

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File Number 001-5075

PerkinElmer, Inc.

(Exact name of Registrant as specified in its Charter)

Massachusetts
(State or other jurisdiction of
incorporation or organization)

04-2052042
(I.R.S. Employer
Identification No.)

940 Winter Street
Waltham, Massachusetts 02451
(Address of principal executive offices) (Zip code)
(781) 663-6900
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark whether the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 1, 2018, there were outstanding 111,239,214 shares of common stock, \$1 par value per share.

TABLE OF CONTENTS

	<u>Page</u>
PART I. FINANCIAL INFORMATION	
Item 1.	Unaudited Financial Statements 3
	Condensed Consolidated Statements of Operations 3
	Condensed Consolidated Statements of Comprehensive Income 4
	Condensed Consolidated Balance Sheets 5
	Condensed Consolidated Statements of Cash Flows 6
	Notes to Condensed Consolidated Financial Statements 7
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations 44
	Overview 44
	Critical Accounting Policies and Estimates 45
	Consolidated Results of Continuing Operations 45
	Reporting Segment Results of Continuing Operations 51
	Liquidity and Capital Resources 53
	Dividends 57
	Contractual Obligations 57
	Effects of Recently Adopted and Issued Accounting Pronouncements 57
Item 3.	Quantitative and Qualitative Disclosures About Market Risk 59
Item 4.	Controls and Procedures 60
PART II. OTHER INFORMATION	
Item 1.	Legal Proceedings 61
Item 1A.	Risk Factors 61
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds 68
Item 6.	Exhibits 69
	Signatures 70

PART I. FINANCIAL INFORMATION

Item 1. Unaudited Financial Statements

PERKINELMER, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(In thousands, except per share data)			
Product revenue	\$ 474,523	\$ 354,819	\$ 1,417,739	\$ 1,043,534
Service revenue	199,790	199,456	603,908	571,818
Total revenue	674,313	554,275	2,021,647	1,615,352
Cost of product revenue	213,672	165,015	663,651	501,079
Cost of service revenue	128,314	120,293	393,307	347,948
Total cost of revenue	341,986	285,308	1,056,958	849,027
Selling, general and administrative expenses	196,769	152,775	601,374	449,642
Research and development expenses	48,848	34,885	142,028	101,731
Restructuring and contract termination charges, net	6,508	3,269	13,086	12,920
Operating income from continuing operations	80,202	78,038	208,201	202,032
Interest and other expense, net	2,161	(27,016)	29,947	(13,797)
Income from continuing operations before income taxes	78,041	105,054	178,254	215,829
Provision for income taxes	2,596	8,508	12,101	20,495
Income from continuing operations	75,445	96,546	166,153	195,334
Income from discontinued operations before income taxes	—	—	—	650
(Loss) gain on disposition of discontinued operations before income taxes	(308)	(206)	(859)	180,171
(Benefit from) provision for income taxes on discontinued operations and dispositions	(1,411)	5,262	(1,341)	42,405
Gain (loss) from discontinued operations and dispositions	1,103	(5,468)	482	138,416
Net income	\$ 76,548	\$ 91,078	\$ 166,635	\$ 333,750
Basic earnings per share:				
Income from continuing operations	\$ 0.68	\$ 0.88	\$ 1.50	\$ 1.78
Gain (loss) from discontinued operations and dispositions	0.01	(0.05)	0.00	1.26
Net income	<u>\$ 0.69</u>	<u>\$ 0.83</u>	<u>\$ 1.51</u>	<u>\$ 3.04</u>
Diluted earnings per share:				
Income from continuing operations	\$ 0.68	\$ 0.87	\$ 1.49	\$ 1.77
Gain (loss) from discontinued operations and dispositions	0.01	(0.05)	0.00	1.25
Net income	<u>\$ 0.69</u>	<u>\$ 0.82</u>	<u>\$ 1.49</u>	<u>\$ 3.02</u>
Weighted average shares of common stock outstanding:				
Basic	110,724	110,003	110,499	109,788
Diluted	111,747	110,993	111,510	110,653
Cash dividends declared per common share	\$ 0.07	\$ 0.07	\$ 0.21	\$ 0.21

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

PERKINELMER, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(In thousands)			
Net income	\$ 76,548	\$ 91,078	\$ 166,635	\$ 333,750
Other comprehensive income:				
Foreign currency translation adjustments	(30,105)	9,805	(114,198)	47,205
Unrealized gains on securities, net of tax	23	47	68	81
Other comprehensive (loss) income	(30,082)	9,852	(114,130)	47,286
Comprehensive income	\$ 46,466	\$ 100,930	\$ 52,505	\$ 381,036

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

PERKINELMER, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2018	December 31, 2017
	(In thousands, except share and per share data)	
Current assets:		
Cash and cash equivalents	\$ 149,513	\$ 202,134
Accounts receivable, net	551,385	552,304
Inventories	354,244	351,675
Other current assets	110,353	93,842
Total current assets	1,165,495	1,199,955
Property, plant and equipment:		
At cost	724,053	630,919
Accumulated depreciation	(407,004)	(332,853)
Property, plant and equipment, net	317,049	298,066
Intangible assets, net	1,223,775	1,346,940
Goodwill	2,920,689	3,002,198
Other assets, net	235,347	244,304
Total assets	\$ 5,862,355	\$ 6,091,463
Current liabilities:		
Current portion of long-term debt	\$ 20,072	\$ 217,306
Accounts payable	180,693	222,093
Accrued restructuring and contract termination charges	8,079	8,759
Accrued expenses and other current liabilities	475,743	500,642
Current liabilities of discontinued operations	2,165	2,102
Total current liabilities	686,752	950,902
Long-term debt	1,882,502	1,788,803
Long-term liabilities	720,632	848,570
Total liabilities	3,289,886	3,588,275
Commitments and contingencies (see Note 20)		
Stockholders' equity:		
Preferred stock—\$1 par value per share, authorized 1,000,000 shares; none issued or outstanding	—	—
Common stock—\$1 par value per share, authorized 300,000,000 shares; issued and outstanding 111,087,000 shares and 110,361,000 shares at September 30, 2018 and at December 31, 2017, respectively	111,087	110,361
Capital in excess of par value	89,970	58,828
Retained earnings	2,532,060	2,380,517
Accumulated other comprehensive loss	(160,648)	(46,518)
Total stockholders' equity	2,572,469	2,503,188
Total liabilities and stockholders' equity	\$ 5,862,355	\$ 6,091,463

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

PERKINELMER, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended	
	September 30, 2018	October 1, 2017
(In thousands)		
Operating activities:		
Net income	\$ 166,635	\$ 333,750
Gain from discontinued operations and dispositions, net of income taxes	(482)	(138,416)
Income from continuing operations	166,153	195,334
Adjustments to reconcile income from continuing operations to net cash provided by continuing operations:		
Stock-based compensation	23,275	16,179
Restructuring and contract termination charges, net	13,086	12,920
Depreciation and amortization	133,386	75,507
(Gain) loss on disposition of businesses and assets, net	(13,031)	301
Gain on sale of investments, net	(557)	—
Change in fair value of contingent consideration	10,804	1,560
Amortization of deferred debt financing costs and accretion of discount	2,454	1,936
Amortization of acquired inventory revaluation	18,160	4,240
Changes in assets and liabilities which provided (used) cash, excluding effects from companies acquired:		
Accounts receivable, net	(12,670)	10,971
Inventories	(41,313)	(25,208)
Accounts payable	(36,587)	(12,459)
Accrued expenses and other	(111,341)	(116,118)
Net cash provided by operating activities of continuing operations	151,819	165,163
Net cash used in operating activities of discontinued operations	(200)	(4,806)
Net cash provided by operating activities	151,619	160,357
Investing activities:		
Capital expenditures	(60,443)	(22,362)
Settlement of cash flow hedges	—	60,420
Proceeds from disposition of businesses and assets	38,027	—
Purchases of investments	(5,500)	—
Proceeds from surrender of life insurance policies	72	45
Activity related to acquisitions, net of cash and cash equivalents acquired	(44,057)	(123,578)
Net cash used in investing activities of continuing operations	(71,901)	(85,475)
Net cash provided by investing activities of discontinued operations	—	272,779
Net cash (used in) provided by investing activities	(71,901)	187,304
Financing activities:		
Payments on borrowings	(1,019,000)	(146,965)
Proceeds from borrowings	605,000	146,952
Proceeds from sale of senior debt	369,340	—
Payments of debt financing costs	(2,634)	—
Settlement of cash flow hedges	(30,285)	(11,539)
Net payments on other credit facilities	(22,871)	(872)
Payments for acquisition-related contingent consideration	(12,800)	(8,940)
Proceeds from issuance of common stock under stock plans	19,484	14,004
Purchases of common stock	(4,974)	(3,480)
Dividends paid	(23,222)	(23,077)
Net cash used in financing activities of continuing operations	(121,962)	(33,917)
Net cash used in financing activities of discontinued operations	—	(533)
Net cash used in financing activities	(121,962)	(34,450)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(7,410)	19,945
Net (decrease) increase in cash, cash equivalents and restricted cash	(49,654)	333,156
Cash, cash equivalents and restricted cash at beginning of period	202,371	376,568
Cash, cash equivalents and restricted cash at end of period	\$ 152,717	\$ 709,724

Supplemental disclosures of cash flow information

Reconciliation of cash, cash equivalents and restricted cash reported within the condensed consolidated balance sheets that sum to the total shown in the condensed consolidated statements of cash flows:

Cash and cash equivalents	149,513	709,488
Restricted cash included in other current assets	3,204	236
Total cash, cash equivalents and restricted cash shown in the condensed consolidated statements of cash flows	<u>\$ 152,717</u>	<u>\$ 709,724</u>

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

PERKINELMER, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by PerkinElmer, Inc. (the "Company"), in accordance with accounting principles generally accepted in the United States of America (the "U.S." or the "United States") and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information in the footnote disclosures of the financial statements has been condensed or omitted where it substantially duplicates information provided in the Company's latest audited consolidated financial statements, in accordance with the rules and regulations of the SEC. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC (the "2017 Form 10-K"). The balance sheet amounts at December 31, 2017 in this report were derived from the Company's audited 2017 consolidated financial statements included in the 2017 Form 10-K. The condensed consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary to present fairly the Company's financial position, results of operations and cash flows for the periods indicated. The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts and classifications of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The results of operations for the three and nine months ended September 30, 2018 and October 1, 2017, respectively, are not necessarily indicative of the results for the entire fiscal year or any future period.

The Company's fiscal year ends on the Sunday nearest December 31. The Company reports fiscal years under a 52/53 week format and as a result, certain fiscal years will contain 53 weeks. The fiscal year ending December 30, 2018 ("fiscal year 2018") will include 52 weeks, and the fiscal year ended December 31, 2017 ("fiscal year 2017") included 52 weeks.

Recently Adopted and Issued Accounting Pronouncements: From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (the "FASB") and are adopted by the Company as of the specified effective dates. Unless otherwise discussed, such pronouncements did not have or will not have a significant impact on the Company's consolidated financial position, results of operations and cash flows or do not apply to the Company's operations.

In August 2018, the FASB issued Accounting Standards Update No. 2018-15, *Intangibles-Goodwill and Other- Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract* ("ASU 2018-15"). ASU 2018-15 aligns the accounting for implementation costs incurred in a hosting arrangement that is a service contract with the guidance on capitalizing costs associated with developing or obtaining internal-use software (and hosting arrangements that include an internal use software license). Specifically, ASU 2018-15 amends *Intangibles-Goodwill and Other (Topic 350)* to include in its scope implementation costs incurred in a hosting arrangement that is a service contract and clarifies that a customer should apply *Subtopic 350-40* to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The provisions of this guidance are to be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. ASU 2018-15 is effective for annual reporting periods beginning after December 15, 2019, and interim periods within those years with early adoption permitted. The Company is currently evaluating the requirements of this guidance and has not yet determined the impact of its adoption on the Company's consolidated financial position, results of operations and cash flows.

In August 2018, the FASB issued Accounting Standards Update No. 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans* ("ASU 2018-14"). ASU 2018-14 adds, removes, and clarifies disclosure requirements related to defined benefit pension and other postretirement plans. ASU 2018-14 adds requirements for an entity to disclose the weighted-average interest crediting rates used in the entity's cash balance pension plans and other similar plans; and an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. Further, ASU 2018-14 removes guidance that currently requires the following disclosures: the amounts in accumulated other comprehensive income expected to be recognized as part of net periodic benefit cost over the next year; the amount and timing of plan assets expected to be returned to the employer; information about (1) benefits covered by related-party insurance and annuity contracts and (2) significant transactions between the plan and related parties; and the effects of a one-percentage-point change on the assumed health care costs and the effect of this change in rates on service cost, interest cost, and the benefit obligation for postretirement health care benefits. ASU 2018-14 also clarifies the guidance in *Compensation-Retirement Benefits (Topic 715-20-50-3)* on defined benefit plans to require disclosure of (1) the projected benefit obligation ("PBO") and fair value of plan assets for pension plans with PBOs in excess of plan assets (the same disclosure with reference to the accumulated postretirement benefit

[Table of Contents](#)

obligation rather than the PBO is required for other postretirement benefit plans) and (2) the accumulated benefit obligation ("ABO") and fair value of plan assets for pension plans with ABOs in excess of plan assets. The provisions of this guidance are to be applied retrospectively to all periods presented upon their effective date. ASU 2018-14 is effective for annual reporting periods beginning after December 15, 2020, and interim periods within those years with early adoption permitted. The Company is currently evaluating the requirements of this guidance and has not yet determined the impact of its adoption on the Company's consolidated financial position, results of operations and cash flows.

In August 2018, the FASB issued Accounting Standards Update No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). ASU 2018-13 adds, removes, and modifies certain disclosures related to fair value measurements. ASU 2018-13 adds requirements for an entity to disclose the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. Further, ASU 2018-13 removes the requirement to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; and the valuation processes for Level 3 fair value measurements. ASU 2018-13 also modifies existing disclosure requirements related to measurement uncertainty. The amendments regarding changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty are to be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments are to be applied retrospectively to all periods presented upon their effective date. ASU 2018-13 is effective for annual reporting periods beginning after December 15, 2019, and interim periods within those years. Early adoption is permitted for any removed or modified disclosures. The Company is currently evaluating the requirements of this guidance and has not yet determined the impact of its adoption on the Company's consolidated financial position, results of operations and cash flows.

In June 2018, the FASB issued Accounting Standards Update No. 2018-07, *Compensation - Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting* ("ASU 2018-07") which supersedes Subtopic 505-50, *Equity - Equity-Based Payments to Non-employees*, and expands the scope of Topic 718 (which currently only includes share-based payments to employees) to also include share-based payments issued to non-employees for goods and services, except for specific guidance on inputs to an option pricing model and the attribution of cost (that is, the period of time over which share-based payment awards vest and the pattern of cost recognition over that period). ASU 2018-07 specifies that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards, except for financing transactions, or awards issued to customers as part of a contract accounted for under Topic 606, *Revenue from Contracts with Customers* ("Topic 606"). The provisions of this guidance are to be applied using a modified retrospective approach, with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year, for all (1) liability-classified non-employee awards that have not been settled as of the adoption date and (2) equity-classified non-employee awards for which a measurement date has not been established. ASU 2018-07 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted, but no earlier than a company's adoption date of Topic 606. The Company early adopted the provisions of this guidance effective July 2, 2018. The adoption did not have a material impact on the Company's consolidated financial position, results of operations and cash flow.

In March 2018, the FASB Issued Accounting Standards Update No. 2018-05, *Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118* ("ASU 2018-05"). ASU 2018-05 was issued to incorporate into Topic 740 recent SEC guidance related to the income tax accounting implications of the Tax Cut and Jobs Act (the "Tax Act"). The SEC issued Staff Accounting Bulletin No. 118 ("SAB 118") to address concerns about reporting entities' ability to timely comply with the accounting requirements to recognize all of the effects of the Tax Act in the period of enactment. SAB 118 permits companies to disclose that some or all of the income tax effects from the Tax Act are incomplete by the due date of the financial statements, and if possible, disclose a reasonable estimate of such tax effects. ASU 2018-05 is effective immediately. The Company is applying the guidance in ASU 2018-05 when accounting for the enactment date effects of the Tax Act. At September 30, 2018, the Company has not completed the accounting for all of the tax effects of the Tax Act; however, it has made a reasonable estimate of their effects based on currently available information. Management will continue to refine the calculations as additional guidance is available. These estimates may be affected as additional clarification and implementation guidance becomes available. These changes could be material to income tax expense (see Note 9, *Income Taxes* for further disclosures).

In February 2018, the FASB Issued Accounting Standards Update No. 2018-03, *Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2018-03"). ASU 2018-03 was issued to clarify certain aspects of guidance concerning the recognition of financial assets and liabilities established in Accounting Standards Update No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). This

[Table of Contents](#)

includes treatment for discontinuations and adjustments for equity securities without a readily determinable market value, forward contracts and purchased options, presentation requirements for certain fair value option liabilities, fair value option liabilities denominated in a foreign currency, and transition guidance for equity securities without a readily determinable fair value. ASU 2018-03 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. Early adoption is permitted for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, as long as the Company has adopted ASU 2016-01. The Company adopted the provisions of this guidance effective July 2, 2018. The adoption did not have a material impact on the Company's consolidated financial position, results of operations and cash flows.

In February 2018, the FASB Issued Accounting Standards Update No. 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* ("ASU 2018-02"). ASU 2018-02 provides entities with an option to reclassify stranded tax effects within Accumulated Other Comprehensive Income ("AOCI") to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act (or portion thereof) is recorded. ASU 2018-02 requires entities to disclose a description of the accounting policy for releasing income tax effects from AOCI; whether they elect to reclassify the stranded income tax effects from the Tax Act; and information about the other income tax effects that are reclassified. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, and entities should apply the proposed amendments either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. The Company is currently evaluating the requirements of this guidance and has not yet determined the impact of its adoption on the Company's consolidated financial position, results of operations and cash flows.

In August 2017, the FASB issued Accounting Standards Update No. 2017-12, *Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities* ("ASU 2017-12"), which amends the hedge accounting recognition and presentation requirements in Topic 815. ASU 2017-12 makes targeted changes to the existing hedge accounting model to better align an entity's financial reporting for hedging relationships with the entity's risk management activities, and to reduce the complexity of, and simplify the application of, the hedge accounting model. Specifically, ASU 2017-12 expands the types of transactions eligible for hedge accounting, eliminates the requirement to separately measure and present hedge ineffectiveness, simplifies the way assessments of hedge ineffectiveness may be performed, relaxes the documentation requirements for entering into hedging positions, provides targeted improvements to fair value hedges of interest rate risk, and permits an entity to exclude the change in the fair value of cross-currency basis spreads in currency swaps from the assessment of hedge effectiveness. The standard also requires entities to provide new disclosures about the impact fair value and cash flow hedges have on their income statements and about cumulative basis adjustments arising from fair value hedges. The provisions of this guidance are to be applied using a modified retrospective approach to existing hedging relationships as of the adoption date. However, the transition provisions allow for certain elections at the date of adoption and entities may choose to apply any of the provided elections. ASU 2017-12 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted, including adoption in any interim period. The Company early adopted the provisions of this guidance effective January 1, 2018. The adoption did not have a material impact on the Company's consolidated financial position, results of operations and cash flows.

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, *Compensation - Stock Compensation (Topic 718), Scope of Modification Accounting* ("ASU 2017-09"), which amends the scope of modification accounting for share-based payment arrangements. ASU 2017-09 provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under Topic 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. If an entity modifies its awards and concludes that it is not required to apply modification accounting under the standard, it must still consider whether the modification affects its application of other guidance. Additionally, if a significant modification does not result in incremental compensation cost, entities are required to disclose the "lack of" incremental compensation cost resulting from such significant modification. The standard also removes the guidance in Topic 718 stating that modification accounting is not required when an entity adds an antidilution provision as long as that modification is not made in contemplation of an equity restructuring. The provisions of this guidance are to be applied on a prospective basis to awards modified on or after the effective date. ASU 2017-09 is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those years. Early adoption is permitted, including adoption in any interim period. The Company adopted ASU 2017-09 effective January 1, 2018. The adoption did not have a material impact on the Company's consolidated financial position, results of operations and cash flows.

In March 2017, the FASB issued Accounting Standards Update No. 2017-07, *Compensation - Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* ("ASU 2017-07"), which amends the requirements in Topic 715 related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. ASU 2017-07 requires entities to

[Table of Contents](#)

(1) disaggregate the current-service-cost component from the other components of net benefit cost (the “other components”) and present it with other current employee compensation costs in their income statements and (2) present the other components elsewhere in their income statements and outside of income from operations, and disclose the income statement lines that contain the other components if they are not presented on appropriately described separate lines. Additionally, the standard requires that only the service-cost component of net benefit cost is eligible for capitalization (e.g., as part of inventory or property, plant, and equipment). The change in income statement presentation requires retrospective application, while the change in capitalized benefit cost is to be applied prospectively. ASU 2017-07 is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those years, with early adoption permitted. The standard provides a practical expedient that permits entities to use the components of cost disclosed in prior years as a basis for the retrospective application of the new income statement presentation. Entities need to disclose the use of the practical expedient. The Company adopted ASU 2017-07 effective January 1, 2018 using a retrospective approach for each period presented. For the three and nine months ended October 1, 2017, \$1.8 million and \$5.4 million, respectively, of net periodic pension credit previously presented within operating income has been presented outside of operating income in the line item "Interest and other expense, net" in the condensed consolidated statement of operations due to the retrospective adoption of ASU 2017-07. The adoption did not have a material impact on the Company's consolidated financial position, results of operations and cash flows, other than the impact discussed above.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, *Business Combinations (Topic 805), Clarifying the Definition of a Business* ("ASU 2017-01"), which amends Topic 805 to provide a screen to determine when a set of assets and liabilities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. If the screen is not met, the standard (1) requires that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) removes the evaluation of whether a market participant could replace missing elements. The standard provides a framework to assist entities in evaluating whether both an input and a substantive process are present. The standard also provides a framework that includes two sets of criteria to consider that depend on whether a set has outputs and a more stringent criteria for sets without outputs. Lastly, the standard narrows the definition of the term "output" so that the term is consistent with how outputs are described in Topic 606, *Revenue from Contracts with Customers*. The provisions of this guidance are to be applied prospectively. ASU 2017-01 is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those years, with early adoption permitted in limited circumstances. The Company adopted ASU 2017-01 effective January 1, 2018. The adoption did not have a material impact on the Company's consolidated financial position, results of operations and cash flows.

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash* ("ASU 2016-18"), which amends Topic 230 to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. The standard requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of this guidance are to be applied using a retrospective transition method to each period presented. ASU 2016-18 is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those years, with early adoption permitted. The Company adopted ASU 2016-18 effective January 1, 2018. For the nine months ended October 1, 2017, \$17.2 million of changes in restricted cash balances that was previously presented within investing activities in the condensed consolidated statement of cash flows has been excluded from the cash flows used in investing activities and the effect of exchange rate changes increased by \$0.2 million due to the retrospective adoption of ASU 2016-18. Restricted cash amounting to \$17.3 million and \$0.2 million at January 1, 2017 and October 1, 2017, respectively, have been included with the cash and cash equivalents when reconciling the beginning of period and end of period total amounts on the condensed consolidated statement of cash flows for the nine months ended October 1, 2017. The adoption did not have a material impact on the Company's consolidated financial position, results of operations and cash flows, other than the impact discussed above.

In October 2016, the FASB issued Accounting Standards Update No. 2016-16, *Income Taxes (Topic 740), Intra-entity Transfer of Assets Other than Inventory* ("ASU 2016-16"). ASU 2016-16 removes the prohibition in Topic 740 against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. The standard requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The provisions of this guidance are to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. ASU 2016-16 is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those years, with early adoption permitted. The Company adopted ASU 2016-16 on January 1, 2018. The adoption of the standard resulted in a

[Table of Contents](#)

decrease in the retained earnings at January 1, 2018 of approximately \$2.0 million with corresponding increase in deferred tax assets of \$10.7 million and decrease in prepaid taxes of \$12.8 million related to prior years' intra-entity transfers of assets other than inventory. The adoption did not have a material impact on the Company's consolidated financial position, results of operations and cash flows, other than the impact discussed above.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard requires entities to use the expected loss impairment model and will apply to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities, net investments in leases and off-balance sheet credit exposures. Entities are required to estimate the lifetime "expected credit loss" for each applicable financial asset and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The standard also amends the impairment model for available-for-sale ("AFS") debt securities and requires entities to determine whether all or a portion of the unrealized loss on an AFS debt security is a credit loss. An entity will recognize an allowance for credit losses on an AFS debt security as a contra-account to the amortized cost basis rather than as a direct reduction of the amortized cost basis of the investment. The provisions of this guidance are to be applied using a modified-retrospective approach. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2019, and interim periods within those years. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods therein. The Company is currently evaluating the requirements of this guidance and has not yet determined the impact of its adoption on the Company's consolidated financial position, results of operations and cash flows.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases* ("ASU 2016-02"). ASU 2016-02 requires organizations that lease assets to recognize assets and liabilities on the balance sheet related to the rights and obligations created by those leases, regardless of whether they are classified as finance or operating leases. Consistent with current guidance, the recognition, measurement, and presentation of expenses and cash flows arising from a lease of assets will primarily depend on its classification as a finance or operating lease. ASU 2016-02 also requires new disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The provisions of this guidance are effective for annual periods beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. ASU 2016-02 is to be applied using a modified retrospective approach. Subsequent to the issuance of ASU 2016-02, in July 2018, the FASB issued Accounting Standards Update No. 2018-10, *Codification Improvements to Topic 842, Leases* ("ASU 2018-10") and Accounting Standards Update No. 2018-11, *Leases (Topic 842): Targeted Improvements* ("ASU 2018-11"). The amendments in ASU 2018-10 clarify, correct or remove inconsistencies in the guidance provided under ASU 2016-02 related to sixteen specific issues identified. The amendments in ASU 2018-11 provide entities with an additional (and optional) transition method to adopt the new leases standard. Under the new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in the period of adoption will continue to be in accordance with ASC 840, *Leases ("ASC 840")*. An entity that elects this additional (and optional) transition method must provide the required disclosures under ASC 840 for all periods that continue to be in accordance with ASC 840. ASU 2018-11 also provides lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component and, instead, to account for those components as a single component if certain criteria are met. The effective date and transition requirements for these two standards are the same as the effective date and transition requirements of ASU 2016-02. The Company is in the process of completing its evaluation of the impact of the new leases standard upon adoption and has not yet determined the impact of adoption on its consolidated financial position, results of operations and cash flows. The Company intends to adopt the new leases standard using the optional transition method and will apply the new leases standard on December 31, 2018 (the first day of fiscal year 2019).

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). Under this new guidance, an entity should use a five-step process to recognize revenue, depicting the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also requires new disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Subsequent to the issuance of the standard, the FASB decided to defer the effective date for one year to annual reporting periods beginning after December 15, 2017, with early adoption permitted for annual reporting periods beginning after December 15, 2016. In November 2017, the FASB also issued Accounting Standards Update No. 2017-14, *Income Statement-Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606)*. ASU 2017-14 includes amendments to certain SEC paragraphs within the FASB Accounting Standards Codification ("Codification"). ASU 2017-14

[Table of Contents](#)

amends the Codification to incorporate SEC Staff Accounting Bulletin No. 116 and SEC Interpretive Release on Vaccines for Federal Government Stockpiles (SEC Release No. 33-10403) to align existing SEC staff guidance with Revenue from Contracts with Customers (Topic 606). In May 2016, the FASB also issued Accounting Standards Update No. 2016-12, *Revenue from Contracts with Customers (Topic 606), Narrow-Scope Improvements and Practical Expedients* ("ASU 2016-12"), which amended its revenue recognition guidance in ASU 2014-09 on transition, collectability, non-cash consideration, contract modifications and completed contracts at transition and the presentation of sales and other similar taxes collected from customers. In April 2016, the FASB also issued Accounting Standards Update No. 2016-10, *Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing* ("ASU 2016-10"), which amended its revenue recognition guidance in ASU 2014-09 on identifying performance obligations to allow entities to disregard items that are immaterial in the context of the contract, clarify when a promised good or service is separately identifiable (i.e., distinct within the context of the contract) and allow an entity to elect to account for the cost of shipping and handling performed after control of a good has been transferred to the customer as a fulfillment cost (i.e., an expense). ASU 2016-10 also clarifies how an entity should evaluate the nature of its promise in granting a license of intellectual property ("IP") and requires entities to classify IP in one of two categories: functional IP or symbolic IP, which will determine whether it recognizes revenue over time or at a point in time. ASU 2016-10 also addresses how entities should consider license renewals and restrictions and apply the exception for sales- and usage-based royalties received in exchange for licenses of IP. In March 2016, the FASB also issued Accounting Standards Update No. 2016-08, *Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* ("ASU 2016-08"), which amended the principal-versus-agent implementation guidance and illustrations in ASU 2014-09. ASU 2016-08 clarifies that an entity should evaluate when it is the principal or agent for each specified good or service promised in a contract with a customer. ASU 2017-14, ASU 2016-12, ASU 2016-10, ASU 2016-08 and ASU 2014-09 may be adopted either using a full retrospective approach or a modified retrospective approach. The Company adopted these standards beginning on January 1, 2018 using the modified retrospective approach only to contracts not completed as of January 1, 2018.

The most significant impact of the standards relates to the accounting for certain transactions with multiple elements or "bundled" arrangements. Specifically, for sales of software subscriptions or sales of licenses and maintenance, the Company will recognize the license revenue predominantly at the time of billing and delivery rather than recognizing the entire sales price ratably over the maintenance period, which is the Company's current practice. In addition, for certain sales of instruments that include customer-specified acceptance criteria, the Company will recognize revenue when the customer obtains control of the instrument which is typically upon delivery or when title has transferred to the customer, as the Company believes acceptance is perfunctory. The Company will also capitalize incremental commission fees as a result of obtaining contracts when these fees are recoverable and will amortize the assets based on the transfer of goods or services to which the assets relate which typically range from two to six years. The adoption of the standards resulted in an increase in retained earnings at January 1, 2018 of approximately \$10.2 million for the cumulative effect of initially applying the standards as of that date. In addition, the adoption of the standards resulted primarily in a reduction in deferred revenue of approximately \$11.5 million, mainly driven by the upfront recognition of license revenue and certain multi-year software subscriptions, and an increase in deferred income tax liability of approximately \$3.0 million for the tax impact of the cumulative adjustments. The cumulative effect of recognizing instrument sales upon delivery or transfer of title and capitalizing the incremental commission fees were not material at January 1, 2018. The adoption of the standards had no impact to cash from or used in operating, investing, or financing activities in the Company's consolidated statement of cash flows at January 1, 2018. Refer to Note 3, *Changes in Accounting Policies*, for the impact of adoption of the standards on the Company's condensed consolidated financial statements for the quarter ended September 30, 2018. Also refer to Note 2, *Revenue*, for the disclosures required by the standards.

Note 2: Revenue

Significant accounting policy

The Company enters into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. The Company recognizes revenue in an amount that reflects the consideration the Company expects to receive in exchange for the promised products or services when it satisfies a performance obligation by transferring control of those products or services to customers.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue.

The Company reports shipping and handling charges in revenue, to the extent these are billed to customers, and the associated costs in cost of product revenue.

[Table of Contents](#)

Nature of goods and services

The following is a description of principal activities - separated by reportable segments - from which the Company generates its revenue. For more detailed information about the reportable segments, see Note 12.

i. Discovery & Analytical Solutions

The Discovery & Analytical Solutions ("DAS") segment of the Company principally generates revenue from (a) sales of instruments, consumables and services in the applied markets, (b) sales of instruments, reagents, informatics, detection and imaging technologies, extended warranty, training and services in the life sciences market. Products and services may be sold separately or in bundled packages. The typical length of a contract for service is 12 to 36 months.

For bundled packages, the Company accounts for individual products and services separately if they are distinct - i.e. if a product or service is separately identifiable from other items in the bundled package and if a customer can benefit from it on its own or with other resources that are readily available to the customer. The consideration (including any discounts) is allocated between separate products and services in a bundle based on their stand-alone selling prices. The stand-alone selling prices are determined based on the prices at which the Company separately sells the products, extended warranties, and services. For items that are not sold separately, the Company estimates stand-alone selling prices by reference to the amount charged for similar items on a stand-alone basis.

The Company sells products and services predominantly through its direct sales force. As a result, the use of distributors is generally limited to geographic regions where the Company has no direct sales force. The Company does not offer product return or exchange rights (other than those relating to defective goods under warranty) or price protection allowances to its customers, including distributors. Payment terms granted to distributors are the same as those granted to end-customers and payments are not dependent upon the distributor's receipt of payment from their end-user customers.

In instances where the timing of revenue recognition differs from the timing of invoicing, the Company determined that the contracts generally do not include a significant financing component. The primary purpose of its invoicing terms is to provide customers with simplified and predictable ways of purchasing products and services, rather than to receive financing from the customers or to provide customers with financing. Examples include invoicing at the beginning of a subscription term with revenue recognized ratably over the contract period, and multi-year software licenses or software subscriptions that are invoiced annually with revenue recognized upfront. In limited circumstances where the Company provides the customer with a significant benefit of financing, the Company uses the practical expedient and only adjusts the transaction price for the effects of the time value of money and only on contracts where the duration of financing is more than one year.

Products and services	Nature, timing of satisfaction of performance obligations, and significant payment terms
Instruments	For instruments that include installation, and if the installation meets the criteria to be considered a separate performance obligation, product revenue is generally recognized upon delivery or when title has transferred to the customer, which is generally the point in time where control of the products has been transferred to customers, and installation revenue is recognized when the installation is complete. Certain of the Company's products require specialized installation and configuration at the customer's site. Revenue for these products is deferred until installation is complete and customer acceptance has been received. Payment terms and conditions vary, although terms generally include a requirement of payment within 30 to 60 days.
Consumables and reagents	The Company recognizes revenue from the sale of consumables and reagents upon delivery or when title has transferred to the customer, which is generally the point in time where control of the products has been transferred to customers. Payment terms and conditions vary, although terms generally include a requirement of payment within 30 days.
Software licenses and subscriptions	<p>Customers may purchase perpetual or term licenses, or subscribe to licenses, which provide customers with the same functionality and differ mainly in the duration over which the customer benefits from the software.</p> <p>The Company sells its software subscriptions or software licenses with maintenance services and, in some cases, with consulting services. The Company recognizes revenue for the software upfront at the point in time when the software is made available to the customer. For maintenance and consulting services, revenue is recognized ratably over the period in which the services are provided. Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 to 60 days. Software subscriptions and maintenance service contracts are non-cancelable.</p>
Cloud services	Cloud services, which allow customers to use hosted software over the contract period without taking possession of the software, are provided on either a subscription or consumption basis. Revenue related to cloud services provided on a subscription basis is recognized ratably over the contract period. Revenue related to cloud services provided on a consumption basis, such as the amount of storage used in a period, is recognized based on the customer utilization of such resources. Payment terms are generally net 30 days from signing of contract and contracts are non-cancelable.
Extended warranty	The Company recognizes revenue for extended warranties on a straight-line basis over the extended warranty period in service revenue. In the majority of countries in which the Company operates, the customary warranty period is one year and the extended warranty covers periods beyond year one. Customers typically pay for extended warranties on an annual basis over the term of the warranty. In general, customers can cancel the extended warranty at any time with 30 days notice without significant penalty.
Laboratory services and training	The Company's service offerings include service contracts, field service, including related time and materials, and training. The Company recognizes revenue as the services are performed. Revenue for the service contracts is recognized over the contract period or at a point in time when the service is billable based on time and materials. The Company recognizes revenue as training is provided in service revenue. Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 to 60 days. In general, customers can cancel the service contracts at any time with 30 to 90 days notice without significant penalty.

ii. Diagnostics

The Diagnostics segment of the Company principally generates revenue from sales of instruments, solutions, consumables, reagents, extended warranty and services in the diagnostics market. Products and services may be sold separately or in bundled packages.

For bundled packages, the Company accounts for individual products and services separately if they are distinct - i.e. if a product or service is separately identifiable from other items in the bundled package and if a customer can benefit from it on its own or with other resources that are readily available to the customer. The consideration (including any discounts) is allocated between separate products and services in a bundle based on their stand-alone selling prices. The stand-alone selling prices are determined based on the prices at which the Company separately sells the products, extended warranties, and services. For items that are not sold separately, the Company estimates stand-alone selling prices by reference to the amount charged for similar items on a stand-alone basis.

The Company sells products and services predominantly through its direct sales force. As a result, the use of distributors is generally limited to geographic regions where the Company has no direct sales force. The Company does not offer product return or exchange rights (other than those relating to defective goods under warranty) or price protection allowances to its customers, including distributors. Payment terms granted to distributors are the same as those granted to end-customers and payments are not dependent upon the distributor's receipt of payment from their end-user customers.

In instances where the timing of revenue recognition differs from the timing of invoicing, the Company determined that the contracts generally do not include a significant financing component. The primary purpose of its invoicing terms is to provide customers with simplified and predictable ways of purchasing products and services, rather than to receive financing from the customers or to provide customers with financing. Examples include invoicing at the beginning of a storage period with revenue recognized ratably over the contract period. In limited circumstances where the Company provides the customer with a significant benefit of financing, the Company uses the practical expedient and only adjusts the transaction price for the effects of the time value of money and only on contracts where the duration of financing is more than one year.

Products and services	Nature, timing of satisfaction of performance obligations, and significant payment terms
Instruments	For instruments that include installation, and if the installation meets the criteria to be considered a separate performance obligation, product revenue is generally recognized upon delivery or when title has transferred to the customer, which is generally the point in time where control of the products has been transferred to customers, and installation revenue is recognized when the installation is complete. Certain of the Company's products require specialized installation and configuration at the customer's site. Revenue for these products is deferred until installation is complete and customer acceptance has been received. Payment terms and conditions vary, although terms generally include a requirement of payment within 30 to 60 days.
Consumables and reagents	The Company recognizes revenue from the sale of consumables and reagents upon delivery or when title has transferred to the customer, which is generally the point in time where control of the products has been transferred to customers. Payment terms and conditions vary, although terms generally include a requirement of payment within 30 days.
Solutions	<p>When the Company sells the instrument and reagents that work only on those instruments to a customer or distributor, the Company considers the instrument and reagents as separate performance obligations. The Company recognizes revenue when an instrument is sold to the customer upon delivery or when title has transferred to the customer, which is generally the point in time where control of the products has been transferred to customers. Revenue from the sale of reagents is also recognized at the time of delivery or when title has transferred to the customer. Payment terms for instrument and reagent sales are usually net 30 days from invoice date.</p> <p>When the Company places the instrument at the customer's site and sells the reagents to a customer, the instrument and reagents are accounted for together as one performance obligation. The Company does not charge a fee for the use of the instrument and retains ownership of the placed instrument. The Company has a right to remove the instrument and replace it with another instrument at the customer's site at any time throughout the contract term. The Company recognizes revenue upon delivery of reagents, which is the point in time where the Company has performed its obligation to provide a screening solution to the customer. Payment terms are usually net 30 days from invoice date. Payment terms for certain contracts are based on equal installments over the duration of the contract.</p>
Extended warranty	The Company recognizes revenue for extended warranties on a straight-line basis over the extended warranty period in service revenue. In the majority of countries in which the Company operates, the customary warranty period is one year and the extended warranty covers periods beyond year one. Customers typically pay for extended warranties on an annual basis over the term of the warranty. In general, customers can cancel the extended warranty at any time with 30 days notice without significant penalty.
Services	The Company's service offerings include cord blood processing and storage, and training. The Company recognizes revenue for the cord blood processing and training as the services are performed in service revenue. Revenue for the storage contracts are recognized over the contract period. Storage is typically for a period of 1, 20, or 25 years or lifetime. Lifetime storage is recognized over a certain period that is based on the life expectancy estimate from Social Security data. For cord blood processing, customers pay the processing fee in full at the point of sale. The processing fee is non-refundable unless the cord blood is non-viable for storage. For storage, customers are required to pay the storage fees in full upfront. Storage fees are refundable to the customer on a pro-rated basis if the contract is canceled.

[Table of Contents](#)

Disaggregation of revenue

In the following tables, revenue is disaggregated by primary geographical market, end-markets and timing of revenue recognition. The tables also include a reconciliation of the disaggregated revenue with the reportable segments revenue.

	Reportable Segments		
	Three Months Ended		
	September 30, 2018		
	Discovery & Analytical Solutions	Diagnostics	Total
(In thousands)			
Primary geographical markets			
Americas	\$ 169,366	\$ 95,607	\$ 264,973
Europe	110,747	68,480	179,227
Asia	126,053	104,060	230,113
	\$ 406,166	\$ 268,147	\$ 674,313
Primary end-markets			
Diagnostics	\$ —	\$ 268,147	\$ 268,147
Life sciences	222,191	—	222,191
Applied markets	183,975	—	183,975
	\$ 406,166	\$ 268,147	\$ 674,313
Timing of revenue recognition			
Products and services transferred at a point in time	\$ 290,929	\$ 247,189	\$ 538,118
Services transferred over time	115,237	20,958	136,195
	\$ 406,166	\$ 268,147	\$ 674,313

	Reportable Segments		
	Nine Months Ended		
	September 30, 2018		
	Discovery & Analytical Solutions	Diagnostics	Total
(In thousands)			
Primary geographical markets			
Americas	\$ 497,833	\$ 282,536	\$ 780,369
Europe	357,766	205,892	563,658
Asia	377,720	299,900	677,620
	\$ 1,233,319	\$ 788,328	\$ 2,021,647
Primary end-markets			
Diagnostics	\$ —	\$ 788,328	\$ 788,328
Life sciences	675,807	—	675,807
Applied markets	557,512	—	557,512
	\$ 1,233,319	\$ 788,328	\$ 2,021,647
Timing of revenue recognition			
Products and services transferred at a point in time	\$ 874,517	\$ 726,058	\$ 1,600,575
Services transferred over time	358,802	62,270	421,072
	\$ 1,233,319	\$ 788,328	\$ 2,021,647

Contract Balances

Contract assets: The unbilled receivables (contract assets) primarily relate to the Company's right to consideration for work completed but not billed at the reporting date. The unbilled receivables are transferred to trade receivables when billed to

customers. Contract assets are generally classified as current assets and are included in "Accounts receivable, net" in the consolidated balance sheet. The balance of contract assets as of September 30, 2018 and as of the date of adoption of ASC 606 were \$31.2 million and \$22.7 million, respectively. The amount of unbilled receivables recognized at the beginning of the period that were transferred to trade receivables during the nine months ended September 30, 2018 was \$21.1 million. The increase in unbilled receivables during the nine months ended September 30, 2018 as a result of recognition of revenue before billing to customers, excluding amounts transferred to trade receivables during the period, amounted to \$29.5 million.

Contract liabilities: The contract liabilities primarily relate to the advance consideration received from customers for products and related installation for which transfer of control has not occurred at the balance sheet date. Contract liabilities are classified as either current in "Accounts payable" or long-term in "Long-term liabilities" in the consolidated balance sheet based on the timing of when the Company expects to recognize revenue. The balance of contract liabilities as of September 30, 2018 and as of the date of adoption of ASC 606 were \$26.3 million and \$29.0 million, respectively. The increase in contract liabilities during the nine months ended September 30, 2018 due to cash received, excluding amounts recognized as revenue during the period, was \$17.6 million. The amount of revenue recognized during the nine months ended September 30, 2018 that was included in the contract liability balance at the beginning of the period was \$20.4 million.

Contract costs: The Company recognizes the incremental costs of obtaining a contract with a customer as an asset if it expects the benefit of those costs to be longer than one year. The Company determined that certain sales incentive programs meet the requirements to be capitalized. Total capitalized costs to obtain a contract were immaterial during the period and are included in other current and long-term assets on the condensed consolidated balance sheet. The Company applies a practical expedient to expense costs as incurred for costs to obtain a contract with a customer when the amortization period would have been one year or less. These costs include the Company's internal sales force compensation program, as the Company determined that annual compensation is commensurate with annual sales activities.

Transaction price allocated to the remaining performance obligations

The Company applies the practical expedient in ASC 606-10-50-14 and does not disclose information about remaining performance obligations that have original expected durations of one year or less. The estimated revenue expected to be recognized beyond one year in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the period are not material to the Company. Remaining performance obligations primarily include noncancelable purchase orders and noncancelable software subscriptions and cloud service contracts.

Note 3: Changes in Accounting Policies

Except for the changes below, the Company has consistently applied the accounting policies to all periods presented in these condensed consolidated financial statements.

The Company adopted ASC 606, *Revenue from Contracts with Customers* ("ASC 606"), with a date of the initial application of January 1, 2018. As a result, the Company has changed its accounting policy for revenue recognition as detailed below.

The Company applied ASC 606 using the modified retrospective method only to contracts that are not completed contracts as of January 1, 2018, and the cumulative effect of initially applying ASC 606 is recognized as an adjustment to the beginning retained earnings. Therefore, the comparative information has not been adjusted and continues to be reported under ASC 605. The details of the significant changes and quantitative impact of the changes are disclosed below.

A. Sales of software subscriptions or sales of licenses and maintenance in bundled arrangements

The Company previously recognized revenue from software licenses sold together with maintenance and/or consulting services upon shipment using the residual method, provided that the undelivered items in the arrangement have value to the customer on a stand-alone basis and vendor-specific objective evidence ("VSOE") of fair value can be determined. If VSOE of fair value for the undelivered elements cannot be established, the Company deferred all revenue from the arrangement until the earlier of the point at which such sufficient VSOE does exist or all elements of the arrangement have been delivered, or if the undelivered element is maintenance, then the Company recognized the entire fee ratably over the maintenance period. Under ASC 606, the total consideration in the contract is allocated to all products and services based on their stand-alone selling prices. The stand-alone selling prices are determined based on the list prices at which the Company sells the software license, software subscription, maintenance and/or consulting services. Accordingly, the Company now recognizes higher license revenue upfront and less service revenue over time.

B. Sales of instruments

[Table of Contents](#)

The Company previously recognized revenue from sale of instruments when persuasive evidence of an arrangement existed, delivery had occurred, the price to the buyer was fixed or determinable, and collectability was reasonably assured. For certain sales of instruments that included customer-specified acceptance criteria, the Company previously recognized revenue after the acceptance criteria had been met. Under ASC 606, revenue is recognized when the Company satisfies a performance obligation by transferring control of the product to a customer. Accordingly, the Company now recognizes product revenue upon delivery or when title has transferred to the customer, as the Company believes acceptance is perfunctory.

C. Sales commissions

The Company previously recognized commission fees related to sales of products and services as selling expenses when they were incurred. Under ASC 606, the Company capitalizes those commission fees as costs of obtaining a contract, when they are incremental and, if they are expected to be recovered, the Company amortizes them consistently with the pattern of transfer of the product or service to which the asset relates. If the expected amortization period is one year or less, the commission fee is expensed when incurred.

D. Impacts on financial statements

The following tables summarize the impacts of ASC 606 adoption on the Company's condensed consolidated financial statements for the quarter ended September 30, 2018.

Consolidated Balance Sheet

	As reported	Adjustments	Balances without adoption of ASC 606
	(In thousands)		
Cash and cash equivalents	\$ 149,513	\$ —	\$ 149,513
Accounts receivable, net	551,385	(11,554)	539,831
Inventories	354,244	7,451	361,695
Other current assets	110,353	(522)	109,831
Property, plant and equipment, net	317,049	—	317,049
Intangible assets, net	1,223,775	—	1,223,775
Goodwill	2,920,689	—	2,920,689
Other assets, net	235,347	—	235,347
Total assets	\$ 5,862,355	\$ (4,625)	\$ 5,857,730
Current portion of long-term debt	\$ 20,072	\$ —	\$ 20,072
Accounts payable	180,693	—	180,693
Accrued restructuring and contract termination charges	8,079	—	8,079
Accrued expenses and other current liabilities	475,743	18,912	494,655
Current liabilities of discontinued operations	2,165	—	2,165
Long-term debt	1,882,502	—	1,882,502
Long-term liabilities	720,632	—	720,632
Total liabilities	3,289,886	18,912	3,308,798
Commitments and contingencies			
Preferred stock	—	—	—
Common stock	111,087	—	111,087
Capital in excess of par value	89,970	—	89,970
Retained earnings	2,532,060	(23,537)	2,508,523
Accumulated other comprehensive loss	(160,648)	—	(160,648)
Total stockholders' equity	2,572,469	(23,537)	2,548,932
Total liabilities and stockholders' equity	\$ 5,862,355	\$ (4,625)	\$ 5,857,730

Consolidated Statement of Operations

	Three Months Ended September 30, 2018		
	As reported	Adjustments	Balances without adoption of ASC 606
	(In thousands)		
Product revenue	\$ 474,523	\$ (3,198)	\$ 471,325
Service revenue	199,790	—	199,790
Total revenue	674,313	(3,198)	671,115
Cost of product revenue	213,672	(98)	213,574
Cost of service revenue	128,314	—	128,314
Total cost of revenue	341,986	(98)	341,888
Selling, general and administrative expenses	196,769	47	196,816
Research and development expenses	48,848	—	48,848
Restructuring and contract termination charges, net	6,508	—	6,508
Operating income from continuing operations	80,202	(3,147)	77,055
Interest and other expense, net	2,161	—	2,161
Income from continuing operations before income taxes	78,041	(3,147)	74,894
Provision for income taxes	2,596	(814)	1,782
Income from continuing operations	75,445	(2,333)	73,112
Loss on disposition of discontinued operations before income taxes	(308)	—	(308)
Benefit from income taxes on discontinued operations and dispositions	(1,411)	—	(1,411)
Gain from discontinued operations and dispositions	1,103	—	1,103
Net income	\$ 76,548	\$ (2,333)	\$ 74,215

Consolidated Statement of Operations

	Nine Months Ended September 30, 2018		
	As reported	Adjustments	Balances without adoption of ASC 606
	(In thousands)		
Product revenue	\$ 1,417,739	\$ (25,562)	\$ 1,392,177
Service revenue	603,908	—	603,908
Total revenue	2,021,647	(25,562)	1,996,085
Cost of product revenue	663,651	(7,780)	655,871
Cost of service revenue	393,307	—	393,307
Total cost of revenue	1,056,958	(7,780)	1,049,178
Selling, general and administrative expenses	601,374	300	601,674
Research and development expenses	142,028	—	142,028
Restructuring and contract termination charges, net	13,086	—	13,086
Operating income from continuing operations	208,201	(18,082)	190,119
Interest and other expense, net	29,947	—	29,947
Income from continuing operations before income taxes	178,254	(18,082)	160,172
Provision for income taxes	12,101	(4,753)	7,348
Income from continuing operations	166,153	(13,329)	152,824
Loss on disposition of discontinued operations before income taxes	(859)	—	(859)
Benefit from income taxes on discontinued operations and dispositions	(1,341)	—	(1,341)
Gain from discontinued operations and dispositions	482	—	482
Net income	\$ 166,635	\$ (13,329)	\$ 153,306

The adoption of ASC 606 increased comprehensive income by \$2.3 million and \$13.3 million in the Company's condensed consolidated statement of comprehensive income for the three and nine months ended September 30, 2018, respectively. The adoption of ASC 606 had no impact on cash from or used in operating, investing, or financing activities in the Company's condensed consolidated statement of cash flows as of and for the nine months ended September 30, 2018.

Note 4: Business Combinations
Acquisitions in fiscal year 2018

During fiscal year 2018, the Company has completed the acquisition of three businesses for aggregate consideration of \$55.4 million. The acquired businesses were Shanghai Spectrum Instruments Co., Ltd. ("SSI"), which was acquired for total consideration of \$15.4 million in cash, RHS Limited ("RHS"), which was acquired for total consideration of \$19.4 million in cash, and DNA Laboratories Sdn. Bhd. ("DNA Labs"), which was acquired for total consideration of \$9.0 million in cash. The Company has an obligation to pay the former shareholders of SSI an additional consideration of \$2.5 million in fiscal year 2019, which at closing had a present value of \$2.4 million, and additional contingent consideration of up to \$2.0 million, which at closing had an estimated fair value of \$1.7 million. The Company has an obligation to pay the former shareholders of DNA Labs an additional cash consideration of \$1.0 million and a working capital adjustment of up to \$0.7 million in the fourth quarter of fiscal year 2018. The Company also has an obligation to pay the former shareholders of DNA Labs additional contingent consideration of up to \$8.0 million, which at closing had an estimated fair value of \$5.8 million. The excess of the purchase price over the fair value of the acquired businesses' net assets represents cost and revenue synergies specific to the Company, as well as non-capitalizable intangible assets, such as the employee workforce acquired, and has been allocated to goodwill, which is not tax deductible. The Company has reported the operations for SSI within the results of the Company's DAS segment and the other acquisitions within the results of the Company's Diagnostics segment from the acquisition dates. Identifiable definite-lived intangible assets, such as core technology, trade names and customer relationships, acquired as part of these acquisitions had a weighted average amortization period of 14.6 years.

[Table of Contents](#)

The total purchase price for the acquisitions in fiscal year 2018 has been allocated to the estimated fair values of assets acquired and liabilities assumed as follows:

	2018 Acquisitions
	(In thousands)
Fair value of business combination:	
Cash payments	\$ 43,942
Other liability	3,354
Contingent consideration	7,500
Working capital and other adjustments	599
Less: cash acquired	(1,138)
Total	<u>\$ 54,257</u>
Identifiable assets acquired and liabilities assumed:	
Current assets	\$ 3,469
Property, plant and equipment	937
Other assets	430
Identifiable intangible assets:	
Core technology	15,957
Trade names	1,010
Customer relationships	10,800
Goodwill	28,423
Deferred taxes	(2,524)
Liabilities assumed	(4,037)
Debt assumed	(208)
Total	<u>\$ 54,257</u>

Subsequent to September 30, 2018, the Company completed the acquisition of Dani Analitica S.r.l. (“Dani”), a company based in Milan, Italy, for a total consideration of €43.1 million in cash, net of cash acquired, as of the closing date. The operations for this acquisition will be reported within the results of the Company’s DAS segment from the acquisition date.

Acquisitions in fiscal year 2017

Acquisition of EUROIMMUN Medizinische Labordiagnostika AG. During fiscal year 2017, the Company completed the acquisition of 99.98% of the outstanding stock of EUROIMMUN Medizinische Labordiagnostika AG (“EUROIMMUN”) for aggregate consideration of €1.2 billion (equivalent to \$1.4 billion at December 19, 2017, the time of closing). The purchase price was funded by borrowings from the Company’s senior unsecured revolving credit facility and senior unsecured term loan credit facility of \$710.0 million and \$200.0 million, respectively, and available cash on hand of \$503.8 million. EUROIMMUN is based in Lübeck, Germany, has approximately 2,400 employees, and is recognized as a global leader in autoimmune testing and an emerging force in infectious disease and allergy testing. The excess of the purchase price over the fair value of the acquired net assets represents cost and revenue synergies specific to the Company, as well as non-capitalizable intangible assets, such as the employee workforce acquired. As a result of the acquisition, the Company recorded goodwill of \$581.2 million, which is not tax deductible, and intangible assets of \$907.4 million. The Company has reported the operations for this acquisition within the results of the Company’s Diagnostics segment from the acquisition date. Identifiable definite-lived intangible assets, such as core technology, trade names and customer relationships, acquired as part of this acquisition had a weighted average amortization period of 16.1 years.

Other acquisitions in 2017. During fiscal year 2017, the Company also completed the acquisition of two other businesses for aggregate consideration of \$142.0 million. The acquired businesses were Tulip Diagnostics Private Limited (“Tulip”), which was acquired for total consideration of \$127.3 million in cash and one other business acquired for total consideration of \$14.7 million in cash. At the time of closing, the Company had a potential obligation to pay the former shareholders of Tulip up to INR1.6 billion, equivalent to \$25.2 million, in additional consideration over a two year period that is accounted for as compensation expense in the Company’s financial statements over a two year period and is excluded from the purchase price

[Table of Contents](#)

allocation shown below. The excess of the purchase prices over the fair values of the acquired businesses' net assets represents cost and revenue synergies specific to the Company, as well as non-capitalizable intangible assets, such as the employee workforces acquired, and has been allocated to goodwill, which is not tax deductible. The Company has reported the operations of Tulip within the results of the Company's Diagnostics segment and the other acquired business within the results of the Company's DAS segment from the acquisition date. Identifiable definite-lived intangible assets, such as core technology, trade names and customer relationships, acquired as part of these acquisitions had a weighted average amortization period of 11.8 years.

During the first quarter of fiscal year 2018, the Company paid the former shareholders of Tulip a portion of the additional consideration amounting to INR716.3 million (equivalent to \$11.3 million). As of September 30, 2018, the Company may have to pay the former shareholders of Tulip additional consideration of up to INR803.6 million (currently equivalent to \$11.1 million) in the first quarter of fiscal year 2019.

The total purchase price for the acquisitions in fiscal year 2017 has been allocated to the estimated fair values of assets acquired and liabilities assumed as follows:

	<u>EUROIMMUN</u>	<u>Other Acquisitions</u>
	(In thousands)	
Fair value of business combination:		
Cash payments	\$ 1,413,780	\$ 140,861
Other liability	—	1,273
Working capital and other adjustments	—	(93)
Less: cash acquired	(25,018)	(2,439)
Total	\$ 1,388,762	\$ 139,602
Identifiable assets acquired and liabilities assumed:		
Current assets	\$ 121,174	\$ 16,268
Property, plant and equipment	130,512	11,356
Other assets	49,679	1,691
Identifiable intangible assets:		
Core technology	160,000	12,400
Trade names	36,000	3,000
Customer relationships	710,000	43,700
In-process research and development ("IPR&D")	1,400	—
Goodwill	581,172	75,250
Deferred taxes	(253,288)	(15,735)
Liabilities assumed	(86,530)	(8,328)
Debt assumed	(61,357)	—
Total	\$ 1,388,762	\$ 139,602

EUROIMMUN's revenue and net loss for the period from the acquisition date to December 31, 2017 were \$13.5 million and \$1.0 million, respectively. The following unaudited pro forma information presents the combined financial results for the Company and EUROIMMUN as if the acquisition of EUROIMMUN had been completed at the beginning of fiscal year 2016:

	Three Months Ended October 1, 2017	Nine Months Ended October 1, 2017
(In thousands, except per share data)		
Pro Forma Statement of Operations Information (Unaudited):		
Revenue	\$ 640,154	\$ 1,846,233
Income from continuing operations	94,055	172,672
Basic earnings per share:		
Income from continuing operations	\$ 0.86	\$ 1.57
Diluted earnings per share:		
Income from continuing operations	\$ 0.85	\$ 1.56

The unaudited pro forma information for the three and nine months ended October 1, 2017 has been calculated after applying the Company's accounting policies and the impact of acquisition date fair value adjustments. These pro forma condensed consolidated financial results have been prepared for comparative purposes only and include certain adjustments, such as increased interest expense on debt obtained to finance the transaction and increased amortization for the acquired intangible assets recorded at fair value.

The pro forma information does not reflect the effect of costs or synergies that would have been expected to result from the integration of the acquisition. The pro forma information does not purport to be indicative of the results of operations that actually would have resulted had the combination occurred at the beginning of each period presented, or of future results of the consolidated entities.

The preliminary allocations of the purchase prices for acquisitions are based upon initial valuations. The Company's estimates and assumptions underlying the initial valuations are subject to the collection of information necessary to complete its valuations within the measurement periods, which are up to one year from the respective acquisition dates. The primary areas of the preliminary purchase price allocations that are not yet finalized relate to the fair value of certain tangible and intangible assets acquired and liabilities assumed, assets and liabilities related to income taxes and related valuation allowances, and residual goodwill. The Company expects to continue to obtain information to assist in determining the fair values of the net assets acquired at the acquisition dates during the measurement periods. During the measurement periods, the Company will adjust assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition dates that, if known, would have resulted in the recognition of those assets and liabilities as of those dates. These adjustments will be made in the periods in which the amounts are determined and the cumulative effect of such adjustments will be calculated as if the adjustments had been completed as of the acquisition dates. All changes that do not qualify as adjustments made during the measurement periods are also included in current period earnings.

Allocations of the purchase price for acquisitions are based on estimates of the fair value of the net assets acquired and are subject to adjustment upon finalization of the purchase price allocations. The accounting for business combinations requires estimates and judgments as to expectations for future cash flows of the acquired business, and the allocation of those cash flows to identifiable intangible assets, in determining the estimated fair values for assets acquired and liabilities assumed. The fair values assigned to tangible and intangible assets acquired and liabilities assumed, including contingent consideration, are based on management's estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques. Contingent consideration is measured at fair value at the acquisition date, based on the probability that revenue thresholds or product development milestones will be achieved during the earnout period, with changes in the fair value after the acquisition date affecting earnings to the extent it is to be settled in cash. Increases or decreases in the fair value of contingent consideration liabilities primarily result from changes in the estimated probabilities of achieving revenue thresholds, changes in discount rates or product development milestones during the earnout period.

During the third quarter of fiscal year 2018, the Company obtained information relevant to determining the fair values of certain tangible and intangible assets acquired, and liabilities assumed, related to recent acquisitions and adjusted its purchase price allocation. Based on this information, for the EUROIMMUN acquisition, the Company recognized a decrease in deferred tax liabilities of \$0.1 million, an increase in property and equipment of \$0.5 million, a decrease in liabilities assumed of \$1.2 million, a decrease in other assets of \$0.3 million and a decrease in goodwill of \$1.5 million during the third quarter of fiscal year 2018.

As of September 30, 2018, the Company may have to pay contingent consideration related to acquisitions with open contingency periods of up to \$76.5 million. As of September 30, 2018, the Company has recorded contingent consideration

obligations with an estimated fair value of \$67.1 million, of which \$61.3 million was recorded in accrued expenses and other current liabilities, and \$5.8 million was recorded in long-term liabilities. As of December 31, 2017, the Company had recorded contingent consideration obligations with an estimated fair value of \$65.3 million, of which \$52.2 million was recorded in accrued expenses and other current liabilities, and \$13.1 million was recorded in long-term liabilities. If the actual results differ from the estimates and judgments used in these fair values, the amounts recorded in the condensed consolidated financial statements could result in a possible impairment of the intangible assets and goodwill, require acceleration of the amortization expense of definite-lived intangible assets or the recognition of additional contingent consideration which would be recognized as a component of operating expenses from continuing operations.

Total acquisition and divestiture-related costs for the three and nine months ended September 30, 2018 were \$1.7 million and \$5.5 million, respectively. These amounts include \$0.1 million and \$1.0 million of net foreign exchange gain related to the foreign currency denominated stay bonus associated with the Tulip acquisition for the three and nine months ended September 30, 2018, respectively. Total acquisition and divestiture-related costs (income) for the three and nine months ended October 1, 2017 were \$(30.8) million and \$(30.1) million, respectively. These amounts include \$36.3 million and \$42.0 million of net foreign exchange gain related to the foreign currency forward contracts associated with the planned acquisition of EUROIMMUN for the three and nine months ended October 1, 2017, respectively. These acquisition and divestiture-related costs (income) were expensed as incurred and recorded in selling, general and administrative expenses and interest and other (income) expense, net in the Company's condensed consolidated statements of operations.

Note 5: Disposition of Businesses and Assets

As part of the Company's continuing efforts to focus on higher growth opportunities, the Company has discontinued certain businesses. When the discontinued operations represented a strategic shift that will have a major effect on the Company's operations and financial statements, the Company has accounted for these businesses as discontinued operations and accordingly, has presented the results of operations and related cash flows as discontinued operations. Any business deemed to be a discontinued operation prior to the adoption of ASU 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of An Entity*, continues to be reported as a discontinued operation, and the results of operations and related cash flows are presented as discontinued operations for all periods presented. Any remaining assets and liabilities of these businesses have been presented separately, and are reflected within assets and liabilities of discontinued operations in the accompanying condensed consolidated balance sheets as of September 30, 2018 and December 31, 2017.

During the third quarter of fiscal year 2018, the Company completed the sale of substantially all of the assets and liabilities related to its multispectral imaging business for aggregate consideration of \$37.3 million, recognizing a pre-tax gain of \$13.0 million. The pre-tax gain is included in interest and other expense, net in the consolidated statement of operations. The multispectral imaging business was a component of the Company's DAS segment. The divestiture of the multispectral imaging business has not been classified as a discontinued operation in this Form 10-Q because the disposition does not represent a strategic shift that will have a major effect on the Company's operations and financial statements.

On May 1, 2017 (the "Varex Closing Date"), the Company completed the sale of its Medical Imaging business to Varex Imaging Corporation ("Varex") pursuant to the terms of the Master Purchase and Sale Agreement, dated December 21, 2016 (the "Agreement"), by and between the Company and Varian Medical Systems, Inc. ("Varian") and the subsequent Assignment and Assumption Agreement, dated January 27, 2017, between Varian and Varex, pursuant to which Varian assigned its rights under the Agreement to Varex. On the Varex Closing Date, the Company received consideration of approximately \$277.4 million for the sale of the Medical Imaging business. During fiscal year 2017, the Company paid Varex \$4.2 million to settle a post-closing working capital adjustment. During fiscal year 2017, the Company recorded a pre-tax gain of \$179.6 million and income tax expense of \$43.1 million related to the sale of the Medical Imaging business in discontinued operations and dispositions. The corresponding tax liability was recorded within the other tax liabilities in the condensed consolidated balance sheet, and the Company expects to utilize tax attributes to minimize the tax liability. Following the closing, the Company provided certain customary transitional services during a period of up to 12 months. Commercial transactions between the parties following the closing of the transaction are not expected to be significant.

During fiscal year 2017, the Company sold Suzhou PerkinElmer Medical Laboratory Co., Ltd. for aggregate consideration of \$2.3 million, recognizing a pre-tax loss of \$1.1 million. The pre-tax loss recognized in fiscal year 2017 is included in interest and other expense, net in the consolidated statement of operations. Suzhou PerkinElmer Medical Laboratory Co., Ltd. was a component of the Company's Diagnostics segment. The divestiture of Suzhou PerkinElmer Medical Laboratory Co., Ltd. has not been classified as a discontinued operation in this Form 10-Q because the disposition does not represent a strategic shift that will have a major effect on the Company's operations and financial statements.

[Table of Contents](#)

The summary pre-tax operating results of the discontinued operations, were as follows for the three and nine months ended:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(In thousands)			
Revenue	\$ —	\$ —	\$ —	\$ 44,343
Cost of revenue	—	—	—	32,933
Selling, general and administrative expenses	—	—	—	5,869
Research and development expenses	—	—	—	4,891
(Loss) income from discontinued operations before income taxes	\$ —	\$ —	\$ —	\$ 650

Note 6: Restructuring and Contract Termination Charges, Net

The Company has undertaken a series of restructuring actions related to the impact of acquisitions and divestitures, the alignment of the Company's operations with its growth strategy, the integration of its business units and its productivity initiatives. The current portion of restructuring and contract termination charges is recorded in accrued restructuring and contract termination charges and the long-term portion of restructuring and contract termination charges is recorded in long-term liabilities. The activities associated with these plans have been reported as restructuring and contract termination charges, net, as applicable, and are included as a component of income from continuing operations.

The Company implemented a restructuring plan in each of the first and third quarters of fiscal year 2018 consisting of workforce reductions principally intended to realign resources to emphasize growth initiatives (the "Q1 2018 Plan" and "Q3 2018 Plan", respectively). The Company implemented a restructuring plan in each of the fourth and third quarters of fiscal year 2017 consisting of workforce reductions principally intended to realign resources to emphasize growth initiatives (the "Q4 2017 Plan" and "Q3 2017 Plan", respectively). The Company implemented a restructuring plan in the first quarter of fiscal year 2017 consisting of workforce reductions and the closure of excess facility space principally intended to focus resources on higher growth end markets (the "Q1 2017 Plan"). Details of the plans initiated in previous years (the "Previous Plans") are discussed more fully in Note 4 to the audited consolidated financial statements in the 2017 Form 10-K.

The following table summarizes the reductions in headcount, the initial restructuring or contract termination charges by reporting segment, and the dates by which payments were substantially completed, or the dates by which payments are expected to be substantially completed, for restructuring actions implemented during fiscal years 2018 and 2017 in continuing operations:

	Workforce Reductions			Closure of Excess Facility			(Expected) Date Payments Substantially Completed by	
	Headcount Reduction	Discovery & Analytical Solutions	Diagnostics	Discovery & Analytical Solutions	Diagnostics	Total	Severance	Excess Facility
	(In thousands, except headcount data)							
Q3 2018 Plan	61	\$ 1,146	\$ 618	\$ —	\$ —	\$ 1,764	Q2 FY2019	—
Q1 2018 Plan	47	5,096	902	—	—	5,998	Q2 FY2019	—
Q4 2017 Plan	29	1,680	255	—	—	1,935	Q1 FY2019	—
Q3 2017 Plan	27	1,321	1,021	—	—	2,342	Q4 FY2018	—
Q1 2017 Plan	90	5,000	1,631	33	33	6,697	Q4 FY2018	Q4 FY2018

The Company does not currently expect to incur any future charges for these plans. The Company expects to make payments under the Previous Plans for remaining residual lease obligations, with terms varying in length, through fiscal year 2022.

In connection with the termination of various contractual commitments, the Company recorded additional pre-tax charges of \$4.7 million and \$5.0 million during the three and nine months ended September 30, 2018, respectively, in the DAS segment.

[Table of Contents](#)

At September 30, 2018, the Company had \$9.4 million recorded for accrued restructuring and contract termination charges, of which \$8.1 million was recorded in short-term accrued restructuring and contract termination charges and \$1.3 million was recorded in long-term liabilities. At December 31, 2017, the Company had \$14.0 million recorded for accrued restructuring and contract termination charges, of which \$8.8 million was recorded in short-term accrued restructuring and contract termination charges, \$2.3 million was recorded in long-term liabilities and \$2.9 million was recorded in other reserves. The following table summarizes the Company's restructuring and contract termination accrual balances and related activity by restructuring plan, as well as contract termination accrual balances and related activity, during the nine months ended September 30, 2018:

	Balance at December 31, 2017	2018 Charges	2018 Changes in Estimates, Net	2018 Amounts Paid	Balance at September 30, 2018
(In thousands)					
Severance:					
Q3 2018 Plan	\$ —	\$ 1,764	\$ —	\$ —	\$ 1,764
Q1 2018 Plan	—	5,998	—	(4,273)	1,725
Q4 2017 Plan	1,919	—	—	(1,538)	381
Q3 2017 Plan	2,072	—	—	(868)	1,204
Q1 2017 Plan	2,498	—	—	(1,174)	1,324
Facility:					
Q1 2017 Plan	33	—	—	(22)	11
Previous Plans	4,399	—	353	(2,106)	2,646
Restructuring	10,921	7,762	353	(9,981)	9,055
Contract Termination	3,048	4,744	227	(7,653)	366
Total Restructuring and Contract Termination	\$ 13,969	\$ 12,506	\$ 580	\$ (17,634)	\$ 9,421

Note 7: Interest and Other Expense, Net

Interest and other expense, net, consisted of the following:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
(In thousands)				
Interest income	\$ (316)	\$ (802)	\$ (754)	\$ (1,512)
Interest expense	16,684	10,974	50,745	32,510
(Gain) loss on disposition of businesses and assets, net (see Note 5)	(13,031)	—	(13,031)	301
Other income, net	(1,176)	(37,188)	(7,013)	(45,096)
Total interest and other expense (income), net	\$ 2,161	\$ (27,016)	\$ 29,947	\$ (13,797)

Foreign currency transaction losses (gains) were \$4.3 million and \$(8.8) million for the three and nine months ended September 30, 2018, respectively. Foreign currency transaction gains were \$2.7 million and \$5.4 million for the three and nine months ended October 1, 2017, respectively. Net (gains) losses from forward currency hedge contracts were \$(2.5) million and \$9.8 million for the three and nine months ended September 30, 2018, respectively. Net gains from forward currency hedge contracts were \$32.7 million and \$34.4 million for the three and nine months ended October 1, 2017, respectively. The other components of net periodic pension credit were \$2.5 million and \$7.5 million for the three and nine months ended September 30, 2018, respectively. The other components of net periodic pension credit were \$1.8 million and \$5.4 million for the three and nine months ended October 1, 2017, respectively. These amounts were included in other income, net.

Note 8: Inventories

Inventories as of September 30, 2018 and December 31, 2017 consisted of the following:

	September 30, 2018	December 31, 2017
	(In thousands)	
Raw materials	\$ 117,266	\$ 122,100
Work in progress	21,389	18,452
Finished goods	215,589	211,123
Total inventories	<u>\$ 354,244</u>	<u>\$ 351,675</u>

Note 9: Income Taxes

The Company regularly reviews its tax positions in each significant taxing jurisdiction in the process of evaluating its unrecognized tax benefits. The Company makes adjustments to its unrecognized tax benefits when: (i) facts and circumstances regarding a tax position change, causing a change in management's judgment regarding that tax position; (ii) a tax position is effectively settled with a tax authority at a differing amount; and/or (iii) the statute of limitations expires regarding a tax position.

The total provision for income taxes included in the condensed consolidated statement of operations consisted of the following:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(In thousands)			
Continuing operations	\$ 2,596	\$ 8,508	\$ 12,101	\$ 20,495
Discontinued operations	(1,411)	5,262	(1,341)	42,405
Total	<u>\$ 1,185</u>	<u>\$ 13,770</u>	<u>\$ 10,760</u>	<u>\$ 62,900</u>

At September 30, 2018, the Company had gross tax effected unrecognized tax benefits of \$30.5 million, of which \$28.8 million, if recognized, would affect the continuing operations effective tax rate. The remaining amount, if recognized, would affect discontinued operations.

The Company believes that it is reasonably possible that approximately \$6.4 million of its uncertain tax positions at September 30, 2018, including accrued interest and penalties, and net of tax benefits, may be resolved over the next twelve months as a result of lapses in applicable statutes of limitations and potential settlements. Various tax years after 2010 remain open to examination by certain jurisdictions in which the Company has significant business operations, such as Finland, Germany, Italy, Netherlands, Singapore, the United Kingdom and the United States. The tax years under examination vary by jurisdiction.

[Table of Contents](#)

During the first nine months of fiscal years 2018 and 2017, the Company recorded net discrete income tax benefits of \$7.1 million and \$7.0 million, respectively. The discrete tax benefits in the first nine months of fiscal year 2018 include recognition of excess tax benefits on stock compensation of \$5.4 million and tax benefits from the change in tax reform estimates of \$5.4 million, offset by the tax expense of \$7.1 million related to the sale of the multispectral imaging business. In the first nine months of 2017, discrete tax benefits include recognition of \$3.6 million of excess tax benefits on stock compensation.

On December 22, 2017, the President of the United States signed the Tax Act, which makes broad and complex changes to the U.S. Internal Revenue Code. Changes include, but are not limited to: (1) the lowering of the U.S. corporate tax rate from 35% to 21%; (2) the transition of U.S. international taxation from a worldwide tax system to a modified territorial system with a one-time transition tax on the deemed repatriation of cumulative foreign earnings as of December 31, 2017; (3) a new provision designed to tax global intangible low-taxed income (GILTI); (4) the creation of the base erosion anti-abuse tax (BEAT), which is effectively a new minimum tax; (5) the deduction for foreign-derived intangible income (FDII); (6) a new limitation on deductible interest expense; (7) the repeal of the domestic production activity deduction; and (8) limitations on the deductibility of certain executive compensation.

The Company is applying the guidance in ASU 2018-05 (see Note 1, *Basis of Presentation*) when accounting for the enactment date effects of the Tax Act. At September 30, 2018, the Company has not completed the accounting for all of the tax effects of the Tax Act; however, it has made a reasonable estimate of their effects based on currently available information. As described below, the Company has made changes to certain aspects of the provision for the Tax Act. Management will continue to refine the calculations as additional guidance is available. These estimates may be affected as additional clarification and implementation guidance becomes available. These changes could be material to income tax expense.

Remeasurement: The Company remeasured its future tax benefits and liabilities at the enacted tax rate of 21% and provided a provisional amount of \$21.5 million during fiscal year 2017. During the three and nine months ended September 30, 2018, the Company recognized a tax benefit of \$1.8 million and \$0.3 million, respectively, for the remeasurement of certain future tax liabilities and included these adjustments as a component of the provision for income tax from continuing operations.

One-Time Transition Tax: The Tax Act requires the Company to pay a one-time transition tax on the unremitted earnings of foreign subsidiaries. Based on available information, the Company estimated the tax on the deemed repatriation of foreign earnings and has recorded a tax expense of \$85.0 million in continuing operations at December 31, 2017. During the three months ended September 30, 2018, the Company refined its calculations of the one-time transition tax based on newly issued guidance from the Internal Revenue Service and recorded a tax benefit of \$5.1 million in continuing operations.

GILTI, FDII, and other provisions: For fiscal year beginning in 2018, the Company is subject to several provisions of the Tax Act including computations under GILTI, FDII, and other provisions. Management has made a reasonable estimate of the impact of each provision of the Tax Act on the Company's effective tax rate for the nine months ended September 30, 2018. Management will continue to refine the provisional estimates for the computations of the GILTI, FDII, and other provisions as additional clarification and implementation guidance becomes available.

Under U.S. GAAP, the Company is allowed to set an accounting policy on GILTI. The choice is either to (1) treat taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method"), or (2) factor such amounts into the measurement of deferred taxes (the "deferred method"). At September 30, 2018, the Company is still evaluating the GILTI provisions and the analysis of future taxable income that is subject to GILTI, thus, the Company has not recorded any potential deferred tax effects related to the GILTI in the financial statements and has not made a policy decision regarding whether to record deferred taxes on GILTI or use the period cost method.

Note 10: Debt

Senior Unsecured Revolving Credit Facility. The Company's senior unsecured revolving credit facility provides for \$1.0 billion of revolving loans and has an initial maturity of August 11, 2021. As of September 30, 2018, undrawn letters of credit in the aggregate amount of \$11.4 million were treated as issued and outstanding when calculating the borrowing availability under the senior unsecured revolving credit facility. As of September 30, 2018, the Company had \$577.6 million available for additional borrowing under the facility. The Company uses the senior unsecured revolving credit facility for general corporate purposes, which may include working capital, refinancing existing indebtedness, capital expenditures, share repurchases, acquisitions and strategic alliances. The interest rates under the senior unsecured revolving credit facility are based on the Eurocurrency rate or the base rate at the time of borrowing, plus a margin. The base rate is the higher of (i) the rate of interest in effect for such day as publicly announced from time to time by JP Morgan Chase Bank, N.A. as its "prime rate," (ii) the Federal Funds rate plus 50 basis points or (iii) an adjusted one-month Libor plus 1.00%. The Eurocurrency margin as of

[Table of Contents](#)

September 30, 2018 was 110 basis points. The weighted average Eurocurrency interest rate as of September 30, 2018 was 2.19%, resulting in a weighted average effective Eurocurrency rate, including the margin, of 3.29%, which was the interest applicable to the borrowings outstanding under the Eurocurrency rate as of September 30, 2018. As of September 30, 2018, the senior unsecured revolving credit facility had outstanding borrowings of \$411.0 million, and \$2.6 million of unamortized debt issuance costs. As of December 31, 2017, the senior unsecured revolving credit facility had outstanding borrowings of \$625.0 million, and \$3.3 million of unamortized debt issuance costs. The credit agreement for the facility contains affirmative, negative and financial covenants and events of default. The financial covenants include a debt-to-capital ratio that remains applicable for so long as the Company's debt is rated as investment grade. In the event that the Company's debt is not rated as investment grade, the debt-to-capital ratio covenant is replaced with a maximum consolidated leverage ratio covenant and a minimum consolidated interest coverage ratio covenant.

Senior Unsecured Term Loan Credit Facility. The Company entered into a senior unsecured term loan credit facility on August 11, 2017 that provided for \$200.0 million of term loans and had an initial maturity of twelve months from December 19, 2017, the date of the initial draw. The Company utilized the senior unsecured term loan facility for the acquisition of EUROIMMUN. The interest rates under the senior unsecured term loan credit facility were based on the Eurocurrency rate or the base rate at the time of the borrowing, plus a margin. The base rate is the higher of (i) the rate of interest in effect for such day as publicly announced from time to time by JP Morgan Chase Bank, N.A. as its "prime rate," (ii) the Federal Funds rate plus 50 basis points or (iii) an adjusted one-month Libor plus 1.00%. In April 2018, the Company paid in full the outstanding balance of \$200.0 million on the Company's senior unsecured term loan credit facility, from the proceeds of the 0.6% senior unsecured notes due in 2021 that were issued in April 2018.

5% Senior Unsecured Notes due in 2021. On October 25, 2011, the Company issued \$500.0 million aggregate principal amount of senior unsecured notes due in 2021 (the "November 2021 Notes") in a registered public offering and received \$493.6 million of net proceeds from the issuance. The November 2021 Notes were issued at 99.4% of the principal amount, which resulted in a discount of \$3.1 million. As of September 30, 2018, the November 2021 Notes had an aggregate carrying value of \$497.2 million, net of \$1.2 million of unamortized original issue discount and \$1.7 million of unamortized debt issuance costs. As of December 31, 2017, the November 2021 Notes had an aggregate carrying value of \$496.6 million, net of \$1.4 million of unamortized original issue discount and \$2.0 million of unamortized debt issuance costs. The November 2021 Notes mature in November 2021 and bear interest at an annual rate of 5%. Interest on the November 2021 Notes is payable semi-annually on May 15th and November 15th each year. Prior to August 15, 2021 (three months prior to their maturity date), the Company may redeem the November 2021 Notes in whole or in part, at its option, at a redemption price equal to the greater of (i) 100% of the principal amount of the November 2021 Notes to be redeemed, plus accrued and unpaid interest, or (ii) the sum of the present values of the remaining scheduled payments of principal and interest in respect to the November 2021 Notes being redeemed, discounted on a semi-annual basis, at the Treasury Rate plus 45 basis points, plus accrued and unpaid interest. At any time on or after August 15, 2021 (three months prior to their maturity date), the Company may redeem the November 2021 Notes, at its option, at a redemption price equal to 100% of the principal amount of the November 2021 Notes to be redeemed plus accrued and unpaid interest. Upon a change of control (as defined in the indenture governing the November 2021 Notes) and a contemporaneous downgrade of the November 2021 Notes below investment grade, each holder of November 2021 Notes will have the right to require the Company to repurchase such holder's November 2021 Notes for 101% of their principal amount, plus accrued and unpaid interest.

1.875% Senior Unsecured Notes due 2026. On July 19, 2016, the Company issued €500.0 million aggregate principal amount of senior unsecured notes due in 2026 (the "2026 Notes") in a registered public offering and received approximately €492.3 million of net proceeds from the issuance. The 2026 Notes were issued at 99.118% of the principal amount, which resulted in a discount of €4.4 million. The 2026 Notes mature in July 2026 and bear interest at an annual rate of 1.875%. Interest on the 2026 Notes is payable annually on July 19th each year. The proceeds from the 2026 Notes were used to pay in full the outstanding balance of the Company's previous senior unsecured revolving credit facility. As of September 30, 2018, the 2026 Notes had an aggregate carrying value of \$572.3 million, net of \$4.2 million of unamortized original issue discount and \$3.9 million of unamortized debt issuance costs. As of December 31, 2017, the 2026 Notes had an aggregate carrying value of \$591.7 million, net of \$4.7 million of unamortized original issue discount and \$4.3 million of unamortized debt issuance costs.

Prior to April 19, 2026 (three months prior to their maturity date), the Company may redeem the 2026 Notes in whole at any time or in part from time to time, at its option, at a redemption price equal to the greater of (i) 100% of the principal amount of the 2026 Notes to be redeemed, or (ii) the sum of the present values of the remaining scheduled payments of principal and interest in respect to the 2026 Notes being redeemed, discounted on an annual basis, at the applicable Comparable Government Bond Rate (as defined in the indenture governing the 2026 Notes) plus 35 basis points; plus, in each case, accrued and unpaid interest. In addition, at any time on or after April 19, 2026 (three months prior to their maturity date), the Company may redeem the 2026 Notes, at its option, at a redemption price equal to 100% of the principal amount of the 2026 Notes due to be redeemed plus accrued and unpaid interest.

[Table of Contents](#)

Upon a change of control (as defined in the indenture governing the 2026 Notes) and a contemporaneous downgrade of the 2026 Notes below investment grade, the Company will, in certain circumstances, make an offer to purchase the 2026 Notes at a price equal to 101% of their principal amount plus any accrued and unpaid interest.

0.6% Senior Unsecured Notes due in 2021. On April 11, 2018, the Company issued €300.0 million aggregate principal amount of senior unsecured notes due in 2021 (the “April 2021 Notes”) in a registered public offering and received approximately €298.7 million of net proceeds from the issuance. The April 2021 Notes were issued at 99.95% of the principal amount, which resulted in a discount of €0.2 million. As of September 30, 2018, the April 2021 Notes had an aggregate carrying value of \$345.8 million, net of \$0.2 million of unamortized original issue discount and \$2.3 million of unamortized debt issuance costs. The April 2021 Notes mature in April 2021 and bear interest at an annual rate of 0.6%. Interest on the April 2021 Notes is payable annually on April 9th each year. The proceeds from the April 2021 Notes were used to pay in full the outstanding balance of the Company’s senior unsecured term loan credit facility, and a portion of the outstanding senior unsecured revolving credit facility, and in each case the borrowings were incurred to pay a portion of the purchase price for the Company’s acquisition of EUROIMMUN, which closed in December 19, 2017. Prior to the maturity date of the April 2021 Notes, the Company may redeem them in whole at any time or in part from time to time, at its option, at a redemption price equal to the greater of (i) 100% of the principal amount of the April 2021 Notes to be redeemed, or (ii) the sum of the present values of the remaining scheduled payments of principal and interest in respect to the April 2021 Notes being redeemed, discounted on an annual basis, at the applicable Comparable Government Bond Rate (as defined in the indenture governing the April 2021 Notes) plus 15 basis points; plus, in each case, accrued and unpaid interest. Upon a change of control (as defined in the indenture governing the April 2021 Notes) and a contemporaneous downgrade of the April 2021 Notes below investment grade, the Company will, in certain circumstances, make an offer to purchase the April 2021 Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest.

Other Debt Facilities. The Company’s other debt facilities include Euro-denominated bank loans with an aggregate carrying value of \$35.3 million (or €30.4 million) and \$57.2 million (or €47.6 million) as of September 30, 2018 and December 31, 2017, respectively. These bank loans are primarily utilized for financing fixed assets and are repaid in monthly or quarterly installments with maturity dates extending to 2031. Of these bank loans, loans in the aggregate amount of \$35.1 million bear fixed interest rates between 1.1% and 5.5% and a loan in the amount of \$0.2 million bears a variable interest rate based on the Euribor rate plus a margin of 1.5%. An aggregate amount of \$5.4 million of the bank loans are secured by mortgages on real property and the remaining \$29.9 million are unsecured. Certain credit agreements for the unsecured bank loans include financial covenants which are based on an equity ratio or an equity ratio and minimum interest coverage ratio.

In addition, the Company has other unsecured revolving credit facilities and a secured bank loan in the amount of \$8.1 million and \$0.2 million, respectively, as of September 30, 2018. The unsecured revolving debt facilities bear fixed interest rates between 0.05% and 2.30%. The secured bank loan of \$0.2 million bears a fixed annual interest rate of 1.95% and is repaid in monthly installments until 2027.

Financing Lease Obligations. In fiscal year 2012, the Company entered into agreements with the lessors of certain buildings that the Company is currently occupying and leasing to expand those buildings. The Company provided a portion of the funds needed for the construction of the additions to the buildings, and as a result the Company was considered the owner of the buildings during the construction period. At the end of the construction period, the Company was not reimbursed by the lessors for all of the construction costs. The Company is therefore deemed to have continuing involvement and the leases qualify as financing leases under sale-leaseback accounting guidance, representing debt obligations for the Company and non-cash investing and financing activities. As a result, the Company capitalized \$29.3 million in property, plant and equipment, net, representing the fair value of the buildings with a corresponding increase to debt. The Company has also capitalized \$11.5 million in additional construction costs necessary to complete the renovations to the buildings, which were funded by the lessors, with a corresponding increase to debt. At September 30, 2018, the Company had \$34.9 million recorded for these financing lease obligations, of which \$1.5 million was recorded as short-term debt and \$33.4 million was recorded as long-term debt. At December 31, 2017, the Company had \$35.9 million recorded for these financing lease obligations, of which \$1.4 million was recorded as short-term debt and \$34.5 million was recorded as long-term debt. The buildings are being depreciated on a straight-line basis over the terms of the leases to their estimated residual values, which will equal the remaining financing obligation at the end of the lease term. At the end of the lease term, the remaining balances in property, plant and equipment, net and debt will be reversed against each other.

Note 11: Earnings Per Share

Basic earnings per share was computed by dividing net income by the weighted-average number of common shares outstanding during the period less restricted unvested shares. Diluted earnings per share was computed by dividing net income by the weighted-average number of common shares outstanding plus all potentially dilutive common stock equivalents,

[Table of Contents](#)

primarily shares issuable upon the exercise of stock options using the treasury stock method. The following table reconciles the number of shares utilized in the earnings per share calculations:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(In thousands)			
Number of common shares—basic	110,724	110,003	110,499	109,788
Effect of dilutive securities:				
Stock options	791	735	813	669
Restricted stock awards	232	255	198	196
Number of common shares—diluted	111,747	110,993	111,510	110,653
Number of potentially dilutive securities excluded from calculation due to antidilutive impact	358	14	346	377

Antidilutive securities include outstanding stock options with exercise prices and average unrecognized compensation cost in excess of the average fair market value of common stock for the related period. Antidilutive options were excluded from the calculation of diluted net income per share and could become dilutive in the future.

Note 12: Industry Segment Information

The Company discloses information about its operating segments based on the way that management organizes the segments within the Company for making operating decisions and assessing financial performance. The Company evaluates the performance of its operating segments based on revenue and operating income. Intersegment revenue and transfers are not significant. The accounting policies of the operating segments are the same as those described in Note 1 to the audited consolidated financial statements in the 2017 Form 10-K.

The principal products and services of the Company's two operating segments are:

- *Discovery & Analytical Solutions*. Provides products and services targeted towards the life sciences and applied markets.
- *Diagnostics*. Develops diagnostics, tools and applications focused on clinically-oriented customers, especially within the reproductive health, emerging market diagnostics and applied genomics markets. The Diagnostics segment serves the diagnostics market.

The Company has included the expenses for its corporate headquarters, such as legal, tax, audit, human resources, information technology, and other management and compliance costs, as well as the activity related to the mark-to-market adjustment on postretirement benefit plans, as "Corporate" below. The Company has a process to allocate and recharge expenses to the reportable segments when these costs are administered or paid by the corporate headquarters based on the extent to which the segment benefited from the expenses. These amounts have been calculated in a consistent manner and are included in the Company's calculations of segment results to internally plan and assess the performance of each segment for all purposes, including determining the compensation of the business leaders for each of the Company's operating segments.

[Table of Contents](#)

Revenue and operating income (loss) from continuing operations by operating segment are shown in the table below:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
(In thousands)				
Discovery & Analytical Solutions				
Product revenue	\$ 247,250	\$ 222,618	\$ 748,270	\$ 665,068
Service revenue	158,916	162,764	485,049	465,202
Total revenue	406,166	385,382	1,233,319	1,130,270
Operating income from continuing operations	48,381	47,258	149,243	128,604
Diagnostics				
Product revenue	227,273	132,201	669,469	378,466
Service revenue	40,874	36,692	118,859	106,616
Total revenue	268,147	168,893	788,328	485,082
Operating income from continuing operations	47,411	43,361	104,585	113,024
Corporate				
Operating loss from continuing operations	(15,590)	(12,581)	(45,627)	(39,596)
Continuing Operations				
Product revenue	474,523	354,819	1,417,739	1,043,534
Service revenue	199,790	199,456	603,908	571,818
Total revenue	674,313	554,275	2,021,647	1,615,352
Operating income from continuing operations	80,202	78,038	208,201	202,032
Interest and other expense (income), net (see Note 7)	2,161	(27,016)	29,947	(13,797)
Income from continuing operations before income taxes	\$ 78,041	\$ 105,054	\$ 178,254	\$ 215,829

Note 13: Stockholders' Equity

Comprehensive Income:

The components of accumulated other comprehensive loss consisted of the following:

	September 30, 2018	December 31, 2017
(In thousands)		
Foreign currency translation adjustments	\$ (160,780)	\$ (46,582)
Unrecognized prior service costs, net of income taxes	322	322
Unrealized net losses on securities, net of income taxes	(190)	(258)
Accumulated other comprehensive loss	\$ (160,648)	\$ (46,518)

Stock Repurchases:

On July 27, 2016, the Board of Directors (the "Board") authorized the Company to repurchase up to 8.0 million shares of common stock under a stock repurchase program (the "Repurchase Program"). On July 23, 2018, the Board authorized the Company to immediately terminate the Repurchase Program and further authorized the Company to repurchase shares of common stock for an aggregate amount up to \$250.0 million under a new stock repurchase program (the "New Repurchase Program"). The New Repurchase Program will expire on July 23, 2020 unless terminated earlier by the Board and may be suspended or discontinued at any time. During the nine months ended September 30, 2018, the Company had no stock repurchases under either the Repurchase Program or the New Repurchase Program. No shares remain available for repurchase under the Repurchase Program due to its cancellation. As of September 30, 2018, \$250.0 million remained available for aggregate repurchases of shares under the New Repurchase Program.

In addition, the Board has authorized the Company to repurchase shares of common stock to satisfy minimum statutory tax withholding obligations in connection with the vesting of restricted stock awards and restricted stock unit awards granted pursuant to the Company's equity incentive plans and to satisfy obligations related to the exercise of stock options made

[Table of Contents](#)

pursuant to the Company's equity incentive plans. During the three months ended September 30, 2018, the Company repurchased 3,807 shares of common stock for this purpose at an aggregate cost of \$0.3 million. During the nine months ended September 30, 2018, the Company repurchased 63,506 shares of common stock for this purpose at an aggregate cost of \$5.0 million. The repurchased shares have been reflected as additional authorized but unissued shares, with the payments reflected in common stock and capital in excess of par value.

Dividends:

The Board declared a regular quarterly cash dividend of \$0.07 per share for the first three quarters of fiscal year 2018 and in each quarter of fiscal year 2017. At September 30, 2018, the Company has accrued \$7.8 million for dividends declared on July 23, 2018 for the third quarter of fiscal year 2018 that will be payable on November 9, 2018. On October 24, 2018, the Company announced that the Board had declared a quarterly dividend of \$0.07 per share for the fourth quarter of fiscal year 2018 that will be payable on February 8, 2019. In the future, the Board may determine to reduce or eliminate the Company's common stock dividend in order to fund investments for growth, repurchase shares or conserve capital resources.

Note 14: Stock Plans

In addition to the Company's Employee Stock Purchase Plan, the Company utilizes one stock-based compensation plan, the 2009 Incentive Plan (the "2009 Plan"). Under the 2009 Plan, 10.0 million shares of the Company's common stock are authorized for stock option grants, restricted stock awards, performance restricted stock units, performance units and stock awards as part of the Company's compensation programs. In addition to shares of the Company's common stock originally authorized for issuance under the 2009 Plan, the 2009 Plan includes shares of the Company's common stock previously granted under the Amended and Restated 2001 Incentive Plan and the 2005 Incentive Plan that were canceled or forfeited without the shares being issued.

The following table summarizes total pre-tax compensation expense recognized related to the Company's stock option grants, restricted stock awards, performance restricted stock units, performance units and stock awards, included in the Company's condensed consolidated statements of operations for the three and nine months ended September 30, 2018 and October 1, 2017:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(In thousands)			
Cost of revenue	\$ 430	\$ 357	\$ 1,093	\$ 898
Research and development expenses	335	373	1,029	1,077
Selling, general and administrative expenses	10,362	3,682	21,153	14,204
Total stock-based compensation expense	<u>\$ 11,127</u>	<u>\$ 4,412</u>	<u>\$ 23,275</u>	<u>\$ 16,179</u>

The total income tax benefit recognized in the condensed consolidated statements of operations for stock-based compensation was \$6.1 million and \$10.6 million for the three and nine months ended September 30, 2018, respectively. The total income tax benefit recognized in the condensed consolidated statements of operations for stock-based compensation was \$1.9 million and \$9.9 million for the three and nine months ended October 1, 2017, respectively. Stock-based compensation costs capitalized as part of inventory were \$0.4 million as of each of September 30, 2018 and October 1, 2017.

Stock Options: The fair value of each option grant is estimated using the Black-Scholes option pricing model. The Company's weighted-average assumptions used in the Black-Scholes option pricing model were as follows:

	Three and Nine Months Ended	
	September 30, 2018	October 1, 2017
Risk-free interest rate	2.9%	1.5%
Expected dividend yield	0.4%	0.4%
Expected term	5 years	5 years
Expected stock volatility	20.7%	22.4%

[Table of Contents](#)

The following table summarizes stock option activity for the nine months ended September 30, 2018:

	Number of Shares	Weighted- Average Exercise Price	Weighted-Average Remaining Contractual Term	Total Intrinsic Value
	(In thousands)		(In years)	(In millions)
Outstanding at December 31, 2017	2,154	\$ 42.77		
Granted	363	77.81		
Exercised	(554)	35.19		
Forfeited	(43)	51.62		
Outstanding at September 30, 2018	1,920	\$ 51.38	4.3	\$ 88.1
Exercisable at September 30, 2018	1,113	\$ 43.10	3.2	\$ 60.3

The weighted-average per-share grant-date fair value of options granted during the three and nine months ended September 30, 2018 was \$18.65 and \$17.56, respectively. The weighted-average per-share grant-date fair value of options granted during the three and nine months ended October 1, 2017 was \$14.32 and \$11.79, respectively. The total intrinsic value of options exercised during the three and nine months ended September 30, 2018 was \$18.9 million and \$25.3 million, respectively. The total intrinsic value of options exercised during the three and nine months ended October 1, 2017 was \$0.7 million and \$12.8 million, respectively. Cash received from option exercises for the nine months ended September 30, 2018 and October 1, 2017 was \$19.5 million and \$14.0 million, respectively.

The total compensation expense recognized related to the Company's outstanding options was \$1.4 million and \$4.0 million for the three and nine months ended September 30, 2018, respectively, and \$1.1 million and \$3.5 million for the three and nine months ended October 1, 2017, respectively.

There was \$8.0 million of total unrecognized compensation cost related to nonvested stock options granted as of September 30, 2018. This cost is expected to be recognized over a weighted-average period of 2.0 years.

Restricted Stock Awards: The following table summarizes restricted stock award activity for the nine months ended September 30, 2018:

	Number of Shares	Weighted- Average Grant- Date Fair Value
	(In thousands)	
Nonvested at December 31, 2017	496	\$ 50.30
Granted	206	75.78
Vested	(200)	50.18
Forfeited	(32)	53.67
Nonvested at September 30, 2018	470	\$ 61.38

The fair value of restricted stock awards vested during the three and nine months ended September 30, 2018 was \$1.1 million and \$10.0 million, respectively. The fair value of restricted stock awards vested during the three and nine months ended October 1, 2017 was \$0.5 million and \$9.8 million, respectively. The total compensation expense recognized related to the Company's outstanding restricted stock awards was \$3.0 million and \$8.7 million for the three and nine months ended September 30, 2018, respectively, and \$2.3 million and \$7.8 million for the three and nine months ended October 1, 2017, respectively.

As of September 30, 2018, there was \$18.9 million of total unrecognized compensation cost related to nonvested restricted stock awards. This cost is expected to be recognized over a weighted-average period of 1.5 years.

Performance Restricted Stock Units: As part of the Company's executive compensation program, the Company granted 39,133 performance restricted stock units during the nine months ended September 30, 2018 that will vest based on performance of the Company. The weighted-average per-share grant date fair value of performance restricted stock units granted during the nine months ended September 30, 2018 was \$80.31. During the nine months ended September 30, 2018, 5,797 performance restricted stock units were forfeited. As of September 30, 2018, there were 87,673 performance restricted

stock units outstanding. The total compensation expense recognized related to the performance restricted stock units was \$1.3 million and \$2.2 million for the three and nine months ended September 30, 2018, respectively, and \$0.2 million and \$0.6 million for the three and nine months ended October 1, 2017, respectively.

Performance Units: As part of the Company's executive compensation program, the Company granted 37,281 performance units during the nine months ended September 30, 2018. The weighted-average per-share grant-date fair value of performance units granted during the nine months ended September 30, 2018 was \$73.23. During the nine months ended September 30, 2018, no performance units were forfeited. As of September 30, 2018, there were 201,762 performance units outstanding and subject to forfeiture, with a corresponding liability of \$13.9 million recorded in accrued expenses and other current liabilities. The total compensation expense recognized related to performance units was \$5.3 million and \$7.6 million for the three and nine months ended September 30, 2018, respectively, and \$0.8 million and \$3.6 million for the three and nine months ended October 1, 2017, respectively.

Stock Awards: The Company's stock award program provides an annual equity award to non-employee directors. The Company granted 1,386 shares to each non-employee member of the Board during the nine months ended September 30, 2018. The weighted-average per-share grant-date fair value of the stock awards granted during the nine months ended September 30, 2018 was \$72.17. The total compensation expense recognized related to the stock awards was \$0.8 million and \$0.7 million for the nine months ended September 30, 2018 and October 1, 2017, respectively.

Employee Stock Purchase Plan: During the nine months ended September 30, 2018, the Company issued 21,321 shares of common stock under the Company's Employee Stock Purchase Plan at a weighted-average price of \$69.57 per share. During the nine months ended October 1, 2017, the Company issued 18,483 shares of common stock under the Company's Employee Stock Purchase Plan at a weighted-average price of \$64.73 per share. At September 30, 2018, an aggregate of 0.8 million shares of the Company's common stock remained available for sale to employees out of the 5.0 million shares authorized by shareholders for issuance under this plan.

Note 15: Goodwill and Intangible Assets, Net

The Company tests goodwill and non-amortizing intangible assets at least annually for possible impairment. Accordingly, the Company completes the annual testing of impairment for goodwill and non-amortizing intangible assets on the later of January 1 or the first day of each fiscal year. In addition to its annual test, the Company regularly evaluates whether events or circumstances have occurred that may indicate a potential impairment of goodwill or non-amortizing intangible assets.

The process of testing goodwill for impairment involves the determination of the fair value of the applicable reporting units. The test consists of the comparison of the fair value to the carrying value of the reporting unit to determine if the carrying value exceeds the fair value. If the carrying value of the reporting unit exceeds its fair value, an impairment loss in an amount equal to that excess is recognized up to the amount of goodwill. The Company performed its annual impairment testing for its reporting units as of January 1, 2018, its annual impairment testing date for fiscal year 2018. The Company concluded that there was no goodwill impairment, and the fair value exceeded the carrying value by more than 20.0% for each reporting unit, except for the Company's Informatics reporting unit which had a fair value that was less than 20% but more than 10% of its carrying value. The range of the long-term terminal growth rates for the Company's reporting units was 3.0% to 5.00% for the fiscal year 2018 impairment analysis. The range for the discount rates for the reporting units was 9.0% to 15.0%. Keeping all other variables constant, a 10.0% change in any one of these input assumptions for the various reporting units, except for the Informatics reporting unit, would still allow the Company to conclude that there was no impairment of goodwill. As of January 1, 2018, the Company's Informatics reporting unit, which had a goodwill balance of \$217.2 million, was at increased risk of an impairment charge given its ongoing weakness due to a highly competitive industry. Despite the increased risk associated with this reporting unit, the Company does not currently expect a significant change in the key estimates or assumptions driving the fair value of this reporting unit that would lead to a material impairment charge.

The Company has consistently employed the income approach to estimate the current fair value when testing for impairment of goodwill. A number of significant assumptions and estimates are involved in the application of the income approach to forecast operating cash flows, including markets and market share, sales volumes and prices, costs to produce, tax rates, capital spending, discount rates and working capital changes. Cash flow forecasts are based on approved business unit operating plans for the early years' cash flows and historical relationships in later years. The income approach is sensitive to changes in long-term terminal growth rates and the discount rates. The long-term terminal growth rates are consistent with the Company's historical long-term terminal growth rates, as the current economic trends are not expected to affect the long-term terminal growth rates of the Company. The Company corroborates the income approach with a market approach.

The Company has consistently employed the relief from royalty model to estimate the current fair value when testing for impairment of non-amortizing intangible assets. The impairment test consists of a comparison of the fair value of the non-

[Table of Contents](#)

amortizing intangible asset with its carrying amount. If the carrying amount of a non-amortizing intangible asset exceeds its fair value, an impairment loss in an amount equal to that excess is recognized. In addition, the Company evaluates the remaining useful lives of its non-amortizing intangible assets at least annually to determine whether events or circumstances continue to support an indefinite useful life. If events or circumstances indicate that the useful lives of non-amortizing intangible assets are no longer indefinite, the assets will be tested for impairment. These intangible assets will then be amortized prospectively over their estimated remaining useful lives and accounted for in the same manner as other intangible assets that are subject to amortization. The Company performed its annual impairment testing as of January 1, 2018, and concluded that there was no impairment of non-amortizing intangible assets. An assessment of the recoverability of amortizing intangible assets takes place when events have occurred that may give rise to an impairment. No such events occurred during the first nine months of fiscal year 2018.

The changes in the carrying amount of goodwill for the nine months ended September 30, 2018 were as follows:

	Discovery & Analytical Solutions	Diagnostics	Consolidated
	(In thousands)		
Balance at December 31, 2017	\$ 1,344,235	\$ 1,657,963	\$ 3,002,198
Foreign currency translation	(26,167)	(31,613)	(57,780)
Acquisitions and other	(7,980)	(15,749)	(23,729)
Balance at September 30, 2018	<u>\$ 1,310,088</u>	<u>\$ 1,610,601</u>	<u>\$ 2,920,689</u>

Identifiable intangible asset balances at September 30, 2018 and December 31, 2017 by category were as follows:

	September 30, 2018	December 31, 2017
	(In thousands)	
Patents	\$ 42,951	\$ 39,959
Less: Accumulated amortization	(37,046)	(35,085)
Net patents	<u>5,905</u>	<u>4,874</u>
Trade names and trademarks	78,628	80,974
Less: Accumulated amortization	(32,251)	(28,250)
Net trade names and trademarks	<u>46,377</u>	<u>52,724</u>
Licenses	52,261	53,300
Less: Accumulated amortization	(44,889)	(42,635)
Net licenses	<u>7,372</u>	<u>10,665</u>
Core technology	476,403	471,740
Less: Accumulated amortization	(272,475)	(244,916)
Net core technology	<u>203,928</u>	<u>226,824</u>
Customer relationships	1,108,220	1,141,511
Less: Accumulated amortization	(290,616)	(242,840)
Net customer relationships	<u>817,604</u>	<u>898,671</u>
IPR&D	81,813	88,025
Less: Accumulated amortization	(9,808)	(5,427)
Net IPR&D	<u>72,005</u>	<u>82,598</u>
Net amortizable intangible assets	<u>1,153,191</u>	<u>1,276,356</u>
Non-amortizing intangible asset:		
Trade name	<u>70,584</u>	<u>70,584</u>
Total	<u>\$ 1,223,775</u>	<u>\$ 1,346,940</u>

Total amortization expense related to definite-lived intangible assets was \$35.3 million and \$100.7 million for the three and nine months ended September 30, 2018, respectively, and \$17.7 million and \$52.3 million for the three and nine months ended October 1, 2017, respectively. Estimated amortization expense related to definite-lived intangible assets for each of the

[Table of Contents](#)

next five years is \$37.6 million for the remainder of fiscal year 2018, \$148.3 million for fiscal year 2019, \$150.4 million for fiscal year 2020, \$135.2 million for fiscal year 2021, and \$123.8 million for fiscal year 2022.

Note 16: Warranty Reserves

The Company provides warranty protection for certain products usually for a period of one year beyond the date of sale. The majority of costs associated with warranty obligations include the replacement of parts and the time for service personnel to respond to repair and replacement requests. A warranty reserve is recorded based upon historical results, supplemented by management's expectations of future costs. Warranty reserves are included in "Accrued expenses and other current liabilities" on the condensed consolidated balance sheets.

A summary of warranty reserve activity for the three and nine months ended September 30, 2018 and October 1, 2017 is as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(In thousands)			
Balance at beginning of period	\$ 8,943	\$ 9,088	\$ 9,050	\$ 9,012
Provision charged to income	3,327	3,326	10,012	9,706
Payments	(3,547)	(3,488)	(10,514)	(10,625)
Adjustments to previously provided warranties, net	(226)	(730)	110	(215)
Foreign currency translation and acquisitions	(49)	117	(210)	435
Balance at end of period	\$ 8,448	\$ 8,313	\$ 8,448	\$ 8,313

Note 17: Employee Postretirement Benefit Plans

The following table summarizes the components of net periodic pension credit for the Company's various defined benefit employee pension and postretirement plans for the three and nine months ended September 30, 2018 and October 1, 2017:

	Defined Benefit Pension Benefits		Postretirement Medical Benefits	
	Three Months Ended			
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(In thousands)			
Service and administrative costs	\$ 1,712	\$ 1,231	\$ 27	\$ 23
Interest cost	4,051	4,160	30	32
Expected return on plan assets	(7,270)	(6,568)	(314)	(279)
Amortization of prior service costs	(41)	(49)	—	—
Net periodic pension credit	\$ (1,548)	\$ (1,226)	\$ (257)	\$ (224)

	Defined Benefit Pension Benefits		Postretirement Medical Benefits	
	Nine Months Ended			
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(In thousands)			
Service and administrative costs	\$ 5,180	\$ 3,667	\$ 80	\$ 69
Interest cost	12,212	12,420	90	94
Expected return on plan assets	(21,926)	(19,609)	(941)	(836)
Amortization of prior service costs	(123)	(144)	—	—
Net periodic benefit credit	\$ (4,657)	\$ (3,666)	\$ (771)	\$ (673)

During the nine months ended September 30, 2018 and October 1, 2017, the Company contributed \$6.4 million and \$6.2 million, respectively, in the aggregate, to pension plans outside of the United States. During the nine months ended

September 30, 2018, the Company contributed \$15.0 million to its defined benefit pension plan in the United States for the plan year 2017.

The Company recognizes actuarial gains and losses, unless an interim remeasurement is required, in the fourth quarter of the year in which the gains and losses occur, in accordance with the Company's accounting method for defined benefit pension plans and other postretirement benefits as described in Note 1 of the Company's audited consolidated financial statements and notes included in its 2017 Form 10-K. Such adjustments for gains and losses are primarily driven by events and circumstances beyond the Company's control, including changes in interest rates, the performance of the financial markets and mortality assumptions. As discussed in Note 1, *Basis of Presentation*, the Company adopted ASU 2017-17 on January 1, 2018. Actuarial gains and losses are now recognized in the line item "Interest and other expense, net" in the condensed consolidated statement of operations. Actuarial gains and losses were presented within operating income prior to the adoption. As such, prior year amounts, including other components of periodic pension cost, have been reclassified to "Interest and other expense, net" in the condensed consolidated statement of operations due to the retrospective adoption of ASU 2017-17.

Note 18: Derivatives and Hedging Activities

The Company uses derivative instruments as part of its risk management strategy only, and includes derivatives utilized as economic hedges that are not designated as hedging instruments. By nature, all financial instruments involve market and credit risks. The Company enters into derivative instruments with major investment grade financial institutions and has policies to monitor the credit risk of those counterparties. The Company does not enter into derivative contracts for trading or other speculative purposes, nor does the Company use leveraged financial instruments. Approximately 70% of the Company's business is conducted outside of the United States, generally in foreign currencies. As a result, fluctuations in foreign currency exchange rates can increase the costs of financing, investing and operating the business.

In the ordinary course of business, the Company enters into foreign exchange contracts for periods consistent with its committed exposures to mitigate the effect of foreign currency movements on transactions denominated in foreign currencies. The intent of these economic hedges is to offset gains and losses that occur on the underlying exposures from these currencies, with gains and losses resulting from the forward currency contracts that hedge these exposures. Transactions covered by hedge contracts include intercompany and third-party receivables and payables. The contracts are primarily in European and Asian currencies, have maturities that do not exceed 12 months, have no cash requirements until maturity, and are recorded at fair value on the Company's condensed consolidated balance sheets. The unrealized gains and losses on the Company's foreign currency contracts are recognized immediately in interest and other expense, net. The cash flows related to the settlement of these hedges are included in cash flows from operating activities within the Company's condensed consolidated statement of cash flows.

Principal hedged currencies include the British Pound, Euro, Swedish Krona, Japanese Yen and Singapore Dollar. The Company held forward foreign exchange contracts, designated as economic hedges, with U.S. dollar equivalent notional amounts totaling \$180.4 million, \$212.1 million and \$140.0 million at September 30, 2018, December 31, 2017 and October 1, 2017, respectively, and the fair value of these foreign currency derivative contracts was insignificant. The gains and losses realized on these foreign currency derivative contracts are not material. The duration of these contracts was generally 30 days or less during each of the nine months ended September 30, 2018 and October 1, 2017.

In addition, in connection with certain intercompany loan agreements utilized to finance its acquisitions and stock repurchase program, the Company enters into forward foreign exchange contracts intended to hedge movements in foreign exchange rates prior to settlement of such intercompany loans denominated in foreign currencies. The Company records these hedges at fair value on the Company's condensed consolidated balance sheets. The unrealized gains and losses on these hedges, as well as the gains and losses associated with the remeasurement of the intercompany loans, are recognized immediately in interest and other expense, net. The cash flows related to the settlement of these hedges are included in cash flows from financing activities within the Company's condensed consolidated statement of cash flows.

The outstanding forward exchange contracts designated as economic hedges, which were intended to hedge movements in foreign exchange rates prior to the settlement of certain intercompany loan agreements, included combined Euro notional amounts of €48.7 million and combined U.S. Dollar notional amounts of \$28.0 million as of September 30, 2018, combined Euro notional amounts of €57.2 million and combined U.S. Dollar notional amounts of \$1.3 billion as of December 31, 2017, and combined Euro notional amounts of €19.0 million and combined U.S. Dollar notional amounts of \$12.3 million as of October 1, 2017. The net gains and losses on these derivatives, combined with the gains and losses on the remeasurement of the hedged intercompany loans were not material for each of the three and nine months ended September 30, 2018 and October 1, 2017. The Company paid \$30.3 million and \$11.5 million during the nine months ended September 30, 2018 and October 1, 2017, respectively, from the settlement of these hedges.

In April 2018, the Company entered into a series of foreign currency forward contracts with a notional amount of €298.7 million to hedge its investments in certain foreign subsidiaries. Realized and unrealized translation adjustments from these hedges were included in the foreign currency translation component of accumulated other comprehensive income ("AOCI"), which offsets translation adjustments on the underlying net assets of foreign subsidiaries. The cumulative translation gains or losses will remain in AOCI until the foreign subsidiaries are liquidated or sold. The foreign currency forward contracts were settled during the second quarter of 2018 and the Company recorded a net realized foreign exchange loss in AOCI of \$2.6 million for the nine months ended September 30, 2018.

During fiscal year 2016, the Company designated the 2026 Notes to hedge its investments in certain foreign subsidiaries. In January 2018, the Company removed the hedging relationship of its 2026 Notes and investments in certain foreign subsidiaries and recognized \$2.1 million of unrealized foreign exchange gain in AOCI. In April 2018, the Company designated a portion of the 2026 Notes to hedge its investments in certain foreign subsidiaries. Unrealized translation adjustments from a portion of the 2026 Notes were included in the foreign currency translation component of AOCI, which offsets translation adjustments on the underlying net assets of foreign subsidiaries. The cumulative translation gains or losses will remain in AOCI until the foreign subsidiaries are liquidated or sold. As of September 30, 2018, the total notional amount of the 2026 Notes that was designated to hedge investments in foreign subsidiaries was €135.1 million. The unrealized foreign exchange gain recorded in AOCI related to the net investment hedge was \$0.8 million and \$7.7 million for the three and nine months ended September 30, 2018, respectively.

In April 2018, the Company designated the April 2021 Notes with a notional amount of €298.7 million to hedge its investments in certain foreign subsidiaries. Unrealized translation adjustments from the April 2021 Notes were included in the foreign currency translation component of AOCI, which offsets translation adjustments on the underlying net assets of foreign subsidiaries. The cumulative translation gains or losses will remain in AOCI until the foreign subsidiaries are liquidated or sold. As of September 30, 2018, the total notional amount of the April 2021 Notes that was designated to hedge investments in foreign subsidiaries was €298.7 million. The unrealized foreign exchange gain recorded in AOCI related to the net investment hedge was \$1.8 million and \$22.6 million for the three and nine months ended September 30, 2018, respectively.

The Company does not expect any material net pre-tax gains or losses to be reclassified from accumulated other comprehensive loss into interest and other expense, net within the next twelve months.

Note 19: Fair Value Measurements

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents, derivatives, marketable securities and accounts receivable. The Company believes it had no significant concentrations of credit risk as of September 30, 2018.

The Company uses the market approach technique to value its financial instruments and there were no changes in valuation techniques during the nine months ended September 30, 2018. The Company's financial assets and liabilities carried at fair value are primarily comprised of marketable securities, derivative contracts used to hedge the Company's currency risk, and acquisition-related contingent consideration. The Company has not elected to measure any additional financial instruments or other items at fair value.

Valuation Hierarchy: The following summarizes the three levels of inputs required to measure fair value. For Level 1 inputs, the Company utilizes quoted market prices as these instruments have active markets. For Level 2 inputs, the Company utilizes quoted market prices in markets that are not active, broker or dealer quotations, or utilizes alternative pricing sources with reasonable levels of price transparency. For Level 3 inputs, the Company utilizes unobservable inputs based on the best information available, including estimates by management primarily based on information provided by third-party fund managers, independent brokerage firms and insurance companies. A financial asset's or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

[Table of Contents](#)

The following tables show the assets and liabilities carried at fair value measured on a recurring basis as of September 30, 2018 and December 31, 2017 classified in one of the three classifications described above:

	Fair Value Measurements at September 30, 2018 Using:			
	Total Carrying Value at September 30, 2018	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Marketable securities	\$ 2,405	\$ 2,405	\$ —	\$ —
Foreign exchange derivative assets	1,273	—	1,273	—
Foreign exchange derivative liabilities	(4,694)	—	(4,694)	—
Contingent consideration	(67,126)	—	—	(67,126)

	Fair Value Measurements at December 31, 2017 Using:			
	Total Carrying Value at December 31, 2017	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Marketable securities	\$ 2,208	\$ 2,208	\$ —	\$ —
Foreign exchange derivative assets	1,431	—	1,431	—
Foreign exchange derivative liabilities	(23,638)	—	(23,638)	—
Contingent consideration	(65,328)	—	—	(65,328)

Level 1 and Level 2 Valuation Techniques: The Company's Level 1 and Level 2 assets and liabilities are comprised of investments in equity and fixed-income securities as well as derivative contracts. For financial assets and liabilities that utilize Level 1 and Level 2 inputs, the Company utilizes both direct and indirect observable price quotes, including common stock price quotes, foreign exchange forward prices and bank price quotes. Below is a summary of valuation techniques for Level 1 and Level 2 financial assets and liabilities.

Marketable securities: Include equity and fixed-income securities measured at fair value using the quoted market prices in active markets at the reporting date.

Foreign exchange derivative assets and liabilities: Include foreign exchange derivative contracts that are valued using quoted forward foreign exchange prices at the reporting date. The Company's foreign exchange derivative contracts are subject to master netting arrangements that allow the Company and its counterparties to net settle amounts owed to each other. Derivative assets and liabilities that can be net settled under these arrangements have been presented in the Company's condensed consolidated balance sheet on a net basis and are recorded in other assets. As of both September 30, 2018 and December 31, 2017, none of the master netting arrangements involved collateral.

Level 3 Valuation Techniques: The Company's Level 3 liabilities are comprised of contingent consideration related to acquisitions. For liabilities that utilize Level 3 inputs, the Company uses significant unobservable inputs. Below is a summary of valuation techniques for Level 3 liabilities.

Contingent consideration: Contingent consideration is measured at fair value at the acquisition date using projected milestone dates, discount rates, probabilities of success and projected revenues (for revenue-based considerations). Projected risk-adjusted contingent payments are discounted back to the current period using a discounted cash flow model.

During fiscal year 2015, the Company acquired certain assets and assumed certain liabilities from Vanadis Diagnostics AB ("Vanadis"). Under the terms of the acquisition, the initial purchase consideration was \$32.0 million, net of cash and the Company will be obligated to make potential future milestone payments, based on completion of a proof of concept, regulatory approvals and product sales, of up to \$93.0 million ranging from 2016 to 2019. The fair value of the contingent consideration as of the acquisition date was estimated at \$56.9 million. During the third quarter of fiscal year 2018, the Company updated the fair value of the contingent consideration and recorded a liability of \$59.6 million as of September 30, 2018. The key assumptions used to determine the fair value of the contingent consideration as of September 30, 2018 included projected milestone dates of 2018 to 2019, discount rates ranging from 3.4% to 6.5%, conditional probabilities of success of each individual milestone ranging from 95% to 98% and cumulative probabilities of success for each individual milestone ranging from 84.0% to 98%. A significant delay in the product development (including projected regulatory milestone) achievement

[Table of Contents](#)

date in isolation could result in a significantly lower fair value measurement; a significant acceleration in the product development (including projected regulatory milestone) achievement date in isolation would not have a material impact on the fair value measurement; a significant change in the discount rate in isolation would not have a material impact on the fair value measurement; and a significant change in the probabilities of success in isolation could result in a significant change in fair value measurement.

During the third quarter of fiscal year 2018, the Company recorded a contingent consideration obligation relating to its acquisition of DNA Labs with an estimated fair value of \$5.8 million and the Company paid \$16.5 million of contingent consideration to the former shareholders of Vanadis, of which \$12.8 million was included in financing activities and \$3.7 million was included in operating activities in the condensed consolidated statement of cash flows.

The fair values of contingent consideration are calculated on a quarterly basis based on a collaborative effort of the Company's regulatory, research and development, operations, finance and accounting groups, as appropriate. Potential valuation adjustments are made as additional information becomes available, including the progress towards achieving proof of concept, regulatory approvals and revenue targets as compared to initial projections, the impact of market competition and market landscape shifts from non-invasive prenatal testing products, with the impact of such adjustments being recorded in the Company's consolidated statements of operations.

As of September 30, 2018, the Company may have to pay contingent consideration related to acquisitions with open contingency periods of up to \$76.5 million. The expected maximum earnout period for the acquisitions with open contingency periods does not exceed 2.0 years from September 30, 2018, and the remaining weighted average expected earnout period at September 30, 2018 was 0.6 years.

A reconciliation of the beginning and ending Level 3 net liabilities for contingent consideration is as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(In thousands)			
Balance at beginning of period	\$ (74,093)	\$ (64,076)	\$ (65,328)	\$ (63,201)
Additions	(5,800)	—	(7,500)	—
Amounts paid and foreign currency translation	16,507	—	16,507	34
Change in fair value (included within selling, general and administrative expenses)	(3,740)	(651)	(10,805)	(1,560)
Balance at end of period	<u>\$ (67,126)</u>	<u>\$ (64,727)</u>	<u>\$ (67,126)</u>	<u>\$ (64,727)</u>

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value due to the short-term maturities of these assets and liabilities. If measured at fair value, cash and cash equivalents would be classified as Level 1.

As of September 30, 2018, the Company's senior unsecured revolving credit facility, which provides for \$1.0 billion of revolving loans, had a carrying value of \$408.4 million, net of \$2.6 million of unamortized debt issuance costs. As of December 31, 2017, the Company's senior unsecured revolving credit facility had a carrying value of \$621.7 million, net of \$3.3 million of unamortized debt issuance costs. The interest rate on the Company's senior unsecured revolving credit facility is reset at least monthly to correspond to variable rates that reflect currently available terms and conditions for similar debt. The Company had no change in credit standing during the first nine months of fiscal year 2018. Consequently, the carrying value approximates fair value and were classified as Level 2.

The Company's November 2021 Notes, with a face value of \$500.0 million, had an aggregate carrying value of \$497.2 million, net of \$1.2 million of unamortized original issue discount and \$1.7 million of unamortized debt issuance costs as of September 30, 2018. The November 2021 Notes had an aggregate carrying value of \$496.6 million, net of \$1.4 million of unamortized original issue discount and \$2.0 million of unamortized debt issuance costs as of December 31, 2017. The November 2021 Notes had a fair value of \$515.6 million and \$536.6 million as of September 30, 2018 and December 31, 2017, respectively. The fair value of the November 2021 Notes is estimated using market quotes from brokers and is based on current rates offered for similar debt.

The Company's 2026 Notes, with a face value of €500.0 million, had an aggregate carrying value of \$572.3 million, net of \$4.2 million of unamortized original issue discount and \$3.9 million of unamortized debt issuance costs as of September 30, 2018. The 2026 Notes had an aggregate carrying value of \$591.7 million, net of \$4.7 million of unamortized original issue discount and \$4.3 million of unamortized debt issuance costs as of December 31, 2017. The 2026 Notes had a fair value of

[Table of Contents](#)

€502.9 million and €508.9 million as of September 30, 2018 and December 31, 2017, respectively. The fair value of the 2026 Notes is estimated using market quotes from brokers and is based on current rates offered for similar debt.

The Company's April 2021 Notes, with a face value of €300.0 million, had an aggregate carrying value of \$345.8 million, net of \$0.2 million of unamortized original issue discount and \$2.3 million of unamortized debt issuance costs as of September 30, 2018. The April 2021 Notes had a fair value of €301.2 million as of September 30, 2018. The fair value of the April 2021 Notes is estimated using market quotes from brokers and is based on current rates offered for similar debt.

The Company's financing lease obligations had an aggregate carrying value of \$34.9 million and \$35.9 million as of September 30, 2018 and December 31, 2017, respectively. The carrying values of the Company's financing lease obligations approximated their fair value as there has been minimal change in the Company's incremental borrowing rate.

As of September 30, 2018, the November 2021 Notes, 2026 Notes, April 2021 Notes and financing lease obligations were classified as Level 2.

The Company's other debt facilities that were assumed from the EUROIMMUN acquisition had an aggregate carrying value of \$43.5 million and \$60.2 million as of September 30, 2018 and December 31, 2017, respectively. As of September 30, 2018, these consisted of bank loans in the aggregate amount of \$43.3 million bearing fixed interest rates between 0.05% and 5.5% and a bank loan in the amount of \$0.2 million bearing a variable interest rate based on the Euribor rate plus a margin of 1.5%. The Company had no change in credit standing during the first nine months of fiscal year 2018. Consequently, the carrying value approximates fair value and were classified as Level 2.

As of September 30, 2018, there has not been any significant impact to the fair value of the Company's derivative liabilities due to credit risk. Similarly, there has not been any significant adverse impact to the Company's derivative assets based on the evaluation of its counterparties' credit risks.

Note 20: Contingencies

The Company is conducting a number of environmental investigations and remedial actions at current and former locations of the Company and, along with other companies, has been named a potentially responsible party ("PRP") for certain waste disposal sites. The Company accrues for environmental issues in the accounting period that the Company's responsibility is established and when the cost can be reasonably estimated. The Company has accrued \$8.5 million and \$9.4 million as of September 30, 2018 and December 31, 2017, respectively, which represents its management's estimate of the cost of the remediation of known environmental matters, and does not include any potential liability for related personal injury or property damage claims. These amounts were included in accrued expenses and other current liabilities. The Company's environmental accrual is not discounted and does not reflect the recovery of any material amounts through insurance or indemnification arrangements. The cost estimates are subject to a number of variables, including the stage of the environmental investigations, the magnitude of the possible contamination, the nature of the potential remedies, possible joint and several liability, the time period over which remediation may occur, and the possible effects of changing laws and regulations. For sites where the Company has been named a PRP, management does not currently anticipate any additional liability to result from the inability of other significant named parties to contribute. The Company expects that the majority of such accrued amounts could be paid out over a period of up to ten years. As assessment and remediation activities progress at each individual site, these liabilities are reviewed and adjusted to reflect additional information as it becomes available. There have been no environmental problems to date that have had, or are expected to have, a material adverse effect on the Company's condensed consolidated financial statements. While it is possible that a loss exceeding the amounts recorded in the condensed consolidated financial statements may be incurred, the potential exposure is not expected to be materially different from those amounts recorded.

The Company is subject to various claims, legal proceedings and investigations covering a wide range of matters that arise in the ordinary course of its business activities. Although the Company has established accruals for potential losses that it believes are probable and reasonably estimable, in the opinion of the Company's management, based on its review of the information available at this time, the total cost of resolving these contingencies at September 30, 2018 would not have a material adverse effect on the Company's condensed consolidated financial statements. However, each of these matters is subject to uncertainties, and it is possible that some of these matters may be resolved unfavorably to the Company.

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

This quarterly report on Form 10-Q, including the following management's discussion and analysis, contains forward-looking information that you should read in conjunction with the condensed consolidated financial statements and notes to the condensed consolidated financial statements that we have included elsewhere in this report. For this purpose, any statements contained in this report that are not statements of historical fact may be deemed to be forward-looking statements. Words such as "believes," "plans," "anticipates," "intends," "expects," "will" and similar expressions are intended to identify forward-looking statements. Our actual results may differ materially from the plans, intentions or expectations we disclose in the forward-looking statements we make. We have included important factors below under the heading "Risk Factors" in Part II, Item 1A. that we believe could cause actual results to differ materially from the forward-looking statements we make. We are not obligated to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

We are a leading provider of products, services and solutions for the diagnostics, life sciences and applied markets. Through our advanced technologies and differentiated solutions, we address critical issues that help to improve lives and the world around us.

The principal products and services of our two operating segments are:

- *Discovery & Analytical Solutions.* Provides products and services targeted towards the life sciences and applied markets.
- *Diagnostics.* Develops diagnostics, tools and applications focused on clinically-oriented customers, especially within the reproductive health, emerging market diagnostics and applied genomics markets. The Diagnostics segment serves the diagnostics market.

Overview of the Third Quarter of Fiscal Year 2018

Our fiscal year ends on the Sunday nearest December 31. We report fiscal years under a 52/53 week format and as a result, certain fiscal years will contain 53 weeks. The fiscal year ending December 30, 2018 ("fiscal year 2018") will include 52 weeks, and the fiscal year ended December 31, 2017 ("fiscal year 2017") included 52 weeks.

Our overall revenue in the third quarter of fiscal year 2018 was \$674.3 million and increased \$120.0 million, or 22%, as compared to the third quarter of fiscal year 2017, reflecting an increase of \$20.8 million, or 5%, in our Discovery & Analytical Solutions segment revenue and an increase of \$99.3 million, or 59%, in our Diagnostics segment revenue. The increase in our Discovery & Analytical Solutions segment revenue for the third quarter of fiscal year 2018 was primarily due to an increase in our applied markets revenue, as well as an increase in our life sciences market revenue. The increase in our Diagnostics segment revenue for the third quarter of fiscal year 2018 was primarily due to our acquisition of EUROIMMUN, which contributed \$90.2 million in revenues during the third quarter of fiscal year 2018, as well as strong performance of our reproductive health, genomics and immuno-diagnostics solutions.

In our Discovery & Analytical Solutions segment, we had an increase in revenue for the third quarter of fiscal year 2018 as compared to the third quarter of fiscal year 2017. During the third quarter of fiscal year 2018, revenue increased in our applied markets primarily driven by strength in sales of industrial, environmental and food offerings. In addition, the increase in our life sciences market revenue was driven by strength in drug discovery sales and increased demand for our OneSource laboratory service business.

In our Diagnostics segment, we experienced growth from our acquisition of EUROIMMUN and continued expansion in our reproductive health, applied genomics and immuno-diagnostics solutions, particularly in the Americas and emerging markets, such as China and India.

Our consolidated gross margins increased 76 basis points in the third quarter of fiscal year 2018, as compared to the third quarter of fiscal year 2017, primarily due to strong volume leverage and benefits from our initiatives to improve our supply chain. Our consolidated operating margins decreased 219 basis points in the third quarter of fiscal year 2018, as compared to the third quarter of fiscal year 2017, primarily due to increased costs related to amortization of acquired intangible assets and investments in new product development, which were partially offset by lower costs as a result of our cost containment and productivity initiatives.

We continue to believe that we are well positioned to take advantage of the spending trends in our end markets and to promote efficiencies in markets where current conditions may increase demand for certain services. Overall, we believe that

our strategic focus on diagnostics and discovery and analytical solutions markets, coupled with our deep portfolio of technologies and applications, leading market positions, global scale and financial strength will provide us with a foundation for growth.

Critical Accounting Policies and Estimates

The preparation of condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, warranty costs, bad debts, inventories, accounting for business combinations and dispositions, long-lived assets, income taxes, restructuring, pensions and other postretirement benefits, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are those policies that affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements. We believe our critical accounting policies include our policies regarding revenue recognition, warranty costs, allowances for doubtful accounts, inventory valuation, business combinations, value of long-lived assets, including goodwill and other intangibles, employee compensation and benefits, restructuring activities, gains or losses on dispositions and income taxes.

We adopted Accounting Standards Codification 606, *Revenue from Contracts with Customers* ("ASC 606") on January 1, 2018. As a result, we changed our accounting policy for revenue recognition as detailed in Note 3, *Changes in Accounting Policies*, in the Notes to Condensed Consolidated Financial Statements. For a more detailed discussion of our critical accounting policies and estimates, other than the changes in revenue recognition, refer to the Notes to our audited consolidated financial statements and Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (our "2017 Form 10-K"), as filed with the Securities and Exchange Commission (the "SEC"). There have been no significant changes in our critical accounting policies and estimates during the nine months ended September 30, 2018, other than the changes in revenue recognition mentioned above.

Consolidated Results of Continuing Operations

Revenue

Revenue for the three months ended September 30, 2018 was \$674.3 million, as compared to \$554.3 million for the three months ended October 1, 2017, an increase of \$120.0 million, or 22%, which includes an approximate 16% increase in revenue attributable to acquisitions and divestitures and a 2% decrease in revenue attributable to unfavorable changes in foreign exchange rates. The analysis in the remainder of this paragraph compares segment revenue for the three months ended September 30, 2018 as compared to the three months ended October 1, 2017 and includes the effect of foreign exchange rate fluctuations, acquisitions and divestitures. Our Discovery & Analytical Solutions segment revenue was \$406.2 million for the three months ended September 30, 2018, as compared to \$385.4 million for the three months ended October 1, 2017, an increase of \$20.8 million, or 5%, primarily due to an increase of \$8.5 million from our applied markets revenue, and an increase of \$12.3 million from our life sciences market revenue. Our Diagnostics segment revenue was \$268.1 million for the three months ended September 30, 2018, as compared to \$168.9 million for the three months ended October 1, 2017, an increase of \$99.3 million, or 59%, primarily due to our acquisition of EUROIMMUN, which contributed \$90.2 million in revenues during the third quarter of fiscal year 2018, and continued expansion in our reproductive health, genetic testing and immuno-diagnostics solutions. As a result of adjustments to deferred revenue related to certain acquisitions required by business combination accounting rules, we did not recognize \$0.2 million of revenue for each of the three months ended September 30, 2018 and October 1, 2017 that otherwise would have been recorded by the acquired businesses during each of the respective periods.

Revenue for the nine months ended September 30, 2018 was \$2,021.6 million, as compared to \$1,615.4 million for the nine months ended October 1, 2017, an increase of \$406.3 million, or 25%, which includes an approximate 15% increase in revenue attributable to acquisitions and divestitures and a 2% increase in revenue attributable to favorable changes in foreign exchange rates. The analysis in the remainder of this paragraph compares segment revenue for the nine months ended September 30, 2018 as compared to the nine months ended October 1, 2017 and includes the effect of foreign exchange rate fluctuations, acquisitions and divestitures. Our Discovery & Analytical Solutions segment revenue was \$1,233.3 million for the nine months ended September 30, 2018, as compared to \$1,130.3 million for the nine months ended October 1, 2017, an increase of \$103.0 million, or 9%, primarily due to an increase of \$63.2 million from our life sciences market revenue and an

increase of \$39.8 million from our applied markets revenue. Our Diagnostics segment revenue was \$788.3 million for the nine months ended September 30, 2018, as compared to \$485.1 million for the nine months ended October 1, 2017, an increase of \$303.2 million, or 63%, primarily due to our acquisition of EUROIMMUN, which contributed \$262.4 million in revenues during the nine months ended September 30, 2018, and continued expansion in our reproductive health, genetic testing and infectious disease screening solutions. As a result of adjustments to deferred revenue related to certain acquisitions required by business combination accounting rules, we did not recognize \$0.6 million of revenue for each of the nine months ended September 30, 2018 and October 1, 2017 that otherwise would have been recorded by the acquired businesses during each of the respective periods.

Cost of Revenue

Cost of revenue for the three months ended September 30, 2018 was \$342.0 million, as compared to \$285.3 million for the three months ended October 1, 2017, an increase of \$56.7 million, or 20%. As a percentage of revenue, cost of revenue decreased to 50.7% for the three months ended September 30, 2018, from 51.5% for the three months ended October 1, 2017, resulting in an increase in gross margin of 76 basis points to 49.3% for the three months ended September 30, 2018, from 48.5% for the three months ended October 1, 2017. Amortization of intangible assets increased and was \$11.6 million for the three months ended September 30, 2018, as compared to \$7.1 million for the three months ended October 1, 2017. Stock-based compensation expense was \$0.4 million for the three months ended September 30, 2018, as compared to \$0.4 million for the three months ended October 1, 2017. In addition to the above items, the overall increase in gross margin was primarily due to strong volume leverage and benefits from our initiatives to improve our supply chain.

Cost of revenue for the nine months ended September 30, 2018 was \$1,057.0 million, as compared to \$849.0 million for the nine months ended October 1, 2017, an increase of \$207.9 million, or 24%. As a percentage of revenue, cost of revenue decreased to 52.2% for the nine months ended September 30, 2018, from 52.6% for the nine months ended October 1, 2017, resulting in an increase in gross margin of 28 basis points to 47.7% for the nine months ended September 30, 2018, from 47.4% for the nine months ended October 1, 2017. Amortization of intangible assets increased and was \$34.8 million for the nine months ended September 30, 2018, as compared to \$21.3 million for the nine months ended October 1, 2017. Stock-based compensation expense was \$1.1 million for the nine months ended September 30, 2018, as compared to \$0.9 million for the nine months ended October 1, 2017. The amortization of purchase accounting adjustments to record the inventory from certain acquisitions added an incremental expense of \$18.2 million for the nine months ended September 30, 2018 as compared to \$4.2 million for the nine months ended October 1, 2017. In addition to the above items, the overall increase in gross margin was primarily the result of a favorable shift in product mix and benefits from our initiatives to improve our supply chain.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended September 30, 2018 were \$196.8 million, as compared to \$152.8 million for the three months ended October 1, 2017, an increase of \$44.0 million, or 29%. As a percentage of revenue, selling, general and administrative expenses increased and were 29.2% for the three months ended September 30, 2018, as compared to 27.6% for the three months ended October 1, 2017. Amortization of intangible assets increased and was \$20.0 million for the three months ended September 30, 2018, as compared to \$10.5 million for the three months ended October 1, 2017. Stock-based compensation expense was \$10.4 million for the three months ended September 30, 2018 as compared to \$3.7 million for the three months ended October 1, 2017. Other purchase accounting adjustments added an incremental expense of \$3.8 million for the three months ended September 30, 2018, as compared to \$0.7 million for the three months ended October 1, 2017. Acquisition and divestiture-related expenses added an incremental expense of \$1.7 million for the three months ended September 30, 2018, as compared to \$5.4 million for the three months ended October 1, 2017. Legal costs for significant litigation matters were \$1.0 million for the three months ended September 30, 2018, as compared to zero for the three months ended October 1, 2017. In addition to the above items, the increase in selling, general and administrative expenses was primarily due to our acquisition of EUROIMMUN, which was partially offset by lower costs as a result of cost containment and productivity initiatives.

Selling, general and administrative expenses for the nine months ended September 30, 2018 were \$601.4 million, as compared to \$449.6 million for the nine months ended October 1, 2017, an increase of \$151.7 million, or 34%. As a percentage of revenue, selling, general and administrative expenses increased and were 29.7% for the nine months ended September 30, 2018, as compared to 27.8% for the nine months ended October 1, 2017. Amortization of intangible assets increased and was \$62.0 million for the nine months ended September 30, 2018, as compared to \$30.7 million for the nine months ended October 1, 2017. Stock-based compensation expense was \$21.2 million for the nine months ended September 30, 2018 as compared to \$14.2 million for the nine months ended October 1, 2017. Other purchase accounting adjustments added an incremental expense of \$10.9 million for the nine months ended September 30, 2018, as compared to \$1.6 million for the nine months ended October 1, 2017. Acquisition and divestiture-related expenses added an incremental expense of \$5.9 million for the nine months ended September 30, 2018, as compared to \$11.7 million for the nine months ended October 1, 2017. Legal

costs for significant litigation matters were \$5.3 million for the nine months ended September 30, 2018, as compared to zero for the nine months ended October 1, 2017. In addition to the above items, the increase in selling, general and administrative expenses was primarily due to our acquisition of EUROIMMUN, which was partially offset by lower costs as a result of cost containment and productivity initiatives.

Research and Development Expenses

Research and development expenses for the three months ended September 30, 2018 were \$48.8 million, as compared to \$34.9 million for the three months ended October 1, 2017, an increase of \$14.0 million, or 40%. As a percentage of revenue, research and development expenses increased and were 7.2% for the three months ended September 30, 2018, as compared to 6.3% for the three months ended October 1, 2017. Amortization of intangible assets was \$3.7 million for the three months ended September 30, 2018, as compared to \$0.1 million for the three months ended October 1, 2017. Stock-based compensation expense was \$0.3 million for each of the three months ended September 30, 2018 and October 1, 2017. The increase in research and development expenses was primarily the result of investments in new product development and our acquisition of EUROIMMUN, which was partially offset by lower costs as a result of cost containment and productivity initiatives.

Research and development expenses for the nine months ended September 30, 2018 were \$142.0 million, as compared to \$101.7 million for the nine months ended October 1, 2017, an increase of \$40.3 million, or 40%. As a percentage of revenue, research and development expenses increased and were 7.0% for the nine months ended September 30, 2018, as compared to 6.3% for the nine months ended October 1, 2017. Amortization of intangible assets was \$3.8 million for the nine months ended September 30, 2018, as compared to \$0.2 million for the nine months ended October 1, 2017. Stock-based compensation expense was \$1.0 million for each of the nine months ended September 30, 2018 and October 1, 2017. The increase in research and development expenses was primarily the result of investments in new product development and our acquisition of EUROIMMUN, which was partially offset by lower costs as a result of cost containment and productivity initiatives.

Restructuring and Contract Termination Charges, Net

We have undertaken a series of restructuring actions related to the impact of acquisitions and divestitures, the alignment of our operations with our growth strategy, the integration of our business units and our productivity initiatives. The current portion of restructuring and contract termination charges is recorded in accrued restructuring and contract termination charges and the long-term portion of restructuring and contract termination charges is recorded in long-term liabilities. The activities associated with these plans have been reported as restructuring and contract termination charges, net, as applicable, and are included as a component of income from continuing operations.

We implemented a restructuring plan in each of the first and third quarters of fiscal year 2018 consisting of workforce reductions principally intended to realign resources to emphasize growth initiatives (the "Q1 2018 Plan" and "Q3 2018 Plan", respectively). We implemented a restructuring plan in each of the fourth and third quarters of fiscal year 2017 consisting of workforce reductions principally intended to realign resources to emphasize growth initiatives (the "Q4 2017 Plan" and "Q3 2017 Plan", respectively). We implemented a restructuring plan in the first quarter of fiscal year 2017 consisting of workforce reductions and the closure of excess facility space principally intended to focus resources on higher growth end markets (the "Q1 2017 Plan"). Details of the plans initiated in previous years (the "Previous Plans") are discussed more fully in Note 4 to the audited consolidated financial statements in our 2017 Form 10-K.

[Table of Contents](#)

The following table summarizes the reductions in headcount, the initial restructuring or contract termination charges by operating segment, and the dates by which payments were substantially completed, or the dates by which payments are expected to be substantially completed, for restructuring actions implemented during fiscal years 2018 and 2017 in continuing operations:

	Workforce Reductions			Closure of Excess Facility			(Expected) Date Payments Substantially Completed by	
	Headcount Reduction	Discovery & Analytical Solutions	Diagnostics	Discovery & Analytical Solutions	Diagnostics	Total	Severance	Excess Facility
(In thousands, except headcount data)								
Q3 2018 Plan	61	\$ 1,146	\$ 618	\$ —	\$ —	\$ 1,764	Q2 FY2019	—
Q1 2018 Plan	47	5,096	902	—	—	5,998	Q2 FY2019	—
Q4 2017 Plan	29	1,680	255	—	—	1,935	Q1 FY2019	—
Q3 2017 Plan	27	1,321	1,021	—	—	2,342	Q4 FY2018	—
Q1 2017 Plan	90	5,000	1,631	33	33	6,697	Q4 FY2018	Q4 FY2018

We do not currently expect to incur any future charges for these plans. We expect to make payments under the Previous Plans for remaining residual lease obligations, with terms varying in length, through fiscal year 2022.

In connection with the termination of various contractual commitments, we recorded additional pre-tax charges of \$4.7 million and \$5.0 million during the three and nine months ended September 30, 2018, respectively, in the DAS segment.

At September 30, 2018, we had \$9.4 million recorded for accrued restructuring and contract termination charges, of which \$8.1 million was recorded in short-term accrued restructuring and contract termination charges and \$1.3 million was recorded in long-term liabilities. At December 31, 2017, we had \$14.0 million recorded for accrued restructuring and contract termination charges, of which \$8.8 million was recorded in short-term accrued restructuring and contract termination charges, \$2.3 million was recorded in long-term liabilities and \$2.9 million was recorded in other reserves. The following table summarizes our restructuring and contract termination accrual balances and related activity by restructuring plan, as well as contract termination accrual balances and related activity, during the nine months ended September 30, 2018:

	Balance at December 31, 2017	2018 Charges	2018 Changes in Estimates, Net	2018 Amounts Paid	Balance at September 30, 2018
(In thousands)					
Severance:					
Q3 2018 Plan	\$ —	\$ 1,764	\$ —	\$ —	\$ 1,764
Q1 2018 Plan	—	5,998	—	(4,273)	1,725
Q4 2017 Plan	1,919	—	—	(1,538)	381
Q3 2017 Plan	2,072	—	—	(868)	1,204
Q1 2017 Plan	2,498	—	—	(1,174)	1,324
Facility:					
Q1 2017 Plan	33	—	—	(22)	11
Previous Plans	4,399	—	353	(2,106)	2,646
Restructuring	10,921	7,762	353	(9,981)	9,055
Contract Termination	3,048	4,744	227	(7,653)	366
Total Restructuring and Contract Termination	\$ 13,969	\$ 12,506	\$ 580	\$ (17,634)	\$ 9,421

Interest and Other Expense, Net

Interest and other expense, net, consisted of the following:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(In thousands)			
Interest income	\$ (316)	\$ (802)	\$ (754)	\$ (1,512)
Interest expense	16,684	10,974	50,745	32,510
(Gain) loss on disposition of businesses and assets, net	(13,031)	—	(13,031)	301
Other income, net	(1,176)	(37,188)	(7,013)	(45,096)
Total interest and other expense, net	\$ 2,161	\$ (27,016)	\$ 29,947	\$ (13,797)

Interest and other expense, net, for the three months ended September 30, 2018 was an expense of \$2.2 million, as compared to income of \$27.0 million for the three months ended October 1, 2017, an increase in expense of \$29.2 million. The increase in interest and other expense, net, for the three months ended September 30, 2018, as compared to the three months ended October 1, 2017, was primarily due to a one-time foreign exchange gain of \$36.3 million recorded for the three months ended October 1, 2017, related to the remeasurement and settlement of the EUROIMMUN acquisition-related hedges, and an increase in interest expense by \$5.7 million primarily due to higher outstanding bank debt balances as well as the new April 2021 Notes related to financing of the EUROIMMUN acquisition. This increase was partially offset by a gain of \$13.0 million recorded for the three months ended September 30, 2018 due to the sale of the multispectral imaging business discussed below.

Interest and other expense, net, for the nine months ended September 30, 2018 was an expense of \$29.9 million, as compared to income of \$13.8 million for the nine months ended October 1, 2017, an increase in expense of \$43.7 million. The increase in interest and other expense, net, for the nine months ended September 30, 2018, as compared to the nine months ended October 1, 2017, was primarily due to a one-time foreign exchange gain of \$42.6 million recorded for the nine months ended October 1, 2017, related to the remeasurement and settlement of the EUROIMMUN acquisition-related hedges, and an increase in interest expense by \$18.2 million primarily due to higher outstanding bank debt balances as well as the new April 2021 Notes related to financing of the EUROIMMUN acquisition. This increase was partially offset by a gain of \$13.3 million for the nine months ended September 30, 2018 primarily due to the sale of the multispectral imaging business. A more complete discussion of our liquidity is set forth below under the heading "Liquidity and Capital Resources."

Provision for Income Taxes

For the three months ended September 30, 2018, the provision for income taxes from continuing operations was \$2.6 million, as compared to \$8.5 million for the three months ended October 1, 2017. For the nine months ended September 30, 2018, the provision for income taxes from continuing operations was \$12.1 million, as compared to \$20.5 million for the nine months ended October 1, 2017.

On December 22, 2017, the President of the United States signed into law tax reform legislation, known as the Tax Cuts and Jobs Act (the "Tax Act"), which makes broad and complex changes to the U.S. Internal Revenue Code. Changes include, but are not limited to: (1) the lowering of the U.S. corporate tax rate from 35% to 21%; (2) the transition of U.S. international taxation from a worldwide tax system to a modified territorial system with a one-time transition tax on the deemed repatriation of cumulative foreign earnings as of December 31, 2017; (3) a new provision designed to tax global intangible low-taxed income (GILTI); (4) the creation of the base erosion anti-abuse tax (BEAT), which is effectively a new minimum tax; (5) the deduction for foreign-derived intangible income (FDII); (6) a new limitation on deductible interest expense; (7) the repeal of the domestic production activity deduction; and (8) limitations on the deductibility of certain executive compensation. Based on available information, we have performed a preliminary analysis of the impacts of the Tax Act, and the details are discussed more fully in Note 9, *Income Taxes*, in the Notes to Condensed Consolidated Financial Statements.

The effective tax rate from continuing operations was 3.3% and 6.8% for the three and nine months ended September 30, 2018, respectively, as compared to 8.1% and 9.5% for the three and nine months ended October 1, 2017, respectively. The lower effective tax rate during the three months ended September 30, 2018, as compared to the three months ended October 1, 2017, was due to certain higher tax rate jurisdictions projected to have lower income in fiscal year 2018 as compared to fiscal year 2017, and higher tax benefits related to discrete items, which were \$5.5 million in the three months ended September 30, 2018, as compared to \$2.2 million in the three months ended October 1, 2017. The lower effective tax rate during the nine months ended September 30, 2018, as compared to the nine months ended October 1, 2017, was due to lower projected income in certain higher tax rate jurisdictions in fiscal year 2018 as compared to fiscal year 2017.

Disposition of Businesses and Assets

As part of our continuing efforts to focus on higher growth opportunities, we have discontinued certain businesses. When the discontinued operations represented a strategic shift that will have a major effect on our operations and financial statements, we accounted for these businesses as discontinued operations, and accordingly, have presented the results of operations and related cash flows as discontinued operations. Any business deemed to be a discontinued operation prior to the adoption of ASU 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of An Entity*, continues to be reported as a discontinued operation, and the results of operations and related cash flows are presented as discontinued operations for all periods presented. Any remaining assets and liabilities of these businesses have been presented separately, and are reflected within assets and liabilities of discontinued operations in the accompanying condensed consolidated balance sheets as of September 30, 2018 and December 31, 2017.

During the third quarter of fiscal year 2018, we completed the sale of substantially all of the assets and liabilities related to our multispectral imaging business for aggregate consideration of \$37.3 million, recognizing a pre-tax gain of \$13.0 million. The pre-tax gain is included in interest and other expense, net in the consolidated statement of operations. The multispectral imaging business was a component of our DAS segment. The divestiture of the multispectral imaging business has not been classified as a discontinued operation in this Form 10-Q because the disposition does not represent a strategic shift that will have a major effect on our operations and financial statements.

On May 1, 2017 (the "Varex Closing Date"), we completed the sale of our Medical Imaging business to Varex Imaging Corporation ("Varex") pursuant to the terms of the Master Purchase and Sale Agreement, dated December 21, 2016 (the "Agreement"), by and between us and Varian Medical Systems, Inc. ("Varian") and the subsequent Assignment and Assumption Agreement, dated January 27, 2017, between Varian and Varex, pursuant to which Varian assigned its rights under the Agreement to Varex. On the Varex Closing Date, we received consideration of approximately \$277.4 million for the sale of the Medical Imaging business. During fiscal year 2017, we paid Varex \$4.2 million to settle a post-closing working capital adjustment. During fiscal year 2017, we recorded a pre-tax gain of \$179.6 million and income tax expense of \$43.1 million related to the sale of the Medical Imaging business in discontinued operations and dispositions. The corresponding tax liability was recorded within the other tax liabilities in our condensed consolidated balance sheet, and we expect to utilize tax attributes to minimize the tax liability.

Following the closing, we provided certain customary transitional services during a period of up to 12 months. Commercial transactions between the parties following the closing of the transaction are not expected to be significant.

During fiscal year 2017, we sold Suzhou PerkinElmer Medical Laboratory Co., Ltd. for aggregate consideration of \$2.3 million, recognizing a pre-tax loss of \$1.1 million. The pre-tax loss recognized in fiscal year 2017 is included in interest and other expense, net in our condensed consolidated statement of operations. Suzhou PerkinElmer Medical Laboratory Co., Ltd. was a component of our Diagnostics segment. The divestiture of Suzhou PerkinElmer Medical Laboratory Co., Ltd. has not been classified as a discontinued operation in this Form 10-Q because the disposition does not represent a strategic shift that will have a major effect on our operations and financial statements.

The summary pre-tax operating results of the discontinued operations, were as follows for the three and nine months ended:

	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(In thousands)			
Revenue	\$ —	\$ —	\$ —	\$ 44,343
Cost of revenue	—	—	—	32,933
Selling, general and administrative expenses	—	—	—	5,869
Research and development expenses	—	—	—	4,891
Income from discontinued operations before income taxes	\$ —	\$ —	\$ —	\$ 650

Contingencies, Including Tax Matters

We are conducting a number of environmental investigations and remedial actions at our current and former locations and, along with other companies, have been named a potentially responsible party ("PRP") for certain waste disposal sites. We accrue for environmental issues in the accounting period that our responsibility is established and when the cost can be reasonably estimated. We have accrued \$8.5 million and \$9.4 million as of September 30, 2018 and December 31, 2017, respectively, which represents our management's estimate of the cost of the remediation of known environmental matters, and

does not include any potential liability for related personal injury or property damage claims. These amounts were included in accrued expenses and other current liabilities. Our environmental accrual is not discounted and does not reflect the recovery of any material amounts through insurance or indemnification arrangements. The cost estimates are subject to a number of variables, including the stage of the environmental investigations, the magnitude of the possible contamination, the nature of the potential remedies, possible joint and several liability, the time period over which remediation may occur, and the possible effects of changing laws and regulations. For sites where we have been named a PRP, our management does not currently anticipate any additional liability to result from the inability of other significant named parties to contribute. We expect that the majority of such accrued amounts could be paid out over a period of up to ten years. As assessment and remediation activities progress at each individual site, these liabilities are reviewed and adjusted to reflect additional information as it becomes available. There have been no environmental problems to date that have had, or are expected to have, a material adverse effect on our condensed consolidated financial statements. While it is possible that a loss exceeding the amounts recorded in the condensed consolidated financial statements may be incurred, the potential exposure is not expected to be materially different from those amounts recorded.

Various tax years after 2010 remain open to examination by certain jurisdictions in which we have significant business operations, such as Finland, Germany, Italy, Netherlands, Singapore, the United Kingdom and the United States. The tax years under examination vary by jurisdiction. We regularly review our tax positions in each significant taxing jurisdiction in the process of evaluating our unrecognized tax benefits. We make adjustments to our unrecognized tax benefits when: (i) facts and circumstances regarding a tax position change, causing a change in management's judgment regarding that tax position; (ii) a tax position is effectively settled with a tax authority; and/or (iii) the statute of limitations expires regarding a tax position.

We are subject to various claims, legal proceedings and investigations covering a wide range of matters that arise in the ordinary course of our business activities. Although we have established accruals for potential losses that we believe are probable and reasonably estimable, in our opinion, based on our review of the information available at this time, the total cost of resolving these contingencies at September 30, 2018 would not have a material adverse effect on our condensed consolidated financial statements. However, each of these matters is subject to uncertainties, and it is possible that some of these matters may be resolved unfavorably to us.

Reporting Segment Results of Continuing Operations

Discovery & Analytical Solutions

Revenue for the three months ended September 30, 2018 was \$406.2 million, as compared to \$385.4 million for the three months ended October 1, 2017, an increase of \$20.8 million, or 5%, which includes an approximate 1% decrease in revenue attributable to unfavorable changes in foreign exchange rates. The analysis in the remainder of this paragraph compares selected revenue by end-markets for the three months ended September 30, 2018, as compared to the three months ended October 1, 2017, and includes the effect of foreign exchange fluctuations. The increase in revenue in our Discovery & Analytical Solutions segment was a result of an increase in our applied markets revenue of \$8.5 million and an increase of \$12.3 million in our life sciences market revenue. The increase in our applied markets revenue was driven by strength in sales of industrial, environmental and food offerings. The increase in our life sciences market revenue was driven by strength in our drug discovery sales and increased demand for our OneSource laboratory service business.

Revenue for the nine months ended September 30, 2018 was \$1,233.3 million, as compared to \$1,130.3 million for the nine months ended October 1, 2017, an increase of \$103.0 million, or 9%, which includes an approximate 2% increase in revenue attributable to favorable changes in foreign exchange rates. The analysis in the remainder of this paragraph compares selected revenue by end-markets for the nine months ended September 30, 2018, as compared to the nine months ended October 1, 2017, and includes the effect of foreign exchange fluctuations. The increase in revenue in our Discovery & Analytical Solutions segment was a result of an increase of \$63.2 million in our life sciences market revenue and an increase in applied markets revenue of \$39.8 million. The increase in our life sciences market revenue was driven by strength in our drug discovery sales, a strong performance in our Informatics business and increased demand for our OneSource laboratory service business. In our applied markets, we experienced higher growth in our industrial, environmental and food offerings.

Operating income from continuing operations for the three months ended September 30, 2018 was \$48.4 million, as compared to \$47.3 million for the three months ended October 1, 2017, an increase of \$1.1 million, or 2%. Amortization of intangible assets was \$11.4 million for the three months ended September 30, 2018, as compared to \$12.8 million for the three months ended October 1, 2017. Restructuring and contract termination charges, net, were \$5.9 million for the three months ended September 30, 2018, as compared to \$1.7 million for the three months ended October 1, 2017. Acquisition and divestiture-related expenses, contingent consideration and other costs added an incremental expense of \$1.8 million for the three months ended September 30, 2018. Legal costs for significant litigation matters were \$0.6 million for the three months ended September 30, 2018, as compared to zero for the three months ended October 1, 2017. In addition to the factors noted

above, operating income increased for the three months ended September 30, 2018, as compared to the three months ended October 1, 2017, as we continued to realize the benefits from our cost containment initiatives partially offset by higher costs in research and development expenses.

Operating income from continuing operations for the nine months ended September 30, 2018 was \$149.2 million, as compared to \$128.6 million for the nine months ended October 1, 2017, an increase of \$20.6 million, or 16%. Amortization of intangible assets was \$34.6 million for the nine months ended September 30, 2018, as compared to \$37.5 million for the nine months ended October 1, 2017. Restructuring and contract termination charges, net, were \$11.6 million for the nine months ended September 30, 2018, as compared to \$9.7 million for the nine months ended October 1, 2017. Acquisition and divestiture-related expenses, contingent consideration and other costs added an incremental expense of \$1.9 million for the nine months ended September 30, 2018, as compared to \$0.4 million for the nine months ended October 1, 2017. Legal costs for significant litigation matters were \$5.1 million for the nine months ended September 30, 2018, as compared to zero for the nine months ended October 1, 2017. In addition to the factors noted above, operating income increased for the nine months ended September 30, 2018, as compared to the nine months ended October 1, 2017, as we continued to realize the benefits from our cost containment initiatives partially offset by higher costs in research and development expenses.

Diagnostics

Revenue for the three months ended September 30, 2018 was \$268.1 million, as compared to \$168.9 million for the three months ended October 1, 2017, an increase of \$99.3 million, or 59%, which includes an approximate 53% increase in revenue attributable to acquisitions and divestitures and a 2% decrease in revenue attributable to unfavorable changes in foreign exchange rates. As a result of adjustments to deferred revenue related to certain acquisitions required by business combination accounting rules, we did not recognize \$0.2 million of revenue in our Diagnostics segment for each of the three months ended September 30, 2018 and October 1, 2017 that otherwise would have been recorded by the acquired businesses during each of the respective periods. In our diagnostics market, we experienced growth from our acquisition of EUROIMMUN, which contributed \$90.2 million in revenues during the three months ended September 30, 2018, and continued expansion of our reproductive health, applied genomics and immuno-diagnostics solutions, particularly in the Americas and emerging markets, such as China and India.

Revenue for the nine months ended September 30, 2018 was \$788.3 million, as compared to \$485.1 million for the nine months ended October 1, 2017, an increase of \$303.2 million, or 63%, which includes an approximate 52% increase in revenue attributable to acquisitions and divestitures and a 2% increase in revenue attributable to favorable changes in foreign exchange rates. As a result of adjustments to deferred revenue related to certain acquisitions required by business combination accounting rules, we did not recognize \$0.6 million of revenue in our Diagnostics segment for each of the nine months ended September 30, 2018 and October 1, 2017 that otherwise would have been recorded by the acquired businesses during each of the respective periods. In our diagnostics market, we experienced growth from our acquisition of EUROIMMUN, which contributed \$262.4 million in revenues during the nine months ended September 30, 2018, and continued expansion of our reproductive health, applied genomics and immuno-diagnostics solutions in key regions outside the United States, particularly in Europe and emerging markets, such as China and India.

Operating income from continuing operations for the three months ended September 30, 2018 was \$47.4 million, as compared to \$43.4 million for the three months ended October 1, 2017, an increase of \$4.1 million, or 9%. Amortization of intangible assets increased and was \$23.9 million for the three months ended September 30, 2018, as compared to \$4.9 million for the three months ended October 1, 2017. Acquisition and divestiture-related expenses, contingent consideration and other costs added an incremental expense of \$3.9 million for the three months ended September 30, 2018, as compared to \$6.3 million for the three months ended October 1, 2017. Restructuring and contract termination charges, net, were \$0.6 million for the three months ended September 30, 2018, as compared to \$1.5 million for the three months ended October 1, 2017. Legal costs for significant litigation matters were \$0.4 million for the three months ended September 30, 2018, as compared to zero for the three months ended October 1, 2017. In addition to the factors noted above, operating income increased for the three months ended September 30, 2018, as compared to the three months ended October 1, 2017, primarily the result of a favorable shift in product mix, higher sales volume, strong reproductive health sales and benefits from our initiatives to improve our supply chain.

Operating income from continuing operations for the nine months ended September 30, 2018 was \$104.6 million, as compared to \$113.0 million for the nine months ended October 1, 2017, a decrease of \$8.4 million, or 7%. Amortization of intangible assets increased and was \$66.1 million for the nine months ended September 30, 2018, as compared to \$14.8 million for the nine months ended October 1, 2017. Acquisition and divestiture-related expenses, contingent consideration and other costs added an incremental expense of \$15.5 million for the nine months ended September 30, 2018, as compared to \$13.5 million for the nine months ended October 1, 2017. The amortization of purchase accounting adjustments to record the inventory from certain acquisitions was \$18.2 million for the nine months ended September 30, 2018, as compared to \$4.2

million for the nine months ended October 1, 2017. Restructuring and contract termination charges, net, were \$1.5 million for the nine months ended September 30, 2018, as compared to \$3.2 million for the nine months ended October 1, 2017. Legal costs, net of reversals, for significant litigation matters were \$0.2 million for the nine months ended September 30, 2018, as compared to zero for the nine months ended October 1, 2017. In addition to the factors noted above, operating income decreased for the nine months ended September 30, 2018, as compared to the nine months ended October 1, 2017, primarily the result of an unfavorable shift in product mix partially offset by higher sales volume, strong reproductive health sales and benefits from our initiatives to improve our supply chain.

Liquidity and Capital Resources

We require cash to pay our operating expenses, make capital expenditures, make strategic acquisitions, service our debt and other long-term liabilities, repurchase shares of our common stock and pay dividends on our common stock. Our principal sources of funds are from our operations and the capital markets, particularly the debt markets. We anticipate that our internal operations will generate sufficient cash to fund our operating expenses, capital expenditures, smaller acquisitions, interest payments on our debt and dividends on our common stock. However, we expect to use external sources to satisfy the balance of our debt when due and fund any larger acquisitions and other long-term liabilities, such as contributions to our postretirement benefit plans.

Principal factors that could affect the availability of our internally generated funds include:

- changes in sales due to weakness in markets in which we sell our products and services, and
- changes in our working capital requirements.

Principal factors that could affect our ability to obtain cash from external sources include:

- financial covenants contained in the financial instruments controlling our borrowings that limit our total borrowing capacity,
- increases in interest rates applicable to our outstanding variable rate debt,
- a ratings downgrade that could limit the amount we can borrow under our senior unsecured revolving credit facility and our overall access to the corporate debt market,
- increases in interest rates or credit spreads, as well as limitations on the availability of credit, that affect our ability to borrow under future potential facilities on a secured or unsecured basis,
- a decrease in the market price for our common stock, and
- volatility in the public debt and equity markets.

At September 30, 2018, we had cash and cash equivalents of \$149.5 million, of which \$135.6 million was held by our non-U.S. subsidiaries, and we had \$577.6 million of additional borrowing capacity available under our senior unsecured revolving credit facility. We had no other liquid investments at September 30, 2018.

We utilize a variety of tax planning and financing strategies to ensure that our worldwide cash is available in the locations in which it is needed. The Tax Act requires us to pay a one-time transition tax on the unremitted earnings of foreign subsidiaries. Based on available information, we estimated the tax on the deemed repatriation of our foreign earnings and have recorded a tax expense of \$85.0 million in continuing operations at December 31, 2017. During the three months ended September 30, 2018, we refined our calculations of the one-time transition tax based on newly issued guidance from the Internal Revenue Service. As a result, we recorded a benefit of \$5.1 million in continuing operations related to the one-time transition tax. No additional income taxes have been provided for any remaining undistributed foreign earnings not subject to the transition tax, or any additional outside basis difference inherent in these entities, as these amounts continue to be indefinitely reinvested in foreign operations.

On July 27, 2016, our Board of Directors (our "Board") authorized us to repurchase up to 8.0 million shares of common stock under a stock repurchase program (the "Repurchase Program"). On July 23, 2018, our Board authorized us to immediately terminate the Repurchase Program and further authorized us to repurchase shares of common stock for an aggregate amount up to \$250.0 million under a new stock repurchase program (the "New Repurchase Program"). The New Repurchase Program will expire on July 23, 2020 unless terminated earlier by our Board and may be suspended or discontinued at any time. During the nine months ended September 30, 2018, we had no stock repurchases under the Repurchase Program and New Repurchase Program. No shares remain available for repurchase under the Repurchase Program due to its cancellation. As of September 30, 2018, \$250.0 million remained available for aggregate repurchases of shares under the New Repurchase Program.

[Table of Contents](#)

In addition, our Board has authorized us to repurchase shares of common stock to satisfy minimum statutory tax withholding obligations in connection with the vesting of restricted stock awards and restricted stock unit awards granted pursuant to our equity incentive plans and to satisfy obligations related to the exercise of stock options made pursuant to our equity incentive plans. During the three months ended September 30, 2018, we repurchased 3,807 shares of common stock for this purpose at an aggregate cost of \$0.3 million. During the nine months ended September 30, 2018, we repurchased 63,506 shares of common stock for this purpose at an aggregate cost of \$5.0 million.

The repurchased shares have been reflected as additional authorized but unissued shares, with the payments reflected in common stock and capital in excess of par value. Any repurchased shares will be available for use in connection with corporate programs. If we continue to repurchase shares, the New Repurchase Program will be funded using our existing financial resources, including cash and cash equivalents, and our senior unsecured revolving credit facility.

Distressed global financial markets could adversely impact general economic conditions by reducing liquidity and credit availability, creating increased volatility in security prices, widening credit spreads and decreasing valuations of certain investments. The widening of credit spreads may create a less favorable environment for certain of our businesses and may affect the fair value of financial instruments that we issue or hold. Increases in credit spreads, as well as limitations on the availability of credit at rates we consider to be reasonable, could affect our ability to borrow under future potential facilities on a secured or unsecured basis, which may adversely affect our liquidity and results of operations. In difficult global financial markets, we may be forced to fund our operations at a higher cost, or we may be unable to raise as much funding as we need to support our business activities.

During the first nine months of fiscal year 2018, we contributed \$6.4 million, in the aggregate, to our defined benefit pension plans outside of the United States, and expect to contribute an additional \$2.3 million by the end of fiscal year 2018. During the nine months ended September 30, 2018, we contributed \$15.0 million to our defined benefit pension plan in the United States for plan year 2017. We could potentially have to make additional contributions in future periods for all pension plans. We expect to use existing cash and external sources to satisfy future contributions to our pension plans.

Our pension plans have not experienced a material impact on liquidity or counterparty exposure due to the volatility and uncertainty in the credit markets. We recognize actuarial gains and losses in other income or expense in the fourth quarter of the year in which the gains and losses occur, unless there is an interim remeasurement required for one of our plans. It is difficult to reliably predict the magnitude of such adjustments for gains and losses in fiscal year 2018. These adjustments are primarily driven by events and circumstances beyond our control, including changes in interest rates, the performance of the financial markets and mortality assumptions. To the extent the discount rates decrease or the value of our pension and postretirement investments decrease, a loss will be recorded in fiscal year 2018. Conversely, to the extent the discount rates increase or the value of our pension and postretirement investments increase more than expected, a gain will be recorded in fiscal year 2018.

Cash Flows

Operating Activities. Net cash provided by continuing operations was \$151.8 million for the nine months ended September 30, 2018, as compared to net cash provided by continuing operations of \$165.2 million for the nine months ended October 1, 2017, a decrease in cash provided by operating activities of \$13.3 million. The cash provided by operating activities for the nine months ended September 30, 2018 was principally a result of a net cash decrease in accrued expenses, other assets and liabilities and other items of \$90.7 million and a net cash decrease in working capital of \$90.6 million. These items were partially offset by income from continuing operations of \$166.2 million, adjusted for non-cash charges, including depreciation and amortization of \$133.4 million, stock-based compensation expense of \$23.3 million, restructuring and contract termination charges, net of \$13.1 million and change in fair value of contingent consideration of \$10.8 million, as well as a gain on disposition of businesses and assets, net of \$13.0 million and a gain on sales of investments, net of \$0.6 million. Contributing to the net cash decrease in working capital for the nine months ended September 30, 2018, excluding the effect of foreign exchange rate fluctuations, was a decrease in accounts payable of \$36.6 million, an increase in accounts receivable of \$12.7 million and an increase in inventory of \$41.3 million. The decrease in accounts payable was primarily a result of the timing of disbursements during the first nine months of fiscal year 2018. The increase in accounts receivable was a result of higher sales volume during the first nine months of fiscal year 2018. The increase in inventory was primarily a result of expanding the amount of inventory held at sales locations within our Discovery & Analytical Solutions and Diagnostics segments to improve responsiveness to customer requirements and to facilitate the introduction of new products. Changes in accrued expenses, other assets and liabilities and other items decreased cash provided by operating activities by \$90.7 million for the nine months ended September 30, 2018, as compared to \$109.6 million for the nine months ended October 1, 2017. These changes primarily related to the timing of payments for pensions, taxes, restructuring, and salary and benefits.

Investing Activities. Net cash used in the investing activities of our continuing operations was \$71.9 million for the nine months ended September 30, 2018, as compared to \$85.5 million for the nine months ended October 1, 2017, a decrease of \$13.6 million. For the nine months ended September 30, 2018, the net cash used in investing activities of our continuing

operations was principally a result of capital expenditures of \$60.4 million, cash used for acquisitions of \$44.1 million, and purchases of investments of \$5.5 million. These items were partially offset by \$38.0 million in proceeds from disposition of investments and \$0.1 million in proceeds from the surrender of life insurance policies. Net cash used for capital expenditures was \$22.4 million for the nine months ended October 1, 2017. The capital expenditures in each period were primarily for manufacturing and other capital equipment purchases. In addition, during the nine months ended October 1, 2017, we used \$123.6 million in cash for acquisitions and investments, which was partially offset by \$60.4 million in proceeds from settlement of acquisition-related foreign currency forward contracts.

Financing Activities. Net cash used in financing activities of continuing operations was \$122.0 million for the nine months ended September 30, 2018, as compared to net cash used in financing activities of continuing operations of \$33.9 million for the nine months ended October 1, 2017, an increase in cash used in financing activities of continuing operations of \$88.0 million. During the nine months ended September 30, 2018, we paid \$30.3 million as compared to \$11.5 million for settlement of forward foreign exchange contracts for the nine months ended October 1, 2017. During the nine months ended September 30, 2018, we paid \$23.2 million as compared to \$23.1 million in dividends for the nine months ended October 1, 2017. During the nine months ended September 30, 2018, we had net payments on other credit facilities of \$22.9 million as compared to \$0.9 million for the nine months ended October 1, 2017. During the nine months ended September 30, 2018, we repurchased 63,506 shares of our common stock to satisfy minimum statutory tax withholding obligations in connection with the vesting of restricted stock awards and restricted stock unit awards granted pursuant to our equity incentive plans and to satisfy obligations related to the exercise of stock options made pursuant to our equity incentive plans, for a total cost of \$5.0 million. This compares to repurchases of 73,672 shares of common stock pursuant to our equity incentive plans for the nine months ended October 1, 2017, for a total cost of \$3.5 million. During the nine months ended September 30, 2018, we made \$12.8 million in payments for acquisition-related contingent consideration, as compared to \$8.9 million for the nine months ended October 1, 2017. This cash used in financing activities during the nine months ended September 30, 2018 was partially offset by proceeds of \$369.3 million from the sale of our 0.6% senior unsecured notes due in 2021, and we paid \$2.6 million for debt issuance costs. During the nine months ended September 30, 2018, borrowings from our senior unsecured revolving credit facility totaled \$605.0 million, which were more than offset by debt payments of \$1,019.0 million. This compares to borrowings from our senior unsecured revolving credit facility of \$147.0 million, which were offset by our debt payments of \$147.0 million during the nine months ended October 1, 2017. Proceeds from the issuance of common stock under our stock plans were \$19.5 million during the nine months ended September 30, 2018 as compared to \$14.0 million for the nine months ended October 1, 2017.

Borrowing Arrangements

Senior Unsecured Revolving Credit Facility. Our senior unsecured revolving credit facility provides for \$1.0 billion of revolving loans and has an initial maturity of August 11, 2021. As of September 30, 2018, undrawn letters of credit in the aggregate amount of \$11.4 million were treated as issued and outstanding when calculating the borrowing availability under the senior unsecured revolving credit facility. As of September 30, 2018, we had \$577.6 million available for additional borrowing under the facility. We use the senior unsecured revolving credit facility for general corporate purposes, which may include working capital, refinancing existing indebtedness, capital expenditures, share repurchases, acquisitions and strategic alliances. The interest rates under the senior unsecured revolving credit facility are based on the Eurocurrency rate or the base rate at the time of borrowing, plus a margin. The base rate is the higher of (i) the rate of interest in effect for such day as publicly announced from time to time by JP Morgan Chase Bank, N.A. as its "prime rate," (ii) the Federal Funds rate plus 50 basis points or (iii) an adjusted one-month Libor plus 1.00%. The Eurocurrency margin as of September 30, 2018 was 110 basis points. The weighted average Eurocurrency interest rate as of September 30, 2018 was 2.19%, resulting in a weighted average effective Eurocurrency rate, including the margin, of 3.29%, which was the interest applicable to the borrowings outstanding under the Eurocurrency rate as of September 30, 2018. As of September 30, 2018, the senior unsecured revolving credit facility had outstanding borrowings of \$411.0 million, and \$2.6 million of unamortized debt issuance costs. As of December 31, 2017, the senior unsecured revolving credit facility had outstanding borrowings of \$625.0 million, and \$3.3 million of unamortized debt issuance costs. The credit agreement for the facility contains affirmative, negative and financial covenants and events of default. The financial covenants include a debt-to-capital ratio that remains applicable for so long as our debt is rated as investment grade. In the event that our debt is not rated as investment grade, the debt-to-capital ratio covenant is replaced with a maximum consolidated leverage ratio covenant and a minimum consolidated interest coverage ratio covenant. We were in compliance with all applicable covenants as of September 30, 2018.

Senior Unsecured Term Loan Credit Facility. We entered into a senior unsecured term loan credit facility on August 11, 2017 that provided for \$200.0 million of term loans and had an initial maturity of twelve months from December 19, 2017, the date of the initial draw. We utilized the senior unsecured term loan facility for the acquisition of EUROIMMUN. The interest rates under the senior unsecured term loan credit facility were based on the Eurocurrency rate or the base rate at the time of the borrowing, plus a margin. The base rate is the higher of (i) the rate of interest in effect for such day as publicly announced from time to time by JP Morgan Chase Bank, N.A. as its "prime rate," (ii) the Federal Funds rate plus 50 basis points or (iii) an

[Table of Contents](#)

adjusted one-month Libor plus 1.00%. In April 2018, we paid in full the outstanding balance of \$200.0 million on the senior unsecured term loan credit facility, from the proceeds of the 0.6% senior unsecured notes due in 2021 that were issued in April 2018.

5% Senior Unsecured Notes due in 2021. On October 25, 2011, we issued \$500.0 million aggregate principal amount of senior unsecured notes due in 2021 (the “November 2021 Notes”) in a registered public offering and received \$493.6 million of net proceeds from the issuance. The November 2021 Notes were issued at 99.4% of the principal amount, which resulted in a discount of \$3.1 million. As of September 30, 2018, the November 2021 Notes had an aggregate carrying value of \$497.2 million, net of \$1.2 million of unamortized original issue discount and \$1.7 million of unamortized debt issuance costs. As of December 31, 2017, the November 2021 Notes had an aggregate carrying value of \$496.6 million, net of \$1.4 million of unamortized original issue discount and \$2.0 million of unamortized debt issuance costs. The November 2021 Notes mature in November 2021 and bear interest at an annual rate of 5%. Interest on the November 2021 Notes is payable semi-annually on May 15th and November 15th each year. Prior to August 15, 2021 (three months prior to their maturity date), we may redeem the November 2021 Notes in whole or in part, at our option, at a redemption price equal to the greater of (i) 100% of the principal amount of the November 2021 Notes to be redeemed, plus accrued and unpaid interest, or (ii) the sum of the present values of the remaining scheduled payments of principal and interest in respect to the November 2021 Notes being redeemed, discounted on a semi-annual basis, at the Treasury Rate plus 45 basis points, plus accrued and unpaid interest. At any time on or after August 15, 2021 (three months prior to their maturity date), we may redeem the November 2021 Notes, at our option, at a redemption price equal to 100% of the principal amount of the November 2021 Notes to be redeemed plus accrued and unpaid interest. Upon a change of control (as defined in the indenture governing the November 2021 Notes) and a contemporaneous downgrade of the November 2021 Notes below investment grade, each holder of November 2021 Notes will have the right to require us to repurchase such holder's November 2021 Notes for 101% of their principal amount, plus accrued and unpaid interest.

1.875% Senior Unsecured Notes due 2026. On July 19, 2016, we issued €500.0 million aggregate principal amount of senior unsecured notes due in 2026 (the “2026 Notes”) in a registered public offering and received approximately €492.3 million of net proceeds from the issuance. The 2026 Notes were issued at 99.118% of the principal amount, which resulted in a discount of €4.4 million. The 2026 Notes mature in July 2026 and bear interest at an annual rate of 1.875%. Interest on the 2026 Notes is payable annually on July 19th each year. The proceeds from the 2026 Notes were used to pay in full the outstanding balance of our previous senior unsecured revolving credit facility. As of September 30, 2018, the 2026 Notes had an aggregate carrying value of \$572.3 million, net of \$4.2 million of unamortized original issue discount and \$3.9 million of unamortized debt issuance costs. As of December 31, 2017, the 2026 Notes had an aggregate carrying value of \$591.7 million, net of \$4.7 million of unamortized original issue discount and \$4.3 million of unamortized debt issuance costs.

Prior to April 19, 2026 (three months prior to their maturity date), we may redeem the 2026 Notes in whole at any time or in part from time to time, at our option, at a redemption price equal to the greater of (i) 100% of the principal amount of the 2026 Notes to be redeemed, or (ii) the sum of the present values of the remaining scheduled payments of principal and interest in respect to the 2026 Notes being redeemed, discounted on an annual basis, at the applicable Comparable Government Bond Rate (as defined in the indenture governing the 2026 Notes) plus 35 basis points; plus, in each case, accrued and unpaid interest. In addition, at any time on or after April 19, 2026 (three months prior to their maturity date), we may redeem the 2026 Notes, at our option, at a redemption price equal to 100% of the principal amount of the 2026 Notes due to be redeemed plus accrued and unpaid interest.

Upon a change of control (as defined in the indenture governing the 2026 Notes) and a contemporaneous downgrade of the 2026 Notes below investment grade, we will, in certain circumstances, make an offer to purchase the 2026 Notes at a price equal to 101% of their principal amount plus any accrued and unpaid interest.

0.6% Senior Unsecured Notes due in 2021. On April 11, 2018, we issued €300.0 million aggregate principal amount of senior unsecured notes due in 2021 (the “April 2021 Notes”) in a registered public offering and received approximately €298.7 million of net proceeds from the issuance. The April 2021 Notes were issued at 99.95% of the principal amount, which resulted in a discount of €0.2 million. As of September 30, 2018, the April 2021 Notes had an aggregate carrying value of \$345.8 million, net of \$0.2 million of unamortized original issue discount and \$2.3 million of unamortized debt issuance costs. The April 2021 Notes mature in April 2021 and bear interest at an annual rate of 0.6%. Interest on the April 2021 Notes is payable annually on April 9th each year. The proceeds from the April 2021 Notes were used to pay in full the outstanding balance of our senior unsecured term loan credit facility, and a portion of the outstanding senior unsecured revolving credit facility, and in each case the borrowings were incurred to pay a portion of the purchase price for our acquisition of EUROIMMUN, which closed in December 19, 2017. Prior to the maturity date of the April 2021 Notes, we may redeem them in whole at any time or in part from time to time, at our option, at a redemption price equal to the greater of (i) 100% of the principal amount of the April 2021 Notes to be redeemed, or (ii) the sum of the present values of the remaining scheduled payments of principal and interest in respect to the April 2021 Notes being redeemed, discounted on an annual basis, at the applicable Comparable Government Bond Rate (as defined in the indenture governing the April 2021 Notes) plus 15 basis points; plus, in each case,

accrued and unpaid interest. Upon a change of control (as defined in the indenture governing the April 2021 Notes) and a contemporaneous downgrade of the April 2021 Notes below investment grade, we will, in certain circumstances, make an offer to purchase the April 2021 Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest.

Other Debt Facilities. Our other debt facilities include Euro-denominated bank loans with an aggregate carrying value of \$35.3 million (or €30.4 million) and \$57.2 million (or €47.6 million) as of September 30, 2018 and December 31, 2017, respectively. These bank loans are primarily utilized for financing fixed assets and are repaid in monthly or quarterly installments with maturity dates extending to 2031. Of these bank loans, loans in the aggregate amount of \$35.1 million bear fixed interest rates between 1.1% and 5.5% and a loan in the amount of \$0.2 million bears a variable interest rate based on the Euribor rate plus a margin of 1.5%. An aggregate amount of \$5.4 million of the bank loans are secured by mortgages on real property and the remaining \$29.9 million are unsecured. Certain credit agreements for the unsecured bank loans include financial covenants which are based on an equity ratio or an equity ratio and minimum interest coverage ratio. We were in compliance with all applicable covenants as of September 30, 2018.

In addition, we have other unsecured revolving credit facilities and a secured bank loan in the amount of \$8.1 million and \$0.2 million, respectively, as of September 30, 2018. The unsecured revolving debt facilities bear fixed interest rates between 0.05% and 2.30%. The secured bank loan of \$0.2 million bears a fixed annual interest rate of 1.95% and is repaid in monthly installments until 2027.

Financing Lease Obligations. In fiscal year 2012, we entered into agreements with the lessors of certain buildings that we are currently occupying and leasing to expand those buildings. We provided a portion of the funds needed for the construction of the additions to the buildings, and as a result we were considered the owner of the buildings during the construction period. At the end of the construction period, we were not reimbursed by the lessors for all of the construction costs. We are therefore deemed to have continuing involvement and the leases qualify as financing leases under sale-leaseback accounting guidance, representing debt obligations for us and non-cash investing and financing activities. As a result, we capitalized \$29.3 million in property, plant and equipment, net, representing the fair value of the buildings with a corresponding increase to debt. We have also capitalized \$11.5 million in additional construction costs necessary to complete the renovations to the buildings, which were funded by the lessors, with a corresponding increase to debt. At September 30, 2018, we had \$34.9 million recorded for these financing lease obligations, of which \$1.5 million was recorded as short-term debt and \$33.4 million was recorded as long-term debt. At December 31, 2017, we had \$35.9 million recorded for these financing lease obligations, of which \$1.4 million was recorded as short-term debt and \$34.5 million was recorded as long-term debt. The buildings are being depreciated on a straight-line basis over the terms of the leases to their estimated residual values, which will equal the remaining financing obligation at the end of the lease term. At the end of the lease term, the remaining balances in property, plant and equipment, net and debt will be reversed against each other.

Dividends

Our Board declared a regular quarterly cash dividend of \$0.07 per share for the first three quarters of fiscal year 2018 and in each quarter of fiscal year 2017. At September 30, 2018, we had accrued \$7.8 million for dividends declared on July 23, 2018 for the third quarter of fiscal year 2018 that will be payable on November 9, 2018. On October 24, 2018, we announced that our Board had declared a quarterly dividend of \$0.07 per share for the fourth quarter of fiscal year 2018 that will be payable on February 8, 2019. In the future, our Board may determine to reduce or eliminate our common stock dividend in order to fund investments for growth, repurchase shares or conserve capital resources.

Contractual Obligations

Our contractual obligations, as described in the contractual obligations table contained in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the 2017 Form 10-K have changed due to new lease agreements for certain operating facilities.

During the nine months ended September 30, 2018, we entered into new lease agreements for certain operating facilities. Our total rental payments to the lessors are now expected to be \$10.6 million for the remainder of fiscal year 2018, \$26.2 million for fiscal year 2019, \$19.9 million for fiscal year 2020, \$14.9 million for fiscal year 2021, \$8.1 million for fiscal year 2022 and \$18.2 million in the aggregate thereafter. There have not been any other material changes during the first nine months of fiscal year 2018.

Effects of Recently Adopted and Issued Accounting Pronouncements

See Note 1, *Basis of Presentation*, in the Notes to Condensed Consolidated Financial Statements for a summary of recently adopted and issued accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk. We are exposed to market risk, including changes in interest rates and currency exchange rates. To manage the volatility relating to these exposures, we enter into various derivative transactions pursuant to our policies to hedge against known or forecasted market exposures. We briefly describe several of the market risks we face below. The following disclosure is not materially different from the disclosure provided under the heading, Item 7A. “*Quantitative and Qualitative Disclosure About Market Risk,*” in our 2017 Form 10-K.

Foreign Exchange Risk. The potential change in foreign currency exchange rates offers a substantial risk to us, as approximately 70% of our business is conducted outside of the United States, generally in foreign currencies. Our risk management strategy currently uses forward contracts to mitigate certain balance sheet foreign currency transaction exposures. The intent of these economic hedges is to offset gains and losses that occur on the underlying exposures, with gains and losses resulting from the forward contracts that hedge these exposures. Moreover, we are able to partially mitigate the impact that fluctuations in currencies have on our net income as a result of our manufacturing facilities located in countries outside the United States, material sourcing and other spending which occur in countries outside the United States, resulting in natural hedges.

We do not enter into derivative contracts for trading or other speculative purposes, nor do we use leveraged financial instruments. Although we attempt to manage our foreign exchange risk through the above activities, when the U.S. dollar weakens against other currencies in which we transact business, sales and net income generally will be positively but not proportionately impacted. Conversely, when the U.S. dollar strengthens against other currencies in which we transact business, sales and net income will generally be negatively but not proportionately impacted.

In the ordinary course of business, we enter into foreign exchange contracts for periods consistent with our committed exposures to mitigate the effect of foreign currency movements on transactions denominated in foreign currencies. The intent of these economic hedges is to offset gains and losses that occur on the underlying exposures from these currencies, with gains and losses resulting from the forward currency contracts that hedge these exposures. Transactions covered by hedge contracts include intercompany and third-party receivables and payables. The contracts are primarily in European and Asian currencies, have maturities that do not exceed 12 months, have no cash requirements until maturity, and are recorded at fair value on our condensed consolidated balance sheets. The unrealized gains and losses on our foreign currency contracts are recognized immediately in interest and other expense, net. The cash flows related to the settlement of these hedges are included in cash flows from operating activities within our condensed consolidated statement of cash flows.

Principal hedged currencies include the British Pound, Euro, Swedish Krona, Japanese Yen and Singapore Dollar. We held forward foreign exchange contracts, designated as economic hedges, with U.S. dollar equivalent notional amounts totaling \$180.4 million, \$212.1 million and \$140.0 million at September 30, 2018, December 31, 2017 and October 1, 2017, respectively, and the fair value of these foreign currency derivative contracts was insignificant. The gains and losses realized on these foreign currency derivative contracts are not material. The duration of these contracts was generally 30 days or less during each of the nine months ended September 30, 2018 and October 1, 2017.

In addition, in connection with certain intercompany loan agreements utilized to finance our acquisitions and stock repurchase program, we enter into forward foreign exchange contracts intended to hedge movements in foreign exchange rates prior to settlement of such intercompany loans denominated in foreign currencies. We record these hedges at fair value on our condensed consolidated balance sheets. The unrealized gains and losses on these hedges, as well as the gains and losses associated with the remeasurement of the intercompany loans, are recognized immediately in interest and other expense, net. The cash flows related to the settlement of these hedges are included in cash flows from financing activities within our condensed consolidated statement of cash flows.

The outstanding forward exchange contracts designated as economic hedges, which were intended to hedge movements in foreign exchange rates prior to the settlement of certain intercompany loan agreements, included combined Euro notional amounts of €48.7 million and combined U.S. Dollar notional amounts of \$28.0 million as of September 30, 2018, combined Euro notional amounts of €57.2 million and combined U.S. Dollar notional amounts of \$1.3 billion as of December 31, 2017, and combined Euro notional amounts of €19.0 million and combined U.S. Dollar notional amounts of \$12.3 million as of October 1, 2017. The net gains and losses on these derivatives, combined with the gains and losses on the remeasurement of the hedged intercompany loans were not material for each of the three and nine months ended September 30, 2018 and October 1, 2017. We paid \$30.3 million and \$11.5 million during the nine months ended September 30, 2018 and October 1, 2017, respectively, from the settlement of these hedges.

In April 2018, we entered into a series of foreign currency forward contracts with a notional amount of €298.7 million to hedge our investments in certain foreign subsidiaries. Realized and unrealized translation adjustments from these hedges were

included in the foreign currency translation component of accumulated other comprehensive income ("AOCI"), which offsets translation adjustments on the underlying net assets of foreign subsidiaries. The cumulative translation gains or losses will remain in AOCI until the foreign subsidiaries are liquidated or sold. The foreign currency forward contracts were settled during the second quarter of 2018 and we recorded a net realized foreign exchange loss in AOCI of \$2.6 million for the nine months ended September 30, 2018.

During fiscal year 2016, we designated the 2026 Notes to hedge our investments in certain foreign subsidiaries. In January 2018, we removed the hedging relationship of our 2026 Notes and investments in certain foreign subsidiaries and recognized \$2.1 million of unrealized foreign exchange gain in AOCI. In April 2018, we designated a portion of the 2026 Notes to hedge our investments in certain foreign subsidiaries. Unrealized translation adjustments from a portion of the 2026 Notes were included in the foreign currency translation component of AOCI, which offsets translation adjustments on the underlying net assets of foreign subsidiaries. The cumulative translation gains or losses will remain in AOCI until the foreign subsidiaries are liquidated or sold. As of September 30, 2018, the total notional amount of the 2026 Notes that was designated to hedge investments in foreign subsidiaries was €135.1 million. The unrealized foreign exchange gain recorded in AOCI related to the net investment hedge was \$0.8 million and \$7.7 million for the three and nine months ended September 30, 2018, respectively.

In April 2018, we designated the April 2021 Notes with a notional amount of €298.7 million to hedge our investments in certain foreign subsidiaries. Unrealized translation adjustments from the April 2021 Notes were included in the foreign currency translation component of AOCI, which offsets translation adjustments on the underlying net assets of foreign subsidiaries. The cumulative translation gains or losses will remain in AOCI until the foreign subsidiaries are liquidated or sold. As of September 30, 2018, the total notional amount of the April 2021 Notes that was designated to hedge investments in foreign subsidiaries was €298.7 million. The unrealized foreign exchange gain recorded in AOCI related to the net investment hedge was \$1.8 million and \$22.6 million for the three and nine months ended September 30, 2018, respectively.

Foreign Currency Exchange Risk—Value-at-Risk Disclosure. We continue to measure foreign currency risk using the Value-at-Risk model described in Item 7A. "Quantitative and Qualitative Disclosure About Market Risk," in our 2017 Form 10-K. The measures for our Value-at-Risk analysis have not changed materially.

Interest Rate Risk. As described above, our debt portfolio includes variable rate instruments. Fluctuations in interest rates can therefore have a direct impact on both our short-term cash flows, as they relate to interest, and our earnings. To manage the volatility relating to these exposures, we periodically enter into various derivative transactions pursuant to our policies to hedge against known or forecasted interest rate exposures.

Interest Rate Risk—Sensitivity. Our 2017 Form 10-K presents sensitivity measures for our interest rate risk. The measures for our sensitivity analysis have not changed materially. More information is available in Item 7A. "Quantitative and Qualitative Disclosure About Market Risk," in our 2017 Form 10-K for our sensitivity disclosure.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of our fiscal quarter ended September 30, 2018. The term "disclosure controls and procedures" as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to provide 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 Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of the end of our fiscal quarter ended September 30, 2018, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

We are subject to various claims, legal proceedings and investigations covering a wide range of matters that arise in the ordinary course of our business activities. Although we have established accruals for potential losses that we believe are probable and reasonably estimable, in the opinion of our management, based on its review of the information available at this time, the total cost of resolving these contingencies at September 30, 2018 should not have a material adverse effect on our condensed consolidated financial statements. However, each of these matters is subject to uncertainties, and it is possible that some of these matters may be resolved unfavorably to us.

Item 1A. *Risk Factors*

The following important factors affect our business and operations generally or affect multiple segments of our business and operations:

If the markets into which we sell our products decline or do not grow as anticipated due to a decline in general economic conditions, or there are uncertainties surrounding the approval of government or industrial funding proposals, or there are unfavorable changes in government regulations, we may see an adverse effect on the results of our business operations.

Our customers include pharmaceutical and biotechnology companies, laboratories, academic and research institutions, public health authorities, private healthcare organizations, doctors and government agencies. Our quarterly revenue and results of operations are highly dependent on the volume and timing of orders received during the quarter. In addition, our revenues and earnings forecasts for future quarters are often based on the expected trends in our markets. However, the markets we serve do not always experience the trends that we may expect. Negative fluctuations in our customers' markets, the inability of our customers to secure credit or funding, restrictions in capital expenditures, general economic conditions, cuts in government funding or unfavorable changes in government regulations would likely result in a reduction in demand for our products and services. In addition, government funding is subject to economic conditions and the political process, which is inherently fluid and unpredictable. Our revenues may be adversely affected if our customers delay or reduce purchases as a result of uncertainties surrounding the approval of government or industrial funding proposals. Such declines could harm our consolidated financial position, results of operations, cash flows and trading price of our common stock, and could limit our ability to sustain profitability.

Our growth is subject to global economic and political conditions, and operational disruptions at our facilities.

Our business is affected by global economic and political conditions as well as the state of the financial markets, particularly as the United States and other countries balance concerns around debt, inflation, growth and budget allocations in their policy initiatives. There can be no assurance that global economic conditions and financial markets will not worsen and that we will not experience any adverse effects that may be material to our consolidated cash flows, results of operations, financial position or our ability to access capital, such as the adverse effects resulting from a prolonged shutdown in government operations both in the United States and internationally. Our business is also affected by local economic environments, including inflation, recession, financial liquidity and currency volatility or devaluation. Political changes, some of which may be disruptive, could interfere with our supply chain, our customers and all of our activities in a particular location.

While we take precautions to prevent production or service interruptions at our global facilities, a major earthquake, fire, flood, power loss or other catastrophic event that results in the destruction or delay of any of our critical business operations could result in our incurring significant liability to customers or other third parties, cause significant reputational damage or have a material adverse effect on our business, operating results or financial condition.

Certain of these risks can be hedged to a limited degree using financial instruments, or other measures, and some of these risks are insurable, but any such mitigation efforts are costly and may not always be fully successful. Our ability to engage in such mitigation efforts has decreased or become even more costly as a result of recent market developments.

If we do not introduce new products in a timely manner, we may lose market share and be unable to achieve revenue growth targets.

We sell many of our products in industries characterized by rapid technological change, frequent new product and service introductions, and evolving customer needs and industry standards. Many of the businesses competing with us in these industries have significant financial and other resources to invest in new technologies, substantial intellectual property portfolios, substantial experience in new product development, regulatory expertise, manufacturing capabilities, and established

[Table of Contents](#)

distribution channels to deliver products to customers. Our products could become technologically obsolete over time, or we may invest in technology that does not lead to revenue growth or continue to sell products for which the demand from our customers is declining, in which case we may lose market share or not achieve our revenue growth targets. The success of our new product offerings will depend upon several factors, including our ability to:

- accurately anticipate customer needs,
- innovate and develop new reliable technologies and applications,
- receive regulatory approvals in a timely manner,
- successfully commercialize new technologies in a timely manner,
- price our products competitively, and manufacture and deliver our products in sufficient volumes and on time, and
- differentiate our offerings from our competitors' offerings.

Many of our products are used by our customers to develop, test and manufacture their products. We must anticipate industry trends and consistently develop new products to meet our customers' expectations. In developing new products, we may be required to make significant investments before we can determine the commercial viability of the new product. If we fail to accurately foresee our customers' needs and future activities, we may invest heavily in research and development of products that do not lead to significant revenue. We may also suffer a loss in market share and potential revenue if we are unable to commercialize our technology in a timely and efficient manner.

In addition, some of our licensed technology is subject to contractual restrictions, which may limit our ability to develop or commercialize products for some applications.

We may not be able to successfully execute acquisitions or divestitures, license technologies, integrate acquired businesses or licensed technologies into our existing businesses, or make acquired businesses or licensed technologies profitable.

We have in the past supplemented, and may in the future supplement, our internal growth by acquiring businesses and licensing technologies that complement or augment our existing product lines, such as our acquisitions of Shanghai Spectrum Instruments Co., Ltd., RHS Limited, DNA Laboratories Sdn. Bhd. and Dani Analitica S.r.l. during fiscal year 2018. However, we may be unable to identify or complete promising acquisitions or license transactions for many reasons, such as:

- competition among buyers and licensees,
- the high valuations of businesses and technologies,
- the need for regulatory and other approval, and
- our inability to raise capital to fund these acquisitions.

Some of the businesses we acquire may be unprofitable or marginally profitable, or may increase the variability of our revenue recognition. If, for example, we are unable to successfully commercialize products and services related to significant in-process research and development that we have capitalized, we may have to impair the value of such assets. Accordingly, the earnings or losses of acquired businesses may dilute our earnings. For these acquired businesses to achieve acceptable levels of profitability, we would have to improve their management, operations, products and market penetration. We may not be successful in this regard and may encounter other difficulties in integrating acquired businesses into our existing operations, such as incompatible management, information or other systems, cultural differences, loss of key personnel, unforeseen regulatory requirements, previously undisclosed liabilities or difficulties in predicting financial results. Additionally, if we are not successful in selling businesses we seek to divest, the activity of such businesses may dilute our earnings and we may not be able to achieve the expected benefits of such divestitures. As a result, our financial results may differ from our forecasts or the expectations of the investment community in a given quarter or over the long term.

To finance our acquisitions, we may have to raise additional funds, either through public or private financings. We may be unable to obtain such funds or may be able to do so only on terms unacceptable to us. We may also incur expenses related to completing acquisitions or licensing technologies, or in evaluating potential acquisitions or technologies, which may adversely impact our profitability.

We may not be successful in adequately protecting our intellectual property.

Patent and trade secret protection is important to us because developing new products, processes and technologies gives us a competitive advantage, although it is time-consuming and expensive. We own many United States and foreign patents and intend to apply for additional patents. Patent applications we file, however, may not result in issued patents or, if they do, the

claims allowed in the patents may be narrower than what is needed to protect fully our products, processes and technologies. The expiration of our previously issued patents may cause us to lose a competitive advantage in certain of the products and services we provide. Similarly, applications to register our trademarks may not be granted in all countries in which they are filed. For our intellectual property that is protected by keeping it secret, such as trade secrets and know-how, we may not use adequate measures to protect this intellectual property.

Third parties may also challenge the validity of our issued patents, may circumvent or “design around” our patents and patent applications, or may claim that our products, processes or technologies infringe their patents. In addition, third parties may assert that our product names infringe their trademarks. We may incur significant expense in legal proceedings to protect our intellectual property against infringement by third parties or to defend against claims of infringement by third parties. Claims by third parties in pending or future lawsuits could result in awards of substantial damages against us or court orders that could effectively prevent us from manufacturing, using, importing or selling our products in the United States or other countries.

If we are unable to renew our licenses or otherwise lose our licensed rights, we may have to stop selling products or we may lose competitive advantage.

We may not be able to renew our existing licenses, or licenses we may obtain in the future, on terms acceptable to us, or at all. If we lose the rights to a patented or other proprietary technology, we may need to stop selling products incorporating that technology and possibly other products, redesign our products or lose a competitive advantage. Potential competitors could in-license technologies that we fail to license and potentially erode our market share.

Our licenses typically subject us to various economic and commercialization obligations. If we fail to comply with these obligations, we could lose important rights under a license, such as the right to exclusivity in a market, or incur losses for failing to comply with our contractual obligations. In some cases, we could lose all rights under the license. In addition, rights granted under the license could be lost for reasons out of our control. For example, the licensor could lose patent protection for a number of reasons, including invalidity of the licensed patent, or a third-party could obtain a patent that curtails our freedom to operate under one or more licenses.

If we do not compete effectively, our business will be harmed.

We encounter aggressive competition from numerous competitors in many areas of our business. We may not be able to compete effectively with all of these competitors. To remain competitive, we must develop new products and periodically enhance our existing products. We anticipate that we may also have to adjust the prices of many of our products to stay competitive. In addition, new competitors, technologies or market trends may emerge to threaten or reduce the value of entire product lines.

Our quarterly operating results could be subject to significant fluctuation, and we may not be able to adjust our operations to effectively address changes we do not anticipate, which could increase the volatility of our stock price and potentially cause losses to our shareholders.

Given the nature of the markets in which we participate, we cannot reliably predict future revenue and profitability. Changes in competitive, market and economic conditions may require us to adjust our operations, and we may not be able to make those adjustments or make them quickly enough to adapt to changing conditions. A high proportion of our costs are fixed, due in part to our research and development and manufacturing costs. As a result, small declines in sales could disproportionately affect our operating results in a quarter. Factors that may affect our quarterly operating results include:

- demand for and market acceptance of our products,
- competitive pressures resulting in lower selling prices,
- changes in the level of economic activity in regions in which we do business,
- changes in general economic conditions or government funding,
- settlements of income tax audits,
- expenses incurred in connection with claims related to environmental conditions at locations where we conduct or formerly conducted operations,
- contract termination and litigation costs,
- differing tax laws and changes in those laws, or changes in the countries in which we are subject to taxation,
- changes in our effective tax rate,

[Table of Contents](#)

- changes in industries, such as pharmaceutical and biomedical,
- changes in the portions of our revenue represented by our various products and customers,
- our ability to introduce new products,
- our competitors' announcement or introduction of new products, services or technological innovations,
- costs of raw materials, energy or supplies,
- changes in healthcare or other reimbursement rates paid by government agencies and other third parties for certain of our products and services,
- our ability to realize the benefit of ongoing productivity initiatives,
- changes in the volume or timing of product orders,
- fluctuation in the expense related to the mark-to-market adjustment on postretirement benefit plans,
- changes in our assumptions underlying future funding of pension obligations,
- changes in assumptions used to determine contingent consideration in acquisitions, and
- changes in foreign currency exchange rates.

A significant disruption in third-party package delivery and import/export services, or significant increases in prices for those services, could interfere with our ability to ship products, increase our costs and lower our profitability.

We ship a significant portion of our products to our customers through independent package delivery and import/export companies, including UPS and Federal Express in the United States; TNT, UPS and DHL in Europe; and UPS in Asia. We also ship our products through other carriers, including national trucking firms, overnight carrier services and the United States Postal Service. If one or more of the package delivery or import/export providers experiences a significant disruption in services or institutes a significant price increase, we may have to seek alternative providers and the delivery of our products could be prevented or delayed. Such events could cause us to incur increased shipping costs that could not be passed on to our customers, negatively impacting our profitability and our relationships with certain of our customers.

Disruptions in the supply of raw materials, certain key components and other goods from our limited or single source suppliers could have an adverse effect on the results of our business operations, and could damage our relationships with customers.

The production of our products requires a wide variety of raw materials, key components and other goods that are generally available from alternate sources of supply. However, certain critical raw materials, key components and other goods required for the production and sale of some of our principal products are available from limited or single sources of supply. We generally have multi-year contracts with no minimum purchase requirements with these suppliers, but those contracts may not fully protect us from a failure by certain suppliers to supply critical materials or from the delays inherent in being required to change suppliers and, in some cases, validate new raw materials. Such raw materials, key components and other goods can usually be obtained from alternative sources with the potential for an increase in price, decline in quality or delay in delivery. A prolonged inability to obtain certain raw materials, key components or other goods is possible and could have an adverse effect on our business operations, and could damage our relationships with customers.

We are subject to the rules of the Securities and Exchange Commission requiring disclosure as to whether certain materials known as conflict minerals (tantalum, tin, gold, tungsten and their derivatives) that may be contained in our products are mined from the Democratic Republic of the Congo and adjoining countries. As a result of these rules, we may incur additional costs in complying with the disclosure requirements and in satisfying those customers who require that the components used in our products be certified as conflict-free, and the potential lack of availability of these materials at competitive prices could increase our production costs.

The manufacture and sale of products and services may expose us to product and other liability claims for which we could have substantial liability.

We face an inherent business risk of exposure to product and other liability claims if our products, services or product candidates are alleged or found to have caused injury, damage or loss. We may be unable to obtain insurance with adequate levels of coverage for potential liability on acceptable terms or claims of this nature may be excluded from coverage under the terms of any insurance policy that we obtain. If we are unable to obtain such insurance or the amounts of any claims successfully brought against us substantially exceed our coverage, then our business could be adversely impacted.

If we fail to maintain satisfactory compliance with the regulations of the United States Food and Drug Administration and other governmental agencies in the United States and abroad, we may be forced to recall products and cease their manufacture and distribution, and we could be subject to civil, criminal or monetary penalties.

Our operations are subject to regulation by different state and federal government agencies in the United States and other countries, as well as to the standards established by international standards bodies. If we fail to comply with those regulations or standards, we could be subject to fines, penalties, criminal prosecution or other sanctions. Some of our products are subject to regulation by the United States Food and Drug Administration and similar foreign and domestic agencies. These regulations govern a wide variety of product activities, from design and development to labeling, manufacturing, promotion, sales and distribution. If we fail to comply with those regulations or standards, we may have to recall products, cease their manufacture and distribution, and may be subject to fines or criminal prosecution.

We are also subject to a variety of laws, regulations and standards that govern, among other things, the importation and exportation of products, the handling, transportation and manufacture of toxic or hazardous substances, and our business practices in the United States and abroad such as anti-bribery, anti-corruption and competition laws. This requires that we devote substantial resources to maintaining our compliance with those laws, regulations and standards. A failure to do so could result in the imposition of civil, criminal or monetary penalties having a material adverse effect on our operations.

Changes in governmental regulations may reduce demand for our products or increase our expenses.

We compete in markets in which we or our customers must comply with federal, state, local and foreign 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 these regulations. Any significant change in these regulations could reduce demand for our products or increase our costs of producing these products.

The healthcare industry is highly regulated and if we fail to comply with its extensive system of laws and regulations, we could suffer fines and penalties or be required to make significant changes to our operations which could have a significant adverse effect on the results of our business operations.

The healthcare industry, including the genetic screening market, is subject to extensive and frequently changing international and United States federal, state and local laws and regulations. In addition, legislative provisions relating to healthcare fraud and abuse, patient privacy violations and misconduct involving government insurance programs provide federal enforcement personnel with substantial powers and remedies to pursue suspected violations. We believe that our business will continue to be subject to increasing regulation as the federal government continues to strengthen its position on healthcare matters, the scope and effect of which we cannot predict. If we fail to comply with applicable laws and regulations, we could suffer civil and criminal damages, fines and penalties, exclusion from participation in governmental healthcare programs, and the loss of various licenses, certificates and authorizations necessary to operate our business, as well as incur liabilities from third-party claims, all of which could have a significant adverse effect on our business.

Economic, political and other risks associated with foreign operations could adversely affect our international sales and profitability.

Because we sell our products worldwide, our businesses are subject to risks associated with doing business internationally. Our sales originating outside the United States represented the majority of our total revenue in the nine months ended September 30, 2018. We anticipate that sales from international operations will continue to represent a substantial portion of our total revenue. In addition, many of our manufacturing facilities, employees and suppliers are located outside the United States. Accordingly, our future results of operations could be harmed by a variety of factors, including:

- changes in actual, or from projected, foreign currency exchange rates,
- changes in a country's or region's political or economic conditions, particularly in developing or emerging markets,
- longer payment cycles of foreign customers and timing of collections in foreign jurisdictions,
- embargoes, tariffs, trade protection measures and import or export licensing requirements,
- policies in foreign countries benefiting domestic manufacturers or other policies detrimental to companies headquartered in the United States,
- differing tax laws and changes in those laws, or changes in the countries in which we are subject to tax,
- adverse income tax audit settlements or loss of previously negotiated tax incentives,
- differing business practices associated with foreign operations,

[Table of Contents](#)

- difficulty in transferring cash between international operations and the United States,
- difficulty in staffing and managing widespread operations,
- differing labor laws and changes in those laws,
- differing protection of intellectual property and changes in that protection,
- expanded enforcement of laws related to data protection and personal privacy,
- increasing global enforcement of anti-bribery and anti-corruption laws, and
- differing regulatory requirements and changes in those requirements.

If we do not retain our key personnel, our ability to execute our business strategy will be limited.

Our success depends to a significant extent upon the continued service of our executive officers and key management and technical personnel, particularly our experienced engineers and scientists, and on our ability to continue to attract, retain, and motivate qualified personnel. The competition for these employees is intense. The loss of the services of key personnel could have a material adverse effect on our operating results. In addition, there could be a material adverse effect on us should the turnover rates for key personnel increase significantly or if we are unable to continue to attract qualified personnel. We do not maintain any key person life insurance policies on any of our officers or employees.

Our success also depends on our ability to execute leadership succession plans. The inability to successfully transition key management roles could have a material adverse effect on our operating results.

If we experience a significant disruption in, or breach in security of, our information technology systems or those of our customers, suppliers or other third parties, allowing inappropriate access to or inadvertent transfer of information, or if we fail to implement new systems, software and technologies successfully, our business could be adversely affected.

We rely on several centralized information technology systems throughout our company to develop, manufacture and provide products and services, keep financial records, process orders, manage inventory, process shipments to customers and operate other critical functions. Our information technology systems may be susceptible to damage, disruptions or shutdowns due to power outages, hardware failures, computer viruses, attacks by computer hackers, telecommunication failures, user errors, catastrophes or other unforeseen events. If we were to experience a prolonged system disruption in the information technology systems that involve our interactions with customers, suppliers or other third parties, it could result in the loss of sales and customers and significant incremental costs, which could adversely affect our business. In addition, security breaches of our information technology systems, allowing inappropriate access to or inadvertent transfer of information could result in the misappropriation or unauthorized disclosure of confidential information belonging to us or to our employees, partners, customers or suppliers, which could result in our suffering significant financial or reputational damage.

We have a substantial amount of outstanding debt, which could impact our ability to obtain future financing and limit our ability to make other expenditures in the conduct of our business.

We have a substantial amount of debt and other financial obligations. Our debt level and related debt service obligations could have negative consequences, including:

- requiring us to dedicate significant cash flow from operations to the payment of principal and interest on our debt, which reduces the funds we have available for other purposes, such as acquisitions and stock repurchases;
- reducing our flexibility in planning for or reacting to changes in our business and market conditions; and
- exposing us to interest rate risk since a portion of our debt obligations are at variable rates.

In addition, we may incur additional indebtedness in the future to meet future financing needs. If we add new debt, the risks described above could increase.

Restrictions in our senior unsecured revolving credit facility and other debt instruments may limit our activities.

Our senior unsecured revolving credit facility, senior unsecured notes due in April 2021 ("April 2021 Notes"), senior unsecured notes due in November 2021 ("November 2021 Notes") and senior unsecured notes due in 2026 ("2026 Notes") include restrictive covenants that limit our ability to engage in activities that could otherwise benefit our company. These include restrictions on our ability and the ability of our subsidiaries to:

- pay dividends on, redeem or repurchase our capital stock,
- sell assets,

[Table of Contents](#)

- incur obligations that restrict our subsidiaries' ability to make dividend or other payments to us,
- guarantee or secure indebtedness,
- enter into transactions with affiliates, and
- consolidate, merge or transfer all, or substantially all, of our assets and the assets of our subsidiaries on a consolidated basis.

We are also required to meet specified financial ratios under the terms of certain of our existing debt instruments. Our ability to comply with these financial restrictions and covenants is dependent on our future performance, which is subject to prevailing economic conditions and other factors, including factors that are beyond our control, such as foreign exchange rates, interest rates, changes in technology and changes in the level of competition. In addition, if we are unable to maintain our investment grade credit rating, our borrowing costs would increase and we would be subject to different and potentially more restrictive financial covenants under some of our existing debt instruments.

Any future indebtedness that we incur may include similar or more restrictive covenants. Our failure to comply with any of the restrictions in our senior unsecured revolving credit facility, the April 2021 Notes, the November 2021 Notes, the 2026 Notes or any future indebtedness may result in an event of default under those debt instruments, which could permit acceleration of the debt under those debt instruments, and require us to prepay that debt before its scheduled due date under certain circumstances.

The United Kingdom's vote in favor of withdrawing from the European Union could adversely impact our results of operations.

Nearly 3% of our net sales from continuing operations in fiscal year 2017 came from the United Kingdom. Following the referendum vote in the United Kingdom in June 2016 in favor of leaving the European Union (commonly referred to as "Brexit"), on March 29, 2017, the country formally notified the European Union of its intention to withdraw. It appears likely that this withdrawal will involve a process of lengthy negotiations between the United Kingdom and European Union member states to determine the future terms of the United Kingdom's relationship with the European Union. This could lead to a period of considerable uncertainty and volatility, particularly in relation to United Kingdom financial and banking markets. Weakening of economic conditions or economic uncertainties tend to harm our business, and if such conditions emerge in the United Kingdom or in the rest of Europe, it may have a material adverse effect on our operations and sales.

Any significant weakening of the Great Britain Pound to the U.S. dollar will have an adverse impact on our European revenues due to the importance of our sales in the United Kingdom. Currency exchange rates in the pound sterling and the euro with respect to each other and the U.S. dollar have already been adversely affected by Brexit and that may continue to be the case. In addition, depending on the terms of Brexit, the United Kingdom could lose the benefits of global trade agreements negotiated by the European Union on behalf of its members, which may result in increased trade barriers which could make our doing business in Europe more difficult.

Our results of operations will be adversely affected if we fail to realize the full value of our intangible assets.

As of September 30, 2018, our total assets included \$4.1 billion of net intangible assets. Net intangible assets consist principally of goodwill associated with acquisitions and costs associated with securing patent rights, trademark rights, customer relationships, core technology and technology licenses and in-process research and development, net of accumulated amortization. We test certain of these items—specifically all of those that are considered "non-amortizing"—at least annually for potential impairment by comparing the carrying value to the fair market value of the reporting unit to which they are assigned. All of our amortizing intangible assets are also evaluated for impairment should events occur that call into question the value of the intangible assets.

Adverse changes in our business, adverse changes in the assumptions used to determine the fair value of our reporting units, or the failure to grow our Discovery & Analytical Solutions and Diagnostics segments may result in impairment of our intangible assets, which could adversely affect our results of operations.

Our share price will fluctuate.

Over the last several years, stock markets in general and our common stock in particular have experienced significant price and volume volatility. Both the market price and the daily trading volume of our common stock may continue to be subject to significant fluctuations due not only to general stock market conditions but also to a change in sentiment in the market regarding our operations and business prospects. In addition to the risk factors discussed above, the price and volume volatility of our common stock may be affected by:

- operating results that vary from our financial guidance or the expectations of securities analysts and investors,
- the financial performance of the major end markets that we target,
- the operating and securities price performance of companies that investors consider to be comparable to us,
- announcements of strategic developments, acquisitions and other material events by us or our competitors, and
- changes in global financial markets and global economies and general market conditions, such as interest or foreign exchange rates, commodity and equity prices and the value of financial assets.

Dividends on our common stock could be reduced or eliminated in the future.

On July 23, 2018, we announced that our Board had declared a quarterly dividend of \$0.07 per share for the third quarter of fiscal year 2018 that will be payable on November 9, 2018. On October 24, 2018, we announced that our Board had declared a quarterly dividend of \$0.07 per share for the fourth quarter of fiscal year 2018 that will be payable on February 8, 2019. In the future, our Board may determine to reduce or eliminate our common stock dividend in order to fund investments for growth, repurchase shares or conserve capital resources.

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

Stock Repurchases

The following table provides information with respect to the shares of common stock repurchased by us for the periods indicated.

<u>Period</u>	Issuer Repurchases of Equity Securities			
	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Maximum Aggregate Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs
July 2, 2018—July 29, 2018	841	\$ 75.67	—	\$ 250,000,000
July 30, 2018—August 26, 2018	2,317	86.10	—	250,000,000
August 27, 2018—September 30, 2018	649	95.74	—	250,000,000
Activity for quarter ended September 30, 2018	3,807	\$ 85.44	—	\$ 250,000,000

- (1) Our Board of Directors (our "Board") has authorized us to repurchase shares of common stock to satisfy minimum statutory tax withholding obligations in connection with the vesting of restricted stock awards and restricted stock unit awards granted pursuant to our equity incentive plans and to satisfy obligations related to the exercise of stock options made pursuant to our equity incentive plans. During the three months ended September 30, 2018, we repurchased 3,807 shares of common stock for this purpose at an aggregate cost of \$0.3 million. During the nine months ended September 30, 2018, we repurchased 63,506 shares of common stock for this purpose at an aggregate cost of \$5.0 million. The repurchased shares have been reflected as additional authorized but unissued shares, with the payments reflected in common stock and capital in excess of par value
- (2) On July 27, 2016, our Board authorized us to repurchase up to 8.0 million shares of common stock under a stock repurchase program (the "Repurchase Program"). On July 23, 2018, our Board authorized us to immediately terminate the Repurchase Program and further authorized us to repurchase shares of common stock for an aggregate amount up to \$250.0 million under a new stock repurchase program (the "New Repurchase Program"). The New Repurchase Program will expire on July 23, 2020 unless terminated earlier by our Board and may be suspended or discontinued at

[Table of Contents](#)

any time. During the nine months ended September 30, 2018, we had no stock repurchases under the Repurchase Program and New Repurchase Program. No shares remain available for repurchase under the Repurchase Program due to its cancellation. As of September 30, 2018, \$250.0 million remained available for aggregate repurchases of shares under the New Repurchase Program.

Item 6. Exhibits

Exhibit Number	Exhibit Name
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language):

(i) Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and October 1, 2017, (ii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and October 1, 2017, (iii) Condensed Consolidated Balance Sheets at September 30, 2018 and December 31, 2017, (iv) Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2018 and October 1, 2017, and (v) Notes to Condensed Consolidated Financial Statements.

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.

PERKINELMER, INC.

November 6, 2018

By: _____ /s/ JAMES M. MOCK

James M. Mock
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

PERKINELMER, INC.

November 6, 2018

By: _____ /s/ ANDREW OKUN

Andrew Okun
Vice President and Chief Accounting Officer
(Principal Accounting Officer)

CERTIFICATION

I, Robert F. Friel, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PerkinElmer, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2018

/s/ ROBERT F. FRIEL

Robert F. Friel
Chairman, Chief Executive Officer
and President

CERTIFICATION

I, James M. Mock, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PerkinElmer, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2018

/s/ JAMES M. MOCK

James M. Mock
Senior Vice President and
Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of PerkinElmer, Inc. (the "Company") for the period ended September 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Robert F. Friel, Chairman, Chief Executive Officer and President of the Company, and James M. Mock, Senior Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) Based on my knowledge, the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) Based on my knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 6, 2018

/s/ ROBERT F. FRIEL

**Robert F. Friel
Chairman, Chief Executive Officer
and President**

Dated: November 6, 2018

/s/ JAMES M. MOCK

**James M. Mock
Senior Vice President and
Chief Financial Officer**

