

DANAHER CORP /DE/  
Form 10-Q  
October 20, 2016  
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, 2016  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 1-8089

DANAHER CORPORATION  
(Exact name of registrant as specified in its charter)

Delaware 59-1995548  
(State of Incorporation) (I.R.S. Employer Identification number)

2200 Pennsylvania Avenue, N.W., Suite 800W 20037-1701  
Washington, D.C.  
(Address of Principal Executive Offices) (Zip Code)  
Registrant's telephone number, including area code: 202-828-0850

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

The number of shares of common stock outstanding at October 14, 2016 was 691,702,118.

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CONSOLIDATED CONDENSED BALANCE SHEETS

(\$ and shares in millions, except per share amount)

(unaudited)

	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and equivalents	\$ 971.4	\$ 790.8
Trade accounts receivable, net	3,081.8	2,985.1
Inventories:		
Finished goods	950.8	854.6
Work in process	261.9	242.8
Raw materials	499.5	475.7
Total inventories	1,712.2	1,573.1
Prepaid expenses and other current assets	727.8	889.5
Assets of discontinued operations, current	—	1,598.2
Total current assets	6,493.2	7,836.7
Property, plant and equipment, net of accumulated depreciation of \$1,987.5 and \$1,687.0, respectively	2,255.1	2,302.7
Other long-term assets	660.4	845.3
Goodwill	21,580.9	21,014.9
Other intangible assets, net	10,307.9	10,545.3
Assets of discontinued operations, noncurrent	—	5,677.3
Total assets	\$ 41,297.5	\$ 48,222.2
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Notes payable and current portion of long-term debt	\$ 809.1	\$ 845.2
Trade accounts payable	1,354.5	1,391.9
Accrued expenses and other liabilities	2,599.8	2,609.4
Liabilities of discontinued operations, current	—	1,323.9
Total current liabilities	4,763.4	6,170.4
Other long-term liabilities	5,766.6	5,750.0
Long-term debt	7,503.1	12,025.2
Liabilities of discontinued operations, noncurrent	—	512.6
Stockholders' equity:		
Common stock - \$0.01 par value, 2.0 billion shares authorized; 807.1 and 801.6 issued; 691.6 and 686.8 outstanding, respectively	8.1	8.0
Additional paid-in capital	5,262.7	4,981.2
Retained earnings	20,043.1	21,012.3
Accumulated other comprehensive income (loss)	(2,122.3	) (2,311.2 )
Total Danaher stockholders' equity	23,191.6	23,690.3
Noncontrolling interests	72.8	73.7
Total stockholders' equity	23,264.4	23,764.0
Total liabilities and stockholders' equity	\$ 41,297.5	\$ 48,222.2

See the accompanying Notes to the Consolidated Condensed Financial Statements.



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CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS

(\$ and shares in millions, except per share amounts)

(unaudited)

	Three Month Period Ended		Nine Month Period Ended	
	September 30, 2016	October 2, 2015	September 30, 2016	October 2, 2015
Sales	\$4,132.1	\$3,512.2	\$12,298.1	\$10,110.7
Cost of sales	(1,846.1 )	(1,618.8 )	(5,463.5 )	(4,596.8 )
Gross profit	2,286.0	1,893.4	6,834.6	5,513.9
Operating costs:				
Selling, general and administrative expenses	(1,345.8 )	(1,201.2 )	(4,105.2 )	(3,378.0 )
Research and development expenses	(241.1 )	(212.2 )	(707.1 )	(625.3 )
Operating profit	699.1	480.0	2,022.3	1,510.6
Nonoperating income (expense):				
Other income	—	12.4	223.4	12.4
Loss on early extinguishment of borrowings	(178.8 )	—	(178.8 )	—
Interest expense	(43.7 )	(39.1 )	(152.1 )	(89.1 )
Interest income	0.1	0.6	0.1	4.6
Earnings from continuing operations before income taxes	476.7	453.9	1,914.9	1,438.5
Income taxes	(74.1 )	(74.0 )	(508.5 )	(212.8 )
Net earnings from continuing operations	402.6	379.9	1,406.4	1,225.7
Earnings (loss) from discontinued operations, net of income taxes	(11.0 )	1,023.4	400.3	1,443.1
Net earnings	\$391.6	\$1,403.3	\$1,806.7	\$2,668.8
Net earnings per share from continuing operations:				
Basic	\$0.58	\$0.55	\$2.04	\$1.75
Diluted	\$0.57	\$0.54	\$2.01	\$1.72
Net earnings per share from discontinued operations:				
Basic	\$(0.02 )	\$1.49	\$0.58	\$2.06
Diluted	\$(0.02 )	\$1.46	\$0.57	\$2.03
Net earnings per share:				
Basic	\$0.57	*\$2.04	\$2.62	\$3.80
Diluted	\$0.56	*\$2.01	*\$2.59	*\$3.75
Average common stock and common equivalent shares outstanding:				
Basic	692.2	688.5	690.6	701.7
Diluted	701.3	698.7	699.1	712.3

\* Net earnings per share amount does not add due to rounding.

See the accompanying Notes to the Consolidated Condensed Financial Statements.

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CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(\$ in millions)

(unaudited)

	Three Month Period Ended		Nine Month Period Ended	
	September 30, 2016	October 2, 2015	September 30, 2016	October 2, 2015
Net earnings	\$391.6	\$1,403.3	\$1,806.7	\$2,668.8
Other comprehensive income (loss), net of income taxes:				
Foreign currency translation adjustments	275.6	(158.7 )	314.8	(793.7 )
Pension and postretirement plan benefit adjustments	4.7	18.7	15.8	32.8
Unrealized gain (loss) on available-for-sale securities adjustments	8.8	(26.9 )	(121.5 )	(4.4 )
Total other comprehensive income (loss), net of income taxes	289.1	(166.9 )	209.1	(765.3 )
Comprehensive income (loss)	\$680.7	\$1,236.4	\$2,015.8	\$1,903.5

See the accompanying Notes to the Consolidated Condensed Financial Statements.

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DANAHER CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY  
 (\$ and shares in millions)  
 (unaudited)

	Common Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests
Balance, December 31, 2015	801.6	\$ 8.0	\$ 4,981.2	\$ 21,012.3	\$ (2,311.2 )	\$ 73.7
Net earnings for the period	—	—	—	1,806.7	—	—
Other comprehensive income (loss)	—	—	—	—	209.1	—
Dividends declared	—	—	—	(307.0 )	—	—
Common stock-based award activity	5.3	0.1	273.2	—	—	—
Common stock issued in connection with LYONs' conversions, including tax benefit of \$2.7	0.2	—	8.3	—	—	—
Distribution of Fortive Corporation	—	—	—	(2,468.9 )	(20.2 )	—
Change in noncontrolling interests	—	—	—	—	—	(0.9 )
Balance, September 30, 2016	807.1	\$ 8.1	\$ 5,262.7	\$ 20,043.1	\$ (2,122.3 )	\$ 72.8

See the accompanying Notes to the Consolidated Condensed Financial Statements.

Table of ContentsDANAHER CORPORATION AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(\$ in millions)

(unaudited)

	Nine Month Period Ended	
	September 30, 2016	October 2, 2015
Cash flows from operating activities:		
Net earnings	\$1,806.7	\$2,668.8
Less: earnings from discontinued operations, net of income taxes	400.3	1,443.1
Net earnings from continuing operations	1,406.4	1,225.7
Noncash items:		
Depreciation	395.9	349.4
Amortization	426.6	259.4
Stock-based compensation expense	96.3	76.9
Pretax loss on early extinguishment of borrowings	178.8	—
Pretax gain on sales of investments	(223.4 )	(12.4 )
Change in trade accounts receivable, net	(94.8 )	85.1
Change in inventories	(138.5 )	(40.8 )
Change in trade accounts payable	(38.1 )	(142.2 )
Change in prepaid expenses and other assets	171.9	214.6
Change in accrued expenses and other liabilities	257.4	(127.2 )
Total operating cash provided by continuing operations	2,438.5	1,888.5
Total operating cash provided by discontinued operations	434.3	681.7
Net cash provided by operating activities	2,872.8	2,570.2
Cash flows from investing activities:		
Cash paid for acquisitions	(99.6 )	(14,207.1)
Payments for additions to property, plant and equipment	(422.1 )	(351.6 )
Payments for purchases of investments	—	(87.1 )
Proceeds from sales of investments	264.8	43.0
All other investing activities	7.2	34.9
Total investing cash used in continuing operations	(249.7 )	(14,567.9)
Total investing cash used in discontinued operations	(69.8 )	(122.7 )
Net cash used in investing activities	(319.5 )	(14,690.6)
Cash flows from financing activities:		
Proceeds from the issuance of common stock	156.6	198.1
Payment of dividends	(313.3 )	(261.6 )
Make-whole premiums to redeem borrowings prior to maturity	(188.1 )	—
Net (repayments of) proceeds from borrowings (maturities of 90 days or less)	(2,334.2 )	6,148.4
Proceeds from borrowings (maturities longer than 90 days)	3,240.9	4,950.4
Repayments of borrowings (maturities longer than 90 days)	(2,354.2 )	(2.1 )
All other financing activities	(26.7 )	(3.3 )
Total financing cash (used in) provided by continuing operations	(1,819.0 )	11,029.9
Cash distributions to Fortive, net	(485.3 )	—
Net cash (used in) provided by financing activities	(2,304.3 )	11,029.9
Effect of exchange rate changes on cash and equivalents	(68.4 )	(81.6 )
Net change in cash and equivalents	180.6	(1,172.1 )
Beginning balance of cash and equivalents	790.8	3,005.6



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Ending balance of cash and equivalents	\$971.4	\$1,833.5
Supplemental disclosures:		
Cash interest payments	\$199.4	\$97.8
Cash income tax payments	330.8	325.4
Shares redeemed through the distribution of the communications business (26.0 shares held as Treasury shares)	—	2,291.7
Distribution of noncash net assets to Fortive Corporation	(1,983.6 )	—
See the accompanying Notes to the Consolidated Condensed Financial Statements.		

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DANAHER CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
 (unaudited)

## NOTE 1. GENERAL

The consolidated condensed financial statements included herein have been prepared by Danaher Corporation (“Danaher” or the “Company”) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations; however, the Company believes that the disclosures are adequate to make the information presented not misleading. The consolidated condensed financial statements included herein should be read in conjunction with the financial statements as of and for the year ended December 31, 2015 and the Notes thereto included in the Company’s 2015 Annual Report on Form 10-K.

In the opinion of the Company, the accompanying financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of the Company as of September 30, 2016 and December 31, 2015, its results of operations for the three and nine month periods ended September 30, 2016 and October 2, 2015 and its cash flows for each of the nine month periods then ended. Reclassifications of certain prior year amounts have been made to conform to the current year presentation.

Accumulated Other Comprehensive Income (Loss)—The changes in accumulated other comprehensive income (loss) by component are summarized below (\$ in millions). Foreign currency translation adjustments are generally not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries.

	Foreign Currency Translation Adjustments	Pension & Postretirement Plan Benefit Adjustments	Unrealized Gain (Loss) on Available-For-Sale Securities	Total
For the Three Month Period Ended September 30, 2016:				
Balance, July 1, 2016	\$ (1,758.2 )	\$ (636.2 )	\$ 3.2	\$(2,391.2)
Other comprehensive income (loss) before reclassifications:				
Increase	275.6	—	13.9	289.5
Income tax impact	—	—	(5.1 )	(5.1 )
Other comprehensive income (loss) before reclassifications, net of income taxes	275.6	—	8.8	284.4
Amounts reclassified from accumulated other comprehensive income (loss):				
Increase	—	7.2	(a)—	7.2
Income tax impact	—	(2.5 )	—	(2.5 )
Amounts reclassified from accumulated other comprehensive income (loss), net of income taxes	—	4.7	—	4.7
Net current period other comprehensive income (loss), net of income taxes	275.6	4.7	8.8	289.1
Distribution of Fortive Corporation	(83.5 )	63.3	(b)—	(20.2 )
Balance, September 30, 2016	\$ (1,566.1 )	\$ (568.2 )	\$ 12.0	\$(2,122.3)

(a) This accumulated other comprehensive income (loss) component is included in the computation of net periodic pension cost. Refer to Note 7 for additional details.

(b) This accumulated other comprehensive income (loss) component included an income tax impact of \$21 million.



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	Foreign Currency Translation Adjustments	Pension & Postretirement Plan Benefit Adjustments	Unrealized Gain (Loss) on Available-For-Sale Securities	Total
For the Three Month Period Ended October 2, 2015:				
Balance, July 3, 2015	\$ (1,456.8 )	\$ (713.7 )	\$ 138.4	\$(2,032.1)
Other comprehensive income (loss) before reclassifications:				
Decrease (increase)	(158.7 )	12.4	(30.6 )	(176.9 )
Income tax impact	—	(2.8 )	11.5	8.7
Other comprehensive income (loss) before reclassifications, net of income taxes	(158.7 )	9.6	(19.1 )	(168.2 )
Amounts reclassified from accumulated other comprehensive income (loss):				
Increase (decrease)	—	13.1	(a)(12.4 )	(b)0.7
Income tax impact	—	(4.0 )	4.6	0.6
Amounts reclassified from accumulated other comprehensive income (loss), net of income taxes	—	9.1	(7.8 )	1.3
Net current period other comprehensive income (loss), net of income taxes	(158.7 )	18.7	(26.9 )	(166.9 )
Balance, October 2, 2015	\$ (1,615.5 )	\$ (695.0 )	\$ 111.5	\$(2,199.0)
For the Nine Month Period Ended September 30, 2016:				
Balance, December 31, 2015	\$ (1,797.4 )	\$ (647.3 )	\$ 133.5	\$(2,311.2)
Other comprehensive income (loss) before reclassifications:				
Increase	314.8	—	28.8	343.6
Income tax impact	—	—	(10.7 )	(10.7 )
Other comprehensive income (loss) before reclassifications, net of income taxes	314.8	—	18.1	332.9
Amounts reclassified from accumulated other comprehensive income (loss):				
Increase (decrease)	—	23.6	(a)(223.4 )	(b)(199.8 )
Income tax impact	—	(7.8 )	83.8	76.0
Amounts reclassified from accumulated other comprehensive income (loss), net of income taxes	—	15.8	(139.6 )	(123.8 )
Net current period other comprehensive income (loss), net of income taxes	314.8	15.8	(121.5 )	209.1
Distribution of Fortive Corporation	(83.5 )	63.3	(c)—	(20.2 )
Balance, September 30, 2016	\$ (1,566.1 )	\$ (568.2 )	\$ 12.0	\$(2,122.3)
For the Nine Month Period Ended October 2, 2015:				
Balance, December 31, 2014	\$ (821.8 )	\$ (727.8 )	\$ 115.9	\$(1,433.7)
Other comprehensive income (loss) before reclassifications:				
(Decrease) increase	(793.7 )	12.4	5.4	(775.9 )
Income tax impact	—	(2.8 )	(2.0 )	(4.8 )
Other comprehensive income (loss) before reclassifications, net of income taxes	(793.7 )	9.6	3.4	(780.7 )

Amounts reclassified from accumulated other comprehensive income (loss):

Increase (decrease)	—	33.8	(a)(12.4	) (b)21.4
Income tax impact	—	(10.6	) 4.6	(6.0 )
Amounts reclassified from accumulated other comprehensive income (loss), net of income taxes	—	23.2	(7.8	) 15.4
Net current period other comprehensive income (loss), net of income taxes	(793.7	) 32.8	(4.4	) (765.3 )
Balance, October 2, 2015	\$ (1,615.5	) \$ (695.0	) \$ 111.5	\$ (2,199.0)

(a) This accumulated other comprehensive income (loss) component is included in the computation of net periodic pension cost. Refer to Note 7 for additional details.

(b) Included in other income in the accompanying Consolidated Condensed Statement of Earnings. Refer to Note 10 for additional details.

(c) This accumulated other comprehensive income (loss) component included an income tax impact of \$21 million.

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New Accounting Standards—In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-15, Statement of Cash Flows (Topic 230), which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how cash receipts and cash payments are presented in the statement of cash flows. The ASU is effective for public entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The amendments should be applied retrospectively to all periods presented. The Company adopted this standard in the third quarter of 2016. The adoption of this ASU resulted in the make-whole premiums of \$188 million related to the early extinguishment of borrowings in the third quarter of 2016 being reflected as a financing activity and the tax benefit related to these payments being reflected as an operating activity in the accompanying Consolidated Condensed Statement of Cash Flows for the nine month period ended September 30, 2016.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which amends the impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses on certain types of financial instruments, including trade receivables. The ASU is effective for public entities for fiscal years beginning after December 15, 2019, with early adoption permitted. Management has not yet completed its assessment of the impact of the new standard on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718), which aims to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, classification of certain items on the statement of cash flows and accounting for forfeitures. The ASU is effective for public entities for fiscal years beginning after December 15, 2016, with early adoption permitted. The Company will adopt this standard in fiscal year 2017. The ASU will require that the difference between the actual tax benefit realized upon exercise and the tax benefit recorded based on the fair value of the stock award at the time of grant (the “excess tax benefits”) to be reflected as a reduction of the current period provision for income taxes with any shortfall recorded as an increase in the tax provision rather than as a component of changes to additional paid-in capital. The ASU will also require the excess tax benefit realized be reflected as operating cash flow rather than a financing cash flow. Had this ASU been adopted at January 1, 2015, the provision for income taxes from continuing operations would have been reduced and operating cash flow from continuing operations would have been increased by \$66 million for the year ended December 31, 2015 and \$34 million for the nine months ended September 30, 2016. The actual benefit realized in future periods is inherently uncertain and will vary based on the timing and relative value realized for future share-based transactions.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which will require, among other items, lessees to recognize a right-of-use asset and a lease liability for most leases. Extensive quantitative and qualitative disclosures, including significant judgments made by management, will be required to provide greater insight into the extent of revenue and expense recognized and expected to be recognized from existing contracts. The accounting applied by a lessor is largely unchanged from that applied under the current standard. The standard must be adopted using a modified retrospective transition approach and provides for certain practical expedients. The ASU is effective for public entities for fiscal years beginning after December 15, 2018, with early adoption permitted. Management has not yet completed its assessment of the impact of the new standard on the Company’s consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which impacts virtually all aspects of an entity’s revenue recognition. The core principle of Topic 606 is that revenue should be recognized to depict 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. In July 2015, the FASB deferred the effective date of the standard by one year which results in the new standard being effective for the Company at the beginning of its first quarter of fiscal year 2018. In addition, during March, April and May 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing and ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, respectively, which clarified the

guidance on certain items such as reporting revenue as a principal versus agent, identifying performance obligations, accounting for intellectual property licenses, assessing collectability and presentation of sales taxes. The Company is currently assessing the impact that the adoption of the new standard will have on its consolidated financial statements and related disclosures, including possible transition alternatives, and expects to adopt this standard in 2018.

**NOTE 2. ACQUISITIONS**

For a description of the Company's acquisition activity for the year ended December 31, 2015 including the acquisition of Pall Corporation ("Pall"), reference is made to the financial statements as of and for the year ended December 31, 2015 and Note 2 thereto included in the Company's 2015 Annual Report on Form 10-K.

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The Company continually evaluates potential acquisitions that either strategically fit with the Company's existing portfolio or expand the Company's portfolio into a new and attractive business area. The Company has completed a number of acquisitions that have been accounted for as purchases and have resulted in the recognition of goodwill in the Company's financial statements. This goodwill arises because the purchase prices for these businesses reflect a number of factors including the future earnings and cash flow potential of these businesses, the multiple to earnings, cash flow and other factors at which similar businesses have been purchased by other acquirers, the competitive nature of the processes by which the Company acquired the businesses, avoidance of the time and costs which would be required (and the associated risks that would be encountered) to enhance the Company's existing product offerings to key target markets and enter into new and profitable businesses, and the complementary strategic fit and resulting synergies these businesses bring to existing operations.

The Company makes an initial allocation of the purchase price at the date of acquisition based upon its understanding of the fair value of the acquired assets and assumed liabilities. The Company obtains this information during due diligence and through other sources. In the months after closing, as the Company obtains additional information about these assets and liabilities, including through tangible and intangible asset appraisals, and learns more about the newly acquired business, it is able to refine the estimates of fair value and more accurately allocate the purchase price. Only items identified as of the acquisition date are considered for subsequent adjustment. The Company is continuing to evaluate certain pre-acquisition contingencies associated with certain of its 2016 and 2015 acquisitions and is also in the process of obtaining valuations of certain acquired intangible assets and certain acquisition-related liabilities in connection with these acquisitions. The Company will make appropriate adjustments to the purchase price allocation prior to completion of the measurement period, as required.

During the first nine months of 2016, the Company acquired five businesses for total consideration of \$100 million in cash, net of cash acquired. The businesses acquired complement existing units of the Life Sciences, Dental and Environmental & Applied Solutions segments. The aggregate annual sales of these five businesses at the time of their respective acquisitions, in each case based on the company's revenues for its last completed fiscal year prior to the acquisition, were approximately \$60 million. The Company preliminarily recorded an aggregate of \$67 million of goodwill related to these acquisitions.

The following summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition for all acquisitions consummated during the nine month period ended September 30, 2016 (\$ in millions):

Trade accounts receivable	\$9.3
Inventories	8.9
Property, plant and equipment	5.2
Goodwill	67.2
Other intangible assets, primarily customer relationships, trade names and technology	25.4
Trade accounts payable	(3.6 )
Other assets and liabilities, net	(12.8 )
Net cash consideration	\$99.6

**Pro Forma Financial Information**

The unaudited pro forma information for the periods set forth below gives effect to the 2016 and 2015 acquisitions as if they had occurred as of January 1, 2015. The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisitions been consummated as of that time (\$ in millions, except per share amounts):

	Three Month Period		Nine Month Period	
	Ended		Ended	
	September 30,	October 2,	September 30,	October 2,
	2016	2015	2016	2015
Sales	\$4,132.1	\$ 3,989.2	\$12,300.3	\$12,049.3
Net earnings from continuing operations	402.6	437.0	1,406.5	1,261.5
Diluted net earnings per share from continuing operations	0.57	0.63	2.01	1.77



For the three month period ended October 2, 2015, unaudited pro forma earnings set forth above were adjusted to exclude the \$25 million pretax impact of nonrecurring acquisition date fair value adjustments to inventory and \$47 million pretax impact of the acquisition-related transaction costs and change in control payments, related to the 2015 acquisition of Pall. In the nine month period ended October 2, 2015, unaudited pro forma earnings set forth above were adjusted to include the \$46 million

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pretax impact of nonrecurring acquisition date fair value adjustments to inventory and deferred revenue, net of the positive impact of freezing pension benefits, related to the 2015 acquisition of Pall as well as exclude the \$47 million pretax impact of the acquisition-related transaction costs and change in control payments, also related to the 2015 acquisition of Pall.

### Pending Acquisition

On September 2, 2016, Danaher Copper Merger Sub, Inc., a California corporation and an indirect, wholly-owned subsidiary of the Company (“Merger Sub”), and Cepheid, a California corporation, entered into an Agreement and Plan of Merger (the “Merger Agreement”), pursuant to which the Company agreed to acquire all of the outstanding shares of common stock of Cepheid for \$53.00 per share in cash, for a total enterprise value of approximately \$4.0 billion, including assumed debt and net of acquired cash (the “Cepheid Acquisition”). Cepheid is a leading global molecular diagnostics company that develops, manufactures and markets accurate and easy to use molecular systems and tests. Cepheid generated revenues of \$539 million in 2015. The closing of the acquisition is subject to customary conditions, including approval by Cepheid's shareholders and receipt of applicable regulatory approvals, and is expected to be completed by the end of fiscal year 2016. The Company expects to finance the transaction with available cash and proceeds from the issuance of commercial paper. Upon closing of the acquisition Cepheid will become part of Danaher's Diagnostics segment, joining the Company's Beckman Coulter, Leica Biosystems and Radiometer businesses. As Cepheid is integrated into the Company, the Company expects to realize significant cost synergies through the application of the Danaher Business System and the combined purchasing power of the Company and Cepheid.

### NOTE 3. DISCONTINUED OPERATIONS

#### Fortive Separation

On July 2, 2016 (the “Distribution Date”), Danaher completed the separation (the “Separation”) of its former Test & Measurement segment, Industrial Technologies segment (excluding the product identification businesses) and the retail/commercial petroleum business by distributing to Danaher stockholders on a pro rata basis all of the issued and outstanding common stock of Fortive Corporation (“Fortive”), the entity Danaher incorporated to hold such businesses. To effect the Separation, Danaher distributed to its stockholders one share of Fortive common stock for every two shares of Danaher common stock outstanding as of June 15, 2016, the record date for the distribution. Fractional shares of Fortive common stock that otherwise would have been distributed were aggregated and sold into the public market and the proceeds distributed to Danaher stockholders.

In preparation for the Separation, in June 2016 Fortive issued approximately \$3.4 billion in debt securities (refer to Note 6). The proceeds from these borrowings were used to fund the approximately \$3.0 billion net cash distributions Fortive made to Danaher prior to the Distribution Date. Danaher used a portion of the cash distribution proceeds to repay the \$500 million aggregate principal amount of 2.3% senior unsecured notes that matured in June 2016 and to redeem approximately \$1.9 billion in aggregate principal amount of outstanding indebtedness in August 2016 (consisting of the Company's 5.625% senior unsecured notes due 2018, 5.4% senior unsecured notes due 2019 and 3.9% senior unsecured notes due 2021 (collectively the “Redeemed Notes”). Danaher also paid an aggregate of \$188 million in make-whole premiums in connection with the August 2016 redemptions, plus accrued and unpaid interest. The Company intends to use the balance of the cash proceeds it received from Fortive to fund certain of the Company's regular, quarterly cash dividends to shareholders.

The accounting requirements for reporting the Separation of Fortive as a discontinued operation were met when the Separation was completed. Accordingly, the accompanying consolidated condensed financial statements for all periods presented reflect this business as a discontinued operation. The Company allocated a portion of the consolidated interest expense and income to discontinued operations based on the ratio of the discontinued business' net assets to the Company's consolidated net assets. Fortive had revenues of approximately \$3.0 billion in 2016 prior to the Separation and approximately \$6.1 billion in 2015.

As a result of the Separation, the Company incurred \$22 million and \$48 million in Separation-related costs during the three and nine month periods ended September 30, 2016, respectively, which are included in earnings (loss) from discontinued operations, net of income taxes in the accompanying Consolidated Condensed Statements of Earnings.

These Separation costs primarily relate to professional fees associated with preparation of regulatory filings and Separation activities within finance, tax, legal and information system functions as well as certain investment banking fees and tax liabilities incurred upon the Separation.

In connection with the Separation, Danaher and Fortive entered into various agreements to effect the Separation and provide a framework for their relationship after the Separation, including a transition services agreement, an employee matters agreement, a tax matters agreement, an intellectual property matters agreement and a DBS license agreement. These agreements provide for the allocation between Danaher and Fortive of assets, employees, liabilities and obligations (including investments, property and employee benefits and tax-related assets and liabilities) attributable to periods prior to, at and after

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Fortive's separation from Danaher and govern certain relationships between Danaher and Fortive after the Separation. In addition, Danaher is also party to various commercial agreements with Fortive entities. The amount billed for transition services provided under the above agreements as well as sales and purchases to and from Fortive were not material to the Company's results of operations for the three month period ended September 30, 2016.

**Communications Business Split-off**

In July 2015, the Company consummated the split-off of the majority of its former Test & Measurement segment's communications business (other than the data communications cable installation business and the communication service provider business of Fluke Networks which were a part of the instruments business of the Company's former Test & Measurement segment) to Danaher shareholders who elected to exchange Danaher shares for ownership interests in the communications business, and the subsequent merger of the communications business with a subsidiary of NetScout Systems, Inc. ("NetScout"). Danaher shareholders who participated in the exchange offer tendered 26 million shares of Danaher common stock (valued at approximately \$2.3 billion based on the closing price of Danaher's common stock on the date of tender) and received 62.5 million shares of NetScout common stock which represented approximately 60% of the shares of NetScout common stock outstanding following the combination. The accounting requirements for reporting the disposition of the communications business as a discontinued operation were met when the separation and merger were completed. Accordingly, the consolidated condensed financial statements for all periods presented reflect this business as a discontinued operation. The Company allocated a portion of the consolidated interest expense to discontinued operations based on the ratio of the discontinued business' net assets to the Company's consolidated net assets. The Company recorded an aggregate after-tax gain on the disposition of this business of \$767 million, or \$1.08 per diluted share, in its 2015 results in connection with the closing of this transaction representing the value of the 26 million shares of Company common stock tendered for the communications business in excess of the carrying value of the business' net assets. The communications business had revenues of \$346 million in 2015 prior to the disposition and \$760 million in 2014.

The key components of income from both the Fortive and communications businesses in discontinued operations for the three and nine month periods ended September 30, 2016 and October 2, 2015 were as follows (\$ in millions):

	Three Month Period Ended		Nine Month Period Ended	
	September 30, 2016	October 2, 2015	September 30, 2016	October 2, 2015
Sales	\$—	\$1,524.6	\$3,029.8	\$4,948.5
Cost of sales	—	(781.0 )	(1,566.4 )	(2,465.2 )
Selling, general, and administrative expenses	(16.4 )	(327.0 )	(696.0 )	(1,121.1 )
Research and development expenses	—	(95.8 )	(190.4 )	(366.7 )
Interest expense	—	(6.3 )	(19.7 )	(16.2 )
Interest income	—	0.1	—	0.7
Gain on disposition of communications business before income taxes	—	813.3	—	813.3
Earnings (loss) from discontinued operations before income taxes	(16.4 )	1,127.9	557.3	1,793.3
Income taxes	5.4	(104.5 )	(157.0 )	(350.2 )
Earnings (loss) from discontinued operations, net of income taxes	\$(11.0)	\$1,023.4	\$400.3	\$1,443.1

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The following table summarizes the major classes of assets and liabilities of the Fortive-related discontinued operations that were included in the Company's accompanying Consolidated Condensed Balance Sheets as of December 31, 2015 (\$ in millions):

## Assets:

Trade accounts receivable, net	\$979.0
Inventories	522.3
Property, plant and equipment, net	522.9
Goodwill	4,055.4
Other intangible assets, net	725.0
Other assets	470.9
Total assets, discontinued operations	\$7,275.5

## Liabilities:

Trade accounts payable	\$657.1
Accrued expenses and other liabilities	666.8
Other long-term liabilities	512.6
Total liabilities, discontinued operations	\$1,836.5

## NOTE 4. GOODWILL

The following is a rollforward of the Company's goodwill (\$ in millions):

Balance, December 31, 2015	\$21,014.9
Attributable to 2016 acquisitions	67.2
Adjustments due to finalization of purchase price allocations	91.3
Foreign currency translation and other	407.5
Balance, September 30, 2016	\$21,580.9

The carrying value of goodwill by segment is summarized as follows (\$ in millions):

	September 30, December 31,	
	2016	2015
Life Sciences	\$ 11,689.1	\$ 11,308.5
Diagnostics	4,435.2	4,387.4
Dental	3,313.2	3,236.1
Environmental & Applied Solutions	2,143.4	2,082.9
Total	\$ 21,580.9	\$ 21,014.9

The Company has not identified any "triggering" events which indicate a potential impairment of goodwill in 2016.

## NOTE 5. FAIR VALUE MEASUREMENTS

Accounting standards define fair value based on an exit price model, establish a framework for measuring fair value where the Company's assets and liabilities are required to be carried at fair value and provide for certain disclosures related to the valuation methods used within a valuation hierarchy as established within the accounting standards. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, or other observable characteristics for the asset or liability, including interest rates, yield curves and credit risks, or inputs that are derived principally from, or corroborated by, observable market data through correlation. Level 3 inputs are unobservable inputs based on the Company's assumptions. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

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A summary of financial assets and liabilities that are measured at fair value on a recurring basis were as follows (\$ in millions):

	Quoted Prices in Active Market (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
September 30, 2016:				
Assets:				
Available-for-sale securities	\$ 105.8	\$ 55.0	\$	—\$160.8
Liabilities:				
Deferred compensation plans	—	51.9	—	51.9
December 31, 2015:				
Assets:				
Available-for-sale securities	\$ 342.3	\$ 59.1	\$	—\$401.4
Liabilities:				
Deferred compensation plans	—	55.5	—	55.5

Available-for-sale securities, which are included in other long-term assets in the accompanying Consolidated Condensed Balance Sheets, are either measured at fair value using quoted market prices in an active market or if they are not traded on an active market are valued at quoted prices reported by investment brokers and dealers based on the underlying terms of the security and comparison to similar securities traded on an active market.

The Company has established nonqualified deferred compensation programs that permit officers, directors and certain management employees to defer a portion of their compensation, on a pretax basis, until their termination of employment (or board service, as applicable). All amounts deferred under such plans are unfunded, unsecured obligations of the Company and are presented as a component of the Company's compensation and benefits accrual included in other long-term liabilities in the accompanying Consolidated Condensed Balance Sheets. Participants may choose among alternative earning rates for the amounts they defer, which are primarily based on investment options within the Company's 401(k) program (except that the earnings rates for amounts deferred by the Company's directors and amounts contributed unilaterally by the Company are entirely based on changes in the value of the Company's common stock). Changes in the deferred compensation liability under these programs are recognized based on changes in the fair value of the participants' accounts, which are based on the applicable earnings rates.

## Fair Value of Financial Instruments

The carrying amounts and fair values of the Company's financial instruments were as follows (\$ in millions):

	September 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Available-for-sale securities	\$160.8	\$160.8	\$401.4	\$401.4
Liabilities:				
Notes payable and current portion of long-term debt	809.1	809.1	845.2	845.2
Long-term debt	7,503.1	8,098.9	12,025.2	12,471.4

As of September 30, 2016 and December 31, 2015, available-for-sale securities were categorized as Level 1 and Level 2, as indicated above, and short and long-term borrowings were categorized as Level 1.

The fair value of long-term borrowings was based on quoted market prices. The difference between the fair value and the carrying amounts of long-term borrowings (other than the Company's Liquid Yield Option Notes due 2021 (the "LYONs")) is attributable to changes in market interest rates and/or the Company's credit ratings subsequent to the incurrence of the borrowing. In the case of the LYONs, differences in the fair value from the carrying value are attributable to changes in the price of the Company's common stock due to the LYONs' conversion features. The fair

values of borrowings with original maturities of one year or less, as well as cash and cash equivalents, trade accounts receivable, net and trade accounts payable approximate their carrying amounts due to the short-term maturities of these instruments.

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## NOTE 6. FINANCING

As of September 30, 2016, the Company was in compliance with all of its debt covenants. The components of the Company's debt were as follows (\$ in millions):

	September 30, 2016	December 31, 2015
Euro-denominated commercial paper (€1.2 billion and €2.8 billion, respectively)	\$ 1,372.6	\$ 3,096.9
U.S. dollar-denominated commercial paper	123.8	920.0
2.3% senior unsecured notes due 2016	—	500.0
4.0% senior unsecured bonds due 2016 (CHF 120.0 million aggregate principal amount)	126.5	122.6
Floating rate senior unsecured notes due 2017 (€500.0 million aggregate principal amount)	561.2	544.8
0.0% senior unsecured bonds due 2017 (CHF 100.0 million aggregate principal amount)	102.7	99.7
1.65% senior unsecured notes due 2018	497.9	497.1
5.625% senior unsecured notes due 2018	—	500.0
1.0% senior unsecured notes due 2019 (€600.0 million aggregate principal amount)	670.9	651.0
5.4% senior unsecured notes due 2019	—	750.0
2.4% senior unsecured notes due 2020	496.6	495.9
5.0% senior unsecured notes due 2020	406.6	410.7
Zero-coupon Liquid Yield Option Notes (LYONs) due 2021	68.2	72.6
0.352% senior unsecured notes due 2021 (¥30.0 billion aggregate principal amount)	294.8	—
3.9% senior unsecured notes due 2021	—	600.0
1.7% senior unsecured notes due 2022 (€800.0 million aggregate principal amount)	892.8	866.8
0.5% senior unsecured bonds due 2023 (CHF 540.0 million aggregate principal amount)	558.0	541.6
2.5% senior unsecured notes due 2025 (€800.0 million aggregate principal amount)	893.4	867.9
3.35% senior unsecured notes due 2025	495.7	495.3
1.125% senior unsecured bonds due 2028 (CHF 110.0 million aggregate principal amount)	114.0	110.7
4.375% senior unsecured notes due 2045	499.3	499.3
Other	137.2	227.5
Total debt	8,312.2	12,870.4
Less: currently payable	809.1	845.2
Long-term debt	\$ 7,503.1	\$ 12,025.2

For additional details regarding the Company's debt financing as of December 31, 2015, reference is made to Note 9 of the Company's financial statements as of and for the year ended December 31, 2015 included in the Company's 2015 Annual Report on Form 10-K.

The Company satisfies any short-term liquidity needs that are not met through operating cash flow and available cash primarily through issuances of commercial paper under its U.S. and Euro commercial paper programs. Credit support for the commercial paper programs is generally provided by the Company's \$4.0 billion unsecured, multi-year revolving credit facility with a syndicate of banks that expires on July 10, 2020 (the "Credit Facility"), which can also be used for working capital and other general corporate purposes. In July 2015 in connection with the financing for the Company's acquisition of Pall, the Company entered into a \$7.0 billion 364-day unsecured revolving credit facility with a syndicate of banks (the "2015 364-Day Facility") that provided credit support for additional commercial paper borrowings and expired in accordance with its terms on July 8, 2016. There were no amounts outstanding under the 2015 364-Day Facility at any time during the term of the facility. Since the 2015 364-Day Facility provided incremental additional liquidity support for the Company's commercial paper programs, upon such expiration the capacity under the Company's U.S. and Euro commercial paper programs effectively decreased.

As of September 30, 2016, borrowings outstanding under the Company's U.S. and Euro commercial paper programs had a weighted average annual interest rate of (0.1)% and a weighted average remaining maturity of approximately 55 days.





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The Company classified its borrowings outstanding under the commercial paper programs as of September 30, 2016 as long-term debt in the accompanying Consolidated Condensed Balance Sheet as the Company had the intent and ability, as supported by availability under the Credit Facility, to refinance these borrowings for at least one year from the balance sheet date.

As of September 30, 2016, no borrowings were outstanding under the Credit Facility, and the Company was in compliance with all covenants under the facility. In addition to the Credit Facility, the Company has also entered into reimbursement agreements with various commercial banks to support the issuance of letters of credit.

Debt discounts and debt issuance costs totaled \$26 million and \$9 million as of September 30, 2016 and December 31, 2015, respectively, and have been netted against the aggregate principal amounts of the related debt in the components of debt table above.

### 2016 Long-Term Debt Issuances

#### Long-Term Indebtedness Related to Financing for the Pall Acquisition

On February 28, 2016, DH Japan Finance S.A., a wholly-owned finance subsidiary of the Company, completed the private placement of ¥30.0 billion aggregate principal amount of 0.352% senior unsecured notes due March 16, 2021 (the “2021 Yen Notes”). The 2021 Yen Notes were issued at 100% of their principal amount.

The 2021 Yen Notes are fully and unconditionally guaranteed by the Company. The Company received net proceeds, after offering expenses, of approximately ¥29.9 billion (approximately \$262 million based on currency exchange rates as of the date of issuance) and used the net proceeds from the offering to repay a portion of the commercial paper borrowings incurred in connection with the 2015 acquisition of Pall. Interest on the 2021 Yen Notes is payable semi-annually in arrears on March 16 and September 16 of each year, commencing on September 16, 2016.

#### Long-Term Indebtedness Related to the Fortive Separation

In June 2016, the Company received net cash distributions of approximately \$3.0 billion from Fortive as consideration for the Company’s contribution of assets to Fortive in connection with the Separation. Fortive financed these cash payments through issuance of approximately \$3.4 billion of debt, consisting of \$500 million aggregate principal amount of borrowings under a three-year, senior unsecured term loan facility with variable interest rates (the “Term Loan Facility”), \$393 million of commercial paper borrowings supported by a five-year, \$1.5 billion senior unsecured revolving credit facility (the “Revolving Credit Facility” and together with the Term Loan Facility the “Fortive Credit Facilities”), \$300 million aggregate principal amount of 1.8% senior unsecured notes due 2019, \$750 million aggregate principal amount of 2.35% senior unsecured notes due 2021, \$900 million aggregate principal amount of 3.15% senior unsecured notes due 2026 and \$550 million aggregate principal amount of 4.3% senior unsecured notes due 2046 (collectively, the “Fortive Debt”). Danaher initially guaranteed the Fortive Debt, and the guarantee terminated effective as of the Distribution Date. As of July 2, 2016 in connection with the Separation, the Fortive Debt was transferred to Fortive and is no longer reflected in the Company’s consolidated condensed financial statements.

### 2016 Long-Term Debt Repayments

The Company used a portion of the proceeds from the Fortive Distribution to repay the \$500 million aggregate principal amount of 2.3% senior unsecured notes that matured in June 2016 and to redeem approximately \$1.9 billion in aggregate principal amount of outstanding indebtedness in August 2016 (consisting of the Company’s Redeemed Notes). Danaher also paid an aggregate of \$188 million in make-whole premiums in connection with the August 2016 redemptions, plus accrued and unpaid interest. The payment of these make-whole premiums, net of certain deferred gains of \$9 million, are reflected as a loss on early extinguishment of borrowings in the accompanying Consolidated Condensed Statements of Earnings. The Company intends to use the balance of the cash proceeds it received from Fortive to fund certain of the Company’s regular, quarterly cash dividends to shareholders.

The 4.0% senior unsecured bonds due 2016 were repaid upon their maturity in October 2016.

### LYONs Redemption and Conversion Ratio

Pursuant to the terms of the indenture that governs the Company’s LYONs, effective as of the record date of the distribution of the Fortive shares, the conversion ratio of the LYONs was adjusted so that each \$1,000 of principal amount at maturity may be converted into 38.1998 shares of Danaher common stock at any time on or before the maturity date of January 22, 2021.

During the nine month period ended September 30, 2016, holders of certain of the Company's LYONs converted such LYONs into an aggregate of approximately 229 thousand shares of the Company's common stock, par value \$0.01 per share. The

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Company's deferred tax liability associated with the book and tax basis difference in the converted LYONs of \$3 million was transferred to additional paid-in capital as a result of the conversions.

## NOTE 7. DEFINED BENEFIT PLANS

The following sets forth the components of the Company's net periodic benefit cost of the noncontributory defined benefit pension plans (\$ in millions):

	Three Month Period Ended September 30, 2016		Nine Month Period Ended September 30, 2015	
U.S. Pension Benefits:				
Service cost	\$2.2	\$ 2.4	\$6.8	\$ 5.4
Interest cost	22.3	25.3	67.7	73.9
Expected return on plan assets	(33.0)	(34.0)	(99.6)	(100.2)
Amortization of actuarial loss	6.3	7.9	18.3	20.9
Curtailment gain recognized	—	—	(0.7)	—
Net periodic pension cost	\$(2.2)	\$ 1.6	\$(7.5)	\$ —

## Non-U.S. Pension Benefits:

Service cost	\$9.0	\$ 10.4	\$26.9	\$ 30.6
Interest cost	8.4	7.6	25.8	20.7
Expected return on plan assets	(9.9)	(8.7)	(30.8)	(23.2)
Amortization of actuarial loss	1.9	2.7	8.5	7.8
Amortization of prior service credit	(0.1)	—	(0.3)	(0.1)
Settlement loss recognized	—	1.4	0.1	0.9
Net periodic pension cost	\$9.3	\$ 13.4	\$30.2	\$ 36.7

The following sets forth the components of the Company's continuing operations net periodic benefit cost of the other postretirement employee benefit plans (\$ in millions):

	Three Month Period Ended September 30, 2016		Nine Month Period Ended September 30, 2015	
Service cost	\$0.2	\$ 0.3	\$0.6	\$ 0.9
Interest cost	1.4	1.8	4.2	5.8
Amortization of actuarial (gain) loss	(0.1)	(0.2)	0.1	1.2
Amortization of prior service credit	(0.8)	(0.8)	(2.4)	(2.4)
Net periodic benefit cost	\$0.7	\$ 1.1	\$2.5	\$ 5.5

Net periodic pension and benefit costs are included in cost of sales and selling, general and administrative expenses in the accompanying Consolidated Condensed Statements of Earnings. In addition, there are \$3 million and \$9 million of net periodic pension and benefit costs in the three and nine month periods ended October 2, 2015, respectively, which are included in earnings from discontinued operations, net of tax (including \$2 million and \$6 million of expenses which were reclassified out of accumulated other comprehensive income (loss) in the three and nine month periods ended October 2, 2015, respectively).

Effective December 31, 2015, the Company changed its estimate of the service and interest cost components of net periodic benefit cost for its U.S. and non-U.S. pension and other postretirement benefit plans. Previously, the Company estimated the service and interest cost components utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation. The new estimate utilizes a full yield curve approach in the estimation of these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to their underlying projected cash flows. The new estimate provides a more precise

measurement of service and interest costs by improving the

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correlation between projected benefit cash flows and their corresponding spot rates. The change does not affect the measurement of the Company's U.S. and non-U.S. pension and other postretirement benefit obligations and it is accounted for as a change in accounting estimate that is inseparable from a change in accounting principle, which is applied prospectively. For 2016, the change in estimate is expected to reduce U.S. and non-U.S. pension and other postretirement net periodic benefit plan cost by approximately \$25 million when compared to the prior method.

**Employer Contributions**

During 2016, the Company's cash contribution requirements for its U.S. and non-U.S. defined benefit pension plans are expected to be approximately \$40 million and \$45 million, respectively. The ultimate amounts to be contributed depend upon, among other things, legal requirements, underlying asset returns, the plan's funded status, the anticipated tax deductibility of the contribution, local practices, market conditions, interest rates and other factors.

**NOTE 8. INCOME TAXES**

The Company's effective tax rate from continuing operations for the three and nine month periods ended September 30, 2016 was 15.5% and 26.6%, respectively, as compared to 16.3% and 14.8% for the three and nine month periods ended October 2, 2015, respectively.

The Company's effective tax rate for 2016 and 2015 differs from the U.S. federal statutory rate of 35.0% due principally to the Company's earnings outside the United States that are indefinitely reinvested and taxed at rates lower than the U.S. federal statutory rate. A higher tax rate associated with the loss on the early extinguishment of borrowings during the third quarter of 2016 lowered the effective tax rate by 6.0% and 1.0% for the three and nine month periods ended September 30, 2016, respectively. The gain on the sale of marketable equity securities during the first quarter of 2016 resulted in a 1.4% increase in the reported tax rate on a year-over-year basis for the nine month period ended September 30, 2016. The Company also incurred \$99 million of income tax expense related to repatriation of earnings and legal entity realignments associated with the Separation and other discrete items during the nine month period ended September 30, 2016, increasing the tax rate by 5.2% for the period. The effective tax rate for the three and nine month periods ended October 2, 2015 was lowered by 0.2% and 1.2%, respectively, from releases of valuation allowances related to foreign operating losses, foreign exchange losses and expiration of statutes of limitations.

Tax authorities in Denmark have raised significant issues related to interest accrued by certain of the Company's subsidiaries. On December 10, 2013, the Company received assessments from the Danish tax authority ("SKAT") totaling approximately DKK 1.3 billion including interest through September 30, 2016 (approximately \$203 million based on the exchange rate as of September 30, 2016), imposing withholding tax relating to interest accrued in Denmark on borrowings from certain of the Company's subsidiaries for the years 2004-2009. If the SKAT claims are successful, it is likely that the Company would be assessed additional amounts for the years 2010-2012 totaling approximately DKK 794 million including interest through September 30, 2016 (approximately \$120 million based on the exchange rate as of September 30, 2016). Management believes the positions the Company has taken in Denmark are in accordance with the relevant tax laws and intends to vigorously defend its positions. The Company appealed these assessments with the National Tax Tribunal in 2014 and intends on pursuing this matter through the European Court of Justice should this appeal be unsuccessful. The ultimate resolution of this matter is uncertain, could take many years, and could result in a material adverse impact to the Company's financial statements, including its effective tax rate.

**NOTE 9. STOCK TRANSACTIONS AND STOCK-BASED COMPENSATION**

Neither the Company nor any "affiliated purchaser" repurchased any shares of Company common stock during the three and nine month periods ended September 30, 2016. On July 16, 2013, the Company's Board of Directors approved a repurchase program (the "Repurchase Program") authorizing the repurchase of up to 20 million shares of the Company's common stock from time to time on the open market or in privately negotiated transactions. As of September 30, 2016, 20 million shares remained available for repurchase pursuant to the Repurchase Program.

For a full description of the Company's stock-based compensation programs, reference is made to Note 17 of the Company's financial statements as of and for the year ended December 31, 2015 included in the Company's 2015

Annual Report on Form 10-K. As of September 30, 2016, approximately 28 million shares of the Company's common stock were reserved for issuance under the 2007 Stock Incentive Plan, as adjusted pursuant to the anti-dilution provisions of the plan to account for the Separation.

In connection with the Separation and pursuant to the anti-dilution provisions of the 2007 Stock Incentive Plan, the Company also made certain adjustments to the exercise price and the number of shares underlying stock-based compensation awards with

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the intention of preserving the intrinsic value of the awards prior to the Separation. Accordingly, the number of shares underlying each stock-based award outstanding as of the date of the Separation was multiplied by a factor of 1.32 and the related exercise price for stock options was divided by a factor of 1.32 which resulted in no increase in the intrinsic value of awards outstanding. The stock-based compensation awards continue to vest over their original vesting period. These adjustments to the Company's stock-based compensation awards did not result in additional compensation expense.

The following summarizes the assumptions used in the Black-Scholes Merton option pricing model ("Black-Scholes") to value options granted during the nine month period ended September 30, 2016:

Risk-free interest rate	1.2% - 1.6%	
Weighted average volatility	24.6	%
Dividend yield	0.6	%
Expected years until exercise	5.5 - 8.0	

The following summarizes the components of the Company's stock-based compensation expense (\$ in millions):

	Three Month Period Ended September 30, 2016		Nine Month Period Ended September 30, 2015	
Restricted stock units ("RSUs")/performance stock units ("PSUs"):				
Pretax compensation expense	\$21.1	\$ 23.4	\$65.0	\$ 49.8
Income tax benefit	(6.2 )	(8.6 )	(19.1 )	(17.1 )
RSU/PSU expense, net of income taxes	14.9	14.8	45.9	32.7
Stock options:				
Pretax compensation expense	10.3	9.9	31.3	27.1
Income tax benefit	(3.2 )	(3.1 )	(9.7 )	(8.5 )
Stock option expense, net of income taxes	7.1	6.8	21.6	18.6
Total stock-based compensation:				
Pretax compensation expense	31.4	33.3	96.3	76.9
Income tax benefit	(9.4 )	(11.7 )	(28.8 )	(25.6 )
Total stock-based compensation expense, net of income taxes	\$22.0	\$ 21.6	\$67.5	\$ 51.3

Stock-based compensation has been recognized as a component of selling, general and administrative expenses in the accompanying Consolidated Condensed Statements of Earnings. As of September 30, 2016, \$133 million of total unrecognized compensation cost related to RSUs/PSUs is expected to be recognized over a weighted average period of approximately two years. As of September 30, 2016, \$112 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted average period of approximately three years. Future compensation amounts will be adjusted for any changes in estimated forfeitures.



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The following summarizes option activity under the Company's stock plans (in millions, except weighted exercise price and number of years):

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2015 <sup>(a)</sup>	24.9	\$ 43.75		
Granted	5.2	66.55		
Exercised	(4.9 )	32.54		
Cancelled/forfeited	(1.4 )	68.60		
Adjustment due to Fortive Separation <sup>(b)</sup>	(5.2 )	50.44		
Outstanding as of September 30, 2016	18.6	\$ 49.31	6	\$ 542.4
Vested and expected to vest as of September 30, 2016 <sup>(c)</sup>	18.0	\$ 48.81	6	\$ 533.7
Vested as of September 30, 2016	9.0	\$ 36.69	4	\$ 376.9

<sup>(a)</sup> The outstanding options (except those options canceled as part of the Separation as noted below) as of December 31, 2015 have been adjusted by a factor of 1.32, as noted above, due to the Separation.

<sup>(b)</sup> The "Adjustment due to Fortive Separation" reflects the cancellation of options which were outstanding as of July 2, 2016 and held by Fortive employees, which have been converted to Fortive options as part of the Separation.

<sup>(c)</sup> The "expected to vest" options are the net unvested options that remain after applying the forfeiture rate assumption to total unvested options.

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company's closing stock price on the last trading day of the third quarter of 2016 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on September 30, 2016. The amount of aggregate intrinsic value will change based on the price of the Company's common stock.

The aggregate intrinsic value of options exercised during the nine month periods ended September 30, 2016 and October 2, 2015 was \$181 million and \$245 million, respectively. Exercise of options during the first nine months of 2016 and 2015 resulted in cash receipts of \$146 million and \$169 million, respectively. The Company realized a tax benefit of \$7 million and \$57 million in the three and nine month periods ended September 30, 2016, respectively, related to the exercise of employee stock options. The net income tax benefit in excess of the expense recorded for financial reporting purposes (the "excess tax benefit") has been recorded as an increase to additional paid-in capital and is reflected as a financing cash inflow in the accompanying Consolidated Condensed Statements of Cash Flows. The following summarizes information on unvested RSU and PSU activity (in millions, except weighted average grant-date fair value):

	Number of RSUs/PSUs	Weighted Average Grant-Date Fair Value
Unvested as of December 31, 2015 <sup>(a)</sup>	6.1	\$ 53.93
Granted	1.8	65.33
Vested	(1.7 )	49.29
Forfeited	(0.7 )	46.31
Adjustment due to Fortive Separation <sup>(b)</sup>	(1.2 )	58.24
Unvested as of September 30, 2016	4.3	60.69

<sup>(a)</sup> The unvested RSUs and PSUs (except those RSUs and PSUs canceled as part of the Separation as noted below) as of December 31, 2015 have been adjusted by a factor of 1.32, as noted above, due to the Separation.

<sup>(b)</sup> The "Adjustment due to Fortive Separation" reflects the cancellation of RSUs and PSUs which were outstanding as of July 2, 2016 and held by Fortive employees which have been converted to Fortive RSUs and PSUs as part of the

Separation.

The Company realized a tax benefit of \$10 million and \$34 million in the three and nine month periods ended September 30, 2016, related to the vesting of RSUs. The excess tax benefit attributable to RSUs has been recorded as an increase to additional paid-in capital and is reflected as a financing cash inflow in the accompanying Consolidated Condensed Statement of Cash Flows.

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In connection with the exercise of certain stock options and the vesting of RSUs previously issued by the Company, a number of shares sufficient to fund statutory minimum tax withholding requirements has been withheld from the total shares issued or released to the award holder (though under the terms of the applicable plan, the shares are considered to have been issued and are not added back to the pool of shares available for grant). During the first nine months of 2016, 600 thousand shares with an aggregate value of \$44 million were withheld to satisfy the requirement. The withholding is treated as a reduction in additional paid-in capital in the accompanying Consolidated Condensed Statement of Stockholders' Equity.

**NOTE 10. NONOPERATING INCOME (EXPENSE)**

The Company received \$265 million of cash proceeds from the sale of marketable equity securities during the first quarter of 2016. The Company recorded a pretax gain related to this sale of \$223 million (\$140 million after-tax or \$0.20 per diluted share) during the nine month period ended September 30, 2016.

During the three and nine month periods ended October 2, 2015, the Company received \$43 million of cash proceeds from the sales of marketable equity securities. The Company recorded a pretax gain related to these sales of \$12 million (\$8 million after-tax or \$0.01 per diluted share) for the three and nine month periods.

Refer to Note 6 for information related to the \$188 million of make-whole premiums associated with the early extinguishment of the Company's Redeemed Notes. The Company recorded a loss on extinguishment of these borrowings, net of certain deferred gains, of \$179 million (\$112 million after-tax or \$0.16 per diluted share) in the three and nine month periods ended September 30, 2016.

**NOTE 11. COMMITMENTS AND CONTINGENCIES**

For a description of the Company's litigation and contingencies, reference is made to Note 16 of the Company's financial statements as of and for the year ended December 31, 2015 included in the Company's 2015 Annual Report on Form 10-K.

In connection with the Separation and in accordance with the separation and distribution and related agreements Danaher and Fortive entered into, the Company agreed to indemnify Fortive and its affiliates against certain damages and expenses that might occur in the future. These indemnification obligations cover a variety of liabilities, including, but not limited to, employee, tax and environmental matters. The Company's estimate of these indemnification obligations has been accrued for in the accompanying Consolidated Condensed Balance Sheet as of September 30, 2016.

As of September 30, 2016, the Company had approximately \$4.8 billion of aggregate purchase price commitments for acquisitions subject to executed purchase agreements and expected to close in the fourth quarter of 2016, including the pending acquisition of Cepheid, and anticipates financing these obligations with available cash and proceeds from the issuance of commercial paper.

The Company generally accrues estimated warranty costs at the time of sale. In general, manufactured products are warranted against defects in material and workmanship when properly used for their intended purpose, installed correctly, and appropriately maintained. Warranty period terms depend on the nature of the product and range from 90 days up to the life of the product. The amount of the accrued warranty liability is determined based on historical information such as past experience, product failure rates or number of units repaired, estimated cost of material and labor, and in certain instances estimated property damage. The accrued warranty liability is reviewed on a quarterly basis and may be adjusted as additional information regarding expected warranty costs becomes known.

The following is a rollforward of the Company's accrued warranty liability (\$ in millions):

Balance, December 31, 2015	\$73.8
Accruals for warranties issued during the period	44.8
Settlements made	(45.5 )
Additions due to acquisitions	0.1
Effect of foreign currency translation	1.4
Balance, September 30, 2016	\$74.6



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## NOTE 12. NET EARNINGS PER SHARE FROM CONTINUING OPERATIONS

Basic net earnings per share (“EPS”) from continuing operations is calculated by dividing net earnings from continuing operations by the weighted average number of common shares outstanding for the applicable period. Diluted net EPS from continuing operations is computed based on the weighted average number of common shares outstanding increased by the number of additional shares that would have been outstanding had the potentially dilutive common shares been issued and reduced by the number of shares the Company could have repurchased with the proceeds from the issuance of the potentially dilutive shares. For the three and nine month periods ended September 30, 2016 there were no anti-dilutive options to purchase shares excluded from the diluted EPS from continuing operations calculation. However, for the three and nine month periods ended October 2, 2015, approximately 2 million and 3 million options to purchase shares, respectively, were not included in the diluted EPS from continuing operations calculation as the impact of their inclusion would have been anti-dilutive.

Information related to the calculation of net earnings per share from continuing operations of common stock is summarized as follows (\$ and shares in millions, except per share amounts):

	Net Earnings from Continuing Operations (Numerator)	Shares (Denominator)	Per Share Amount
For the Three Month Period Ended September 30, 2016:			
Basic EPS	\$ 402.6	692.2	\$ 0.58
Adjustment for interest on convertible debentures	0.5	—	
Incremental shares from assumed exercise of dilutive options and vesting of dilutive RSUs and PSUs	—	6.2	
Incremental shares from assumed conversion of the convertible debentures	—	2.9	
Diluted EPS	\$ 403.1	701.3	\$ 0.57
For the Three Month Period Ended October 2, 2015:			
Basic EPS	\$ 379.9	688.5	\$ 0.55
Adjustment for interest on convertible debentures	0.5	—	
Incremental shares from assumed exercise of dilutive options and vesting of dilutive RSUs and PSUs	—	7.7	
Incremental shares from assumed conversion of the convertible debentures	—	2.5	
Diluted EPS	\$ 380.4	698.7	\$ 0.54
For the Nine Month Period Ended September 30, 2016:			
Basic EPS	\$ 1,406.4	690.6	\$ 2.04
Adjustment for interest on convertible debentures	1.4	—	
Incremental shares from assumed exercise of dilutive options and vesting of dilutive RSUs and PSUs	—	6.0	
Incremental shares from assumed conversion of the convertible debentures	—	2.5	
Diluted EPS	\$ 1,407.8	699.1	\$ 2.01
For the Nine Month Period Ended October 2, 2015:			
Basic EPS	\$ 1,225.7	701.7	\$ 1.75
Adjustment for interest on convertible debentures	1.7	—	
Incremental shares from assumed exercise of dilutive options and vesting of dilutive RSUs and PSUs	—	7.9	
Incremental shares from assumed conversion of the convertible debentures	—	2.7	
Diluted EPS	\$ 1,227.4	712.3	\$ 1.72



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## NOTE 13. SEGMENT INFORMATION

Before the Separation, the Company operated and reported its results in five separate business segments consisting of the Test & Measurement, Environmental, Life Sciences & Diagnostics, Dental and Industrial Technologies segments. The Company reevaluated its business segments after the Separation, and the Company now operates and reports its results in four separate business segments consisting of the Life Sciences, Diagnostics, Dental and Environmental & Applied Solutions segments. When determining the reportable segments, the Company aggregated operating segments based on their similar economic and operating characteristics. The identifiable assets by segment are those used in each segment's operations. Inter-segment amounts are not significant and are eliminated to arrive at consolidated totals.

Segment results are shown below (\$ in millions):

	Three Month Period		Nine Month Period	
	Ended		Ended	
	September 30,	October 2,	September 30,	October 2,
	2016	2015	2016	2015
Sales:				
Life Sciences	\$1,325.4	\$804.5	\$3,911.8	\$1,940.5
Diagnostics	1,212.7	1,175.8	3,606.5	3,545.0
Dental	675.6	652.2	2,046.1	2,002.2
Environmental & Applied Solutions	918.4	879.7	2,733.7	2,623.0
Total	\$4,132.1	\$3,512.2	\$12,298.1	\$10,110.7

## Operating Profit:

Life Sciences	\$204.7	\$51.5	\$574.1	\$196.6
Diagnostics	193.9	159.2	606.3	510.3
Dental	101.3	96.8	305.6	254.2
Environmental & Applied Solutions	223.4	215.6	640.1	661.6
Other	(24.2 )	(43.1 )	(103.8 )	(112.1 )
Total	\$699.1	\$480.0	\$2,022.3	\$1,510.6

As of September 30, 2016, there were material changes in total assets by segment since December 31, 2015 due to the Fortive Separation. Segment identifiable assets are shown below (\$ in millions):

	September 30, December 31,	
	2016	2015
Life Sciences	\$ 19,764.4	\$ 19,658.4
Diagnostics	9,928.2	9,950.7
Dental	5,924.6	5,906.9
Environmental & Applied Solutions	4,171.7	4,168.8
Other	1,508.6	1,261.9
Discontinued operations	—	7,275.5
Total	\$ 41,297.5	\$ 48,222.2

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide a reader of Danaher Corporation's ("Danaher," the "Company," "we," "us" or "our") financial statements with a narrative from the perspective of Company management. The Company's MD&A is divided into five main sections:

Information Relating to Forward-Looking Statements

Overview

Results of Operations

Liquidity and Capital Resources

Critical Accounting Policies and Estimates

You should read this discussion along with the Company's MD&A and audited financial statements as of and for the year ended December 31, 2015 and Notes thereto, included in the Company's 2015 Annual Report on Form 10-K, and the Company's Consolidated Condensed Financial Statements and related Notes as of and for the three and nine month periods ended September 30, 2016 included in this Report.

Unless otherwise indicated, all references in this section refer to continuing operations.

INFORMATION RELATING TO FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this quarterly report, in other documents we file with or furnish to the Securities and Exchange Commission ("SEC"), in our press releases, webcasts, conference calls, materials delivered to shareholders and other communications, are "forward-looking statements" within the meaning of the United States federal securities laws. All statements other than historical factual information are forward-looking statements, including without limitation statements regarding: projections of revenue, expenses, profit, profit margins, tax rates, tax provisions, cash flows, pension and benefit obligations and funding requirements, our liquidity position or other projected financial measures; management's plans and strategies for future operations, including statements relating to anticipated operating performance, cost reductions, restructuring activities, new product and service developments, competitive strengths or market position, acquisitions and the integration thereof, divestitures, spin-offs, split-offs or other distributions, strategic opportunities, securities offerings, stock repurchases, dividends and executive compensation; growth, declines and other trends in markets we sell into; new or modified laws, regulations and accounting pronouncements; regulatory approvals; outstanding claims, legal proceedings, tax audits and assessments and other contingent liabilities; foreign currency exchange rates and fluctuations in those rates; general economic and capital markets conditions; the timing of any of the foregoing; assumptions underlying any of the foregoing; and any other statements that address events or developments that Danaher intends or believes will or may occur in the future. Terminology such as "believe," "anticipate," "should," "could," "will," "intend," "plan," "expect," "estimate," "project," "target," "possible," "potential," "forecast" and "positioned" and similar references to future periods are intended to identify forward-looking statements, although not all forward-looking statements are accompanied by such words.

Forward-looking statements are based on assumptions and assessments made by our management in light of their experience and perceptions of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. Forward-looking statements are not guarantees of future performance and actual results may differ materially from the results, developments and business decisions contemplated by our forward-looking statements. Accordingly, you should not place undue reliance on any such forward-looking statements. Important factors that could cause actual results to differ materially from those envisaged in the forward-looking statements include the following:

• Conditions in the global economy, the markets we serve and the financial markets may adversely affect our business and financial statements.

• Our restructuring actions could have long-term adverse effects on our business.

• Our growth could suffer if the markets into which we sell our products (references to products in this section include software) and services decline, do not grow as anticipated or experience cyclicity.





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We face intense competition and if we are unable to compete effectively, we may experience decreased demand and decreased market share. Even if we compete effectively, we may be required to reduce prices for our products and services.

Our growth depends in part on the timely development and commercialization, and customer acceptance, of new and enhanced products and services based on technological innovation.

Our reputation, ability to do business and financial statements may be impaired by improper conduct by any of our employees, agents or business partners.

Any inability to consummate acquisitions at our historical rate and at appropriate prices could negatively impact our growth rate and stock price.

Our acquisition of businesses, including our 2015 acquisition of Pall and pending acquisition of Cepheid, joint ventures and strategic relationships could negatively impact our financial statements.

The indemnification provisions of acquisition agreements by which we have acquired companies may not fully protect us and as a result we may face unexpected liabilities.

- Divestitures and other dispositions could negatively impact our business, and contingent liabilities from businesses that we have divested or disposed could adversely affect our financial statements.

We could incur significant liability if the distribution of Fortive common stock to our stockholders or the split-off of the communications business to NetScout is determined to be a taxable transaction.

Potential indemnification liabilities to Fortive pursuant to the separation agreement could materially and adversely affect our business and financial statements.

Certain of our businesses are subject to extensive regulation by the U.S. Food and Drug Administration (“FDA”) and by comparable agencies of other countries, as well as laws regulating fraud and abuse in the health care industry and the privacy and security of health information. Failure to comply with those regulations could adversely affect our business, reputation and financial statements.

The health care industry and related industries that we serve have undergone, and are in the process of undergoing, significant changes in an effort to reduce costs, which could adversely affect our financial statements.

Our operations, products and services expose us to the risk of environmental, health and safety liabilities, costs and violations that could adversely affect our reputation and financial statements.

Our businesses are subject to extensive regulation; failure to comply with those regulations could adversely affect our financial statements and reputation.

We may be required to recognize impairment charges for our goodwill and other intangible assets.

Foreign currency exchange rates may adversely affect our financial statements.

Changes in our tax rates or exposure to additional income tax liabilities or assessments could affect our profitability. In addition, audits by tax authorities could result in additional tax payments for prior periods.

We are subject to a variety of litigation and other legal and regulatory proceedings in the course of our business that could adversely affect our financial statements.

If we do not or cannot adequately protect our intellectual property, or if third parties infringe our intellectual property rights, we may suffer competitive injury or expend significant resources enforcing our rights.

Third parties may claim that we are infringing or misappropriating their intellectual property rights and we could suffer significant litigation expenses, losses or licensing expenses or be prevented from selling products or services.

Defects and unanticipated use or inadequate disclosure with respect to our products or services could adversely affect our business, reputation and financial statements.

The manufacture of many of our products is a highly exacting and complex process, and if we directly or indirectly encounter problems manufacturing products, our business, reputation and financial statements could suffer.

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• Our indebtedness may limit our operations and our use of our cash flow, and any failure to comply with the covenants that apply to our indebtedness could adversely affect our liquidity and financial statements.

• Adverse changes in our relationships with, or the financial condition, performance, purchasing patterns or inventory levels of, key distributors and other channel partners could adversely affect our business and financial statements.

• Our financial results are subject to fluctuations in the cost and availability of commodities that we use in our operations.

• If we cannot adjust our manufacturing capacity or the purchases required for our manufacturing activities to reflect changes in market conditions and customer demand, our profitability may suffer. In addition, our reliance upon sole or limited sources of supply for certain materials, components and services could cause production interruptions, delays and inefficiencies.

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

• Work stoppages, union and works council campaigns and other labor disputes could adversely impact our productivity and results of operations.

• International economic, political, legal, compliance and business factors could negatively affect our business and financial statements.

• The results of the United Kingdom's ("UK") European Union ("EU") membership referendum, advising for the exit of the UK from the EU, has caused and may in the future cause volatility in global stock markets, currency exchange rate fluctuations and global economic uncertainty, which could adversely affect customer demand, our relationships with customers and suppliers and our business and financial statements.

• If we suffer loss to our facilities, supply chains, distribution systems or information technology systems due to catastrophe or other events, our operations could be seriously harmed.

• A significant disruption in, or breach in security of, our information technology systems (or those of our third party service providers) or violation of data privacy laws could adversely affect our business and financial statements.

• Our defined benefit pension plans are subject to financial market risks that could adversely affect our financial statements.

See Part I—Item 1A of the Company's 2015 Annual Report on Form 10-K for a further discussion regarding reasons that actual results may differ materially from the results, developments and business decisions contemplated by our forward-looking statements. Forward-looking statements speak only as of the date of the report, document, press release, webcast, call, materials or other communication in which they are made. We do not assume any obligation to update or revise any forward-looking statement, whether as a result of new information, future events and developments or otherwise.

## OVERVIEW

### General

As a result of the Company's geographic and industry diversity, the Company faces a variety of opportunities and challenges, including rapid technological development (particularly with respect to computing, mobile connectivity, communications and digitization) in most of the Company's served markets, the expansion and evolution of opportunities in high-growth markets, trends and costs associated with a global labor force, consolidation of the Company's competitors and increasing regulation. The Company defines high-growth markets as developing markets of the world experiencing extended periods of accelerated growth in gross domestic product and infrastructure which includes Eastern Europe, the Middle East, Africa, Latin America and Asia with the exception of Japan and Australia. The Company operates in a highly competitive business environment in most markets, and the Company's long-term growth and profitability will depend in particular on its ability to expand its business in high-growth geographies and high-growth market segments, identify, consummate and integrate appropriate acquisitions, develop innovative and differentiated new products, services and software with higher gross profit margins, expand and improve the effectiveness of the Company's sales force, continue to reduce costs and improve operating efficiency and quality, and effectively address the demands of an increasingly regulated environment. The Company is making significant investments, organically and through acquisitions, to address the rapid pace of technological change in its served

markets and to globalize its manufacturing, research and development and customer-facing resources (particularly in high-growth markets) in order to be responsive to the Company's customers throughout the world and improve the efficiency of the Company's operations.

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### Business Performance and Outlook

While differences exist among the Company's businesses, on an overall basis, sales from existing businesses increased 3.0% during the third quarter of 2016 as compared to the comparable period of 2015. The Company's continued investments in sales growth initiatives and the other business-specific factors discussed below contributed to year-over-year sales growth. Geographically, year-over-year sales growth rates from existing businesses during the third quarter of 2016 were led by the high-growth markets. Sales growth rates from existing businesses in high-growth markets grew at a mid-single digit rate during the third quarter of 2016 as compared to the comparable period of 2015 led by continued strength in China, India and Latin America partially offset by weakness in the Middle East. High-growth markets represented approximately 30% of the Company's total sales in the third quarter of 2016. The percentage of sales attributable to high-growth markets is higher than previously reported as a result of the Fortive Separation since Fortive had a lower overall percentage of sales to high-growth markets. Sales from existing businesses in developed markets grew at a low-single digit rate during the third quarter of 2016 with low-single digit growth in both North America and Western Europe partially offset by weakness in Japan. The Company expects overall sales growth to continue but remains cautious about challenges due to macro-economic and geopolitical uncertainties, including global uncertainties related to monetary and fiscal policies.

### Acquisitions

During the first nine months of 2016, the Company acquired five businesses for total consideration of \$100 million in cash, net of cash acquired. The businesses acquired complement existing units of the Life Sciences, Dental and Environmental & Applied Solutions segments. The aggregate annual sales of these five businesses at the time of their respective acquisitions, in each case based on the company's revenues for its last completed fiscal year prior to the acquisition, were approximately \$60 million.

### Pending Acquisition

On September 2, 2016, Danaher Copper Merger Sub, Inc, and Cepheid, a California corporation, entered into a Merger Agreement, pursuant to which the Company agreed to acquire all of the outstanding shares of common stock of Cepheid for \$53.00 per share in cash, for a total enterprise value of approximately \$4.0 billion, including assumed debt and net of acquired cash. Cepheid is a leading global molecular diagnostics company that develops, manufactures and markets accurate and easy to use molecular systems and tests. Cepheid generated revenues of \$539 million in 2015. The closing of the acquisition is subject to customary conditions, including approval by Cepheid's shareholders and receipt of applicable regulatory approvals, and is expected to be completed by the end of fiscal year 2016. The Company expects to finance the transaction with available cash and proceeds from the issuance of commercial paper. Upon closing of the acquisition Cepheid will become part of Danaher's Diagnostics segment, joining the Company's Beckman Coulter, Leica Biosystems and Radiometer businesses. As Cepheid is integrated into the Company, the Company expects to realize significant cost synergies through the application of the Danaher Business System and the combined purchasing power of the Company and Cepheid.

### Discontinued Operations

#### Fortive Separation

On July 2, 2016, Danaher completed the Separation of its former Test & Measurement segment, Industrial Technologies segment (excluding the product identification businesses) and the retail/commercial petroleum business by distributing to Danaher stockholders on a pro rata basis all of the issued and outstanding common stock of Fortive, the entity Danaher incorporated to hold such businesses. To effect the Separation, Danaher distributed to its stockholders one share of Fortive common stock for every two shares of Danaher common stock outstanding as of June 15, 2016, the record date for the distribution. Fractional shares of Fortive common stock that otherwise would have been distributed were agg