# **UNITED STATES**

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q	
<ul><li>(mark one)</li><li>[ X ] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Excha July 3, 2004</li></ul>	ange Act of 1934 for the Quarter Ended
[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exch	nange Act of 1934
Commission File Number 1-8002	
THERMO ELECTRON CORPORAT (Exact name of Registrant as specified in its	
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 Securities Exchange Act of 1934 during the preceding 12 months and (2) has before the past 90 days. Yes [X] No [ ]	
Indicate by check mark whether the Registrant is an accelerated filer (as define Yes [ X ] No [ ]	ed in Rule 12b-2 of the Exchange Act).
Indicate the number of shares outstanding of each of the issuer's classes of Co date.	mmon Stock, as of the latest practicable
Class Common Stock, \$1.00 par value	standing at July 30, 2004 163,283,800

# PART I – FINANCIAL INFORMATION

# <u>Item 1 – Financial Statements</u>

## THERMO ELECTRON CORPORATION

# Consolidated Balance Sheet (Unaudited)

# Assets

(In thousands)	July 3, 2004	December 31, 2003
Current Assets:		
Cash and cash equivalents	\$ 306,617	\$ 303,912
Short-term available-for-sale investments, at quoted market value (amortized		
cost of \$37,125 and \$65,273)	65,168	114,326
Accounts receivable, less allowances of \$22,325 and \$24,212	414,368	419,625
Inventories:		
Raw materials and supplies	119,065	118,660
Work in process	43,945	42,069
Finished goods	160,862	141,432
Deferred tax assets	119,944	113,006
Other current assets	60,355	46,995
Current assets of discontinued operations (Note 12)	123,044	95,231
	_1,413,368	1,395,256
Property, Plant, and Equipment, at Cost	480,423	471,500
Less: Accumulated depreciation and amortization	234,215	219,248
	246,208	252,252
Acquisition-related Intangible Assets (Note 2)	125,238	65,542
Other Assets (Note 9)	44,724	47,408
Goodwill (Note 2)	1,484,414	1,441,172
Long-term Assets of Discontinued Operations (Note 12)	181,980	187,339
	<u>\$3,495,932</u>	\$3,388,969

# Consolidated Balance Sheet (continued) (Unaudited)

# Liabilities and Shareholders' Equity

(In thousands except share amounts)		July 3, 2004	Decemb	per 31, 2003
(III thousands except share amounts)		2004		2003
Current Liabilities:			_	
Short-term obligations and current maturities of long-term obligations	\$	35,061		15,981
Accounts payable		119,815		02,617
Accrued payroll and employee benefits		74,587		39,452
Accrued income taxes Deferred revenue		120,812 68,442		98,167
Accrued restructuring costs (Note 11)		15,316		59,055 22,453
Other accrued expenses (Notes 2 and 10)		177,229		71,249
Current liabilities of discontinued operations (Note 12)		84,935		95,819
Current habilities of discontinued operations (Note 12)		04,933		75,019
		696,197	68	<u>34,793</u>
Deferred Income Taxes (Note 2)		36,052	1	11,700
Other Long-term Liabilities		77,923		73,395
Long-term Liabilities of Discontinued Operations (Note 12)		6,817		6,766
Long-term Obligations:				
Senior notes (Note 9)		133,985	13	37,874
Subordinated convertible obligations		77,234	7	77,234
Other		13,324	1	14,401
	_	224,543	22	<u> 29,509</u>
Shareholders' Equity:				
Preferred stock, \$100 par value, 50,000 shares authorized; none issued				
Common stock, \$1 par value, 350,000,000 shares authorized; 178,497,228 and				
175,479,994 shares issued		178,497		75,480
Capital in excess of par value		1,345,474		98,881
Retained earnings		1,153,622		19,420
Treasury stock at cost, 13,787,902 and 10,416,770 shares		(290,527)	,	92,469)
Deferred compensation		(3,581)		(2,834)
Accumulated other comprehensive items (Note 6)		70,915	8	34,328
	_2	2,454,400	2,38	<u>82,806</u>
	<u>\$3</u>	3,495,932	\$3,38	38,969

# Consolidated Statement of Income (Unaudited)

	Three Months Ended	
(In thousands except per share amounts)	July 3, 2004	June 28, 2003
Revenues	<u>\$525,309</u>	\$467,268
Costs and Operating Expenses: Cost of revenues (Note 11) Selling, general, and administrative expenses Research and development expenses Restructuring and other costs, net (Note 11)	286,424 146,508 32,592 815 466,339	250,147 130,077 32,610 4,688 417,522
Operating Income Other Income, Net (Note 4)	58,970 10,667	49,746 12,440
Income from Continuing Operations Before Provision for Income Taxes Provision for Income Taxes	69,637 (19,058)	62,186 (7,545)
Income from Continuing Operations Income (Loss) from Discontinued Operations (includes income tax benefit of \$36,927 and \$207; Note 12)	50,579 40,501	54,641 (1,502)
Net Income	\$ 91,080	\$ 53,139
Earnings per Share from Continuing Operations (Note 5): Basic Diluted	\$ .31 \$ .30	\$ .34 \$ .33
Earnings per Share (Note 5): Basic	<u>\$55</u>	\$ .33
Diluted	<u>\$ .54</u>	<u>\$ .32</u>
Weighted Average Shares (Note 5): Basic	<u>165,571</u>	<u>162,048</u>
Diluted	<u>170,521</u>	<u>172,459</u>

# Consolidated Statement of Income (Unaudited)

	Six Months Ended	
	July 3,	June 28,
(In thousands except per share amounts)	2004	2003
Revenues	\$1,050,341	\$ 921,896
Costs and Operating Expenses:		
Cost of revenues (Note 11)	570,596	494,208
Selling, general, and administrative expenses	297,067	258,084
Research and development expenses	66,861	65,319
Restructuring and other costs, net (Note 11)	3,973	11,638
	938,497	829,249
Operating Income	111,844	92,647
Other Income, Net (Note 4)	13,269	18,620
outer meonie, iver (ivote 4)	15,207	10,020
Income from Continuing Operations Before Provision for Income Taxes	125,113	111,267
Provision for Income Taxes	(34,869)	(22,538)
Income from Continuing Operations  Income from Continuing Operations  Income (Loss) from Discontinued Operations (includes income toy benefit of	90,244	88,729
Income (Loss) from Discontinued Operations (includes income tax benefit of \$35,780 and \$1,394; Note 12)	43,958	(4,199)
Gain on Disposal of Discontinued Operations (net of income tax provision of \$3,564)		5,036
Net Income	<u>\$ 134,202</u>	<u>\$ 89,566</u>
Earnings per Share from Continuing Operations (Note 5):		
Basic	<u>\$ .55</u>	<u>\$ .55</u>
Diluted	<u>\$ .53</u>	\$ .53
Earnings per Share (Note 5): Basic	<u>\$ .81</u>	<u>\$ .55</u>
Diluted	<u>\$ .79</u>	<u>\$ .54</u>
Weighted Average Shares (Note 5):		
Basic	<u>165,389</u>	<u>162,446</u>
Diluted	<u>170,258</u>	<u>172,977</u>

# Consolidated Statement of Cash Flows (Unaudited)

	Six Mont	hs Ended
	July 3,	June 28,
(In thousands)	2004	2003
Operating Activities:		
Net income	\$ 134,202	\$ 89,566
(Income) loss from discontinued operations	(43,958)	4,199
Gain on disposal of discontinued operations		(5,036)
Income from continuing operations	90,244	88,729
Adjustments to reconcile income from continuing operations to net cash		
provided by operating activities:		
Depreciation and amortization	31,110	23,199
Noncash restructuring and other costs, net (Note 11)	507	260
Provision for losses on accounts receivable	1,098	2,802
Change in deferred income taxes	1,039	(6,320)
Gain on sale of businesses	, <u> </u>	(341)
Gain on investments, net (Note 4)	(13,478)	(15,989)
Other	3,832	3,170
Changes in current accounts, excluding the effects of acquisitions and dispositions:	-,	-,
Accounts receivable	7,265	25,878
Inventories	(25,677)	3,534
Other current assets	(12,977)	(3,240)
Accounts payable	8,592	(21,673)
Other current liabilities	3,570	(38,053)
Net cash provided by continuing operations	95,125	61,956
Net cash provided by discontinued operations	9,878	4,109
Net cash provided by operating activities	105,003	66,065
Investing Activities:		
Proceeds from maturities of available-for-sale investments	18,432	276,693
Proceeds from sale of available-for-sale investments	23,388	24,898
Purchases of property, plant, and equipment	(22,071)	(20,785)
Proceeds from sale of property, plant, and equipment	3,359	5,927
Acquisitions, net of cash acquired (Note 2)	(75,706)	(3,120)
Proceeds from sale of businesses, net of cash divested	_	384
Collection of note receivable	_	69,136
Increase in other assets	(626)	(1,787)
Other	<u>(578)</u>	(276)
Net cash provided by (used in) continuing operations	(53,802)	351,070
Net cash provided by discontinued operations	1,935	2,729
Net cash provided by (used in) investing activities	(51,867)	353,799

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

	Six Months Ended		
	July 3,	June 28,	
(In thousands)	2004	2003	
Financias Astivities			
Financing Activities:	n (1.742)	Ф ( <b>73</b> 000)	
Repayment and redemption of long-term obligations	\$ (1,743)	\$ (72,090)	
Purchases of company common stock and subordinated convertible	(04.055)	(= 4 4 4 2)	
debentures	(81,975)	(74,113)	
Net proceeds from issuance of company common stock	40,915	22,337	
Decrease in short-term notes payable	(8,111)	(380,902)	
Other	18	35	
Net cash used in continuing operations	(50,896)	(504,733)	
Net cash provided by (used in) discontinued operations	427	(4,638)	
Not each wood in financing activities	(50.460)	(500 271)	
Net cash used in financing activities	(50,469)	(509,371)	
Exchange Rate Effect on Cash of Continuing Operations	(153)	16,095	
Exchange Rate Effect on Cash of Discontinued Operations	<u> </u>	(1,213)	
Increase (Decrease) in Cash and Cash Equivalents	2,705	(74,625)	
Cash and Cash Equivalents at Beginning of Period	303,912	339,067	
Cush and Cush Equivalents at Beginning of Ferrod			
Cash and Cash Equivalents at End of Period	<u>\$ 306,617</u>	<u>\$ 264,442</u>	
Noncash Investing Activities:			
Fair value of assets of acquired businesses	\$ 108,515	\$ 4,845	
*	· ·	,	
Cash paid for acquired businesses	<u>(78,050</u> )	(3,269)	
Liabilities assumed of acquired businesses	<u>\$ 30,465</u>	<u>\$ 1,576</u>	

Notes to Consolidated Financial Statements (Unaudited)

#### 1. General

The interim consolidated financial statements presented herein 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 July 3, 2004, and the results of operations and cash flows for the three- and six-month periods ended July 3, 2004, and June 28, 2003. Certain priorperiod amounts have been reclassified to conform to the presentation in the current financial statements. Interim results are not necessarily indicative of results for a full year.

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

In June 2004, the company announced it had entered into a definitive agreement for the sale of its Optical Technologies segment, Spectra-Physics, to Newport Corporation. The company has classified the operating results and cash flows of Spectra-Physics as discontinued operations for all periods presented in the accompanying financial statements. In addition, assets and liabilities of Spectra-Physics have been classified as discontinued operations in the accompanying consolidated balance sheets (Note 12).

## 2. Acquisitions

On April 20, 2004, the Life and Laboratory Sciences segment acquired US Counseling Services, Inc. (USCS), a supplier of equipment asset management services to the pharmaceutical, healthcare, and related industries, for approximately \$78.8 million in cash (or \$75.7 million, net of cash acquired). The purchase price is subject to a post-closing adjustment. The purchase price exceeded the fair value of the acquired net assets and, accordingly, \$66.9 million was allocated to goodwill. USCS reported revenues of \$57 million in 2003.

The components of the purchase price allocation for USCS are as follows:

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Purchase Price:	
Cash paid (a)	\$ 78,805
Cash acquired	(3,099)
•	, , ,
	<u>\$ 75,706</u>
Allocation:	
Current assets	\$ 5,067
Property, plant, and equipment	356
Acquired intangible assets	34,700
Goodwill	66,910
Other assets	2
Liabilities assumed	(31,329)
	\$ 75.706

## (a) Includes acquisition expenses.

## 2. Acquisitions (continued)

Acquired intangible assets for the acquisition of USCS are as follows:

(In thousands)

Customer Relationships \$34,700

The amortization period for the customer relationships acquired in the acquisition of USCS is 5 years. Annual amortization expense has increased by \$6.9 million as a result of the acquisition of USCS. The company recorded a deferred tax liability of \$12.5 million related to this intangible asset, with a corresponding increase in goodwill. The deferred tax liability is included in liabilities assumed in the above table detailing the purchase price components.

On December 31, 2003, the Life and Laboratory Sciences segment acquired Jouan SA, a global supplier of products used by life science researchers. During the first quarter of 2004, the company determined the fair value of Jouan's identifiable intangible assets and completed the purchase price allocation. As a result, \$34.9 million has been reclassified from goodwill to acquired intangible assets as of April 3, 2004. In addition, the company recorded a deferred tax liability of \$12.1 million related to these intangible assets, with a corresponding increase in goodwill.

Acquired intangible assets for the acquisition of Jouan are as follows:

(In thousands)

Customer and Distributor Relationships Product Technology \$24,643

10,231

\$34,874

The amortization periods for intangible assets acquired in the acquisition of Jouan are 6 years for customer and distributor relationships and 5 years for product technology. The weighted-average amortization period for all intangible assets acquired in the acquisition of Jouan is approximately 6 years. Annual amortization expense has increased by \$6.2 million as a result of the acquisition of Jouan.

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. Upon finalization of restructuring plans or settlement of obligations for less than the expected amount, any excess reserves are reversed with a corresponding decrease in goodwill or other intangible assets when no goodwill exists. Accrued acquisition expenses are included in other accrued expenses in the accompanying balance sheet.

The company did not establish reserves for restructuring businesses acquired in 2004.

## 2. Acquisitions (continued)

The changes in accrued acquisition expenses for acquisitions completed during 2003 are as follows:

	A	bandonment		
(In thousands)		of Excess		
	Severance Facilities		Other	Total
Balance at December 31, 2003	\$ 4,998	\$ 3,925	\$ 106	\$ 9,029
Reserves established	_	243	304	547
Payments	(707)	(474)	(336)	(1,517)
Decrease recorded as a reduction in goodwill	(526)	`		(526)
Currency translation	(69)	<u>(61</u> )		(130)
Balance at July 3, 2004	\$ 3,696	\$ 3,633	<u>\$ 74</u>	<u>\$ 7,403</u>

The 2003 acquisitions primarily consisted of Jouan. The principal accrued acquisition expenses for 2003 acquisitions were for severance for approximately 100 employees at Jouan across all functions and the downsizing of a Jouan manufacturing facility in Denmark, with a lease expiring in 2007, to a smaller site. The company expects to pay amounts accrued for severance and other expenses primarily through 2004 and amounts accrued for abandonment of excess facilities through 2007.

The changes in accrued acquisition expenses for acquisitions completed prior to 2003 are as follows:

(In thousands)	Abandonment of Excess Facilities	Other	Total
Balance at December 31, 2003 Payments Currency translation	\$6,640 (28) <u>221</u>	\$ 147 (36) (1)	\$6,787 (64) <u>220</u>
Balance at July 3, 2004	<u>\$6,833</u>	<u>\$ 110</u>	<u>\$6,943</u>

The remaining accrued acquisition expenses for pre-2003 acquisitions primarily represent lease obligations for four abandoned operating facilities in England with leases expiring through 2014.

## 3. Business Segment Information

Following the decision to sell Spectra-Physics, previously reported as the Optical Technologies segment, the company's continuing operations fall into two principal business segments: Life and Laboratory Sciences and Measurement and Control. Results for 2003 and the first quarter of 2004 have been restated to reflect Spectra-Physics as a discontinued operation.

## 3. Business Segment Information (continued)

As part of the divestiture of Spectra-Physics (Note 12), the company retained a small business unit in Syracuse, New York, that manufactures imaging sensors and cameras for scientific, medical, and machine vision imaging applications. This business was transferred to the Life and Laboratory Sciences segment and prior period results have been restated to reflect this change.

	Three Months Ended		Six Montl	Six Months Ended	
(7. d	July 3,	June 28,	July 3,	June 28,	
(In thousands)	2004	2003	2004	2003	
Revenues:					
Life and Laboratory Sciences	\$ 369,823	\$ 314,330	\$ 735,289	\$ 614,111	
Measurement and Control	155,486	151,285	315,052	303,781	
Other		1,653		4,004	
	<u>\$ 525,309</u>	\$ 467,268	\$1,050,341	<u>\$ 921,896</u>	
Income from Continuing Operations Before					
Provision for Income Taxes:	Ф <i>52.221</i>	¢ 44.127	¢ 100 146	¢ 92.626	
Life and Laboratory Sciences (a) Measurement and Control (b)	\$ 53,331 12,415	\$ 44,127 13,375	\$ 100,146 26,598	\$ 83,626 24,194	
Other (c)	(54)	(197)	(102)	(327)	
Other (c)	( <u>3 1</u> )	<u>(177</u> )	(102)	(321)	
Total Operating Income - Segments	65,692	57,305	126,642	107,493	
Corporate/Other (d)	3,945	4,881	(1,529)	3,774	
	\$ 69,637	<u>\$ 62,186</u>	\$ 125,113	<u>\$ 111,267</u>	
Depreciation:					
Life and Laboratory Sciences	\$ 7,446	\$ 6,263	\$ 14,981	\$ 11,666	
Measurement and Control	2,621	2,719	5,078	5,298	
Other	_	127	_	257	
Corporate	715	<u>798</u>	1,601	1,534	
	\$ 10,782	<u>\$ 9,907</u>	<u>\$ 21,660</u>	<u>\$ 18,755</u>	
Amortization:					
Life and Laboratory Sciences	\$ 4,963	\$ 1,657	\$ 8,106	\$ 3,245	
Measurement and Control	681	676	1,343	1,199	
Corporate	<del>_</del>	<u>=</u>	1	<u>=</u>	
	<u>\$ 5,644</u>	<u>\$ 2,333</u>	<u>\$ 9,450</u>	<u>\$ 4,444</u>	

- (a) Includes restructuring and other income, net, of \$0.5 million in the second quarter of 2004. Includes restructuring and other costs, net, of \$3.9 million, \$3.3 million, and \$6.5 million in the second quarter of 2003 and the first six months of 2004 and 2003, respectively.
- (b) Includes restructuring and other costs, net, of \$1.4 million, \$2.6 million, and \$3.5 million in the second quarter of 2004 and the first six months of 2004 and 2003, respectively. Includes restructuring and other income, net, of \$0.2 million in the second quarter of 2003.

#### 3. Business Segment Information (continued)

- (c) Includes restructuring and other costs, net, of \$0.1 million, \$0.2 million, \$0.1 million, and \$0.3 million in the second quarter of 2004 and 2003 and the first six months of 2004 and 2003, respectively.
- (d) Includes corporate general and administrative expenses and other income and expense. Includes corporate restructuring and other costs of \$0.2 million, \$0.8 million, \$0.7 million, and \$1.4 million in the second quarter of 2004 and 2003 and the first six months of 2004 and 2003, respectively. Other income, net, includes gains on the sale of shares of Thoratec of \$8.0 million and \$9.6 million in the second quarter and first six months of 2004, respectively, and gains on the sale of shares of FLIR Systems, Inc. of \$10.0 million and \$13.7 million in the second quarter and first six months of 2003, respectively (Note 4).

#### 4. Other Income, Net

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

	Three Mon	Six Montl	Six Months Ended	
(In thousands)	July 3, 2004	June 28, 2003	July 3, 2004	June 28, 2003
Interest Income	\$ 1,666	\$ 7,074	\$ 3,586	\$ 14,746
Interest Expense (Note 9)	(2,694)	(5,357)	(5,423)	(12,086)
Gain on Investments, Net	10,847	10,814	13,478	15,989
Other Items, Net	848	<u>(91</u> )	1,628	(29)
	<u>\$ 10,667</u>	<u>\$ 12,440</u>	<u>\$ 13,269</u>	<u>\$ 18,620</u>

The company sold 1,000,000 and 1,250,000 shares of Thoratec Corporation common stock during the second quarter and first six months of 2004, respectively, and realized gains of \$8.0 million and \$9.6 million, respectively. In addition, the company sold 234,175 and 334,175 shares of FLIR Systems, Inc. common stock during the second quarter and first six months of 2003, respectively, and realized gains of \$10.0 million and \$13.7 million, respectively. These gains included \$2.7 million and \$3.9 million in the second quarter and first six months of 2003, respectively, from the recovery of amounts written down in prior years. The company obtained common shares of Thoratec as part of the sale of Thermo Cardiosystems Inc. in 2001 and obtained an equity interest in FLIR as part of the acquisition of Spectra-Physics AB in 1999. At July 3, 2004, the company owned 4.4 million shares of Thoratec with a fair market value of \$46.5 million, which are classified as short-term available-for-sale investments in the accompanying balance sheet. The company no longer owned shares of FLIR as of December 31, 2003.

## 5. Earnings per Share

Basic and diluted earnings per share were calculated as follows:

	Three Months Ended		Six Months Ended		
(In thousands except per share amounts)	July 3, 2004	June 28, 2003	July 3, 2004	June 28, 2003	
(III thousands except per share amounts)	2004	2003	2004	2003	
Income from Continuing Operations	\$ 50,579	\$ 54,641	\$ 90,244	\$ 88,729	
Income (Loss) of Discontinued Operations	40,501	(1,502)	43,958	(4,199)	
Gain on Disposal of Discontinued Operations, Net	_	_	, <u> </u>	5,036	
	<u> </u>				
Net Income for Basic Earnings per Share	91,080	53,139	134,202	89,566	
Effect of Convertible Debentures	398	1,745	811	3,546	
Income Available to Common Shareholders,					
as Adjusted for Diluted Earnings per Share	<u>\$ 91,478</u>	<u>\$ 54,884</u>	<u>\$135,013</u>	\$ 93,112	
Basic Weighted Average Shares	165,571	162,048	165,389	162,446	
Effect of:					
Stock options	3,007	1,876	2,926	1,764	
Convertible debentures	1,846	8,335	1,846	8,567	
Contingently issuable shares	<u>97</u>	<u> 200</u>	<u> 97</u>	200	
Diluted Weighted Average Shares	170,521	<u>172,459</u>	170,258	<u>172,977</u>	
Basic Earnings per Share:					
Continuing operations	\$ .31	\$ .34	\$ .55	\$ .55	
Discontinued operations	.24	<u>(.01</u> )	27	.01	
	<u>\$ .55</u>	<u>\$ .33</u>	<u>\$ .81</u>	<u>\$ .55</u>	
Diluted Earnings per Share:					
Continuing operations	\$ .30	\$ .33	\$ .53	\$ .53	
Discontinued operations	.24	(.01)	26		
	<b>.</b>	Φ 22	Φ =0	<b>.</b>	
	<u>\$ .54</u>	<u>\$ .32</u>	<u>\$ .79</u>	<u>\$ .54</u>	

Options to purchase 966,000, 7,480,000, 1,177,000, and 9,810,000 shares of common stock were not included in the computation of diluted earnings per share for the second quarter of 2004 and 2003 and the first six months of 2004 and 2003, respectively, because the options' exercise prices were greater than the average market price for the common stock and their effect would have been antidilutive.

In 2004, there were no convertible debentures outstanding that if converted would be antidilutive. In 2003, the computations of diluted earnings per share exclude the effect of assuming the conversion of the company's 4 3/8% subordinated convertible debentures because the effect would be antidilutive.

## 6. Comprehensive Income

Comprehensive income combines net income and other comprehensive items. Other comprehensive items represents certain amounts that are reported as components of shareholders' equity in the accompanying balance sheet, including currency translation adjustments, unrealized gains and losses, net of tax, on available-for-sale investments and hedging instruments, and minimum pension liability adjustment. During the second quarter of 2004 and 2003, the company had comprehensive income of \$74.1 million and \$118.0 million, respectively. During the first six months of 2004 and 2003, the company had comprehensive income of \$129.0 million and \$185.4 million, respectively.

## 7. 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:

	Three Months Ended			Six Months Ended			d	
	$\mathbf{J}$	uly 3,	Jur	ne 28,	$\mathbf{J}$	uly 3,	Ju	ne 28,
(In thousands except per share amounts)		2004		2003		2004		2003
Income from Continuing Operations:								
As reported	\$ 5	0,579	\$ 5	4,641	\$ 9	0,244	\$ 8	38,729
Add: Stock-based employee compensation								
expense included in reported results, net								
of tax		315		469		559		953
Deduct: Total stock-based employee								
compensation expense determined under								
the fair-value-based method for all								
awards, net of tax	(	3,923)	(	5 <u>,055</u> )	(	7,687)	(1	0,423)
<b>,</b>						,,		
Pro forma	<u>\$ 4</u>	<u>6,971</u>	\$ 5	0,055	<u>\$8</u>	<u>3,116</u>	<u>\$ 7</u>	79,259
Basic Earnings per Share from Continuing								
Operations:								
As reported	\$	.31	\$	.34	\$	.55	\$	.55
Pro forma	\$	.28	\$ \$	.31	\$	.50	\$	.49
Diluted Earnings per Share from Continuing								
Operations:								
As reported	\$	.30	\$	.33	\$	.53	\$	.53
Pro forma	\$	.28	\$	.30	\$	.49	\$	.48
			•		•			

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

Th	ree Months	Ended	<u> </u>	Six Months Ended			
Ju	ly 3,	June	28,	Jul	ly 3,	June	28,
2	2004	2	2003	2	004	2	003
\$ 91	,080	\$ 53.	,139	\$134	,202	\$ 89,	566
	315		469		559		953
(4.	,335)	(5.	<u>,712</u> )	(8,	<u>(688</u> )	_(12.	046)
<u>\$ 87.</u>	,060	<u>\$ 47.</u>	<u>896</u>	<u>\$126.</u>	.073	<u>\$ 78.</u>	473
\$	.55	\$	.33	\$	.81	\$	.55
\$	.53	\$	.30	\$	.76	\$	.48
\$	54	\$	32	\$	79	\$	.54
\$	.51	\$	.29	\$	.75	\$	.47
	\$ 91  (4  \$ 87  \$ \$	July 3, 2004  \$ 91,080  315  (4,335)  \$ 87,060  \$ .55 \$ .53	July 3, 2004       June 2         \$ 91,080       \$ 53, 315         (4,335)       (5, 32, 32)         \$ 87,060       \$ 47, 32         \$ .55       \$ .53         \$ .53       \$ .53	2004     2003       \$ 91,080     \$ 53,139       315     469       (4,335)     (5,712)       \$ 87,060     \$ 47,896       \$ .55     \$ .33       \$ .53     \$ .30       \$ .54     \$ .32	July 3, 2004       June 28, 2003       Jule 20, 2003       \$ 134, 2003       \$ 134, 2003       \$ 134, 2003       \$ 134, 2003       \$ 134, 2003       \$ 134, 2003       \$ 134, 2003       \$ 126, 2003 <t< td=""><td>July 3, 2004       June 28, 2003       July 3, 2004         \$ 91,080       \$ 53,139       \$134,202         315       469       559         (4,335)       (5,712)       (8,688)         \$ 87,060       \$ 47,896       \$126,073         \$ .55       \$ .33       \$ .81         \$ .53       \$ .30       \$ .76         \$ .54       \$ .32       \$ .79</td><td>July 3, 2004       June 28, 2003       July 3, 2004       June 28, 2004       June 2004       2004</td></t<>	July 3, 2004       June 28, 2003       July 3, 2004         \$ 91,080       \$ 53,139       \$134,202         315       469       559         (4,335)       (5,712)       (8,688)         \$ 87,060       \$ 47,896       \$126,073         \$ .55       \$ .33       \$ .81         \$ .53       \$ .30       \$ .76         \$ .54       \$ .32       \$ .79	July 3, 2004       June 28, 2003       July 3, 2004       June 28, 2004       June 2004       2004

## 8. Defined Benefit Pension Plans

Several of the company's non-U.S. subsidiaries and one U.S. subsidiary have defined benefit pension plans covering substantially all full-time employees at those subsidiaries. Some of the plans are unfunded, as permitted under the plans and applicable laws. Net periodic benefit costs for the plans in aggregate included the following components:

	Three Mon	ths Ended	Six Months Ended		
	July 3,	June 28,	July 3,	June 28,	
(In thousands)	2004	2003	2004	2003	
Service Cost	\$ 897	\$ 824	\$ 1,809	\$ 1,635	
Interest Cost on Benefit Obligation	2,331	2,018	4,710	3,996	
Expected Return on Plan Assets	(2,031)	(1,659)	(4,095)	(3,298)	
Recognized Net Actuarial Loss	630	445	1,271	885	
Amortization of Unrecognized Initial Obligation and Prior					
Service Cost	1	12	1	23	
	<u>\$ 1,828</u>	<u>\$ 1,640</u>	<u>\$ 3,696</u>	<u>\$ 3,241</u>	

## 9. Swap Arrangement

During 2002, the company entered into interest-rate swap arrangements for its \$128.7 million principal amount 7 5/8% 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 5/8%, and will pay a variable rate of 90-day LIBOR plus 2.19% (3.96% as of July 3, 2004). The swaps have terms expiring at the maturity of the debt. The swaps are designated as fair-value

#### 9. Swap Arrangement (continued)

hedges and as such, are carried at fair value, which over time has resulted in an increase in other long-term assets and long-term debt totaling \$5.3 million at July 3, 2004. 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.

## 10. Warranty Obligations

Product warranties are included in other accrued expenses in the accompanying balance sheet. The changes in the carrying amount of warranty obligations are as follows:

(In thousands)

Balance at December 31, 2003	\$ 25,645
Provision charged to income	9,257
Usage	(8,016)
Adjustments to previously provided warranties, net	(2,206)
Other, net (a)	
Balance at July 3, 2004	<u>\$ 24,752</u>

(a) Primarily represents the effects of currency translation.

### 11. 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 2003. Restructuring and other costs recorded in 2004 are primarily for charges associated with actions initiated prior to 2004 that could not be recorded until incurred and the company expects to incur an additional \$1.3 million of such restructuring costs, primarily in 2004. The company believes that restructuring actions undertaken in 2003 will be substantially completed in 2004. During 2003 and 2004, the company has added headcount in such areas as key account initiatives, operational excellence, and expansion of operations in China. While the company is adding resources in several parts of its business, it is also responding to changing skill requirements for employees and striving to continue productivity improvements. In connection with these efforts, in the third quarter of 2004, the company is undertaking headcount reductions in several businesses approximating 200 employees at a cost of approximately \$5 million.

During the second quarter of 2004, the company recorded net restructuring and other costs by segment as follows:

(In thousands)	Life and Laboratory Sciences	Measurement and Control	Other	Corporate	Total
Cost of Revenues	\$ 275	\$ 61	\$ -	\$ -	\$ 336
Restructuring and Other Costs (Income), Net	<u>(779</u> )	1,299	54	241	<u>815</u>
	<u>\$ (504)</u>	<u>\$1,360</u>	<u>\$ 54</u>	<u>\$ 241</u>	<u>\$1,151</u>

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

During the first six months of 2004, the company recorded net restructuring and other costs by segment as follows:

(In thousands)	Life and Laboratory Sciences	Measurement and Control	Other	Corporate	Total
(III tilousalius)	Sciences	and Control	Other	Согрогаю	Total
Cost of Revenues	\$2,621	\$ 123	\$ -	\$ -	\$2,744
Restructuring and Other Costs, Net	<u>642</u>	<u>2,521</u>	<u> 102</u>	<u>708</u>	<u>3,973</u>
-	\$3,263	\$2,644	\$ 10 <u>2</u>	<u>\$ 708</u>	\$6,717

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

## Life and Laboratory Sciences

The Life and Laboratory Sciences segment recorded \$0.5 million of net restructuring and other income in the second quarter of 2004. The segment recorded charges to cost of revenues of \$0.3 million, primarily depreciation expense that was accelerated for manufacturing equipment that will be abandoned due to site consolidations, and \$0.8 million of other income, net. This other income, net, consisted of a gain of \$2.6 million on the sale of a product line, offset in part by \$1.8 million of cash costs, principally associated with facility consolidations, including \$1.1 million of severance for 61 employees across all functions; \$0.6 million of net abandoned-facility costs, primarily for charges associated with facilities vacated in prior periods that could not be recorded until incurred; and \$0.1 million of other cash costs, primarily relocation expenses.

In the first quarter of 2004, this segment recorded \$3.8 million of net restructuring and other charges. The segment recorded charges to cost of revenues of \$2.4 million, primarily for the sale of inventories revalued at the date of acquisition of Jouan, and \$1.4 million of other costs. These other costs consisted of \$1.0 million of cash costs, principally associated with facility consolidations, including \$0.6 million of severance for 20 employees across all functions; \$0.2 million of net abandoned-facility costs, primarily for charges associated with facilities vacated in prior periods that could not be recorded until incurred; and \$0.2 million of other cash costs, primarily relocation expenses. In addition, the segment recorded a loss of \$0.4 million from the sale of two abandoned buildings.

#### Measurement and Control

The Measurement and Control segment recorded \$1.4 million of net restructuring and other charges in the second quarter of 2004. The segment recorded charges to cost of revenues of \$0.1 million for the sale of inventories revalued at the date of acquisition, and \$1.3 million of other costs. These other costs consisted of \$1.3 million of cash costs, principally associated with facility consolidations, including \$0.6 million of net abandoned-facility costs, primarily for charges associated with facilities vacated in prior periods that could not be recorded until incurred; and \$0.7 million of severance for 17 employees, primarily in sales and service functions.

In the first quarter of 2004, this segment recorded \$1.3 million of net restructuring and other charges. The segment recorded charges to cost of revenues of \$0.1 million for the sale of inventories revalued at the date of acquisition, and \$1.2 million of other costs. These other costs consisted of \$1.1 million of cash costs, principally associated with facility consolidations, including \$0.5 million of net abandoned-facility costs, primarily for charges associated with facilities vacated in prior periods that could not be recorded until incurred; \$0.4 million of severance for 7 employees primarily in sales and service functions; and \$0.2 million of other cash costs, primarily relocation expenses. In addition, the segment recorded charges of \$0.1 million, primarily for the writedown of equipment at an abandoned facility.

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

## Corporate

The company recorded \$0.2 million of restructuring and other charges at its corporate offices in the second quarter of 2004, all of which were cash costs. The costs were 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 2004, the company recorded \$0.5 million of restructuring and other charges at its corporate offices, all of which were cash costs. The costs were primarily for third-party advisory fees.

## General

The following table summarizes the company's severance actions in 2004.

2003 Restructuring Plans	Number of Employees
Remaining Terminations at December 31, 2003	162
Terminations Announced in 2004 Terminations Occurring to Date in 2004	105 (156)
Remaining Terminations at July 3, 2004	<u>111</u>

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 2004 statement of income have been summarized in the notes to the table.

(In thousands)	Employee Severance Retention (a)		Abandonment of Excess Facilities	Other	Total	
Pre-2001 Restructuring Plans Balance at December 31, 2003 Payments	\$ - 	\$ 59 (59)	\$ - -	\$ - -	\$ 59 (59)	
Balance at July 3, 2004	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$                                    </u>	
2001 Restructuring Plans Balance at December 31, 2003	\$ 1,127	\$ 16	\$ 4,778	\$ 138	\$ 6,059	
Costs incurred in 2004 Reserves reversed	(23)	(15)	207	1 (132)	208 (170)	
Payments Currency translation	(551) (17)		(1,062) 9	(7) 	(1,621) ( <u>8</u> )	
Balance at July 3, 2004	<u>\$ 536</u>	<u>\$                                     </u>	<u>\$ 3,932</u>	<u>\$</u>	<u>\$ 4,468</u>	

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

(In thousands)	Severance	Employee Retention (a)	Abandonment of Excess Facilities	Other	Total
2002 Restructuring Plans					
Balance at December 31, 2003	\$ 1,943	\$ 54	\$ 3,082	\$ 7	\$ 5,086
Costs incurred in 2004	9	_	280	30	319
Reserves reversed	(79)	(54)	(97)	_	(230)
Payments	(470)		(820)	(20)	(1,310)
Currency translation	(20)				(20)
Balance at July 3, 2004	<u>\$ 1,383</u>	<u>\$                                     </u>	<u>\$ 2,445</u>	<u>\$ 17</u>	\$ 3,845
2003 Restructuring Plans					
Balance at December 31, 2003	\$ 6,153	\$ 68	\$ 4,914	\$ 114	\$ 11,249
Costs incurred in 2004 (b)	3,116	87	1,635	1,234	6,072
Reserves reversed	(114)	_	_	_	(114)
Payments	(6,509)	(27)	(2,476)	(1,217)	(10,229)
Currency translation	(20)		47	(2)	25
Balance at July 3, 2004	<u>\$ 2,626</u>	<u>\$ 128</u>	<u>\$ 4,120</u>	<u>\$ 129</u>	\$ 7,003

- (a) Employee-retention costs are accrued ratably over the period through which employees must work to qualify for a payment.
- (b) Excludes noncash charges, net, of \$0.4 million and \$0.1 million in the Life and Laboratory Sciences and Measurement and Control segments, respectively, and other income, net, of \$2.6 million in the Life and Laboratory Sciences segment.

The company expects to pay accrued restructuring costs as follows: severance, primarily through 2005; employee-retention obligations and other costs, primarily through 2004; and abandoned-facility payments, over lease terms expiring through 2016.

## 12. Discontinued Operations

In June 2004, the company announced it had entered into a definitive agreement for the sale of its Optical Technologies segment, Spectra-Physics, to Newport Corporation for \$300 million, subject to a post-closing balance sheet adjustment. On July 16, 2004, the sale was completed. The company sold this cyclical operating unit to focus on its core businesses that provide analytical instrumentation to laboratory and industrial customers. The selling price of \$300 million exceeded Spectra-Physics' book value and is comprised of \$200 million in cash, a 5% note in the principal amount of \$50 million, due in 2009, and \$50 million in Newport common stock, with the number of issued shares determined based on the 20-trading day average price prior to closing. The fair value of the note and Newport common stock at the date of closing aggregated approximately \$90 million. Under the terms of the agreement, the company has agreed to certain restrictions on the sale of the Newport shares it received in this transaction. The restrictions will lapse gradually in six month intervals after the closing, with no sales permitted prior to six months after closing, sale of 25% permitted after six months, sale of an additional 25% after one year, and no restrictions on sales after 18 months. As a result of Newport assuming non-U.S. debt of Spectra-Physics which had earlier been expected to be retained by the company, approximately \$14 million will be paid by the company to Newport as part of the post-closing balance sheet adjustment. The company retained a small manufacturing unit in Syracuse, New York, as a term of the sale (Note 3).

#### 12. Discontinued Operations (continued)

The company's discontinued operations (Spectra-Physics) had revenue of \$55.4 million, \$49.1 million, \$112.4 million, and \$94.7 million in the second quarter of 2004 and 2003 and the first six months of 2004 and 2003, respectively. Operating income of the discontinued operations totaled \$3.3 million and \$8.3 million in the second quarter and first six months of 2004, respectively. The company's discontinued operations incurred operating losses of \$1.5 million and \$5.1 million in the second quarter and first six months of 2003, respectively. As a result of the decision to sell Spectra-Physics, a previously unrecognized tax asset arising from the difference between the book and tax basis of Spectra-Physics became realizable and the company recorded a tax benefit in discontinued operations totaling \$38.5 million in the second quarter of 2004.

#### 13. Litigation

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, including the company's continuing and discontinued operations, 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.

The company intends to vigorously defend this matter. In the opinion of management, an unfavorable outcome 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 quarter or annual period.

The company's continuing and discontinued operations are defendants 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.

#### Discontinued Operations

During 2002, the company's discontinued operations settled a patent-infringement matter that Fischer Imaging Corporation had brought against the company's former Trex Medical subsidiary. The company sold Trex Medical in 2000, but retained this obligation as a term of the sale. Under the settlement agreement, as amended, the company paid Fischer \$25 million in 2002 and \$0.9 million in 2003, with a final payment of \$5.2 million in 2004. The settlement payments were charged against a reserve established for this matter.

## 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-O.

## Overview of Results of Operations and Liquidity

The company develops and manufactures a broad range of products that are sold worldwide. The company expands the product lines and services it offers by developing and commercializing its own core technologies and by making strategic acquisitions of complementary businesses. Following the decision to sell Spectra-Physics (Note 12), the company's continuing operations fall into two principal business segments: Life and Laboratory Sciences and Measurement and Control. Results for 2003 and the first quarter of 2004 have been restated to reflect Spectra-Physics as a discontinued operation.

#### Revenues

	Thr	Three Months Ended				Six Months Ended			
(Dollars in thousands)	July 3, 2	July 3, 2004 June 28, 2003		2003	July 3, 2004		June 28, 2003		
Life and Laboratory Sciences Measurement and Control Other	\$ 369,823 155,486		\$ 314,330 151,285 1,653		\$ 735,289 315,052	70.0% 30.0%	\$ 614,111 303,781 4,004	33.0%	
	<u>\$ 525,309</u>	100%	<u>\$ 467,268</u>	100%	<u>\$1,050,341</u>	100%	\$ 921,896	100%	

The company's revenues grew by 12% during the second quarter of 2004. The strengthening of non-U.S. currencies relative to the dollar caused an increase in reported revenues. In addition to the change in revenues caused by currency translation and acquisitions, net of divestitures, which are discussed below, sales increased 3% in 2004, primarily due to increased demand. The higher demand resulted primarily from a recovery in the U.S. and Asian economies that has positively affected capital spending across many markets addressed by the company.

The company's strategy is to augment internal growth at existing businesses with complementary acquisitions such as those completed in 2004 and 2003. These acquisitions included US Counseling Services, Inc. (USCS), a supplier of equipment asset management services to the pharmaceutical, healthcare, and related industries, which was acquired in April 2004; Jouan SA, a manufacturer of products used to prepare and preserve laboratory samples, which was acquired on December 31, 2003; Laboratory Management Systems, Inc. (LMSi), a supplier of regulatory instrument and consulting services to the pharmaceutical and related industries, which was acquired in October 2003; and the personal radiation-detection instruments product line from Siemens plc, which was acquired in October 2003.

In the second quarter of 2004, the company's operating income and operating income margin improved to \$59.0 million and 11.2%, respectively, from \$49.7 million and 10.6%, respectively, in the second quarter of 2003. (Operating income margin is operating income divided by revenues.) The improvement resulted primarily from lower restructuring costs, net, in 2004 and a lower cost base following restructuring actions in 2003, offset in part by \$3.3 million of higher amortization expense associated with acquisition-related intangible assets. Restructuring and other costs, net, (including charges to cost of revenues associated with facility consolidations) reduced pre-tax income by \$1.2 million and \$4.7 million in the second quarter of 2004 and 2003, respectively.

Income from continuing operations decreased to \$50.6 million in the second quarter of 2004, from \$54.6 million in the second quarter of 2003, primarily due a \$9.0 million tax benefit in 2003 related to tax credit carryforwards, offset by the higher operating income discussed above.

During the first six months of 2004, the company's cash flow from operations totaled \$105.0 million, compared with \$66.1 million in the first six months of 2003. The increase resulted primarily from a lower investment in working capital items in 2004.

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

As of July 3, 2004, the company's outstanding debt totaled \$259.6 million, of which 81% is due in 2007 and thereafter. The company expects that its existing cash and investments of \$371.8 million as of July 3, 2004, the cash proceeds from the sale of Spectra-Physics on July 16, 2004, and the company's future cash flow from operations together with available unsecured borrowings of up to \$250 million under its revolving credit agreements are sufficient to meet the capital requirements of its existing businesses for the foreseeable future, including at least the next 24 months.

#### **Critical Accounting Policies**

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, pension costs, contingencies and litigation, restructuring, and sale of businesses. 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. Such allowances of the company's continuing operations totaled \$22.3 million at July 3, 2004. The company estimates the amount of customer receivables that are uncollectible based on the age of the receivable, the creditworthiness of the customer, and any other information that is relevant to the judgment. If the financial condition of the company's customers were to deteriorate, reducing their ability to make payments, additional allowances would be required.
- (b) The company writes down its inventories for estimated obsolescence for differences between the cost and estimated net realizable value based on usage in the preceding 12 months, expected demand, and any other information that is relevant to the judgment. If ultimate usage or demand vary 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 or forecasts of discounted future cash flows. Goodwill of the company's continuing operations totaled \$1.484 billion at July 3, 2004. Estimates of future cash flows require assumptions related to revenue and operating income growth, asset-related expenditures, working capital levels, and other factors. Different assumptions from those made in the company's analysis could materially affect projected cash flows and the company's evaluation of goodwill for impairment. 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. Other long-lived assets totaled \$598.2 million at July 3, 2004, including \$246.2 million of fixed assets and \$182.0 million of long-term assets of discontinued operations. In testing a long-lived asset for impairment, assumptions are made concerning projected cash flows associated with the asset. Estimates of future cash flows require

## **Critical Accounting Policies (continued)**

assumptions related to revenue and operating income growth and asset-related expenditures associated with the asset being reviewed for impairment. Should future cash flows decline significantly from estimated amounts, charges for impairment of other long-lived assets may be necessary.

- (e) 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 and knowledge of any specific warranty problems that indicate projected warranty costs may vary from historical patterns. The liability for warranty obligations of the company's continuing operations totaled \$24.8 million at July 3, 2004. 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. The company's tax valuation allowance totaled approximately \$75 million at July 3, 2004. 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 provides a liability for future income tax payments in the worldwide tax jurisdictions in which it operates. Accrued income taxes totaled \$120.8 million at July 3, 2004. Should tax return positions that the company expects are sustainable not be sustained upon audit, the company could be required to record an incremental tax provision for such taxes. Should disputed positions that are reserved ultimately be sustained, the company would recognize a reduction in its tax provision.
- (j) 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.
- (k) One of the company's U.S. subsidiaries and several non-U.S. subsidiaries sponsor defined benefit pension plans. Major assumptions used in the accounting for these employee benefit plans include the discount rate, expected return on plan assets, and rate of increase in employee compensation levels. Assumptions are determined based on company data and appropriate market indicators in consultation with the company's actuaries, and are evaluated each year as of the plans' measurement date. Net periodic pension costs for defined benefit plans of the company's continuing operations totaled \$3.7 million in the first six months of 2004. Should any of these assumptions change, they would have an effect on net periodic pension costs.

## **Critical Accounting Policies (continued)**

- (1) The company records restructuring charges for the cost of vacating facilities based on future lease obligations and expected sub-rental income. The company's accrued restructuring costs for abandoned facilities in continuing operations totaled \$10.5 million at July 3, 2004. Should actual cash flows associated with sub-rental income from vacated facilities vary from estimated amounts, adjustments may be required.
- (m) 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.

## **Results of Operations**

### Second Quarter 2004 Compared With Second Quarter 2003

#### Continuing Operations

Sales in the second quarter of 2004 were \$525.3 million, an increase of \$58.0 million from the second quarter of 2003. The favorable effects of currency translation resulted in an increase in revenues of \$15.0 million in 2004. Sales increased \$30.7 million due to acquisitions, net of divestitures. In addition to the changes in revenue resulting from currency translation, acquisitions, and divestitures, revenues increased \$12.3 million, or 3%, primarily due to increased demand, as described by segment below.

## Operating Income Margin

	Three Mo	<u>Three Months Ended</u>	
	July 3,	June 28, 2003	
	2004		
Life and Laboratory Sciences	14.4%	14.0%	
Measurement and Control	8.0%	8.8%	
Consolidated	11.2%	10.6%	

Operating income was \$59.0 million in the second quarter of 2004, compared with \$49.7 million in the second quarter of 2003. Operating income margin increased to 11.2% in 2004 from 10.6% in 2003. Operating income increased primarily due to lower restructuring costs, net, and a lower cost base following restructuring actions in 2003, offset in part by \$3.3 million of higher amortization expense of acquisition-related intangible assets. Operating income in 2004 and 2003 was reduced by additional charges associated with restructuring actions initiated in 2003 and 2002 and certain other costs, net. The restructuring and other items totaled \$1.2 million and \$4.7 million in 2004 and 2003, respectively, and are discussed by segment below.

Restructuring actions were initiated in 2003 in a number of business units to reduce costs and redundancies in response to a downturn in markets served by the company and in connection with the company's overall reorganization, principally through headcount reductions and consolidation of facilities. The company expects to incur an additional \$1.3 million of restructuring costs, primarily in 2004, for charges associated with these actions that cannot be recorded until incurred. The company believes that restructuring actions undertaken in 2003 will be substantially completed in 2004. During 2003 and 2004, the company has added headcount in such areas as key account initiatives, operational excellence, and expansion of operations in China. While the company is adding resources in several parts of its business, it is also responding to changing skill requirements for employees and striving to continue productivity improvements. In connection with these efforts, in the third quarter of 2004, the company is undertaking headcount reductions in several businesses approximating 200 employees at a cost of approximately \$5 million.

Second Quarter 2004 Compared With Second Quarter 2003 (continued)

Life and Laboratory Sciences

	Three	Three Months Ended		
	July 3,	June 28,		
(Dollars in thousands)	2004	2003	Change	
Revenues	\$369,823	\$314,330	17.7%	
Operating Income Margin	14.4%	14.0%	0.4%	

Sales in the Life and Laboratory Sciences segment increased \$55.5 million, or 18%, to \$369.8 million in the second quarter of 2004. The favorable effects of currency translation resulted in an increase in revenues of \$10.7 million in 2004. Sales increased \$37.4 million due to the acquisitions of USCS in April 2004, Jouan in December 2003, and LMSi in October 2003, net of a product line divestiture. In addition to the changes in revenues resulting from currency translation, acquisitions, and divestitures, revenues increased \$7.4 million, or 2%, due to higher demand. The increase in demand resulted in higher sales of mass spectrometry instruments and, to a lesser extent, new products in anatomical pathology and laboratory automation. These increases were offset in part by lower sales in Europe where the company has not seen the economic recovery experienced in the U.S. and Asia.

Operating income margin increased to 14.4% in the second quarter of 2004 from 14.0% in the second quarter of 2003. Operating income margin was affected by restructuring and other income, net, of \$0.5 million in 2004 and restructuring and other costs, net, of \$3.9 million in 2003, as discussed below. The increase in operating income margin resulting from lower restructuring and other costs, net, was offset in part by the inclusion of the results of Jouan, USCS, and LMSi, which have historically operated at lower profitability margins compared with the segment's existing businesses. The segment is currently integrating the largest of these, Jouan, with its existing operations and expects to improve its margin, taking advantage of operating synergies in areas such as sales and service and research activities to reduce costs. The segment's amortization of acquisition-related intangible assets increased by \$3.3 million over the 2003 quarter, primarily as a result of the three acquisitions.

In the second quarter of 2004, the segment recorded restructuring and other income, net, of \$0.5 million, including a gain of \$2.6 million on the sale of a product line. This gain was offset in part by \$1.8 million of cash costs, primarily for severance, abandoned facilities, and relocation expenses at businesses that have been consolidated and charges to costs of revenues of \$0.3 million, primarily for accelerated depreciation on manufacturing equipment that is being abandoned as a result of site consolidations (Note 11). In 2003, the segment recorded restructuring and other costs, net, of \$3.9 million, substantially all of which were cash costs, primarily for abandoned facilities, employee retention, and severance at businesses being consolidated.

Measurement and Control

	<u>I hree</u>	I hree Months Ended		
	July 3,	June 28,		
(Dollars in thousands)	2004	2003	Change	
Revenues	\$155,486	\$151,285	2.8%	
Operating Income Margin	8.0%	8.8%	(0.8%)	

Sales in the Measurement and Control segment increased \$4.2 million, or 3%, to \$155.5 million in the second quarter of 2004. The favorable effects of currency translation resulted in an increase in revenues of \$4.3 million in 2004. Sales decreased \$5.0 million due to divestitures, net of acquisitions. In addition to the changes in revenue resulting from currency translation, acquisitions, and divestitures, revenues increased \$4.9 million, or 3%. The increase was primarily the result of a rebound in demand for precision temperature-control products, particularly from the semiconductor industry.

## Second Quarter 2004 Compared With Second Quarter 2003 (continued)

Operating income margin decreased to 8.0% in the second quarter of 2004 from 8.8% in the second quarter of 2003. Operating income margin was affected by restructuring and other costs, net, of \$1.4 million in 2004 and restructuring and other income, net, of \$0.2 million in 2003, as discussed below. The decrease in operating income margin resulted primarily from the change in restructuring and other costs, net.

In the second quarter of 2004, the segment recorded restructuring and other costs, net, of \$1.4 million, including cash costs of \$1.3 million, principally for abandoned facilities, severance, and relocation expenses at businesses that have been consolidated. In addition, the segment recorded charges to costs of revenues of \$0.1 million for the sale of inventories revalued at the date of acquisition (Note 11). In 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.

#### Other Income, Net

The company reported other income, net, of \$10.7 million and \$12.4 million in the second quarter of 2004 and 2003, respectively (Note 4). Other income, net, includes interest income, interest expense, gain on investments, net, and other items, net. Interest income decreased to \$1.7 million in 2004 from \$7.1 million in 2003, primarily due to lower invested cash balances following the acquisitions made in 2004 and late 2003, as well as the repurchase and redemption of company securities in the second half of 2003. Interest expense decreased to \$2.7 million in 2004 from \$5.4 million in 2003 as a result of the redemption and repurchase of debentures.

During both the second quarter of 2004 and 2003, the company had gains on investments, net, of \$10.8 million. The gains included \$8.0 million in 2004 from the sale of shares of Thoratec Corporation and \$10.0 million in 2003 from the sale of shares of FLIR Systems, Inc. Of the total gain from the sale of FLIR shares, \$2.7 million represents a recovery of amounts written down in prior years when the company deemed an impairment of its investment in FLIR to be other than temporary.

#### Provision for Income Taxes

The company's effective tax rate was 27.4% and 12.1% in the second quarter of 2004 and 2003, respectively. The effective tax rate in 2004 reflects a benefit of \$0.9 million that arose upon completion of a reorganization of several European subsidiaries and was recorded as a discrete event in 2004. This tax benefit reduced the effective rate in 2004 by 1.3 percentage points. The effective tax rate in 2003 reflects a \$9.0 million tax benefit from the reversal of a valuation allowance due to expected utilization of foreign tax credit carryforwards that was recorded as a discrete event in the second quarter of 2003. The reversal of the valuation allowance reduced the effective tax rate by 14.5 percentage points in 2003. In addition, the company reduced its effective tax rate by 1.8 percentage points in 2003 through repatriation of cash from non-U.S. subsidiaries, which resulted in foreign tax credits.

In the normal course of business, the company and its subsidiaries are examined by various tax authorities, including the Internal Revenue Service (IRS). The IRS has concluded its field examination for the tax years 1997 through 2000 as part of its routine examinations of the company's income tax returns. At the conclusion of the field examination, several issues were unresolved and are currently being reviewed at the Appeals Office of the IRS. The company expects to resolve the disputed issues and complete the examination in late 2004 or the first half of 2005. Although the outcome of these matters cannot presently be determined, management believes that it may reach favorable settlement of the examination upon completion of the appellate review by the IRS. Unfavorable settlement of any particular issue would require use of cash. Favorable resolution would result in a reduction to the company's effective tax rate in the quarter of resolution. Any additional impact on the company's liability for income taxes cannot presently be determined; however, the company believes its accrued income tax liabilities are adequate.

Second Quarter 2004 Compared With Second Quarter 2003 (continued)

## **Contingent Liabilities**

At July 3, 2004, the company was contingently liable with respect to certain lawsuits. An unfavorable outcome in the matter described in Note 13 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.

## Discontinued Operations

In June 2004, the company announced it had entered into a definitive agreement for the sale of its Optical Technologies segment, Spectra-Physics, to Newport Corporation. On July 16, 2004, the company completed the sale. The company has classified the results of Spectra-Physics as discontinued operations for all periods presented in the accompanying financial statements (Note 12).

The company's discontinued operations (Spectra-Physics) had revenues of \$55.4 million and \$49.1 million in the second quarter of 2004 and 2003, respectively. Operating income of the discontinued operations was \$3.3 million in the second quarter of 2004. The company's discontinued operations incurred operating losses of \$1.5 million in the second quarter of 2003. The improvement in operating results resulted from a rebound in the demand for lasers and photonics from microelectronics customers and other industrial markets served by Spectra-Physics. As a result of the decision to sell Spectra-Physics, a previously unrecognized tax asset arising from the difference between the book and tax basis of Spectra-Physics became realizable and the company recorded a tax benefit in discontinued operations totaling \$38.5 million, or \$.23 per diluted share, in the second quarter of 2004. The company expects to record an additional gain of approximately \$.20 per diluted share in the third quarter of 2004, reflecting the gain on the sale of Spectra-Physics.

### First Six Months 2004 Compared With First Six Months 2003

## Continuing Operations

Sales in the first six months of 2004 were \$1.050 billion, an increase of \$128.4 million from the first six months of 2003. The favorable effects of currency translation resulted in an increase in revenues of \$46.9 million in 2004. Sales increased \$52.8 million due to acquisitions, net of divestitures. In addition to the changes in revenue resulting from currency translation, acquisitions, and divestitures, revenues increased \$28.7 million, or 3%, primarily due to increased demand, as described by segment below.

#### Operating Income Margin

	Six Mon	Six Months Ended	
	July 3,	June 28,	
	2004	2003	
Life and Laboratory Sciences	13.6%	13.6%	
Measurement and Control	8.4%	8.0%	
Consolidated	10.6%	10.0%	

Operating income was \$111.8 million in the first six months of 2004, compared with \$92.6 million in the first six months of 2003. Operating income margin increased to 10.6% in 2004 from 10.0% in 2003. Operating income increased primarily due to higher revenues in each segment and, to a lesser extent, lower restructuring and other costs, net, in 2004. Operating income in 2004 and 2003 was reduced by additional charges associated with restructuring actions initiated in 2003 and 2002 and certain other costs, net. The restructuring and other items totaled \$6.7 million and \$11.6 million in 2004 and 2003, respectively, and are discussed by segment below.

First Six Months 2004 Compared With First Six Months 2003 (continued)

Life and Laboratory Sciences

	Six	Six Months Ended		
	July 3,	June 28,		
(Dollars in thousands)	2004	2003	Change	
Revenues	\$735,289	\$614,111	19.7%	
Operating Income Margin	13.6%	13.6%	_	

Sales in the Life and Laboratory Sciences segment increased \$121.2 million, or 20%, to \$735.3 million in the first six months of 2004. The favorable effects of currency translation resulted in an increase in revenues of \$33.6 million in 2004. Sales increased \$65.2 million due to the acquisitions of USCS in April 2004, Jouan in December 2003, and LMSi in October 2003, net of product line divestitures. In addition to the changes in revenues resulting from currency translation, acquisitions, and divestitures, revenues increased \$22.4 million, or 4%, due to higher demand. The increase in demand resulted in higher sales of mass spectrometry and spectroscopy instruments and, to a lesser extent, new anatomical pathology products. The combination of new products and a rebound in sales to industrial markets along with continued strength in pharmaceutical demand have driven the instrument sales growth, offset in part by lower revenues in Europe where the recovery of demand has lagged the U.S. and Asia.

Operating income margin was flat at 13.6% in the first six months of 2004 and 2003. Operating income margin was affected by restructuring and other costs, net, of \$3.3 million and \$6.5 million in 2004 and 2003, respectively, as discussed below. The favorable impact of lower restructuring and other costs, net, and higher revenues was offset by a \$4.9 million increase in amortization expense of acquisition-related intangible assets and the inclusion of Jouan, USCS, and LMSi, which have historically operated at lower profitability margins compared with the segment's existing businesses.

In the first six months of 2004, the segment recorded restructuring and other costs, net, of \$3.3 million, including charges to costs of revenues of \$2.6 million, primarily for the sale of inventories revalued at the date of acquisition of Jouan, and \$2.9 million of cash costs, primarily for severance, abandoned facilities, and relocation expenses at businesses that have been consolidated. In addition, the segment recorded a gain of \$2.6 million on the sale of a product line and a loss of \$0.4 million from the sale of two abandoned buildings (Note 11). In 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 writedown the carrying value of a building held for sale to net realizable value, offset by \$0.5 million of net gains, primarily for the sale of a product line.

Measurement and Control

	S1X	Six Months Ended		
	July 3,	June 28,		
(Dollars in thousands)	2004	2003	Change	
Revenues	\$315,052	\$303,781	3.7%	
Operating Income Margin	8.4%	8.0%	0.4%	

Sales in the Measurement and Control segment increased \$11.3 million, or 4%, to \$315.1 million in the first six months of 2004. The favorable effects of currency translation resulted in an increase in revenues of \$13.3 million in 2004. Sales decreased \$8.3 million due to divestitures, net of acquisitions. In addition to the changes in revenue resulting from currency translation, acquisitions, and divestitures, revenues increased \$6.3 million, or 2%. The increase was primarily the result of a rebound in demand for precision temperature-control products, particularly from the semiconductor industry.

## First Six Months 2004 Compared With First Six Months 2003 (continued)

Operating income margin increased to 8.4% in the first six months of 2004 from 8.0% in the first six months of 2003. Operating income margin was affected by restructuring and other costs, net, of \$2.6 million and \$3.5 million in 2004 and 2003, respectively, as discussed below. The increase in operating income margin resulted approximately half from the \$0.9 million reduction in restructuring and other costs, net, with the balance from higher sales volumes and cost reduction measures following restructuring actions in 2003.

In the first six months of 2004, the segment recorded restructuring and other costs, net, of \$2.6 million, including cash costs of \$2.4 million, principally for abandoned facilities, severance, and relocation expenses at businesses that have been consolidated. In addition, the segment recorded charges of \$0.1 million, primarily for the writedown of equipment at an abandoned facility, and charges to costs of revenues of \$0.1 million for the sale of inventories revalued at the date of acquisition (Note 11). In 2003, the segment recorded restructuring and other costs, net, of \$3.5 million, including \$3.6 million of cash costs, 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 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.

#### Other Income, Net

The company reported other income, net, of \$13.3 million and \$18.6 million in the first six months of 2004 and 2003, respectively (Note 4). Interest income decreased to \$3.6 million in 2004 from \$14.7 million in 2003, primarily due to lower invested cash balances following the acquisitions in late 2003 and 2004 and the repurchase and redemption of company securities. Interest expense decreased to \$5.4 million in 2004 from \$12.1 million in 2003 as a result of the repurchase and redemption of debentures.

During the first six months of 2004 and 2003, the company had gains on investments, net, of \$13.5 million and \$16.0 million, respectively. The gains included \$9.6 million in 2004 from the sale of shares of Thoratec and \$13.7 million in 2003 from the sale of shares of FLIR. Of the total gain from the sale of FLIR shares, \$3.9 million represents a recovery of amounts written down in prior years when the company deemed an impairment of its investment in FLIR to be other than temporary.

#### Provision for Income Taxes

The company's effective tax rate was 27.9% and 20.3% in the first six months of 2004 and 2003, respectively. The effective tax rate in 2004 reflects a \$0.9 million benefit that arose upon completion of a reorganization of several European subsidiaries and was recorded as a discrete event in 2004. This tax benefit reduced the effective rate in 2004 by 0.7 percentage points. The effective tax rate in 2003 reflects a \$9.0 million tax benefit from the reversal of a valuation allowance due to expected utilization of foreign tax credit carryforwards that was recorded as a discrete event in the second quarter of 2003. The reversal of the valuation allowance reduced the effective rate in 2003 by 8.1 percentage points.

#### Discontinued Operations

The company's discontinued operations (Spectra-Physics) had revenues of \$112.4 million and \$94.7 million in the first six months of 2004 and 2003, respectively. Operating income of the discontinued operations was \$8.3 million in the first six months of 2004. The company's discontinued operations incurred operating losses of \$5.1 million in the first six months of 2003. The improvement in operating results resulted from a rebound in the demand for lasers and photonics from microelectronics customers and other industrial markets served by Spectra-Physics. As a result of the decision to sell Spectra-Physics, a previously unrecognized tax asset arising from the difference between the book and tax basis of Spectra-Physics became realizable and the company recorded a tax benefit in discontinued operations totaling \$38.5 million, or \$.23 per diluted share, in the second quarter of 2004.

## First Six Months 2004 Compared With First Six Months 2003 (continued)

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 Peter Brotherhood Ltd., and a favorable post-closing adjustment resulting from the 2002 sale of its Trophy Radiologie business.

## **Liquidity and Capital Resources**

#### First Six Months 2004

Consolidated working capital was \$717.2 million at July 3, 2004, compared with \$710.5 million at December 31, 2003. Included in working capital were cash, cash equivalents, and short-term available-for-sale investments of \$371.8 million at July 3, 2004, compared with \$418.2 million at December 31, 2003.

Cash provided by operating activities was \$105.0 million during the first six months of 2004, including \$95.1 million by continuing operations and \$9.9 million 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 \$9.4 million, net of taxes, in the first six months of 2004. Inventories increased \$25.7 million, due in part to increased production of mass spectrometry and spectroscopy instruments in response to higher demand for these products. Cash provided by discontinued operations of \$9.9 million principally represents the positive cash flow of Spectra-Physics, offset in part by the payment of liabilities for businesses sold prior to 2003, including settlement of litigation and lease payments on abandoned facilities.

In connection with restructuring actions undertaken by continuing operations, the company had accrued \$15.3 million for restructuring costs at July 3, 2004. The company expects to pay approximately \$4.5 million of this amount for severance primarily through 2005, and \$0.3 million for employee retention and other costs primarily through 2004. The balance of \$10.5 million will be paid for lease obligations over the remaining terms of the leases, with approximately two-thirds to be paid through 2005 and the remainder through 2016. In addition, at July 3, 2004, the company had accrued \$14.3 million for acquisition expenses. Accrued acquisition expenses included \$3.8 million of severance and relocation obligations, which the company expects to pay primarily through 2004. 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 2004, the primary investing activities of the company's continuing operations, excluding available-for-sale investment activities, included the acquisition of USCS for \$75.7 million, net of cash acquired (Note 2) and the purchase of property, plant, and equipment. The company expended \$18.7 million for purchases of property, plant, and equipment, net of dispositions. On July 16, 2004, the company sold Spectra-Physics to Newport Corporation for \$300 million, including \$200 million of cash proceeds. As a result of Newport assuming non-U.S. debt of Spectra-Physics which had earlier been expected to be retained by the company, approximately \$14 million will be paid by the company to Newport as part of the post-closing balance sheet adjustment (Note 12).

The company's financing activities used \$50.5 million of cash during the first six months of 2004. During the first six months of 2004, the company expended \$8.1 million to reduce short-term notes payable. The company received net proceeds of \$40.9 million from the exercise of employee stock options. During the first six months of 2004, the company expended \$82.0 million to repurchase 3.1 million shares of the company's common stock. As of July 3, 2004, \$40.5 million remained under an authorization by the company's Board of Directors to repurchase company securities through February 25, 2005. On July 22, 2004, the Board of Directors authorized an additional \$100 million to repurchase company securities through July 22, 2005.

The company has no material commitments for purchases of property, plant, and equipment and expects that for all of 2004, such expenditures will approximate \$55 - \$65 million. The company's contractual obligations and other commercial commitments did not change materially between December 31, 2003 and July 3, 2004.

### First Six Months 2004 (continued)

The company believes that its existing resources, including cash and investments, the cash proceeds from the sale of Spectra-Physics on July 16, 2004, 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.

#### First Six Months 2003

Cash provided by operating activities was \$66.1 million during the first six months of 2003, including \$62.0 million by continuing operations and \$4.1 million 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 \$16.5 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 \$24.0 million, including \$17.0 million of accrued payroll and employee benefits due to the timing of payments, offset in part by an increase in deferred revenue. Cash provided by discontinued operations of \$4.1 million principally represents the positive cash flow of Spectra-Physics, offset in part by the payment of liabilities for businesses sold prior to 2003, including settlement of litigation and lease payments on abandoned facilities.

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, and equipment and an acquisition. The company's continuing operations expended \$14.9 million for purchases of property, plant, and equipment, net of dispositions, and \$3.1 million for product line acquisitions. 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.

The company's financing activities used \$509.4 million of cash during the first six months of 2003, including \$504.7 million for continuing operations. During the first six months of 2003, the company's continuing operations expended \$380.9 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 \$146.2 million to reduce its debt and repurchase its equity securities, of which \$43.9 million was used to repurchase 2.4 million shares of the company's common stock.

#### 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 2003.

#### 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 July 3, 2004. Based on this evaluation, the company's chief executive officer and chief financial officer concluded that, as of July 3, 2004, 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 July 3, 2004 that have materially affected or are reasonably likely to materially affect the company's internal control over financial reporting.

## **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 2004 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. 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.

Our Measurement and Control segment sells products and services to a number of companies that operate in cyclical industries; downturns in those industries would adversely affect our results of operations. The growth and profitability of some of our businesses in the Measurement and Control segment depend in part on sales to industries that are subject to cyclical downturns. For example, certain businesses in this segment depend in part on sales to the steel, cement, and semiconductor industries. Slowdowns in these industries would adversely affect sales by these businesses, which in turn would adversely affect our revenues and results of operations.

Our business is impacted by general economic conditions and related uncertainties affecting markets in which we operate. Adverse economic conditions could adversely impact our business in 2004 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.

## 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 pharmaceutical and chemical companies, laboratories, universities, healthcare providers, government agencies, manufacturers of semiconductors and products incorporating semiconductors, 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, 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.

## Forward-looking Statements (continued)

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

We have retained contingent liabilities from businesses that we have sold. From 1997 through 2003, 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 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.

Our results could be impacted if we are unable to realize potential future benefits from new productivity initiatives. In addition to the real estate consolidations and cost-saving initiatives that we have pursued over the past three years, we are instituting practical process improvement (PPI) programs at our locations to further enhance our productivity, efficiency, and customer satisfaction. While we anticipate continued benefits from these PPI initiatives as well as our continuing sourcing activities, future benefits are expected to be fewer and smaller in size and may be more difficult to achieve

Our new branding strategy could be unsuccessful. 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. Our new marketing and branding strategy transitions multiple, unrelated brands to one brand, Thermo Electron. Several of our former brands such as Finnigan and Nicolet commanded strong market recognition and customer loyalty. We believe the transition to the one new brand enhances and strengthens our collective brand image and brand awareness across the entire company. Our success in promoting our brand depends on many factors, including effective communication of the transition to our customers, acceptance and recognition by customers of this new brand, and successful execution of the branding campaign by our marketing and sales teams. If we are not successful with this strategy, 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;
- developing new applications for our technologies;
- combining sales and marketing operations in appropriate markets to compete more effectively;
- allocating research and development funding to products with higher growth prospects;

## Forward-looking Statements (continued)

- continuing key customer initiatives;
- expanding our services offerings;
- strengthening our presence in selected geographic markets; and
- continuing the development of commercial tools and infrastructure to increase and support cross-selling opportunities of products and services to take advantage of our 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

As a multinational corporation, we are exposed to fluctuations in currency exchange rates, which could adversely affect our cash flows and results of operations. International revenues account for a substantial portion of our revenues, and we intend to continue expanding our presence in international markets. In 2003, our international revenues from continuing operations, including export revenues from the United States, accounted for approximately 69% of our total revenues. The exposure to fluctuations in currency exchange rates takes on different forms. International revenues are subject to the risk that fluctuations in exchange rates could 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. As a multinational corporation, our businesses occasionally invoice third-party customers in currencies other than the one in which they primarily do business (the "functional currency"). Movements in the invoiced currency relative to the functional currency could adversely impact our cash flows and our results of operations. In addition, reported sales made in non-U.S. currencies by our international businesses, when translated into U.S. dollars for financial reporting purposes, fluctuate due to exchange rate movement. Should our international sales grow, exposure to fluctuations in currency exchange rates could have a larger effect on our financial results. In the first six months of 2004, currency translation had a favorable effect on revenues of our continuing operations of \$46.9 million due to weakening of the U.S. dollar relative to other currencies in which the company sells products and services. A strengthening of the U.S. dollar would unfavorably affect revenues.

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

Moreover, we previously acquired several companies and businesses. As a result of these acquisitions, we recorded significant goodwill on our balance sheet, which amounts to approximately \$1.5 billion as of July 3, 2004. 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. If we are not able to realize the value of the goodwill, we may be required to incur material charges relating to the impairment of those assets.

## **PART II – OTHER INFORMATION**

## <u>Item 2 – Changes in Securities, Use of Proceeds, and Issuer Purchases of Equity Securities</u>

A summary of the share repurchase activity for the company's second quarter of 2004 follows:

				Total Number	Maximum
				of Shares	Dollar Amount
				Purchased	of Shares That
				as Part of	May Yet Be
	Total			Publicly	Purchased
	Number			Announced	Under the
	of Shares	Ave	rage Price	Plans or	Plans or
Period	Purchased	Paid	per Share	Programs (1)	Programs (1)(2)
April 4 – May 1	_	\$	_	_	\$100,000,000
May 2 – May 29	_		_	_	100,000,000
May 30 – July 3	2,002,100		29.72	2,002,100	40,501,200
Total Second Quarter	<u>2,002,100</u>	\$	29.72	<u>2,002,100</u>	<u>\$ 40,501,200</u>

- (1) On February 26, 2004, the company announced a repurchase program authorizing the purchase of up to \$100 million of the company's equity and debt securities in the open market or in negotiated transactions, which expires on February 25, 2005. All shares of the company's common stock repurchased by it during the second quarter of 2004 were purchased under this program.
- (2) As of July 22, 2004, the company had used substantially all of the remaining \$40.5 million under the program to repurchase shares of the company's common stock. On July 22, 2004, the company announced a new authorization for the purchase of up to \$100 million of the company's equity and debt securities in the open market or in negotiated transactions, which expires on July 22, 2005.

## <u>Item 4 – Submission of Matters to a Vote of Security Holders</u>

At the company's Annual Meeting of Stockholders held on May 18, 2004, the stockholders elected a class of three incumbent directors, Marijn E. Dekkers, Robert A. McCabe, and Robert W. O'Leary, to a three-year term expiring at the 2007 Annual Meeting of Stockholders. In addition, the stockholders ratified the selection by the Audit Committee of the company's Board of Directors of PricewaterhouseCoopers LLP as the company's independent auditors for the fiscal year ending December 31, 2004. The stockholders also voted against a stockholder proposal regarding performance and time-based restricted stock, as described in the company's definitive proxy statement for the company's 2004 Annual Meeting of Stockholders. The results of the votes for each of these proposals were as follows:

<u>Proposal 1</u> – Election of three directors constituting the class of directors to be elected for a three-year term expiring in 2007:

Nominee	For	Withheld
Marijn E. Dekkers	145,203,126	3,417,464
Robert A. McCabe	145,214,782	3,405,808
Robert W. O'Leary	145,213,738	3,406,852

No abstentions or broker non-votes were recorded on the proposal.

## <u>Item 4 – Submission of Matters to a Vote of Security Holders</u> (continued)

<u>Proposal 2</u> – Ratification of selection by the Audit Committee of the company's Board of Directors of PricewaterhouseCoopers LLP as the company's independent auditors for the fiscal year ending December 31, 2004:

For	Against	Abstained
145,443,136	2,303,252	874,202

No broker non-votes were recorded on the proposal.

<u>Proposal 3</u> – Stockholder proposal regarding performance and time-based restricted stock:

For	Against	Abstained
6,437,846	124,860,998	1,932,810

15,388,936 broker non-votes were recorded on the proposal.

## <u>Item 6 – Exhibits and Reports on Form 8-K</u>

## (a) Exhibits

See Exhibit Index on the page immediately preceding exhibits.

## (b) Report on Form 8-K

On April 28, 2004, the company furnished a Current Report on Form 8-K with respect to the company's financial results for the quarter ended April 3, 2004.

On June 2, 2004, the company furnished a Current Report on Form 8-K with respect to the company's sale of its Spectra-Physics business.

#### **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 9th day of August 2004.

## 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

## **EXHIBIT INDEX**

Exhibit Number	Description
	*
10.1	Restricted Stock Agreement dated June 2, 2004, by and between Thermo Electron Corporation and Mr. Seth Hoogasian.
31.1	Certification of Chief Executive Officer required by Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer required by Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer required by Exchange Act Rules 13a-14(b) and 15d-14(b), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of Chief Financial Officer required by Exchange Act Rules 13a-14(b) and 15d-14(b), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

<sup>\*</sup>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.