

DANAHER CORP /DE/  
Form DEF 14A  
April 01, 2013

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

(RULE 14a-101)

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934**

(Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-12

**DANAHER CORPORATION**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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4) Date Filed:

**DANAHER CORPORATION**

**2200 Pennsylvania Avenue, N.W., Suite 800W**

**Washington, D.C. 20037-1701**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD MAY 7, 2013**

To the Shareholders:

Notice is hereby given that the 2013 Annual Meeting of Shareholders of Danaher Corporation, a Delaware corporation ( Danaher ), will be held at the Washington Marriott, 1221 22<sup>nd</sup> Street N.W., Washington, D.C., on May 7, 2013 at 3:00 p.m., local time, for the following purposes:

1. To elect the seven directors named in the attached proxy statement to hold office until the 2014 annual meeting of shareholders and until their successors are elected and qualified.
2. To ratify the selection of Ernst & Young LLP as Danaher s independent registered public accounting firm for the year ending December 31, 2013.
3. To approve certain amendments to Danaher s 2007 Stock Incentive Plan and all of the material terms of the performance goals under the Plan.
4. To approve on an advisory basis the Company s named executive officer compensation.
5. To act upon a shareholder proposal requesting that Danaher s Compensation Committee adopt a policy requiring that senior executives retain a significant percentage of shares acquired through equity pay programs until reaching normal retirement age, if properly presented at the meeting.
6. To act upon a shareholder proposal requesting that Danaher issue a report disclosing its political expenditures and political expenditure policies, if properly presented at the meeting.
7. To consider and act upon such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on March 8, 2013 as the record date for determination of shareholders entitled to notice of and to vote at the meeting and any adjournment thereof.

**YOUR VOTE IS IMPORTANT. PLEASE SUBMIT YOUR PROXY OR VOTING INSTRUCTIONS AT YOUR EARLIEST CONVENIENCE, WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING. Most shareholders have a choice of voting over the Internet, by telephone or by using a traditional proxy card. Please refer to the attached proxy materials or the information forwarded by your bank, broker or other holder of record to see which voting methods are available to you.**

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON MAY 7, 2013.**

**This Proxy Statement and the accompanying annual report are available at:**

<http://www.danaher.com/proxy>.

BY ORDER OF THE BOARD OF DIRECTORS

JAMES F. O REILLY

Secretary

April 1, 2013

## PROXY SUMMARY

To assist you in reviewing the proposals to be acted upon at our 2013 Annual Meeting, below is summary information regarding the meeting, Danaher's business, executive compensation and corporate governance and each proposal to be voted upon at the meeting. The following description is only a summary. For more complete information about these topics, please review Danaher's Annual Report on Form 10-K and the complete Proxy Statement.

### 2013 ANNUAL MEETING OF SHAREHOLDERS

Date and time: May 7, 2013, 3:00 p.m. local time

Place: Washington Marriott, 1221 22<sup>nd</sup> Street N.W., Washington, D.C.

Record date: March 8, 2013

### BUSINESS HIGHLIGHTS

Danaher's compounded, average annual shareholder return has outperformed the compounded, average annual shareholder return of the S&P 500 index over each of the last one, two, three-, five-, ten-, fifteen- and twenty-year periods, with a return of 19.0% over the last year, 9.1% over the last two years, 14.0% over the last three years, 5.0% over the last five years, 13.1% over the last ten years, 14.1% over the last fifteen years and 19.6% over the last twenty years (calculated on a dividend reinvested basis).

In response to an uncertain 2012 economic environment that witnessed inconsistent and slowing growth in most major geographies (including slower growth in many of the emerging markets (also referred to in this Proxy Statement as "high growth markets") that in prior years had significantly offset declines in the developed markets), Danaher's executive leadership continued to aggressively manage costs while allocating resources to capitalize on current and future growth opportunities. Danaher used its strong financial position to continue investing in the Company's future growth, consummating fourteen strategic acquisitions during the year, deploying \$123 million in restructuring activities to reduce fixed costs and protect funding for growth investments, investing record amounts in research and development and high-growth market infrastructure, and launching strategically critical new products. In 2012 Danaher also divested two non-strategic businesses and reached an agreement to sell its interest in the Apex Tool Group joint venture, which holds Danaher's legacy hand tool business, representing a key milestone in Danaher's evolution into a science and technology leader (the sale was consummated in February 2013). Even while investing robustly in the Company's future growth, Danaher returned \$734 million to shareholders in 2012 through stock repurchases and dividends.

Danaher's 2012 and prior year growth investments yielded tangible results in 2012, as the Company on a year-over-year basis in 2012 grew revenue 13.5% (including 8.6% in high-growth markets), diluted earnings per share 16.6% and operating cash flow 28.2%, and delivered an operating profit margin of 17.3% despite continuing to invest aggressively in our future.<sup>1</sup> Our commitment to continue investing in future growth despite an uncertain economy, and our generation of the cash flow to fund such investments, has positioned us to grow our business on a profitable and sustainable basis.

<sup>1</sup> All metrics reflect continuing operations only.

## EXECUTIVE COMPENSATION HIGHLIGHTS

### Overview of Executive Compensation Program

As discussed in detail under the heading "Executive Compensation Compensation Discussion and Analysis," our executive compensation program is designed to attract and retain executives with the leadership skills, attributes and experience necessary to succeed in an enterprise with Danaher's size, diversity and global footprint; motivate executives to demonstrate exceptional personal performance and perform consistently over the long-term at or above the levels that we expect; and link compensation to the achievement of near-term and long-term corporate goals that we believe best correlate with the creation of long-term shareholder value. We believe our executive compensation program has been highly effective in achieving these objectives, both historically and in 2012 in particular, as evidenced by the business highlights noted above.

Our executive compensation program operates within a strong framework of compensation governance. Our Compensation Committee regularly reviews external executive compensation practices and trends and in recent periods has revised Danaher's executive compensation policies and practices to:

- adopt a policy prohibiting any prospective tax reimbursement or gross-up provisions in our executive compensation program (except under any policy applicable to management employees generally such as a relocation policy). In addition, in 2012 Mr. Culp offered, and the Committee agreed, to eliminate the existing tax reimbursement and gross-up provisions in his employment agreement;

- eliminate club membership, automobile and executive life insurance perquisites and limit the amount of our CEO's and CFO's personal aircraft usage perquisite;

- incorporate multiple performance metrics in our annual cash incentive compensation plan;

- implement a rigorous compensation recoupment policy that is triggered by a material restatement of Danaher's financial statements, even in the absence of wrongdoing; and

- require executive officers to maintain robust stock ownership levels, and prohibit hedging against the economic risk of such ownership.

These more recent changes complement strong compensation governance practices that have long been a hallmark of Danaher's program:

- our executive officer equity awards have vesting terms that are longer than typical for our peer group;

- our executive officers have no pension program (apart from a small cash balance plan that operated in lieu of a 401(k) plan from 1997- 2003);

- our annual cash incentive compensation is based on performance over one- and three-year periods, to encourage sustainable performance;

- none of our long-term incentive compensation is paid in cash;

- none of our named executive officers has any rights to automatic acceleration of equity award vesting or cash compensation triggered solely by a change of control; and

the Committee's independent compensation consultant has never provided any services to the Company other than the compensation-related services provided to the Compensation Committee and the Nominating and Governance Committee.



**2012 Compensation Summary**

The following table sets forth the 2012 compensation of our President and Chief Executive Officer, our Executive Vice President and Chief Financial Officer, and our three other most highly compensated executive officers, whom we collectively refer to as our named executive officers. Please see pages 40-41 for information regarding 2011 and 2010 compensation, as well as footnotes.

Name and Principal Position	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
<b>H. Lawrence Culp, Jr.,</b>								
President and CEO	\$ 1,117,778	0	\$ 7,653,255	\$ 7,888,608	\$ 4,525,000	\$ 1,861	\$ 712,226	\$ 21,898,728
<b>Daniel L. Comas,</b>								
Executive Vice President and CFO	\$ 660,000	0	\$ 1,785,965	\$ 1,840,734	\$ 1,285,000	\$ 2,350	\$ 258,454	\$ 5,832,503
<b>Thomas P. Joyce, Jr.</b>								
Executive Vice President	\$ 600,000	0	\$ 1,530,865	\$ 1,577,898	\$ 1,140,000	\$ 3,750	\$ 111,848	\$ 4,964,361
<b>Angela S. Lalor,</b>								
Senior Vice President-Human Resources	\$ 354,167	\$ 800,000	\$ 2,817,924	\$ 498,378	\$ 150,000	0	\$ 290,866	\$ 4,911,335
<b>James A. Lico,</b>								
Executive Vice President	\$ 600,000	0	\$ 1,530,865	\$ 1,577,898	\$ 1,000,000	\$ 2,476	\$ 111,848	\$ 4,823,087

**CORPORATE GOVERNANCE HIGHLIGHTS**

Our Board of Directors recognizes that Danaher's success over the long-term requires a strong framework of corporate governance that serves the best interests of all our shareholders. Below are highlights of our corporate governance framework:

in uncontested elections, our directors must be elected by a majority of the votes cast by our shareholders, and an incumbent director who fails to receive such a majority is required to tender his or her resignation from the Board;

by 2014, all of our directors will be elected annually;

our Chairman and CEO positions are separate;

our Board has established a Lead Independent Director position, elected by the independent directors;

all members of our Audit, Compensation and Nominating and Governance Committees are independent as defined by New York Stock Exchange listing standards;

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our shareholders have the right to act by written consent;

shareholders owning 25% or more of our outstanding shares may call a special meeting of shareholders;

we have never had a shareholder rights plan;

we have no supermajority voting requirements in our certificate of incorporation; and

Danaher and its subsidiaries made no political expenditures in 2012 and we disclose our political expenditures policy on our public website.

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Below is an overview of each of the director nominees you are being asked to elect at the 2013 Annual Meeting. Information about the three directors who will be continuing in office begins on page 16.

<b>Name</b>	<b>Director Since</b>	<b>Primary Occupation</b>	<b>Committee Memberships</b>
Donald J. Ehrlich*	1985	Former President and CEO, Schwab Corp.	A, C (Chair); Lead Independent Director
Linda Hefner Filler*	2005	President, North America, Claire's Stores, Inc.	N (Chair)
Teri List-Stoll*	2011	Senior Vice President and Treasurer, The Procter & Gamble Company	A
Walter G. Lohr, Jr.*	1983	Retired partner, Hogan Lovells	F
Steven M. Rales	1983	Chairman of the Board, Danaher Corporation	F
John T. Schwieters*	2003	Senior Executive, Perseus LLC	A (Chair), N
Alan G. Spoon*	1999	General Partner, Polaris Venture Partners	C

\* Independent director

A Audit Committee

C Compensation Committee

F Finance Committee

N Nominating and Governance Committee

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**VOTING MATTERS**

**ELECTION OF DIRECTORS (ITEM 1).** We are asking our shareholders to elect each of the seven directors identified above to serve until the 2014 annual meeting of shareholders.

Board Recommendation: FOR each nominee

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**RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (ITEM 2).** We are asking our shareholders to ratify our Audit Committee's selection of Ernst & Young LLP (E&Y) to act as the independent registered public accounting firm for Danaher for 2013. Although our shareholders are not required to approve the selection of E&Y, our Board believes that it is advisable to give our shareholders an opportunity to ratify this selection.

Board Recommendation: FOR

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**APPROVAL OF AMENDMENTS TO DANAHER'S 2007 STOCK INCENTIVE PLAN AND MATERIAL TERMS OF THE PLAN'S PERFORMANCE GOALS (ITEM 3).** We are asking our shareholders to amend Danaher's 2007 Stock Incentive Plan to (1) authorize the delivery of up to an additional 17 million shares under the Plan (no more than 4.5 million of which may be granted in any form other than stock options or SARs) for a total of 62 million authorized shares (no more than 18.5 million of the total authorized shares may be granted in any form other than stock options or SARs), and (2)(i) add total shareholder return, core revenue and market share objectives as additional performance objectives that may be applied to Section 162(m)-designated awards under the Plan (to conform the list of performance objectives available under the Plan to the list of performance objectives available under the Company's 2007 Executive Incentive Compensation Plan); (ii) provide that the Administrator cannot cancel underwater options for cash without shareholder approval; (iii) provide that any dispute arising under the Plan will be conducted in the courts of New Castle County in the State of Delaware, or the United States Federal court for the District of Delaware; and (iv) extend the duration of the Plan from May 15, 2017 to May 15, 2020. Approval of the amendments will also be deemed to constitute approval of all of the material terms of the performance goals under the Plan for purposes of Section 162(m) of the Internal Revenue Code.

Board Recommendation: FOR

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**ADVISORY VOTE TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION (ITEM 4).** We are asking our shareholders to cast a non-binding, advisory vote on our executive compensation program. We were gratified that in 2012, 94.9% of the votes cast by our shareholders supported our executive compensation program. In evaluating this year's say on pay proposal, we recommend that you review our CD&A, which explains how and why the Compensation Committee of our Board arrived at its executive compensation actions and decisions for 2012.

Board Recommendation: FOR

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**SHAREHOLDER PROPOSAL (ITEM 5).**

You are being asked to consider a shareholder proposal requesting adoption of a policy requiring that senior executives retain a significant percentage of shares acquired through equity pay programs until reaching normal retirement age.

Board Recommendation: AGAINST

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**SHAREHOLDER PROPOSAL (ITEM 6).** Finally, you are being asked to consider a shareholder proposal requesting that Danaher issue a report disclosing its political expenditures and political expenditure policies.

Board Recommendation: AGAINST

**PROXY STATEMENT**

**DANAHER CORPORATION**

**2200 Pennsylvania Avenue, N.W., Suite 800W**

**Washington, D.C. 20037-1701**

**2013 ANNUAL MEETING OF SHAREHOLDERS**

**MAY 7, 2013**

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors ( **Board** ) of Danaher Corporation, a Delaware corporation ( **Danaher** ), of proxies for use at the 2013 Annual Meeting of Shareholders ( **Annual Meeting** ) to be held at the Washington Marriott, 1221 22<sup>nd</sup> Street N.W., Washington, D.C., on May 7, 2013 at 3:00 p.m., local time, and at any and all postponements or adjournments thereof. Danaher's principal address is 2200 Pennsylvania Avenue, N.W., Suite 800W, Washington, D.C. 20037-1701. The date of mailing of this Proxy Statement is on or about April 1, 2013.

**Purpose of the Annual Meeting**

The purpose of the meeting is to: elect the seven directors named in this proxy statement to hold office until the 2014 Annual Meeting of Shareholders and until their successors are elected and qualified; ratify the selection of Ernst & Young LLP as Danaher's independent registered public accounting firm for the year ending December 31, 2013; approve certain amendments to Danaher's 2007 Stock Incentive Plan and all of the material terms of the performance goals under the Plan; approve on an advisory basis the Company's named executive officer compensation; act upon a shareholder proposal requesting that Danaher's Compensation Committee adopt a policy requiring that senior executives retain a significant percentage of shares acquired through equity pay programs until reaching normal retirement age, if properly presented at the meeting; act upon a shareholder proposal requesting that Danaher issue a report disclosing its political expenditures and political expenditure policies, if properly presented at the meeting; and consider and act upon such other business as may properly come before the meeting or any adjournment thereof.

**Annual Meeting Admission**

Please be prepared to present photo identification for admittance. If you are a shareholder of record or hold your shares through a Danaher 401(k) plan, your name will be verified against the list of shareholders of record or plan participants on the record date prior to your being admitted to the Annual Meeting. If you are not a shareholder of record but hold shares through a broker, bank or nominee (*i.e.*, in street name), you should also be prepared to provide proof of beneficial ownership as of the record date, such as a recent brokerage account statement showing your ownership, a copy of the voting instruction card provided by your broker, bank or nominee, or other similar evidence of ownership.

**Outstanding Stock and Voting Rights**

In accordance with Danaher's Amended and Restated Bylaws, the Board has fixed the close of business on March 8, 2013 as the record date for determining the shareholders entitled to notice of, and to vote at, the Annual Meeting. Only shareholders of record at the close of business on that date will be entitled to vote. The only outstanding securities of Danaher entitled to vote at the Annual Meeting are shares of Common Stock, \$.01 par value. Each outstanding share of Danaher Common Stock entitles the holder to one vote on each directorship and other matter brought before the Annual Meeting. As of the close of business on March 8, 2013, 692,385,298 shares of Danaher Common Stock were outstanding, excluding shares held by or for the account of Danaher.

The proxies being solicited hereby are being solicited by Danaher's Board. The total expense of the solicitation will be borne by Danaher, including reimbursement paid to banks, brokerage firms and other nominees for their reasonable expenses in forwarding material regarding the Annual Meeting to beneficial

owners. Solicitation of proxies may be made personally or by mail, telephone, internet, e-mail or facsimile by officers and other management employees of Danaher, who will receive no additional compensation for their services. We have retained Georgeson Shareholder Communications, Inc. to aid in the solicitation of proxies. For these services, we expect to pay Georgeson a fee of less than \$15,000 and reimburse it for certain out-of-pocket disbursements and expenses.

Proxies will be voted as specified in the shareholder's proxy. If you sign your proxy card with no further instructions, your shares will be voted (1) FOR each of the nominees named herein as directors, (2) FOR ratification of the selection of Ernst & Young LLP as Danaher's independent registered public accounting firm for the year ending December 31, 2013, (3) FOR approval of the proposed amendments to Danaher's 2007 Stock Incentive Plan and all of the material terms of the performance goals under the Plan; (4) FOR approval of the Company's named executive officer compensation, (5) AGAINST the shareholder proposal requesting adoption of a policy requiring that senior executives retain a significant percentage of shares acquired through equity pay programs until reaching normal retirement age, (6) AGAINST the shareholder proposal requesting that Danaher issue a report disclosing its political expenditures and political expenditure policies, and (7) in the discretion of the proxy holders on any other matter that properly comes before the meeting or any adjournment thereof. The Board has selected Steven Rales and Mitchell Rales to act as proxies with full power of substitution.

### **Voting Requirements With Respect to Each of the Proposals Described in this Proxy Statement**

*Quorum.* The quorum necessary to conduct business at the Annual Meeting consists of a majority of the issued and outstanding shares of Danaher Common Stock entitled to vote at the Annual Meeting as of the record date. Abstentions and broker non-votes will be counted as present in determining whether the quorum requirement is satisfied.

*Broker Non-Votes.* Under New York Stock Exchange ( NYSE ) rules, if your broker holds your shares in its name and does not receive voting instructions from you, your broker has discretion to vote those shares on Proposal 2, which is considered a routine matter. However, on non-routine matters such as Proposals 1 and 3-6, your broker must receive voting instructions from you, as it does not have discretionary voting power for these particular items. Therefore, if you are a beneficial owner and do not provide your broker with voting instructions, your shares may constitute broker non-votes with respect to Proposals 1 and 3-6. Broker non-votes will not affect the required vote with respect to Proposals 1 and 3-6 (and will not affect the attainment of a quorum since the broker has discretion to vote on Proposal 2 and these votes will be counted toward establishing a quorum). However, in order for Proposal 3 to be approved, the NYSE listing standards require that the total votes cast must represent more than 50% of the Danaher Common Stock issued, outstanding and entitled to vote at the Annual Meeting (with abstentions counting as votes cast and broker non-votes not counting as votes cast). **As a result, the failure to give your broker instructions for how to vote on Proposal 3 could, depending on the number of votes cast, result in the proposal not being approved.**

*Approval Requirements.* If a quorum is present, the vote required under the Company's Amended and Restated Bylaws to approve each of the proposals is as follows. All votes will be counted by the inspector of election appointed for the meeting.

With respect to Proposal 1, the election of directors, you may vote for or against any or all director nominees or you may abstain as to any or all director nominees. In uncontested elections of directors, such as this election, a nominee is elected by a majority of the votes cast by the shares present in person or represented by proxy and entitled to vote. A majority of the votes cast means that the number of votes cast for a director nominee must exceed the number of votes cast against that nominee. A vote to abstain is not treated as a vote for or against, and thus will have no effect on the outcome of the vote. Under our director resignation policy, our Board will not nominate a director for election, or appoint a director to fill a vacancy or new directorship, unless the individual has tendered in advance an irrevocable resignation effective in such circumstances where the individual

does not receive a majority of the votes cast in an uncontested election and such resignation is accepted by the Board. If an incumbent director is not elected by a majority of the votes cast in an uncontested election, our Nominating and Governance Committee will submit for prompt consideration by the Board a recommendation whether to accept or reject the director's resignation. The Board expects the director whose resignation is under consideration to abstain from participating in any decision regarding that resignation.

With respect to Proposals 2-6, the affirmative vote of a majority of the shares of Danaher Common Stock represented in person or by proxy and entitled to vote on the proposal is required for approval. For these proposals, abstentions are counted for purposes of determining the minimum number of affirmative votes required for approval and, accordingly, have the effect of a vote against the proposal.

#### **Voting Methods**

If your shares are registered directly in your name with our transfer agent, Computershare Trust Company, N.A., you are considered the registered holder of those shares. As the registered shareholder, you can ensure your shares are voted at the Annual Meeting by submitting your instructions by telephone, over the internet, by completing, signing, dating and returning the enclosed proxy card in the envelope provided, or by attending the Annual Meeting and voting your shares at the meeting. Telephone and internet voting for registered shareholders will be available 24 hours a day, up until 11:59 p.m. Central time on May 6, 2013. You may obtain directions to the Annual Meeting in order to vote in person by calling Danaher's Investor Relations department at 202-828-0850.

Most Danaher shareholders hold their shares through a broker, bank or another nominee, rather than registered directly in their name. In that case, you are considered the beneficial owner of shares held in street name, and the proxy materials are being forwarded to you by your broker, bank or other nominee, together with a voting instruction card. As the beneficial owner, you are entitled to direct the voting of your shares by your intermediary. Brokers, banks and other nominees typically offer telephonic or electronic means by which the beneficial owners of shares held by them can submit voting instructions, in addition to the traditional mailed voting instruction cards.

If you participate in the Danaher Stock Fund through the Danaher Corporation & Subsidiaries Savings Plan (the 401(k) Plan) or the Danaher Corporation & Subsidiaries Retirement and Savings Plan (collectively with the 401(k) Plan, the Savings Plans), your proxy will also serve as a voting instruction for Fidelity Management Trust Company (Fidelity), the trustee of the Savings Plans, with respect to shares of Common Stock attributable to your Savings Plan account as of the record date. Fidelity will vote your Savings Plan shares as of the record date in the manner directed by you. If Fidelity does not receive voting instructions from you by May 2, 2013, Fidelity will not vote your Savings Plan shares on any of the proposals brought at the Annual Meeting.

#### **Changing Your Vote**

Any person giving a proxy pursuant to this solicitation has the power to revoke it at any time before it is voted. It may be revoked by filing with the Secretary of Danaher a written notice of revocation or a duly executed proxy bearing a later date, or it may be revoked by attending the meeting and voting in person. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to revoke your proxy or vote at the meeting, you must follow the instructions provided to you by the record holder and/or obtain from the record holder a proxy issued in your name. Attendance at the meeting will not, by itself, revoke a proxy.

#### **Delivery of Documents to Shareholders Sharing an Address**

Danaher and some banks, brokers and other nominee record holders participate in the practice of householding proxy statements and annual reports. This means that only one copy of our proxy statement and



annual report to shareholders may have been sent to multiple shareholders in your household. You may revoke your consent to householding at any time by sending your name, the name of your brokerage firm, and your account number to Household Department, 51 Mercedes Way, Edgewood, NY 11717 or telephoning 1-800-542-1061. The revocation of your consent to householding will be effective 30 days after its receipt. We will promptly deliver a separate copy of our annual report and proxy statement to you if you contact us at Danaher Corporation, Attn: Investor Relations, 2200 Pennsylvania Avenue, N.W., Suite 800W, Washington, D.C. 20037-1701; telephone us at 202-828-0850; or email us at [investor.relations@danaher.com](mailto:investor.relations@danaher.com). If you want to receive separate copies of the proxy statement or annual report in the future; if you and another shareholder sharing an address would like to request delivery of a single copy of the proxy statement or annual report at such address in the future; or if you would like to make a permanent election to receive either printed or electronic copies of the proxy materials and annual report in the future, you may contact us at the above address, telephone number or email address.

**BENEFICIAL OWNERSHIP OF DANAHER COMMON STOCK BY  
DIRECTORS, OFFICERS AND PRINCIPAL SHAREHOLDERS**

The following table sets forth as of March 8, 2013, the number of shares and percentage of Danaher Common Stock beneficially owned by (1) each person who owns of record or is known to Danaher to beneficially own more than five percent of Danaher's Common Stock, (2) each of Danaher's directors and nominees for director and each of the executive officers named in the Summary Compensation Table (the named executive officers), and (3) all executive officers and directors of Danaher as a group. Except as otherwise indicated and subject to community property laws where applicable, each person or entity included in the table below has sole voting and investment power with respect to the shares beneficially owned by that person or entity. Under applicable SEC rules, the definition of beneficial ownership for purposes of this table includes shares over which a person or entity has sole or shared voting or investment power, whether or not the person or entity has any economic interest in the shares, and also includes shares as to which the person has the right to acquire beneficial ownership within 60 days of March 8, 2013.

Name	Number of Shares Beneficially Owned (1)	Percent of Class (1)
Mortimer M. Caplin	170,114(2)	*
H. Lawrence Culp, Jr.	2,908,460(3)	*
Donald J. Ehrlich	187,755(4)	*
Linda Hefner Filler	62,669(5)	*
Teri List-Stoll	4,815(6)	*
Walter G. Lohr, Jr.	683,957(7)	*
Mitchell P. Rales	48,018,746(8)	6.9%
Steven M. Rales	43,928,088(9)	6.3%
John T. Schwieters	73,757(10)	*
Alan G. Spoon	81,796(11)	*
Elias A. Zerhouni, M.D.	25,255(12)	*
Daniel L. Comas	1,002,308(13)	*
Thomas P. Joyce, Jr.	456,921(14)	*
Angela S. Lalor	0	
James A. Lico	617,694(15)	*
T. Rowe Price Associates, Inc.	70,080,876(16)	10.1%
FMR LLC	35,461,284(17)	5.1%
All executive officers and directors as a group (20 persons)	98,696,824(18)	14.1%

- (1) Pursuant to the definition of beneficial ownership, balances credited to each executive officer's account under the Amended and Restated Danaher Corporation Executive Deferred Incentive Program (the EDIP), which could under the terms of the EDIP be converted into shares of Danaher Common Stock within 60 days of March 8, 2013, are reflected in the table. EDIP participants generally have the right to terminate employment at any time and at their election receive an immediate distribution of their vested EDIP balance in the form of Danaher Common Stock. For purposes of the table, the number of shares of Danaher Common Stock attributable to a person's EDIP account is equal to (1) the person's outstanding EDIP balance as of March 8, 2013 (to the extent such balance is vested or will become vested within 60 days of March 8, 2013), divided by (2) the closing price of Danaher Common Stock as reported on the NYSE on March 8, 2013 (\$61.94 per share). For purposes of the table, the number of shares attributable to each executive officer's 401(k) account is equal to (a) the officer's balance, as of March 8, 2013, in the Danaher stock fund included in the executive officer's 401(k) account (the 401(k) Danaher Stock Fund), divided by (b) the closing price of Danaher Common Stock as reported on the NYSE on March 8, 2013. The 401(k) Danaher Stock Fund consists of a unitized pool of Danaher Common Stock and cash. The table also includes shares that may be acquired upon (x) exercise of options that are exercisable within 60 days of March 8, 2013, or (y) vesting of restricted stock units (RSUs) that vest within 60 days of March 8, 2013.

- (2) Includes 83,138 shares, options to acquire 63,060 shares and 2,695 RSUs, in each case owned by a revocable trust of which Mr. Caplin and his spouse are the sole trustees, and 21,221 shares held by a charitable foundation of which Mr. Caplin is director and president. Mr. Caplin disclaims beneficial ownership of the shares held by the charitable foundation.
- (3) Includes options to acquire 1,832,400 shares, 3,661 shares attributable to Mr. Culp's 401(k) account, 313,304 shares attributable to Mr. Culp's EDIP account and 670,761 shares owned indirectly.
- (4) Includes options to acquire 63,060 shares, 2,695 RSUs, 2,000 shares owned by Mr. Ehrlich's spouse and 44,800 other shares owned indirectly. Mr. Ehrlich disclaims beneficial ownership of the shares held by his spouse.
- (5) Includes options to acquire 47,060 shares and 2,695 RSUs.
- (6) Includes options to acquire 3,440 shares and 1,375 RSUs.
- (7) Includes options to acquire 71,060 shares, 2,695 RSUs, 55,546 shares held by a charitable foundation of which Mr. Lohr is president, 106,656 shares held by Mr. Lohr as trustee of trusts for his children and 448,000 other shares held indirectly. Mr. Lohr disclaims beneficial ownership of the shares held by the charitable foundation and the shares held in trust for his children.
- (8) Includes 40,000,000 shares owned by limited liability companies of which Mr. Rales is the sole member, 133,521 shares attributable to Mr. Rales' 401(k) account, 785,913 shares held by an estate as to which Mr. Rales shares voting and investment power and 3,178,080 other shares owned indirectly. The shares held by the limited liability companies are pledged to secure lines of credit with certain banks and each of these entities and Mr. Rales is in compliance with these lines of credit. The business address of Mitchell Rales, and of each of the limited liability companies, is 2200 Pennsylvania Avenue, N.W., Suite 800W, Washington, D.C. 20037-1701.
- (9) Includes 40,000,000 shares owned by limited liability companies of which Mr. Rales is the sole member, 10,435 shares attributable to Mr. Rales' 401(k) account, 785,913 shares held by an estate as to which Mr. Rales shares voting and investment power and 117,000 shares owned by a charitable foundation of which Mr. Rales is a director. Mr. Rales disclaims beneficial ownership of those shares held by the charitable foundation. The shares held by the limited liability companies are pledged to secure lines of credit with certain banks and each of these entities and Mr. Rales is in compliance with these lines of credit. The business address of Steven Rales, and of each of the limited liability companies, is 2200 Pennsylvania Avenue, N.W., Suite 800W, Washington, D.C. 20037-1701.
- (10) Includes options to acquire 63,060 shares, 2,695 RSUs and 2,000 shares owned indirectly.
- (11) Includes options to acquire 31,060 shares and 2,695 RSUs.
- (12) Includes options to acquire 15,060 shares and 2,695 RSUs.
- (13) Includes options to acquire 910,240 shares, 6,591 shares attributable to Mr. Comas' 401(k) account, 23,098 shares attributable to Mr. Comas' EDIP account, 4,528 shares held by Mr. Comas' spouse and 38,804 shares held by a trust as to which Mr. Comas' spouse is trustee. Mr. Comas disclaims beneficial ownership of the shares held by his spouse and by the trust.
- (14) Includes options to acquire 369,050 shares, 674 shares attributable to Mr. Joyce's 401(k) account and 84,656 shares attributable to Mr. Joyce's EDIP account

- (15) Includes options to acquire 534,050 shares, 9,989 shares attributable to Mr. Lico's 401(k) account and 51,135 shares attributable to Mr. Lico's EDIP account.
  
- (16) The amount shown and the following information is derived from a Schedule 13G filed February 8, 2013 by T. Rowe Price Associates, Inc. (Price Associates), which sets forth Price Associates' beneficial ownership as of December 31, 2012. According to the Schedule 13G, Price Associates has sole voting power over 21,911,110 shares and sole dispositive power over 70,080,876 shares. These shares are owned

by various individual and institutional investors for which Price Associates serves as an investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the Securities Exchange Act of 1934, as amended ( Securities Exchange Act ), Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities. The address of Price Associates is 100 E. Pratt Street, Baltimore, Maryland 21202.

- (17) The amount shown and the following information is derived from a Schedule 13G filed February 14, 2013 filed by FMR LLC and Edward C. Johnson 3d, which sets forth their respective beneficial ownership as of December 31, 2012. According to the Schedule 13G, FMR LLC has sole voting power over 3,423,709 shares and sole dispositive power over 35,461,284 shares. The Schedule 13G further states that 30,786,049 of the shares reported are beneficially owned by Fidelity Management & Research Company, an investment adviser and a wholly-owned subsidiary of FMR LLC, as a result of acting as investment adviser to various investment companies (collectively, the Fidelity Funds ), and with respect to these shares, FMR LLC, Mr. Edward C. Johnson 3d and each of the Fidelity Funds exercise sole investment power and the Fidelity Funds Boards of Trustees exercises sole voting power; 181,770 shares are beneficially owned by Fidelity Management Trust Company, an investment manager and wholly-owned subsidiary of FMR LLC and with respect to these shares, each of FMR LLC and Mr. Edward C. Johnson 3d exercise sole investment power and sole voting power; 321,619 shares are beneficially owned by Strategic Advisors, Inc., an investment advisor and wholly owned subsidiary of FMR LLC; 461,390 shares are beneficially owned by Pyramis Global Advisors, LLC ( PGALLC ), an investment advisor and wholly-owned subsidiary of FMR LLC (Mr. Johnson and FMR LLC, through its control of PGALLC, each has sole investment power with respect to 956,780 shares owned by institutional accounts or funds advised by PGALLC, and sole voting power with respect to 461,390 of such shares); 1,375,553 shares are owned by Pyramis Global Advisors Trust Company ( PGATC ), an investment manager and a wholly-owned subsidiary of FMR LLC (each of Mr. Johnson and FMR LLC, through its control of PGATC, has sole investment power with respect to 1,902,405 shares owned by institutional accounts managed by PGATC, and sole voting power with respect to 1,145,713 of such shares; and the remaining 2,334,903 shares reported are beneficially owned by FIL Limited ( FIL ), an investment adviser and investment manager independent of FMR LLC as to which partnerships controlled predominantly by members of Mr. Johnson s family, or trusts for their benefit, own shares of voting stock. FMR LLC disclaims beneficial ownership of the shares beneficially owned by FIL Limited. The address of FMR LLC is 82 Devonshire Street, Boston, Massachusetts 02109.
- (18) Includes options to acquire 4,627,232 shares, 20,240 RSUs, 259,752 shares attributable to executive officers 401(k) accounts and 661,710 shares attributable to executive officers EDIP accounts.

\* Represents less than 1% of the outstanding Danaher Common Stock.

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**PROPOSAL 1.**

**ELECTION OF DIRECTORS OF DANAHER**

In May 2011, following approval by the Board, the Company's shareholders approved an amendment to Danaher's Restated Certificate of Incorporation to declassify the Board and provide for the annual election of directors. The amendment did not shorten the existing term of any director, and as a result the directors elected to three-year terms prior to the effectiveness of the amendment will complete those terms. As a result of the declassification amendment, the directors elected at the 2013 Annual Meeting (and at each annual meeting thereafter) will be elected for one-year terms and beginning with the 2014 annual meeting the entire Board will be elected annually.

At the 2013 Annual Meeting, shareholders will be asked to elect the seven directors set forth below to serve until the 2014 annual meeting of shareholders and until their successors are duly elected and qualified. The Board has nominated Donald J. Ehrlich, Linda Hefner Filler, Teri List-Stoll, Walter G. Lohr, Jr., Steven M. Rales, John T. Schwieters and Alan G. Spoon, each of whom currently serves as a director of the Company. Mr. Mortimer M. Caplin, a member of our Board since 1990, will not stand for re-election and will retire from our Board as of the 2013 Annual Meeting. We extend our gratitude to Mr. Caplin for his years of dedicated service to Danaher. Although as of the date of this Proxy Statement the number of directors is fixed at eleven, the Board has adopted a resolution that effective as of Mr. Caplin's retirement, the size of the Board will be reduced to ten members. Proxies cannot be voted for a greater number of persons than the seven nominees named in this Proxy Statement. H. Lawrence Culp, Jr., Mitchell P. Rales and Elias A. Zerhouni, M.D. will continue to serve as directors in the class whose term expires in 2014.

We have set forth below information relating to each nominee for election as director and each director continuing in office, including: his or her principal occupation and any board memberships at other public companies during the past five years; the other experience, qualifications, attributes or skills that led the Board to conclude that he or she should serve or should continue to serve as a director of Danaher; the year in which he or she became a director; age; and the year in which his or her term is scheduled to expire. Please see Corporate Governance Board of Directors and Committees of the Board Nominating and Governance Committee for a further discussion of the Board's process for nominating these candidates. In the event a nominee declines or is unable to serve, the proxies may be voted in the discretion of the proxy holders for a substitute nominee designated by the Board, or the Board may reduce the number of directors to be elected. We know of no reason why this will occur.

**Nominees for One Year Terms That Will Expire in 2014**

Donald J. Ehrlich

Age 75

Mr. Ehrlich has served on Danaher's Board of Directors since 1985. He served as President and Chief Executive Officer of Schwab Corp., a manufacturer of fire-protective safes, files, cabinets and vault doors, from January 2003 until his retirement in July 2008, and has also served on the boards of private and non-profit organizations.

Mr. Ehrlich also founded and served as the chairman and chief executive officer of an NYSE-listed publicly-traded manufacturing company, and has also founded and served as CEO of two privately held manufacturing companies. As an entrepreneur and business leader who began his career on the factory floor, has been awarded over fifteen patents and worked his way to leadership of an NYSE-listed publicly-traded company, Mr. Ehrlich has a broad understanding of the strategic challenges and opportunities facing a publicly-traded manufacturing company such as Danaher. He also has a broad, functional skill-set in the areas of engineering, finance, capital allocation and executive compensation.

Linda Hefner Filler

Age 53

Ms. Hefner Filler has served on Danaher's Board of Directors since 2005. She has served as President, North America of Claire's Stores, Inc., a specialty retailer, since March 2013. From May 2007 to June 2012, she served as Executive Vice President of Wal-Mart Stores Inc. (an operator of retail stores and warehouse clubs) and from April 2009 to June 2012 as Chief Merchandising Officer for Sam's Club, a division of Wal-Mart. From May 2004 through December 2006, Ms. Hefner Filler served as Executive Vice President - Global Strategy for Kraft Foods Inc., a manufacturer and seller of branded foods and beverages.

Ms. Hefner Filler has served in senior management roles with leading retail and consumer goods companies, with general management responsibilities and responsibilities in the areas of marketing, branding and merchandising. Understanding and responding to the needs of our customers is fundamental to Danaher's business strategy, and Ms. Hefner Filler's keen marketing and branding insights have been a valuable resource to Danaher's Board. Her prior leadership experiences with large public companies has given her valuable perspective for matters of global portfolio strategy and capital allocation as well as global business practices.

Teri List-Stoll

Age 50

Ms. List-Stoll has served on Danaher's Board of Directors since September 2011. She has been Senior Vice President and Treasurer of The Procter & Gamble Company since 2009, and has served in a series of progressively more responsible positions in the Procter & Gamble accounting and finance organization since joining the company in 1994. Prior to joining Procter & Gamble, Ms. List-Stoll was employed by the accounting firm of Deloitte & Touche for almost ten years.

Ms. List-Stoll has served in senior finance and accounting roles with one of the world's leading consumer goods companies. Her experience dealing with complex finance and accounting matters for Procter & Gamble gives her an appreciation for and understanding of the similarly complex finance and accounting matters that Danaher faces. In addition, through her leadership role with one of the world's largest public companies she has insight into the business practices that are critical to the success of a large, growing public company such as Danaher.

Walter G. Lohr, Jr.

Age 69

Mr. Lohr has served on Danaher's Board of Directors since 1983. He was a partner of Hogan Lovells, a global law firm, for over five years until retiring in June 2012 and has also served on the boards of private and non-profit organizations.

Prior to his tenure at Hogan Lovells, Mr. Lohr served as assistant attorney general for the State of Maryland. He has extensive experience advising companies in a broad range of transactional matters, including mergers and acquisitions, contests for corporate control and securities offerings. His extensive knowledge of the legal strategies, issues and dynamics that pertain to mergers and acquisitions and capital raising have been a critical resource for Danaher given the importance of its acquisition program.

Steven M. Rales

Age 62

Mr. Rales is a co-founder of Danaher and has served on Danaher's Board of Directors since 1983, serving as Danaher's Chairman of the Board since 1984. He was also CEO of the Company from 1984 to 1990. In addition, for more than the past five years he has been a principal in a private business entity in the area of film production. Mr. Rales is a brother of Mitchell P. Rales.

The strategic vision and leadership of Mr. Rales and his brother, Mitchell Rales, helped create the Danaher Business System and have guided Danaher down a path of consistent, profitable growth that continues today. In addition, as a result of his substantial ownership stake in Danaher, he is well-positioned to understand, articulate and advocate for the rights and interests of the Company's shareholders.

John T. Schwieters

Age 73

Mr. Schwieters has served on Danaher's Board of Directors since 2003. He has been a Senior Executive of Perseus, LLC, a merchant bank and private equity fund management company, since May 2012 after serving as Senior Advisor from March 2009 to May 2012 and as Vice Chairman from April 2000 to March 2009. Mr. Schwieters is a member of the board of directors of Smithfield Foods, Inc. and Choice Hotels International, Inc., and within the past five years has also served as a director of Union Street Acquisition Corp.

In addition to his roles with Perseus, Mr. Schwieters led the Mid-Atlantic region of one of the world's largest accounting firms after previously leading that firm's tax practice in the Mid-Atlantic region, and has served on the boards and chaired the audit committees of several NYSE-listed public companies. He brings to Danaher extensive knowledge and experience in the areas of public accounting, tax accounting and finance, which are areas of critical importance to Danaher as a large, global and complex public company.

Alan G. Spoon

Age 61

Mr. Spoon has served on Danaher's Board of Directors since 1999. He has served as General Partner of Polaris Venture Partners, a company that invests in private technology firms, since May 2000. Mr. Spoon is also a member of the board of directors of IAC/InterActiveCorp., and within the past five years has also served as a director of Getty Images, Inc. and TechTarget, Inc.

In addition to his leadership role at Polaris Venture Partners, Mr. Spoon previously served as president, chief operating officer and chief financial officer of one of the country's largest, publicly-traded education and media companies, and has served on the boards of numerous public and private companies. His public company leadership experience gives him insight into business strategy, leadership and executive compensation and his public company and private equity experience give him insight into technology trends, acquisition strategy and financing, each of which represents an area of key strategic opportunity for the Company.



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**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR EACH OF THE FOREGOING NOMINEES.**

**Continuing Directors Whose Terms Will Expire in 2014**

H. Lawrence Culp, Jr.

Age 50

Mr. Culp has served on Danaher's Board of Directors and as Danaher's President and Chief Executive Officer since May 2001. Within the past five years, he also previously served as a member of the board of directors of GlaxoSmithKline plc.

Mr. Culp joined the Company in 1990 and served in leadership positions in a variety of different functions and businesses before his promotion to President and CEO in 2001. His broad operating and functional experience and in-depth knowledge of Danaher's businesses and of the Danaher Business System are particularly valuable given the complex, diverse nature of Danaher's portfolio. His insights and perspective from his previous service on the board of one of the world's largest pharmaceutical companies have also proved valuable to Danaher. These experiences, combined with Mr. Culp's talent for leadership and his long-term strategic perspective, have helped drive Danaher's sustained record of growth and performance through a full range of economic cycles.

Mitchell P. Rales

Age 56

Mr. Rales is a co-founder of Danaher and has served on Danaher's Board of Directors since 1983, serving as Chairman of the Executive Committee of Danaher since 1984. He was also President of the Company from 1984 to 1990. In addition, for more than the past five years he has been a principal in private and public business entities in the manufacturing area. Mr. Rales is also a member of the board of directors of Colfax Corporation, and is a brother of Steven M. Rales.

The strategic vision and leadership of Mr. Rales and his brother, Steven Rales, helped create the Danaher Business System and have guided Danaher down a path of consistent, profitable growth that continues today. In addition, as a result of his substantial ownership stake in Danaher, he is well-positioned to understand, articulate and advocate for the rights and interests of the Company's shareholders.

Elias A. Zerhouni, M.D.

Age 61

Dr. Zerhouni has served on Danaher's Board of Directors since 2009. Dr. Zerhouni has served as President, Global Research & Development, for Sanofi-Aventis, a global pharmaceutical company, since January 2011. From 1996 to 2002, Dr. Zerhouni served as Chair of the Russell H. Morgan Department of Radiology and Radiological Sciences, Vice Dean for Research and Executive Vice Dean of the Johns Hopkins School of Medicine. From 2002 to November 2008, Dr. Zerhouni served as director of the National Institutes of Health (NIH), and from November 2008 to December 2010 he provided advisory and consulting services to various non-profit and other organizations as Chairman and President of Zerhouni Holdings.

Dr. Zerhouni, a physician, scientist and world-renowned leader in radiology research, is widely viewed as one of the leading authorities in the United States on emerging trends and issues in medicine and medical care. These insights, as well as his deep, technical knowledge of the research and clinical applications of medical technologies, are of considerable importance given Danaher's strategic expansion in the medical technologies markets. Dr. Zerhouni's government experience also gives him a strong understanding of how government agencies work, and his experience growing up in North Africa, together with the global nature of the issues he faced at NIH, give him a global perspective that is valuable to Danaher.

## CORPORATE GOVERNANCE

### Corporate Governance Overview

Our Board of Directors recognizes that Danaher's success over the long-term requires a strong framework of corporate governance that serves the best interests of all our shareholders. Below are highlights of our corporate governance framework, and additional details follow in the sections below:

in uncontested elections our directors must be elected by a majority of the votes cast by our shareholders, and an incumbent director who fails to receive such a majority is required to tender his or her resignation from the Board;

by 2014, all of our directors will be elected annually;

our Chairman and CEO positions are separate;

our Board has established a Lead Independent Director position, elected by the independent directors

all members of our Audit, Compensation and Nominating and Governance Committees are independent as defined by New York Stock Exchange listing standards;

our shareholders have the right to act by written consent;

shareholders owning 25% or more of our outstanding shares may call a special meeting of shareholders;

we have never had a shareholder rights plan;

we have no supermajority voting requirements in our certificate of incorporation; and

Danaher and its subsidiaries made no political expenditures in 2012 and we disclose our political expenditures policy on our public website.

### Corporate Governance Guidelines, Committee Charters and Standards of Conduct

As part of its ongoing commitment to good corporate governance, our Board of Directors has codified its corporate governance practices into a set of Corporate Governance Guidelines and has also adopted written charters for each of the Audit Committee, the Compensation Committee and the Nominating and Governance Committee of the Board. Danaher has also adopted a code of business conduct and ethics for directors, officers (including our principal executive officer, principal financial officer and principal accounting officer) and employees, known as the Standards of Conduct. The Corporate Governance Guidelines, committee charters and Standards of Conduct referenced above are each available in the Investor Corporate Governance section of our website at <http://www.danaher.com>.

### Board Leadership Structure and Risk Oversight

*Board Leadership Structure.* The Board has separated the positions of Chairman and CEO because it believes that, at this time, this structure best enables the Board to ensure that Danaher's business and affairs are managed effectively and in the best interests of shareholders. This is particularly the case in light of the fact that the Company's Chairman is Steven Rales, a co-founder of the Company who owns approximately

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6.3% of the Company's outstanding shares, served as CEO of the company from 1984 to 1990 and continues to serve as an executive officer of the company. As a result of his substantial ownership stake in the Company, the Board believes that Mr. Rales is uniquely able to understand, articulate and advocate for the rights and interests of the Company's shareholders. Moreover, Mr. Rales uses his management experience with the Company and Board tenure to help ensure that the non-management directors have a keen understanding of the Company's business as well as the strategic and other risks and opportunities that the Company faces. This enables the Board to more effectively provide insight and direction to, and exercise oversight of, the Company's President and CEO and the rest of the management team responsible for the Company's day-to-day business (including with respect to oversight of risk management).

Because Mr. Rales is not independent within the meaning of the NYSE listing standards, our Corporate Governance Guidelines require the appointment of a Lead Independent Director. Our independent directors have appointed Mr. Ehrlich as our Lead Independent Director. As the Lead Independent Director, Mr. Ehrlich:

presides at all meetings of the Board at which the Chairman of the Board and the Chair of the Executive Committee are not present, including the executive sessions of non-management directors;

has the authority to call meetings of the independent directors;

acts as a liaison as necessary between the independent directors and the management directors; and

advises with respect to the Board's agenda.

*Risk Oversight.* The Board's role in risk oversight at the Company is consistent with the Company's leadership structure, with management having day-to-day responsibility for assessing and managing the Company's risk exposure and the Board and its committees overseeing those efforts, with particular emphasis on the most significant risks facing the Company. The Board oversees the Company's risk management processes directly and through its committees. In general, the Board oversees the management of risks inherent in the operation of the Company's businesses, the implementation of its strategic plan, its acquisition and capital allocation program, its capital structure and liquidity and its organizational structure. Each of the Board's committees also oversees the management of Company risks that fall within the committee's areas of responsibility. The Audit Committee oversees risks related to financial controls and legal and compliance risks and generally oversees the Company's risk assessment and risk management policies; the Nominating and Governance Committee oversees corporate governance risks; and the Compensation Committee considers the impact of the Company's compensation programs on the Company's risk profile. Each committee reports to the full Board on a regular basis, including as appropriate with respect to the committee's risk oversight activities. In addition, since risk issues often overlap, committees from time to time request that the full Board discuss particular risks. On an annual basis, the Company's Risk Committee (consisting of members of senior management) inventories, assesses and prioritizes the most significant risks facing the Company as well as related mitigation efforts and provides a report to the Board. With respect to the manner in which the Board's risk oversight function impacts the Board's leadership structure, as described above our Board believes that Mr. Rales' management experience and tenure help the Board to more effectively exercise its risk oversight function.

### **Director Independence**

At least a majority of the Board must qualify as independent within the meaning of the listing standards of the NYSE. The Board has affirmatively determined that other than Messrs. Steven Rales, Mitchell Rales and H. Lawrence Culp, Jr., each of whom is an executive officer of Danaher, all of the remaining eight members of the Board, consisting of Mss. Hefner Filler and List-Stoll, Messrs. Caplin, Ehrlich, Lohr, Schwieters and Spoon and Dr. Zerhouni, are independent within the meaning of the listing standards of the NYSE. The Board concluded that none of the independent directors possesses any of the bright-line relationships set forth in the listing standards of the NYSE that prevent independence, or except as discussed below, any other relationship with Danaher other than Board membership.

In making its determination with respect to the independence of the directors identified above as independent, the Board considered the following transactions, relationships and arrangements. In 2012, the Company and its subsidiaries sold products to The Procter & Gamble Company, where Ms. List-Stoll serves as an officer; sold products to and purchased products from Sanofi-Aventis, where Dr. Zerhouni serves as an officer; and sold products to Wabash National Corp., where an immediate family member of Mr. Ehrlich serves as an officer. In each case, the amount of sales and the amount of purchases in 2012 were less than 0.05% of the 2012 revenues of such other company and less than 0.1% of Danaher's 2012 revenues. In addition, Ms. Hefner Filler served as an officer of Wal-Mart Stores Inc. until June 2012. In February 2012, while Ms. Hefner Filler was still employed by Wal-Mart, the Board considered the fact that in 2011 the Company and its subsidiaries

sold products to and purchased products from Wal-Mart, in each case in amounts less than 0.05% of Wal-Mart's 2011 revenues and less than 0.1% of Danaher's 2011 revenues. In all of the cases described above, the sales and purchases were made in the ordinary course of business, on commercial terms and on an arms-length basis and the director had no role in the decision-making with respect to such transactions, and in each case the Board determined that such transactions do not create a material relationship between the director and Danaher and do not affect the director's independence. Finally, Mr. Lohr served as a partner of the Hogan Lovells law firm until his retirement in June 2012. In February 2012, prior to Mr. Lohr's retirement as a Hogan Lovells partner, the Board considered the fact that attorneys at Hogan Lovells provide legal services to entities controlled by Messrs. Steven Rales and Mitchell Rales. The aggregate amount of legal services provided by Hogan Lovells in 2011 to the Rales affiliates was less than 0.1% of Hogan Lovells' 2011 revenues. The Board concluded that the relationship did not constitute a material relationship with respect to Mr. Lohr because it did not impair Mr. Lohr's independent judgment in connection with his duties and responsibilities as a director of Danaher.

In light of Mr. Lohr's retirement as a Hogan Lovells partner in 2012 and Ms. Hefner Filler's departure from Wal-Mart in 2012, there were no transactions, relationships or arrangements with respect to Mr. Lohr or Ms. Hefner Filler, respectively, that the Board considered in determining their independence in February 2013. In 2012 the Company and its subsidiaries sold products to, and purchased products from, Wal-Mart in amounts less than 0.05% of Wal-Mart's 2012 revenues and less than 0.1% of Danaher's 2012 revenues, and Hogan Lovells provided legal services to the Rales affiliates in an amount less than 0.1% of Hogan Lovells' 2012 revenues.

Danaher's non-management directors (all of whom are independent within the meaning of the listing standards of the NYSE) meet in executive session following the Board's regularly-scheduled meetings. The sessions are scheduled and chaired by the Lead Independent Director.

### Board of Directors and Committees of the Board

*General.* The Board met nine times during 2012. All directors attended at least 75% of the aggregate of the total number of meetings of the Board and of all committees of the Board on which they served (during the period they so served) during 2012. Danaher typically schedules a Board meeting in conjunction with each annual meeting of shareholders and as a general matter expects that the members of the Board will attend the annual meeting. Nine of the eleven directors serving at the time attended the Company's annual meeting in May 2012.

The membership of each of the Audit, Compensation, Nominating and Governance and Finance committees as of March 8, 2013 is set forth below.

Name of Director	Audit	Compensation	Nominating and Governance	Finance
Mortimer M. Caplin	X	X		
H. Lawrence Culp, Jr.				X
Donald J. Ehrlich	X	X*		
Linda Hefner Filler			X*	
Walter G. Lohr, Jr.				X
Teri List-Stoll	X			
Mitchell P. Rales				X*
Steven M. Rales				X
John T. Schwieters	X*		X	
Alan G. Spoon		X		
Elias A. Zerhouni, M.D.			X	

X = committee member; \* = Chair

*Audit Committee.* The Audit Committee met seven times during 2012. The Audit Committee assists the Board in overseeing the quality and integrity of Danaher's financial statements, the effectiveness of Danaher's internal controls over financial reporting, Danaher's compliance with legal and regulatory requirements, the qualifications, independence and performance of Danaher's independent auditors and the performance of Danaher's internal audit function, and also oversees the Company's risk assessment and risk management policies. The Committee reports to the Board on its actions and recommendations at each regularly scheduled Board meeting. The Board has determined that all of the members of the Audit Committee are independent for purposes of Rule 10A-3(b)(1) under the Securities Exchange Act and the NYSE listing standards, that Messrs. Schwieters and Ehrlich and Ms. List-Stoll each qualify as an audit committee financial expert as that term is defined in Item 407(d)(5) of Regulation S-K and that each member of the Audit Committee is financially literate within the meaning of the NYSE listing standards.

*Compensation Committee.* The Compensation Committee met ten times during 2012. The Compensation Committee discharges the Board's responsibilities relating to compensation of our executive officers, including evaluating the performance of, and approving the compensation paid to, our executive officers. The Committee also:

reviews and discusses with Company management the Compensation Discussion & Analysis (CD&A) included in the Company's annual meeting proxy statement and recommends to the Board the inclusion of the CD&A in the annual meeting proxy statement;

reviews and makes recommendations to the Board with respect to the adoption, amendment and termination of all executive incentive compensation plans and all equity compensation plans, and exercises all authority of the Board (and all responsibilities assigned by such plans to the Committee) with respect to the administration of such plans;

monitors compliance by directors and executive officers with the Company's stock ownership requirements; and

considers the impact of the Company's compensation programs on the Company's risk profile.

Each member of the Compensation Committee is an outside director for purposes of Section 162(m) (Section 162(m)) of the Internal Revenue Code (the Code), a non-employee director for purposes of Rule 16b-3 under the Securities Exchange Act and, based on the determination of the Board, independent under the NYSE listing standards. While the Committee's charter authorizes it to delegate its powers to sub-committees, the Committee did not do so during 2012. The Committee reports to the Board on its actions and recommendations at each regularly scheduled Board meeting. The Chair of the Committee works with our CEO and our Secretary to schedule the Committee's meetings and set the agenda for each meeting. Our CEO, Senior Vice President-Human Resources, Senior Vice President-General Counsel, Vice President-Compensation and Secretary generally attend the Committee meetings and support the Committee in preparing meeting materials and taking meeting minutes. In particular, our CEO provides background regarding the interrelationship between our business objectives and executive compensation matters; participates in the Committee's discussions regarding the performance and compensation of the other executive officers and provides recommendations to the Committee regarding all significant elements of compensation paid to such officers, their annual, personal performance objectives and his evaluation of their performance; and provides feedback regarding the companies that he believes Danaher competes with in the marketplace and for executive talent. The Committee gives considerable weight to our CEO's evaluation of and recommendations with respect to the other executive officers because of his direct knowledge of each such officer's performance and contributions. Danaher's human resources department also provides the Committee with such data relating to executive compensation as requested by the Committee. The Committee typically meets in executive session, without the presence of management, at each regularly scheduled meeting.

Under the terms of its charter, the Committee has the authority to engage the services of outside advisors and experts to assist the Committee. The Committee has engaged Frederic W. Cook & Co., Inc. ( F.W. Cook ) as the Committee's independent compensation consultant for a number of years. The Committee engages F.W. Cook because it is considered one of the premier independent compensation consulting firms in the country and has never provided any services to the Company other than the compensation-related services provided to or at the direction of the Compensation Committee and the Nominating and Governance Committee. F.W. Cook takes its direction solely from the Committee (and with respect to matters relating to the non-management director compensation program, the Nominating and Governance Committee). F.W. Cook's primary responsibilities in 2012 were to review the Company's executive compensation program, compare compensation levels for the Company's named executive officers to executive compensation levels at the Company's peers to assess whether the Company's pay levels are competitive, and analyze the Company's executive compensation program in the context of emerging corporate governance best practices; provide advice to the Committee on updating the peer group used to assess competitive compensation practices; provide advice to the Committee in connection with modifications to certain elements of the Company's executive compensation program; and update the Committee regarding legislative and regulatory initiatives and other trends in the area of executive compensation. The Committee does not place any material limitations on the scope of the feedback provided by F.W. Cook. In the course of discharging its responsibilities, F.W. Cook may from time to time and with the Committee's consent, request from management certain information regarding compensation amounts and practices, the interrelationship between our business objectives and executive compensation matters, the nature of the Company's executive officer responsibilities and other business information.

The Committee has considered whether the work performed by F.W. Cook for or at the direction of the Compensation Committee and the Nominating and Governance Committee raises any conflict of interest, taking into account the factors listed in Securities Exchange Act Rule 10C-1(b)(4), and has concluded that such work does not create any conflict of interest.

*Nominating and Governance Committee.* The Nominating and Governance Committee met three times in 2012. The Nominating and Governance Committee assists the Board in identifying individuals qualified to become Board members, proposes to the Board a slate of directors for election by Danaher's shareholders at each annual meeting, makes recommendations to the Board regarding the membership of the Board's committees, makes recommendations to the Board regarding matters of corporate governance, facilitates the annual review of the performance of the Board and its committees, oversees the operation of Danaher's Corporate Governance Guidelines, reviews and makes recommendations to the Board regarding non-management director compensation, and administers Danaher's Related Person Transactions Policy. The Board has determined that all of the members of the Nominating and Governance Committee are independent within the meaning of the NYSE listing standards.

The Nominating and Governance Committee from time-to-time engages an executive search firm to help identify, evaluate and provide background information regarding director candidates, and also considers candidates for Board membership suggested by Board members, management and shareholders. A shareholder who wishes to recommend a prospective nominee for the Board should notify the Nominating and Governance Committee in writing using the procedures described below under Communications with the Board of Directors with whatever supporting material the shareholder considers appropriate.

If a prospective nominee has been identified other than in connection with a director search process initiated by the Committee, the Committee makes an initial determination as to whether to conduct a full evaluation of the candidate. The Committee's determination of whether to conduct a full evaluation is based primarily on the Committee's view as to whether a new or additional Board member is necessary or appropriate at such time, and the likelihood that the prospective nominee can satisfy the evaluation factors described below and any such other factors as the Committee may deem appropriate. The Committee takes into account whatever information is provided to the Committee with the recommendation of the prospective candidate and any additional inquiries the Committee may in its discretion conduct or have conducted with respect to such prospective nominee. If the

Committee determines that any such prospective nominee warrants additional consideration, or if the Committee has initiated a director search process and has identified one or more prospective nominees, the Committee will evaluate such prospective nominees against the standards and qualifications set out in Danaher's Corporate Governance Guidelines, including:

personal and professional integrity and character;

prominence and reputation in the prospective nominee's profession;

skills, knowledge and expertise (including business or other relevant experience) useful and appropriate in overseeing and providing strategic direction with respect to Danaher's business;

the extent to which the interplay of the prospective nominee's skills, knowledge, experience and background with that of the other Board members will help build a Board that is effective in collectively meeting Danaher's strategic needs and serving the long-term interests of the shareholders;

the capacity and desire to represent the interests of the shareholders as a whole; and

availability to devote sufficient time to the affairs of Danaher.

The Committee also considers such other factors as it may deem relevant and appropriate, including the current composition of the Board, any perceived need for one or more particular areas of expertise, the balance of management and independent directors, the need for Audit Committee and/or Compensation Committee expertise and the evaluations of other prospective nominees. The Board does not have a formal or informal policy with respect to diversity but believes that the Board, taken as a whole, should embody a diverse set of skills, knowledge, experiences and backgrounds appropriate in light of the Company's needs, and in this regard also subjectively takes into consideration the diversity (with respect to race, gender and national origin) of the Board when considering director nominees. The Board does not make any particular weighting of diversity or any other characteristic in evaluating nominees and directors.

If the Committee determines that a prospective nominee warrants further consideration, one or more members of the Committee (and other members of the Board as appropriate) will interview the prospective nominee. After completing this evaluation and interview process, if the Committee deems it appropriate it will recommend that the Board appoint one or more prospective nominees to the Board or nominate one or more such candidates for election to the Board.

The Committee also reviews and makes recommendations to the Board regarding non-management director compensation (although the Board makes the final determination regarding the amounts and type of non-management director compensation). In connection with its periodic evaluations of non-management director compensation, the Committee reviews the compensation practices for non-management directors within Danaher's peer group. For a description of the annual compensation paid to each non-management director, please see [Director Compensation](#).

*Finance Committee.* The Finance Committee met twice in 2012. The Finance Committee approves business acquisitions, divestitures and investments up to the levels of authority delegated to it by the Board.

### **Majority Voting for Directors**

Our Amended and Restated Bylaws provide for majority voting in uncontested director elections, and our Board has adopted a director resignation policy. Under the policy, the Board will not nominate a director for election, or appoint a director to fill a vacancy or new directorship, unless the individual has tendered in advance an irrevocable resignation effective if the individual does not receive a majority of the votes cast in an uncontested election and such resignation is accepted by the Board. If an incumbent director is not elected by a majority of the votes cast in an uncontested election, our Nominating and Governance Committee will submit for prompt consideration by the Board a recommendation whether to accept or reject the director's resignation. The Board expects the director whose resignation is under consideration to abstain from participating in any decision regarding that resignation.





However, at any meeting of shareholders for which the Secretary of the Company receives a notice that a shareholder has nominated a person for election to the Board of Directors in compliance with the Company's Amended and Restated Bylaws and such nomination has not been withdrawn on or before the tenth day before the Company first mails its notice of meeting to the Company's shareholders, the directors will be elected by a plurality of the votes cast (which means that the nominees who receive the most affirmative votes would be elected to serve as directors).

#### **Website Disclosure**

We may provide disclosure in the Investor Corporate Governance section of our corporate website, <http://www.danaher.com>, of any of the following: (1) the identity of the presiding director at meetings of non-management or independent directors, or the method of selecting the presiding director if such director changes from meeting to meeting; (2) the method for interested parties to communicate directly with the Board or with individual directors, the Lead Independent Director or the non-management or independent directors as a group; (3) the identity of any member of Danaher's Audit Committee who also serves on the audit committees of more than three public companies and a determination by the Board that such simultaneous service will not impair the ability of such member to effectively serve on Danaher's Audit Committee; and (4) contributions by Danaher to a tax exempt organization in which any non-management or independent director serves as an executive officer if, within the preceding three years, contributions in any single fiscal year exceeded the greater of \$1 million or 2% of such tax exempt organization's consolidated gross revenues. We also intend to disclose any amendment to the Standards of Conduct that relates to any element of the code of ethics definition enumerated in Item 406(b) of Regulation S-K, and any waiver from a provision of the Standards of Conduct granted to any of our directors, principal executive officer, principal financial officer, principal accounting officer, or any other executive officer, in the Investor Corporate Governance section of our corporate website, <http://www.danaher.com>, within four business days following the date of such amendment or waiver.

#### **Communications with the Board of Directors**

Shareholders and other parties interested in communicating directly with the Board or with individual directors, the Lead Independent Director or the non-management or independent directors as a group may do so by addressing communications to the Board of Directors, to the specified individual director or to the non-management or independent directors, as applicable, c/o Corporate Secretary, Danaher Corporation, 2200 Pennsylvania Avenue, N.W., Suite 800W, Washington, D.C. 20037-1701.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

*The following section discusses and analyzes the compensation provided to each of the executive officers set forth in the Summary Compensation Table below, also referred to as the named executive officers.*

#### Executive Summary and Overview

##### *Shareholder Returns and Business Performance*

Danaher's compounded, average annual shareholder return has outperformed the compounded, average annual shareholder return of the S&P 500 index over each of the last one, two, three-, five-, ten-, fifteen- and twenty-year periods, with a return of 19.0% over the last year, 9.1% over the last two years, 14.0% over the last three years, 5.0% over the last five years, 13.1% over the last ten years, 14.1% over the last fifteen years and 19.6% over the last twenty years (calculated on a dividend reinvested basis). The chart below shows Danaher's total shareholder return (TSR) compared to the TSR of the S&P 500 index over the last twenty years. Danaher's executive compensation program, particularly its emphasis on long-term equity compensation awards with vesting terms that are longer than typical for our peer group, has been fundamental in attracting skilled executives, encouraging them to build long-term careers with Danaher and motivating them to achieve sustainable, long-term operating and financial performance through a range of economic cycles.

#### Total Shareholder Return, 1993-2012

In response to an uncertain 2012 economic environment that witnessed inconsistent and slowing growth in most major geographies (including slower growth in many of the high-growth markets that in prior years had significantly offset declines in the developed markets), Danaher's executive leadership continued to aggressively manage costs while allocating resources to capitalize on current and future growth opportunities. Danaher used its strong financial position to continue investing in the Company's future growth, consummating fourteen strategic acquisitions during the year, deploying \$123 million in restructuring activities to reduce fixed costs and protect funding for growth investments, investing record amounts in research and development and high-growth

market infrastructure, and launching strategically critical new products. In 2012 Danaher also divested two non-strategic businesses and reached an agreement to sell its interest in the Apex Tool Group joint venture, which holds Danaher's legacy hand tool business, representing a key milestone in Danaher's evolution into a science and technology leader (the sale was consummated in February 2013). Even while investing robustly in the Company's future growth, Danaher returned \$734 million to shareholders in 2012 through stock repurchases and dividends.

Danaher's 2012 and prior year growth investments yielded tangible results in 2012, as the Company on a year-over-year basis in 2012 grew revenue 13.5% (including 8.6% in high-growth markets), diluted earnings per share 16.6% and operating cash flow 28.2%, and delivered an operating profit margin of 17.3% despite continuing to invest aggressively in our future.<sup>2</sup> Our commitment to continue investing in future growth despite an uncertain economy, and our generation of the cash flow to fund such investments, has positioned us to grow our business on a profitable and sustainable basis.

#### *2012 Executive Compensation*

The elements and mix of compensation for our named executive officers did not change significantly from 2011 to 2012, reflecting the long-term orientation and year-to-year consistency in our approach to executive compensation (please see "Analysis of 2012 Named Executive Officer Compensation" for a description of the compensation elements in our program). Below is a comparison of the key aspects of our named executive officer compensation for 2012 compared to 2011 (excluding the compensation of Ms. Lalor, who was hired in April 2012).

The target dollar value of the 2012 long-term equity compensation awards for each of the named executive officers did not change on a year-over-year basis.

Annual cash incentive compensation payments for 2012 decreased 4.7% for Mr. Culp and between 4.8% and 9.1% for the other named executive officers, primarily reflecting the modestly lower year-over-year improvement in the Company's Adjusted EPS growth rate compared to the prior year.

Our CEO's base salary remained unchanged, and the base salaries for our other named executive officers increased approximately 5% on a year-over-year basis.

#### *Compensation Governance*

The Compensation Committee (Committee) of our Board of Directors recognizes that the success of our executive compensation program over the long-term requires a strong framework of compensation governance. As a result, the Committee regularly reviews external executive compensation practices and trends and in recent periods has revised Danaher's executive compensation policies and practices to:

adopt a policy prohibiting any prospective tax reimbursement or gross-up provisions in our executive compensation program (except under any policy applicable to management employees generally such as a relocation policy). In addition, in 2012 Mr. Culp offered, and the Committee agreed, to eliminate the existing tax reimbursement and gross-up provisions in his employment agreement;

eliminate club membership, automobile and executive life insurance perquisites and limit the amount of our CEO's and CFO's personal aircraft usage perquisite;

incorporate multiple performance metrics in our annual cash incentive compensation plan;

implement a rigorous compensation recoupment policy that is triggered by a material restatement of Danaher's financial statements, even in the absence of wrongdoing; and

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require executive officers to maintain robust stock ownership levels, and prohibit hedging against the economic risk of such ownership.

<sup>2</sup> All metrics reflect continuing operations only.

These more recent changes complement strong compensation governance practices that have long been a hallmark of Danaher's program:

our executive officer equity awards have vesting terms that are longer than typical for our peer group;

our executive officers have no pension program (apart from a small cash balance plan that operated in lieu of a 401(k) plan from 1997- 2003);

our annual cash incentive compensation is based on performance over one- and three-year periods, to encourage sustainable performance;

none of our long-term incentive compensation is paid in cash;

none of our named executive officers has any rights to automatic acceleration of equity award vesting or cash compensation triggered solely by a change of control; and

the Committee's independent compensation consultant has never provided any services to the Company other than the compensation-related services provided to the Committee and the Nominating and Governance Committee.

#### **Overview and Objectives of our Named Executive Officer Compensation Program**

The goal of our compensation program for named executive officers is to build long-term value for our shareholders. Toward this goal, under the Committee's direction we have developed an executive compensation program designed to:

attract and retain executives with the leadership skills, attributes and experience necessary to succeed in an enterprise with Danaher's size, diversity and global footprint;

motivate executives to demonstrate exceptional personal performance and perform consistently over the long-term at or above the levels that we expect; and

link compensation to the achievement of near-term and long-term corporate goals that we believe best correlate with the creation of long-term shareholder value.

To achieve these objectives we have developed a compensation program that combines annual and long-term components, cash and equity, and fixed and variable payments, with a strong bias toward compensation that is dependent on company performance, particularly long-term, equity-based compensation. Our executive compensation program rewards our executive officers when they build long-term shareholder value, achieve annual business goals and maintain long-term careers with Danaher.

#### **Determining Named Executive Officer Compensation**

Danaher's compensation program is grounded on the principle that each executive officer must consistently demonstrate exceptional personal performance in order to remain an executive officer of Danaher. Within the overall framework of this principle and the other objectives discussed above, the Committee exercises its judgment in making executive compensation decisions. The factors that generally shape particular executive compensation decisions (none of which are assigned any particular weight by the Committee) are the following:

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The relative complexity and importance of the executive's position within Danaher. The Committee believes that both the amount and at-risk nature of compensation should increase with the relative complexity and importance of an executive's position, holding the most senior executives most accountable for long-term operating results and changes in shareholder value.

The executive's record of performance, long-term leadership potential and tenure.

Danaher's operational and financial performance. Our cash incentive compensation payments vary annually to reflect near-term changes in operating and financial results. In addition, our long-term compensation is more sensitive to changes in long-term company performance than many comparable

programs because we apply vesting terms that are longer than typical for our peer group and avoid using cash-based long-term incentives.

Our assessment of pay levels and practices in the competitive marketplace. The Committee considers market practice in determining pay levels and compensation design, to ensure that our costs are sustainable relative to peers and compensation is appropriately positioned to attract and retain talented executives. We have a history of successfully applying the Danaher Business System, or DBS (a proprietary set of business processes and methodologies we use that are designed to continuously improve business performance), to deliver strong operating performance and create shareholder value, and we devote significant resources to training our executives in DBS. In addition, given our expectations regarding future growth, our Board and Committee have engaged a corps of named executive officers whom we believe are capable of leading a significantly larger company. As a result of these factors, we believe that our officers are particularly valued by other companies with greater resources, which creates a high degree of retention risk.

The philosophy and goals of our compensation program have remained consistent over time, although the Committee considers the factors above within the context of the then-prevailing economic environment and may adjust the terms and/or amounts of compensation accordingly so that they continue to support our objectives.

The Company provides its shareholders an opportunity to cast an annual advisory vote with respect to its named executive officer compensation as disclosed in the Company's annual proxy statement (the "say on pay proposal"). At the Company's annual meeting of shareholders in May 2012, 94.8% of the votes cast on the say on pay proposal were voted in favor of the proposal. The Committee believes this result affirms shareholders support of the Company's named executive officer compensation and did not make changes to the Company's executive compensation program as a result of such vote.

For a description of the role of the Company's executive officers and the Committee's independent compensation consultant in the executive compensation process, please see "Corporate Governance Board of Directors and Committees of the Board Compensation Committee."

#### **Risk Considerations and Review of Executive Compensation Practices**

Risk-taking is a necessary part of growing a business, and prudent risk management is necessary to deliver long-term, sustainable shareholder value. The Committee believes that the Company's executive compensation program supports the objectives described above without encouraging inappropriate or excessive risk-taking. In reaching this conclusion, the Committee considered in particular the following attributes and risk-mitigation features of our compensation program:

our program's emphasis on long-term, equity-based compensation, which discourages risk-taking that produces short-term results at the expense of building long-term shareholder value;

vesting terms that are longer than typical for our peer group, which (together with our recoupment policy) help ensure that our executives realize their compensation over a time horizon that is consistent with achieving long-term shareholder value;

the balance between options and RSUs within our equity compensation program, which yields an overall degree of leverage that the Committee believes is appropriate;

the use of multiple performance metrics and both one- and three-year historical performance periods in our annual cash incentive compensation plan, which mitigate the incentive to overperform in any single year or with respect to any single financial metric at the expense of other years or financial metrics;

the Committee's ability to use negative discretion to reduce annual cash incentive compensation payments and the number of shares paid upon vesting of RSUs;

caps on payment amounts under our annual cash incentive compensation plan;





our executive stock ownership guidelines;

our policy prohibiting our employees from engaging in transactions in any derivative of a Danaher security;

the highly diversified nature of Danaher's portfolio of businesses with respect to markets served, products and services sold and geographic footprint; and

the Committee's (and Nominating & Governance Committee's) use of an independent compensation consultant that performs no other services for Danaher.

**Analysis of 2012 Named Executive Officer Compensation**

Our 2012 executive compensation program consisted of four elements, listed in order of significance. The 2012 compensation of Ms. Lalor, who was hired as Danaher's Senior Vice President-Human Resources in April 2012, is addressed in a separate section below.

Element	Form of Compensation	Primary Objectives
Long-Term Incentive Compensation	Stock options with time-based vesting periods longer than typical for our peer group	Attract, retain and motivate skilled executives and encourage loyalty to Danaher
		Align the interests of management and shareholders by ensuring that realized compensation is commensurate with long-term changes in share price
	Performance-based restricted stock units with time-based vesting periods longer than typical for our peer group	Attract, retain and motivate skilled executives and encourage loyalty to Danaher
		Align the interests of management and shareholders by tying realized compensation to (1) long-term changes in share price at all price levels, and (2) attainment of financial performance goals
Annual Incentive Compensation	Cash	Motivate executives to achieve near-term operational and financial goals that support our long-term business objectives
		Attract, retain and motivate skilled executives
		Allow for meaningful pay differentiation tied to performance of individuals and groups
Base Salary	Cash	Attract and retain skilled executives while avoiding a high fixed cost structure

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Provide sufficient fixed compensation to (1) allow a reasonable standard of living relative to peers, and (2) mitigate incentive to pursue inappropriate risk-taking to maximize variable pay

Other Compensation

Employee benefit plans; perquisites; severance and change-of-control benefits

Make our total executive compensation plan competitive

Improve cost-effectiveness by delivering perceived value that is higher than our actual costs

In determining the appropriate mix of compensation elements for each named executive officer for 2012, the Committee considered the factors referred to above under **Determining Named Executive Officer Compensation** (without assigning any particular weight to any factor) and exercised its judgment.

The most significant component of compensation for each named executive officer for 2012 was long-term, equity-based compensation with time-based vesting periods that are longer than typical for our peer group. Because this type of compensation best supports our retention and motivation objectives and closely aligns the interests of our executives and shareholders by tying earned pay to changes in our stock price over time, we believe that this type of compensation is most effective in accomplishing each of the objectives set forth under **Overview and Objectives of our Named Executive Officer Compensation Program**.

Annual cash incentive compensation, the variable element of an executive's annual compensation, was the next most significant component of compensation for each named executive officer. We believe its focus on near-term performance and the cash nature of the award complement the longer-term, equity-based compensation elements of the program.

Finally, in 2012 we sought to pay sufficient base salary and other compensation to avoid competitive disadvantage in the marketplace for skilled executives while simultaneously managing our fixed cost structure at a sustainable level.

#### *Long-Term Incentive Awards*

*Philosophy.* The long-term incentive awards that the Committee granted in 2012 consist of stock options and performance-based RSUs, each subject to time-based vesting periods that are longer than typical for our peer group. The Committee believes that an equal value of stock options and RSUs yields an appropriate degree of overall leverage by effectively balancing upside potential and reward for shareholder value creation against retention and mitigation of the impact of market volatility on earned compensation:

Stock options are inherently linked to shareholder value creation, as the recipient does not receive any compensation unless our stock price rises after the date the option is granted. We believe our stock option award program has contributed significantly to our strong performance record, which in turn has generally made our stock option awards valuable over the long-term and highly effective in recruiting, motivating and retaining skilled officers.

The value attributable to RSUs is less subject to financial market volatility and supports retention even during periods of stock market declines. RSUs are also sensitive to stock price increases and decreases at all levels (compared to stock options which only reflect increases and decreases when the market price of Danaher's stock exceeds the exercise price). In addition, the performance-based vesting criteria we apply to RSUs tie realization of the award more directly to operational performance under management's control (although given that RSUs are a key retention tool the Committee views the performance criteria as ancillary in importance to the time-based vesting requirement).<sup>3</sup>

Time-based vesting periods that are longer than typical for our peer group, typically five years in duration, are a hallmark of both our executive stock option and RSU awards. The vesting terms of these awards facilitate realization of our long-term objectives by encouraging officers to take a long-term view of our objectives and performance and promoting stability within our executive ranks. Our long-term incentive awards also offer our executives opportunities for capital accumulation, which is particularly important given that Danaher does not offer a defined benefit pension plan.

<sup>3</sup> In 2012, the Committee used Adjusted EPS (which is defined in Footnote 4 below) as the RSU performance metric because it believes Adjusted EPS growth correlates strongly with shareholder returns. The performance-based vesting criteria applicable to the RSUs awarded to our named executive officers in 2012 are described in the footnotes to the **Outstanding Equity Awards at 2012 Fiscal Year-End** table.

*Grant practices.* The Committee grants equity awards under Danaher's 2007 Stock Incentive Plan (the "2007 Plan"), which is described under Proposal 3 Approval of Amendments to the Danaher Corporation 2007 Stock Incentive Plan and Material Terms of the Plan's Performance Goals. Executive equity awards are granted at regularly scheduled Committee meetings, at the time of an executive promotion or upon identification of a specific retention concern. The timing of equity awards has not been coordinated with the release of material non-public information. Regularly scheduled meetings of the Committee are generally scheduled in advance of the calendar year in which they occur. The Committee's general practice is to grant annual equity awards to executives at the Committee's regularly scheduled meeting in February, when the Committee reviews the performance of the executive officers and determines the other components of executive compensation. The Committee identifies a target dollar value of equity compensation to be delivered to each officer and divides the value equally between stock options and RSUs. The target dollar value attributable to RSUs is translated into a number of RSUs using a 15-day average closing price, to avoid the potential volatility impact of using a single-day closing price. The target dollar value attributable to stock options is translated into a number of stock options assuming an option value equal to 40% of such price. The exercise price for stock option awards under the 2007 Plan equals the closing price of Danaher's common stock on the date of grant (or on a specified later date).

*Determining 2012 annual equity awards.* In February 2012, the Committee granted annual equity awards to the named executive officers, as described in the Grants of Plan-Based Awards for Fiscal 2012 table. The Committee subjectively determined the target dollar value of equity compensation to be delivered to each officer in 2012. In making this determination, the Committee considered that the ultimate, realized value of each award will depend substantially on the Company's long-term performance and also took into account each of the following factors (none of which was assigned a particular weight by the Committee):

The amount of equity compensation necessary to provide sufficient retention incentives in light of (1) compensation levels within the Company's peer group, and (2) the accumulated value of equity awards previously granted to the executive (including both outstanding and previously realized awards);

the relative complexity and importance of the officer's position, as well as the officer's performance record and potential to contribute to future Company performance and assume additional leadership responsibility; and

the risk/reward ratio of the award amount compared to the length of the vesting provisions.

In subjectively determining the target dollar value for Mr. Culp's 2012 equity award, the Committee considered in particular: the successful execution of the acquisition of Beckman Coulter, the progress achieved in integrating Beckman Coulter into Danaher, the impact of the Beckman Coulter acquisition on the size and complexity of Danaher's business and the unique skill set required to successfully lead and grow Danaher's business; the financial and operational benefits that the Company realized in 2011 from long-term investments made earlier in Mr. Culp's tenure; and Mr. Culp's track record of effectively growing Danaher, identifying and cultivating key executive talent and successfully managing a diverse portfolio of businesses. The Committee also considered the opportunities Mr. Culp would likely have if he were to pursue other employment, particularly in light of his success in transforming Danaher's portfolio into a high-quality science and technology enterprise. In light of these factors (none of which was assigned a particular weight by the Committee), the Committee in its judgment determined it appropriate to award Mr. Culp a target dollar value of equity compensation equal to the target dollar value of his 2011 equity compensation.

The 2012 equity compensation awards for Danaher's named executive officers tended to be larger than the equity compensation awarded by Danaher's peers to officers in comparable positions based on recent, publicly available data, because (1) the vesting periods applicable to our awards are longer than typical for our peer group, (2) for high-level executives the Committee seeks to have equity-based compensation constitute a higher percentage of total compensation, and (3) the competitive demand for our executives requires that we make greater efforts to retain our executives.

*Annual Incentive Awards*

The Company's 2012 annual incentive awards consisted of cash incentive compensation awards granted under Danaher's 2007 Executive Incentive Compensation Plan. In February 2012, the Committee adopted a performance formula, based on period-to-period changes in earnings and cash flow, for determining the amounts to be paid to the named executive officers under the plan for 2012 (please see *Employee Benefit Plans 2007 Executive Incentive Compensation Plan* for a summary of the plan and a further description of the 2012 performance formula). The Committee exercised its judgment in determining the elements of the 2012 performance formula. It tied award opportunities to the Company's performance and also considered (without assigning any particular weight to any individual factor) the amount of annual cash incentive/bonus compensation awarded to the executive in prior years, the relative complexity and importance of the officer's position and the amount of annual cash incentive compensation that peer companies would offer such officer. The 2012 annual cash incentive compensation awards for each of the named executive officers are set forth in the Summary Compensation Table.

The 2012 performance formula was the product of four components: the officer's base salary, multiplied or diminished (as applicable) by three discrete factors tied to Company and individual performance:

*Baseline bonus percentage.* The first of the three factors was the baseline bonus percentage. The Committee set this percentage for each officer at a level that (assuming the actual personal factor and Company performance factor would fall within the ranges experienced in recent years) would yield a payout deemed by the Committee to be appropriate based on the considerations described above. The baseline bonus percentages for each named executive officer are set forth in *Employee Benefit Plans 2007 Executive Incentive Compensation Plan 2012 Performance Formula*.

*Company performance factor.* The second factor was the Company performance factor, which was intended to drive the achievement of sustainable, near-term Company performance. Under the 2012 formula, the Company's Adjusted EPS is used to determine a preliminary Company performance factor: 75% of the preliminary Company performance factor is based on year-over-year Adjusted EPS growth, and 25% is based on compounded annual Adjusted EPS growth over the three-year period ended December 31, 2012. The Committee weights part of the performance factor based on three-year period Adjusted EPS performance to promote consistent, sustainable growth, and used its judgment to determine the respective weightings to apply to the one-year and three-year Adjusted EPS growth rates. Since the preliminary Company performance factor is based on the degree of period-to-period improvement in Adjusted EPS, there is no performance target. Once the preliminary Company performance factor is determined, it is adjusted upward or downward by up to twenty percent based on the Company's 2012 free cash flow-to-adjusted net income conversion ratio (the Free Cash Flow Ratio), to yield the final Company performance factor. The Free Cash Flow Ratio only increases the preliminary Company performance factor if the ratio exceeds 110%. For more detail regarding how the preliminary Company performance factor is adjusted by the Free Cash Flow Ratio, please see *Employee Benefit Plans 2007 Executive Incentive Compensation Plan 2012 Performance Formula*. For 2012 the Free Cash Flow Ratio was 1.2.

The Committee used Adjusted EPS and the Free Cash Flow Ratio as the financial measures in this factor because it believes (1) Adjusted EPS growth correlates strongly with shareholder returns, (2) the Free Cash Flow Ratio complements Adjusted EPS by substantiating the quality of the Company's earnings, and (3) using both Adjusted EPS and the Free Cash Flow Ratio helps to reduce any inappropriate risk-taking that a single performance metric may incentivize. Because the intent of this measure is to drive core operational performance and compare period-to-period operating results on a consistent basis, the Committee calculated Adjusted EPS and the Free Cash Flow Ratio in a manner that focused on gains and charges that it believed to be most directly related to Company operating performance during the period.<sup>4</sup> The Committee adjusts EPS in a similar manner in establishing the performance criteria applicable to the RSUs awarded as long-term incentive compensation.

*Personal factor.* The third factor was the personal factor, which was a multiplier of 2.0 subject to reduction in the Committee's discretion based on individual performance and such other considerations as it deemed appropriate. This factor enables the Committee to apply negative discretion to adjust the formulaically determined maximum award amount down to the amount it believes is appropriate. At the beginning of 2012, the Committee established for each named executive officer the annual personal performance objectives described below, each of which is intended to encourage near-term performance that supports the Company's long-term business objectives. The Committee did not assign any particular weighting to the objectives. The Company's DBS philosophy is built upon the concept of continuous improvement and requires that we raise the performance bar each year for each executive officer. As a result, the 2012 personal performance objectives for our executives that were based on quantitative targets were set at levels that the Committee and management believed were achievable, but that required personal performance appreciably above the level of personal performance achieved by the executive in the prior year.

Mr. Culp's 2012 performance objectives consisted of the degree of Danaher's 2012 core revenue growth and improvement in high-growth market penetration as well as the degree of 2012 improvement with respect to certain human resource related metrics; and qualitative goals relating to the evolution of the Company's senior leadership organization and the DBS function, the transition of the Company's human resources leadership and the quality of the Company's acquisition and portfolio evolution performance.

Mr. Comas' 2012 performance objectives consisted of the degree of 2012 cost reductions and quality improvements in the purchasing organization and qualitative goals relating to strengthening the purchasing organization, the quality of the Company's acquisition and portfolio evolution performance, improving the quality, effectiveness and efficiency of the investor relations function, the continued

<sup>4</sup> Adjusted EPS means fully diluted earnings per share as determined pursuant to GAAP, but excluding (1) extraordinary or nonrecurring items in accordance with GAAP; (2) the impact of any change in accounting principles that occurs during one of the years included in the formula and the cumulative effect thereof (the Committee may either apply the changed accounting principle to all periods included in the formula, or exclude the changed accounting principle from all periods included in the formula); (3) goodwill and other intangible impairment charges; (4) gains or charges associated with discontinued operations or with the obtaining or losing control of a business; (5) gains or charges related to the sale or impairment of assets; (6) (i) all transaction costs directly related to acquisitions, (ii) all restructuring charges directly related to acquisitions and incurred within two years of the acquisition date, (iii) all charges and gains arising from the resolution of acquisition-related contingent liabilities identified as of the acquisition date, and (iv) all other charges directly related to acquisitions and incurred within two years of the acquisition date; and (7) the impact of any discrete income tax charges or benefits identified in the period; provided, that with respect to the gains and charges referred to in items 3, 4, 5, 6(iii), 6(iv) and 7 above, only gains or charges that individually or as part of a series of related items exceed \$10 million in the aggregate during the baseline and measurement periods are excluded. Free Cash Flow Ratio is defined as (A) Danaher's operating cash flow from continuing operations for the year ended December 31, 2012 (but excluding the cash flow benefit of any gain that is excluded from the calculation of Adjusted EPS), less 2012 purchases of property, plant and equipment, divided by (B) Danaher's net income for the year ended December 31, 2012, calculated on a basis that excludes the same items that are excluded from the calculation of Adjusted EPS.

strengthening of Danaher's finance organization and the training, career development and succession planning infrastructure supporting that organization, and developing an information technology strategy to reduce costs and support the Company's business operations.

For each of Messrs. Joyce and Lico, 2012 performance objectives consisted of the degree of 2012 core revenue growth, operating profit margin improvement and working capital turn improvement for the executive's business units; the degree of 2012 return-on-invested-capital performance achieved with respect to acquisitions by the executive's business units; the amount of acquisition capital deployed by the executive's businesses; quantitative goals for each of the executive's business units relating to on-time delivery, manufacturing quality and human resources-related metrics; and qualitative goals relating to improving the leadership and strengthening the organizational capabilities for each of the executive's businesses. In addition, Mr. Joyce had qualitative goals relating to improving strategic planning, including developing the organizational capacity to track, analyze and address key strategic trends in his businesses, and Mr. Lico had performance objectives relating to the degree of 2012 core revenue growth for Danaher's businesses in particular geographies, the degree of 2012 market share improvement with respect to certain key product lines, and the degree of 2012 core revenue growth and operating profit improvement for a particular product line.

Following the end of the year, the Committee used its judgment and determined an actual personal factor of less than 2.0 for each officer. Without assigning any particular weight to any individual factor, the Committee took into account the size of the Company performance factor for the year, the amount of annual cash incentive or bonus compensation awarded to the executive in prior years, the executive's execution against his personal performance objectives for the year, the executive's overall performance for the year and the amount of annual cash incentive compensation that peer companies would offer such executive.

#### *Base Salaries*

The Committee reviews base salaries for executive officers in February of each year or in connection with promotions. In February 2012, the Committee subjectively determined 2012 base salaries for the named executive officers, as set forth in the Summary Compensation Table. In determining the 2012 base salary for our CEO, the Committee considered the salary amount that would be available to him in the competitive marketplace. The Committee concluded that the CEO's existing base salary was competitive within the context of his overall compensation package, and did not increase his base salary in 2012. In determining the 2012 base salaries for each of the other named executive officers, without giving specific weight to any particular factor the Committee used the prior year's base salary as the initial basis of consideration and then considered the individual factors described above under "Determining Named Executive Officer Compensation," focusing on the relative complexity and importance of the executive's role within Danaher and the market value of the executive's role. Given that base salary is one of the elements in the formula for determining annual cash incentive compensation, the Committee also considered how changes in base salary would impact annual cash incentive compensation. For 2012, the Committee subjectively determined to increase the base salaries for each of the other named executive officers by approximately 5% over their 2011 base salary amounts.

In February 2013, the Committee subjectively determined 2013 base salaries for each of the named executive officers and increased Mr. Culp's base salary by 8.9%, Mr. Comas' base salary by 12.9% and the base salaries of the other named executive officers by between 4.0% and 5.8%. In determining the 2013 base salaries, the Committee took into account each of the factors referenced above in the discussion relating to 2012 base salaries and with respect to each of Messrs. Culp and Comas also took into account the reduction in the executive's personal aircraft usage perquisite effective in 2013.

#### *Other Compensation*

*Severance and Change-of-Control Benefits.* In 2000, we entered into an employment agreement with Mr. Culp that provides for payments upon certain events of termination, as described in "Employment Agreements" Employment Agreement with H. Lawrence Culp, Jr. The amounts that Mr. Culp would have been



entitled to had any termination event occurred on December 31, 2012 are set forth in Potential Payments upon Termination or Change-of-Control as of 2012 Fiscal Year-End. When the Committee agreed to these provisions, it focused on (1) ensuring that Mr. Culp has sufficient security to avoid discouraging him from taking appropriate actions to maximize shareholder value (and in the context of a change-of-control, ensuring that Mr. Culp is not deterred from pursuing change-of-control opportunities that would maximize shareholder value), and (2) the competitiveness of Mr. Culp's total compensation package as compared to other potential opportunities that may be available to him. Any cash amounts payable to Mr. Culp in connection with a change-of-control are subject to a double-trigger, which means that the amounts are only payable if following the change-of-control Mr. Culp does not continue as the President and CEO of the most senior entity that results from the transaction. We believe a double-trigger approach strikes an appropriate balance between the potential compensation payable and the retention objectives of the provision. In October 2012, Mr. Culp offered, and the Committee agreed, to amend his employment agreement to eliminate his right to tax reimbursement and gross-up payments upon a change of control of the Company. The Committee has also adopted a policy prohibiting any tax reimbursement or gross-up provisions in our executive compensation program (except under a policy applicable to management employees generally such as a relocation policy).

We have also entered into agreements with each of our other named executive officers that provide for severance payments under certain circumstances as consideration for post-employment non-competition, non-solicitation and confidentiality obligations (Mr. Culp has agreed to similar post-employment covenants in his employment agreement). We believe that these post-employment restrictive covenants are critical in protecting our proprietary assets.

*Benefits and Perquisites.* All of our executives are eligible to participate in our employee benefit plans, including our group medical, dental, vision, disability, accidental death and dismemberment, life insurance, flexible spending and 401(k) plans. These plans are generally available to all U.S. salaried employees and do not discriminate in favor of executive officers. In addition, the Committee makes available certain perquisites to the named executive officers; please see the footnotes to the Summary Compensation Table for additional details. We believe these perquisites help make our total executive compensation plan competitive, are generally commensurate with the perquisites offered by our peers, are cost-effective in that the perceived value of these items is higher than our actual cost and (with respect to the professional services and airplane use in particular) help to maximize the amount of time that the executives spend on Danaher business. We do not provide tax gross-ups with respect to any perquisites (except under a policy applicable to management employees generally such as a relocation policy). Effective January 1, 2013, the Committee limited the perquisite allowance for personal use of the Company aircraft by Messrs. Culp and Comas at \$125,000 and \$50,000 annually, respectively. Any personal usage of the Company aircraft in excess of such annual allowance will be reimbursed to the Company pursuant to time sharing agreements that the Company has entered into with each of Messrs. Culp and Comas.

In addition, each named executive officer participates in the Amended and Restated Danaher Corporation & Subsidiaries Executive Deferred Incentive Program, or EDIP. The EDIP is a shareholder-approved, non-qualified, unfunded deferred compensation program available to selected members of our management; for a summary of the plan, please see Employee Benefit Plans Executive Deferred Incentive Program. We use the EDIP to tax-effectively contribute amounts to executives' retirement accounts and give our executives an opportunity to defer taxes on cash compensation and realize tax-deferred, market-based notional investment growth on their deferrals. The amount we contribute annually to the executives' EDIP accounts is set at a level that we believe is competitive with comparable plans offered by other companies in our industry. EDIP participants do not fully vest in such amounts until they have participated in the program for 15 years or have reached age 55 with at least five years of service with Danaher.

#### *Analysis of CEO Compensation Compared to Other NEO Compensation*

The Committee subjectively considers the ratio of our CEO's compensation to the compensation of the other named executive officers in determining named executive officer compensation. In 2012 our CEO received

substantially more compensation than the other named executive officers and the relatively larger amount of Mr. Culp's equity awards as a percentage of his total compensation emphasizes our belief that the amount and the at-risk nature of compensation should increase commensurate with the complexity and importance of the officer's position. Specific factors the Committee considered with respect to Mr. Culp's relative compensation (none of which was assigned a particular weight by the Committee) include: (i) the importance of the CEO position in an organization as diversified and acquisitive as ours; (ii) given our expectations of future growth, we have selected a CEO capable of leading a company that is significantly larger and more complex than Danaher is today and by doing so Mr. Culp is particularly attractive to larger companies with greater resources; and (iii) Mr. Culp has a 22-year tenure with Danaher and has served as an executive officer longer than any other named executive officer, and his record of performance at each level at which he has served has been exemplary.

#### *2012 Compensation for Angela S. Lalor*

Danaher hired Ms. Lalor as Senior Vice President-Human Resources in April 2012. For a description of the compensation arrangements agreed to with Ms. Lalor in connection with her hiring, please see Employment Agreements Letter Agreement with Angela S. Lalor. Each of Ms. Lalor's 2012 compensation elements were determined by the Committee subjectively and agreed to as part of a negotiated process related to Danaher's hiring of Ms. Lalor. In determining the amounts and other terms of each compensation element agreed to with Ms. Lalor (particularly her signing bonus, guaranteed annual bonuses and new hire equity grant), the Committee's primary considerations related to the significance of Ms. Lalor's hiring in relation to the Company's strategic objectives; recognition of the security of Ms. Lalor's position with 3M Company (where she had established a 22-year career and was serving as the company's Senior Vice President Human Resources) and the need to provide a compensation package sufficient to incentivize Ms. Lalor to join Danaher; and ensuring that the compensation would be structured as efficiently as possible and in a way that would benefit Danaher and its shareholders. In determining the target dollar value of Ms. Lalor's new-hire equity award and the amount of her signing bonus, the Committee considered in particular the value of the unvested equity that Ms. Lalor relinquished by leaving her position at 3M. In determining the target dollar value of Ms. Lalor's 2012 annual equity award and her 2012 base salary, the Committee considered in particular the compensation levels of comparable Danaher executive officers and the historical amounts of annual equity compensation and base salary Ms. Lalor received from her prior employer. With respect to Ms. Lalor's 2012 variable cash compensation, the Committee guaranteed a majority of such compensation (in recognition that it will take time for her to make progress with respect to her strategic priorities), but also conditioned a portion of such compensation on 2012 performance. The Committee structured the performance-based portion in a manner that gave the Committee discretion to determine the appropriate personal performance factors to take into account and (subject to a cap) the appropriate payment amount, while also designing such portion in a manner the Committee believes is deductible for purposes of Section 162(m).

#### **Peer Group Compensation Analysis**

The Committee does not target a specific competitive position versus the market or peer companies in determining the compensation of its executives because in light of the Company's diverse mix of businesses, strict benchmarking against a selected group of companies would not provide a meaningful basis for establishing compensation. However, the Committee believes it is important to clearly understand the relevant market for executive talent to inform its decision-making and ensure that our executive compensation program supports our recruitment and retention needs and is fair and efficient. As a result, the Committee has worked with F.W. Cook to develop a peer group for purposes of assessing competitive compensation practices, and periodically reviews compensation data for the peer group derived from publicly filed proxy statements.

*Peer Group for 2012 Compensation*

Prior to September 2012, the Company's peer group consisted of the companies set forth below, which is the same as the Company's 2011 peer group:

3M Company	Emerson Electric Co.	Rockwell Automation Inc.
Agilent Technologies Inc.	Honeywell International Inc.	SPX Corp.
Becton Dickinson & Co.	Illinois Tool Works, Inc.	Textron Inc.
Cooper Industries	ITT Corporation	Thermo Fisher Scientific Inc.
Covidien Ltd.	Medtronic Inc.	Tyco International Ltd
Dover Corp.	Parker-Hannifin Corp.	United Technologies Corp.
Eaton Corp.	PerkinElmer Inc.	

The Committee selected companies for inclusion in the peer group based on (i) the extent to which they compete with us in one or more lines of business, for executive talent and for investors, and (ii) comparability of revenues, market capitalization, net income, total assets and number of employees. The table below sets forth for the 2012 peer group and Danaher information regarding revenue, net income and total assets (based on the most recently reported four quarters for each company as of October 31, 2011), market capitalization (as of October 31, 2011) and employee headcount (based on each company's most recent fiscal year end as of October 31, 2011), in each case derived from the Standard & Poor's Compustat database.

	Revenue	Market capitalization	(\$ in millions) Net income (before extraordinary items and discontinued operations)	Total assets	Employees
25 <sup>th</sup> percentile	\$ 7,358	\$ 9,430	\$ 634	\$ 9,323	27,801
Median	\$ 11,587	\$ 15,995	\$ 1,178	\$ 16,454	41,000
75 <sup>th</sup> percentile	\$ 17,277	\$ 26,608	\$ 2,052	\$ 26,981	72,514
DHR	\$ 15,185	\$ 33,185	\$ 1,867	\$ 30,618	48,200
DHR percentile rank	62%	78%	70%	84%	59%

The peer group compensation data that the Committee reviewed in 2012 in connection with its 2012 executive compensation decisions estimated the 25<sup>th</sup>, median and 75<sup>th</sup> percentile positions among our peers with respect to base salary, annual cash incentive compensation (target and actual), total annual cash compensation (target and actual), long-term incentive compensation, total direct compensation (target and actual), all other compensation, annual change in pension value and above-market interest on non-qualified deferred compensation, and actual total compensation, in each case with respect to each respective named executive officer position.

*Peer Group for 2013 Compensation*

The Committee periodically reviews the companies included in the peer group to ensure that the peer group remains appropriate. During 2012 the Company evaluated the existing peer group with the assistance of F.W. Cook and concluded that, as a result of the Company's revenue and earnings growth and the evolution of its portfolio of businesses, it was necessary to change the composition of the peer group. Using the same criteria described above with respect to the prior peer group, effective as of September 2012 the Committee revised the Company's peer group to consist of the following companies (the peer companies):

3M Company	Becton Dickinson & Co.	Emerson Electric Co.	Rockwell Automation Inc.
Abbott Laboratories	Covidien Ltd.	Honeywell International Inc.	Thermo Fisher Scientific Inc.
Agilent Technologies Inc.	Dover Corp.	Illinois Tool Works, Inc.	Tyco International Ltd
Baxter International, Inc.	Eaton Corp.	Medtronic Inc.	United Technologies Corp.

The Committee believes that the new peer group is more comparable to Danaher with respect to the financial metrics noted above, and also reflects the increased proportion of healthcare related businesses in Danaher's portfolio. The table below sets forth for the new peer group information regarding revenue, net income and total assets (based on the most recently reported four quarters for each company as of September 30, 2012), market capitalization (as of September 30, 2012) and employee headcount (based on each company's most recent fiscal year end as of September 30, 2012), in each case derived from the Standard & Poor's Compustat database.

	(\$ in millions)				
	Net income				
	(before extraordinary items and discontinued operations)				
	Revenue	Market capitalization		Total assets	Employees
25 <sup>th</sup> percentile	\$ 11,037	\$ 15,900	\$ 1,126	\$ 16,591	37,975
Median	\$ 16,215	\$ 28,204	\$ 1,912	\$ 23,220	56,570
75 <sup>th</sup> percentile	\$ 25,603	\$ 44,970	\$ 2,681	\$ 33,274	93,570
DHR	\$ 18,032	\$ 38,349	\$ 2,199	\$ 31,171	59,000
DHR percentile rank	65%	69%	64%	71%	51%

### Regulatory Considerations

Section 162(m) generally disallows a tax deduction to public corporations for compensation in excess of \$1 million paid for any fiscal year to a company's CEO or to any of the company's other three most highly compensated executive officers (other than the CFO). The statute generally exempts qualifying performance-based compensation from the deduction limit if certain conditions are met. While the Committee generally attempts to preserve the deductibility of compensation paid to the named executive officers, the Committee believes the primary purpose of our compensation program is to support Danaher's business strategy and the long-term interests of our shareholders. Therefore, the Compensation Committee maintains the flexibility to award compensation that may be subject to the limits of Section 162(m) if it believes that doing so furthers the objectives of our executive compensation program. The Committee has taken the steps it believes are necessary to preserve the deductibility of all annual cash incentive compensation awards awarded under the Company's 2007 Executive Incentive Compensation Plan and all equity awards made to each of the named executive officers. For 2012, the Company believes approximately \$350,000 of Mr. Culp's compensation is not deductible under 162(m). The Company believes that the compensation paid in 2012 to each of the other named executive officers is deductible under 162(m).

### Stock Ownership Policies

#### *Stock Ownership Requirements*

To further align management and shareholder interests and discourage inappropriate or excessive risk-taking, our stock ownership policy requires each executive officer to obtain a substantial equity stake in Danaher within five years of their appointment to an executive position. Our CEO is required to own shares with a market value of at least five times his base salary. The requirement for Executive Vice Presidents is three times base salary and for Senior Vice Presidents, two times base salary. Once an executive officer has acquired a number of Company shares that satisfies the ownership multiple then applicable to him or her, such number of shares then becomes his or her minimum ownership requirement (even if the officer's salary increases or the fair market value of such shares subsequently changes) until he or she is promoted to a higher level. Under the policy, beneficial ownership includes shares in which the officer or his or her spouse or child has a direct or indirect interest, notional shares of Danaher stock in the EDIP plan, shares held in a 401(k) plan, and unvested RSUs, but does not include shares subject to unexercised stock options. Each named executive officer was in compliance with the stock ownership requirements as of December 31, 2012.

*Pledging Policy*

In addition, Danaher's Board has adopted a policy that prohibits any director or executive officer from pledging as security under any obligation any shares of Danaher common stock that he or she directly or indirectly owns and controls (other than shares already pledged as of February 21, 2013), and provides that pledged shares of Danaher common stock do not count toward Danaher's stock ownership requirements.

*Hedging Policy*

Danaher policy prohibits Danaher employees and directors from engaging in any transactions involving a derivative of a Danaher security, including hedging transactions.

**Recoupment Policy**

To further discourage inappropriate or excessive risk-taking, in March 2009 the Committee adopted a recoupment policy applicable to Danaher's executive officers, other individuals who serve on the Danaher Leadership Team (which consists primarily of Company corporate officers) and certain other employees, including each of the named executive officers (the "covered persons"). Under the policy, in the event of a material restatement of Danaher's consolidated financial statements (other than any restatement required pursuant to a change in applicable accounting rules), Danaher's Board may, to the extent permitted by law and to the extent it determines that it is in Danaher's best interests to do so, in addition to all other remedies available to Danaher require reimbursement or payment to Danaher of:

the portion of any annual incentive compensation payment awarded to any covered person within the three year period prior to the date such material restatement is first publicly disclosed that would not have been awarded had the consolidated financial statements that are the subject of such restatement been correctly stated (except that the Board has the right to require reimbursement of the entire amount of any such annual incentive compensation payment from any covered person whose fraud or other intentional misconduct in the Board's judgment alone or with others caused such restatement); and

all gains from equity awards granted on or after March 15, 2009 realized by any covered person during the twelve-month period immediately following the original filing of the consolidated financial statements that are the subject of such restatement, if the covered person's fraud or other intentional misconduct in the Board's judgment alone or with others caused such restatement.

In addition, both of the stock plans in which Danaher's executive officers participate contain a provision for recovering awards upon certain circumstances. Under the terms of the Company's 2007 Plan and the 1998 Stock Plan, no associate can exercise any outstanding equity award after such time he or she is terminated for gross misconduct. In addition, under the terms of the EDIP, if the Administrator determines that termination of an employee's participation in the EDIP resulted from the employee's gross misconduct, the Administrator may determine that the employee's vesting percentage is zero with respect to all balances that were contributed by Danaher.

**Compensation Committee Report**

*This report is not deemed to be soliciting material or to be filed with the SEC or subject to the SEC's proxy rules or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and shall not be deemed to be incorporated by reference into any prior or subsequent filing by Danaher under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent Danaher specifically incorporates this report by reference therein.*

The Compensation Committee of Danaher Corporation's Board has reviewed and discussed with management the Compensation Discussion and Analysis set forth above and, based on such review and discussion, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

**Compensation Committee of the Board of Directors**

Donald J. Ehrlich (Chair)

Mortimer M. Caplin

Alan G. Spoon

### Summary Compensation Table

The following table sets forth information regarding compensation earned for 2012, 2011 and 2010 by our President and Chief Executive Officer, our Executive Vice President and Chief Financial Officer, and our three other most highly compensated executive officers who were serving as executive officers as of December 31, 2012, also known as our named executive officers.

Name and Principal Position	Year	Salary (\$ (1))	Bonus (\$ (2))	Stock Awards (\$ (3))	Option Awards (\$ (3))	Non-Equity Incentive Plan Compensation (\$ (4))	Change in Pension Value and Nonqualified Deferred Compensation	All Other Compensation (\$)	Total (\$)
							Earnings (\$ (5))		
<b>H. Lawrence Culp, Jr.,</b>									
President and CEO	2012	\$ 1,117,778	0	\$ 7,653,255	\$ 7,888,608	\$ 4,525,000	\$ 1,861	\$ 712,226(6)	\$ 21,898,728
	2011	\$ 1,117,778	0	\$ 7,678,268	\$ 7,382,003	\$ 4,750,000	\$ 2,300	\$ 722,068	\$ 21,652,417
	2010	\$ 1,117,778	0	\$ 6,738,383(7)	\$ 4,258,985	\$ 4,400,000	\$ 2,244	\$ 514,854	\$ 17,032,244
<b>Daniel L. Comas,</b>									
Executive Vice President and CFO	2012	\$ 660,000	0	\$ 1,785,965	\$ 1,840,734	\$ 1,285,000	\$ 2,350	\$ 258,454(8)	\$ 5,832,503
	2011	\$ 630,000	0	\$ 1,791,687	\$ 1,722,493	\$ 1,350,000	\$ 2,904	\$ 253,261	\$ 5,750,345
	2010	\$ 600,152	0	\$ 1,693,955(7)	\$ 1,303,145	\$ 1,200,000	\$ 2,833	\$ 290,296	\$ 5,090,381
<b>Thomas P. Joyce, Jr.</b>									
Executive Vice President	2012	\$ 600,000	0	\$ 1,530,865	\$ 1,577,898	\$ 1,140,000	\$ 3,750	\$ 111,848(9)	\$ 4,964,361
	2011	\$ 570,000	0	\$ 1,535,802	\$ 1,476,477	\$ 1,200,000	\$ 4,632	\$ 106,589	\$ 4,893,500
	2010	\$ 540,152	0	\$ 1,707,017(7)	\$ 1,303,145	\$ 1,100,000	\$ 4,515	\$ 95,427	\$ 4,750,256
<b>Angela S. Lalor,</b>									
Senior Vice President-Human Resources	2012	\$ 354,167	\$ 800,000	\$ 2,817,924	\$ 498,378	\$ 150,000	0	\$ 290,866(10)	\$ 4,911,335
<b>James A. Lico,</b>									
Executive Vice President	2012	\$ 600,000	0	\$ 1,530,865	\$ 1,577,898	\$ 1,000,000	\$ 2,476	\$ 111,848(9)	\$ 4,823,087
	2011	\$ 570,000	0	\$ 1,535,802	\$ 1,476,477	\$ 1,100,000	\$ 3,063	\$ 88,764	\$ 4,774,106
	2010	\$ 540,152	0	\$ 1,680,893(7)	\$ 1,303,145	\$ 1,100,000	\$ 2,990	\$ 77,944	\$ 4,705,124

- (1) Mr. Joyce deferred \$120,000 of his salary for each of 2012, 2011 and 2010 into the EDIP. Each of Messrs. Culp, Comas, Joyce and Lico also contributed a portion of his 2012, 2011 and 2010 salaries to the Danaher 401(k) Plan.
- (2) Ms. Lalor commenced employment with the Company in 2012. For 2012, Ms. Lalor received the first installment of her signing bonus in the amount of \$300,000 and a guaranteed bonus of \$500,000 in accordance with the terms of the letter agreement between Ms. Lalor and the Company dated March 19, 2012 (the Lalor Letter Agreement). For additional details regarding these bonus amounts, please refer to Employment Agreements Letter Agreement with Angela S. Lalor.
- (3) The amounts reflected in these columns represent the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 for equity grants made in the applicable year. With respect to restricted stock units, the grant date fair value under FASB ASC Topic 718 is calculated based on the number of shares of Common Stock underlying the RSU, times the closing price of the Danaher Common Stock on the date of grant. With respect to stock options, the grant date fair value under FASB ASC Topic 718 has been calculated using the Black-Scholes option pricing model, based on the following assumptions (and assuming no forfeitures):

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Name	Year of grant	Risk-free interest rate	Stock price volatility rate	Dividend yield	Option life
Culp, Comas, Joyce, Lico	2012	1.70%	34.0%	0.2%	8.5 years
	2011	3.19%	27.0%	0.2%	8.5 years
	2010	3.37% (Culp);	30.0%	0.2%	8.5 years
		3.41% (Comas, Joyce, Lico)			
Lalor	2012	1.02%	28.0%	0.2%	6.0 years

- (4) Mr. Culp deferred \$452,500 of his non-equity incentive plan compensation for 2012, \$475,000 of his non-equity incentive plan compensation for 2011 and \$1,100,000 of his non-equity incentive plan compensation for 2010 into the EDIP. Mr. Lico deferred \$100,000 of his non-equity incentive plan compensation for each of 2012, 2011 and 2010 into the EDIP. Mr. Joyce deferred \$285,000 of his non-equity incentive plan compensation for 2012, \$300,000 of his non-equity incentive plan compensation for 2011 and \$220,000 of his non-equity incentive plan compensation for 2010 into the EDIP.



- (5) For each named executive officer, the amount set forth represents the aggregate change in the actuarial present value of the officer's accumulated benefit under the Cash Balance Plan of the Danaher Corporation & Subsidiaries Pension Plan between the December 31, 2011 plan measurement date and the December 31, 2012 plan measurement date. The material assumptions used in quantifying the present value of the accumulated benefit at each of December 31, 2011 and December 31, 2012 are as follows: an interest crediting rate (applied from the plan measurement date until normal retirement age) of 3.5% for the plan measurement date of December 31, 2011 and 2.9% for the plan measurement date of December 31, 2012; a retirement age of 65, which is normal retirement age under the Cash Balance Plan; payment of the accrued obligations in a lump sum upon retirement; and the discount rates as set forth in Note 11 to Danaher's consolidated financial statements included in Danaher's Annual Report on Form 10-K for the year ended December 31, 2012. We do not provide any above-market or preferential earnings on compensation that is deferred.
- (6) Includes \$17,798 in Danaher contributions to Mr. Culp's account in the 401(k) Plan; \$251,500 in Danaher contributions to his account in the EDIP; and an aggregate of \$442,928 in perquisites consisting of the following: \$361,602 relating to personal use of Danaher's aircraft, \$54,711 in filing fees and related legal fees relating to a Hart-Scott-Rodino Antitrust Improvements Act (HSR) filing Mr. Culp made as a result of his participation in Danaher's equity compensation program, plus amounts related to tax preparation and professional services, parking expenses and tickets to entertainment events. For purposes of the Summary Compensation Table, the incremental cost to the Company of the personal aircraft use is calculated by multiplying the total number of personal flight hours times the average direct variable operating costs (including costs related to fuel, on-board catering, maintenance expenses related to operation of the plane during the year, landing and parking fees, navigation fees, related ground transportation, crew accommodations and meals and supplies) per flight hour for the particular aircraft for the year. Since the aircraft are used primarily for business travel, we do not include in the calculation the fixed costs that do not change based on usage, such as crew salaries, the lease or acquisition cost of the aircraft, exterior paint and other maintenance and inspection and capital improvement costs intended to cover a multiple-year period. Effective as of January 1, 2013, Mr. Culp's perquisite allowance for personal use of the Company aircraft is limited to \$125,000 annually and Mr. Culp will reimburse the Company for any personal use of the aircraft in excess of \$125,000. The incremental cost to the Company of the HSR filing fees and related legal fees is calculated based on the Company's out-of-pocket costs with respect to such fees.
- (7) In February 2010, the Committee paid all of Mr. Culp's discretionary bonus for 2009 (and one-half of the discretionary bonuses for 2009 paid to each of Messrs. Comas, Joyce and Lico) in RSUs subject to time and performance-based vesting. Even though these awards relate to 2009 performance, in accordance with SEC rules they are disclosed as 2010 Stock Awards in this table because they were granted in 2010. Of the amounts set forth in the Stock Awards column for 2010, the following portions are attributable to these 2009 discretionary bonuses: for Mr. Culp, \$2,089,920; Mr. Comas, \$271,690; Mr. Joyce, \$284,752; and Mr. Lico, \$258,628.
- (8) Includes \$17,798 in Danaher contributions to Mr. Comas' account in the 401(k) Plan; \$103,950 in Danaher contributions to his account in the EDIP; and an aggregate of \$136,706 in perquisites consisting of the following: \$118,695 relating to personal use of Danaher's aircraft, plus amounts relating to tax preparation and professional services, parking expenses and tickets to entertainment events. The incremental cost to the Company of the personal aircraft use is calculated in the same manner as set forth in Footnote (6) above. Effective as of January 1, 2013, Mr. Comas' perquisite allowance for personal use of the Company aircraft is limited to \$50,000 annually and Mr. Comas will reimburse the Company for any personal use of the aircraft in excess of \$50,000.
- (9) With respect to each of Messrs. Joyce and Lico, consists of \$17,798 in Danaher contributions to his account in the 401(k) Plan and \$94,050 in Danaher contributions to his account in the EDIP.
- (10) Includes \$40,199 in Danaher contributions to Ms. Lalor's account in the EDIP and an aggregate of \$250,667 in perquisites consisting of the following: \$242,390 in relocation costs in connection with Danaher's hiring of Ms. Lalor in 2012, plus amounts relating to tax preparation and professional services, parking expenses and tickets to an entertainment event. The incremental cost to the Company of the relocation costs is calculated based on the Company's out-of-pocket costs for such relocation items, which included costs relating to the sale of her former residence and purchase of a new residence, temporary housing, house-hunting trips and moving expenses as well as reimbursement in the amount of \$71,543 for the income taxes incurred by Ms. Lalor with respect to such relocation perquisites. The Company did not purchase Ms. Lalor's prior residence.

## Grants of Plan-Based Awards for Fiscal 2012

The following table sets forth certain information regarding grants of plan-based awards to each of our named executive officers in 2012.

Name	Type of Award	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (1)		Estimated Future Payouts Under Equity Incentive Plan Awards (2)	All Other Option Awards: Number of Securities Underlying Options (#)(2)	Exercise or Base Price of Option Awards (\$/Share)	Grant Date Fair Value of Stock and Option Awards (\$) (3)
			Target (\$)	Maximum (\$)				
H. Lawrence Culp, Jr.	Annual cash incentive compensation	2/23/2012	\$ 5,000,000	\$ 5,000,000				
	Stock options	2/23/2012				357,760(4)	\$ 53.48	\$ 7,888,608
	Performance-based restricted stock units	2/23/2012			143,105(5)			\$ 7,653,255
Daniel L. Comas	Annual cash incentive compensation	2/23/2012	\$ 1,776,060	\$ 5,000,000				
	Stock options	2/23/2012				83,480(4)	\$ 53.48	\$ 1,840,734
	Performance-based restricted stock units	2/23/2012			33,395(5)			\$ 1,785,965
Thomas P. Joyce, Jr.	Annual cash incentive compensation	2/23/2012	\$ 1,614,600	\$ 5,000,000				
	Stock options	2/23/2012				71,560(4)	\$ 53.48	\$ 1,577,898
	Performance-based restricted stock units	2/23/2012			28,625(5)			\$ 1,530,865
Angela S. Lalor	Annual cash incentive compensation	5/8/2012	\$ 250,000	\$ 250,000				
	Stock options	5/8/2012				32,510(6)	\$ 54.17	\$ 498,378
	Performance-based restricted stock units	5/8/2012			13,005(7)			\$ 704,481
	Performance-based restricted stock units	5/8/2012			39,015(8)			\$ 2,113,443
James A. Lico	Annual cash incentive compensation	2/23/2012	\$ 1,614,600	\$ 5,000,000				
	Stock options	2/23/2012				71,560(4)	\$ 53.48	\$ 1,577,898
	Performance-based restricted stock units	2/23/2012			28,625(5)			\$ 1,530,865

(1) These columns relate to potential cash award opportunities in 2012 under Danaher's 2007 Executive Incentive Compensation Plan. With respect to Messrs. Culp, Comas, Joyce and Lico, payout opportunities under these awards were based on the degree of period-to-period increase or decline in Danaher's Adjusted EPS (as modified by Danaher's 2012 Free Cash Flow Ratio) rather than based on achievement of a specific performance goal, and the Committee's exercise of negative discretion. As such there was no threshold or target specified for these awards. See Employee Benefit Plans for a description of Danaher's 2007 Executive Incentive Compensation Plan. Because there was no target specified for these awards, pursuant to Instruction 2 of Item 402(d) under Regulation S-K promulgated under the Securities Exchange Act, the amounts set forth in the Target column are theoretical amounts based upon the prior year's level of Company financial performance and assuming no exercise of negative discretion by the Committee. With respect to Ms. Lalor, her 2012 award under the 2007 Executive Incentive Compensation Plan provided that if the Company were to have positive net income for the nine month period from April 1, 2012 through December 31, 2012, Ms. Lalor's award would be \$250,000, subject to the Committee's negative discretion. Therefore, the Target and Maximum with respect to Ms. Lalor's 2012 Plan award are the same. In addition, because there was no threshold specified for any of the abovementioned awards, the Threshold column has been omitted.

(2) These columns relate to awards granted under the 2007 Stock Incentive Plan, the terms of which apply to all of the equity awards described in this table. Please see Employee Benefit Plans for a description of the 2007 Plan.

(3)

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Reflects the grant date fair value of RSU awards and stock option awards, as applicable, calculated in accordance with FASB ASC Topic 718. For the assumptions used in determining the grant date fair value under FASB ASC Topic 718, please see Footnote 3 to the Summary Compensation Table.

- (4) For a description of the vesting terms of the award, please see Footnote 3 to the Outstanding Equity Awards at 2012 Fiscal Year-End Table.
  
- (5) For a description of the vesting terms of the award, please see Footnote 5 to the Outstanding Equity Awards at 2012 Fiscal Year-End Table.
  
- (6) For a description of the vesting terms of the award, please see Footnote 7 to the Outstanding Equity Awards at 2012 Fiscal Year-End Table.
  
- (7) For a description of the vesting terms of the award, please see Footnote 8 to the Outstanding Equity Awards at 2012 Fiscal Year-End Table.
  
- (8) For a description of the vesting terms of the award, please see Footnote 9 to the Outstanding Equity Awards at 2012 Fiscal Year-End Table.

**Outstanding Equity Awards at 2012 Fiscal Year-End**

The following table summarizes the number of securities underlying outstanding equity awards for each named executive officer as of December 31, 2012. All of the awards set forth in the table below granted on or before May 15, 2007 are governed by the terms and conditions of the Amended and Restated 1998 Stock Option Plan (the "1998 Plan"), and the awards granted after May 15, 2007 are governed by the terms and conditions of the 2007 Plan.

Name	Grant Date	Option Awards			Stock Awards				
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) (1)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (1)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
H. Lawrence Culp, Jr.	2/23/2012		357,760(3)	\$ 53.48	2/23/2022				
	2/23/2011		387,080(3)	\$ 49.59	2/23/2021				
	2/25/2010		311,808(3)	\$ 37.27	2/25/2020				
	2/24/2009		422,800(3)	\$ 26.29	2/24/2019				
	2/27/2006	1,621,000(4)		\$ 30.84	2/27/2016				
	2/23/2012							143,105(5)	\$ 7,999,570
	2/23/2011					154,835(6)	\$ 8,655,277		
	2/25/2010					124,724(6)	\$ 6,972,072		
	2/24/2009					169,200(6)	\$ 9,458,280		
Daniel L. Comas	2/23/2012		83,480(3)	\$ 53.48	2/23/2022				
	2/23/2011		90,320(3)	\$ 49.59	2/23/2021				
	2/23/2010		95,280(3)	\$ 37.32	2/23/2020				
	2/24/2009		121,140(3)	\$ 26.29	2/24/2019				
	2/20/2008	54,640(3)	54,640(3)	\$ 37.75	2/20/2018				
	2/22/2007	101,200		\$ 37.07	2/22/2017				
	5/4/2005	200,000		\$ 25.85	5/4/2015				
	5/4/2005	200,000		\$ 25.85	5/4/2015				
	2/23/2012							33,395(5)	\$ 1,866,781
	2/23/2011					36,130(6)	\$ 2,019,667		
	2/23/2010					38,110(6)	\$ 2,130,349		
	2/24/2009					48,450(6)	\$ 2,708,355		
	2/20/2008					14,570(6)	\$ 814,463		

Name	Option Awards					Stock Awards			
	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) (1)	Market Value of Shares or Units of Stock That Have Not Vested (\$) (2)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights That Have Not Vested (#) (1)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$) (2)
Thomas P. Joyce, Jr.	2/23/2012		71,560(3)	\$ 53.48	2/23/2022				
	2/23/2011		77,420(3)	\$ 49.59	2/23/2021				
	2/23/2010		95,280(3)	\$ 37.32	2/23/2020				
	2/24/2009		121,140(3)	\$ 26.29	2/24/2019				
	2/20/2008	54,640(3)	54,640(3)	\$ 37.75	2/20/2018				
	2/22/2007	101,200		\$ 37.07	2/22/2017				
	5/26/2006	50,000		\$ 32.07	5/26/2016				
	2/23/2006	48,000		\$ 30.73	2/23/2016				
	2/23/2012							28,625(5)	\$ 1,600,138
	2/23/2011					30,970(6)	\$ 1,731,223		
	2/23/2010					38,110(6)	\$ 2,130,349		
	2/24/2009					48,450(6)	\$ 2,708,355		
	2/20/2008					14,570(6)	\$ 814,463		
Angela S. Lalor	5/8/2012		32,510(7)	\$ 54.17	5/8/2022				
	5/8/2012							13,005(8)	\$ 726,980
	5/8/2012							39,015(9)	\$ 2,180,939
James A. Lico	2/23/2012		71,560(3)	\$ 53.48	2/23/2022				
	2/23/2011		77,420(3)	\$ 49.59	2/23/2021				
	2/23/2010		95,280(3)	\$ 37.32	2/23/2020				
	2/24/2009		121,140(3)	\$ 26.29	2/24/2019				
	2/20/2008	54,640(3)	54,640(3)	\$ 37.75	2/20/2018				
	2/22/2007	101,200		\$ 37.07	2/22/2017				
	2/23/2006	98,000		\$ 30.73	2/23/2016				
	3/2/2004	165,000		\$ 22.62	3/2/2014				
	2/23/2012							28,625(5)	\$ 1,600,138
	2/23/2011					30,970(6)	\$ 1,731,223		
	2/23/2010					38,110(6)	\$ 2,130,349		
	2/24/2009					48,450(6)	\$ 2,708,355		
	2/20/2008					14,570(6)	\$ 814,463		

- (1) With respect to the unexercisable options and unvested RSUs reflected in the table above, the footnotes below describe the vesting terms applicable to the entire award of which such options or RSUs were a part.
- (2) Market value is calculated based on the closing price of Danaher's Common Stock on December 31, 2012 as reported on the NYSE (\$55.90 per share), times the number of shares.
- (3) Under the terms of the award, 50% of the options granted become or became exercisable on each of the fourth and fifth anniversaries of the grant date.
- (4) In September 2011, Mr. Culp gifted these stock options to a limited liability company, the members of which are Mr. Culp and an entity controlled by Mr. Culp.
- (5) The RSU award is subject to both time-based and performance-based vesting criteria. Pursuant to the time-based vesting provisions, one-half of the RSUs will vest on each of the fourth and fifth anniversaries of the grant date. The grantee will not vest in any of the RSUs however unless (A) Danaher completes four consecutive fiscal quarters starting after the grant date and ending on or prior to the tenth anniversary of the grant date in which (x) Adjusted EPS exceeds 110% of the Adjusted EPS for the four fiscal quarters ended December 31, 2011 and (y) Danaher achieves positive net income; and (B) the Compensation Committee certifies that the foregoing performance criteria have been satisfied. For purposes of this footnote, Adjusted EPS is defined as fully diluted earnings per share as determined pursuant to generally accepted accounting principles consistently applied ( GAAP ) but excluding (1) extraordinary or nonrecurring items in accordance with GAAP, (2) the impact of any change in accounting principles that occurs during either the baseline period or the performance period and the cumulative effect thereof (the committee may either apply the changed accounting principle to the baseline period and the performance period, or exclude the changed accounting principle from both periods), (3) goodwill and other intangible impairment charges, (4) gains or charges associated with discontinued operations or with the obtaining or losing control of a business, (5) gains or charges related to the sale or impairment of assets, (6)(i) all transaction costs directly related to acquisitions, (ii) all restructuring charges directly related to acquisitions and incurred within two years of the acquisition date, (iii) all charges and gains arising from the resolution of acquisition-related contingent liabilities identified as of the acquisition date, and (iv) all other charges directly related to acquisitions and incurred within two years of the acquisition date, and (7) the impact of any discrete income tax charges or benefits identified in the period; provided, that with respect to the gains and charges referred to in sections (3), (4), (5), (6)(iii), (6)(iv) and (7), only gains or charges that individually or as part of a series of related items exceed \$10 million in aggregate during the baseline and measurement periods are excluded.
- (6) The RSU award was granted subject to both time-based and performance-based vesting criteria, and Danaher's Compensation Committee has certified that the performance-based vesting criteria applicable to the award have been satisfied. Pursuant to the time-based vesting provisions, 50% of the award vests or vested on each of the fourth and fifth anniversaries of the grant date.
- (7) Under the terms of the award, one-third of the options granted become exercisable on each of the third, fourth and fifth anniversaries of the grant date.
- (8) The RSU award is subject to both time-based and performance-based vesting criteria. Pursuant to the time-based vesting provisions, one-third of the RSUs will vest on each of the third, fourth and fifth anniversaries of the grant date. The grantee will not vest in any of the RSUs however unless (A) Danaher completes four consecutive fiscal quarters starting after the grant date and ending on or prior to the tenth anniversary of the grant date in which (x) Adjusted EPS exceeds 110% of the Adjusted EPS for the four fiscal quarters ended December 31, 2011 and (y) Danaher achieves positive net income; and (B) the Compensation Committee certifies that the foregoing performance criteria have been satisfied. For purposes of this footnote, Adjusted EPS is defined in the same manner as described in Footnote 5 above.
- (9) The RSU award is subject to both time-based and performance-based vesting criteria. Pursuant to the time-based vesting provisions, twenty percent of the RSUs will vest on each of the first five anniversaries of the grant date. The grantee will not vest in any of the RSUs however unless the applicable performance criteria are satisfied, which are the same as the performance criteria described in Footnote 8 above.

### Option Exercises and Stock Vested During Fiscal 2012

The following table summarizes stock option exercises and the vesting of restricted stock unit awards with respect to our named executive officers in 2012.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$) (1)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) (2)
H. Lawrence Culp, Jr.	1,406,596	\$ 48,550,210	676,000	\$ 35,985,280
Daniel L. Comas	50,000	\$ 1,457,785	31,710	\$ 1,678,251
Thomas P. Joyce, Jr.	120,000	\$ 3,626,340	31,886	\$ 1,687,794
Angela S. Lalor				
James A. Lico	60,000	\$ 1,775,814	31,536	\$ 1,668,817

- (1) Calculated by multiplying the number of shares acquired times the difference between the exercise price and the market price of Danaher Common Stock at the time of exercise.
- (2) Calculated by multiplying the number of shares acquired times the closing price of Danaher's Common Stock as reported on the NYSE on the vesting date (or on the last trading day prior to the vesting date if the vesting date was not a trading day).

#### 2012 Pension Benefits

The table below shows as of December 31, 2012, the present value of accumulated benefits payable to each of the named executive officers under the Cash Balance Plan of the Danaher Corporation & Subsidiaries Pension Plan (the "Cash Balance Plan"), which is the only defined benefit pension plan in which any of the named executive officers participates. The Cash Balance Plan is part of the Danaher Corporation & Subsidiaries Pension Plan, a funded pension plan qualified under Section 401(a) of the Code. Prior to the inception of the Cash Balance Plan in 1997, Danaher made annual contributions to the defined contribution retirement plans of substantially all of its United States salaried employees, in an amount equal to 3% of the employee's annual, eligible base salary. From 1997 through 2003, in lieu of these contributions, Danaher credited the same level of contributions to the Cash Balance Plan for each covered employee. As of December 31, 2003, the plan was frozen with respect to substantially all participants under the plan (including Messrs. Culp, Comas, Joyce and Lico) and no further contributions will be made with respect to such participants under the plan. All accrued benefits under the plan for these participants became 100% vested as of such date. All account balances under the plan with respect to these participants (including all of the named executive officers) now increase each year at the annual rate of interest on 30-year Treasury securities for the month of November preceding the first day of the applicable plan year. Upon termination of employment, a participant receives his or her vested accrued benefit in cash or as an annuity (based on the participant's election).



The material assumptions used in quantifying the present value of the accumulated benefit at December 31, 2012 are as follows: an interest crediting rate (applied from the plan measurement date until normal retirement age) of 2.9%; a retirement age of 65, which is normal retirement age under the Cash Balance Plan; payment of the accrued obligations in a lump sum upon retirement; and the discount rates as set forth in Note 11 to Danaher's consolidated financial statements included in Danaher's Annual Report on Form 10-K for the year ended December 31, 2012. There were no payments made to any named executive officers under the Cash Balance Plan in 2012.

Name	Plan Name	Number of Years Credited Service (#) (1)	Present Value of Accumulated Benefit (\$) (2)
H. Lawrence Culp, Jr.	Cash Balance Plan of the Danaher Corporation & Subsidiaries Pension Plan	7.0	\$ 48,748
Daniel L. Comas	Cash Balance Plan of the Danaher Corporation & Subsidiaries Pension Plan	7.0	\$ 61,601
Thomas P. Joyce, Jr.	Cash Balance Plan of the Danaher Corporation & Subsidiaries Pension Plan	7.0	\$ 97,893
Angela S. Lalor			
James A. Lico	Cash Balance Plan of the Danaher Corporation & Subsidiaries Pension Plan	6.4	\$ 65,121

- (1) Represents the number of years the named executive officer participated in the Cash Balance Plan before it was frozen in 2003 with respect to new Danaher contributions.
- (2) Calculated as of December 31, 2012, the pension plan measurement date used in Danaher's financial statements as of and for the year ended December 31, 2012.

**2012 Nonqualified Deferred Compensation**

The table below sets forth for each named executive officer information regarding participation in the EDIP. There were no withdrawals by or distributions to any of the named executive officers from the EDIP in 2012. For a description of the EDIP, please see Employee Benefit Plans Executive Deferred Incentive Program.

Name	Plan Name	Executive Contributions	Registrant Contributions	Aggregate Earnings in	Aggregate Balance at
		in Last FY (\$ (1))	in Last FY (\$ (2))	Last FY (\$ (3))	Last FYE (\$ (4))
H. Lawrence Culp, Jr.	EDIP	\$ 475,000	\$ 251,500	\$ 2,081,299	\$ 18,305,539
Daniel L. Comas	EDIP	0	\$ 103,950	\$ 188,988	\$ 1,304,576
Thomas P. Joyce, Jr.	EDIP	\$ 420,000	\$ 94,050	\$ 529,919	\$ 4,681,615
Angela S. Lalor	EDIP	0	\$ 40,199	\$ 1,304	\$ 41,503
James A. Lico	EDIP	\$ 100,000	\$ 94,050	\$ 383,652	\$ 2,833,328

(1) Consists of contributions to the EDIP of the following amounts reported in the Summary Compensation Table:

Name	2012 Salary	Non-Equity Incentive Plan Compensation Earned With Respect to 2011 but Deferred in 2012
H. Lawrence Culp, Jr.	0	\$ 475,000
Daniel L. Comas	0	0
Thomas P. Joyce, Jr.	\$ 120,000	\$ 300,000
Angela S. Lalor	0	0
James A. Lico	0	\$ 100,000

(2) The amounts set forth in this column are included as 2012 compensation under the All Other Compensation column in the Summary Compensation Table.

- (3) None of the amounts set forth in this column are included as compensation in the Summary Compensation Table. For a description of the EDIP earnings rates, please see Employee Benefit Plans Executive Deferred Incentive Program. The table below shows each earnings option that was available under the EDIP at any time during 2012 and the rate of return for each such option for the calendar year ended December 31, 2012:

<b>EDIP Investment Option</b>	<b>Rate of Return from January 1, 2012 through December 31, 2012 (%)</b>	<b>EDIP Investment Option</b>	<b>Rate of Return from January 1, 2012 through December 31, 2012 (%)</b>
American Beacon Small Cap Value			
Fund Institutional Class	16.52	Templeton World Fund ADV	19.65
American Funds Growth Fund of			
America Class R4	20.98	Fidelity Institutional Money Market Fund	0.18
Cohen & Steers Realty Shares, Inc.	15.72	Fidelity Freedom 2005 Fund	8.82
Danaher Stock Fund	18.84	Fidelity Freedom 2005 Fund (K Share Class)	8.77
Fidelity Diversified International			
Fund (K Share Class)	19.61	Fidelity Freedom 2010 Fund (K Share Class)	10.53
Fidelity Equity-Income Fund			
(K Share Class)	17.41	Fidelity Freedom 2015 Fund (K Share Class)	10.81
Fidelity Low-Priced Stock Fund			
(K Share Class)	18.66	Fidelity Freedom 2020 Fund (K Share Class)	11.86
T. Rowe Price Institutional Large			
Cap Core Growth	18.86	Fidelity Freedom 2025 Fund	13.15
Franklin Small-Mid Cap Growth			
Fund Advisor Class	11.03	Fidelity Freedom 2025 Fund (K Share Class)	13.26
Vanguard Total International Stock			
Index Fund	18.21	Fidelity Freedom 2030 Fund (K Share Class)	13.65
Fidelity Freedom Income Fund			
(K Share Class)	6.36	Fidelity Freedom 2035 Fund	14.45
Dodge & Cox International Stock			
Fund	21.03	Fidelity Freedom 2035 Fund (K Share Class)	14.60
Fidelity Managed Income Portfolio			
II Class 3	1.6	Fidelity Freedom 2040 Fund (K Share Class)	14.61
Vanguard Inflation Protected			
Securities Fund Institutional Class	6.87	Fidelity Freedom 2045 Fund	14.79
Vanguard Total Bond Market Index	4.18	Fidelity Freedom 2045 Fund (K Share Class)	14.97
Fidelity Spartan 500 Index			
Institutional Fund	15.96	Fidelity Freedom 2050 Fund	15.06
Fidelity Spartan Extended Market			
Index Fund	18.05	Fidelity Freedom 2050 Fund (K Share Class)	15.23

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PIMCO Total Return Fund

Institutional Class

10.36

Fidelity Freedom 2055 Fund (K Share Class)

15.39

50

- (4) The table below indicates for each named executive officer how much of the EDIP balance set forth in this column has been reported as compensation in the Summary Compensation Table with respect to 2006 and subsequent years:

Name	Amount included in at Last FYE	Aggregate Balance column that has been reported as compensation in Summary Compensation Table in 2006 and subsequent years
H. Lawrence Culp, Jr.	\$	6,114,687
Daniel L. Comas	\$	538,588
Thomas P. Joyce, Jr.	\$	2,221,438
Angela S. Lalor	\$	40,199
James A. Lico	\$	1,135,441

**Employment Agreements**

*Employment Agreement with H. Lawrence Culp, Jr.*

We entered into an employment agreement with Mr. Culp, our President and CEO, dated as of July 18, 2000, and amended the agreement as of November 19, 2001, January 1, 2009 and October 17, 2012. The amendment executed by the Company and Mr. Culp on October 17, 2012 eliminated Mr. Culp's right to receive tax reimbursement and gross-up payments upon a change of control of the Company.

The original three-year term of the agreement was scheduled to expire on July 18, 2003. The agreement provides however that as of July 18, 2002, and on every subsequent anniversary of that date, the term of the agreement is automatically extended for an additional one year period. If either we or Mr. Culp provides notice, at least 90 days prior to the next anniversary date of the employment agreement, that Mr. Culp's employment will terminate as of the end of the then-current term of the employment agreement, the agreement will terminate at the end of the then-current term of the agreement. The expiration date of the agreement is currently July 18, 2014.

Under the agreement, Mr. Culp is entitled to (1) a base salary that is no less than the highest base salary paid to him at any time during the term of the agreement; (2) an annual bonus opportunity for which the baseline bonus percentage shall be one hundred twenty-five percent (125%) of Mr. Culp's base salary; (3) all benefit and fringe benefit plans in which our other executives participate; and (4) tax and financial planning advice and an annual physical examination. During any period that Mr. Culp cannot perform his duties as a result of a physical or mental illness (a disability) he is entitled to continue receiving all of the elements of compensation described above, until his employment is terminated.

The agreement prohibits Mr. Culp from disclosing Danaher confidential information during or after his employment. The agreement also prohibits Mr. Culp, at any time during his employment and for three years after his employment ends, from competing with Danaher in the United States or anywhere else in the world where Danaher is doing business or has reasonably firm plans to do business, and from soliciting any of our employees away from Danaher.

We may terminate Mr. Culp's employment if as a result of disability, he is absent from his duties on a full-time basis for 6 consecutive months and within thirty days of notice of termination has not returned to his duties on a full-time basis. We may also terminate his employment either for cause or without cause. Cause means that Mr. Culp willfully fails to perform his duties (other than because of disability) after he has received notice of the failure and has had an opportunity to correct it, willfully engages in misconduct that materially injures Danaher, or is convicted of a felony.

Mr. Culp may terminate his employment at any time, with or without good reason (provided that any termination for good reason must occur not more than two years following the initial existence of the condition alleged to constitute good reason). Good reason means that Danaher:

has materially breached Mr. Culp's employment agreement and has not corrected the breach after receiving notice and the opportunity to correct it;

attempts to terminate Mr. Culp without complying with the notice provisions required under the employment agreement;

assigns Mr. Culp duties inconsistent with his position as President and Chief Executive Officer;

relocates Mr. Culp outside the Washington, D.C. area;

discontinues any material compensation or benefit plan that Mr. Culp participated in as of July 18, 2000 without providing an equitable substitute, or provides Mr. Culp with benefits materially less favorable than the level of benefits he enjoyed under those plans as of July 18, 2000;

undergoes a change-of-control, merger or acquisition with another entity and Mr. Culp does not continue as the President and CEO of the most senior entity that results from the transaction; or

does not obtain a satisfactory agreement from its successor to assume Mr. Culp's employment agreement.

The agreement defines a change-of-control as (a) the acquisition by an individual, entity or group of the greater of (i) thirty percent or more of either the outstanding Danaher Common Stock, or of the combined voting power of outstanding Danaher securities entitled to vote generally in the election of directors ( Danaher voting securities ), or (ii) the lowest whole-number percentage of outstanding Danaher Common Stock or Danaher voting securities, as applicable, that is greater than the percentage owned on a combined basis by Steven Rales, Mitchell Rales and their affiliates; (b) individuals who as of July 18, 2000 constituted a majority of our Board ( incumbent directors ) no longer constituting a majority of our Board (although individuals who are elected, or whose nomination for election is approved, by a majority of the incumbent directors are (with certain exceptions) also considered incumbent directors); (c) consummation of a reorganization, merger or consolidation or sale of all or substantially all of Danaher's assets ( business combination ), unless following the business combination, the persons who beneficially owned more than fifty percent of the Danaher Common Stock and who beneficially owned more than fifty percent of the voting power of the Danaher voting securities, respectively, immediately prior to the business combination continue to own more than fifty percent of the outstanding common stock and more than fifty percent of the voting power of the outstanding voting securities, respectively, of the entity resulting from the business combination, in substantially the same proportions as their ownership prior to the business combination; or (d) approval by our shareholders of a complete liquidation or dissolution of Danaher.

If Mr. Culp's employment ends for any reason, he is entitled to receive within 14 days after termination his base salary through the date of termination, the balance of any annual or long-term cash incentive awards earned but not yet paid and any deferred compensation allocated to his account as of the later of the date of termination or date of payment, and any other amounts or benefits required to be paid to him according to the terms of any other Danaher plan (at the time such payments are due under the plan). Mr. Culp is also entitled to receive the following additional amounts upon certain events of termination:

If Mr. Culp dies, or at least 90 days prior to the next anniversary date of the employment agreement provides notice that his employment will terminate as of the end of the then-current term of the employment agreement, he is entitled to receive no later than two and one-half months following the end of the calendar year in which the death or date of termination occurs an amount equal to the product of (x) an amount equal to the average of the annual bonus awards paid to Mr. Culp with respect to the three years preceding the year of termination, provided such amount may not exceed two hundred and fifty percent (250%) of his then-current base salary, times (y) the number of days in the calendar year of termination through the date of termination, divided by 365 (the Pro

Rata Payment ).

If we terminate Mr. Culp's employment on account of disability, he is entitled to receive the Pro Rata Payment (on the same timetable as described above) and have his employee welfare benefit plans and programs continued for 12 months following the termination.

If we terminate Mr. Culp's employment other than for cause or disability (including if we terminate by providing notice of termination at least 90 days prior to the next anniversary date of the employment agreement), or if he terminates his employment for good reason, Mr. Culp is entitled to (1) receive the Pro Rata Payment (on the same timetable as described above), (2) receive an amount equal to twice the sum of (x) his then-current base salary and (y) an amount equal to the average of the annual bonus awards paid to Mr. Culp with respect to the three years preceding the year of termination (provided such amount may not exceed two hundred and fifty percent (250%) of his then-current base salary), paid out over twenty four months according to the normal payroll cycle; (3) reimbursement for reasonable legal fees and expenses that he incurs in connection with the termination; and (4) have health and welfare benefits continued for himself and his family for twenty-four months following the termination.

The agreement also contains other terms intended to ensure that, with respect to any payments to be made under the agreement that could constitute deferred compensation under Section 409A of the Code, such payments will either be exempt from the application of Section 409A or will be made in compliance with Section 409A (which may result in such payments being delayed for six months).

*Letter Agreement with Angela S. Lalor*

Danaher entered into a letter agreement with Ms. Lalor on March 19, 2012 in connection with her hiring as Danaher's Senior Vice President-Human Resources in April 2012. Pursuant to the letter agreement, Ms. Lalor's employment is on an at-will basis and she is entitled to:

an annual base salary of \$500,000 (subject to periodic review), payable in accordance with the Company's usual payroll practices;

a guaranteed bonus of \$500,000 for each of the calendar years 2012 and 2013, payable within 60 days of the end of the applicable year and subject in each case to Ms. Lalor remaining actively employed with the Company through the date of payment;

beginning in 2012, participate in Danaher's annual cash incentive compensation program for executive officers, with a baseline annual bonus percentage of 60% beginning in 2014 (subject to periodic review);

a new hire grant of restricted stock units with a target award value of \$2.1 million, with vesting 20% per year on each of the first five anniversaries of the grant date (subject to continued employment in each case);

a 2012 annual equity compensation grant split evenly between restricted stock units and stock options with an aggregate target award value of \$1.4 million, with 1/3 of such restricted stock units and stock options vesting on each of the third, fourth and fifth anniversaries of the grant date (subject to continued employment in each case);

a cash signing bonus of \$1.2 million, payable in four equal installments with the first installment payable within 30 days of Ms. Lalor's employment start date and the remaining installments payable within 30 days of each of the second, third and fourth anniversaries of such start date (subject in each case to continued employment and, with respect to each of the last three installments, timely execution of a general release of claims in favor of the Company);

a retention bonus of \$2.4 million payable in three equal installments within 30 days of the eighth, ninth and tenth anniversaries of Ms. Lalor's employment start date, respectively (subject in each case to continued employment and timely execution of a general release of claims in favor of the Company);



participate in the Company's Executive Deferred Incentive Program and in the employee benefit plans that the Company maintains for exempt employees generally, as well as tax and financial planning advice, an annual physical examination and relocation benefits; and

participate in the Company's Senior Leaders Severance Pay Plan, provided that the amount of severance she is eligible for under such plan is equal to the product of (1) her annual base salary at the time of termination and (2) the sum of 1 plus her baseline annual bonus percentage under the Company's annual cash incentive compensation plan as of the time of termination.

*Named Executive Officer Proprietary Interest Agreements*

We have entered into an agreement with each of Messrs. Comas, Joyce and Lico and Ms. Lalor under which each such officer is subject to certain covenants designed to protect Danaher's proprietary interests (Mr. Culp's confidentiality and post-employment covenants are set forth in his employment agreement, which is described above). The terms of the agreements to which each such named executive officer is a party are substantially the same (except that the termination payment provisions described in the next paragraph are not included in Ms. Lalor's agreement). During and after the officer's employment with us, he or she is prohibited from disclosing or improperly using any of our confidential information, subject to certain customary exceptions, and from making any disparaging comments about us. During the officer's employment with us and for one year (two years with respect to subsection (c) below) after such employment ends, the agreement prohibits him or her from directly or indirectly (a) competing with us; (b) selling to or soliciting purchases from our customers and prospective customers with respect to products and services about which the officer has particular knowledge or expertise, (c) hiring or soliciting any of our current or recent employees, or otherwise assisting or encouraging any of our employees to leave us; (d) interfering with our vendor relationships; or (e) developing competing products or services. Each officer also agrees that with limited exceptions all intellectual property that he or she develops in connection with his or her employment with us belongs to us, and assigns us all rights he or she may have in any such intellectual property.

Under Messrs. Comas, Joyce's and Lico's agreements, if we terminate the officer's employment without cause the officer is entitled to an amount equal to nine months of base salary, plus severance pay equal to three months salary if he signs our standard form of release at the time of termination. These amounts would be paid out over twelve months according to the normal payroll cycle. Under the agreement, cause is generally defined as the officer's (a) dishonesty, fraud or other willful misconduct or gross negligence; (b) conviction of or pleading guilty or no contest to a felony, misdemeanor (other than a traffic violation) or other crime that would impair his ability to perform his or her duties or Danaher's reputation; (c) refusal or willful failure to satisfactorily perform his duties or comply with our standards, policies or procedures; (d) material breach of the agreement; (e) death; or (f) termination because of illness that results in his absence from work on a full-time basis for twelve consecutive months.

*Officers and Directors Indemnification and Insurance*

Danaher's Restated Certificate of Incorporation requires it to indemnify to the full extent authorized or permitted by law any person made, or threatened to be made a party to any action or proceeding by reason of his or her service as a director or officer of Danaher, or by reason of serving at Danaher's request as a director or officer of any other entity, subject to certain exceptions. Danaher's Amended and Restated Bylaws provide for similar indemnification rights. In addition, each of Danaher Corporation's directors and executive officers has executed an indemnification agreement with Danaher that provides for substantially similar indemnification rights and under which Danaher has agreed to pay expenses in advance of the final disposition of any such indemnifiable proceeding. Danaher also has in effect directors and officers liability insurance covering all of Danaher's directors and officers.

**Potential Payments upon Termination or Change-of-Control as of 2012 Fiscal Year-End**

The following table describes the payments and benefits that each named executive officer would be entitled to receive upon termination of employment or in connection with a change-of-control of Danaher. The amounts set forth below assume that the triggering event occurred on December 31, 2012. Where benefits are based on the market value of Danaher's Common Stock, we have used the closing price of Danaher's Common Stock as reported on the NYSE on December 31, 2012 (\$55.90 per share). In addition to the amounts set forth below, upon any termination of employment each officer would also be entitled to (1) receive all payments generally provided to salaried employees on a non-discriminatory basis on termination, such as accrued salary, life insurance proceeds (for any termination caused by death), unused vacation and 401(k) Plan distributions, (2) receive accrued, vested balances under the EDIP and the Cash Balance Plan (except that under the EDIP, if an employee's employment terminates as a result of gross misconduct, the EDIP administrator may determine that the employee's vesting percentage with respect to all Danaher contributions is zero), and (3) exercise vested stock options (except that under the terms of the 2007 Plan and the 1998 Plan, no employee can exercise any outstanding equity award after termination for gross misconduct). The accrued, vested balances under the Cash Balance Plan and the EDIP for each named executive officer as of December 31, 2012 are set forth above under 2012 Pension Benefits and 2012 Nonqualified Deferred Compensation, respectively, and the terms of these plans as well as the 2007 Plan and the 1998 Plan are described under Employee Benefit Plans.

Severance and Change-of-Control Arrangements for Named Executive Officers

Named Executive	Benefit	Termination/Change-of-Control Event		
		Termination by executive without good reason	Termination of executive without cause or (for Mr. Culp only) termination by executive for good reason	Termination of executive as a result of Change-of-Control (1)
Officer				Death of executive
H. Lawrence Culp, Jr.	Value of invested stock options that would be accelerated (2)			\$ 21,636,345
	Value of invested RSUs that would be accelerated (2)			\$ 18,913,377
	Benefits continuation (3)		\$ 2005	2004

U.S. Statutory tax expense (benefit) rate (35%)	\$	(3,206)	\$ (6,832)	\$ (3,718)
U.S. State taxes, net of U.S. Federal benefit and state credits		(359)	(871)	(446)
Work opportunity tax credits		(642)	(1,725)	
Other		381	268	41
Valuation allowance recorded		25,206		
Actual tax expense (benefit)	\$	21,380	\$ (9,160)	\$ (4,123)

The significant components of deferred income tax assets and liabilities are as follows:

	December 31, 2006	January 1, 2006
Deferred tax assets:		
Net operating loss and credit carryforwards	\$ 15,485	\$ 13,878
Depreciation	3,146	2,577

Self insurance related costs	1,395	1,802
Deferred rent	1,203	
Payroll related items	1,098	924
Restructuring charge	1,013	1,703
Allowance for doubtful accounts	578	752
Stock compensation expense	477	
Intangible assets	358	
Other	575	644
Total deferred tax assets	25,328	22,280
Deferred tax liabilities	(122)	(1,323)
Valuation allowance	(25,206)	
Net deferred tax assets	\$	\$ 20,957

As of December 31, 2006 the Company is in a cumulative loss position for the prior twelve quarters. This was primarily the result of losses incurred with the exited outbound customer acquisition business. In July 2005, the Company announced a strategic restructuring to exit virtually all of the outbound customer acquisition business, restructure operations, and focus primarily on profitable client relationships in a limited number of key industries. Since its restructuring, the Company has experienced earnings growth from its core business, new and increased commitments from existing clients, and reductions in operating expenses. These factors are expected to contribute to the Company's sustaining profitability for 2007 and future periods. Forecasted taxable income based solely on contracts in place at December 31, 2006 and the existing cost structure does not exceed the amount necessary to fully realize the net deferred tax asset within three years or less. Due to uncertainty in the ability to realize forecasted earnings a valuation allowance of \$25.2 million has been established as of December 31, 2006. In the future, it may be necessary for the Company to adjust the valuation allowance based upon actual results achieved.

In October 2003, the Company received an \$11.6 million cash tax refund associated with the write-off for tax purposes in 2002 of its remaining investment in ITI Holdings, Inc. (ITI). The Internal Revenue Service has audited the Company's 2002 tax return and proposed an adjustment that would disallow this deduction. The Company

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believes that it has sufficient support for the deduction and intends to pursue its available remedies. On November 30, 2005, the Company filed a protest contesting the proposal adjustment and requesting a hearing with an Internal Revenue Service Appeals Officer. At this point, it is unclear as to how this issue will ultimately be resolved. Although the Company has not recognized the income tax benefit related to this deduction and has previously recorded a liability for the amount of the refund, should it not prevail in this matter, the Company may be required to pay some or all of the previously received refund of \$11.6 million, as well as interest related thereto which approximated \$2.6 million at December 31, 2006. The timing of any repayment of the previously received refund could have a material adverse effect on the liquidity of the Company, require it to seek additional financing to fund the repayment, and result in a default under its loan agreements discussed in Notes 9 and 17.

**9. Long-Term Debt**

The Company had no long-term debt outstanding as of January 1, 2006. Long-term debt outstanding as of December 31, 2006 consisted of the following:

	<b>December 31, 2006</b>
Term loan, interest rate of prime plus 475 basis points	\$ 5,000
Total long-term debt	5,000
Less current maturities	600
Long-term debt, net	\$ 4,400

As of December 31, 2006, the carrying value of future debt obligations reasonably approximates their fair value and the principal payments of long-term debt are due as follows:

2007	\$ 600
2008	1,200
2009	1,200
2010	1,200
2011	800
Thereafter	
Total payments	\$ 5,000

As of January 3, 2005, the Company had a revolving credit facility (Original Credit Agreement) which was scheduled to expire in December 2005. The Original Credit Agreement provided \$50 million of total credit availability and

actual availability varied monthly based on the level of eligible receivables at the end of the preceding month. As of January 3, 2005, there were no outstanding borrowings under the Original Credit Agreement and approximately \$3.2 million was utilized through the issuance of standby letters of credit primarily to support insurance reserves. Total available borrowing capacity at January 3, 2005 was \$25.2 million.

The Original Credit Agreement was secured principally by a grant of a security interest in all personal property and fixtures of the Company. Under the terms of the Original Credit Agreement, the Company was also required to maintain certain financial covenants which limited the Company's ability to incur additional indebtedness, repurchase outstanding common shares, create liens, acquire, sell or dispose of certain assets, engage in certain mergers and acquisitions, pay dividends and make certain restricted payments.

Borrowings under the Original Credit Agreement incurred a floating interest rate usually based on the LIBOR index rate, although the Company had the option of using an alternate base rate defined in the Original Credit Agreement.

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In addition, the Company paid a commitment fee on the unused portion of the revolving facility as well as quarterly fees on the outstanding letters of credit.

On June 2, 2005, the Company entered into a new Loan and Security Agreement (LaSalle Credit Agreement) with LaSalle Bank National Association, as agent (LaSalle) that replaced the Original Credit Agreement. The terms of the LaSalle Credit Agreement provided for up to a \$40 million revolving credit facility that would have expired in June 2008. The outstanding revolving loan commitment under the LaSalle Credit Agreement was \$25 million based on the Company's anticipated cash requirements. Borrowing availability was based on accounts receivable and was subject to certain restrictions and limitations set forth in the LaSalle Credit Agreement.

On July 27, 2005, the Company entered into Waiver and Amendment No. Three (Waiver) to the LaSalle Credit Agreement. Under the terms of the Waiver, LaSalle agreed to waive certain existing and anticipated events of default under the LaSalle Credit Agreement, amend the financial covenants contained in the LaSalle Credit Agreement and provide an over advance facility in an amount not to exceed \$11.0 million. Theodore G. Schwartz, the Chairman of the Board of Directors of the Company, guaranteed \$5.5 million of the over advance facility, plus certain costs and expenses.

On October 31, 2005, the Company entered into an Amended and Restated Loan and Security Agreement (Restated LaSalle Credit Agreement) with LaSalle, as agent, and the financial institutions from time to time parties thereto as lenders. Under the terms of the Restated LaSalle Credit Agreement, LaSalle agreed, among other things, to provide the Company with a \$25 million revolving loan facility which would have expired in October 2008, reduce the interest rates and other fees, amend the financial covenants and release the guarantee that had been provided by Theodore G. Schwartz.

On March 3, 2006, the Company and LaSalle entered into an amendment (Amendment No. 1) to the Restated LaSalle Credit Agreement. Amendment No. 1 was effective as of February 21, 2006. Under the terms of Amendment No. 1, LaSalle agreed to relieve the Company of its obligation to comply with the excess availability covenant in the Restated LaSalle Credit Agreement through April 30, 2006. This covenant reduced the Company's borrowing capacity pending achievement of first quarter operating results. Subsequently, the Company successfully met the requirements set forth in the Restated LaSalle Credit Agreement, and the excess availability requirement no longer applies.

On April 25, 2006, the Company and LaSalle entered into a second amendment (Amendment No. 2) to the Restated LaSalle Credit Agreement. Amendment No. 2 was effective as of April 2, 2006. Under the terms of Amendment No. 2, LaSalle agreed to amend certain financial covenants related to capital expenditures. The amendment clarified that the Company's fixed charge coverage covenant calculation would not be impacted by the amount of the leasehold improvement allowance provided to the Company by its landlord for its Green Bay facility.

On June 6, 2006, the Company and LaSalle entered into a third amendment (Amendment No. 3) to the Restated LaSalle Credit Agreement. Amendment No. 3 was effective as of June 2, 2006. Under the terms of Amendment No. 3, LaSalle agreed to amend certain financial covenants, including the indebtedness, interest coverage, minimum free cash flow, maximum restructuring charge and fixed charge coverage covenants, and to increase the concentration of eligible accounts for certain account debtors. The amendment reduced the thresholds for compliance with certain financial covenants and provided increased borrowing availability against certain accounts receivable.

On October 25, 2006, the Company and LaSalle entered into a fourth amendment (Amendment No. 4) to the Restated LaSalle Credit Agreement. Amendment No. 4 was effective as of October 1, 2006. Under the terms of Amendment No. 4, LaSalle agreed to increase the maximum amount which could be borrowed under the Restated LaSalle Credit Agreement from \$25 million to \$27.5 million, amend the definitions of capital expenditures,



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EBITDA and special litigation reserve, amend certain financial covenants, including tangible net worth, maximum cash restructuring charge and fixed charge coverage covenants, and to eliminate the interest coverage covenant.

On November 10, 2006, the Company and LaSalle entered into the fifth amendment (Amendment No. 5) to the Restated LaSalle Credit Agreement. Under the terms of Amendment No. 5, LaSalle agreed to increase the maximum amount that could be borrowed under the revolving loan facility from \$27.5 million to \$30 million and to reduce certain reserve requirements under the Restated LaSalle Credit Agreement through December 31, 2006.

On December 5, 2006, the Company and LaSalle entered into the sixth amendment (Amendment No. 6) to the Restated LaSalle Credit Agreement. Under the terms of Amendment No. 6, LaSalle agreed to increase the maximum revolving loan limit from \$30 million to \$35 million on December 5, 2006 and ultimately to \$37.5 million on April 1, 2007 through the addition of three special accommodations (Special Accommodations) totaling \$12.5 million. The maximum revolving loan limit consisted of two components and the Company could have borrowed: (i) up to \$30 million, decreasing to \$25 million on January 1, 2007, based on the amount of eligible accounts receivable from its clients; and (ii) an additional \$5 million, increasing to \$10 million on January 1, 2007 and further increasing to \$12.5 million on April 1, 2007 under the Special Accommodations. The Special Accommodations and the maximum revolving loan limit would have begun to reduce monthly on July 31, 2007 by an amount specified in the Restated LaSalle Credit Agreement as amended by Amendment No. 6; provided that the maximum revolving loan limit would never be less than \$27.5 million. Since the Special Accommodations were not dependent on the amount of the Company's eligible accounts receivable from clients, based on management's expectations on December 5, 2006, Amendment No. 6 increased the Company's borrowing capacity under the Restated LaSalle Credit Agreement by \$5 million as of December 5, 2006 and \$10 million as of January 1, 2007 and would have increased the Company's borrowing capacity by \$12.5 million as of April 1, 2007.

Under the terms of Amendment No. 6 to the Restated LaSalle Credit Agreement, LaSalle also agreed to adjust certain financial covenants by amending the definitions of capital expenditures, EBITDA and fixed charges; eliminate the tangible net worth covenant; add an EBITDA covenant and a leverage covenant; and amend certain other covenants, including the maximum restructuring cash disbursements covenant, and fixed charge coverage covenant.

The Company's ability to borrow under the Restated LaSalle Credit Agreement, as amended by Amendment No. 6, depended on the amount of eligible accounts receivable from its clients and there were limitations on the concentration of these accounts with a single client. In addition, LaSalle retained certain reserves against otherwise available borrowing capacity, including a reserve related to the Internal Revenue Services' proposed adjustment to our 2002 tax return described in Note 8.

Other restrictive covenants in the Restated LaSalle Credit Agreement, as amended by Amendment No. 6, limited the Company's ability to make capital expenditures, incur additional indebtedness, repurchase outstanding common shares, create liens, acquire, sell or dispose of certain assets, engage in certain mergers and acquisitions, pay dividends and make certain restricted payments. The Company was in compliance with its financial covenants as of December 31, 2006.

Borrowings under the Restated LaSalle Credit Agreement, as amended, incurred a floating interest rate based on the LIBOR index rate or an alternate base rate defined in the Restated LaSalle Credit Agreement. Borrowings under the

Special Accommodations bore a higher rate of interest than borrowings under the revolving loan facility. The loans provided under the Restated LaSalle Credit Agreement were secured principally by a grant of a security interest in all of the Company's personal property and fixtures. In addition, the Company paid a commitment fee on the unused portion of the revolving loan facility as well as fees on \$4.0 million of outstanding letters of credit.

Borrowings under the Restated LaSalle Credit Agreement, as amended, totaled \$18.8 million as of December 31, 2006. The Company had approximately \$11.3 million of unused borrowing capacity as of December 31, 2006.

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Interest rates on the Company's borrowings during fiscal year 2006 accrued at the weighted-average rate of approximately 8.2% under the revolving loan facility and approximately 12.5% under the Special Accommodations.

On January 31, 2007, the Company and LaSalle entered into: (i) a Second Amended and Restated Loan and Security Agreement (Second Restated LaSalle Credit Agreement); and (ii) a Second Lien Loan and Security Agreement (Second Lien Loan Agreement.) See Note 17 for more information.

The Company expects that its cash balances, cash flows from operations and available borrowings under the Second Restated LaSalle Credit Agreement and the Second Lien Loan Agreement will be sufficient to meet projected operating needs, fund any planned capital expenditures, and repay debt obligations as they come due. A significant change in operating cash flow, a failure to sustain profitability or an adverse outcome in the Company's pending dispute with the Internal Revenue Service could have a material adverse effect on its liquidity and its ability to comply with the covenants in the Second Restated LaSalle Credit Agreement and the Second Lien Loan Agreement.

**10. Commitments and Contingencies*****Lease Commitments***

The Company leases its customer care centers, administrative offices and certain equipment under operating leases. Rent expense for fiscal years 2006, 2005 and 2004 was \$5,481, \$7,786 and \$8,693, respectively.

On October 10, 2006 the Company sold its Cedar Rapids, Iowa facility in a sale-leaseback transaction that resulted in a net gain of \$0.8 million. In accordance with SFAS No. 28 *Accounting for Sales with Leaseback* the gain will be deferred and amortized over terms from six months to ten years based on the individual lease-back agreements.

Minimum future rental payments for real estate and equipment, including common area maintenance commitments, at December 31, 2006, are as follows:

	<b>Operating Leases</b>
2007	\$ 8,541
2008	6,374
2009	3,987
2010	3,086
2011	2,235
Years thereafter	8,909
Total payments	\$ 33,132

***Telecommunications Commitments***

The Company has contracts with its telecommunications providers that require certain minimum usage each year of the contract. At December 31, 2006, the commitments under these contracts are as follows:

	<b>Total</b>
2007	\$ 4,527
2008	3,929
2009	3,500
Total commitments	\$ 11,956

**Table of Contents****APAC CUSTOMER SERVICES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in thousands, except share data and as otherwise indicated)*****Legal Proceedings***

The Company is subject to lawsuits, governmental investigations and claims arising out of the normal conduct of its business. Management does not believe that the outcome of any pending claims will have a material adverse effect on the Company's business, results of operations, liquidity or financial condition. Although management does not believe that any such proceeding will result in a material adverse effect, no assurance to that effect can be given.

On June 30, 2005, the Company settled a pending arbitration proceeding with Harmon Glass Solutions ( Harmon ) which arose out of a breach of contract claim by Harmon. The Company maintained that it had performed its obligations and claimed that Harmon had breached its contractual obligations to the Company. The vast majority of the settlement was paid by the Company's insurance carrier.

See Note 8 for a description of the Company's pending dispute with the Internal Revenue Service.

***Training Bonds***

At the end of fiscal years 2006, 2005 and 2004, the Company had guaranteed the repayment of \$0, \$204 and \$242, respectively, of the remaining outstanding community college bond obligations which were issued in connection with various job-training agreements. The Company evaluates whether deposits made into escrow will be adequate to cover the cost of the maturing bonds. At December 31, 2006 and January 1, 2006 the Company had a liability of \$0 and \$83, respectively, related to training bond obligations.

**11. Shareholders Equity**

The authorized capital stock of the Company consists of (a) 200 million common shares, \$.01 par value per share, of which 50,066,628 were issued as of December 31, 2006, and (b) 50 million preferred shares, \$.01 par value per share, of which no shares have been issued. In fiscal years 2006, 2005 and 2004, treasury shares of 41,000, 0 and 13,062 were issued through the Company's Incentive Stock Plan.

**12. Earnings Per Share**

The following table sets forth the computations of basic and diluted loss per share:

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Net loss(1)	\$ (30,539)	\$ (22,398)	\$ (6,499)
Weighted average common shares outstanding	49,458	49,455	49,453
Loss per share - basic	\$ (0.62)	\$ (0.45)	\$ (0.13)
Dilutive effect of stock options			
Weighted average common and common equivalent shares outstanding	49,458	49,455	49,453
Loss per share - diluted	\$ (0.62)	\$ (0.45)	\$ (0.13)

(1) Net loss is the same for purposes of calculating basic and diluted EPS.

In fiscal years 2006 and 2005 approximately 268,500 and 112,000 options were excluded from the computation of diluted loss per share because they would have been anti-dilutive. At December 31, 2006, January 1, 2006 and January 2, 2005 options to purchase common shares and non-vested common shares totaling 7.6 million, 7.7 million and 5.4 million, at prices ranging from \$0.00 to \$16.75, \$0.85 to \$38.13 and \$1.55 to \$38.13 per share, were excluded from the 2006, 2005 and 2004 calculations, respectively.

Table of Contents**APAC CUSTOMER SERVICES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in thousands, except share data and as otherwise indicated)****13. Stock Awards**

The 2005 Incentive Stock Plan (the Plan) adopted on June 3, 2005 replaced and superseded the Second Amended and Restated 1995 Incentive Stock Plan. Under the Plan, directors, officers, key employees and non-employee consultants may be granted non-qualified stock options, incentive stock options, stock appreciation rights, performance shares and stock awards, as determined by the Compensation Committee of the Board of Directors. A total of 11.8 million shares have been authorized for grant under the Plan. At December 31, 2006, 2.8 million shares were available for future grant under the Plan. The exercise price of stock options granted under the Plan may not be less than 100% of the fair market value of the common shares on the date of grant. Options under the Plan expire no later than 10 years after date of grant.

Effective in the third quarter of fiscal year 2003, the option program for non-employee directors was revised. Under the revised program, each director receives four quarterly grants of an equal number of options. The number of options granted is determined once each year by dividing \$90 by the average fair market value of the stock for the previous year. The exercise price is the fair market value of the underlying stock on the date of the grant. In fiscal years 2006 and 2005, non-employee directors received an aggregate of 420,112 and 244,589 options, respectively.

Prior to its January 2, 2006 adoption of Statement No. 123(R) *Share-Based Payment* (SFAS No. 123(R)) the Company applied APB No. 25 in accounting for stock options. No compensation expense had been recognized for stock options when the option price equaled or exceeded the fair market value at the date of grant. In order to calculate the pro forma information included earlier in Note 3, the fair value of each option was estimated on the date of grant based on the Black-Scholes option-pricing model. Assumptions included no dividend yield, risk-free interest rates ranging from 4% to 5%, expected volatility ranging between 43% and 55%, and an expected term ranging from 7 years to 8 years. Pro forma results of operations for fiscal years 2005 and 2004, which reflect the adjustment to compensation expense to account for stock options in accordance with SFAS No. 123(R), are included in Note 3 under the caption Accounting for Stock-Based Compensation.

The Company estimated the fair value of its new grants using the Black-Scholes option-pricing model with the following assumptions:

	<b>For the Fiscal Year Ended December 31, 2006</b>	
	<b>Options</b>	<b>Non-vested Common Shares</b>
Expected volatility	51 - 57%	N/A
Risk-free interest rate	4.6 - 5.1%	N/A
Expected life in years	2.1 - 5.0	N/A
Annualized forfeiture rate	15.7%	15.7%

Weighted average grant date fair value	\$	0.89	\$	1.57
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## APAC CUSTOMER SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except share data and as otherwise indicated)

*Stock Option Activity*

Stock option activity under the Company's Incentive Stock plans for fiscal years 2006, 2005 and 2004 was as follows:

Description	Shares	Grant Price Range Per Share	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
Outstanding as of December 28, 2003	5,720,169	\$ 1.59 - \$38.13	\$ 4.27	
Granted	1,207,119	1.55 - 3.03	2.44	
Exercised	(13,062)	1.59 - 2.90	1.79	
Cancelled	(1,655,200)	1.59 - 7.94	3.94	
Outstanding as of January 2, 2005	5,259,026	\$ 1.55 - \$38.13	\$ 3.96	
Granted	6,425,090	0.85 - 1.74	1.41	
Exercised				
Cancelled	(4,009,817)	1.06 - 15.31	2.70	
Outstanding as of January 1, 2006	7,674,299	\$ 0.85 - \$38.13	\$ 2.48	
Granted	720,112	1.80 - 2.84	2.21	
Exercised	(41,000)	1.55 - 3.57	2.10	
Cancelled	(1,091,446)	1.35 - 38.13	3.61	
Outstanding as of December 31, 2006	7,261,965	\$ 0.85 - \$16.75	\$ 2.15	\$ 12,745
Stock options exercisable at December 31, 2006	2,611,419	\$ 0.85-\$16.75	\$ 3.16	\$ 2,976

The weighted average grant date fair value of options granted in fiscal years 2006, 2005 and 2004 was \$0.89, \$0.75 and \$1.50 per share, respectively.

The following table summarizes information concerning stock options outstanding as of December 31, 2006:

	Per Share Exercise Price Ranges			Total
	\$0.85-\$1.62	\$1.63-\$3.47	\$3.53-\$16.75	\$0.85-\$16.75
Outstanding as of December 31, 2006	4,264,276	2,423,046	574,643	7,261,965
Weighted average remaining term	8.39	6.83	3.24	7.46
Weighted average exercise price	\$ 1.31	\$ 2.59	\$ 6.47	\$ 2.15

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Exercisable as of December 31, 2006	783,753	1,253,023	574,643	2,611,419
Weighted average exercise price	\$ 1.30	\$ 2.81	\$ 6.47	\$ 3.16

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**Table of Contents****APAC CUSTOMER SERVICES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in thousands, except share data and as otherwise indicated)*****Non-vested Common Share Activity***

Non-vested common share grant activity for fiscal year 2006 was as follows:

<b>Description</b>	<b>Shares</b>
Outstanding as of January 1, 2006(1)	
Granted	477,529
Exercised	
Cancelled	(106,600)
Outstanding as of December 31, 2006	370,929
Exercisable at December 31, 2006	

(1) The Company did not issue non-vested common shares in fiscal years 2005 and 2004.

The weighted average grant date fair value of non-vested common shares granted in fiscal year 2006 was \$1.57.

**14. Benefit Plans**

In October 1995, the Company adopted a 401(k) savings plan. Employees meeting certain eligibility requirements may contribute up to 15% of pretax gross wages, subject to certain restrictions. The contribution percentage was increased to 25% in fiscal year 2005. The Company also sponsors a non-qualified retirement plan (the Select Plan ) for senior employees. Those employees meeting the eligibility requirements as defined therein may contribute up to 25% of their base wages across the 401(k) plan and the Select Plan, subject to certain restrictions. The Company makes matching contributions of 50% of the first 6% of an employee's wages contributed to these plans. Company matching contributions vest 20% per year over a five-year period. For fiscal years 2006, 2005 and 2004, the Company made matching contributions to the plans of \$458, \$563 and \$641 respectively.

**15. Related Party Transactions**

In 2005 the Company reimbursed Theodore Schwartz, Chairman of the Board, for immaterial legal fees incurred in connection with the guarantee of the overadvance facility of the LaSalle Credit Agreement discussed in Note 9.

The Company has a \$124 investment in 2001 Development Corporation, a community-oriented economic development company in Cedar Rapids, Iowa, of which Thomas M. Collins is the President. Mr. Collins is a member of the Board of Directors of the Company. Mr. Collins owns no interest in 2001 Development Corporation.

In fiscal year 2004 the Company provided \$830 of customer care solutions to Sears, Roebuck and Co. (Sears). Paul J. Liska, who was the Executive Vice President and President, Credit and Financial Products for Sears, was a member of the Board of Directors of the Company from July 2003 until May 2004.

**16. Reclassification**

Certain amounts in the prior period financial statements have been reclassified to conform to the current period presentation. Restructuring reserves of \$0.7 million providing for the write off of property and leasehold improvements from the July 2005 restructuring plan outstanding as of January 1, 2006 have been reclassified as a reduction of property and equipment.

**17. Subsequent Events**

On January 31, 2007, the Company and LaSalle entered into: (i) a Second Amended and Restated Loan and Security Agreement (Second Restated LaSalle Credit Agreement); and (ii) a Second Lien Loan and Security Agreement

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**APAC CUSTOMER SERVICES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except share data and as otherwise indicated)**

(Second Lien Loan Agreement.) The Second Restated LaSalle Credit Agreement provides the Company with a \$27.5 million revolving loan facility (Revolving Loan Facility) which expires in October 2010 and the Second Lien Loan Agreement provides the Company with a \$15 million term loan which matures in January 2011 (Term Loan.) The proceeds of the term loan were used to repay indebtedness of the company under the Restated LaSalle Credit Agreement, dated October 31, 2005, as amended. See Note 9 for further information.

The Company's ability to borrow under the Revolving Loan Facility depends on the amount of eligible accounts receivable from its clients and there are limitations on the concentration of these accounts with a single client. In addition, LaSalle retains certain reserves against otherwise available borrowing capacity, including a reserve related to the Internal Revenue Services' proposed adjustment to the Company's 2002 tax return described in Note 8. Borrowings under the Revolving Loan Facility incur a floating interest rate based on the LIBOR index rate or an alternate base rate defined in the Second Restated LaSalle Credit Agreement. The Revolving Loan Facility is secured principally by a grant of a first priority security interest in all of the Company's personal property and fixtures, including its accounts receivable. In addition, the Company pays a commitment fee on the unused portion of the Revolving Loan Facility as well as fees on outstanding letters of credit.

The Term Loan incurs interest at a floating interest rate based on the LIBOR index rate. The interest rate on the Term Loan is higher than the interest rate paid on borrowing under the Revolving Loan. Beginning in July 2007, the Company is obligated to make mandatory monthly principal payments on the Term Loan of \$200,000. The Term Loan is secured principally by a grant of a second priority security interest in all of the Company's personal property and fixtures, including accounts receivable.

The Second Restated LaSalle Credit Agreement and Second Lien Loan Agreement contain certain financial covenants including limits on the amount of cash restructuring charges, and maintenance of maximum fixed charge coverage ratios, minimum earnings before interest, taxes, depreciation and amortization, and maximum ratio of indebtedness to earnings before interest, taxes, depreciation and amortization. Other covenants in the Second Restated LaSalle Credit Agreement and Second Lien Loan Agreement restrict the amount the Company can spend on capital expenditures, prohibit (with limited exceptions) the Company from incurring additional indebtedness, repurchasing outstanding common shares, creating liens, acquiring, selling or disposing of certain assets, engaging in certain mergers and acquisitions, paying dividends or making certain restricted payments.

On February 5, 2007, LaSalle assigned all of its rights and obligations as the agent and lender under the Second Lien Loan Agreement to an unaffiliated third party.

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## APAC CUSTOMER SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except share data and as otherwise indicated)

## 18. Quarterly Data (Unaudited)

The following is a summary of the quarterly results of operations, including income per share, for the Company for the quarterly periods of fiscal years 2006 and 2005:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
<b>Fiscal year ended December 31, 2006:</b>					
Net revenue	\$ 60,723	\$ 58,236	\$ 49,282	\$ 56,056	\$ 224,297
Gross profit	7,651	7,286	3,136	9,129	27,202
Operating (loss) income	(401)	(1,005)	(7,375)	1,534	(7,247)
Net loss	(741)	(793)	(5,005)	(24,000)	(30,539)
Net loss per share	\$ (0.01)	\$ (0.02)	\$ (0.10)	\$ (0.49)	\$ (0.62)
<b>Fiscal year ended January 1, 2006:</b>					
Net revenue	\$ 65,674	\$ 58,159	\$ 56,343	\$ 59,669	\$ 239,845
Gross profit	6,700	2,824	5,377	7,820	22,721
Operating loss	(3,438)	(7,271)	(15,541)	(4,500)	(30,750)
Net loss	(2,382)	(5,013)	(13,507)	(1,496)	(22,398)
Net loss per share	\$ (0.05)	\$ (0.10)	\$ (0.27)	\$ (0.03)	\$ (0.45)

Total quarterly earnings per common share may not equal the full year amount because net income per common share is calculated independently for each quarter. Common share equivalents can change on a quarter-to-quarter basis due to their dilutive impact on each quarterly earnings per share calculation.

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**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

We have not had disagreements with our registered public accounting firm regarding accounting or financial disclosure matters.

**Item 9A. *Controls and Procedures.***

***Disclosure Controls and Procedures***

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of the end of the period covered by this Annual Report on Form 10-K. Based on such evaluation, our principal executive officer and our principal financial officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act.

***Management's Report on Internal Control over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control - Integrated Framework*, our management concluded that our internal control over financial reporting is effective as of December 31, 2006. Our assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included elsewhere in this Annual Report on Form 10-K.

March 9, 2007

Robert J. Keller  
Chief Executive Officer

George H. Hepburn III  
Chief Financial Officer

***Inherent Limitations on the Effectiveness of Controls***

Our management, including our principal executive officer and our principal financial officer, does not expect that our disclosure controls and procedures or our internal controls over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within our Company have been detected.

These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any controls' effectiveness in future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.



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**Internal Control Over Financial Reporting**

There have not been changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth fiscal quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting**

The Board of Directors and Shareholders of APAC Customer Services, Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that APAC Customer Services, Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). APAC Customer Services, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that APAC Customer Services, Inc. maintained effective internal control over financial reporting as of December 31, 2006 is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, APAC Customer Services, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of APAC Customer Services, Inc. as of December 31, 2006, and the related consolidated statements of operations, cash flows and shareholders' equity for the year then ended and our report dated March 9, 2007, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois  
March 9, 2007

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**Item 9B. Other Information.**

None.

**PART III**

**Item 10. Directors and Executive Officers of the Registrant.**

The information required by this Item (except for the information regarding executive officers required by Item 401 of Regulation S-K which is included in Part I under the caption Executive Officers of Registrant ) will be set forth in our Proxy Statement for the Annual Meeting of Shareholders to be held on June 1, 2007 under the caption Election of Directors, which information is incorporated herein by reference.

We have adopted a financial code of ethics that applies to our Chief Executive Officer and Senior Financial Officers. This financial code of ethics is posted on the Company's website. The internet address for our website is <http://www.apaccustomerservices.com> and the financial code of ethics may be found in the Investor Relations portion of that website. We intend to satisfy the disclosure requirement under Item 10 of Form 8-K regarding an amendment to, or waiver from, a provision of this code of ethics by posting such information on our website, at the address and location specified above.

Information concerning compliance with Section 16 of the Exchange Act will be set forth in our Proxy Statement for the Annual Meeting of Shareholders to be held on June 1, 2007 under the caption Section 16(a) Beneficial Ownership Reporting Compliance, which information is hereby incorporated by reference.

**Item 11. Executive Compensation.**

The information required by this Item will be set forth in our Proxy Statement for the Annual Meeting of Shareholders to be held on June 1, 2007 under the captions Election of Directors Compensation Committee Interlocks and Insider Participation and Executive Compensation, which information is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

(a) The information concerning the security ownership of certain beneficial owners as of March 1, 2007, required by this Item will be set forth in our Proxy Statement for the Annual Meeting of Shareholders to be held on June 1, 2007 under the caption Common Shares Beneficially Owned by Principal Shareholders and Management, which information is hereby incorporated by reference.

(b) The information concerning security ownership of management as of March 1, 2007, required by this Item will be set forth in our Proxy Statement for the Annual Meeting of Shareholders to be held on June 1, 2007 under the caption Common Shares Beneficially Owned by Principal Shareholders and Management, which information is hereby incorporated by reference.

**Table of Contents*****Equity Compensation Plan Information***

The following table summarizes the status of common shares authorized for issuance under the Company's 2005 Incentive Stock Plan as of December 31, 2006.

<b>Plan Category</b>	<b>Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants, and Rights</b>	<b>Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)</b>
Equity compensation plans approved by security holders	7,632,894	\$ 2.04	2,782,108
Equity compensation plans not approved by security holders			

**Item 13. Certain Relationships and Related Transactions.**

The information required by this Item will be set forth in our Proxy Statement for the Annual Meeting of Shareholders to be held on June 1, 2007 under the captions "Election of Directors" and "Certain Relationships and Related Transactions," which information is hereby incorporated by reference.

**Item 14. Principal Accounting Fees and Services.**

The information required by this Item will be set forth in our Proxy Statement for the Annual Meeting of Shareholders to be held on June 1, 2007 under the caption "Relationship with Independent Registered Public Accounting Firm," which information is incorporated herein by reference.

**PART IV****Item 15. Exhibits and Financial Statement Schedules.****(a) (1) Financial Statements**

The following financial statements of the Company are included in Part II, Item 8 of this Annual Report on Form 10-K:

- (i) Report of Independent Registered Public Accounting Firm for the Fiscal Year Ended December 31, 2006

- (ii) Report of Independent Registered Public Accounting Firm for the Fiscal Years Ended January 1, 2006 and January 2, 2005
- (iii) Consolidated Statements of Operations for the Fiscal Years Ended December 31, 2006, January 1, 2006, and January 2, 2005
- (iv) Consolidated Balance Sheets as of December 31, 2006, and January 1, 2006
- (v) Consolidated Statements of Shareholders' Equity for the Fiscal Years Ended December 31, 2006, January 1, 2006, and January 2, 2005
- (vi) Consolidated Statements of Cash Flows for the Fiscal Years Ended December 31, 2006, January 1, 2006, and January 2, 2005
- (vii) Notes to Consolidated Financial Statements
- (viii) Quarterly Results of Operations for the Fiscal Years Ended December 31, 2006 and January 1, 2006

**(2) Financial Statement Schedules**

The following financial statement schedule is submitted as part of this Annual Report on Form 10-K:

- (i) Schedule II Valuation and Qualifying Accounts

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All other schedules are not submitted because they are not applicable or are not required under Regulation S-X or because the required information is included in the financial statements or notes thereto.

**(3) Exhibits**

The exhibits required by Item 601 of Regulation S-K are listed in the Exhibit Index attached hereto.

**(b) Exhibits**

The response to this portion of Item 15 is submitted as a separate section of this Annual Report on Form 10-K. See Item 15(a) (3) above.

**(c) Financial Statement Schedules**

The response to this portion of Item 15 is submitted as a separate section of this Annual Report on Form 10-K. See Item 15(a) (2) above.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

APAC CUSTOMER SERVICES, INC.

By: /s/ George H. Hepburn III  
George H. Hepburn III

*Senior Vice President and Chief Financial Officer*

Dated: March 16, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Theodore G. Schwartz*	Chairman of the Board of Directors	March 16, 2007
Theodore G. Schwartz		
/s/ Robert J. Keller	Director and Chief Executive Officer (Principal Executive Officer)	March 16, 2007
Robert J. Keller		
/s/ George H. Hepburn III	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	March 16, 2007
George H. Hepburn III		
/s/ Joseph R. Doolan	Vice President and Controller (Principal Accounting Officer)	March 16, 2007
Joseph R. Doolan		
/s/ Cindy K. Andreotti*	Director	March 16, 2007
Cindy K. Andreotti		
/s/ Thomas M. Collins*	Director	March 16, 2007
Thomas M. Collins		
/s/ John W. Gerdelman*	Director	March 16, 2007
John W. Gerdelman		



/s/ John C. Kraft*	Director	March 16, 2007
John C. Kraft		
/s/ John J. Park*	Director	March 16, 2007
John J. Park		

\* George H. Hepburn III, as attorney in fact for each person indicated.

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(Dollars in thousands)

<b>Column A</b>	<b>Column B</b>	<b>Column C</b>	<b>Column D</b>	<b>Column E</b>
<b>Description</b>	<b>Balance at Beginning of Period</b>	<b>Charged to Costs and Expenses</b>	<b>Deductions(a)</b>	<b>Balance at End of Period</b>
Allowance for doubtful accounts:				
Fiscal Year ended January 2, 2005	\$ 2,451	\$ (200)	\$ 58	\$ 2,193
Fiscal Year ended January 1, 2006	2,193	50	324	1,919
Fiscal Year ended December 31, 2006	1,919	854	1,300	1,473

(a) Represents charges for which the allowance account was created.

**Table of Contents****EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
3.1	Articles of Incorporation of APAC Customer Services, Inc., incorporated by reference to APAC Customer Services, Inc. s Annual Report on Form 10-K for the fiscal year ended January 1, 2006.
3.2	Certificate of Amendment of the Amended and Restated Bylaws of APAC Customer Services, Inc. as amended March 10, 2004, incorporated by reference to APAC Customer Services, Inc. s Quarterly Report on Form 10-Q for the fiscal quarter ended March 28, 2004.
4.1	Specimen Common Stock Certificate, incorporated by reference to APAC Customer Services, Inc. s Annual Report on Form 10-K for the fiscal year ended December 29, 2002.
*10.1	APAC Customer Services, Inc. 2005 Incentive Stock Plan incorporated by reference into APAC Customer Services, Inc. s Current Report on Form 8-K, dated February 7, 2006.
*10.2	Form of Stock Option Agreement, incorporated by reference to APAC Customer Services, Inc. s Current Report on Form 8-K, dated February 11, 2005.
*10.3	Form of Stock Option Agreement, incorporated by reference to APAC Customer Services, Inc. s Annual Report on Form 10-K for the fiscal year ended January 1, 2006.
*10.4	Form of Director Option Agreement, incorporated by reference to APAC Customer Services, Inc. s Annual Report on Form 10-K for the fiscal year ended January 1, 2006.
*10.5	Form of Restricted Stock Award Agreement, incorporated by reference to APAC Customer Services, Inc. s Annual Report on Form 10-K for the fiscal year ended January 1, 2006.
*10.6	Form of Restricted Stock Award Agreement.
*10.7	APAC Customer Services, Inc. Retirement Plan for Senior Employees incorporated by reference into APAC Customer Services, Inc. s Annual Report on Form 10-K for the fiscal year ended January 2, 2005.
*10.8	Employment Agreement with Robert J. Keller, dated March 10, 2004, incorporated by reference to APAC Customer Services, Inc. s Annual Report on Form 10-K for the fiscal year ended December 28, 2003.
*10.9	Employment Agreement with Pamela R. Schneider, dated June 1, 2005 incorporated by reference to APAC Customer Services, Inc. s Quarterly Report on Form 10-Q for the fiscal quarter ended July 3, 2005.
*10.10	Employment Agreement with James M. McClenahan, dated May 9, 2004, incorporated by reference to APAC Customer Services, Inc. s Quarterly Report on Form 10-Q for the fiscal quarter ended June 27, 2004.

- \*10.11 Employment Agreement with Karen R. Tulloch, dated May 28, 2005, incorporated by reference to APAC Customer Services, Inc. s Quarterly Report on Form 10-Q for the fiscal quarter ended July 3, 2005.
  - \*10.12 Employment Agreement with George H. Hepburn III, dated September 6, 2005, incorporated by reference to APAC Customer Services, Inc. s Current Report on Form 8-K, dated September 15, 2005.
  - \*10.13 Employment Agreement with Mark E. McDermott, dated April 12, 2004, incorporated by reference into APAC Customer Services, Inc. s Annual Report on Form 10-K for the fiscal year ended January 2, 2005.
  - \*10.14 Employment Agreement with Joseph R. Doolan, dated January 11, 2006, incorporated by reference to APAC Customer Services, Inc. s Current Report on Form 8-K, dated February 9, 2006.
  - \*10.15 APAC Customer Services, Inc. 2005 Management Incentive Plan, effective January 3, 2005, incorporated by reference into APAC Customer Services, Inc. s Current Report on Form 8-K, dated February 7, 2006.
  - \*10.16 APAC Customer Services, Inc. 2005 Management Incentive Plan, as amended and restated effective March 15, 2007.
  - \*10.17 Form of Employment Security Agreement between the Company and its Senior Management Team, incorporated by reference to APAC Customer Services, Inc. s Annual Report on Form 10-K for the fiscal year ended January 1, 2006.
  - 10.18 Amended and Restated Credit Agreement, dated October 31, 2005, incorporated by reference to APAC Customer Services, Inc. s Current Report on Form 8-K, dated November 3, 2005.
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<b>Exhibit Number</b>	<b>Description</b>
10.19	Amendment No. 1 to Amended and Restated Credit Agreement, effective as of February 21, 2006, incorporated by reference to APAC Customer Services, Inc. s Current Report on Form 8-K, dated March 9, 2006.
10.20	Amendment No. 2 to Amended and Restated Credit Agreement, effective as of April 2, 2006, incorporated by reference to APAC Customer Services, Inc. s Current Report on Form 8-K, dated April 27, 2006.
10.21	Amendment No. 3 to Amended and Restated Credit Agreement, effective as of June 2, 2006, incorporated by reference to APAC Customer Services, Inc. s Current Report on Form 8-K, dated June 9, 2006.
10.22	Amendment No. 4 to Amended and Restated Credit Agreement, effective as of October 1, 2006, incorporated by reference to APAC Customer Services, Inc. s Current Report on Form 8-K, dated October 30, 2006.
10.23	Amendment No. 5 to Amended and Restated Credit Agreement, dated as of November 10, 2006, incorporated by reference to APAC Customer Services, Inc. s Quarterly Report on Form 10-Q, for fiscal quarter ended October 1, 2006.
10.24	Amendment No. 6 to Amended and Restated Credit Agreement, dated as of December 5, 2006, incorporated by reference to APAC Customer Services, Inc. s Current Report on Form 8-K, dated December 8, 2006.
10.25	Second Amended and Restated Loan and Security Agreement, dated January 31, 2007, incorporated by reference to APAC Customer Services, Inc. s Current Report on Form 8-K, dated February 5, 2007.
10.26	Second Lien Loan and Security Agreement, dated January 31, 2007, incorporated by reference to APAC Customer Services, Inc. s Current Report on Form 8-K, dated February 5, 2007.
10.27	Registration Rights Agreement incorporated by reference to APAC TeleServices, Inc. s Registration Statement on Form S-1, as amended, Registration No. 33-95638.
10.28	Tax Agreement incorporated by reference to APAC TeleServices, Inc. s Registration Statement on Form S-1, as amended, Registration No. 33-95638.
21.1	Subsidiaries of APAC Customer Services, Inc.
23.1	Consent of Deloitte & Touche LLP.
23.2	Consent of Ernst & Young LLP.
24.1	Power of attorney executed by Theodore G. Schwartz, Cindy K. Andreotti, Thomas M. Collins, John W. Gerdelman, John C. Kraft, Robert J. Keller, and John J. Park.

- 31.1 Certification of Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Indicates management employment contracts or compensatory plans or arrangements.