DANAHER CORP /DE/
Form 10-Q
July 17, 2008
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**
For the Quarter Ended June 27, 2008

OR

¨ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES AND 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)**

2099 Pennsylvania Avenue, N.W., 12th Floor

Washington, D.C.	**20006**
(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 x No ¨

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

Large accelerated filer x	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 x

The number of shares of common stock outstanding at July 11, 2008 was 318,939,447.

Table of Contents

DANAHER CORPORATION

INDEX

FORM 10-Q

Table of Contents

DANAHER CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS

($ in thousands)

	June 27, 2008 (unaudited)	December 31, 2007 (Note 1)
ASSETS		
Current Assets:		
Cash and equivalents	$ 284,100	$ 239,108
Trade accounts receivable, net	2,094,317	1,984,384
Inventories:		
Finished goods	574,790	547,742
Work in process	261,916	195,332
Raw material and supplies	460,750	450,541
Total inventories	1,297,456	1,193,615
Prepaid expenses and other current assets	515,854	632,660
Total current assets	4,191,727	4,049,767
Property, plant and equipment, net of accumulated depreciation of $1,489,649 and $1,402,463, respectively	1,131,887	1,108,634
Other assets	509,606	507,550
Goodwill	9,463,471	9,241,011
Other intangible assets, net	2,697,923	2,564,973
Total assets	$ 17,994,614	$ 17,471,935
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Notes payable and current portion of long-term debt	$ 312,647	$ 330,480
Trade accounts payable	1,193,576	1,125,600
Accrued expenses	1,587,298	1,443,773
Total current liabilities	3,093,521	2,899,853
Other liabilities	2,086,756	2,090,630
Long-term debt	2,740,056	3,395,764
Stockholders equity:		
Common stock $0.01 par value	3,536	3,526
Additional paid-in capital	1,804,008	1,718,716
Retained earnings	7,436,616	6,820,756
Accumulated other comprehensive income	830,121	542,690
Total stockholders equity	10,074,281	9,085,688
Total liabilities and stockholders equity	$ 17,994,614	$ 17,471,935

See the accompanying Notes to Consolidated Condensed Financial Statements.

1

Table of Contents

DANAHER CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS

($ and shares in thousands, except per share amounts)

(unaudited)

	Three Months Ended June 27, 2008	Three Months Ended June 29, 2007	Six Months Ended June 27, 2008	Six Months Ended June 29, 2007
Sales	$ 3,283,895	$ 2,631,885	$ 6,312,769	$ 5,153,589
Operating costs and expenses:				
Cost of sales	1,723,596	1,430,634	3,334,754	2,812,435
Selling, general and administrative expenses	859,969	642,689	1,678,359	1,288,514
Research and development expenses	189,866	130,009	375,970	253,970
Other (income) expense		(14,335)		(14,335)
Total operating expenses	2,773,431	2,188,997	5,389,083	4,340,584
Operating profit	510,464	442,888	923,686	813,005
Interest expense	(33,854)	(23,948)	(74,523)	(51,239)
Interest income	1,412	952	4,934	2,540
Earnings from continuing operations before income taxes	478,022	419,892	854,097	764,306
Income taxes	(114,574)	(112,236)	(214,144)	(205,034)
Earnings from continuing operations	363,448	307,656	639,953	559,272
Earnings from discontinued operations, net of income taxes		3,498		6,686
Net earnings	$ 363,448	$ 311,154	$ 639,953	$ 565,958
Earnings per share from continuing operations:				
Basic	$ 1.14	$ 1.00	$ 2.01	$ 1.81
Diluted	$ 1.09	$ 0.95	$ 1.92	$ 1.72
Earnings per share from discontinued operations:				
Basic		$ 0.01		$ 0.02
Diluted		$ 0.01		$ 0.02
Net earnings per share:				
Basic	$ 1.14	$ 1.01	$ 2.01	$ 1.83
Diluted	$ 1.09	$ 0.96	$ 1.92	$ 1.74
Average common stock and common equivalent shares outstanding:				
Basic	319,233	309,471	319,018	309,570
Diluted	336,551	327,736	336,263	327,843

See the accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents

DANAHER CORPORATION

CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS EQUITY

($ and shares in thousands)

(unaudited)

	Common Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Comprehensive Income
Balance, December 31, 2007	352,608	$ 3,526	$ 1,718,716	$ 6,820,756	$ 542,690	
Net income				639,953		$ 639,953
Dividends declared				(19,120)		
Common stock based award activity	951	10	84,650			
Common stock issued in connection with LYON s conversion	13		642			
Cumulative impact of change in measurement date for post-employment benefit obligations, net of taxes (SFAS No. 158 see Note 7)				(4,973)	978	978
Increase from translation of foreign financial statements					286,453	286,453
Balance, June 27, 2008	353,572	$ 3,536	$ 1,804,008	$ 7,436,616	$ 830,121	$ 927,384

See the accompanying Notes to Consolidated Condensed Financial Statements.

3

Table of Contents

DANAHER CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

($ in thousands)

(unaudited)

	Six Months Ended June 27, 2008	Six Months Ended June 29, 2007
Cash flows from operating activities:		
Net earnings	$ 639,953	$ 565,958
Less: earnings from discontinued operations, net of tax		6,686
Net earnings from continuing operations	639,953	559,272
Non-cash items, net of the effect of discontinued operations:		
Depreciation	97,775	83,662
Amortization	72,755	42,890
Stock compensation expense	42,399	35,049
Change in trade accounts receivable, net	(37,234)	(22,681)
Change in inventories	(68,148)	(10,916)
Change in accounts payable	34,025	11,931
Change in prepaid expenses and other assets	91,230	90,749
Change in accrued expenses and other liabilities	42,175	(102,656)
Total operating cash flows from continuing operations	914,930	687,300
Total operating cash flows from discontinued operations		4,364
Net cash flows from operating activities	914,930	691,664
Cash flows from investing activities:		
Payments for additions to property, plant and equipment	(83,867)	(69,666)
Proceeds from disposals of property, plant and equipment	499	11,738
Cash paid for acquisitions	(101,550)	(349,758)
Cash paid for investment in acquisition target and other marketable securities		(23,219)
Proceeds from refundable escrowed purchase price	48,504	
Total investing cash flows from continuing operations	(136,414)	(430,905)
Total investing cash flows from discontinued operations		(715)
Net cash used in investing activities	(136,414)	(431,620)
Cash flows from financing activities:		
Proceeds from issuance of common stock	42,903	61,846
Payment of dividends	(19,120)	(15,424)
Purchase of treasury stock		(117,486)
Net (repayments) proceeds of borrowings (maturities of 90 days or less)	(797,241)	(323,580)
Proceeds of borrowings (maturities longer than 90 days)	48,426	
Repayments of borrowings (maturities longer than 90 days)	(5,981)	(8,154)
Net cash used in financing activities	(731,013)	(402,798)

Effect of exchange rate changes on cash and equivalents	(2,511)	(911)
Net change in cash and equivalents	44,992	(143,665)
Beginning balance of cash and equivalents	239,108	317,810
Ending balance of cash and equivalents	$ 284,100	$ 174,145
Supplemental disclosures:		
Cash interest payments	$ 36,588	$ 29,070
Cash income tax payments	$ 147,451	$ 212,400

See the accompanying Notes to Consolidated Condensed Financial Statements.

4

Table of Contents

DANAHER CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(unaudited)

NOTE 1. GENERAL

The consolidated condensed financial statements included herein have been prepared by Danaher Corporation (the Company) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual 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 condensed financial statements included herein should be read in conjunction with the financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

In the opinion of the registrant, the accompanying financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of the Company at June 27, 2008 and December 31, 2007, and its results of operations and cash flows for the three and six months ended June 27, 2008 and June 29, 2007. Refer Note 2 for a discussion of the impact on the financial statement presentation resulting from the Company s discontinuance of its power quality business.

Total comprehensive income was as follows ($ in millions):

	June 27, 2008	June 29, 2007
Three Months Ended	$ 472	$ 371
Six Months Ended	927	662

Total comprehensive income for 2008 includes the change in cumulative foreign translation adjustment and the cumulative impact of the change in the measurement date for post-employment benefit obligations under SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS No. 158). Refer to Note 7 for discussion of the adoption of the measurement provisions of SFAS No. 158. Total comprehensive income for 2007 includes the change in cumulative foreign translation adjustment.

NOTE 2. ACQUISITIONS AND DIVESTITURES

The Company has completed a number of acquisitions that were either a strategic fit with an existing Company business or were of such a nature and size as to establish a new strategic line of business for growth for the Company. All of these acquisitions 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 process by which the Company acquired the business; 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 market 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 and learns more about the newly acquired business, it is able to refine the estimates of fair market value and more accurately allocate the purchase price. Examples of factors and information that the Company uses to refine the allocations include: tangible and intangible asset appraisals; cost data related to redundant facilities; employee/personnel data related to redundant functions; product line integration and rationalization information; management capabilities; and information systems compatibilities. The only items considered for subsequent adjustment are items identified as of the acquisition date. The Company is continuing to evaluate certain pre-acquisition contingencies (as contemplated by SFAS No. 38, Accounting for Preacquisition Contingencies of Purchased Enterprises) associated with certain of its 2007 and 2008 acquisitions and will make appropriate adjustments to the purchase price allocation prior to the one-year anniversary of the acquisitions, as required.

The Company also periodically disposes of existing operations that are not deemed to fit strategically with its ongoing operations or are not achieving the desired return on investment. There were no dispositions during the six months ended June 27, 2008.

The following briefly describes the Company s acquisition activity for the six months ended June 27, 2008. For a description of the Company s acquisition and divestiture activity for the year ended December 31, 2007, reference is made to Note 2 to the Consolidated Financial Statements included in the Company s 2007 Annual Report on Form 10-K.

During the first six months of 2008, the Company acquired seven companies or product lines for total consideration of approximately $102 million in cash, net of cash acquired and including transaction costs. The companies acquired manufacture and/or supply products in the life sciences, dental technologies and product identification markets. These companies were acquired to complement existing units of either the Medical Technologies or Industrial Technologies segments. The Company recorded an aggregate of $24 million of goodwill related to these seven acquired businesses. The aggregate annual sales of these acquired businesses at the time of their respective acquisitions, in each case based on the acquired company s revenues for its last completed fiscal year prior to the acquisition, were approximately $107 million.

The following table summarizes the aggregate estimated fair values of the assets acquired and liabilities assumed at the date of acquisition for the acquisitions consummated during the six months ended June 27, 2008 ($ in thousands):

Accounts receivable	$ 7,874
Inventory	26,425
Property, plant and equipment	8,328
Goodwill	24,124
Other intangible assets, primarily trade names, customer relationships and patents	29,304
Accounts payable	(1,534)
Other assets and liabilities, net	9,529
Assumed debt	(2,500)
Net cash consideration	$ 101,550

The unaudited pro forma information for the periods set forth below gives effect to all prior acquisitions as if they had occurred at the beginning of the period. 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 (unaudited, $ in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	June 27, 2008	**June 29, 2007**	**June 27, 2008**	**June 29, 2007**
Sales	$ 3,289,187	$ 3,037,180	$ 6,342,208	$ 5,910,714
Net earnings from continuing operations	$ 363,161	$ 308,898	$ 639,942	$ 556,915
Diluted earnings per share from continuing operations	$ 1.09	$ 0.93	$ 1.92	$ 1.68

Table of Contents

In connection with its acquisitions, the Company assesses and formulates a plan related to the future integration of the acquired entity. This process begins during the due diligence process and is concluded within twelve months of the acquisition. The Company accrues estimates for certain costs, related primarily to personnel reductions and facility closures or restructurings, anticipated at the date of acquisition, in accordance with Emerging Issues Task Force Issue No. 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination. Adjustments to these estimates are made up to twelve months from the acquisition date as plans are finalized. To the extent these accruals are not utilized for the intended purpose, the excess is recorded as a reduction of the purchase price, typically by reducing recorded goodwill balances. Costs incurred in excess of the recorded accruals are expensed as incurred. The Company is still finalizing its restructuring plans with respect to its 2008 acquisitions and certain of its 2007 acquisitions and will adjust current accrual levels to reflect such restructuring plans as such plans are finalized. Amounts accrued, including those related to the 2007 acquisition of Tektronix, Inc., are based on decisions finalized through June 27, 2008.

Accrued liabilities associated with these exit activities include the following ($ in thousands, except headcount):

	Tektronix	All Others	Total
Planned Headcount Reduction:			
Balance, December 31, 2007		329	329
Headcount related to 2008 acquisitions			
Adjustments to previously provided headcount estimates	490	(68)	422
Headcount reductions in 2008	(411)	(61)	(472)
Balance, June 27, 2008	79	200	279
Employee Termination Benefits:			
Balance, December 31, 2007	$	$ 9,304	$ 9,304
Accrual related to 2008 acquisitions			
Adjustments to previously provided reserves	39,920	(232)	39,688
Costs incurred in 2008	(33,560)	(1,463)	(35,023)
Balance, June 27, 2008	$ 6,360	$ 7,609	$ 13,969
Facility Closure and Restructuring Costs:			
Balance, December 31, 2007		$ 13,295	$ 13,295
Accrual related to 2008 acquisitions			
Adjustments to previously provided reserves		(376)	(376)
Costs incurred in 2008		(2,798)	(2,798)
Balance, June 27, 2008		$ 10,121	$ 10,121

Discontinued Operations

In July 2007, the Company completed the sale of its power quality business for a sale price of $275 million in cash, net of transaction costs, and recorded an after-tax gain of $150 million ($0.45 per diluted share) in the third quarter of 2007. The power quality business designs, makes and sells power quality and reliability products and services, and prior to the sale was part of the Company s Industrial Technologies segment. The Company has reported the power quality business as a discontinued operation in this Form 10-Q in accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Accordingly, the results of operations for all periods presented have been reclassified to reflect the power quality business as a discontinued operation. The Company allocated a portion of the consolidated interest expense to discontinued operations in accordance with EITF 87-24, Allocation of Interest to Discontinued Operations.

The key components of income from discontinued operations related to the power quality business were as follows ($ in thousands):

	Three Months Ended June 29, 2007	Six Months Ended June 29, 2007
Net sales	$ 39,327	$ 73,663
Operating expense	34,409	64,228
Allocated interest expense	139	301
Income before taxes	4,779	9,134
Income taxes	(1,281)	(2,448)
Earnings from discontinued operations, net of income taxes	$ 3,498	$ 6,686

NOTE 3. STOCK-BASED COMPENSATION

Stock options and restricted stock units (RSUs) have been issued to directors, officers and other employees under the Company s Amended and Restated 1998 Stock Option Plan and the 2007 Stock Incentive Plan, and RSUs have been issued to the Company s CEO pursuant to an award approved by shareholders in 2003. In addition, in connection with the November 2007 Tektronix acquisition, the Company assumed the Tektronix 2005 Stock Incentive Plan and the Tektronix 2002 Stock Incentive Plan and assumed certain outstanding stock options, restricted stock and RSUs that had been awarded to Tektronix employees under the plans. These plans operate in a similar manner to the Company s 2007 Stock Incentive Plan and 1998 Stock Option Plan. No further equity awards will be issued under the 1998 Stock Option Plan, the Tektronix 2005 Stock Incentive Plan or the Tektronix 2002 Stock Incentive Plan. The 2007 Stock Incentive Plan provides for the grant of stock options, stock appreciation rights, RSUs, restricted stock or any other stock based award.

Stock options granted under the 2007 Stock Incentive Plan, the 1998 Stock Option Plan, the Tektronix 2005 Stock Incentive Plan and the Tektronix 2002 Stock Incentive Plan generally vest pro-rata over a five-year period and terminate ten years from the issuance date, though the specific terms of each grant are determined by the Compensation Committee of the Company s Board of Directors (Compensation Committee). Option exercise prices for options granted by the Company under these plans equal the closing price on the NYSE of the Company s common stock on the date of grant. Option exercise prices for the options outstanding under the Tektronix 2005 Stock Incentive Plan and the Tektronix 2002 Stock Incentive Plan were based on the closing price of Tektronix common stock on the date of grant. In connection with the Company s assumption of these options, the number of shares underlying each option and exercise price of each option were adjusted to reflect the substitution of Danaher stock for the Tektronix stock underlying these awards.

RSUs issued under the 2007 Stock Incentive Plan and the 1998 Stock Option Plan provide for the issuance of a share of the Company s common stock at no cost to the holder. They are generally subject to performance criteria determined by the Compensation Committee, as well as time-based vesting such that 50% of the RSUs granted vest (subject to satisfaction of the performance criteria) on each of the fourth and fifth anniversaries of the grant date. Prior to vesting, RSUs do not have dividend equivalent rights, do not have voting rights and the shares underlying the RSUs are not considered issued and outstanding.

Restricted shares issued under the Tektronix 2005 Stock Incentive Plan were granted subject to certain time-based vesting restrictions such that the restricted share awards are fully vested after a period of five years. Holders of restricted shares have the right to vote such shares and receive dividends. The restricted shares are considered issued and outstanding at the date the award is granted.

The options, RSUs and restricted shares generally vest only if the employee is employed by the Company on the vesting date or in other limited circumstances. To cover the exercise of vested options and the vesting of RSUs, the Company generally issues new shares from its authorized but unissued share pool. At June 27, 2008, approximately 9 million shares of the Company s common stock were reserved for issuance under the 2007 Stock Incentive Plan.

Table of Contents

The Company accounts for share-based compensation in accordance with Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment, which requires the Company to measure the cost of employee services received in exchange for all equity awards granted, including stock options, RSUs and restricted shares, based on the fair market value of the award as of the grant date.

The estimated fair value of the options granted was calculated using a Black-Scholes Merton option pricing model (Black-Scholes). The following summarizes the assumptions used in the Black-Scholes model to value options granted during the six months ended June 27, 2008:

Risk-free interest rate	3.5% - 3.8 %
Weighted average volatility	26 %
Dividend yield	0.2 %
Expected years until exercise	7.5 - 9.5

The Black-Scholes model incorporates assumptions to value stock-based awards. The risk-free rate of interest for periods within the contractual life of the option is based on a zero-coupon U.S. government instrument over the expected term of the equity instrument. Expected volatility is based on implied volatility from traded options on the Company s stock and historical volatility of the Company s stock. To estimate the option exercise timing to be used in the valuation model, in addition to considering the vesting period and contractual term of the option, the Company analyzes and considers actual historical exercise data for previously granted options. At the time of grant, the Company estimates the number of options that it expects will be forfeited based on the Company s historical experience. Separate groups of employees that have similar behavior with regard to holding options for longer periods and different forfeiture rates are considered separately for valuation and attribution purposes.

The following table summarizes the components of the Company s stock-based compensation programs reported as a component of selling, general and administrative expenses in the accompanying Consolidated Condensed Financial Statements ($ in thousands):

	Three Months Ended		Six Months Ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Restricted Stock Units and Restricted Shares:				
Pre-tax compensation expense	$ 6,283	$ 4,071	$ 12,936	$ 7,860
Tax benefit	(2,199)	(1,425)	(4,528)	(2,751)
Restricted stock unit and restricted share expense, net of tax	$ 4,084	$ 2,646	$ 8,408	$ 5,109
Stock Options:				
Pre-tax compensation expense	$ 15,284	$ 13,553	$ 29,463	$ 27,189
Tax benefit	(4,190)	(3,853)	(8,133)	(7,768)
Stock option expense, net of tax	$ 11,094	$ 9,700	$ 21,330	$ 19,421
Total Share-Based Compensation:				
Pre-tax compensation expense	$ 21,567	$ 17,624	$ 42,399	$ 35,049
Tax benefit	(6,389)	(5,278)	(12,661)	(10,519)
Total share-based compensation expense, net of tax	$ 15,178	$ 12,346	$ 29,738	$ 24,530

Table of Contents

As of June 27, 2008, $66 million of total unrecognized compensation cost related to RSUs and restricted shares is expected to be recognized over a weighted average period of approximately 3 years. Unrecognized compensation cost related to stock options totaling $167 million as of June 27, 2008 is expected to be recognized over a weighted average period of approximately 2.5 years.

Option activity under the Company s stock plans as of June 27, 2008 and changes during the six months ended June 27, 2008 were as follows:

(in thousands except exercise price and term)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2008	22,228	$ 46.27		
Granted	844	75.72		
Exercised	(887)	40.25		
Forfeited	(836)	53.79		
Outstanding at June 27, 2008	21,349	47.39	6	$ 630,461
Vested and Expected to Vest at June 27, 2008	20,753	$ 46.82	6	$ 624,566
Exercisable at June 27, 2008	10,652	$ 34.24	4	$ 453,249

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company s closing stock price on the last trading day of the second quarter of 2008 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 June 27, 2008. The amount of aggregate intrinsic value will change based on the fair market value of the Company s stock.

The aggregate intrinsic value of options exercised during the six months ended June 27, 2008 and June 29, 2007 was $32 million and $73 million, respectively. Exercises of options during the six months ended June 27, 2008 and June 29, 2007 resulted in cash receipts of $35 million and $35 million, respectively. SFAS No. 123 requires that we classify as a financing activity the cash flows attributable to excess tax benefits from stock option exercises. The Company recognized a tax benefit of $9 million during the six months ended June 27, 2008 related to the exercise of employee stock options, which has been included in cash provided by financing activities and recorded as an increase to additional paid-in capital.

The following table summarizes information on unvested RSUs and restricted shares outstanding as of June 27, 2008:

	Number of RSUs / Restricted Shares (in thousands)	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2008	2,081	$ 59.96
Forfeited	(47)	67.29
Vested and issued	(91)	61.52
Granted	150	75.62
Unvested at June 27, 2008	2,093	$ 60.85

In connection with the vesting of certain restricted stock units and restricted shares previously issued by the Company, the Company has elected to withhold from the total shares issued or released to the award holder a number of shares sufficient to fund minimum tax withholding requirements (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 three months and six months ended June 27, 2008, approximately 22 thousand shares and 34 thousand shares with an aggregate value of approximately $2 million and $3 million, respectively, were withheld to satisfy the requirement.

Table of Contents

NOTE 4. GOODWILL

The following table shows the rollforward of goodwill reflected in the financial statements resulting from the Company s acquisition activities for the six months ended June 27, 2008 ($ in millions).

Balance, December 31, 2007	$ 9,241
Attributable to 2008 acquisitions	24
Adjustments to purchase price allocations	(66)
Effect of foreign currency translations	264
Balance, June 27, 2008	$ 9,463

Adjustments to purchase price allocations are a result of refinements made to the fair market valuations of intangible and other assets subsequent to the initial allocation of purchase price, primarily related to the Tektronix and ChemTreat acquisitions. There were no dispositions of businesses with related goodwill during the six months ended June 27, 2008. The carrying value of goodwill at June 27, 2008, for the Professional Instrumentation, Medical Technologies, Industrial Technologies and Tools & Components segments is $3,799 million, $3,455 million, $2,015 million, and $194 million, respectively. Goodwill arises from the excess of the purchase price for acquired businesses exceeding the fair value of tangible and intangible assets acquired. Management assesses goodwill for impairment for each of its reporting units at least annually at the beginning of the fourth quarter or as triggering events occur. In making its assessment of goodwill impairment, management relies on a number of factors including operating results, business plans, economic projections, anticipated future cash flows, and transactions and market data. There are inherent uncertainties related to these factors and management s judgment in applying them to the analysis of goodwill impairment which may effect the carrying value of goodwill. The Company s annual impairment test was performed in the fourth quarter of 2007 and no impairment was identified.

NOTE 5. FINANCING TRANSACTIONS

The components of the Company s debt as of June 27, 2008 and December 31, 2007 were as follows ($ in millions):

	June 27, 2008	December 31, 2007
Euro-denominated commercial paper	$ 79	$ 240
U.S. dollar-denominated commercial paper	656	1,311
6.1% notes due 2008	250	250
4.5% guaranteed Eurobond Notes due July 22, 2013 (500 million)	789	729
5.625% notes due 2018	500	500
Zero coupon Liquid Yield Option Notes due 2021 (LYONs)	611	606
Other borrowings	168	90
Total	3,053	3,726
Less currently payable	313	330
Long-term debt	$ 2,740	$ 3,396

For a full description of the Company s debt financing, please refer to Note 8 of the Company s 2007 Annual Report on Form 10-K.

The Company satisfies its short-term liquidity needs primarily through issuances of U.S. dollar and Euro commercial paper. Under the Company s U.S. and Euro commercial paper programs, the Company or a subsidiary of the Company, as applicable, may issue and sell unsecured, short-term promissory notes in

aggregate principal amount not to exceed $4.0 billion. Since the credit facilities described below provide credit support for the program, the $2.5 billion of availability under the credit facilities has the practical effect of reducing from $4.0 billion to $2.5 billion the maximum amount of commercial paper that the Company can issue under the program. Commercial paper notes are sold at a discount and have a maturity of not more than 90 days from the date of issuance. Borrowings under the program are available for general corporate purposes, including financing acquisitions. As of June 27, 2008, the amounts outstanding under the U.S. Dollar-denominated commercial program had a weighted average interest rate of 2.13% and a weighted average maturity of 12 days and the amounts outstanding under the Euro-denominated commercial paper program had a weighted average interest rate of 4.72% and a weighted average maturity of 27 days.

Credit support for part of the commercial paper program is provided by an unsecured $1.5 billion multicurrency revolving credit facility (the Credit Facility) which expires on April 25, 2012. The Credit Facility can also be used for working capital and other general corporate purposes. Interest is based on, at the Company s option, (1) a LIBOR-based formula that is dependent in part on the Company s credit rating, or (2) a formula based on Bank of America s prime rate, or on the Federal funds rate plus 50 basis points, or (3) the rate of interest bid by a particular lender for a particular loan under the facility.

In addition, in connection with the financing of the Tektronix acquisition in November 2007, the Company entered into a $1.9 billion unsecured revolving bridge loan facility (the Bridge Facility) which expires on November 11, 2008. The Bridge Facility also provides credit support for the commercial paper program and can also be used for working capital and other general corporate purposes. Interest is based on, at the Company s option, either (1) a LIBOR-based formula that is dependent in part on the Company s credit rating, or (2) a formula based on the prime rate as published in the Wall Street Journal, or on the Federal funds rate plus 50 basis points. The Bridge Facility is required to be prepaid with the net cash proceeds of certain equity or debt issuances by the Company or any of its subsidiaries.

Together with the Company s pre-existing $1.5 billion credit facility, the Bridge Facility increased the Company s aggregate credit facilities to $3.4 billion. In December 2007, the amount of the Bridge Facility was reduced by $0.9 billion leaving the amount of the Bridge Facility at $1.0 billion and the aggregate amount of the Company s credit facilities at $2.5 billion, in each case as of June 27, 2008. There were no outstanding borrowings under either the Credit Facility or the Bridge Facility during the six months ended June 27, 2008.

The Company has classified the borrowings under the commercial paper programs at June 27, 2008 as long-term borrowings in the accompanying Consolidated Balance Sheet as the Company has the intent and ability, as supported by availability under the above mentioned Credit Facility, to refinance these borrowings for at least one year from the balance sheet date. As of December 31, 2007, $1.5 billion of the commercial paper borrowings were classified as long-term borrowings and approximately $50 million were classified as short term borrowings.

The Company does not have any rating downgrade triggers that would accelerate the maturity of a material amount of outstanding debt, except as follows. Under each of the 4.5% guaranteed Eurobond Notes due 2013 (the Eurobond Notes) and the 5.625% Senior Notes due 2018 (the 2018 Notes), if the Company experiences a change of control and a rating downgrade of a specified nature within a specified period following the change of control, the Company will be required to offer to repurchase the notes at a price equal to 101% of the principal amount plus accrued interest in the case of 2018 Notes, or the principal amount plus accrued interest in the case of Eurobond Notes. A downgrade in the Company s credit rating would increase the cost of borrowings under the Company s commercial paper program and credit facilities, and could limit, or in the case of a significant downgrade, preclude the Company s ability to issue commercial paper. The Company s outstanding indentures and comparable instruments also contain customary covenants including for example limits on the incurrence of secured debt and sale/leaseback transactions. In addition, the Company s two outstanding credit facilities each require the Company to maintain a consolidated leverage ratio of 0.65 to 1.00 or less. None of these covenants are considered restrictive to the Company s operations and as of June 27, 2008, the Company was in compliance with all of its debt covenants.

Table of Contents

NOTE 6. CONTINGENCIES

For a further description of the Company s litigation and contingencies, reference is made to Note 12 to the Consolidated Financial Statements included in the Company s 2007 Annual Report on Form 10-K.

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 liability, shown in the following table, is reviewed on a quarterly basis and may be adjusted as additional information regarding expected warranty costs becomes known.

In certain cases the Company will sell extended warranty or maintenance agreements. The proceeds from these agreements are deferred and recognized as revenue over the term of the agreement.

The following is a rollforward of the Company s warranty accrual for the six months ended June 27, 2008 ($ in thousands):

Balance, December 31, 2007	$ 110,700
Accruals for warranties issued during the period	49,371
Settlements made	(48,643)
Additions due to acquisitions	1,161
Balance, June 27, 2008	$ 112,589

Accu-Sort, Inc., a subsidiary of the Company, was a defendant in a suit filed by Federal Express Corporation on May 16, 2001. On March 9, 2006 Accu-Sort settled the case with Federal Express for an amount which the Company believes is not material to its financial position, which amount was reflected in the Company s results of operations in 2005. The purchase agreement pursuant to which the Company acquired Accu-Sort in 2003 provides certain indemnification for the Company with respect to this matter, and during the first half of 2007 an arbitrator ordered the former owners of Accu-Sort to pay the Company a portion of the losses incurred by the Company in connection with this litigation. In April 2007, the Company received this payment from the former owners and recorded a pre-tax gain of $12 million ($7.8 million after-tax, or $0.02 per diluted share) in the second quarter of 2007 which is included in Other (income) expense in the accompanying Statement of Earnings for the three months ended June 29, 2007.

The Company and its subsidiaries are currently undergoing an unclaimed property audit by the State of Delaware. While the ultimate outcome of the audit is uncertain, management does not currently believe that the outcome will have a material adverse effect on the Company s financial position, results of operations or cash flows.

NOTE 7. NET PERIODIC BENEFIT COST DEFINED BENEFIT PLANS

The Company accounts for pension and other postretirement obligations in accordance with SFAS No. 158. This statement requires recognition of an asset for a plan s over funded status or a liability for a plan s under funded status in the Company s statement of financial position. In addition, the measurement date (the date at which plan assets and the benefit obligation are measured) is required to be the same as the Company s fiscal year end. As permitted by the statement, the Company adopted the measurement date provisions of SFAS No. 158 effective January 1, 2008. The majority of the Company s pension and postretirement plans previously used a September 30 measurement date. All plans are now measured as of December 31, consistent with the Company s fiscal year end. The adoption of the measurement date provisions of SFAS No. 158 increased long-term liabilities by approximately $6 million and decreased shareholders equity by approximately $4 million. There was no effect on the Company s results of operations or cash flows.

Table of Contents

The following sets forth the components of net periodic benefit cost of the non-contributory defined benefit plans and for the Company s other post-retirement employee benefit plans for the three and six months ended June 27, 2008 and June 29, 2007, respectively ($ in millions):

Pension Benefits

	Three Months Ended			
	US		Non-US	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Service cost	$ 2.1	$ 0.5	$ 3.8	$ 3.4
Interest cost	18.6	9.7	8.5	5.8
Expected return on plan assets	(22.6)	(10.9)	(6.4)	(4.5)
Amortization of prior service credits			(0.1)	(0.1)
Amortization of loss / (gain)	1.4	3.3	(0.1)	0.4
Special termination benefits				0.1
Net periodic cost / (benefit)	$ (0.5)	$ 2.6	$ 5.7	$ 5.1

	Six Months Ended			
	US		Non-US	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Service cost	$ 4.2	$ 1.0	$ 7.5	$ 6.7
Interest cost	37.2	19.4	16.8	11.5
Expected return on plan assets	(45.2)	(21.8)	(12.6)	(8.9)
Amortization of prior service credits			(0.2)	(0.1)
Amortization of loss / (gain)	2.8	6.6	(0.2)	0.7
Special termination benefits				0.1
Net periodic cost / (benefit)	$ (1.0)	$ 5.2	$ 11.3	$ 10.0

Other Post-Retirement Benefits

	Three Months Ended		Six Months Ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Service cost	$ 0.3	$ 0.3	$ 0.6	$ 0.6
Interest cost	1.9	1.6	3.8	3.2
Amortization of prior service credits	(1.8)	(1.8)	(3.6)	(3.6)
Amortization of loss	0.8	0.8	1.6	1.6
Net periodic cost	$ 1.2	$ 0.9	$ 2.4	$ 1.8

Employer Contributions

The Company previously disclosed in its consolidated financial statements included in the 2007 Annual Report on Form 10-K that it anticipated no statutory funding requirements for the U.S. defined benefit plans in 2008. As of June 27, 2008, no contributions have been made to the U.S. plan and there are no anticipated statutory funding requirements for the remainder of 2008. The Company s contributions to non-U.S. pension plans are estimated to be approximately $29 million for 2008.

NOTE 8. EARNINGS PER SHARE AND STOCK TRANSACTIONS

Basic earnings per share (EPS) is calculated by dividing net earnings by the weighted average number of common shares outstanding for the applicable period. Diluted EPS is calculated after adjusting the numerator and the denominator of the basic EPS calculation for the effect of all potential dilutive common shares outstanding during the period. Information related to the calculation of earnings per share of common stock is summarized as follows ($ in thousands, except per share amounts):

Table of Contents

For the Three Months Ended June 27, 2008:	Net Earnings From Continuing Operations (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS	$ 363,448	319,233	$ 1.14
Adjustment for interest on convertible debentures	2,576		
Incremental shares from assumed exercise of dilutive options		5,342	
Incremental shares from assumed conversion of the convertible debentures		11,976	
Diluted EPS	$ 366,024	336,551	$ 1.09
For the Three Months Ended June 29, 2007:			
Basic EPS	$ 307,656	309,471	$ 1.00
Adjustment for interest on convertible debentures	2,479		
Incremental shares from assumed exercise of dilutive options		6,227	
Incremental shares from assumed conversion of the convertible debentures		12,038	
Diluted EPS	$ 310,135	327,736	$ 0.95
For the Six Months Ended June 27, 2008:			
Basic EPS	$ 639,953	319,018	$ 2.01
Adjustment for interest on convertible Debentures	5,139		
Incremental shares from assumed exercise of dilutive options		5,269	
Incremental shares from assumed conversion of the convertible debentures		11,976	
Diluted EPS	$ 645,092	336,263	$ 1.92
For the Six Months Ended June 29, 2007:			
Basic EPS	$ 559,272	309,570	$ 1.81
Adjustment for interest on convertible debentures	4,927		
Incremental shares from assumed exercise of dilutive options		6,235	
Incremental shares from assumed conversion of the convertible debentures		12,038	
Diluted EPS	$ 564,199	327,843	$ 1.72

Table of Contents

NOTE 9. SEGMENT INFORMATION

The Company reports under four segments: Professional Instrumentation, Medical Technologies, Industrial Technologies and Tools & Components. Segment information is presented consistently with the basis described in the 2007 Annual Report. There has been no material change in total assets or liabilities by segment except for the effect of the 2008 acquisitions (see Note 2). Segment results for the three and six months ended June 27, 2008 and June 29, 2007 are shown below ($ in thousands):

	Three Months Ended		Six Months Ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Sales:				
Professional Instrumentation	$ 1,247,280	$ 819,083	$ 2,403,139	$ 1,560,398
Medical Technologies	839,985	706,913	1,598,197	1,390,492
Industrial Technologies	869,065	791,856	1,667,700	1,567,764
Tool and Components	327,565	314,033	643,733	634,935
	$ 3,283,895	$ 2,631,885	$ 6,312,769	$ 5,153,589
Operating Profit:				
Professional Instrumentation	$ 250,475	$ 189,970	$ 441,194	$ 334,153
Medical Technologies	90,627	78,432	177,459	163,962
Industrial Technologies	148,733	148,226	266,504	269,281
Tool and Components	42,601	43,510	79,702	79,032
Other	(21,972)	(17,250)	(41,173)	(33,423)
	$ 510,464	$ 442,888	$ 923,686	$ 813,005

NOTE 10. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENT

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141R) and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS No. 160). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 160 clarifies the classification of noncontrolling interests in the financial statements and the accounting for and reporting of transactions between the reporting entity and holders of such noncontrolling interests. SFAS No. 141R and SFAS No. 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Management is currently evaluating the potential impact, if any, of the adoption of SFAS No. 141R and SFAS No. 160 on the Company s consolidated financial position and results of operations.

Table of Contents

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 is designed to provide a reader of Danaher Corporation s (Danaher, Company, we, us, our) financial statements with a narrative from the perspective of Company management. The Company s MD&A is divided into four main sections:

- Information Relating to Forward-Looking Statements
- Overview
- Results of Operations
- Liquidity and Capital Resources

INFORMATION RELATING TO FORWARD-LOOKING STATEMENTS

Certain information included or incorporated by reference in this report, in press releases, written statements or other documents filed with or furnished to the SEC, or in our communications and discussions through webcasts, phone calls, conference calls and other presentations and meetings, may be deemed to be forward-looking statements within the meaning of the federal securities laws. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including statements regarding: projections of revenue, profit margins, expenses, tax provisions (or reversals of tax provisions) and tax rates, earnings or losses from operations, cash flows, pension and benefit obligations and funding requirements, synergies or other financial measures; plans, strategies and objectives of management for future operations, including statements relating to our stock repurchase program, potential acquisitions, executive compensation and purchase commitments; developments or performance, or industry or market rankings relating to products or services; future economic conditions or performance; the outcome of outstanding claims, legal proceedings or other contingent liabilities; assumptions underlying any of the foregoing; and any other statements that address activities, events or developments that Danaher intends, expects, projects, believes or anticipates will or may occur in the future. Forward-looking statements may be characterized by terminology such as believe, anticipate, should, would, intend, plan, will, expects, estimates, projects, positioned, strategy, and similar expressions. These statements are based c and assessments made by our management in light of their experience and perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. These forward-looking statements are subject to a number of risks and uncertainties, including but not limited to the following:

- We face intense competition and if we are unable to compete effectively, we may face decreased demand or price reductions for our products.
- Our growth depends in part on the timely development and commercialization, and customer acceptance, of new products and product enhancements based on technological innovation.
- Our growth rate could decline if the markets into which we sell our products decline or do not grow as anticipated.
- Our acquisition of businesses could negatively impact our profitability and return on invested capital. Conversely, any inability to consummate acquisitions at our prior rate could negatively impact our growth rate.
- The indemnification provisions of acquisition agreements by which we have acquired companies may not fully protect us and may result in unexpected liabilities.

The resolution of contingent liabilities from businesses that we have sold could adversely affect our results of operations and financial condition.

Our success depends on our ability to maintain and protect our intellectual property and avoid claims of infringement or misuse of third party intellectual property.

We are subject to a variety of litigation in the course of our business that could adversely affect our results of operations and financial condition.

Table of Contents

Our operations expose us to the risk of environmental liabilities, costs, litigation and violations that could adversely affect our financial condition, results of operations and reputation.

Our businesses are subject to extensive regulation; failure to comply with those regulations could adversely affect our results of operations, financial condition and reputation.

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

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

Foreign currency exchange rates and commodity prices may adversely affect our results of operations and financial condition.

If we cannot obtain sufficient quantities of materials, components and equipment required for our manufacturing activities at competitive prices and quality and on a timely basis, or if our manufacturing capacity does not meet demand, our business and financial results will suffer.

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

Adverse changes in our relationships with, or the financial condition or performance of, key distributors, resellers and other channel partners could adversely affect our results of operations.

The inability to hire, train and retain a sufficient number of skilled officers and other employees could impede our ability to compete successfully.

International economic, political, legal and business factors could negatively affect our results of operations, cash flows and financial condition.

Cyclical economic conditions have affected and may continue to adversely affect our financial condition and results of operations.

Work stoppages, union and works council campaigns, labor disputes and other matters associated with our labor force could adversely impact our results of operations and cause us to incur additional costs.

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

If we suffer loss to our facilities or distribution system due to catastrophe, our operations could be seriously harmed.

Our indebtedness may limit our use of our cash flow. In addition, significant deterioration of the credit markets could adversely impact our ability to access the commercial paper market and other sources of financing.

Any such forward-looking statements are not guarantees of future performance and actual results, developments and business decisions may differ materially from those envisaged by such forward-looking statements. These forward-looking statements speak only as of the date of the report, press release, statement, document, webcast or oral discussion in which they are made. The Company does not assume any obligation, and does not intend, to update any forward-looking statement. See Part I Item 1A of Danaher s Annual Report on Form 10-K for the year ended December 31, 2007, for a further discussion regarding some of the reasons that actual results may be materially different from those that we anticipate.

OVERVIEW

General

Danaher strives to create shareholder value through:

delivering sales growth, excluding the impact of acquired businesses, in excess of the overall market growth for its products and services;