 Compared With First Six Months 2002 (continued)

#### Provision for Income Taxes

The company's effective tax rate was 20.0% and 33.7% in the first six months of 2003 and 2002, respectively. The effective tax rate decreased in 2003 primarily due to \$9.0 million of tax benefit from the reversal of a valuation allowance due to expected utilization of foreign tax credit carryforwards as discussed in the results for the second quarter of 2003 (Note 15). The decrease was also due in part to the full-year impact on the 2003 effective tax rate from a reorganization of the company's subsidiaries in several European countries throughout 2002 that resulted in a more tax-efficient corporate structure and from a decrease in 2003 of gains from the sale of investment securities. In addition, the company reduced the estimate of its effective tax rate in 2003 based on tax planning including expected repatriation of cash from non-U.S. subsidiaries, resulting in foreign tax credits.

#### Minority Interest Income

Minority interest income of \$0.3 million in the first six months of 2002 represents minority shareholders' allocable share of losses at Spectra-Physics through the date on which the company acquired the minority interest in this subsidiary in February 2002.

#### Income from Continuing Operations

Income from continuing operations was \$84.5 million in the first six months of 2003, compared with \$113.2 million in the first six months of 2002. Results in both periods were affected by restructuring, gains on the sale of FLIR shares, and other items, discussed above.

#### *Discontinued Operations*

During the first six months of 2003, the company recorded an after-tax gain on disposal of discontinued operations of \$5.0 million, resulting primarily from the sale of the last remaining business in discontinued operations, Peter Brotherhood Ltd., and a favorable post-closing adjustment resulting from the 2002 sale of its Trophy Radiologic business.

In February 2002, the company's discontinued operations sold 6.9 million shares of Thoratec Corporation stock for net proceeds of \$104 million and realized an after-tax gain of \$38.4 million. As a result of new tax regulations concerning deductible losses from divested businesses, the company revised its estimate of the tax consequences of business disposals in discontinued operations and recorded a tax benefit of \$19.0 million in the first six months of 2002. In addition, the company sold the last remaining component of its former power-generation business and realized a gain from the disposition totaling \$13.0 million, primarily for previously unrecognized tax benefits that were realized upon the sale.

### **Liquidity and Capital Resources**

#### First Six Months 2003

Consolidated working capital was \$638.7 million at June 28, 2003, compared with \$667.8 million at December 28, 2002. Included in working capital were cash, cash equivalents, and short-term available-for-sale investments of \$546.4 million at June 28, 2003, compared with \$875.5 million at December 28, 2002. This decrease was due to cash of \$509.4 million used in financing activities, offset in part by cash provided by operating and investing activities, as discussed below.

## THERMO ELECTRON CORPORATION

### Liquidity and Capital Resources (continued)

Cash provided by operating activities was \$66.1 million during the first six months of 2003, including \$70.3 million provided by continuing operations and \$4.2 million used by discontinued operations. Payments for restructuring actions of the company's continuing operations, principally severance, lease costs, and other expenses of real estate consolidation, used cash of \$19.5 million, net of taxes, in the first six months of 2003. Aside from cash used for restructuring actions, a decrease in other current liabilities used cash of \$30.0 million, including \$20.6 million of accrued payroll and employee benefits due to the timing of payments, offset in part by an increase in deferred revenue. The use of cash of \$4.2 million from discontinued operations was principally due to the payment of liabilities, including settlement of litigation and lease payments on abandoned facilities.

In connection with restructuring actions undertaken by continuing operations, the company had accrued \$25.3 million for restructuring costs at June 28, 2003. The company expects to pay approximately \$11.8 million of this amount for severance, employee retention, and other costs primarily through the remainder of 2003. The balance of \$13.5 million will be paid for lease obligations over the remaining terms of the leases, with approximately 71% to be paid through 2004 and the remainder through 2012. In addition, at June 28, 2003, the company had accrued \$7.5 million for acquisition expenses. Accrued acquisition expenses included \$1.1 million of severance and relocation obligations, which the company expects to pay primarily through 2003. The balance primarily represents abandoned-facility payments that will be paid over the remaining terms of the leases through 2014.

During the first six months of 2003, the primary investing activities of the company's continuing operations, excluding available-for-sale investment activities, included the purchase of property, plant, equipment, and collection of a note receivable. The company's continuing operations expended \$16.0 million for purchases of property, plant, and equipment, net of dispositions. In April and June 2003, the company received aggregate cash payments of \$75.6 million, including \$69.1 million of principal payments, plus interest, from Trimble Navigation Limited as complete and early payment of Trimble's note to the company. In addition, the company expended \$3.1 million, net of cash acquired, for product line acquisitions (Note 2).

The company's financing activities used \$509.4 million of cash during the first six months of 2003, including \$505.7 million for continuing operations. During the first six months of 2003, the company's continuing operations expended \$381.8 million to reduce short-term notes payable. The company's continuing operations received net proceeds of \$22.3 million from the exercise of employee stock options. During the first six months of 2003, the company expended \$145.0 million to redeem and repurchase its debt securities (Note 13) and repurchase its equity securities, of which \$43.9 million was used to repurchase 2.4 million shares of the company's common stock. As of June 28, 2003, the company had approximately \$87.2 million remaining under Board of Directors' authorizations to repurchase its own securities. In July 2003, the company expended \$197.1 million for the early redemption of all of its outstanding 4% subordinated convertible debentures due 2005. Accordingly, the obligations have been presented as current liabilities in the accompanying 2003 balance sheet (Note 18). The repurchases and redemptions of debt have been made with the objective of reducing interest costs.

The company has no material commitments for purchases of property, plant, and equipment and expects that for all of 2003, such expenditures will approximate \$55 - \$60 million. The company's contractual obligations and other commercial commitments did not change materially between December 28, 2002 and June 28, 2003.

The company believes that its existing resources, including cash and investments, future cash flow from operations, and available borrowings under credit facilities are sufficient to meet the working capital requirements of its existing businesses for the foreseeable future, including at least the next 24 months.



## THERMO ELECTRON CORPORATION

### Liquidity and Capital Resources (continued)

#### First Six Months 2002

Cash used by operating activities was \$49.1 million during the first six months of 2002, including \$1.6 million provided by continuing operations and \$50.7 million used by discontinued operations. Payments for restructuring actions of the company's continuing operations, principally severance, lease costs, and other expenses of real estate consolidation, used cash of \$23.8 million, net of taxes, in the first six months of 2002. Aside from cash used for restructuring actions, a decrease in other current liabilities used cash of \$21.3 million, including \$15.5 million of accrued payroll and employee benefits due to timing of payments, and \$8.3 million of accrued interest, principally due to a debt redemption. The company's cash flow from continuing operations in the first six months of 2002 was reduced by income tax payments of approximately \$34 million related to gains from the sale of investments. The use of cash of \$50.7 million from discontinued operations was principally due to the payment of liabilities, including the settlement of litigation.

During the first six months of 2002, the primary investing activities of the company's continuing operations, excluding available-for-sale investment activities, included the sale of other investments, acquisitions, the collection of notes receivable, the purchase of shares of a majority-owned subsidiary, and the purchase of property, plant, and equipment. The company's continuing operations received proceeds of \$65.2 million from the sale of other investments, principally shares of FLIR. In addition, the company's continuing operations expended \$46.2 million for acquisitions, \$22.0 million to purchase the remaining minority-owned shares of its Spectra-Physics subsidiary, and \$19.9 million for purchases of property, plant, and equipment, net of dispositions. The company's continuing operations collected \$48.6 million from notes receivable, principally the repayment of Viasys Healthcare Inc.'s \$33.4 million principal amount note in May 2002 and repayments from Trimble in March 2002. During the first six months of 2002, investing activities of the company's discontinued operations provided \$106.4 million of cash, primarily representing proceeds of \$105 million from the sale of Thoratec common stock.

The company's financing activities used \$306.4 million of cash during the first six months of 2002, substantially all for continuing operations. During the first six months of 2002, the company's continuing operations expended \$456.3 million to redeem all of its outstanding 4 1/4% and 4 5/8% subordinated convertible debentures due 2003. The redemption price was 100% of the principal amount of the debentures, plus accrued interest. The company increased short-term notes payable by \$345.9 million, primarily to partially fund the debt redemption. The company's continuing operations received net proceeds of \$12.5 million from the exercise of employee stock options. During the first six months of 2002, the company expended \$208.5 million to repurchase its securities.

#### Item 3 – Quantitative and Qualitative Disclosures About Market Risk

The company's exposure to market risk from changes in interest rates, currency exchange rates, and equity prices has not changed materially from its exposure at year-end 2002.

#### Item 4 – Controls and Procedures

The company's management, with the participation of the company's chief executive officer and chief financial officer, evaluated the effectiveness of the company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of June 28, 2003. Based on this evaluation, the company's chief executive officer and chief financial officer concluded that, as of June 28, 2003, the company's disclosure controls and procedures were effective in providing reasonable assurance that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

There have been no changes in the company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the fiscal quarter ended June 28, 2003 that have materially affected or are reasonably likely to materially affect the company's internal control over financial reporting.

## THERMO ELECTRON CORPORATION

### Forward-looking Statements

In connection with the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, we caution readers that the following important factors, among others, in some cases have affected, and in the future could affect, our actual results and could cause our actual results in 2003 and beyond to differ materially from those expressed in any forward-looking statements made by us.

*We must develop new products, adapt to rapid and significant technological change, and respond to introductions of new products in order to remain competitive.* Our growth strategy includes significant investment in and expenditures for product development, including in the area of proteomics. We sell our products in several industries that are characterized by rapid and significant technological changes, frequent new product and service introductions, and enhancements and evolving industry standards. Without the timely introduction of new products, services, and enhancements, our products and services will likely become technologically obsolete over time, in which case our revenue and operating results would suffer.

Our customers use many of our products to develop, test, and manufacture their own products. As a result, we must anticipate industry trends and develop products in advance of the commercialization of our customers’ products. If we fail to adequately predict our customers’ needs and future activities, we may invest heavily in research and development of products and services that do not lead to significant revenue.

Many of our existing products and those under development are technologically innovative and require significant planning, design, development, and testing at the technological, product, and manufacturing-process levels. These activities require us to make significant investments.

Products in our markets undergo rapid and significant technological change because of quickly changing industry standards and the introduction of new products and technologies that make existing products and technologies uncompetitive or obsolete. Our competitors may adapt more quickly to new technologies and changes in customers’ requirements than we can. The products that we are currently developing, or those we will develop in the future, may not be technologically feasible or accepted by the marketplace, and our products or technologies could become uncompetitive or obsolete.

*We sell our products and services to a number of companies that operate in cyclical industries, which would adversely affect our results of operations when those industries experience a downturn.* The growth and profitability of some of our businesses depend in part on sales to industries that are subject to cyclical downturns and are experiencing slowing trends. For example, our Optical Technologies segment depends in part on sales to the semiconductor industry and our Measurement and Control segment depends in part on sales to the steel and cement industries. A continued slowdown in these industries would adversely affect sales by these segments, which in turn would adversely affect our revenues and results of operations.

*Our business is adversely impacted by the continuing general worldwide economic slowdown and related uncertainties affecting markets in which we operate.* Continuing adverse economic conditions worldwide could adversely impact our business in 2003 and beyond, resulting in:

- reduced demand for some of our products;
- increased rate of order cancellations or delays;
- increased risk of excess and obsolete inventories;
- increased pressure on the prices for our products and services; and
- greater difficulty in collecting accounts receivable.

For example, continued softness in the laboratory equipment, industrial manufacturing, and semiconductor markets could adversely affect our future operating results.

## THERMO ELECTRON CORPORATION

### Forward-looking Statements (continued)

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

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

*Our inability to protect our intellectual property could have a material adverse effect on our business. In addition, third parties may claim that we infringe their intellectual property, and we could suffer significant litigation or licensing expense as a result.* We place considerable emphasis on obtaining patent and trade secret protection for significant new technologies, products, and processes because of the length of time and expense associated with bringing new products through the development process and into the marketplace. Our success depends in part on our ability to develop patentable products and obtain and enforce patent protection for our products both in the United States and in other countries. We own numerous U.S. and foreign patents, and we intend to file additional applications, as appropriate, for patents covering our products. Patents may not be issued for any pending or future patent applications owned by or licensed to us, and the claims allowed under any issued patents may not be sufficiently broad to protect our technology. Any issued patents owned by or licensed to us may be challenged, invalidated, or circumvented, and the rights under these patents may not provide us with competitive advantages. In addition, competitors may design around our technology or develop competing technologies. Intellectual property rights may also be unavailable or limited in some foreign countries, which could make it easier for competitors to capture increased market position. We could incur substantial costs to defend ourselves in suits brought against us or in suits in which we may assert our patent rights against others. An unfavorable outcome of any such litigation could materially adversely affect our business and results of operations.

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

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

*We have retained contingent liabilities from businesses that we have sold.* From 1997 through 2002, we divested over 60 businesses with aggregate annual revenues in excess of \$2 billion. As part of these transactions, we retained responsibility for some of the contingent liabilities related to these businesses, such as lawsuits, product liability

## THERMO ELECTRON CORPORATION

### Forward-looking Statements (continued)

claims, and potential claims by buyers that representations and warranties we made about the businesses were inaccurate. The resolution of these contingencies has not had a material adverse effect on our results of operations or financial condition; however, we can not be certain that this favorable pattern will continue.

*We face a number of challenges in integrating and consolidating our businesses.* We have historically operated our businesses largely as autonomous, unaffiliated operations. For the past few years, we have been consolidating our operations and managing them in a more coordinated manner. The following factors may make it difficult to successfully complete the integration and consolidation of our operations:

- Our success in integrating our businesses depends on our ability to coordinate or consolidate geographically separate organizations and integrate personnel with different business backgrounds and corporate cultures.
- Our ability to combine our businesses requires coordination of previously autonomous administrative, sales and marketing, distribution, and accounting and finance functions, and expansion and integration of information and management systems.
- The integration and consolidation process could be disruptive to our businesses.

Moreover, we may not be able to realize all of the cost savings and other benefits that we expect to result from the integration and consolidation process.

*Our results could be impacted if we are unable to realize potential future savings from new sourcing initiatives.* As part of our corporate consolidation over the past two years, we have undertaken significant real estate consolidations and cost-savings initiatives relating to sourcing materials and services purchased by us throughout our businesses. While we anticipate continued significant savings from additional sourcing initiatives and further real estate consolidations, future savings opportunities may be fewer and smaller in size, and may be more difficult to achieve.

*Implementation of our new branding strategy may be difficult and could adversely affect our business.* We historically operated our business largely as autonomous, unaffiliated companies and as a result each of our businesses independently created and developed its own brand names. We are implementing a new marketing and branding strategy which involves the transition from multiple, unrelated brands to two brands, Thermo Electron and Spectra-Physics. Several of our existing brands such as Finnigan, Nicolet, and Oriel command strong market recognition and customer loyalty. We believe the transition to the two new brands will enhance and strengthen our collective brand image and brand awareness across the entire company. Our success in transitioning our brands depends on many factors, including effective communication of the transition to our customers, acceptance and recognition by customers of these new brands, and successful execution of the branding campaign by our marketing and sales teams. If we are not successful in implementing this strategy and transitioning our brands, we may experience erosion in our product recognition, brand image and customer loyalty, and a decrease in demand for our products.

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

- finding new markets for our products, including in the area of proteomics;
- developing new applications for our technologies;
- combining sales and marketing operations in appropriate markets to compete more effectively;
- actively funding research and development;
- commencing key customer initiatives;
- strengthening our presence in selected geographic markets; and
- developing commercial tools and infrastructure to increase and support cross-selling opportunities of products and services to take advantage of our breadth in product offerings.

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

## THERMO ELECTRON CORPORATION

### Forward-looking Statements (continued)

*We have significant international operations, which entail the risk that exchange rate fluctuations may negatively affect demand for our products and our profitability.* International revenues account for a substantial portion of our revenues, and we intend to continue expanding our presence in international markets. In 2002, our international revenues from continuing operations, including export revenues from the United States, accounted for approximately 52% of our total revenues. International revenues are subject to the risk that fluctuations in exchange rates may adversely affect product demand and the profitability in U.S. dollars of products and services provided by us in international markets, where payment for our products and services is made in the local currency. For example, while in fiscal 2002, currency translation had a favorable effect on revenues of our continuing operations of \$28.7 million, in fiscal 2001, the unfavorable effects of currency translation decreased revenues of our continuing operations by \$46.5 million.

*We have acquired several companies and businesses; as a result we have recorded significant goodwill on our balance sheet, which we must continually evaluate for potential impairment.* We have acquired significant intangible assets, including approximately \$1.4 billion of goodwill that we have recorded on our balance sheet as of June 28, 2003. We assess the realizability of the goodwill we have on our books annually as well as whenever events or changes in circumstances indicate that the goodwill may be impaired. These events or circumstances generally include operating losses or a significant decline in earnings associated with the acquired business or asset. Our ability to realize the value of the goodwill will depend on the future cash flows of these businesses. These cash flows in turn depend in part on how well we have integrated these businesses.

## PART II – OTHER INFORMATION

### Item 4 – Submission of Matters to a Vote of Security Holders

At the Annual Meeting of Stockholders on May 14, 2003, the stockholders elected two incumbent directors to a three-year term expiring in 2006. The directors elected at the meeting were Jim P. Manzi and Elaine S. Ullian. Mr. Manzi received 139,085,560 votes in favor of his election and 10,488,204 votes were withheld. Ms. Ullian received 146,021,698 votes in favor of her election and 3,552,066 votes were withheld. No abstentions or broker “non-votes” were recorded on the election of directors.

At the Annual Meeting, the stockholders also approved the company’s Annual Incentive Award Plan, as follows: 142,434,182 shares were voted in favor of the proposal, 5,909,802 shares were voted against, 1,229,780 shares abstained, and no broker “non-votes” were recorded on the proposal. The stockholders also approved a stockholder proposal to request the Board of Directors to establish a policy of expensing in the company’s annual income statement the costs of all future stock options issued by the company, as follows: 77,700,876 shares were voted in favor of the proposal, 52,389,055 shares were voted against, 3,006,357 shares abstained, and 16,477,476 broker “non-votes” were recorded on the proposal. The Board of Directors is currently reviewing the matter of expensing stock options and a decision is expected by the end of 2003.

### Item 6 – Exhibits and Reports on Form 8-K

#### (a) Exhibits

See Exhibit Index on page immediately preceding exhibits.

#### (b) Report on Form 8-K

On April 24, 2003, the company furnished a Current Report on Form 8-K with respect to the company’s financial results for the quarter ended March 29, 2003.

**THERMO ELECTRON CORPORATION**

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized as of the 7th day of August 2003.

THERMO ELECTRON CORPORATION

/s/ Theo Melas-Kyriazi

Theo Melas-Kyriazi

Vice President and Chief Financial Officer

/s/ Peter E. Hornstra

Peter E. Hornstra

Corporate Controller and Chief Accounting Officer

# THERMO ELECTRON CORPORATION

## EXHIBIT INDEX

Exhibit Number	Description
3.1	By-laws of the Registrant, as amended and effective as of May 15, 2003.
10.1	Thermo Electron Corporation 2000 Employees Equity Incentive Plan, as amended and restated as of May 15, 2003.
10.2	Thermo Electron Corporation Directors Stock Option Plan, as amended and restated as of May 15, 2003.
10.3	Thermo Electron Corporation 2003 Annual Incentive Award Plan, effective May 14, 2003 (filed as Appendix B to the Registrant's Definitive Proxy on Schedule 14A for the 2003 Annual Shareholders Meeting [File No. 1-8002] and incorporated in this document by reference).
99.1	Certification of Chief Executive Officer required by Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of Chief Financial Officer required by Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
99.3	Certification of Chief Executive Officer required by Exchange Act Rules 13a-14(b) and 15d-14(b), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
99.4	Certification of Chief Financial Officer required by Exchange Act Rules 13a-14(b) and 15d-14(b), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

\*Certification is not deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section. Such certification is not deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.