COMMVAULT SYSTEMS INC
Form 10-Q
February 03, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended: December 31, 2010

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File Number: 1-33026
CommVault Systems, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**22-3447504**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2 Crescent Place **Oceanport, New Jersey**	**07757**
(Address of principal executive offices)	(Zip Code)

(732) 870-4000
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by the Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ **No** o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that registrant was required to submit and post such files.)

Yes þ **No o**

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(Do not check if smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o **No** þ

As of January 28, 2011, there were 43,593,955 shares of the registrant s common stock, $0.01 par value, outstanding.

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CommVault Systems, Inc.
Consolidated Balance Sheets
(In thousands, except per share data)
(Unaudited)

	December 31, 2010	March 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 191,393	$ 169,518
Short-term investments	2,150	5,043
Trade accounts receivable, less allowance for doubtful accounts of $214 at December 31, 2010 and $292 at March 31, 2010	65,648	58,049
Prepaid expenses and other current assets	5,786	4,612
Deferred tax assets	16,490	16,693
Total current assets	281,467	253,915
Deferred tax assets	23,867	24,485
Property and equipment, net	6,516	6,356
Other assets	1,645	1,259
Total assets	$ 313,495	$ 286,015
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 1,763	$ 1,891
Accrued liabilities	28,340	25,727
Deferred revenue	90,833	83,112
Total current liabilities	120,936	110,730
Deferred revenue, less current portion	12,334	9,140
Other liabilities	7,219	7,845
Stockholders equity:		
Preferred stock, $0.01 par value: 50,000 shares authorized, no shares issued and outstanding at December 31, 2010 and March 31, 2010		
Common stock, $0.01 par value: 250,000 shares authorized, 43,536 shares and 43,053 shares issued and outstanding at December 31, 2010 and March 31, 2010, respectively	436	431
Additional paid-in capital	261,342	239,012
Accumulated deficit	(89,073)	(81,031)
Accumulated other comprehensive income (loss)	301	(112)
Total stockholders equity	173,006	158,300

Total liabilities and stockholders equity	$	313,495	$	286,015

See accompanying unaudited notes to consolidated financial statements

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CommVault Systems, Inc.
Consolidated Statements of Income
(In thousands, except per share data)
(Unaudited)

	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009	Nine Months Ended December 31, 2010	Nine Months Ended December 31, 2009
Revenues:				
Software	$ 41,769	$ 35,223	$ 105,822	$ 97,844
Services	41,860	35,468	119,333	99,743
Total revenues	83,629	70,691	225,155	197,587
Cost of revenues:				
Software	628	724	1,786	2,313
Services	9,526	8,373	27,405	24,109
Total cost of revenues	10,154	9,097	29,191	26,422
Gross margin	73,475	61,594	195,964	171,165
Operating expenses:				
Sales and marketing	43,877	35,256	118,262	100,216
Research and development	9,600	8,812	26,855	24,612
General and administrative	8,535	7,521	24,676	21,960
Depreciation and amortization	978	882	2,786	2,660
Income from operations	10,485	9,123	23,385	21,717
Interest expense	(27)	(32)	(80)	(78)
Interest income	162	91	435	293
Income before income taxes	10,620	9,182	23,740	21,932
Income tax expense	(3,368)	(3,742)	(7,571)	(9,339)
Net income	$ 7,252	$ 5,440	$ 16,169	$ 12,593
Net income per common share:				
Basic	$ 0.17	$ 0.13	$ 0.37	$ 0.30
Diluted	$ 0.16	$ 0.12	$ 0.35	$ 0.28

Weighted average common shares outstanding:				
Basic	43,318	42,270	43,132	41,929
Diluted	46,209	45,485	46,084	44,670

See accompanying unaudited notes to consolidated financial statements

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CommVault Systems, Inc.
Consolidated Statement of Stockholders Equity
(In thousands)
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance as of March 31, 2010	43,053	$ 431	$ 239,012	$ (81,031)	$ (112)	$ 158,300
Stock-based compensation			11,148			11,148
Tax benefits relating to share-based payments			4,562			4,562
Exercise of common stock options and vesting of restricted stock units	2,040	21	13,850			13,871
Repurchase of common stock	(1,557)	(16)	(7,230)	(24,211)		(31,457)
Net income				16,169		16,169
Foreign currency translation adjustment					413	413
Balance as of December 31, 2010	43,536	$ 436	$ 261,342	$ (89,073)	$ 301	$ 173,006

See accompanying unaudited notes to consolidated financial statements

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CommVault Systems, Inc.
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended December 31, 2010	Nine Months Ended December 31, 2009
Cash flows from operating activities		
Net income	$ 16,169	$ 12,593
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,881	2,745
Noncash stock-based compensation	11,148	11,406
Excess tax benefits from stock-based compensation	(4,563)	(2,669)
Deferred income taxes	(2,075)	2,792
Changes in operating assets and liabilities:		
Accounts receivable	(7,035)	(5,062)
Prepaid expenses and other current assets	(1,143)	(1,981)
Other assets	(349)	195
Accounts payable	(135)	(445)
Accrued liabilities	9,521	4,735
Deferred revenue	9,709	10,225
Other liabilities	(672)	542
Net cash provided by operating activities	33,456	35,076
Cash flows from investing activities		
Purchase of short-term investments	(2,751)	(4,293)
Proceeds from maturity of short-term investments	5,644	
Purchase of property and equipment	(3,000)	(2,351)
Net cash used in investing activities	(107)	(6,644)
Cash flows from financing activities		
Repurchase of common stock	(31,506)	
Proceeds from the exercise of stock options	13,871	6,000
Excess tax benefits from stock-based compensation	4,563	2,669
Net cash provided by (used in) financing activities	(13,072)	8,669
Effects of exchange rate changes in cash	1,598	2,044
Net increase in cash and cash equivalents	21,875	39,145
Cash and cash equivalents at beginning of period	169,518	105,205

Cash and cash equivalents at end of period	$ 191,393	$ 144,350

See accompanying unaudited notes to consolidated financial statements

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CommVault Systems, Inc.
Notes to Consolidated Financial Statements Unaudited
(In thousands, except per share data)

1. Nature of Business

CommVault Systems, Inc. and its subsidiaries (CommVault or the Company) is a leading provider of data and information management software applications and related services. The Company develops, markets and sells a suite of software applications and services, primarily in North America, Europe, Australia and Asia, that provides its customers with high-performance data protection; data migration and archiving; snapshot management and replication of data; embedded deduplication; e-discovery and compliance solutions; enterprise-wide search capabilities; and management and operational reports, remote services and troubleshooting tools. The Company s unified suite of data and information management software applications, which is sold under the Simpana brand, shares an underlying architecture that has been developed to minimize the cost and complexity of managing data on globally distributed and networked storage infrastructures. The Company also provides its customers with a broad range of professional and customer support services.

2. Basis of Presentation

The consolidated financial statements as of December 31, 2010 and for the three and nine months ended December 31, 2010 and 2009 are unaudited, and in the opinion of management include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results for the interim periods. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (U.S. GAAP) for complete financial statements and should be read in conjunction with the financial statements and notes in the Company s Annual Report on Form 10-K for fiscal 2010. The results reported in these financial statements should not necessarily be taken as indicative of results that may be expected for the entire fiscal year. The balance sheet as of March 31, 2010 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

3. Summary of Significant Accounting Policies

There have been no significant changes in the Company s accounting policies during the nine months ended December 31, 2010 as compared to the significant accounting policies described in its Annual Report on Form 10-K for the year ended March 31, 2010. A summary of the Company s significant accounting policies is disclosed below.

Use of Estimates

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires management to make judgments and estimates that affect the amounts reported in the Company s consolidated financial statements and the accompanying notes. The Company bases its estimates and judgments on historical experience and on various other assumptions that it believes are reasonable under the circumstances. The amounts of assets and liabilities reported in the Company s balance sheets and the amounts of revenues and expenses reported for each of its periods presented are affected by estimates and assumptions, which are used for, but not limited to, the accounting for revenue recognition, allowance for doubtful accounts, income taxes and related reserves, stock-based compensation and accounting for research and development costs. Actual results could differ from those estimates.

Revenue Recognition

The Company derives revenues from two primary sources, or elements: software licenses and services. Services include customer support, consulting, assessment and design services, installation services and training. A typical sales arrangement includes both of these elements.

For sales arrangements involving multiple elements, the Company recognizes revenue using the residual method. Under the residual method, the Company allocates and defers revenue for the undelivered elements based on relative fair value and recognizes the difference between the total arrangement fee and the amount deferred for the undelivered elements as revenue. The determination of fair value of the undelivered elements in multiple-element arrangements is based on the price charged when such elements are sold separately, which is commonly referred to as vendor-specific objective-evidence, or VSOE.

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CommVault Systems, Inc.
Notes to Consolidated Financial Statements Unaudited (continued)
(In thousands, except per share data)

The Company s software licenses typically provide for a perpetual right to use the Company s software and are sold on a per-copy basis, on a capacity basis or as site licenses. Software licenses sold on a capacity basis provide the customer with unlimited licenses of specified software products based on a defined level of terabytes of data under management. Site licenses give the customer the additional right to deploy the software on a limited basis during a specified term. The Company recognizes software revenue through direct sales channels upon receipt of a purchase order or other persuasive evidence and when all other basic revenue recognition criteria are met as described below.

The Company recognizes software revenue through all indirect sales channels on a sell-through model. A sell-through model requires that the Company recognize revenue when the basic revenue recognition criteria are met as described below and these channels complete the sale of the Company s software products to the end-user. Revenue from software licenses sold through an original equipment manufacturer partner is recognized upon the receipt of a royalty report or purchase order from that original equipment manufacturer partner.

Services revenue includes revenue from customer support and other professional services. Customer support includes software updates on a when-and-if-available basis, telephone support and bug fixes or patches. Customer support revenue is recognized ratably over the term of the customer support agreement, which is typically one year. To determine the price for the customer support element when sold separately, the Company primarily uses historical renewal rates, and in certain cases, it uses stated renewal rates. Historical renewal rates are supported by performing an analysis in which the Company segregates its customer support renewal contracts into different classes based on specific criteria including, but not limited to, the dollar amount of the software purchased, the level of customer support being provided and the distribution channel. As a result of this analysis, the Company has concluded that it has established VSOE for the different classes of customer support when the support is sold as part of a multiple-element sales arrangement.

The Company s other professional services include consulting, assessment and design services, installation services and training. Other professional services provided by the Company are not mandatory and can also be performed by the customer or a third-party. In addition to a signed purchase order, the Company s consulting, assessment and design services and installation services are, in some cases, evidenced by a Statement of Work, which defines the specific scope of such services to be performed when sold and performed on a stand-alone basis or included in multiple-element sales arrangements. Revenues from consulting, assessment and design services and installation services are based upon a daily or weekly rate and are recognized when the services are completed. Training includes courses taught by the Company s instructors or third-party contractors either at one of the Company s facilities or at the customer s site. Training fees are recognized after the training course has been provided. Based on the Company s analysis of such other professional services transactions sold on a stand-alone basis, the Company has concluded it has established VSOE for such other professional services when sold in connection with a multiple-element sales arrangement. The Company generally performs its other professional services within 90 days of entering into an agreement. The price for other professional services has not materially changed for the periods presented.

The Company has analyzed all of the undelivered elements included in its multiple-element sales arrangements and determined that VSOE of fair value exists to allocate revenues to services. Accordingly, assuming all basic revenue recognition criteria are met, software revenue is recognized upon delivery of the software license using the residual method.

The Company considers the four basic revenue recognition criteria for each of the elements as follows:

> *Persuasive evidence of an arrangement with the customer exists.* The Company s customary practice is to require a purchase order and, in some cases, a written contract signed by both the customer and the Company, or other persuasive evidence that an arrangement exists prior to recognizing revenue on an arrangement.

CommVault Systems, Inc.
Notes to Consolidated Financial Statements Unaudited (continued)
(In thousands, except per share data)

Delivery or performance has occurred. The Company s software applications are usually physically delivered to customers with standard transfer terms such as FOB shipping point. Software and/or software license keys for add-on orders or software updates are typically delivered in an electronic format. If products that are essential to the functionality of the delivered software in an arrangement have not been delivered, the Company does not consider delivery to have occurred. Services revenue is recognized when the services are completed, except for customer support, which is recognized ratably over the term of the customer support agreement, which is typically one year.

Vendor s fee is fixed or determinable. The fee customers pay for software applications, customer support and other professional services is negotiated at the outset of a sales arrangement. The fees are therefore considered to be fixed or determinable at the inception of the arrangement.

Collection is probable. Probability of collection is assessed on a customer-by-customer basis. Each new customer undergoes a credit review process to evaluate its financial position and ability to pay. If the Company determines from the outset of an arrangement that collection is not probable based upon the review process, revenue is recognized at the earlier of when cash is collected or when sufficient credit becomes available, assuming all of the other basic revenue recognition criteria are met.

The Company s sales arrangements generally do not include acceptance clauses. However, if an arrangement does include an acceptance clause, revenue for such an arrangement is deferred and recognized upon acceptance. Acceptance occurs upon the earliest of receipt of a written customer acceptance, waiver of customer acceptance or expiration of the acceptance period.

Net Income per Common Share

Basic net income per common share is computed by dividing net income by the weighted average number of common shares during the period. Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options and the vesting of restricted stock units. The dilutive effect of such potential common shares is reflected in diluted earnings per share by application of the treasury stock method.

The following table sets forth the computation of basic and diluted net income per common share:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2010	**2009**	**2010**	**2009**
Net income	$ 7,252	$ 5,440	$ 16,169	$ 12,593
Basic net income per common share:				
Basic weighted average shares outstanding	43,318	42,270	43,132	41,929
Basic net income per common share	$ 0.17	$ 0.13	$ 0.37	$ 0.30
Diluted net income per common share:				
Basic weighted average shares outstanding	43,318	42,270	43,132	41,929

Dilutive effect of stock options and restricted stock units	2,891	3,215	2,952	2,741
Diluted weighted average shares outstanding	46,209	45,485	46,084	44,670
Diluted net income per common share	$ 0.16	$ 0.12	$ 0.35	$ 0.28

The diluted weighted average shares outstanding in the table above exclude outstanding stock options and restricted stock units totaling approximately 1,331 and 459 for the three months ended December 31, 2010 and 2009, respectively, and 877 and 803 for the nine months ended December 31, 2010 and 2009, respectively, because the effect would have been anti-dilutive.

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Notes to Consolidated Financial Statements Unaudited (continued)
(In thousands, except per share data)

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents. As of December 31, 2010, the Company s cash and cash equivalents balance consisted primarily of money market funds.

Concentration of Credit Risk

The Company grants credit to customers in a wide variety of industries worldwide and generally does not require collateral. Credit losses relating to these customers have been minimal.

Sales through the Company s reseller and original equipment manufacturer agreements with Dell totaled 23% and 25% of total revenues for the nine months ended December 31, 2010 and 2009, respectively. Dell accounted for 21% and 27% of accounts receivable as of December 31, 2010 and March 31, 2010, respectively. Sales through the Company s distribution agreement with Arrow Enterprise Computing Solutions, Inc. (Arrow) totaled 25% and 24% of total revenues for the nine months ended December 31, 2010 and 2009, respectively. Arrow accounted for approximately 33% and 30% of total accounts receivable as of December 31, 2010 and March 31, 2010, respectively.

Fair Value of Financial Instruments

The carrying amounts of the Company s cash and cash equivalents, accounts receivable and accounts payable approximate their fair values due to the short-term maturity of these instruments. As of December 31, 2010, the Company s short-term investments balance consisted of certificates of deposit.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for such asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value should maximize the use of observable inputs and minimize the use of unobservable inputs. To measure fair value, the Company uses the following fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data by correlation or other means.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table summarizes the composition of the Company s financial assets measured at fair value on a recurring basis at December 31, 2010 and March 31, 2010:

	December 31, 2010	March 31, 2010
Cash and cash equivalents:		
Money market funds	$ 161,170	$ 143,236

All of the Company s financial instruments in the table above were classified and measured as Level I instruments.

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CommVault Systems, Inc.
Notes to Consolidated Financial Statements Unaudited (continued)
(In thousands, except per share data)

Deferred Revenue

Deferred revenues represent amounts collected from, or invoiced to, customers in excess of revenues recognized. This results primarily from the billing of annual customer support agreements, as well as billings for other professional services fees that have not yet been performed by the Company and billings for license fees that are deferred due to insufficient persuasive evidence that an arrangement exists. The value of deferred revenues will increase or decrease based on the timing of invoices and recognition of software revenue. The Company expenses internal direct and incremental costs related to contract acquisition and origination as incurred.

Deferred revenue consists of the following:

	December 31, 2010	March 31, 2010
Current:		
Deferred software revenue	$ 377	$ 578
Deferred services revenue	90,456	82,534
	$ 90,833	$ 83,112
Non-current:		
Deferred services revenue	$ 12,334	$ 9,140

Accounting for Stock-Based Compensation

The Company utilizes the Black-Scholes pricing model to determine the fair value of non-qualified stock options on the dates of grant. Restricted stock units are measured based on the fair market values of the underlying stock on the dates of grant. The Company recognizes stock-based compensation using the straight-line method for all stock awards. The Company classifies benefits of tax deductions in excess of the compensation cost recognized (excess tax benefits) as a financing item cash inflow with a corresponding operating cash outflow. For the nine months ended December 31, 2010 and 2009, the Company includes $4,563 and $2,669, respectively, as a financing cash inflow.

Share Repurchases

The Company considers all shares repurchased as cancelled shares restored to the status of authorized but unissued shares on the trade date. The aggregate purchase price of the shares of the Company s common stock repurchased is reflected as a reduction to Stockholders Equity. The Company accounts for shares repurchased as an adjustment to common stock (at par value) with the excess repurchase price allocated between Additional Paid-in Capital and Accumulated Deficit. As a result of the Company s stock repurchases in the nine months ended December 31, 2010, the Company reduced common stock and additional paid-in capital by $7,246 and accumulated deficit by $24,211.

Foreign Currency Translation

The functional currencies of the Company s foreign operations are deemed to be the local country s currency. Assets and liabilities of the Company s international subsidiaries are translated at their respective period-end exchange rates, and revenues and expenses are translated at average currency exchange rates for the period. The resulting balance sheet translation adjustments are included in Other Comprehensive Income (Loss) and are reflected as a separate component of Stockholders Equity.

Foreign currency transaction gains and losses are recorded in General and administrative expenses in the Consolidated Statements of Income. The Company recognized a net foreign currency transaction gain of $133 and a net foreign transaction loss of $310 in the three and nine months ended December 31, 2010, respectively, and net foreign currency transaction losses of $150 and $727 in the three and nine months ended December 31, 2009, respectively. The net foreign currency transaction gains and losses recorded in General and administrative expenses include settlement gains and losses on forward contracts disclosed below.

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CommVault Systems, Inc.
Notes to Consolidated Financial Statements Unaudited (continued)
(In thousands, except per share data)

To date, the Company has selectively hedged its exposure to foreign currency transaction gains and losses on the balance sheet through the use of forward contracts, which were not designated as hedging instruments. The duration of forward contracts utilized for hedging the Company s balance sheet exposure is approximately one month. As of December 31, 2010 and March 31, 2010, the Company did not have any forward contracts outstanding. In the three and nine months ended December 31, 2010, the Company recorded net realized gains of $16 and $40, respectively, in general and administrative expenses related to the settlement of forward exchange contracts. In the three and nine months ended December 31, 2009, the Company recorded net realized gains of $22 and $5, respectively, in general and administrative expenses related to the settlement of a forward exchange contracts. In the future, the Company may enter into additional foreign currency-based hedging contracts to reduce its exposure to significant fluctuations in currency exchange rates on the balance sheet.

Comprehensive Income

Comprehensive income is defined to include all changes in equity, except those resulting from investments by stockholders and distribution to stockholders. Comprehensive income for the three and nine months ended December 31, 2010 and 2009 is as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2010	**2009**	**2010**	**2009**
Net income	$ 7,252	$ 5,440	$ 16,169	$ 12,593
Foreign currency translation adjustment	51	96	413	(109)
Total comprehensive income	$ 7,303	$ 5,536	$ 16,582	$ 12,484

Impact of Recently Issued Accounting Standards

In January 2010, the FASB issued guidance requiring additional disclosure for significant transfers in and out of Levels 1 and 2 fair value measurements and the reasons for such transfers. This new guidance also requires separate disclosure information about purchases, sales, issuances, and settlements (on a gross basis rather than as one net number) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). In addition, this guidance clarifies existing disclosures regarding fair value measurement for each class of assets and liabilities and the valuation techniques and inputs used to measure fair value for recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. The changes under this new guidance were effective for the quarterly period beginning January 1, 2010, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for the Company s fiscal year beginning April 1, 2011. The Company believes that the adoption of these new accounting pronouncements will not have a material impact on its consolidated financial position, results of operations or cash flows.

4. Credit Facility

In July 2009, the Company entered into an amended and restated credit facility in which the Company can borrow up to $30,000 over a three year period. Borrowings under the amended and restated credit facility are available to repurchase the Company s common stock under its share repurchase program and to provide for working capital and general corporate purposes. Repayment of principal amounts borrowed under the amended and restated credit facility is required at the maturity date of July 2012.

The amended and restated credit facility contains financial covenants that require the Company to maintain a quick ratio and minimum earnings before interest, taxes, depreciation and amortization (EBITDA), as defined in the credit agreement. Borrowings under the amended and restated credit facility bear interest, at the Company s option, at either i) LIBOR plus a margin ranging from 2.25% to 2.75% or ii) the bank s base rate plus a margin ranging from 1.75% to

2.25%. The bank s base rate is defined as the higher of the federal funds rate plus 1.5%, one-month LIBOR plus 1.5%, or the lender s prime rate. The Company pays a quarterly commitment fee that ranges from 0.35% to 0.50% per annum based on the unused portion of the amended and restated credit facility. As of December 31, 2010, the Company was in compliance with all required covenants, and there were no outstanding balances on the amended and restated credit facility.

CommVault Systems, Inc.
Notes to Consolidated Financial Statements Unaudited (continued)
(In thousands, except per share data)

5. Contingencies

In the normal course of its business, the Company may be involved in various claims, negotiations and legal actions; however, as of December 31, 2010, the Company is not party to any litigation that is expected to have a material effect on the Company s financial position, results of operations or cash flows.

6. Capitalization

In January 2008, the Company s Board of Directors approved a stock repurchase program, which authorized the Company to repurchase up to $40,000 of its common stock. The Company s Board of Directors authorized additional increases of $40,000 in July 2008 and $40,000 in July 2010 to the Company s existing share repurchase program. As of December 31, 2010, the Company is authorized to repurchase up to a total of $120,000 of its common stock through March 31, 2012. As of December 31, 2010, the Company has repurchased approximately $71,748 under the share repurchase authorization and may repurchase an additional $48,252 of its common stock under the current program through March 31, 2012.

On November 13, 2008, the Board of Directors of the Company adopted a Rights Plan and declared a dividend distribution of one Right for each outstanding share of common stock to shareholders of record on November 24, 2008. Each Right, when exercisable, entitles the registered holder to purchase one one-thousandth of a share of Series A Junior Participating Preferred Stock, par value $0.01 per share, at a purchase price of eighty dollars per one one-thousandth of a share, subject to adjustment. Of the 50,000 shares of preferred stock authorized under the Company s certificate of incorporation, 150 have been designated as Series A Junior Participating Preferred.

The Rights will become exercisable following the tenth business day after (i) a person or group announces the acquisition of 15% or more of the Company s common stock or (ii) commencement of a tender or exchange offer, the consummation of which would result in ownership by the person or group of 15% or more of the Company s common stock. The Company is also entitled to redeem the Rights at $0.001 per right under certain circumstances. The Rights expire on November 14, 2018, if not exercised or redeemed.

7. Stock Plans

As of December 31, 2010, the Company maintains two stock incentive plans, the 1996 Stock Option Plan (the Plan) and the 2006 Long-Term Stock Incentive Plan (the LTIP).

Under the Plan, the Company may grant non-qualified stock options to purchase 11,705 shares of common stock to certain officers and employees. Stock options are granted at the discretion of the Board and expire 10 years from the date of the grant. At December 31, 2010, there were 556 options available for future grant under the Plan.

The LTIP permits the grant of incentive stock options, non-qualified stock options, restricted stock awards, restricted stock units, stock appreciation rights, performance stock awards and stock unit awards based on, or related to, shares of the Company s common stock. On each April 1, the number of shares available for issuance under the LTIP is increased, if applicable, such that the total number of shares available for awards under the LTIP as of any April 1 is equal to 5% of the number of outstanding shares of the Company s common stock on that April 1. As of December 31, 2010, approximately 862 shares were available for future issuance under the LTIP.

As of December 31, 2010, the Company has granted non-qualified stock options and restricted stock units under its stock incentive plans. Equity awards granted by the Company under its stock incentive plans generally vest quarterly over a four-year period, except that the shares that would otherwise vest quarterly over the first 12 months do not vest until the first anniversary of the grant. During the nine months ended December 31, 2010, the Company granted a total of 53 stock options and 28 restricted stock units to members of the Company s Board of Directors that vest over a one year period. The Company anticipates that future grants under its stock incentive plans will continue to include both non-qualified stock options and restricted stock units.

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CommVault Systems, Inc.
Notes to Consolidated Financial Statements Unaudited (continued)
(In thousands, except per share data)

The Company estimated the fair value of stock options granted using the Black-Scholes formula. The average expected life was determined according to the simplified method , which is the mid-point between the vesting date and the end of the contractual term. The Company will continue to use the simplified method until it has enough historical experience to provide a reasonable estimate of expected term. The risk-free interest rate is determined by reference to U.S. Treasury yield curve rates with a remaining term equal to the expected life assumed at the date of grant. Forfeitures are estimated based on the Company s historical analysis of actual stock option forfeitures.

Expected volatility through the quarter ended September 30, 2008 was calculated based on reported data for a peer group of publicly traded companies for which historical information was available. During the quarter ended December 31, 2008, the Company began to incorporate its own data into the expected volatility assumption. The Company modified its expected volatility calculation because its common stock had been publically traded for 2 years and it believed that CommVault specific volatility inputs should be included in the calculation of expected volatility. As a result, expected volatility during the nine months ended December 31, 2010 and 2009 was calculated based on a blended approach that included historical volatility of a peer group, the implied volatility of the Company s traded options with a remaining maturity greater than six months and the historical realized volatility of its common stock from the date of its initial public offering to the respective stock option grant date.

The assumptions used in the Black-Scholes option-pricing model are as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2010	2009	2010	2009
Dividend yield	None	None	None	None
Expected volatility	42%-45%	42%-45%	40%-45%	41%-45%
Weighted average expected volatility	45%	42%	45%	42%
Risk-free interest rates	1.18%-2.46%	2.63%-2.69%	1.18%-2.93%	2.30%-3.14%
Expected life (in years)	6.2	6.4	6.2	6.3

The following table presents the stock-based compensation expense included in cost of services revenue, sales and marketing, research and development and general and administrative expenses for the three and nine months ended December 31, 2010 and 2009.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2010	2009	2010	2009
Cost of services revenue	$ 101	$ 104	$ 275	$ 350
Sales and marketing	1,887	1,554	5,041	5,170
Research and development	464	533	1,222	1,765
General and administrative	1,736	1,325	4,610	4,121
Stock-based compensation expense	$ 4,188	$ 3,516	$ 11,148	$ 11,406

As of December 31, 2010, there was approximately $37,892 of unrecognized stock-based compensation expense, net of estimated forfeitures, related to non-vested stock option and restricted stock unit awards that is expected to be recognized over a weighted average period of 2.76 years. To the extent the actual forfeiture rate is different from what the Company has anticipated, stock-based compensation related to these awards will be different from the Company s expectations.

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CommVault Systems, Inc.
Notes to Consolidated Financial Statements Unaudited (continued)
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The following summarizes the activity for the Company s two stock incentive plans for the nine months ended December 31, 2010:

Options	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding as of March 31, 2010	8,070	$ 10.38		
Options granted	1,065	26.89		
Options exercised	(1,709)	8.12		
Options forfeited	(138)	15.31		
Options expired	(15)	12.09		
Outstanding as of December 31, 2010	7,273	$ 13.24	6.32	$ 111,995
Vested or expected to vest as of December 31, 2010	7,137	12.97	6.24	111,093
Exercisable as of December 31, 2010	4,598	$ 9.25	4.94	$ 89,054

The weighted average fair value of stock options granted was $12.21 per share and $12.11 per share during the three and nine months ended December 31, 2010, respectively, and $10.27 per share and $9.35 per share during the three and nine months ended December 31, 2009, respectively. The total intrinsic value of options exercised was $9,985 and $29,520 during the three and nine months ended December 31, 2010, respectively, and $5,964 and $9,732 during the three and nine months ended December 31, 2009, respectively. The Company s policy is to issue new shares upon exercise of options as the Company does not hold shares in treasury.

Restricted stock unit activity for the nine months ended December 31, 2010 is as follows:

Non-vested Restricted Stock Units	Number of Awards	Weighted Average Grant Date Fair Value
Non-vested as of March 31, 2010	1,011	$ 15.33
Awarded	462	26.35
Released	(331)	14.40
Forfeited	(82)	17.05
Non-vested as of December 31, 2010	1,060	$ 20.30

8. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting and the amount used for income tax purposes. The Company s net deferred tax assets relate primarily to federal and state research tax credit carryforwards, stock-based compensation and foreign net operating loss carry forwards. The Company assesses the likelihood that its deferred tax assets will be recovered from future taxable income and, to the extent that the Company believes recovery is not likely, the Company establishes a valuation allowance. In addition, the Company reviews the expected annual effective income tax rate and makes changes on a quarterly basis as necessary based on certain factors such as changes in forecasted annual income, changes to the actual and forecasted permanent book-to-tax differences, or changes resulting from the impact of a tax law change. As of December 31, 2010, the Company does not maintain a valuation allowance against any of its deferred tax assets.

Income tax expense was $3,368 and $7,571 in the three and nine months ended December 31, 2010 compared to $3,742 and $9,339 in the three and nine months ended December 31, 2009. The effective tax rate in both the three and nine months ended December 31, 2010 was 32%. The effective rate in the three months ended December 31, 2010 is lower than the expected federal statutory rate of 35% primarily due to the reinstatement of the research and development tax credit, partially offset by state income taxes and permanent differences in both the United States and foreign jurisdictions. The effective rate in the nine months ended December 31, 2010 is lower than the expected federal statutory rate of 35% primarily due to the reversal of certain tax reserves totaling $1,080 as a result of the expiration of a statute of limitations in a foreign jurisdiction as well as the reinstatement of the research and development tax credit, partially offset by state income taxes and permanent differences in both the United States and foreign jurisdictions.

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The provision for income taxes for the three and nine months ended December 31, 2009 was $3,742 and $9,339, respectively, with effective tax rates of approximately 41% and 43%, respectively. In the three months ended December 31, 2009, the effective rate is higher than the expected federal statutory rate of 35% primarily due to state income taxes and permanent differences mainly in the United States, partially offset by research and foreign tax credits. In the nine months ended December 31, 2009, the effective rate is higher than the expected federal statutory rate of 35% primarily due to state income taxes, permanent differences mainly in the United States and adjustments to tax reserves, partially offset by research and foreign tax credits as well as tax return accrual adjustments.

The calculation of the Company s tax liabilities involves dealing with uncertainties in the application of complex tax regulations in each of its tax jurisdictions. The number of years with open tax audits varies depending on the tax jurisdiction. A number of years may lapse before a particular matter is audited and finally resolved. A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

Balance at March 31, 2010	$	5,229
Additions for tax positions related to fiscal 2011		343
Additions for tax positions related to prior years		86
Settlements		
Reductions related to the expiration of statutes of limitations		(751)
Foreign currency translation adjustment		(4)
Balance at December 31, 2010	$	4,903

During the nine months ended December 31, 2010, the Company recognized $751 of previously unrecognized tax benefits and approximately $329 of related accrued interest and penalties totaling $1,080 as a result of the expiration of a statute of limitations in a foreign jurisdiction. The Company believes that it is reasonably possible that approximately $665 of the currently remaining unrecognized tax benefits and approximately $165 of related accrued interest and penalties may also be realized by the end of the fiscal year ending March 31, 2011 as a result of the lapse of the statute of limitations.

All of the Company s unrecognized tax benefits at December 31, 2010 of $4,903, if recognized, would favorably affect the effective tax rate. Components of the reserve are classified as either current or long-term in the Consolidated Balance Sheet based on when the Company expects each of the items to be settled. Accordingly, the Company has recorded its unrecognized tax benefits of $4,903 and $5,229 and the related accrued interest and penalties of $1,181 and $1,394 in Other Liabilities on the Consolidated Balance Sheet at December 31, 2010 and March 31, 2010, respectively. Interest and penalties related to unrecognized tax benefits are recorded in income tax expense. In the nine months ended December 31, 2010 and 2009, the Company recognized $116 and $105, respectively, of interest and penalties in the Consolidated Statement of Income.

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CommVault Systems, Inc.
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The Company conducts business globally and as a result, files income tax returns in the United States and in various state and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world, including such major jurisdictions as the United States, Australia, Canada, Germany, Netherlands and United Kingdom. The following table summarizes the tax years in the Company s major tax jurisdictions that remain subject to income tax examinations by tax authorities as of December 31, 2010. The years subject to income tax examination in the Company s foreign jurisdictions cover the maximum time period with respect to these jurisdictions. Due to NOL carryforwards, in some cases the tax years continue to remain subject to examination with respect to such NOLs.

Tax Jurisdiction	**Years Subject to Income Tax Examination**
U.S. Federal	2001 - Present
New Jersey	2002 - Present
Foreign jurisdictions	2006 - Present

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

You should read the following discussion and analysis along with our consolidated financial statements and the related notes included elsewhere in this quarterly report on Form 10-Q. The statements in this discussion regarding our expectations of our future performance, liquidity and capital resources, and other non-historical statements are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described under Risk Factors in our Annual Report on Form 10-K for the fiscal year ended March 31, 2010. Our actual results may differ materially from those contained in or implied by any forward-looking statements.

Overview

We are a leading provider of data and information management software applications and related services in terms of product breadth and functionality and market penetration. We develop, market and sell a unified suite of data and information management software applications under the Simpana® brand. Our Simpana software is a platform with licensable modules that work together seamlessly, sharing a single code and common function set, to deliver Backup and Recovery, Archive, Replication, Search and Resource Management capabilities. With a single platform approach, Simpana is specifically designed to protect, manage and access data throughout its lifecycle in less time, at lower cost and with fewer resources than alternative solutions. Our products and capabilities enable our customers to deploy solutions for data protection, business continuance, corporate compliance and centralized management and reporting. We also provide our customers with a broad range of highly effective services that are delivered by our worldwide support and field operations. As of December 31, 2010, we had licensed our software applications to approximately 13,500 registered customers.

Our Simpana software suite is comprised of the following five distinct data and information management software application modules: Data Protection (Back-up and Recovery), Archive, Replication, Resource Management and Search. All of our software application modules share a common platform that provides back-end services and advanced capabilities, like encryption; deduplication; content indexing; policy-based automation; data classification; e-discovery and role-based security. In addition to Back-up and Recovery, the subsequent release of our other software application modules has substantially increased our addressable market. Each application module can be used individually or in combination with other application modules from our single platform suite.

In August 2010, our CommVault Simpana 9.0 software suite (Simpana 9) was made available for public release. We believe that Simpana 9, which builds on and significantly expands our CommVault Simpana 8.0 software suite (Simpana 8), allows customers to deploy a modern data management solution to achieve gains in efficiency, cost optimization and scale. We believe that Simpana 9 solves real-world IT challenges with major technology advancements, including increased virtualization scalability and performance, integrated source and target data deduplication, automatic and transparent integration with hardware array-based snapshots, as well as new tools that ease migration to our next generation Simpana 9 platform.

In January 2009, Simpana 8.0 was made available for public release. Simpana 8 included advances in recovery management, data reduction, virtual server protection and content organization. In addition, we believe that Simpana 8 met a broad spectrum of customer s discovery and recovery management requirements and eliminated the need for a myriad of point level products.

We currently derive the majority of our software revenue from our Backup and Recovery software application. Sales of Backup and Recovery represented approximately 60% of our total software revenue for the nine months ended December 31, 2010 and 63% of our total software revenue for the nine months ended December 31, 2009. In addition, we derive the majority of our services revenue from customer and technical support associated with our Backup and Recovery software application. The dollar value increase in the software revenue generated by our non-Backup and Recovery software products, or Advanced Data and Information Management Products (ADIM), was primarily driven by new components and enhancements related to Simpana 8 and Simpana 9 software suites. We anticipate that ADIM software revenue as an overall percentage of our total software revenue will increase in the future as we expand our domestic and international sales activities and continue to build brand awareness. However, we anticipate that we will continue to derive a majority of our software and services revenue from our Backup and Recovery software application for the next few fiscal years.

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More recently, the industry in which we currently operate is going through accelerating changes as the result of the introduction of new technologies such as cloud computing. We believe cloud computing, in its various forms, represents a major new long term trend in the way that applications are delivered, data is stored and information is retrieved. We believe as a result of our Simpana data and information management platform, that we are in a unique position to enhance and extend the value of our Simpana software suite by developing innovative, industry leading ways to manage data and information in the cloud. For example, our Simpana 9 data protection technologies include automated tiering for cloud storage and our Simpana 9 data reduction technologies include duplication across all movement and copies, including could storage.

In addition to extending the Simpana platform into the cloud, we are continuing to pursue an aggressive product development program in both data and information management solutions. Our data management solutions include not only traditional backup and recovery, but also new innovations in de-duplication, data movement, virtualization, snap-based backups and enterprise reporting. Our information management innovations are primarily in the areas of archiving, eDiscovery, records management, governance and compliance. We remain focused on both the data and information management trends in the marketplace and, in fact, a material portion of our existing research and development expenses are utilized toward the development of such new technologies discussed above. While we are confident in our ability to meet these changing industry demands with Simpana 8 and Simpana 9 as well as potential future releases, the development, release and timing of any features or functionality remain at our sole discretion and our solutions to cloud computing or other technologies may not be widely adopted.

Given the nature of the industry in which we operate, our software applications are subject to obsolescence. As noted above, we continually develop and introduce updates to our existing software applications in order to keep pace with evolving industry technologies such as cloud computing. In addition, we must address evolving industry standards, changing customer requirements and competitive software applications that may render our existing software applications obsolete. For each of our software applications, we provide full support for the current generally available release and one prior release. When we declare a product release obsolete, a customer notice is delivered twelve months prior to the effective date of obsolescence announcing continuation of full product support for the first six months. We provide an additional six months of extended assistance support in which we only provide existing workarounds or fixes that do not require additional development activity. We do not have existing plans to make any of our software products permanently obsolete.

Sources of Revenues

Historically, we have derived approximately half of our total revenues from sales of licenses of our software applications. We do not customize our software for a specific end-user customer. We sell our software applications to end-user customers both directly through our sales force and indirectly through our global network of value-added reseller partners, systems integrators, corporate resellers and original equipment manufacturers. Our software revenue was 47% of our total revenues for the nine months ended December 31, 2010 and 50% for the nine months ended December 31, 2009.

In recent fiscal years, we have generated approximately 62% of our software revenue from our existing customer base and approximately 38% of our software revenue from new customers. In addition, our total software revenue in any particular period is, to a certain extent, dependent upon our ability to generate revenues from large customer software deals, which we refer to as enterprise software transactions. We expect the number of enterprise software transactions (transactions greater than $0.1 million) and resulting software revenue to increase throughout fiscal 2011, although the size and timing of any particular software transaction is more difficult to forecast. Such software transactions represented approximately 47% of our total software revenue in the nine months ended December 31, 2010 and approximately 45% of our total software revenue for the nine months ended December 31, 2009.

Software revenue generated through indirect distribution channels was approximately 83% of total software revenue in the nine months ended December 31, 2010 and was approximately 85% of total software revenue in the nine months ended December 31, 2009. Software revenue generated through direct distribution channels was approximately 17% of total software revenue in the nine months ended December 31, 2010 and was approximately 15% of total software revenue in the nine months ended December 31, 2009. The dollar value of software revenue generated through indirect distribution channels increased approximately $5.1 million in the nine months ended December 31, 2010 compared to the nine months ended December 31, 2009. The dollar value of software revenue generated through direct distribution channels increased $2.9 million in the nine months ended December 31, 2010 compared to the nine months ended December 31, 2009. The increase in the dollar value of software revenue growth generated through our indirect distribution channels compared to our direct sales force in the nine months ended December 31, 2010 is primarily the result of an increase in software revenue from our international operations, which is almost exclusively transacted through indirect distribution. Deals initiated by our direct sales force are sometimes transacted through indirect channels based on end-user customer requirements, which are not always in our control and can cause this overall percentage split to vary from quarter to quarter. As such, there may be fluctuations in the dollars and percentage of software revenue generated through our direct distribution channels from time to time. We believe that the growth of our software revenue, derived from both our indirect channel partners and direct sales force, are key attributes to our long-term growth strategy. We will continue to invest in both our channel relationships and direct sales force in the future, but we continue to expect more revenue to be generated through indirect distribution channels over the long term. The failure of our indirect distribution channels or our direct sales force to effectively sell our software applications could have a material adverse effect on our revenues and results of operations.

We have a worldwide reseller and an original equipment agreement with Dell. Our reseller agreement with Dell provides them the right to market, resell and distribute certain of our products to their customers. Our original equipment manufacturer agreement with Dell is discussed more fully below. Sales through our agreements with Dell accounted for 23% of our total revenues for the nine months ended December 31, 2010 and 25% of our total revenues for the nine months ended December 31, 2009.

We have original equipment manufacturer agreements primarily with Dell and Hitachi Data Systems for them to market, sell and support our software applications and services on a stand-alone basis and/or incorporate our software applications into their own hardware products. Dell and Hitachi Data Systems have no obligation to recommend or offer our software applications exclusively or at all, and they have no minimum sales requirements and can terminate our relationship at any time. A material portion of our software revenue is sometimes generated through our original equipment manufacturer agreements. Sales through our original equipment manufacturer agreements accounted for 9% of our total revenues for the both nine months ended December 31, 2010 and the nine months ended December 31, 2009.

We also have non-exclusive distribution agreements covering our North American commercial markets and our U.S. Federal Government market with Arrow Enterprise Computing Solutions, Inc. (Arrow), a subsidiary of Arrow Electronics, Inc., and Avnet Technology Solutions (Avnet), a subsidiary of Avnet, Inc. Pursuant to these distribution agreements, these distributors primary role is to enable a more efficient and effective distribution channel for our products and services by managing our reseller partners and leveraging their own industry experience. Many of our North American resellers have been transitioned to either Arrow or Avnet. We generated approximately 25% of our total revenues through Arrow in the nine months ended December 31, 2010 and approximately 24% in the nine months ended December 31, 2009. Avnet s total revenue contribution was not material in the nine months ended December 31, 2010. If Arrow or Avnet were to discontinue or reduce the sales of our products or if our agreements with Arrow or Avnet were terminated, and if we were unable to take back the management of our reseller channel or find another North American distributor to replace Arrow or Avnet, then it could have a material adverse effect on our future revenues.

Our services revenue is made up of fees from the delivery of customer support and other professional services, which are typically sold in connection with the sale of our software applications. Customer support agreements provide technical support and unspecified software updates on a when-and-if-available basis for an annual fee based on licenses purchased and the level of service subscribed. Other professional services include consulting, assessment and design services, implementation and post-deployment services and training, all of which to date have predominantly been sold in connection with the sale of software applications. Our services revenue was 53% of our total revenues for the nine months ended December 31, 2010 and 50% for the nine months ended December 31, 2009.

The gross margin of our services revenue was 77.0% for the nine months ended December 31, 2010 and 75.8% for the nine months ended December 31, 2009. The increase in the gross margin of our services revenue in the nine months ended December 31, 2010 compared to the nine months ended December 31, 2009 was primarily due to a higher percentage of our services revenue being derived from customer support agreements as a result of sales to new customers and renewal agreements with our installed customer base. Overall, our services revenue has lower gross margins than our software revenue. The gross margin of our software revenue was 98.3% for nine months December 31, 2010, and 97.6% for the nine months ended December 31, 2009. An increase in the percentage of total revenues represented by services revenue may adversely affect our overall gross margins.

Description of Costs and Expenses

Our cost of revenues is as follows:

Cost of Software Revenue, consists primarily of third-party royalties and other costs such as media, manuals, translation and distribution costs; and

Cost of Services Revenue, consists primarily of salary and employee benefit costs in providing customer support and other professional services.

Our operating expenses are as follows:

Sales and Marketing, consists primarily of salaries, commissions, employee benefits, stock-based compensation and other direct and indirect business expenses, including travel and related expenses, sales promotion expenses, public relations expenses and costs for marketing materials and other marketing events (such as trade shows and advertising);

Research and Development, which is primarily the expense of developing new software applications and modifying existing software applications, consists principally of salaries, stock-based compensation and benefits for research and development personnel and related expenses; contract labor expense and consulting fees as well as other expenses associated with the design, certification and testing of our software applications; and legal costs associated with the patent registration of such software applications;

General and Administrative, consists primarily of salaries, stock-based compensation and benefits for our executive, accounting, human resources, legal, information systems and other administrative personnel. Also included in this category are other general corporate expenses, such as outside legal and accounting services, compliance costs and insurance; and

Depreciation and Amortization, consists of depreciation expense primarily for computer equipment we use for information services and in our development and test labs.

We anticipate that each of the above categories of operating expenses will increase in dollar amounts, but will decline as a percentage of total revenues in the long-term.

Foreign Currency Exchange Rates Impact on Results of Operations

Sales outside the United States were approximately 38% of our total revenue for both the nine months ended December 31, 2010 and in fiscal 2010. The income statements of our non-U.S. operations are translated into U.S. dollars at the average exchange rates for each applicable month in a period. To the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currency denominated transactions generally results in increased revenue, operating expenses and income from operations for our non-U.S. operations. Similarly, our revenue, operating expenses and net income will generally decrease for our non-U.S. operations if the U.S. dollar strengthens against foreign currencies.

Using the average foreign currency exchange rates from the corresponding fiscal 2010 period, our total revenues, cost of revenues and operating expenses from non-U.S. operations for the three months ended December 31, 2010 would have been higher by approximately $0.3 million, by less than $0.1 million, and $0.2 million, respectively. For the nine months ended December 31, 2010, our total revenues, cost of revenues and operating expenses from the non-U.S. operations would have been higher by approximately $0.9 million, by less than $0.1 million, and $0.5 million, respectively.

In addition, we are exposed to risks of foreign currency fluctuation primarily from cash balances, accounts receivables and intercompany accounts denominated in foreign currencies and are subject to the resulting transaction gains and losses, which are recorded as a component of general and administrative expenses. We recognized net foreign currency transaction gains of $0.1 million and net foreign currency transaction losses of $0.3 million in the three and nine months ended December 31, 2010, respectively, and net foreign currency transaction losses of $0.2 million and $0.7 million in the three and nine months ended December 31, 2009, respectively.

Critical Accounting Policies

In presenting our consolidated financial statements in conformity with U.S. generally accepted accounting principles, we are required to make estimates and judgments that affect the amounts reported therein. Some of the estimates and assumptions we are required to make relate to matters that are inherently uncertain as they pertain to future events. We base these estimates on historical experience and on various other assumptions that we believe to be reasonable and appropriate. Actual results may differ significantly from these estimates. The following is a description of our accounting policies that we believe require subjective and complex judgments, which could potentially have a material effect on our reported financial condition or results of operations.

Revenue Recognition

Our revenue recognition policy is based on complex rules that require us to make significant judgments and estimates. In applying our revenue recognition policy, we must determine which portions of our revenue are recognized currently (generally software revenue) and which portions must be deferred and recognized in future periods (generally services revenue). We analyze various factors including, but not limited to, the sales of undelivered services when sold on a stand-alone basis, our pricing policies, the credit-worthiness of our customers and resellers, accounts receivable aging data and contractual terms and conditions in helping us to make such judgments about revenue recognition. Changes in judgment on any of these factors could materially impact the timing and amount of revenue recognized in a given period.

Currently, we derive revenues from two primary sources, or elements: software licenses and services. Services include customer support, consulting, assessment and design services, installation services and training. A typical sales arrangement includes both of these elements.

For sales arrangements involving multiple elements, we recognize revenue using the residual method. Under the residual method, we allocate and defer revenue for the undelivered elements based on relative fair value and recognize the difference between the total arrangement fee and the amount deferred for the undelivered elements as revenue. The determination of fair value of the undelivered elements in multiple-element arrangements is based on the price charged when such elements are sold separately, which is commonly referred to as vendor-specific objective evidence (VSOE).

Our software licenses typically provide for a perpetual right to use our software and are sold on a per-copy basis, on a capacity basis or as site licenses. Software licenses sold on a capacity basis provide the customer with unlimited licenses of specified software products based on a defined level of terabytes of data under management. Site licenses give the customer the additional right to deploy the software on a limited basis during a specified term. We recognize software revenue through direct sales channels upon receipt of a purchase order or other persuasive evidence and when the other three basic revenue recognition criteria are met as described in the revenue recognition section in Note 3 of our *Notes to Consolidated Financial Statements.* We recognize software revenue through all indirect sales channels on a sell-through model. A sell-through model requires that we recognize revenue when the basic revenue recognition criteria are met and these channels complete the sale of our software products to the end-user. Revenue from software licenses sold through an original equipment manufacturer partner is recognized upon the receipt of a royalty report or purchase order from that original equipment manufacturer partner.

Services revenue includes revenue from customer support and other professional services. Customer support includes software updates on a when-and-if-available basis, telephone support and bug fixes or patches. Customer support revenue is recognized ratably over the term of the customer support agreement, which is typically one year. To determine the price for the customer support element when sold separately, we primarily use historical renewal rates and, in certain cases, we use stated renewal rates. Historical renewal rates are supported by a rolling 12-month VSOE analysis in which we segregate our customer support renewal contracts into different classes based on specific criteria including, but not limited to, dollar amount of software purchased, level of customer support being provided and distribution channel. The purpose of such an analysis is to determine if the customer support element that is deferred at the time of a software sale is consistent with how it is sold on a stand-alone renewal basis.

Our other professional services include consulting, assessment and design services, installation services and training. Other professional services provided by us are not mandatory and can also be performed by the customer or a third-party. In addition to a signed purchase order, our consulting, assessment and design services and installation services are, in some cases, evidenced by a Statement of Work, which defines the specific scope of the services to be performed when sold and performed on a stand-alone basis or included in multiple-element sales arrangements. Revenues from consulting, assessment and design services and installation services are based upon a daily, weekly or monthly rate and are recognized when the services are completed. Training includes courses taught by our instructors or third-party contractors either at one of our facilities or at the customer s site. Training fees are recognized after the training course has been provided. Based on our analysis of such other professional services transactions sold on a stand-alone basis, we have concluded we have established VSOE for such other professional services when sold in connection with a multiple-element sales arrangement.

In summary, we have analyzed all of the undelivered elements included in our multiple-element sales arrangements and determined that we have VSOE of fair value to allocate revenues to services. Our analysis of the undelivered elements has provided us with results that are consistent with the estimates and assumptions used to determine the timing and amount of revenue recognized in our multiple-element sales arrangements. Accordingly, assuming all basic revenue recognition criteria are met, software revenue is recognized upon delivery of the software license using the residual method. We are not likely to materially change our pricing and discounting practices in the future.

Our sales arrangements generally do not include acceptance clauses. However, if an arrangement does include an acceptance clause, we defer the revenue for such an arrangement and recognize it upon acceptance. Acceptance occurs upon the earliest of receipt of a written customer acceptance, waiver of customer acceptance or expiration of the acceptance period.

Stock-Based Compensation

As of December 31, 2010, we maintain two stock incentive plans, which are described more fully in Note 7 of our *Notes to Consolidated Financial Statements*. We account for our stock incentive plans under the fair value recognition provisions, which we adopted on April 1, 2006 using the modified prospective method. Under this transition method, our stock-based compensation costs beginning April 1, 2006 are based on a combination of the following: (1) all options granted prior to, but not vested as of April 1, 2006, based on the grant date fair value in accordance with the original provisions of SFAS 123 and (2) all options and restricted stock units granted subsequent to April 1, 2006, based on the grant date fair value.

We estimated the fair value of stock options granted using the Black-Scholes formula. The fair value of restricted stock units awarded is determined based on the number of shares granted and the closing price of our common stock on the date of grant. Compensation for all share-based payment awards is recognized on a straight-line basis over the requisite service period of the awards, which is generally the vesting period. Forfeitures are estimated based on a historical analysis of our actual stock award forfeitures.

The average expected life was determined according to the simplified method, which is the mid-point between the vesting date and the end of the contractual term. We currently use the simplified method to estimate the expected term for share option grants as we do not have enough historical experience to provide a reasonable estimate due to the limited period our equity shares have been publicly traded. We will continue to use the simplified method until we have enough historical experience to provide a reasonable estimate of expected term. The risk-free interest rate is determined by reference to U.S. Treasury yield curve rates with a remaining term equal to the expected life assumed at the date of grant. We anticipate that future grants under our stock incentive plans will include both non-qualified stock options and restricted stock units.

Expected volatility through the quarter ended September 30, 2008 was calculated based on reported data for a peer group of publicly traded companies for which historical information was available. During the quarter ended December 31, 2008, we began to incorporate our own data into the expected volatility assumption. We modified our expected volatility calculation because our common stock had been publically traded for 2 years and we believe that CommVault specific volatility inputs should be included in the calculation of expected volatility. As a result, expected volatility during both the nine months ended December 31, 2010 and December 31, 2009 was calculated based on a blended approach that included historical volatility of a peer group, the implied volatility of our traded options with a remaining maturity greater than six months and the historical realized volatility of our common stock from the date of our initial public offering to the respective stock option grant date.

The assumptions used in the Black-Scholes option-pricing model in the three and nine months ended December 31, 2010 and 2009 are as follows:

	Three Months Ended December 31,		**Nine Months Ended December 31,**	
	2010	**2009**	**2010**	**2009**
Dividend yield	None	None	None	None
Expected volatility	42%-45%	42%-45%	40%-45%	41%-45%
Weighted average expected volatility	45%	42%	45%	42%
Risk-free interest rates	1.18%-2.46%	2.63%-2.69%	1.18%-2.93%	2.30%-3.14%
Expected life (in years)	6.2	6.4	6.2	6.3

The weighted average fair value of stock options granted was $12.21 per share and $12.11 per share during the three and nine months ended December 31, 2010, respectively, and $10.27 per share and $9.35 per share during the three and nine months ended December 31, 2009. In addition, the weighted average fair value of restricted stock units awarded was $27.31 per share and $26.35 per share during the three and nine months ended December 31, 2010, respectively, and $22.37 per share and $20.41 per share during the three and nine months ended December 31, 2009, respectively.

As of December 31, 2010, there was approximately $37.9 million of unrecognized stock-based compensation expense, net of estimated forfeitures, related to non-vested stock option and restricted stock unit awards that is expected to be recognized over a weighted average period of 2.76 years.

Accounting for Income Taxes

As part of the process of preparing our financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure, including assessing the risks associated with tax audits, and assessing temporary differences resulting from different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities. As of December 31, 2010, we had deferred tax assets of approximately $40.4 million, which were primarily related to federal and state research tax credit carryforwards, stock-based compensation and foreign net operating loss carryforwards. We assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent that we believe recovery is not likely, we establish a valuation allowance. As of December 31, 2010, we do not maintain a valuation allowance against any of our deferred tax assets.

As of December 31, 2010, we had unrecognized tax benefits of $4.9 million, all of which, if recognized, would favorably affect the effective tax rate. In addition, we have accrued interest and penalties of $1.2 million related to the unrecognized tax benefits. Interest and penalties, if any, related to unrecognized tax benefits are recorded in income tax expense. Components of the reserve are classified as either current or long-term in the Consolidated Balance Sheet based on when we expect each of the items to be settled. Accordingly, our unrecognized tax benefits of $4.9 million and the related accrued interest and penalties of $1.2 million are included in Other Liabilities on the Consolidated Balance Sheet. During the nine months ended December 31, 2010, we recognized $0.8 million of previously unrecognized tax benefits and $0.3 million of related accrued interest and penalties totaling $1.1 million as a result of the expiration of a statute of limitations in a foreign jurisdiction. We believe that it is reasonably possible that approximately $0.7 million of our currently remaining unrecognized tax benefits and approximately $0.2 million of related accrued interest and penalties may also be realized by the end of fiscal 2011 as a result of the lapse of the statute of limitations.

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We conduct business globally and as a result, file income tax returns in the United States and in various state and foreign jurisdictions. In the normal course of business, we are subject to examination by taxing authorities throughout the world, including such major jurisdictions as the United States, Australia, Canada, Germany, Netherlands and United Kingdom.

The following table summarizes the tax years in the major tax jurisdictions that remain subject to income tax examinations by tax authorities as of December 31, 2010. The years subject to income tax examination in our foreign jurisdictions cover the maximum time period with respect to these jurisdictions. Due to NOL carryforwards, in some cases the tax years continue to remain subject to examination with respect to such NOLs.

Tax Jurisdiction	Years Subject to Income Tax Examination
U.S. Federal	2001 - Present
New Jersey	2002 - Present
Foreign jurisdictions	2006 - Present

Software Development Costs

Research and development expenditures are charged to operations as incurred. Based on our software development process, technological feasibility is established upon completion of a working model, which also requires certification and extensive testing. Costs incurred by us between completion of the working model and the point at which the product is ready for general release are immaterial.

Results of Operations

The following table sets forth each of our sources of revenues and costs of revenues for the specified periods as a percentage of our total revenues for those periods:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2010	2009	2010	2009
Revenues:				
Software	50%	50%	47%	50%
Services	50	50	53	50
Total revenues	100%	100%	100%	100%
Cost of revenues:				
Software	1%	1%	1%	1%
Services	11	12	12	12
Total cost of revenues	12%	13%	13%	13%
Gross margin	88%	87%	87%	87%

Three Months ended December 31, 2010 compared to three months ended December 31, 2009

Revenues

Total revenues increased $12.9 million, or 18%, from $70.7 million in the three months ended December 31, 2009 to $83.6 million in the three months ended December 31, 2010.

Software Revenue. Software revenue increased $6.5 million, or 19%, from $35.2 million in the three months ended December 31, 2009 to $41.8 million in the three months ended December 31, 2010. Software revenue represented 50% of our total revenues in both the three months ended December 31, 2010 and 2009. The increase in software revenue is primarily due to increased software revenue derived from our foreign locations, which increased 24% while software revenue derived from the United States grew 15% in the three months ended December 31, 2010 compared to the three months ended December 31, 2009. The growth in software revenue in foreign locations is primarily due to increases in Europe, Canada, Australia and Asia as we expand our international operations.

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Software revenue derived from enterprise software transactions (transactions greater than $0.1 million) increased by $4.3 million, or 27%, in the three months ended December 31, 2010 compared to the three months ended December 31, 2009. As a result, software revenue derived from enterprise transactions represented approximately 48% of our software revenue in the three months ended December 31, 2010 and approximately 45% of our software revenue in the three months ended December 31, 2009. The increase in software revenue derived from enterprise transactions is primarily due to a 35% increase in the number of transactions of this type. The average dollar amount of such transactions which was approximately $219,000 in the three months ended December 31, 2010 and was approximately $233,000 in the three months ended December 31, 2009. Software revenue derived from transactions less than $0.1 million increased $2.2 million, or 12%, in the three months ended December 31, 2010 compared to the three months ended December 31, 2009.

Software revenue derived from our indirect distribution channel (resellers and original equipment manufacturers) increased $3.6 million, or 12%, in the three months ended December 31, 2010 compared to the three months ended December 31, 2009, and software revenue through our direct sales force increased $2.9 million, or 76%, in the three months ended December 31, 2010 compared to the three months ended December 31, 2009. The increase in the dollar value of the software revenue through our indirect distribution channel is primarily due to the higher growth percentage of software generated in foreign locations, which is substantially sold through our channel partners. Software revenue that is derived from both our indirect channel partners and direct sales force are key attributes to our long-term growth strategy. We will continue to invest in both our channel relationships and direct sales force in the future, but we continue to expect more revenue to be generated through indirect distribution channels over the long term as more fully discussed above in the *Sources of Revenue* section.

Services Revenue. Services revenue increased $6.4 million, or 18%, from $35.5 million in the three months ended December 31, 2009 to $41.9 million in the three months ended December 31, 2010. Services revenue represented 50% of our total revenues in both the three months ended December 31, 2010 and 2009. The increase in services revenue is primarily due to a $5.9 million increase in revenue from customer support agreements as a result of software sales to new customers and renewal agreements with our installed software base.

Cost of Revenues

Total cost of revenues increased $1.1 million, or 12%, from $9.1 million in the three months ended December 31, 2009 to $10.2 million in the three months ended December 31, 2010. Total cost of revenues represented 12% of our total revenues in the three months ended December 31, 2010 compared to 13% in the three months ended December 31, 2009.

Cost of Software Revenue. Cost of software revenue decreased approximately $0.1 million, or 13%, from $0.7 million in the three months ended December 31, 2009 to $0.6 million in the three months ended December 31, 2010. Cost of software revenue represented 2% of our total software revenue in both the three months ended December 31, 2010 and the three months ended December 31, 2009. The decrease in cost of software revenue is primarily due to lower distribution and third-party media costs in the three months ended December 31, 2010 compared to the three months ended December 31, 2009.

Cost of Services Revenue. Cost of services revenue increased $1.2 million, or 14%, from $8.4 million in the three months ended December 31, 2009 to $9.5 million in the three months ended December 31, 2010. Cost of services revenue represented 23% of our services revenue in the three months ended December 31, 2010 compared to 24% in the three months ended December 31, 2009. The increase in cost of services revenue is primarily the result of higher employee compensation and travel expenses totaling approximately $0.8 million to facilitate our services revenue growth.

Operating Expenses

Sales and Marketing. Sales and marketing expenses increased $8.6 million, or 24%, from $35.3 million in the three months ended December 31, 2009 to $43.9 million in the three months ended December 31, 2010. The increase is primarily due to a $5.4 million increase in employee compensation and related expenses attributable to the expansion of our sales force from the prior year as well as higher commissions expense due to record software revenue. The increase in sales and marketing expenses also includes a $1.4 million increase in advertising and marketing related expenses as we continue to build brand awareness for our Simpana software products, a $0.9 million in higher travel and related expenses due to the expansion of our sales force and a $0.3 million increase in stock-based compensation expenses. Sales and marketing expenses as a percentage of total revenues increased to 52% in the three months ended December 31, 2010 from 50% in the three months ended December 31, 2009.

Research and Development. Research and development expenses increased $0.8 million, or 9%, from $8.8 million in the three months ended December 31, 2009 to $9.6 million in the three months ended December 31, 2010. The increase is primarily due to $0.5 million of higher employee compensation and related expenses resulting from the expansion of our engineering group. Research and development expenses as a percentage of total revenues decreased to 11% in the three months ended December 31, 2010 from 12% in the three months ended December 31, 2009. Investing in research and development has been a priority for CommVault, and we anticipate continued spending related to the development of our data and information management software applications.

General and Administrative. General and administrative expenses increased $1.0 million, or 13%, from $7.5 million in the three months ended December 31, 2009 to $8.5 million in the three months ended December 31, 2010. This increase is primarily due to a $0.5 million increase in employee and related compensation due to higher headcount and a $0.4 million increase in stock-based compensation expenses. General and administrative expenses for the three months ended December 31, 2010 includes approximately $0.1 million of net foreign currency transaction gains compared to approximately $0.2 million of net foreign currency transaction losses recognized in general and administrative expenses during the three months ended December 31, 2009. General and administrative expenses as a percentage of total revenues decreased to 10% in the three months ended December 31, 2010 from 11% in the three months ended December 31, 2009.

Depreciation and Amortization. Depreciation expense increased by $0.1 million, or 11%, from $0.9 million in the three months ended December 31, 2009 to $1.0 million in the three months ended December 31, 2010.

Income Tax Expense

Income tax expense was $3.4 million in the three months ended December 31, 2010 compared to $3.7 million in the three months ended December 31, 2009. The effective tax rate in the three months ended December 31, 2010 was 32% as compared to 41% in the three months ended December 31, 2009. The effective rate in the three months ended December 31, 2010 is lower than the expected federal statutory rate of 35% primarily due to the reinstatement of the research and development tax credit, partially offset by the state income taxes and permanent differences in both the United States and foreign jurisdictions. In the three months ended December 31, 2009, the effective rate is higher than the expected federal statutory rate of 35% primarily due to state income taxes and permanent differences mainly in the United States, partially offset by research and foreign tax credits.

Nine months ended December 31, 2010 compared to nine months ended December 31, 2009

Revenues

Total revenues increased $27.6 million, or 14%, from $197.6 million in the nine months ended December 31, 2009 to $225.2 million in the nine months ended December 31, 2010.

Software Revenue. Software revenue increased $8.0 million, or 8%, from $97.8 million in the nine months ended December 31, 2009 to $105.8 million in the nine months ended December 31, 2010. Software revenue represented 47% of our total revenues in the nine months ended December 31, 2010 compared to 50% in the nine months ended December 31, 2009.

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The increase in software revenue is primarily due to increased software revenue derived from foreign locations, which increased 14% while software revenue derived from the United States grew 4% in the nine months ended December 31, 2010 compared to the nine months ended December 31, 2009. The growth in software revenue in foreign locations is primarily due to increases in Europe, Asia, Australia and Canada as we expand our international operations.

Software revenue derived from enterprise software transactions (transactions greater than $0.1 million) increased by $5.1 million, or 11%, in the nine months ended December 31, 2010 compared to the nine months ended December 31, 2009. As a result, software revenue derived from enterprise transactions represented approximately 47% of our software revenue in the nine months ended December 31, 2010 and approximately 45% of our software revenue in the nine months ended December 31, 2009. The increase in software revenue derived from enterprise transactions is primarily due to a 17% increase in the number of transactions of this type. The average dollar amount of such transactions was approximately $229,000 in the nine months ended December 31, 2010 and $239,000 in the nine months ended December 31, 2009. Software revenue derived from transactions less than $0.1 million increased $2.9 million, or 5%, in the nine months ended December 31, 2010 compared to the nine months ended December 31, 2009.

Software revenue derived from our indirect distribution channel (resellers and original equipment manufacturers) increased $5.1 million, or 6%, in the nine months ended December 31, 2010 compared to the nine months ended December 31, 2009, and software revenue through our direct sales force increased $2.9 million, or 20%, in the nine months ended December 31, 2010 compared to the nine months ended December 31, 2009. The increase in the dollar value of software revenue through our indirect distribution channel is primarily due to the higher growth percentage of software generated in foreign locations, which is substantially sold through our channel partners. Software revenue that is derived from both our indirect channel partners and direct sales force are key attributes to our long-term growth strategy. We will continue to invest in both our channel relationships and direct sales force in the future, but we continue to expect more revenue to be generated through indirect distribution channels over the long term as more fully discussed above in the *Sources of Revenue* section.

Services Revenue. Services revenue increased $19.6 million, or 20%, from $99.7 million in the nine months ended December 31, 2009 to $119.3 million in the nine months ended December 31, 2010. Services revenue represented 53% of our total revenues in the nine months ended December 31, 2010 compared to 50% in the nine months ended December 31, 2009. The increase in services revenue is primarily due to a $17.9 million increase in revenue from customer support agreements as a result of software sales to new customers and renewal agreements with our installed software base.

Cost of Revenues

Total cost of revenues increased $2.8 million, or 10%, from $26.4 million in the nine months ended December 31, 2009 to $29.2 million in the nine months ended December 31, 2010. Total cost of revenues represented 13% of our total revenues in both the nine months ended December 31, 2010 and 2009.

Cost of Software Revenue. Cost of software revenue decreased approximately $0.5 million, or 23%, from $2.3 million in the nine months ended December 31, 2009 to $1.8 million in the nine months ended December 31, 2010. Cost of software revenue represented 2% of our total software revenue in both the nine months ended December 31, 2010 and the nine months ended December 31, 2009. The decrease in cost of software revenue is primarily due to lower distribution and third-party media costs in the nine months ended December 31, 2010 compared to the nine months ended December 31, 2009.

Cost of Services Revenue. Cost of services revenue increased $3.3 million, or 14%, from $24.1 million in the nine months ended December 31, 2009 to $27.4 million in the nine months ended December 31, 2010. Cost of services revenue represented 23% of our services revenue in the nine months ended December 31, 2010 and 24% in the nine months ended December 31, 2009. The increase in cost of services revenue is primarily the result of higher employee compensation and travel expenses totaling approximately $2.6 million to facilitate our services revenue growth.

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Operating Expenses

Sales and Marketing. Sales and marketing expenses increased $18.0 million, or 18%, from $100.2 million in the nine months ended December 31, 2009 to $118.3 million in the nine months ended December 31, 2010. The increase is primarily due to an $11.6 million increase in employee compensation and related expenses attributable to the expansion of our sales force from the prior year. Sales and marketing expenses also increased due to a $2.9 million increase in advertising and marketing related expenses as we continue to build brand awareness for our Simpana software products and a $2.6 million increase in travel and related expenses primarily due to higher headcount. Sales and marketing expenses as a percentage of total revenues increased to 53% in the nine months ended December 31, 2010 from 51% in the nine months ended December 31, 2009.

Research and Development. Research and development expenses increased $2.2 million, or 9%, from $24.6 million in the nine months ended December 31, 2009 to $26.9 million in the nine months ended December 31, 2010. The increase is primarily due to $1.6 million of higher employee compensation and related expenses resulting from the expansion of our engineering group and a $0.5 million increase in legal expenses associated with patent registration of our intellectual property. Research and development expenses as a percentage of total revenues were relatively flat at 12% in both the nine months ended December 31, 2010 and 2009. Investing in research and development has been a priority for CommVault, and we anticipate continued spending related to the development of our data and information management software applications.

General and Administrative. General and administrative expenses increased $2.7 million, or 12%, from $22.0 million in the nine months ended December 31, 2009 to $24.7 million in the nine months ended December 31, 2010. This increase is primarily due to a $1.2 million increase in employee and related compensation due to higher headcount, a $0.5 million increase in stock-based compensation and a $0.3 million increase in legal expenses. General and administrative expenses for the nine months ended December 31, 2010 includes approximately $0.3 million of net foreign currency transaction losses compared to approximately $0.7 million of net foreign currency transaction losses recognized in general and administrative expenses during the nine months ended December 31, 2009. General and administrative expenses as a percentage of total revenues were relatively flat at 11% in both the nine months ended December 31, 2010 and 2009.

Depreciation and Amortization. Depreciation expense increased by $0.1 million, or 5%, from $2.7 million in the nine months ended December 31, 2009 to $2.8 million in the nine months ended December 31, 2010.

Income Tax Expense

Income tax expense was $7.6 million in the nine months ended December 31, 2010 compared to $9.3 million in the nine months ended December 31, 2009. The effective tax rate in the nine months ended December 31, 2010 was 32% as compared to 43% in the nine months ended December 31, 2009. The effective rate in the nine months ended December 31, 2010 is lower than the expected federal statutory rate of 35% primarily due to the reversal of certain tax reserves totaling $1.1 million as a result of the expiration of a statute of limitations in a foreign jurisdiction as well as the reinstatement of the research and development tax credit, partially offset by state income taxes and permanent differences in both the United States and foreign jurisdictions. In the nine months ended December 31, 2009, the effective rate is higher than the expected federal statutory rate of 35% primarily due to state income taxes, permanent differences mainly in the United States and adjustments to tax reserves, partially offset by research and foreign tax credits and tax return accrual adjustments.

Liquidity and Capital Resources

As of December 31, 2010, our cash and cash equivalents balance of $191.4 million primarily consisted of money market funds. In addition, we have approximately $2.2 million of short-term investments invested in certificates of deposit at December 31, 2010. In recent fiscal years, our principal sources of liquidity have been cash provided by operations. Historically, our principle source of liquidity had been cash provided by private placements of preferred equity securities and common stock and cash provided from our public offerings of common stock.

On July 9, 2009, we entered into an amended and restated credit facility in which we can borrow up to $30.0 million over a three year period. Borrowings under the facility are available to repurchase our common stock under our share repurchase program and to provide for working capital and general corporate purposes. Repayments of principal amounts borrowed under the amended and restated credit facility is required at the maturity date of July 9, 2012. The credit facility also requires that certain financial covenants be met on a quarterly basis. The amended and restated credit facility contains financial covenants that require us to maintain a quick ratio and minimum earnings before interest, taxes, depreciation and amortization (EBITDA), as defined in the credit agreement. Borrowings under the amended and restated credit facility bear interest, at our option, at either i) LIBOR plus a margin ranging from 2.25% to 2.75% or ii) the bank s base rate plus a margin ranging from 1.75% to 2.25%. The bank s base rate is defined as the higher of the federal funds rate plus 1.5%, one-month LIBOR plus 1.5%, or the lender s prime rate. As of December 31, 2010, we were in compliance with all required covenants, and there were no outstanding balances on the amended and restated credit facility.

In January 2008, our Board of Directors approved a stock repurchase program, which authorized us to repurchase up to $40.0 million of our common stock. Our Board of Directors authorized additional increases of $40.0 million in July 2008 and $40.0 million in July 2010 to our existing share repurchase program. As of December 31, 2010, we are authorized to repurchase up to a total of $120.0 million of our common stock through March 31, 2012. Under our stock repurchase program, repurchased shares are constructively retired and returned to unissued status. Our stock repurchase program has been funded by our existing cash and cash equivalent balances as well as cash flows provided by our operations. During the nine months ended December 31, 2010, we repurchased 1.6 million shares of common stock under our share repurchase plan with a total cost of $31.5 million. As of December 31, 2010, we have repurchased approximately $71.7 million, or 4.4 million shares, under our stock repurchase plan at an average purchase price of $16.26 per share. As a result, we may repurchase an additional $48.3 million of our common stock through March 31, 2012.

The primary business reason for our stock repurchase program is to reduce the dilutive impact on our common shares outstanding associated with stock option exercises and our previous public and private stock offerings. Under our stock repurchase program, we have bought back approximately 10% of the common stock that was outstanding at the time the stock repurchase program was announced. In addition, at the time we implemented our stock repurchase program in late fiscal 2008 we believed that our share price was undervalued and the best use for a portion of our cash balance was to repurchase some of our outstanding common stock. Our future stock repurchase activity is subject to the business judgment of our management and Board of Directors, taking into consideration our historical and projected results of operations, financial condition, cash flows and other anticipated capital requirements or investment alternatives.

Our summarized annual cash flow information is as follows (in thousands):

	Nine Months Ended December 31,	
	2010	**2009**
Cash provided by operating activities	$ 33,456	$ 35,076
Net Cash used in investing activities	(107)	(6,644)
Net Cash provided by (used in) financing activities	(13,072)	8,669
Effects of exchange rate-changes in cash	1,598	2,044
Net increase in cash and cash equivalents	$ 21,875	$ 39,145

Net cash provided by operating activities was $33.5 million in the nine months ended December 31, 2010 and $35.1 million in the nine months ended December 31, 2009. In both the nine months ended December 31, 2010 and 2009, cash generated by operating activities was primarily due to net income adjusted for the impact of non-cash charges, an increase in deferred services revenue as a result of customer support agreements from new customers and renewal agreements with our installed software base and an increase in accrued liabilities. These increases were partially offset by an increase in accounts receivable due to higher revenues.

Net cash used in investing activities was $0.1 million in the nine months ended December 31, 2010 and $6.6 million in the nine months ended December 31, 2009. In the nine months ended December 31, 2010, cash used in investing activities was due to the purchase of property and equipment of $3.0 million as we continue to invest in and enhance our global infrastructure, partially offset by net proceeds from maturities of short-term investments of $2.9 million. In the nine months ended December 31, 2009, cash used in investing activities was due to purchases of short-term investments of $4.3 million as well as the purchase of property and equipment of $2.4 million as we continue to invest in and enhance our global infrastructure. We anticipate that as our business grows we will continue to explore opportunities to invest in our global infrastructure.

Net cash provided by (used in) financing activities was $(13.1) million in the nine months ended December 31, 2010 and $8.7 million in the nine months ended December 31, 2009. The cash used in financing activities in the nine months ended December 31, 2010 was due to $31.5 million used to repurchase shares of our common stock under our repurchase program, partially offset by $13.9 million of proceeds from the exercise of stock options and $4.6 million of excess tax benefits recognized as a result of the stock option exercises. The cash provided by financing activities in the nine months ended December 31, 2009 was due to $6.0 million proceeds from the exercise of stock options and $2.7 million of excess tax benefits recognized as a result of the stock option exercises.

Working capital increased $17.3 million from $143.2 million as of March 31, 2010 to $160.5 million as of December 31, 2010. The increase in working capital is primarily due to a $19.0 million increase in cash and short-term investments as well as a $7.6 million increase in accounts receivable due to record revenues in the third quarter of fiscal 2011. These increases were partially offset by a $7.7 million increase in deferred revenue and a $2.6 million increase in accrued liabilities. The increase in cash and short-term investments of $19.0 million was negatively impacted by the cash used to repurchase approximately $31.5 million of our common stock under our share repurchase program during the nine months ended December 31, 2010.

We believe that our existing cash, cash equivalents, cash from operations and our $30.0 million credit facility will be sufficient to meet our anticipated cash needs for working capital, capital expenditures and potential stock repurchases for at least the next 12 months. We may seek additional funding through public or private financings or other arrangements during this period. Adequate funds may not be available when needed or may not be available on terms favorable to us, or at all. If additional funds are raised by issuing equity securities, dilution to existing stockholders will result. If we raise additional funds by obtaining loans from third parties, the terms of those financing arrangements may include negative covenants or other restrictions on our business that could impair our operational flexibility, and would also require us to fund additional interest expense. If funding is insufficient at any time in the future, we may be unable to develop or enhance our products or services, take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition and results of operations.

Off-Balance Sheet Arrangements

As of December 31, 2010, other than our operating leases, we do not have off-balance sheet financing arrangements, including any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities.

Indemnifications

Certain of our software licensing agreements contain certain provisions that indemnify our customers from any claim, suit or proceeding arising from alleged or actual intellectual property infringement. These provisions continue in perpetuity along with our software licensing agreements. We have never incurred a liability relating to one of these indemnification provisions in the past and we believe that the likelihood of any future payout relating to these provisions is remote. Therefore, we have not recorded a liability during any period related to these indemnification provisions.

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Impact of Recently Issued Accounting Standards

In January 2010, the FASB issued guidance requiring additional disclosure for significant transfers in and out of Levels 1 and 2 fair value measurements and the reasons for such transfers. This new guidance also requires separate disclosure information about purchases, sales, issuances, and settlements (on a gross basis rather than as one net number) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). In addition, this guidance clarifies existing disclosures regarding fair value measurement for each class of assets and liabilities and the valuation techniques and inputs used to measure fair value for recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. The changes under this new guidance were effective for the quarterly period beginning January 1, 2010, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for our fiscal year beginning April 1, 2011. We believe that the adoption of these new accounting pronouncements will not have a material impact on our consolidated financial position, results of operations or cash flows.

Item 3 Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

As of December 31, 2010, our cash, cash equivalent and short-term investment balances consisted primarily of money market funds and certificates of deposit. Due to the short-term nature of these investments, we are not subject to any material interest rate risk on these balances.

In July 2009, we entered into an amended and restated credit facility in which we can borrow up to $30.0 million over a three year period. Borrowings under the amended and restated credit facility bear interest, at our option, at either i) LIBOR plus a margin ranging from 2.25% to 2.75% or ii) the bank s base rate plus a margin ranging from 1.75% to 2.25%. The bank s base rate is defined as the higher of the federal funds rate plus 1.5%, one-month LIBOR plus 1.5%, or the lender s prime rate. There are no outstanding balances on the amended and restated credit facility. As a result, we are currently not subject to any material interest rate risk on our credit facility.

Foreign Currency Risk

Economic Exposure

As a global company, we face exposure to adverse movements in foreign currency exchange rates. Our international sales are generally denominated in foreign currencies, and this revenue could be materially affected by currency fluctuations. Approximately 38% of our sales were outside the United States in both the nine months ended December 31, 2010 and in fiscal 2010. Our primary exposures are to fluctuations in exchange rates for the U.S. dollar versus the Euro, and to a lesser extent, the Australian dollar, British pound sterling, Canadian dollar, Chinese yuan, Indian rupee and Singapore dollar. Changes in currency exchange rates could adversely affect our reported revenues and require us to reduce our prices to remain competitive in foreign markets, which could also have a material adverse effect on our results of operations. Historically, we have periodically reviewed and revised the pricing of our products available to our customers in foreign countries and we have not maintained excess cash balances in foreign accounts.

Transaction Exposure

Our exposure to foreign currency transaction gains and losses is primarily the result of certain net receivables due from our foreign subsidiaries and customers being denominated in currencies other than the functional currency of the subsidiary. Our foreign subsidiaries conduct their businesses in local currency and we generally do not maintain excess U.S. dollar cash balances in foreign accounts.

Foreign currency transaction gains and losses are recorded in General and administrative expenses in the Consolidated Statements of Income. We recognized net foreign currency transaction gains (losses) of approximately $0.1 million and $(0.3) million in the three and nine months ended December 31, 2010 and approximately $(0.2) million and $(0.7) million in the three and nine months ended December 31, 2009. The net foreign currency transaction losses recorded in General and administrative expenses include settlement gains and losses on forward contracts disclosed below.

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To date, we have selectively hedged our exposure to foreign currency transaction gains and losses on the balance sheet through the use of forward contracts, which were not designated as hedging instruments. The duration of forward contracts utilized for hedging our balance sheet exposure is approximately one month. As of December 31, 2010 and March 31, 2010, we did not have any forward contracts outstanding. We recorded net realized gains in general and administrative expenses of less than a $0.1 million in both the three and nine months ending December 31, 2010 and 2009. In the future, we may enter into additional foreign currency based hedging contracts to reduce our exposure to significant fluctuations in currency exchange rates on the balance sheet.

Item 4 Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of December 31, 2010. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2010.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the third quarter of fiscal year 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Internal Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosures controls and procedures or our internal controls over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control 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 inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the 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 a simple error or mistake. Additionally, controls can 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 also is based in part upon 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. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are subject to claims in legal proceedings arising in the normal course of our business. We do not believe that we are party to any pending legal action that could reasonably be expected to have a material adverse effect on our business or operating results.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended March 31, 2010, which could materially affect our business, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. If any of the risks actually occur, our business, financial conditions or results of operations could be negatively affected. In that case, the trading price of our stock could decline, and our stockholders may lose part or all of their investment.

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds

Purchases of Equity Securities by the Issuer

There were no purchases of our common stock during the three months ended December 31, 2010. As of December 31, 2010, we have repurchased $71.7 million of common stock (4,412,305 shares) out of the $120.0 million in total that is authorized under our stock repurchase program. As a result, we may repurchase an additional $48.3 million of our common stock under the current program through March 31, 2012.

Item 3. Defaults upon Senior Securities

None

Item 4. *[Removed and Reserved]*

Item 5. Other Information

None

Item 6. Exhibits

A list of exhibits filed herewith is included on the Exhibit Index, which immediately precedes such exhibits and is incorporated herein by reference.

Signatures

Pursuant to the requirements of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	CommVault Systems, Inc.
Dated: February 3, 2011	By: /s/ N. Robert Hammer N. Robert Hammer Chairman, President, and Chief Executive Officer
Dated: February 3, 2011	By: /s/ Louis F. Miceli Louis F. Miceli Vice President, Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

t;font-size:10pt;">December 31, 2017, its results of operations for the three and nine-month periods ended September 28, 2018 and September 29, 2017 and its cash flows for each of the nine-month periods then ended. Reclassifications of certain prior year amounts have been made to conform to the current year presentation.

Accounting Standards Recently Adopted

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606) which supersedes nearly all existing revenue recognition guidance. Subsequent to the issuance of Topic 606, the FASB clarified the guidance through several ASUs; hereinafter the collection of revenue guidance is referred to as “ASC 606”. The core principle of ASC 606 is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method for all contracts. Results for reporting periods beginning January 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and continue to be reported in accordance with the Company’s historic accounting under Topic 605, Revenue Recognition.

The Company recorded a net increase to beginning retained earnings of $3 million as of January 1, 2018 due to the cumulative impact of adopting ASC 606. The impact to beginning retained earnings was primarily driven by the capitalization of certain costs to obtain a contract, primarily sales-related commissions, partially offset by the deferral of revenue for unfulfilled performance obligations. The adoption of ASC 606 did not have a significant impact on the Company’s Consolidated Condensed Financial Statements as of and for the three and nine-month periods ended September 28, 2018 and, as a result, comparisons of revenues and operating profit performance between periods are not affected by the adoption of this ASU. Refer to Note 2 for additional disclosures required by ASC 606.

The Company derives revenues primarily from the sale of Life Sciences, Diagnostics, Dental and Environmental & Applied Solutions products and services. Revenue is recognized when control of the promised products or services is transferred to the Company’s customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those products or services (the transaction price). A performance obligation is a promise in a contract to transfer a distinct product or service to a customer and is the unit of account under ASC 606. For equipment, consumables, spare parts and most software licenses sold by the Company, control transfers to the customer at a point in time. To indicate the transfer of control, the Company must have a present right to payment, legal title must have passed to the customer, the customer must have the significant risks and rewards of ownership, and where acceptance is not a formality, the customer must have accepted the product or service. The Company's principal terms of sale are FOB Shipping Point, or equivalent, and, as such, the Company primarily transfers control and records revenue for product sales upon shipment. Sales arrangements with delivery terms that are not FOB Shipping Point are not recognized upon shipment and the transfer of control for revenue recognition is evaluated based on the associated shipping terms and customer obligations. If a performance obligation to the customer with respect to a sales transaction remains to be fulfilled following shipment (typically installation or acceptance by the customer), revenue recognition for that performance obligation is deferred until such commitments have been fulfilled. Returns for products sold are estimated and recorded as a reduction of revenue at the time of sale. Customer allowances and rebates, consisting primarily of volume discounts and other short-term incentive programs, are recorded as a reduction of revenue at the time of sale because these allowances reflect a reduction in the transaction price. Product returns, customer allowances and rebates are estimated based on historical experience and known trends. For extended warranty, service, post contract support (“PCS”), software-as-a-service (“SaaS”) and other long-term contracts, control transfers to the customer over the term of the arrangement. Revenue for extended warranty, service, PCS, SaaS and certain software licenses is recognized based upon the period of time elapsed under the arrangement. Revenue for other long-term contracts is generally recognized based upon the cost-to-cost measure of progress, provided that the Company meets the criteria associated with transferring control of the good or service over time.

Certain of the Company’s revenues relate to operating-type lease (“OTL”) arrangements. Leases are outside the scope of ASC 606 and are therefore accounted for in accordance with ASC 840, Leases. Instrument lease revenue for OTL agreements is recognized on a straight-line basis over the life of the lease, and the costs of customer-leased instruments are recorded within property, plant and equipment in the accompanying Consolidated Condensed Balance Sheets and depreciated over the instrument’s estimated useful life. The depreciation expense is reflected in cost of sales in the accompanying Consolidated Condensed Statements of Earnings. The OTLs are generally not cancellable until after an initial term and may or may not require the customer to purchase a minimum number of consumables or tests throughout the contract term. Certain of the Company’s lease contracts are customized for larger customers and often result in complex terms and conditions that typically require significant judgment in applying the criteria used to evaluate whether the arrangement should be considered an OTL or a sales-type lease (“STL”). A sales-type lease would result in earlier recognition of instrument revenue as compared to an OTL.

For contracts with multiple performance obligations, the Company allocates the contract’s transaction price to each performance obligation on a relative standalone selling price basis using the Company’s best estimate of the standalone selling price of each distinct product or service in the contract. The primary method used to estimate standalone selling price is the price observed in standalone sales to customers; however, when prices in standalone sales are not available the Company may use third-party pricing for similar products or services or estimate the standalone selling price. Allocation of the transaction price is determined at the contracts’ inception. The Company does not adjust transaction price for the effects of a significant financing component when the period between the transfer of the promised good or service to the customer and payment for that good or service by the customer is expected to be one year or less. This allocation approach also applies to contracts that include a lease component.

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The ASU amends guidance on the classification and measurement of financial instruments, including significant revisions in accounting related to the classification and measurement of investments in equity securities and presentation of certain fair value changes for financial liabilities when the fair value option is elected. The ASU requires equity securities to be measured at fair value with changes in fair value recognized through net earnings and amends certain disclosure requirements associated with the fair value of financial instruments. In the period of adoption, the Company is required to reclassify the unrealized gains/losses on equity securities within accumulated other comprehensive income (loss) to retained earnings. In February 2018, the FASB issued ASU No. 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10), which clarified certain aspects of the previously issued ASU. The ASU was adopted by the Company on January 1, 2018 and did not have a material effect on the Company’s Consolidated Condensed Financial Statements.

In March 2017, the FASB issued ASU No. 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires employers to disaggregate the service cost component from other components of net periodic benefit costs and to disclose the amounts of net periodic benefit costs that are included in each income statement line item. The standard requires employers to report the service cost component in the same line item as other compensation costs and to report the other components of net periodic benefit costs (which include interest costs, expected return on plan assets, amortization of prior service cost or credits and actuarial gains and losses) separately and outside a subtotal of operating income. The income statement guidance requires application on a retrospective basis. The ASU was adopted by the Company on January 1, 2018 and as a result operating profit decreased and other income, net increased by $8.3 million and $22.2 million for the three and nine-month periods ended September 29, 2017, respectively. Refer to

Note 8 for further information on the implementation of this ASU.

The Company measures its pension and postretirement plans' assets and its obligations that determine the respective plan's funded status as of the end of the Company's fiscal year, and recognizes an asset for a plan's overfunded status or a liability for a plan's underfunded status in its balance sheet. Changes in the funded status of the plans are recognized in the year in which the changes occur and reported in other comprehensive income (loss). The service cost component of net periodic pension cost is included in cost of sales and selling, general and administrative expenses in the accompanying Consolidated Condensed Statements of Earnings and the other components of net periodic pension cost are included in nonoperating income (expense).

In February 2018, the FASB issued ASU No. 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, to address a specific consequence of the Tax Cuts and Jobs Act ("TCJA") by allowing a reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from the TCJA's reduction of the U.S. federal corporate income tax rate. The standard is effective for all entities for annual periods beginning after December 15, 2018, with early adoption permitted, and is to be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the TCJA is recognized. The Company early adopted this ASU on January 1, 2018 and as a result recorded a net increase to beginning retained earnings and decrease to accumulated other comprehensive income (loss) of $151 million to reclassify the income tax effects of the TCJA on the Company's U.S. pension plans, available-for-sale debt securities and certain foreign currency losses. The ASU also requires the Company to disclose its policy on accounting for income tax effects in accumulated other comprehensive income (loss). In general, the Company applies the individual item approach with respect to available-for-sale debt securities and the portfolio approach with respect to pension, postretirement benefit plan obligations and currency translation matters.

In March 2018, the FASB issued ASU No. 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118, which allowed SEC registrants to record provisional amounts in earnings for the year ended December 31, 2017 due to the complexities involved in accounting for the enactment of the TCJA. The Company recognized the estimated income tax effects of the TCJA in its 2017 Consolidated Financial Statements in accordance with SEC Staff Accounting Bulletin No. 118 ("SAB No. 118"). Refer to Note 9 for further information regarding the provisional amounts recorded by the Company as of December 31, 2017.

Except for the above accounting policy for revenue recognition that was updated as a result of adopting ASC 606 and the policy for pension and postretirement benefit plans that was updated as a result of adopting ASU 2017-07, there have been no significant changes to the Company's accounting policies described in the Annual Report on Form 10-K for the year ended December 31, 2017.

Accounting Standards Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which amends the impairment model by requiring entities to use a forward-looking approach based on expected losses rather than incurred losses to estimate credit losses on certain types of financial instruments, including trade receivables. This may result in the earlier recognition of allowances for losses. The ASU is effective for public entities for fiscal years beginning after December 15, 2019, with early adoption permitted. Management has not yet completed its assessment of the impact of the new standard on the Company's Consolidated Financial Statements. Currently, the Company believes that the most notable impact of this ASU will relate to its processes around the assessment of the adequacy of its allowance for doubtful accounts on trade accounts receivable and the recognition of credit losses.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to recognize a right-of-use asset and a lease liability for all leases with terms greater than 12 months. The standard also requires disclosures by lessees and lessors about the amount, timing and uncertainty of cash flows arising from leases. The accounting applied by a lessor is largely unchanged from that applied under the current standard. The standard must be adopted using a modified retrospective transition approach and provides for certain practical expedients. The ASU is effective for public entities for fiscal years beginning after December 15, 2018, with early adoption permitted. In September 2017, January 2018 and July 2018 the FASB issued ASU No. 2017-13, Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842), ASU No. 2018-01, Leases (Topic 842), Land Easement Practical Expedient for Transition to Topic 842, ASU No. 2018-10, Codification Improvements to Topic 842, Leases and ASU No. 2018-11, Leases (Topic 842), Targeted Improvements, which provided additional implementation guidance on the previously issued ASU. Management has not yet completed its assessment of the impact of the new standard on the Company's Consolidated Financial Statements. The Company is in the process of implementing a new lease system and the related processes and controls for the accounting for leases in accordance with the ASU. Management currently believes that the most notable impact to its financial statements upon the adoption of this ASU will be the recognition of a material right-of-use asset and a lease liability for its real estate and automobile leases.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820), which modifies the disclosures on fair value measurements by removing the requirement to disclose the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy and the policy for timing of such transfers. The ASU expands the disclosure requirements for Level 3 fair value measurements, primarily focused on changes in unrealized gains and losses included in other comprehensive income. The ASU is effective for public entities for fiscal years beginning after December 15, 2019, with early adoption permitted. Management has not yet completed its assessment of the impact of the new standard on the Company’s Consolidated Financial Statements.

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In August 2018, the FASB issued ASU No. 2018-14, Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans, which amends ASC 715 to add, remove, and clarify disclosure requirements related to defined benefit pension and other postretirement plans. The ASU is effective for public entities for fiscal years beginning after December 15, 2020, with early adoption permitted. Management has not yet completed its assessment of the impact of the new standard on the Company's Consolidated Financial Statements.

Accumulated Other Comprehensive Income (Loss)—Accumulated other comprehensive income (loss) refers to certain gains and losses that under U.S. GAAP are included in comprehensive income (loss) but are excluded from net earnings as these amounts are initially recorded as an adjustment to stockholders' equity. The changes in accumulated other comprehensive income (loss) by component are summarized below ($ in millions). Foreign currency translation adjustments are generally not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries.

	Foreign Currency Translation Adjustments	Pension & Postretirement Plan Benefit Adjustments	Unrealized Gain (Loss) on Available-For-Sale Securities Adjustments	Total
For the Three-Month Period Ended September 28, 2018:				
Balance, June 29, 2018	$(1,812.9)	$(664.6)	$(1.7)	$(2,479.2)
Other comprehensive income (loss) before reclassifications:				
Decrease	(162.4)	—	—	(162.4)
Other comprehensive income (loss) before reclassifications, net of income taxes	(162.4)	—	—	(162.4)
Amounts reclassified from accumulated other comprehensive income (loss):				
Increase	—	7.7 (a)	—	7.7
Income tax impact	—	(1.8)	—	(1.8)
Amounts reclassified from accumulated other comprehensive income (loss), net of income taxes	—	5.9	—	5.9
Net current period other comprehensive income (loss), net of income taxes	(162.4)	5.9	—	(156.5)
Balance, September 28, 2018	$(1,975.3)	$(658.7)	$(1.7)	$(2,635.7)
For the Three-Month Period Ended September 29, 2017:				
Balance, June 30, 2017	$(1,819.0)	$(632.4)	$36.9	$(2,414.5)
Other comprehensive income (loss) before reclassifications:				
Increase (decrease)	260.0	—	(3.0)	257.0
Income tax impact	—	—	1.1	1.1
Other comprehensive income (loss) before reclassifications, net of income taxes	260.0	—	(1.9)	258.1
Amounts reclassified from accumulated other comprehensive income (loss):				
Increase	—	7.0 (a)	—	7.0
Income tax impact	—	(2.4)	—	(2.4)
Amounts reclassified from accumulated other comprehensive income (loss), net of income taxes	—	4.6	—	4.6
Net current period other comprehensive income (loss), net of income taxes	260.0	4.6	(1.9)	262.7

Balance, September 29, 2017	$(1,559.0)	$ (627.8)	$ 35.0	$(2,151.8)

[a] This accumulated other comprehensive income (loss) component is included in the computation of net periodic pension cost. Refer to Note 8 for additional details.

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	Foreign Currency Translation Adjustments	Pension & Postretirement Plan Benefit Adjustments	Unrealized Gain (Loss) on Available-For-Sale Securities Adjustments	Total
For the Nine-Month Period Ended September 28, 2018:				
Balance, December 31, 2017	$ (1,422.1)	$ (571.2)	$ (0.9)	$ (1,994.2)
Adoption of accounting standards	(43.8)	(107.2)	(0.2)	(151.2)
Balance, January 1, 2018	(1,465.9)	(678.4)	(1.1)	(2,145.4)
Other comprehensive income (loss) before reclassifications:				
Decrease	(509.4)	—	(0.8)	(510.2)
Income tax impact	—	—	0.2	0.2
Other comprehensive income (loss) before reclassifications, net of income taxes	(509.4)	—	(0.6)	(510.0)
Amounts reclassified from accumulated other comprehensive income (loss):				
Increase	—	25.8 (a)	—	25.8
Income tax impact	—	(6.1)	—	(6.1)
Amounts reclassified from accumulated other comprehensive income (loss), net of income taxes	—	19.7	—	19.7
Net current period other comprehensive income (loss), net of income taxes	(509.4)	19.7	(0.6)	(490.3)
Balance, September 28, 2018	$ (1,975.3)	$ (658.7)	$ (1.7)	$ (2,635.7)
For the Nine-Month Period Ended September 29, 2017:				
Balance, December 31, 2016	$ (2,398.2)	$ (642.2)	$ 18.7	$ (3,021.7)
Other comprehensive income (loss) before reclassifications:				
Increase	839.2	—	26.1	865.3
Income tax impact	—	—	(9.8)	(9.8)
Other comprehensive income (loss) before reclassifications, net of income taxes	839.2	—	16.3	855.5
Amounts reclassified from accumulated other comprehensive income (loss):				
Increase	—	22.2 (a)	—	22.2
Income tax impact	—	(7.8)	—	(7.8)
Amounts reclassified from accumulated other comprehensive income (loss), net of income taxes	—	14.4	—	14.4
Net current period other comprehensive income (loss), net of income taxes	839.2	14.4	16.3	869.9
Balance, September 29, 2017	$ (1,559.0)	$ (627.8)	$ 35.0	$ (2,151.8)

[a] This accumulated other comprehensive income (loss) component is included in the computation of net periodic pension cost. Refer to Note 8 for additional details.

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NOTE 2. REVENUE

The following tables present the Company's revenues disaggregated by geographical region and revenue type for the three and nine-month periods ended September 28, 2018 ($ in millions). Sales taxes and other usage-based taxes are excluded from revenues. The Company defines high-growth markets as developing markets of the world experiencing extended periods of accelerated growth in gross domestic product and infrastructure which includes Eastern Europe, the Middle East, Africa, Latin America and Asia (with the exception of Japan and Australia). The Company defines developed markets as all markets of the world that are not high-growth markets.

	Three-Month Period Ended September 28, 2018				
	Life Sciences	Diagnostics	Dental	Environmental & Applied Solutions	Total
Geographical region:					
North America	$584.0	$ 574.0	$339.8	$ 439.7	$1,937.5
Western Europe	447.1	262.3	137.2	257.5	1,104.1
Other developed markets	134.5	91.8	42.5	31.0	299.8
High-growth markets	431.1	574.4	160.0	346.2	1,511.7
Total	$1,596.7	$ 1,502.5	$679.5	$ 1,074.4	$4,853.1
Revenue type:					
Recurring	$1,030.9	$ 1,273.3	$478.2	$ 571.1	$3,353.5
Nonrecurring	565.8	229.2	201.3	503.3	1,499.6
Total	$1,596.7	$ 1,502.5	$679.5	$ 1,074.4	$4,853.1

	Nine-Month Period Ended September 28, 2018				
	Life Sciences	Diagnostics	Dental	Environmental & Applied Solutions	Total
Geographical region:					
North America	$1,642.4	$ 1,760.1	$977.2	$ 1,308.7	$5,688.4
Western Europe	1,346.5	861.4	483.3	785.5	3,476.7
Other developed markets	417.9	275.3	133.5	94.9	921.6
High-growth markets	1,271.1	1,676.3	491.5	1,003.9	4,442.8
Total	$4,677.9	$ 4,573.1	$2,085.5	$ 3,193.0	$14,529.5
Revenue type:					
Recurring	$3,057.3	$ 3,892.8	$1,513.5	$ 1,702.7	$10,166.3
Nonrecurring	1,620.6	680.3	572.0	1,490.3	4,363.2
Total	$4,677.9	$ 4,573.1	$2,085.5	$ 3,193.0	$14,529.5

The Company sells equipment to customers as well as consumables, spare parts, software licenses and services that customers purchase on a recurring basis. Consumables are typically critical to the use of the equipment and are used on a one-time or limited basis, requiring frequent replacement in the customer's operating cycle. Examples of these consumables include reagents used in diagnostic tests, filters used in filtration, separation and purification processes and cartridges for marking and coding equipment. Additionally, some of the Company's consumables are used on a standalone basis, such as dental implants and water treatment solutions. The Company separates its goods and services between those sold on a recurring basis and those sold on a nonrecurring basis. Recurring revenue includes revenue from consumables, services, spare parts, software licenses recognized over time, SaaS, sales-and-usage based royalties and OTLs. Nonrecurring revenue includes sales from equipment, software licenses recognized at a point in time and STLs. OTLs and STLs are included in the above revenue amounts. For the three and nine-month periods ended September 28, 2018, revenue accounted for under Topic 840, Leases was $115 million and $308 million, respectively.

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Remaining Performance Obligations

Remaining performance obligations related to ASC 606 represent the aggregate transaction price allocated to performance obligations with an original contract term greater than one year which are fully or partially unsatisfied at the end of the period. Remaining performance obligations include noncancelable purchase orders, the non-lease portion of minimum purchase commitments under long-term consumable supply arrangements, extended warranty, service and PCS contracts, SaaS and other long-term contracts. Remaining performance obligations do not include revenue from contracts with customers with an original term of one year or less, revenue from long-term consumable supply arrangements with no minimum purchase requirements or revenue expected from purchases made in excess of the minimum purchase requirements or revenue from equipment leased to customers. While the remaining performance obligation disclosure is similar in concept to backlog, the definition of remaining performance obligations excludes leases and contracts that provide the customer with the right to cancel or terminate for convenience with no substantial penalty, even if historical experience indicates the likelihood of cancellation or termination is remote. Additionally, the Company has elected to exclude contracts with customers with an original term of one year or less from remaining performance obligations while these contracts are included within backlog.

As of September 28, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations was approximately $1.8 billion. The Company expects to recognize revenue on approximately 44% of the remaining performance obligations over the next 12 months, 26% recognized over the subsequent 12 months, and the remainder recognized thereafter.

Contract Balances

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (contract assets) and deferred revenue, customer deposits and billings in excess of revenue recognized (contract liabilities) on the Consolidated Condensed Balance Sheets. In addition, the Company defers certain costs incurred to obtain a contract (contract costs).

Contract assets—Most of the Company’s long-term contracts are billed as work progresses in accordance with the contract terms and conditions, either at periodic intervals or upon achievement of certain milestones. Often this results in billing occurring subsequent to revenue recognition resulting in contract assets. Contract assets are generally classified as other current assets in the Consolidated Condensed Balance Sheet. The balance of contract assets as of September 28, 2018 and at the date of adoption of ASC 606 were $97 million and $114 million, respectively.

Contract liabilities—The Company often receives cash payments from customers in advance of the Company’s performance resulting in contract liabilities. These contract liabilities are classified as either current or long-term in the Consolidated Condensed Balance Sheet based on the timing of when the Company expects to recognize revenue. As of September 28, 2018 and at the date of adoption of ASC 606, contract liabilities were $787 million and $783 million, respectively, and are included within accrued expenses and other liabilities and other long-term liabilities in the accompanying Consolidated Condensed Balance Sheet. The increase in the contract liability balance during the nine-month period ended September 28, 2018 is primarily as a result of cash payments received in advance of satisfying performance obligations and acquisitions, partially offset by revenue recognized during the period that was included in the contract liability balance at the date of adoption and foreign currency exchange. Revenue recognized during the three and nine-month periods ended September 28, 2018 that was included in the contract liability balance at the date of adoption was $144 million and $568 million, respectively.

Contract costs—The Company capitalizes certain direct incremental costs incurred to obtain a contract, typically sales-related commissions, where the amortization period for the related asset is greater than one year. These costs are amortized over the contract term or a longer period, generally the expected life of the customer relationship if renewals are expected and the renewal commission is not commensurate with the initial commission. Contract costs are classified as current or long-term other assets in the Consolidated Condensed Balance Sheet based on the timing of when the Company expects to recognize the expense and are generally amortized into earnings on a straight-line basis (which is consistent with the transfer of control for the related goods or services). Management assesses these costs for impairment at least quarterly and as “triggering” events occur that indicate it is more likely than not that an impairment exists. The balance of contract costs as of September 28, 2018 and at the date of adoption were not significant. Amortization expense for the three and nine-month periods ended September 28, 2018, was also not significant. The costs to obtain a contract where the amortization period for the related asset is one year or less are expensed as incurred and recorded within selling, general and administrative expenses in the accompanying Consolidated Condensed Statements of Earnings.

Contract assets, liabilities and costs are reported on the accompanying Consolidated Condensed Balance Sheet on a contract-by-contract basis.

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NOTE 3. ACQUISITIONS

For a description of the Company's acquisition activity for the year ended December 31, 2017 reference is made to the financial statements as of and for the year ended December 31, 2017 and Note 2 thereto included in the Company's 2017 Annual Report.

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

The Company makes an initial allocation of the purchase price at the date of acquisition based upon its understanding of the fair value of the acquired assets and assumed liabilities. The Company obtains this information during due diligence and through other sources. In the months after closing, as the Company obtains additional information about these assets and liabilities, including through tangible and intangible asset appraisals, and learns more about the newly acquired business, it is able to refine the estimates of fair value and more accurately allocate the purchase price. Only items identified as of the acquisition date are considered for subsequent adjustment. The Company is continuing to evaluate certain pre-acquisition contingencies associated with certain of its 2017 and 2018 acquisitions and is also in the process of obtaining valuations of certain property, plant and equipment, acquired intangible assets and certain acquisition-related liabilities in connection with these acquisitions. The Company will make appropriate adjustments to the purchase price allocation prior to completion of the measurement period, as required.

On April 13, 2018, the Company acquired Integrated DNA Technologies, Inc. ("IDT"), a privately-held manufacturer of custom DNA and RNA oligonucleotides serving customers in the academic and biopharmaceutical research, biotechnology, agriculture, clinical diagnostics and pharmaceutical development end-markets, for a purchase price of approximately $2.1 billion, net of cash acquired. IDT had revenues of approximately $260 million in 2017, and is now part of the Company's Life Sciences segment.

The Company financed the acquisition of IDT with available cash and proceeds from the issuance of commercial paper. The Company preliminarily recorded approximately $1.2 billion of goodwill related to the IDT acquisition. The acquisition of IDT provides additional sales and earnings growth opportunities for the Company's Life Sciences segment by expanding the segment's product line diversity, including new product and service offerings in the area of genomics consumables, and through the potential future acquisition of complementary businesses.

In addition to the IDT acquisition, during the first nine months of 2018, the Company acquired one other business for total consideration of $95 million in cash, net of cash acquired. The business acquired complements existing units of the Environmental & Applied Solutions segment. The aggregate annual sales of this business at the time of its acquisition, based on the company's revenues for its last completed fiscal year prior to the acquisition, were approximately $26 million. The Company preliminarily recorded an aggregate of $71 million of goodwill related to this acquisition.

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The following summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition for all acquisitions consummated during the nine-month period ended September 28, 2018 ($ in millions):

	IDT	Others	Total
Trade accounts receivable	$36.0	$5.3	$41.3
Inventories	15.1	—	15.1
Property, plant and equipment	88.6	0.4	89.0
Goodwill	1,239.9	70.5	1,310.4
Other intangible assets, primarily customer relationships, trade names and technology	759.0	30.0	789.0
Trade accounts payable	(5.5)	(2.7)	(8.2)
Other assets and liabilities, net	(31.0)	(8.4)	(39.4)
Net assets acquired	2,102.1	95.1	2,197.2
Less: noncash consideration	(23.9)	—	(23.9)
Net cash consideration	$2,078.2	$95.1	$2,173.3

Pro Forma Financial Information

The unaudited pro forma information for the periods set forth below gives effect to the 2018 and 2017 acquisitions as if they had occurred as of January 1, 2017. The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisitions been consummated as of that time ($ in millions, except per share amounts):

	Three-Month Period Ended		Nine-Month Period Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Sales	$4,855.6	$ 4,629.4	$14,632.2	$ 13,572.1
Net earnings from continuing operations	663.8	561.2	1,906.1	1,581.1
Diluted net earnings per share from continuing operations	0.93	0.80	2.69	2.24

In the nine-month period ended September 28, 2018, unaudited pro forma earnings set forth above were adjusted to exclude the $1 million pretax impact of nonrecurring acquisition date fair value adjustments to inventory related to the 2018 acquisition of IDT and in the nine-month period ended September 29, 2017 unaudited pro forma earnings set forth above were adjusted to include the impact of this same fair value adjustment as if the acquisition had occurred on January 1, 2017.

In addition, acquisition-related transaction costs of $15 million in 2018 associated with the IDT acquisition were excluded from pro forma earnings in both 2018 and 2017.

NOTE 4. DISCONTINUED OPERATIONS AND DENTAL SEPARATION

Discontinued Operations

On July 2, 2016 (the "Distribution Date"), the Company completed the separation (the "Fortive Separation") of Fortive Corporation ("Fortive"). For additional details on the Fortive Separation reference is made to the financial statements as of and for the year ended December 31, 2017 and Note 3 thereto included in the Company's 2017 Annual Report. The accounting requirements for reporting the Fortive Separation as a discontinued operation were met when the Fortive Separation was completed. Accordingly, the accompanying Consolidated Condensed Financial Statements for all periods presented reflect this business as a discontinued operation.

In the nine-month period ended September 29, 2017, the Company recorded a $22 million income tax benefit related to the release of previously provided reserves associated with uncertain tax positions on certain Danaher tax returns which were jointly filed with Fortive entities. These reserves were released due to the expiration of statutes of limitations for those returns. This income tax benefit was included in earnings from discontinued operations in the accompanying Consolidated Condensed Statement of Earnings.

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Dental Separation

In July 2018, the Company announced its intention to spin-off its Dental business into an independent publicly traded company (the "Dental Separation"). The Dental business had sales for the year-ended December 31, 2017 of $2.8 billion. The transaction is expected to be tax-free to the Company's shareholders. The Company is targeting to complete the Dental Separation in the second half of 2019, subject to the satisfaction of certain conditions, including obtaining final approval from the Danaher Board of Directors, satisfactory completion of financing, receipt of tax opinions, receipt of favorable rulings from the IRS and receipt of other regulatory approvals.

NOTE 5. GOODWILL

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

Balance, December 31, 2017	$25,138.6
Attributable to 2018 acquisitions	1,310.4
Adjustments due to finalization of purchase price allocations	7.6
Foreign currency translation and other	(421.6)
Balance, September 28, 2018	$26,035.0

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

	September 28, 2018	December 31, 2017
Life Sciences	$ 13,378.9	$ 12,335.5
Diagnostics	6,952.4	7,079.5
Dental	3,331.5	3,370.0
Environmental & Applied Solutions	2,372.2	2,353.6
Total	$ 26,035.0	$ 25,138.6

The Company has not identified any "triggering" events which indicate an impairment of goodwill in the nine-month period ended September 28, 2018.

NOTE 6. FAIR VALUE MEASUREMENTS

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

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Financial assets and liabilities that are measured at fair value on a recurring basis were as follows ($ in millions):

	Quoted Prices in Active Market (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
September 28, 2018:				
Assets:				
Available-for-sale debt securities	$ —	$ 40.3	$ —	$ 40.3
Liabilities:				
Deferred compensation plans	—	65.4	—	65.4
December 31, 2017:				
Assets:				
Available-for-sale debt securities	$ —	$ 45.4	$ —	$ 45.4
Liabilities:				
Deferred compensation plans	—	62.9	—	62.9

Available-for-sale debt securities, which are included in other long-term assets in the accompanying Consolidated Condensed Balance Sheets, are measured at quoted prices reported by investment brokers and dealers based on the underlying terms of the security and comparison to similar securities traded on an active market.

The Company has established nonqualified deferred compensation programs that permit officers, directors and certain management employees to defer a portion of their compensation, on a pretax basis, until at or after their termination of employment (or board service, as applicable). All amounts deferred under such plans are unfunded, unsecured obligations of the Company and are presented as a component of the Company's compensation and benefits accrual included in other long-term liabilities in the accompanying Consolidated Condensed Balance Sheets. Participants may choose among alternative earning rates for the amounts they defer, which are primarily based on investment options within the Company's 401(k) program. Changes in the deferred compensation liability under these programs are recognized based on changes in the fair value of the participants' accounts, which are based on the applicable earnings rates. Amounts unilaterally contributed to participant accounts by the Company are based on the value of the Company's common stock and future distributions of such contributions will be made solely in shares of common stock. As a result, Company contributions to this program are not reflected in the above amounts.

Fair Value of Financial Instruments

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

	September 28, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Available-for-sale debt securities	$ 40.3	$ 40.3	$ 45.4	$ 45.4
Liabilities:				
Notes payable and current portion of long-term debt	59.8	59.8	194.7	194.7
Long-term debt	10,558.0	10,893.3	10,327.4	10,847.1

As of September 28, 2018 and December 31, 2017, available-for-sale debt securities were categorized as Level 2, as indicated above, and short and long-term borrowings were categorized as Level 1.

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The fair value of long-term borrowings was based on quoted market prices. The difference between the fair value and the carrying amounts of long-term borrowings (other than the Company's Liquid Yield Option Notes due 2021 (the "LYONs")) is attributable to changes in market interest rates and/or the Company's credit ratings subsequent to the incurrence of the borrowing. In the case of the LYONs, differences in the fair value from the carrying value are attributable to changes in the price of the Company's common stock due to the LYONs' conversion features. The fair values of borrowings with original maturities of one year or less, as well as cash and cash equivalents, trade accounts receivable, net and trade accounts payable approximate their carrying amounts due to the short-term maturities of these instruments.

NOTE 7. FINANCING

As of September 28, 2018, the Company was in compliance with all of its debt covenants. The components of the Company's debt were as follows ($ in millions):

	September 28, 2018	December 31, 2017
U.S. dollar-denominated commercial paper	$ —	$ 436.9
Euro-denominated commercial paper (€2.9 billion and €1.7 billion, respectively)	3,324.3	1,993.9
1.65% senior unsecured notes due 2018 (the "2018 U.S. Notes")	—	499.2
1.0% senior unsecured notes due 2019 (€600.0 million aggregate principal amount) (the "2019 Euronotes")	695.6	718.4
2.4% senior unsecured notes due 2020	498.3	497.7
5.0% senior unsecured notes due 2020 (the "2020 Assumed Pall Notes")	390.5	394.6
Zero-coupon Liquid Yield Option Notes (LYONs) due 2021	58.3	69.1
0.352% senior unsecured notes due 2021 (¥30.0 billion aggregate principal amount) (the "2021 Yen Notes")	263.5	265.5
1.7% senior unsecured notes due 2022 (€800.0 million aggregate principal amount) (the "2022 Euronotes")	924.8	955.6
Floating rate senior unsecured notes due 2022 (€250.0 million aggregate principal amount) (the "Floating Rate 2022 Euronotes")	289.4	299.1
0.5% senior unsecured bonds due 2023 (CHF 540.0 million aggregate principal amount) (the "2023 CHF Bonds")	551.8	555.5
2.5% senior unsecured notes due 2025 (€800.0 million aggregate principal amount) (the "2025 Euronotes")	924.4	955.6
3.35% senior unsecured notes due 2025	496.7	496.3
0.3% senior unsecured notes due 2027 (¥30.8 billion aggregate principal amount) (the "2027 Yen Notes")	270.1	272.2
1.2% senior unsecured notes due 2027 (€600.0 million aggregate principal amount) (the "2027 Euronotes")	690.8	714.1
1.125% senior unsecured bonds due 2028 (CHF 210.0 million aggregate principal amount) (the "2028 CHF Bonds")	218.6	220.3
0.65% senior unsecured notes due 2032 (¥53.2 billion aggregate principal amount) (the "2032 Yen Notes")	466.4	470.2
4.375% senior unsecured notes due 2045	499.3	499.3
Other	55.0	208.6
Total debt	10,617.8	10,522.1
Less: currently payable	59.8	194.7
Long-term debt	$ 10,558.0	$ 10,327.4

For additional details regarding the Company's debt financing, reference is made to Note 9 of the Company's financial statements as of and for the year ended December 31, 2017 included in the Company's 2017 Annual Report.

The Company satisfies any short-term liquidity needs that are not met through operating cash flow and available cash primarily through issuances of commercial paper under its U.S. dollar and euro-denominated commercial paper programs. Credit support for the commercial paper programs is generally provided by the Company's $4.0 billion unsecured, multi-year revolving credit facility with a syndicate of banks that expires on July 10, 2020 (the "Credit Facility"), which can also be used for working

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capital and other general corporate purposes, and the 364-Day Facility described below. As of September 28, 2018, no borrowings were outstanding under the Credit Facility or the 364-Day Facility, and the Company was in compliance with all covenants thereunder. In addition to the Credit Facility and the 364-Day Facility, the Company has also entered into reimbursement agreements with various commercial banks to support the issuance of letters of credit.

As of September 28, 2018, borrowings outstanding under the Company's euro-denominated commercial paper program had a weighted average annual interest rate of negative 0.3% and a weighted average remaining maturity of approximately 45 days and no borrowings were outstanding under the Company's U.S. dollar denominated paper program.

The Company has classified the €600 million of 2019 Euronotes and approximately $3.3 billion of its borrowings outstanding under the commercial paper programs as of September 28, 2018 as long-term debt in the accompanying Consolidated Condensed Balance Sheet as the Company had the intent and ability, as supported by availability under the Credit Facility, to refinance these borrowings for at least one year from the balance sheet date.

Debt discounts, premiums and debt issuance costs totaled $20 million and $25 million as of September 28, 2018 and December 31, 2017, respectively, and have been netted against the aggregate principal amounts of the related debt in the components of debt table above.

364-Day Revolving Credit Facility

On March 23, 2018, the Company entered into a $1.0 billion 364-day revolving credit facility (the "364-Day Facility") to provide liquidity support for the issuance of additional commercial paper to fund a portion of the IDT acquisition (refer to Note 3 for information about the acquisition). The 364-Day Facility expires on March 22, 2019 (the "Scheduled Termination Date"). The Company may elect, upon the payment of a fee equal to 0.75% of the principal amount of the loans then outstanding and, upon the satisfaction of certain conditions, to convert any loans outstanding on the Scheduled Termination Date into term loans that are due and payable one year following the Scheduled Termination Date.

Borrowings under the 364-Day Facility bear interest as follows: (1) Eurodollar Rate Loans bear interest at a variable rate per annum equal to the London inter-bank offered rate plus 81.5 basis points; and (2) Base Rate Loans bear interest at a variable rate per annum equal to the highest of (a) the Federal funds rate (as published by the Federal Reserve Bank of New York from time to time) plus 0.5%, (b) the rate of interest in effect for such day as publicly announced by Bank of America, N.A. as its "prime rate," and (c) the Eurodollar Rate plus 1.0%. In addition, the Company is required to pay a per annum facility fee of six basis points based on the aggregate commitments under the 364-Day Facility, regardless of usage.

The 364-Day Facility requires the Company to maintain a consolidated leverage ratio (as defined in the facility) of .65 to 1.00 or less. Borrowings under the 364-Day Facility are prepayable at the Company's option at any time in whole or in part without premium or penalty.

The Company's obligations under the 364-Day Facility are unsecured. The Company has unconditionally and irrevocably guaranteed the obligations of each of its subsidiaries in the event a subsidiary is named a borrower under the 364-Day Facility. The 364-Day Facility contains customary representations, warranties, conditions precedent, events of default, indemnities and affirmative and negative covenants.

2018 Long-Term Debt Repayments

The $500 million of 2018 U.S. Notes were repaid with accrued interest upon their maturity in September 2018 using available cash and proceeds from commercial paper borrowings.

Guarantors of Debt

The Company has guaranteed long-term debt and commercial paper issued by certain of its wholly-owned subsidiaries. The 2019 Euronotes, 2022 Euronotes, Floating Rate 2022 Euronotes, 2025 Euronotes and 2027 Euronotes were issued by DH Europe Finance S.A. ("Danaher International"). The 2023 CHF Bonds and 2028 CHF Bonds were issued by DH Switzerland Finance S.A. ("Danaher Switzerland"). The 2021 Yen Notes, 2027 Yen Notes and 2032 Yen Notes were issued by DH Japan Finance S.A. ("Danaher Japan"). Each of Danaher International, Danaher Switzerland and Danaher Japan are wholly-owned finance subsidiaries of Danaher Corporation. All of the securities issued by each of these entities, as well as the 2020 Assumed Pall Notes, are fully and unconditionally guaranteed by the Company and these guarantees rank on parity with the Company's unsecured and unsubordinated indebtedness.

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LYONs Redemption

During the nine-month period ended September 28, 2018, holders of certain of the Company's LYONs converted such LYONs into an aggregate of approximately 487 thousand shares of the Company's common stock, par value $0.01 per share. The Company's deferred tax liability associated with the book and tax basis difference in the converted LYONs of $4 million was transferred to additional paid-in capital as a result of the conversions.

NOTE 8. DEFINED BENEFIT PLANS

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

	Three-Month Period Ended		Nine-Month Period Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
U.S. pension benefits:				
Service cost	$(1.2)	$ (1.9)	$(5.4)	$ (5.7)
Interest cost	(20.3)	(20.1)	(60.7)	(62.1)
Expected return on plan assets	33.0	32.4	99.2	98.2
Amortization of actuarial loss	(8.0)	(5.9)	(23.6)	(19.1)
Amortization of prior service cost	(0.2)	—	(0.7)	—
Net periodic pension benefit	$3.3	$ 4.5	$8.8	$ 11.3
Non-U.S. pension benefits:				
Service cost	$(8.6)	$ (8.1)	$(26.2)	$ (23.7)
Interest cost	(6.3)	(6.7)	(19.6)	(19.5)
Expected return on plan assets	11.6	10.8	35.6	31.5
Amortization of actuarial loss	(1.5)	(2.0)	(4.5)	(5.8)
Amortization of prior service credit	0.2	0.1	0.4	0.3
Settlement loss recognized	1.2	—	0.8	—
Net periodic pension cost	$(3.4)	$ (5.9)	$(13.5)	$ (17.2)

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

	Three-Month Period Ended		Nine-Month Period Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Service cost	$—	$ (0.1)	$(0.3)	$ (0.5)
Interest cost	(1.2)	(1.1)	(3.5)	(3.7)
Amortization of prior service credit	0.6	0.8	1.8	2.4
Net periodic benefit cost	$(0.6)	$ (0.4)	$(2.0)	$ (1.8)

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In the first quarter of 2018, the Company adopted ASU No. 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires the Company to disaggregate the service cost component from other components of net periodic benefit costs and report the service cost component in the same line item as other compensation costs and the other components of net periodic benefit costs (which include interest costs, expected return on plan assets, amortization of prior service cost or credits and actuarial gains and losses) separately and outside a subtotal of operating income. As this ASU requires application on a retrospective basis, the Company restated the prior period presentation for the adoption of this ASU, resulting in a decrease in operating profit and an increase in other income, net of $8.3 million and $22.2 million for the three and nine-month periods ended September 29, 2017. The net periodic benefit cost of the noncontributory defined benefit pension plans and other postretirement employee benefit plans incurred during the three and nine-month periods ended September 28, 2018 and September 29, 2017 are reflected in the following captions in the accompanying Consolidated Condensed Statements of Earnings ($ in millions):

	Three-Month Period Ended		Nine-Month Period Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Service cost:				
Cost of sales	$(1.6)	$ (2.1)	$(7.0)	$ (6.2)
Selling, general and administrative expenses	(8.2)	(8.0)	(24.9)	(23.7)
Total service cost	(9.8)	(10.1)	(31.9)	(29.9)
Other net periodic benefit costs:				
Other income, net	9.1	8.3	25.2	22.2
Total	$(0.7)	$ (1.8)	$(6.7)	$ (7.7)

Employer Contributions

During 2018, the Company's cash contribution requirements for its U.S. and non-U.S. defined benefit pension plans are forecasted to be approximately $30 million and $50 million, respectively. The ultimate amounts to be contributed depend upon, among other things, legal requirements, underlying asset returns, the plan's funded status, the anticipated tax deductibility of the contribution, local practices, market conditions, interest rates and other factors.

NOTE 9. INCOME TAXES

The following table summarizes the Company's effective tax rate from continuing operations:

	Three-Month Period Ended		Nine-Month Period Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Effective tax rate from continuing operations	17.2%	21.6 %	19.0%	17.7 %

The effective tax rate for 2018 includes the benefit of a lower U.S. corporate income tax rate of 21.0% from the enactment of the TCJA, partially offset by a new minimum tax on certain non-U.S. earnings. In addition, the Company's effective tax rate benefits from the impact of earnings outside the United States which overall are taxed at rates lower than the U.S. federal rate. The effective tax rate for the three-month period ended September 28, 2018 includes net tax benefits of $23 million ($0.03 per diluted share) related primarily to the release of valuation allowances associated with certain foreign operating losses and excess tax benefits from stock-based compensation, which in aggregate reduced the reported tax rate by 2.9%. The effective tax rate for the nine-month period ended September 28, 2018 also includes these benefits, in addition to net tax benefits of $9 million ($0.01 per diluted share) recorded in the second quarter of 2018 related to the release of reserves upon the expiration of statutes of limitation and excess tax benefits from stock-based compensation, which were partially offset by increases in estimates associated with prior period uncertain tax positions.

The Company's effective tax rate for 2017 differed from the then-effective U.S. federal statutory rate of 35.0% due principally to the Company's earnings outside the United States which overall are taxed at rates lower than such U.S.

federal rate. The effective tax rate for the nine-month period ended September 29, 2017 includes a benefit from the release of reserves upon the expiration of statutes of limitations and audit settlements, excess tax benefits from stock-based compensation, as well as higher tax benefits from restructuring charges that are predominantly in the United States, which in aggregate decreased the reported tax rate by 3.3%.

On December 22, 2017, the TCJA was enacted, substantially changing the U.S. tax system and affecting the Company in a number of ways. Notably, the TCJA:

- establishes a flat corporate income tax rate of 21.0% on U.S. earnings;
- imposes a one-time tax on unremitted cumulative non-U.S. earnings of foreign subsidiaries ("Transition Tax");
- imposes a new minimum tax on certain non-U.S. earnings, irrespective of the territorial system of taxation, and generally allows for the repatriation of future earnings of foreign subsidiaries without incurring additional U.S. taxes by transitioning to a territorial system of taxation (Global Intangible Low-Taxed Income or "GILTI Tax");
- subjects certain payments made by a U.S. company to a related foreign company to certain minimum taxes (Base Erosion Anti-Abuse Tax);
- eliminates certain prior tax incentives for manufacturing in the United States and creates an incentive for U.S. companies to sell, lease or license goods and services abroad by allowing for a reduction in taxes owed on earnings related to such sales;
- allows the cost of investments in certain depreciable assets acquired and placed in service after September 27, 2017 to be immediately expensed; and
- reduces deductions with respect to certain compensation paid to specified executive officers.

As U.S. GAAP accounting for income taxes requires the effect of a change in tax laws or rates to be recognized in income from continuing operations for the period that includes the enactment date, the Company recognized an estimate of the impact of the TCJA in the year ended December 31, 2017. As a result of the TCJA, the Company recognized a provisional tax liability of approximately $1.2 billion in 2017 for the Transition Tax, which is payable over a period of eight years. The Company also remeasured U.S. deferred tax assets and liabilities based on the income tax rates at which the deferred tax assets and liabilities are expected to reverse in the future (generally 21.0%), resulting in an income tax benefit of approximately $1.2 billion in 2017. For a description of the impact of the TCJA for the year ended December 31, 2017 reference is made to Note 12 of the Company's financial statements as of and for the year ended December 31, 2017 included in the Company's 2017 Annual Report.

Due to the complexities involved in accounting for the enactment of the TCJA, SAB No. 118 allowed the Company to record provisional amounts in earnings for the year ended December 31, 2017. SAB No. 118 provides that where reasonable estimates can be made, the provisional accounting should be based on such estimates and when no reasonable estimate can be made, the provisional accounting may be based on the tax law in effect before the TCJA. During the three and nine-month periods ended September 28, 2018, there were no changes made to the provisional amounts recognized in 2017. The Company continues to analyze the effects of the TCJA on its Consolidated Condensed Financial Statements. Additional impacts from the enactment of the TCJA will be recorded as they are identified during the measurement period as provided for in SAB No. 118, which extends up to one year from the enactment date. The final impact of the TCJA may differ from the provisional amounts that have been recognized, possibly materially, due to, among other things, changes in the Company's interpretation of the TCJA, legislative or administrative actions to clarify the intent of the statutory language provided that differ from the Company's current interpretation, any changes in accounting standards for income taxes or related interpretations in response to the TCJA, or any updates or changes to estimates utilized to calculate the impacts, including changes to current year earnings estimates and applicable foreign exchange rates. Additionally, the Company's U.S. tax returns for 2017 will be filed during the fourth quarter of 2018 and any changes to the tax positions reflected in those returns compared to the estimates recorded in the Company's earnings for the year ended December 31, 2017 will result in an adjustment of the estimated tax provision recorded as of December 31, 2017.

The Company also continues to evaluate the impact of the GILTI provisions under the TCJA which are complex and subject to continuing regulatory interpretation by the U.S. Internal Revenue Service ("IRS"). The Company is required to make an accounting policy election of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current period expense when incurred (the "period cost method") or (2) factoring such amounts into the Company's measurement of its deferred taxes (the "deferred method"). The Company's accounting policy election with respect to the new GILTI Tax rules will depend, in part, on analyzing its global income to determine whether it can reasonably estimate the tax impact. While the Company has included an estimate of GILTI in its estimated effective tax rate for 2018, it has not completed its analysis and has not determined which method to elect. Adjustments related to the amount of GILTI Tax recorded in its Consolidated Condensed Financial Statements may be required based on the outcome of this election.

Tax authorities in Denmark have raised significant issues related to interest accrued by certain of the Company's subsidiaries. On December 10, 2013, the Company received assessments from the Danish tax authority ("SKAT") totaling approximately DKK 1.6 billion including interest through September 28, 2018 (approximately $247 million based on the exchange rate as of September 28, 2018), imposing withholding tax relating to interest accrued in Denmark on borrowings from certain of the Company's subsidiaries for the years 2004-2009. The Company is currently in discussions with SKAT and anticipates receiving an assessment for years 2010-2012 totaling approximately DKK 939 million including interest through September 28, 2018 (approximately $146 million based on the exchange rate as of September 28, 2018). Management believes the positions the Company has taken in Denmark are in accordance with the relevant tax laws and is vigorously defending its positions. The Company appealed these assessments to the National Tax Tribunal in 2014 and intends on pursuing this matter through the European Court of Justice should this appeal be unsuccessful. The ultimate resolution of this matter is uncertain, could take many years, and could result in a material adverse impact to the Company's consolidated financial statements, including its effective tax rate.

NOTE 10. NONOPERATING INCOME (EXPENSE)

As described in Note 1 and Note 8, in the first quarter of 2018, the Company adopted ASU No. 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The ASU requires the Company to disaggregate the service cost component from the other components of net periodic benefit costs and requires the Company to present the other components of net periodic benefit cost in other income, net. The ASU also requires application on a retrospective basis. The other components of net periodic benefit costs included in other income, net for the three and nine-month periods ended September 28, 2018 were $9 million and $25 million, respectively, compared to $8 million and $22 million for the three and nine-month periods ended September 29, 2017, respectively.

NOTE 11. COMMITMENTS AND CONTINGENCIES

For a description of the Company's litigation and contingencies, reference is made to Note 16 of the Company's financial statements as of and for the year ended December 31, 2017 included in the Company's 2017 Annual Report.

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

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

Balance, December 31, 2017	$79.0
Accruals for warranties issued during the period	44.8
Settlements made	(44.1)
Effect of foreign currency translation	(1.7)
Balance, September 28, 2018	$78.0

NOTE 12. STOCK TRANSACTIONS AND STOCK-BASED COMPENSATION

Neither the Company nor any "affiliated purchaser" repurchased any shares of Company common stock during the nine-month period ended September 28, 2018. On July 16, 2013, the Company's Board of Directors approved a repurchase program (the "Repurchase Program") authorizing the repurchase of up to 20 million shares of the Company's common stock from time to time on the open market or in privately negotiated transactions. As of September 28, 2018, 20 million shares remained available for repurchase pursuant to the Repurchase Program.

For a full description of the Company's stock-based compensation programs, reference is made to Note 17 of the Company's financial statements as of and for the year ended December 31, 2017 included in the Company's 2017

Annual Report. As of September 28, 2018, approximately 59 million shares of the Company's common stock were reserved for issuance under the 2007 Omnibus Incentive Plan.

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

	Three-Month Period Ended		Nine-Month Period Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Restricted stock units (“RSUs”)/performance stock units (“PSUs”):				
Pretax compensation expense	$24.0	$ 21.9	$69.6	$ 67.6
Income tax benefit	(5.0)	(6.6)	(14.6)	(20.7)
RSU/PSU expense, net of income taxes	19.0	15.3	55.0	46.9
Stock options:				
Pretax compensation expense	14.2	11.5	42.0	37.2
Income tax benefit	(3.0)	(3.6)	(8.9)	(11.8)
Stock option expense, net of income taxes	11.2	7.9	33.1	25.4
Total stock-based compensation:				
Pretax compensation expense	38.2	33.4	111.6	104.8
Income tax benefit	(8.0)	(10.2)	(23.5)	(32.5)
Total stock-based compensation expense, net of income taxes	$30.2	$ 23.2	$88.1	$ 72.3

Stock-based compensation has been recognized as a component of selling, general and administrative expenses in the accompanying Consolidated Condensed Statements of Earnings. As of September 28, 2018, $171 million of total unrecognized compensation cost related to RSUs/PSUs is expected to be recognized over a weighted average period of approximately two years. As of September 28, 2018, $151 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted average period of approximately three years. Future compensation amounts will be adjusted for any changes in estimated forfeitures.

NOTE 13. NET EARNINGS PER SHARE FROM CONTINUING OPERATIONS

Basic net earnings per share (“EPS”) from continuing operations is calculated by dividing net earnings from continuing operations by the weighted average number of common shares outstanding for the applicable period. Diluted net EPS from continuing operations is computed based on the weighted average number of common shares outstanding increased by the number of additional shares that would have been outstanding had the potentially dilutive common shares been issued and reduced by the number of shares the Company could have repurchased with the proceeds from the issuance of the potentially dilutive shares. For the three-month period ended September 28, 2018, no options to purchase shares were excluded from the diluted EPS from continuing operations calculation. For the nine-month period ended September 28, 2018, one million options to purchase shares were not included in the diluted EPS from continuing operations calculation as the impact of their inclusion would have been anti-dilutive. For both the three and nine-month periods ended September 29, 2017, approximately four million options to purchase shares were not included in the diluted EPS from continuing operations calculation as the impact of their inclusion would have been anti-dilutive.

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

	Net Earnings from Continuing Operations (Numerator)	Shares (Denominator)	Per Share Amount
For the Three-Month Period Ended September 28, 2018:			
Basic EPS	$ 663.7	701.4	$ 0.95
Adjustment for interest on convertible debentures	0.6	—	
Incremental shares from assumed exercise of dilutive options and vesting of dilutive RSUs and PSUs	—	6.9	
Incremental shares from assumed conversion of the convertible debentures	—	2.3	
Diluted EPS from continuing operations	$ 664.3	710.6	$ 0.93
For the Three-Month Period Ended September 29, 2017:			
Basic EPS	$ 572.1	696.2	$ 0.82
Adjustment for interest on convertible debentures	0.6	—	
Incremental shares from assumed exercise of dilutive options and vesting of dilutive RSUs and PSUs	—	6.5	
Incremental shares from assumed conversion of the convertible debentures	—	2.9	
Diluted EPS from continuing operations	$ 572.7	705.6	$ 0.81
For the Nine-Month Period Ended September 28, 2018:			
Basic EPS	$ 1,904.1	700.1	$ 2.72
Adjustment for interest on convertible debentures	1.7	—	
Incremental shares from assumed exercise of dilutive options and vesting of dilutive RSUs and PSUs	—	7.3	
Incremental shares from assumed conversion of the convertible debentures	—	2.5	
Diluted EPS from continuing operations	$ 1,905.8	709.9	$ 2.68
For the Nine-Month Period Ended September 29, 2017:			
Basic EPS	$ 1,613.2	695.3	$ 2.32
Adjustment for interest on convertible debentures	1.6	—	
Incremental shares from assumed exercise of dilutive options and vesting of dilutive RSUs and PSUs	—	7.3	
Incremental shares from assumed conversion of the convertible debentures	—	2.9	
Diluted EPS from continuing operations	$ 1,614.8	705.5	$ 2.29

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NOTE 14. SEGMENT INFORMATION

The Company operates and reports its results in four separate business segments consisting of the Life Sciences, Diagnostics, Dental and Environmental & Applied Solutions segments. When determining the reportable segments, the Company
aggregated operating segments based on their similar economic and operating characteristics. Operating profit represents total revenues less operating expenses, excluding nonoperating income and expense, interest and income taxes. Intersegment amounts are not significant and are eliminated to arrive at consolidated totals. Operating profit amounts in the Other segment consist of unallocated corporate costs and other costs not considered part of management's evaluation of reportable segment operating performance. There has been no material change in total assets or liabilities by segment since December 31, 2017, with the exception of the inclusion of IDT in the Life Sciences segment in April 2018 (refer to Note 3 for additional information).

Segment results are shown below ($ in millions):

	Three-Month Period Ended		Nine-Month Period Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Sales:				
Life Sciences	$1,596.7	$ 1,392.6	$4,677.9	$ 4,085.0
Diagnostics	1,502.5	1,448.7	4,573.1	4,216.0
Dental	679.5	694.0	2,085.5	2,052.1
Environmental & Applied Solutions	1,074.4	992.9	3,193.0	2,890.9
Total	$4,853.1	$ 4,528.2	$14,529.5	$ 13,244.0
Operating profit:				
Life Sciences	$312.8	$ 246.8	$875.6	$ 680.0
Diagnostics	235.1	242.7	757.4	554.9
Dental	86.1	102.2	241.8	301.4
Environmental & Applied Solutions	254.3	222.8	732.5	666.0
Other	(57.6)	(55.3)	(166.1)	(149.4)
Total	$830.7	$ 759.2	$2,441.2	$ 2,052.9

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

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

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

You should read this discussion along with the Company's MD&A and audited financial statements as of and for the year ended December 31, 2017 and Notes thereto, included in the Company's 2017 Annual Report on Form 10-K filed on February 21, 2018 and the Company's Consolidated Condensed Financial Statements and related Notes as of and for the three and nine-month periods ended September 28, 2018 included in this Report.

Unless otherwise indicated, all financial results in this report refer to continuing operations.

INFORMATION RELATING TO FORWARD-LOOKING STATEMENTS

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

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

- We intend to spin-off our Dental business into an independent, publicly traded company by the second half of 2019. The proposed transaction may not be completed on the currently contemplated timeline or at all and may not achieve the intended benefits.
- Conditions in the global economy, the markets we serve and the financial markets may adversely affect our business and financial statements.
-

Significant developments or uncertainties stemming from the current U.S. administration, including changes in U.S. trade policies, tariffs and the reaction of other countries thereto, could have an adverse effect on our business.

- Our growth could suffer if the markets into which we sell our products and services decline, do not grow as anticipated or experience cyclicality.
- We face intense competition and if we are unable to compete effectively, we may experience decreased demand and decreased market share. Even if we compete effectively, we may be required to reduce prices for our products and services.
- Our growth depends in part on the timely development and commercialization, and customer acceptance, of new and enhanced products and services based on technological innovation.
- Our reputation, ability to do business and financial statements may be impaired by improper conduct by any of our employees, agents or business partners.
- Certain of our businesses are subject to extensive regulation by the U.S. Food and Drug Administration and by comparable agencies of other countries, as well as laws regulating fraud and abuse in the health care industry and the privacy and security of health information. Failure to comply with those regulations could adversely affect our reputation and financial statements.
- The health care industry and related industries that we serve have undergone, and are in the process of undergoing, significant changes in an effort to reduce costs, which could adversely affect our financial statements.
- Any inability to consummate acquisitions at our historical rate and at appropriate prices could negatively impact our growth rate and stock price.
- Our acquisition of businesses, investments, joint ventures and strategic relationships could negatively impact our financial statements.
- The indemnification provisions of acquisition agreements by which we have acquired companies may not fully protect us and as a result we may face unexpected liabilities.
- Divestitures and other dispositions could negatively impact our business, and contingent liabilities from businesses that we have disposed could adversely affect our financial statements.
- We could incur significant liability if any of the 2016 spin-off of Fortive, the 2015 split-off of our communications business or the anticipated spin-off of our Dental business is determined to be a taxable transaction.
- Potential indemnification liabilities pursuant to any of the 2016 spin-off of Fortive, the 2015 split-off of our communications business or the anticipated spin-off of our Dental business could materially and adversely affect our business and financial statements.
- A significant disruption in, or breach in security of, our information technology systems or violation of data privacy laws could adversely affect our business, reputation and financial statements.
- Our operations, products and services expose us to the risk of environmental, health and safety liabilities, costs and violations that could adversely affect our reputation and financial statements.
- Our businesses are subject to extensive regulation; failure to comply with those regulations could adversely affect our financial statements and our business, including our reputation.
- Our restructuring actions could have long-term adverse effects on our business.
- We may be required to recognize impairment charges for our goodwill and other intangible assets.
- Foreign currency exchange rates may adversely affect our financial statements.
- Changes in our tax rates or exposure to additional income tax liabilities or assessments could affect our profitability. In addition, audits by tax authorities could result in additional tax payments for prior periods.
- Changes in tax law relating to multinational corporations could adversely affect our tax position.
- We are subject to a variety of litigation and other legal and regulatory proceedings in the course of our business that could adversely affect our business and financial statements.

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- If we do not or cannot adequately protect our intellectual property, or if third parties infringe our intellectual property rights, we may suffer competitive injury or expend significant resources enforcing our rights.
- Third parties may claim that we are infringing or misappropriating their intellectual property rights and we could suffer significant litigation expenses, losses or licensing expenses or be prevented from selling products or services.
- The U.S. government has certain rights to use and disclose some of the intellectual property that we license and could exclusively license it to a third party if we fail to achieve practical application of the intellectual property.
- Defects and unanticipated use or inadequate disclosure with respect to our products or services (including software), or allegations thereof, could adversely affect our business, reputation and financial statements.
- The manufacture of many of our products is a highly exacting and complex process, and if we directly or indirectly encounter problems manufacturing products, our reputation, business and financial statements could suffer.
- Our indebtedness may limit our operations and our use of our cash flow, and any failure to comply with the covenants that apply to our indebtedness could adversely affect our liquidity and financial statements.
- Adverse changes in our relationships with, or the financial condition, performance, purchasing patterns or inventory levels of, key distributors and other channel partners could adversely affect our financial statements.
- Certain of our businesses rely on relationships with collaborative partners and other third parties for development, supply and marketing of certain products and potential products, and such collaborative partners or other third parties could fail to perform sufficiently.
- Our financial results are subject to fluctuations in the cost and availability of commodities that we use in our operations.
- If we cannot adjust our manufacturing capacity or the purchases required for our manufacturing activities to reflect changes in market conditions and customer demand, our profitability may suffer. In addition, our reliance upon sole or limited sources of supply for certain materials, components and services could cause production interruptions, delays and inefficiencies.
- Changes in laws or governmental regulations may reduce demand for our products or services or increase our expenses.
- Work stoppages, union and works council campaigns and other labor disputes could adversely impact our productivity and results of operations.
- International economic, political, legal, compliance and business factors could negatively affect our financial statements.
- The United Kingdom’s referendum favoring departure from the EU could have an adverse effect on our business.
- If we suffer loss to our facilities, supply chains, distribution systems or information technology systems due to catastrophe or other events, our operations could be seriously harmed.
- Our defined benefit pension plans are subject to financial market risks that could adversely affect our financial statements.

See Part I—Item 1A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 for a further discussion regarding reasons that actual results may differ materially from the results, developments and business decisions contemplated by our forward-looking statements. Forward-looking statements speak only as of the date of the report, document, press release, webcast, call, materials or other communication in which they are made. Except to the extent required by applicable law, we do not assume any obligation to update or revise any forward-looking statement, whether as a result of new information, future events and developments or otherwise.

OVERVIEW

General

As a result of the Company’s geographic and industry diversity, the Company faces a variety of opportunities and challenges, including rapid technological development (particularly with respect to computing, automation, artificial intelligence, mobile connectivity, communications and digitization) in most of the Company’s served markets, the expansion and evolution of opportunities in high-growth markets, trends and costs associated with a global labor force, consolidation of the Company’s competitors and increasing regulation. The Company operates in a highly competitive business environment in most markets, and the Company’s long-term growth and profitability will depend in particular on its ability to expand its business in high-growth geographies and high-growth market segments, identify, consummate and integrate appropriate acquisitions, develop innovative and differentiated new products and services with higher gross profit margins, expand and improve the effectiveness of the Company's sales force, continue to reduce costs and improve operating efficiency and quality, and effectively address the demands of an increasingly regulated environment. The Company is making significant investments, organically and through acquisitions, to address the rapid pace of technological change in its served markets and to globalize its manufacturing, research and development and customer-facing resources (particularly in high-growth markets) in order to be responsive to the Company's customers throughout the world and improve the efficiency of the Company's operations.

Business Performance and Outlook

During the third quarter of 2018, the Company's revenues increased 7.0% compared to the comparable period of 2017. While differences exist among the Company's businesses, on an overall basis, demand for the Company's products and services increased during the third quarter of 2018 compared to the comparable period of 2017. This demand, together with the Company's continued investments in sales growth initiatives and the other business-specific factors discussed below, contributed to year-over-year core sales growth of 6.5% (for the definition of "core sales" or "core revenue" refer to "—Results of Operations" below). Geographically, both high-growth and developed markets contributed to core sales growth during the third quarter of 2018. Core revenues in high-growth markets increased at a double digit rate during the third quarter of 2018 as compared to the comparable period of 2017 led primarily by continued strength in China. High-growth markets represented approximately 31% of the Company's total sales in the third quarter of 2018. Core revenues in developed markets increased at a mid-single digit rate during the third quarter of 2018 led primarily by growth in North America and Western Europe. The Company expects overall year-over-year sales growth to continue for the remainder of 2018 but remains cautious about challenges due to macro-economic and geopolitical uncertainties, including global uncertainties related to trade, tariffs, monetary and fiscal policies. For additional information regarding the Company's sales by geographical region during the three and nine-month periods ended September 28, 2018, please refer to Note 2 to the accompanying Consolidated Condensed Financial Statements.

The Company's net earnings from continuing operations for the three and nine-month periods ended September 28, 2018 totaled $664 million or $0.93 per diluted share and approximately $1.9 billion or $2.68 per diluted share, respectively, compared to $572 million or $0.81 per diluted share and approximately $1.6 billion or $2.29 per diluted share, respectively, for the three and nine-month periods ended September 29, 2017. The factors discussed below in "Results of Operations" are the primary drivers of the increase in net earnings from continuing operations and diluted earnings per share for the three and nine-month periods ended September 28, 2018.

The Company recorded a net increase to beginning retained earnings of $3 million as of January 1, 2018 due to the cumulative impact of adopting ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The impact to beginning retained earnings was primarily driven by the capitalization of certain costs to obtain a contract, primarily sales-related commissions, partially offset by the deferral of revenue for unfulfilled performance obligations. The adoption of this ASU did not have a significant impact on the Company's Consolidated Condensed Financial Statements as of and for the three and nine-month periods ended September 28, 2018 and, as a result, comparisons of revenues and operating profit performance between periods are not affected by the adoption of this ASU. Refer to Note 2 to the accompanying Consolidated Condensed Financial Statements.

Acquisitions & Proposed Dental Separation

The Company's growth strategy contemplates future acquisitions. Operations and results can be affected by the rate and extent to which appropriate acquisition opportunities are available, acquired businesses are effectively integrated, and anticipated synergies or cost savings are achieved.

On April 13, 2018, the Company acquired Integrated DNA Technologies, Inc. ("IDT"), a privately-held manufacturer of custom DNA and RNA oligonucleotides serving customers in the academic and biopharmaceutical research, biotechnology, agriculture, clinical diagnostics and pharmaceutical development end-markets, for a purchase price of approximately $2.1 billion, net of cash acquired. IDT had revenues of approximately $260 million in 2017. The Company financed the acquisition of IDT with available cash and proceeds from the issuance of commercial paper. The Company preliminarily recorded approximately $1.2 billion of goodwill related to the IDT acquisition. The acquisition of IDT provides additional sales and earnings growth opportunities for the Company's Life Sciences segment by expanding the segment’s product line diversity, including new product and service offerings in the area of genomics consumables, and through the potential future acquisition of complementary businesses.

In addition to the IDT acquisition, during the first nine months of 2018 the Company acquired one other business for total consideration of $95 million in cash, net of cash acquired. The business acquired complements existing units of the Environmental & Applied Solutions segment. The aggregate annual sales of this business at the time of its acquisition, based on the company's revenues for its last completed fiscal year prior to the acquisition, were approximately $26 million. The Company preliminarily recorded an aggregate of $71 million of goodwill related to this acquisition.

For a description of Danaher's plan to distribute ownership of its Dental business to Danaher shareholders in a tax-free spin-off transaction, see "Results of Operations—Dental."

Currency Exchange Rates

On a year-over-year basis, currency exchange rates negatively impacted reported sales by approximately 1.5% for the three-month period ended September 28, 2018, compared to the comparable period of 2017, primarily due to the strength of the U.S. dollar against several major currencies in the third quarter of 2018. For the nine-month period ended September 28, 2018, currency exchange rates increased reported sales by approximately 2.0% reflecting the weakness of the U.S. dollar during the first six months of 2018 which more than offset the strengthening experienced in the third quarter of 2018. If the currency exchange rates in effect as of September 28, 2018 were to prevail throughout the remainder of 2018, currency exchange rates would reduce the Company's estimated sales for the fourth quarter of 2018 by approximately 1.5% on a year-over-year basis. Any future strengthening of the U.S. dollar against major currencies would adversely impact the Company's sales and results of operations for the remainder of the year, and any weakening of the U.S. dollar against major currencies would positively impact the Company's sales and results of operations for the remainder of the year.

RESULTS OF OPERATIONS

Non-GAAP Measures

In this report, references to the non-GAAP measure of core sales (also referred to as core revenues or sales/revenues from existing businesses) refer to sales from continuing operations calculated according to U.S. GAAP, but excluding:

- sales from acquired businesses; and
- the impact of currency translation.

References to sales or operating profit attributable to acquisitions or acquired businesses refer to sales or operating profit, as applicable, from acquired businesses recorded prior to the first anniversary of the acquisition less the amount of sales and operating profit, as applicable, attributable to divested product lines not considered discontinued operations. The portion of revenue attributable to currency translation is calculated as the difference between:

- the period-to-period change in revenue (excluding sales from acquired businesses); and
- the period-to-period change in revenue (excluding sales from acquired businesses) after applying current period foreign exchange rates to the prior year period.

Core sales growth should be considered in addition to, and not as a replacement for or superior to, sales, and may not be comparable to similarly titled measures reported by other companies. Management believes that reporting the non-GAAP financial measure of core sales growth provides useful information to investors by helping identify underlying growth trends in Danaher's business and facilitating comparisons of Danaher's revenue performance with its performance in prior and future periods and to Danaher's peers. Management also uses core sales growth to measure the Company's operating and financial performance. The Company excludes the effect of currency translation from core sales because currency translation is not under management's control, is subject to volatility and can obscure underlying business trends. The Company excludes the effect of acquisitions and divestiture-related items because the nature, size, timing and number of acquisitions and divestitures can vary dramatically from period-to-period and between the Company and its peers and can also obscure underlying business trends and make comparisons of long-term performance difficult.

Throughout this discussion, references to sales volume refer to the impact of both price and unit sales and references to productivity improvements generally refer to improved cost-efficiencies resulting from the ongoing application of the Danaher Business System.

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Core Revenue

	% Change Three-Month Period Ended September 28, 2018 vs. Comparable 2017 Period	% Change Nine- Month Period Ended September 28, 2018 vs. Comparable 2017 Period
Total sales growth (GAAP)	7.0 %	9.5 %
Less the impact of:		
Acquisitions	(2.0)%	(1.5)%
Currency exchange rates	1.5 %	(2.0)%
Core revenue growth (non-GAAP)	6.5 %	6.0 %

Operating Profit Performance

Operating profit margins increased 30 basis points during the three-month period ended September 28, 2018 as compared to the comparable period of 2017.

Third quarter 2018 vs. third quarter 2017 operating profit margin comparisons were favorably impacted by:

- Higher 2018 core sales volumes, incremental year-over-year cost savings associated with continuing productivity improvement initiatives taken in 2017, net of incremental year-over-year costs associated with various new product development, sales, service and marketing growth investments and the impact of foreign currency exchange rates in the third quarter of 2018 - 50 basis points

Third quarter 2018 vs. third quarter 2017 operating profit margin comparisons were unfavorably impacted by:

- The incremental net dilutive effect in 2018 of acquired businesses - 20 basis points

Operating profit margins increased 130 basis points during the nine-month period ended September 28, 2018 as compared to the comparable period of 2017.

Year-to-date 2018 vs. year-to-date 2017 operating profit margin comparisons were favorably impacted by:

- Higher 2018 sales volumes from existing businesses and incremental year-over-year cost savings associated with the ongoing restructuring actions and continuing productivity improvement initiatives taken in 2017, net of incremental year-over-year costs associated with various new product development, sales, service and marketing growth investments - 100 basis points
- Restructuring, impairment and other related charges related to discontinuing a product line in the second quarter of 2017 - 55 basis points
- Second quarter 2018 gain on resolution of acquisition-related matters - 5 basis points

Year-to-date 2018 vs. year-to-date 2017 operating profit margin comparisons were unfavorably impacted by:

- The incremental net dilutive effect in 2018 of acquired businesses - 20 basis points
- Acquisition-related charges associated with transaction costs and fair value adjustments to acquired inventory recorded in the second quarter of 2018 in connection with the IDT acquisition - 10 basis points

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Business Segments

Sales by business segment for each of the periods indicated were as follows ($ in millions):

	Three-Month Period Ended		Nine-Month Period Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Life Sciences	$1,596.7	$ 1,392.6	$4,677.9	$ 4,085.0
Diagnostics	1,502.5	1,448.7	4,573.1	4,216.0
Dental	679.5	694.0	2,085.5	2,052.1
Environmental & Applied Solutions	1,074.4	992.9	3,193.0	2,890.9
Total	$4,853.1	$ 4,528.2	$14,529.5	$ 13,244.0

For information regarding the Company’s sales by geographical region during the three and nine-month periods ended September 28, 2018, please refer to Note 2 to the accompanying Consolidated Condensed Financial Statements.

LIFE SCIENCES

The Company’s Life Sciences segment offers a broad range of research tools that scientists use to study the basic building blocks of life, including genes, proteins, metabolites and cells, in order to understand the causes of disease, identify new therapies and test new drugs and vaccines. The segment, through its Pall Corporation business, is also a leading provider of filtration, separation and purification technologies to the biopharmaceutical, food and beverage, medical, aerospace, microelectronics and general industrial segments.

Life Sciences Selected Financial Data

($ in millions)	Three-Month Period Ended		Nine-Month Period Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Sales	$1,596.7	$ 1,392.6	$4,677.9	$ 4,085.0
Operating profit	312.8	246.8	875.6	680.0
Depreciation	32.6	29.5	94.8	88.6
Amortization	84.2	76.9	255.4	229.9
Operating profit as a % of sales	19.6 %	17.7 %	18.7 %	16.6 %
Depreciation as a % of sales	2.0 %	2.1 %	2.0 %	2.2 %
Amortization as a % of sales	5.3 %	5.5 %	5.5 %	5.6 %

Core Revenue

	% Change Three-Month Period Ended September 28, 2018 vs. Comparable 2017 Period	% Change Nine- Month Period Ended September 28, 2018 vs. Comparable 2017 Period
Total sales growth (GAAP)	14.5 %	14.5 %
Less the impact of:		
Acquisitions	(6.5)%	(4.5)%
Currency exchange rates	1.5 %	(2.5)%
Core revenue growth (non-GAAP)	9.5 %	7.5 %

Price increases in the segment contributed 0.5% to sales growth on a year-over-year basis during both the three and nine-month periods ended September 28, 2018, and are reflected as a component of core revenue growth.

Core sales of the business' broad range of mass spectrometers grew on a year-over-year basis during both the three and nine-month periods ended September 28, 2018, led by strong sales growth in high-growth markets, particularly China and the rest of Asia, and North America. Core sales of microscopy products grew during both the three and nine-month periods ended

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September 28, 2018 across most major end-markets, due partially to demand related to the release of new products in 2018. Geographically, demand for microscopy products increased in North America and in high-growth markets, primarily China. Demand for the business' flow cytometry and particle counting product lines was strong across most major geographies, led by North America and China in both the three and nine-month periods ended September 28, 2018, as well as Western Europe in the nine-month period ended September 28, 2018. New product launches in 2018 also contributed to the increased demand. Core sales for filtration, separation and purification technologies increased across most major geographies in both the three and nine-month periods ended September 28, 2018 versus comparable periods in 2017, led by continued growth in the biopharmaceutical, microelectronics and fluid technology and asset protection end-markets, as well as the laboratory, food and beverage end-markets during the three-month period ended September 28, 2018.

Sales growth from acquisitions is primarily due to the acquisition of IDT in April 2018. IDT provides additional sales and earnings growth opportunities for the segment by expanding the segment's product line diversity, including new product and service offerings in the area of genomics consumables, and through the potential future acquisition of complementary businesses. During the three and nine-month periods ended September 28, 2018, IDT's revenues grew on a year-over-year basis with growth across all major geographies and product lines.

Operating Profit Performance

Operating profit margins increased 190 basis points during the three-month period ended September 28, 2018 as compared to the comparable period of 2017.

Third quarter 2018 vs. third quarter 2017 operating profit margin comparisons were favorably impacted by:

- Higher 2018 core sales volumes and incremental year-over-year cost savings associated with the restructuring actions and continuing productivity improvement initiatives taken in 2017, net of incremental year-over-year costs associated with various new product development, sales and marketing growth investments and the impact of foreign currency exchange rates in the third quarter of 2018 - 230 basis points

Third quarter 2018 vs. third quarter 2017 operating profit margin comparisons were unfavorably impacted by:

- The incremental net dilutive effect in 2018 of acquired businesses - 40 basis points

Operating profit margins increased 210 basis points during the nine-month period ended September 28, 2018 as compared to the comparable period of 2017.

Year-to-date 2018 vs. year-to-date 2017 operating profit margin comparisons were favorably impacted by:

- Higher 2018 core sales volumes, incremental year-over-year cost savings associated with the restructuring actions and continuing productivity improvement initiatives taken in 2017 and the impact of foreign currency exchange rates in the nine-month period in 2018, net of incremental year-over-year costs associated with various new product development, sales and marketing growth investments - 255 basis points
- Second quarter 2018 gain on resolution of acquisition-related matters - 20 basis points

Year-to-date 2018 vs. year-to-date 2017 operating profit margin comparisons were unfavorably impacted by:

- The incremental net dilutive effect in 2018 of acquired businesses - 30 basis points
- Acquisition-related charges associated with transaction costs and fair value adjustments to acquired inventory recorded in the second quarter of 2018 in connection with the IDT acquisition - 35 basis points

DIAGNOSTICS

The Company's Diagnostics segment offers analytical instruments, reagents, consumables, software and services that hospitals, physicians' offices, reference laboratories and other critical care settings use to diagnose disease and make treatment decisions.

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Diagnostics Selected Financial Data

($ in millions)	Three-Month Period Ended September 28, 2018	Three-Month Period Ended September 29, 2017	Nine-Month Period Ended September 28, 2018	Nine-Month Period Ended September 29, 2017
Sales	$1,502.5	$ 1,448.7	$4,573.1	$ 4,216.0
Operating profit	235.1	242.7	757.4	554.9
Depreciation	92.2	92.6	284.5	271.8
Amortization	52.1	54.2	157.8	160.2
Operating profit as a % of sales	15.6 %	16.8 %	16.6 %	13.2 %
Depreciation as a % of sales	6.1 %	6.4 %	6.2 %	6.4 %
Amortization as a % of sales	3.5 %	3.7 %	3.5 %	3.8 %

Core Revenue

	% Change Three-Month Period Ended September 28, 2018 vs. Comparable 2017 Period	% Change Nine- Month Period Ended September 28, 2018 vs. Comparable 2017 Period
Total sales growth (GAAP)	3.5 %	8.5 %
Less the impact of:		
Currency exchange rates	2.0 %	(2.0)%
Core revenue growth (non-GAAP)	5.5 %	6.5 %

Pricing in the segment negatively impacted sales growth by 0.5% on a year-over-year basis during the three and nine-month periods ended September 28, 2018, and is reflected as a component of core revenue growth.

During both the three and nine-month periods ended September 28, 2018, core sales grew in the molecular diagnostics business driven by strong growth in both developed and high-growth markets. During the first quarter of 2018, the molecular diagnostics business experienced particularly strong growth in the infectious diseases product line driven in part by the severity of the flu season. Core sales in the segment's clinical lab business increased on a year-over-year basis for both the three and nine-month periods ended September 28, 2018 due to increased demand in the high-growth markets, led by China, partially offset by the developed markets. For the three and nine-month periods, the increased demand was driven by the immunoassay and automation product lines. Core sales in the acute care diagnostic business increased year-over-year in both the three and nine-month periods ended September 28, 2018, due to continued strong sales of blood gas and immunoassay product lines across most major geographies, with particularly strong growth in the high-growth markets. Core sales in the pathology diagnostics business grew year-over-year in both the three and nine-month periods ended September 28, 2018, led by demand for new products in both the advanced staining and core histology product lines. Core sales in the pathology diagnostics business increased across most major geographies, led by North America, Western Europe and China in both the three and nine-month periods ended September 28, 2018.

Operating Profit Performance

Operating profit margins decreased 120 basis points during the three-month period ended September 28, 2018 as compared to the comparable period of 2017. The following factor unfavorably impacted year-over-year operating profit margin comparisons:

- Incremental year-over-year costs associated with various new product development, sales, service and marketing growth investments and the impact of foreign currency exchange rates in the third quarter of 2018, net of higher 2018 core sales volumes and incremental year-over-year cost savings associated with the restructuring actions and continuing productivity improvement initiatives taken in 2017 - 120 basis points

Operating profit margins increased 340 basis points during the nine-month period ended September 28, 2018 as compared to the comparable period of 2017. The following factors favorably impacted year-over-year operating profit margin comparisons:

- Higher 2018 core sales volumes, incremental year-over-year cost savings associated with the restructuring actions and continuing productivity improvement initiatives taken in 2017, net of the impact of foreign currency exchange rates in

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the nine-month period and incremental year-over-year costs associated with various new product development, sales, service and marketing growth investments - 160 basis points

- Restructuring, impairment and other related charges related to discontinuing a product line in the second quarter of 2017 - 180 basis points

DENTAL

The Company's Dental segment provides products that are used to diagnose, treat and prevent disease and ailments of the teeth, gums and supporting bone, as well as to improve the aesthetics of the human smile. The Company is a leading worldwide provider of a broad range of dental consumables, equipment and services, and is dedicated to driving technological innovations that help dental professionals improve clinical outcomes and enhance productivity.

Dental Selected Financial Data

($ in millions)	Three-Month Period Ended September 28, 2018	Three-Month Period Ended September 29, 2017	Nine-Month Period Ended September 28, 2018	Nine-Month Period Ended September 29, 2017
Sales	$679.5	$ 694.0	$2,085.5	$ 2,052.1
Operating profit	86.1	102.2	241.8	301.4
Depreciation	9.4	9.3	29.1	29.7
Amortization	22.5	20.8	68.0	61.0
Operating profit as a % of sales	12.7 %	14.7 %	11.6 %	14.7 %
Depreciation as a % of sales	1.4 %	1.3 %	1.4 %	1.4 %
Amortization as a % of sales	3.3 %	3.0 %	3.3 %	3.0 %

Core Revenue

	% Change Three-Month Period Ended September 28, 2018 vs. Comparable 2017 Period	% Change Nine- Month Period Ended September 28, 2018 vs. Comparable 2017 Period
Total sales growth (GAAP)	(2.0)%	1.5 %
Less the impact of:		
Currency exchange rates	1.5 %	(2.0)%
Core revenue growth (non-GAAP)	(0.5)%	(0.5)%

Price in the segment negatively impacted sales growth by 0.5% on a year-over-year basis in both the three and nine-month periods ended September 28, 2018, and are reflected as a component of core revenue growth.

Geographically, year-over-year core revenue declines in both the three and nine-month periods ended September 28, 2018 were driven by growth in high-growth markets, primarily China and Russia, which was more than offset by declines in North America and to a lesser extent Western Europe and Japan. Core revenue growth for the specialty consumables business, which consists of implant systems and orthodontic products, was led by China and North America for both the three and nine-month periods ended September 28, 2018. Core sales of dental equipment and traditional dental consumables declined in the three and nine-month periods ended September 28, 2018, due primarily to declines in North America. For the three and nine-month periods ended September 28, 2018, lower core sales of dental equipment and traditional dental consumables product lines in North America more than offset the year-over-year growth in the specialty consumables categories, primarily reflecting the impact of inventory reductions at several distribution partners as well as the impact from realignment of distributors and manufacturers in the dental industry.

In July 2018, the Company announced its intention to spin-off its Dental business into an independent publicly traded company (the “Dental Separation”). The Dental business had sales for the year-ended December 31, 2017 of $2.8 billion. The transaction is expected to be tax-free to the Company’s shareholders. The Company is targeting to complete the Dental Separation in the second half of 2019, subject to the satisfaction of certain conditions, including obtaining final approval from the Danaher Board of Directors, satisfactory completion of financing, receipt of tax opinions, receipt of favorable rulings from the IRS and receipt of other regulatory approvals.

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Operating Profit Performance

Operating profit margins decreased 200 basis points during the three-month period ended September 28, 2018 as compared to the comparable period of 2017. The following factors unfavorably impacted year-over-year operating profit margin comparisons:

- Lower 2018 core sales volumes of dental equipment and traditional dental consumables, incremental year-over-year costs associated with product development and sales and marketing growth investments, lower overall pricing and increased spending on productivity initiatives and the impact of foreign currency exchange rates in the third quarter of 2018, net of cost savings associated with productivity initiatives taken in 2017 - 195 basis points
- The incremental net dilutive effect in 2018 of acquired businesses - 5 basis points

Operating profit margins decreased 310 basis points during the nine-month period ended September 28, 2018 as compared to the comparable period of 2017. The following factors unfavorably impacted year-over-year operating profit margin comparisons:

- Lower 2018 core sales volumes of dental equipment and traditional dental consumables, incremental year-over-year costs associated with product development and sales and marketing growth investments, lower overall pricing and increased spending on productivity initiatives and the impact of foreign currency exchange rates for the nine-month period in 2018, net of cost savings associated with productivity initiatives taken in 2017 - 300 basis points
- The incremental net dilutive effect in 2018 of acquired businesses - 10 basis points

ENVIRONMENTAL & APPLIED SOLUTIONS

The Company’s Environmental & Applied Solutions segment products and services help protect important resources and keep global food and water supplies safe. The Company’s water quality business provides instrumentation, services and disinfection systems to help analyze, treat and manage the quality of ultra-pure, potable, industrial waste, ground, source and ocean water in residential, commercial, municipal, industrial and natural resource applications. The Company’s product identification business provides equipment, consumables, software and services for various printing, marking, coding, traceability, packaging, design and color management applications on consumer, pharmaceutical and industrial products.

Environmental & Applied Solutions Selected Financial Data

($ in millions)	Three-Month Period Ended September 28, 2018	Three-Month Period Ended September 29, 2017	Nine-Month Period Ended September 28, 2018	Nine-Month Period Ended September 29, 2017
Sales	$1,074.4	$ 992.9	$3,193.0	$ 2,890.9
Operating profit	254.3	222.8	732.5	666.0
Depreciation	11.0	11.3	34.8	31.6
Amortization	15.3	14.6	46.3	41.8
Operating profit as a % of sales	23.7 %	22.4 %	22.9 %	23.0 %
Depreciation as a % of sales	1.0 %	1.1 %	1.1 %	1.1 %
Amortization as a % of sales	1.4 %	1.5 %	1.5 %	1.4 %

Core Revenue

	% Change Three-Month Period Ended September 28, 2018 vs. Comparable 2017 Period	% Change Nine- Month Period Ended September 28, 2018 vs. Comparable 2017 Period
Total sales growth (GAAP)	8.0 %	10.5 %
Less the impact of:		

Acquisitions	(1.5)%	(1.5)%
Currency exchange rates	1.5 %	(2.0)%
Core revenue growth (non-GAAP)	8.0 %	7.0 %

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Price increases in the segment contributed 2.0% and 1.5% to sales growth on a year-over-year basis during the three and nine-month periods ended September 28, 2018, respectively, and are reflected as a component of core revenue growth.

Core sales in the segment's water quality business increased at a low double digit rate during the three-month period ended September 28, 2018, and at a high-single digit rate for the nine-month period ended September 28, 2018 as compared to the comparable periods of 2017. Year-over-year core sales in the analytical instrumentation product line grew in both the three and nine-month periods, driven by higher demand across all major geographies, led by China, North America and Western Europe. Core revenue growth in the business' chemical treatment solutions product line for both the three and nine-month periods was driven by higher demand in primary metals, mining, food and beverage and commercial and institutional end-markets, partially offset by lower demand in the oil and gas and chemical end-markets. Geographically, year-over-year core revenue growth for chemical treatment solutions was driven by increased demand in North America and high-growth markets for both the three and nine-month periods. Core sales in the business' ultraviolet water disinfection product line increased both in the three and nine-month periods ended September 28, 2018 as compared to the comparable periods of 2017, led by continued strength in municipal end-markets. Geographically, year-over-year demand for ultraviolet water disinfection products was driven by higher demand in North America in the three-month period and North America and high-growth markets, primarily China, in the nine-month period, partially offset by softer demand in Western Europe in both periods and China in the three-month period.

Core sales in the segment's product identification businesses increased at a mid-single digit rate during both the three and nine-month periods ended September 28, 2018 as compared to the comparable periods of 2017. The majority of core revenue growth was driven by strong demand for marking and coding equipment and related consumables across all major end-markets and in most major geographies, led by Western Europe, North America and high-growth markets. Demand for packaging and color solutions products and services decreased slightly in both the three and nine-month periods ended September 28, 2018 as compared to the comparable periods of 2017. Geographically, year-over-year core revenue growth for packaging and color solutions products and services softened in both developed and high-growth markets for the three-month period. For the nine-month period, weaker demand in the high-growth markets was slightly offset by increased demand in the developed markets.

Operating Profit Performance

Operating profit margins increased 130 basis points during the three-month period ended September 28, 2018 as compared to the comparable period of 2017.

Third quarter 2018 vs. third quarter 2017 operating profit margin comparisons were favorably impacted by:

- Higher 2018 core sales volumes and incremental year-over-year cost savings associated with the restructuring actions and continuing productivity improvement initiatives taken in 2017, net of the impact of foreign currency exchange rates in the third quarter of 2018 and incremental year-over-year costs associated with various new product development, sales, service and marketing growth investments - 160 basis points

Third quarter 2018 vs. third quarter 2017 operating profit margin comparisons were unfavorably impacted by:

- The incremental net dilutive effect in 2018 of acquired businesses - 30 basis points

Operating profit margins decreased 10 basis points during the nine-month period ended September 28, 2018 as compared to the comparable period of 2017.

Year-to-date 2018 vs. year-to-date 2017 operating profit margin comparisons were favorably impacted by:

- Higher 2018 core sales volumes, incremental year-over-year cost savings associated with the restructuring actions and continuing productivity improvement initiatives taken in 2017 and the impact of foreign currency exchange rates in the nine month period in 2018, net of incremental year-over-year costs associated with various new product development, sales, service and marketing growth investments - 40 basis points

Year-to-date 2018 vs. year-to-date 2017 operating profit margin comparisons were unfavorably impacted by:

- The incremental net dilutive effect in 2018 of acquired businesses - 50 basis points

COST OF SALES AND GROSS PROFIT

($ in millions)	Three-Month Period Ended		Nine-Month Period Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Sales	$4,853.1	$ 4,528.2	$14,529.5	$ 13,244.0
Cost of sales	(2,162.6)	(1,991.4)	(6,378.3)	(5,890.6)
Gross profit	$2,690.5	$ 2,536.8	$8,151.2	$ 7,353.4
Gross profit margin	55.4 %	56.0 %	56.1 %	55.5 %

The year-over-year increase in cost of sales during both the three and nine-month periods ended September 28, 2018 as compared to the comparable periods in 2017, is due primarily to the impact of higher year-over-year sales volumes, including sales from recently acquired businesses, partly offset by incremental year-over-year cost savings associated with the restructuring and continued productivity improvement actions taken in 2017.

The year-over-year decrease in gross profit margins during the three-month period ended September 28, 2018 as compared to the comparable period in 2017, is due primarily to the impact of foreign currency exchange rates during the third quarter of 2018, including transactional currency losses recorded, partially offset by the impact of higher year-over-year sales volumes, including sales from recently acquired businesses, increased leverage of certain manufacturing costs and incremental year-over-year cost savings associated with the restructuring activities and continued productivity improvement actions taken in 2017. The year-over-year increase in gross profit margins during the nine-month period ended September 28, 2018 as compared to the comparable period in 2017, is due primarily to the impact of higher year-over-year sales volumes, including sales from recently acquired businesses, increased leverage of certain manufacturing costs and incremental year-over-year cost savings associated with the restructuring activities and continued productivity improvement actions taken in 2017. Gross profit margin improvements were partially offset by the impact of foreign currency exchange rates during the nine-month period ended September 28, 2018 as compared to the comparable period in 2017.

OPERATING EXPENSES

($ in millions)	Three-Month Period Ended		Nine-Month Period Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Sales	$4,853.1	$ 4,528.2	$14,529.5	$ 13,244.0
Selling, general and administrative (“SG&A”) expenses	1,558.6	1,498.4	4,798.4	4,470.6
Research and development (“R&D”) expenses	301.2	279.2	911.6	829.9
SG&A as a % of sales	32.1 %	33.1 %	33.0 %	33.8 %
R&D as a % of sales	6.2 %	6.2 %	6.3 %	6.3 %

The year-over-year decrease in SG&A expenses as a percentage of sales for both the three and nine-month periods ended September 28, 2018 as compared to the comparable periods in 2017, was driven by the benefit of increased leverage of the Company’s general and administrative cost base resulting from higher 2018 sales volumes, partially offset by continued investments in sales and marketing growth initiatives. The impact of the restructuring, impairment and other related charges incurred in the second quarter of 2017 related to discontinuing a product line also contributed to the year-over-year decrease in SG&A expenses as a percentage of sales during the nine-month period ended September 28, 2018.

Year-over-year, R&D expenses (consisting principally of internal and contract engineering personnel costs) remained constant as a percentage of sales for both the three and nine-month periods ended September 28, 2018 as compared to the comparable periods in 2017. Year-over-year increases in spending on the Company’s new product development initiatives corresponded to the increase in sales.

NONOPERATING INCOME (EXPENSE)

As described in Note 1 and Note 8 to the accompanying Condensed Consolidated Financial Statements, in the first quarter of 2018, the Company adopted ASU No. 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The ASU requires the Company to disaggregate the service cost component from the other components of net periodic benefit costs and requires the Company to present the other components of net periodic benefit cost in other income, net. The ASU also requires application on a retrospective basis. The other components of net periodic benefit costs included in other income, net for the three and nine-month periods ended September 28, 2018 were $9 million and $25 million, respectively, compared to $8 million and $22 million for the three and nine-month periods ended September 29, 2017, respectively.

INTEREST COSTS AND FINANCING

For a discussion of the Company's outstanding indebtedness, refer to Note 7 to the accompanying Consolidated Condensed Financial Statements.

Interest expense of $41 million and $124 million for the three and nine-month periods ended September 28, 2018, was higher by $1 million and $3 million, respectively, than the comparable periods of 2017, due primarily to higher average interest rates on outstanding borrowings during 2018 as compared with the average interest rates in 2017, partially offset by lower average outstanding U.S. commercial paper borrowings in 2018 compared to 2017. For the three-month period ended September 28, 2018, the impact of foreign currency exchange rates had a negligible impact on interest expense. For the nine-month period ended September 28, 2018, the impact of foreign currency exchange rates also contributed to the higher interest expense in 2018 compared to the comparable period in 2017.

INCOME TAXES

The following table summarizes the Company's effective tax rate from continuing operations:

	Three-Month Period Ended		Nine-Month Period Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Effective tax rate from continuing operations	17.2%	21.6 %	19.0%	17.7 %

The effective tax rate for 2018 includes the benefit of a lower U.S. corporate income tax rate of 21.0% from the enactment of the Tax Cuts and Jobs Act ("TCJA"), partially offset by a new minimum tax on certain non-U.S. earnings. In addition, the Company's effective tax rate benefits from the impact of earnings outside the United States which overall are taxed at rates lower than the U.S. federal rate. The effective tax rate for the three-month period ended September 28, 2018 includes net tax benefits of $23 million ($0.03 per diluted share) related primarily to the release of valuation allowances associated with certain foreign operating losses and excess tax benefits from stock-based compensation, which in aggregate reduced the reported tax rate by 2.9%. The effective tax rate for the nine-month period ended September 28, 2018 also includes these benefits, in addition to net tax benefits of $9 million ($0.01 per diluted share) recorded in the second quarter of 2018 related to the release of reserves upon the expiration of statutes of limitation and excess tax benefits from stock-based compensation, which were partially offset by increases in estimates associated with prior period uncertain tax positions.

The Company's effective tax rate for 2017 differed from the then-effective U.S. federal statutory rate of 35.0% due principally to the Company's earnings outside the United States which overall are taxed at rates lower than such U.S. federal rate. The effective tax rate for the nine-month period ended September 29, 2017 includes a benefit from the release of reserves upon the expiration of statutes of limitations and audit settlements, excess tax benefits from stock-based compensation, as well as higher tax benefits from restructuring charges that are predominantly in the United States, which in aggregate decreased the reported tax rate by 3.3%.

On December 22, 2017, the TCJA was enacted, substantially changing the U.S. tax system and affecting the Company in a number of ways. Notably, the TCJA:

- establishes a flat corporate income tax rate of 21.0% on U.S. earnings;
- imposes a one-time tax on unremitted cumulative non-U.S. earnings of foreign subsidiaries ("Transition Tax");
- imposes a new minimum tax on certain non-U.S. earnings, irrespective of the territorial system of taxation, and generally allows for the repatriation of future earnings of foreign subsidiaries without incurring additional U.S. taxes by transitioning to a territorial system of taxation ("GILTI Tax");
- subjects certain payments made by a U.S. company to a related foreign company to certain minimum taxes (Base Erosion Anti-Abuse Tax);

- eliminates certain prior tax incentives for manufacturing in the United States and creates an incentive for U.S. companies to sell, lease or license goods and services abroad by allowing for a reduction in taxes owed on earnings related to such sales;

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- allows the cost of investments in certain depreciable assets acquired and placed in service after September 27, 2017 to be immediately expensed; and
- reduces deductions with respect to certain compensation paid to specified executive officers.

As U.S. GAAP accounting for income taxes requires the effect of a change in tax laws or rates to be recognized in income from continuing operations for the period that includes the enactment date, the Company recognized an estimate of the impact of the TCJA in the year ended December 31, 2017. As a result of the TCJA, the Company recognized a provisional tax liability of approximately $1.2 billion in 2017 for the Transition Tax, which is payable over a period of eight years. The Company also remeasured U.S. deferred tax assets and liabilities based on the income tax rates at which the deferred tax assets and liabilities are expected to reverse in the future (generally 21.0%), resulting in an income tax benefit of approximately $1.2 billion in 2017. For a description of the impact of the TCJA for the year ended December 31, 2017 reference is made to Note 12 of the Company's financial statements as of and for the year ended December 31, 2017 included in the Company's 2017 Annual Report.

Due to the complexities involved in accounting for the enactment of the TCJA, SAB No. 118 allowed the Company to record provisional amounts in earnings for the year ended December 31, 2017. SAB No. 118 provides that where reasonable estimates can be made, the provisional accounting should be based on such estimates and when no reasonable estimate can be made, the provisional accounting may be based on the tax law in effect before the TCJA. During the three and nine-month periods ended September 28, 2018, there were no changes made to the provisional amounts recognized in 2017. The Company continues to analyze the effects of the TCJA on its Consolidated Condensed Financial Statements. Additional impacts from the enactment of the TCJA will be recorded as they are identified during the measurement period as provided for in SAB No. 118, which extends up to one year from the enactment date. The final impact of the TCJA may differ from the provisional amounts that have been recognized, possibly materially, due to, among other things, changes in the Company's interpretation of the TCJA, legislative or administrative actions to clarify the intent of the statutory language provided that differ from the Company's current interpretation, any changes in accounting standards for income taxes or related interpretations in response to the TCJA, or any updates or changes to estimates utilized to calculate the impacts, including changes to current year earnings estimates and applicable foreign exchange rates. Additionally, the Company's U.S. tax returns for 2017 will be filed during the fourth quarter of 2018 and any changes to the tax positions reflected in those returns compared to the estimates recorded in the Company's earnings for the year ended December 31, 2017 will result in an adjustment of the estimated tax provision recorded as of December 31, 2017.

The Company also continues to evaluate the impact of the GILTI provisions under the TCJA which are complex and subject to continuing regulatory interpretation by the IRS. The Company is required to make an accounting policy election of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current period expense when incurred (the "period cost method") or (2) factoring such amounts into the Company's measurement of its deferred taxes (the "deferred method"). The Company's accounting policy election with respect to the new GILTI Tax rules will depend, in part, on analyzing its global income to determine whether it can reasonably estimate the tax impact. While the Company has included an estimate of GILTI in its estimated effective tax rate for 2018, it has not completed its analysis and has not determined which method to elect. Adjustments related to the amount of GILTI Tax recorded in its Consolidated Condensed Financial Statements may be required based on the outcome of this election.

The Company conducts business globally, and files numerous consolidated and separate income tax returns in federal, state and foreign jurisdictions. The non-U.S. countries in which the Company has a significant presence include China, Denmark, Germany, Singapore, Switzerland and the United Kingdom. The Company believes that a change in the statutory tax rate of any individual foreign country would not have a material effect on the Company's financial statements given the geographical dispersion of the Company's taxable income.

The Company and its subsidiaries are routinely examined by various domestic and international taxing authorities. The IRS has completed the examinations of substantially all of the Company's federal income tax returns through 2011 and is currently examining certain of the Company's federal income tax returns for 2012 through 2015. In addition, the Company has subsidiaries in Austria, Belgium, Canada, China, Denmark, Finland, France, Germany, Hong Kong, India, Italy, Japan, New Zealand, Sweden, Switzerland and the United Kingdom and various other countries, states

and provinces that are currently under audit for years ranging from 2004 through 2016.
Tax authorities in Denmark have raised significant issues related to interest accrued by certain of the Company's subsidiaries. On December 10, 2013, the Company received assessments from the Danish tax authority totaling approximately DKK 1.6 billion including interest through September 28, 2018 (approximately $247 million based on the exchange rate as of September 28, 2018), imposing withholding tax relating to interest accrued in Denmark on borrowings from certain of the Company's subsidiaries for the years 2004-2009. The Company is currently in discussions with SKAT and anticipates

receiving an assessment for years 2010-2012 totaling approximately DKK 939 million including interest through September 28, 2018 (approximately $146 million based on the exchange rate as of September 28, 2018). Management believes the positions the Company has taken in Denmark are in accordance with the relevant tax laws and is vigorously defending its positions. The Company appealed these assessments to the National Tax Tribunal in 2014 and intends on pursuing this matter through the European Court of Justice should this appeal be unsuccessful. The ultimate resolution of this matter is uncertain, could take many years, and could result in a material adverse impact to the Company's consolidated financial statements, including its effective tax rate.

The Company's effective tax rate for the nine-month period ended September 28, 2018 was 19.0%, which included discrete tax adjustments that reduced the effective tax rate by 1.3%. The Company expects its effective tax rate for the fourth quarter of 2018 to be approximately 20.0%. The Company's effective tax rate could vary as a result of many factors, including but not limited to the following:

- The expected rate for the remainder of 2018 includes the anticipated discrete income tax benefits from excess tax deductions related to the Company's stock compensation programs, which are reflected as a reduction in tax expense, though the actual benefits (if any) will depend on the Company's stock price and stock option exercise patterns.
- The actual mix of earnings by jurisdiction could fluctuate from the Company's projection.
- The tax effects of other discrete items, including accruals related to tax contingencies, the resolution of worldwide tax matters, tax audit settlements, statute of limitations expirations and changes in tax regulations.
- Any future legislative changes or potential tax reform, the impact of future regulations and guidance implementing the TCJA and any related additional tax planning efforts to address these changes.

As a result of the uncertainty in predicting these items, it is reasonably possible that the actual effective tax rate used for financial reporting purposes will change in future periods.

In the nine-month period ended September 29, 2017, the Company recorded a $22 million income tax benefit related to the release of previously provided reserves associated with uncertain tax positions on certain Danaher tax returns which were jointly filed with Fortive entities. These reserves were released due to the expiration of statutes of limitations for those returns. This income tax benefit was included in earnings from discontinued operations in the accompanying Consolidated Condensed Statement of Earnings.

COMPREHENSIVE INCOME

For the three and nine-month periods ended September 28, 2018, comprehensive income decreased $328 million and approximately $1.1 billion, respectively, as compared to the comparable periods of 2017. These declines were primarily due to the losses from foreign currency translation adjustments in both the three and nine-month periods ended September 28, 2018 as compared to the gains from foreign currency translation adjustments realized in the comparable periods of 2017, partially offset by higher net earnings in both the three and nine-month periods ended September 28, 2018. For the three and nine-month periods ended September 28, 2018, the Company recorded a foreign currency translation loss of $162 million and $509 million, respectively, as compared to a foreign currency translation gain of $260 million and $839 million for the three and nine-month periods ended September 29, 2017, respectively.

INFLATION

The effect of inflation on the Company's revenues and net earnings was not significant in the three and nine-month periods ended September 28, 2018.

LIQUIDITY AND CAPITAL RESOURCES

Management assesses the Company's liquidity in terms of its ability to generate cash to fund its operating, investing and financing activities. The Company continues to generate substantial cash from operating activities and forecasts that its operating cash flow and other sources of liquidity will be sufficient to allow it to continue investing in existing businesses, consummating strategic acquisitions and investments, paying interest and servicing debt and managing its capital structure on a short and long-term basis.

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Following is an overview of the Company's cash flows and liquidity ($ in millions):
Overview of Cash Flows and Liquidity

($ in millions)	Nine-Month Period Ended September 28, 2018	September 29, 2017
Total operating cash flows provided by continuing operations	$2,784.4	$ 2,643.1
Cash paid for acquisitions	$(2,173.3)	$ (112.0)
Payments for additions to property, plant and equipment	(441.3)	(445.8)
Proceeds from sales of property, plant and equipment	1.6	32.3
Proceeds from sale of investments	22.1	—
All other investing activities	(61.1)	(2.4)
Net operating cash used in investing activities	$(2,652.0)	$ (527.9)
Proceeds from the issuance of common stock	$77.3	$ 49.0
Payment of dividends	(321.2)	(281.0)
Payment for purchase of noncontrolling interests	—	(64.4)
Net proceeds from (repayments of) borrowings (maturities of 90 days or less)	882.1	(3,319.1)
Proceeds from borrowings (maturities longer than 90 days)	—	1,684.0
Repayments of borrowings (maturities longer than 90 days)	(503.9)	(562.4)
All other financing activities	(16.6)	(50.7)
Net operating cash provided by (used in) financing activities	$117.7	$ (2,544.6)

- Operating cash flows from continuing operations increased $141 million, or approximately 5%, during the first nine months of 2018 as compared to the first nine months of 2017, primarily due to higher earnings and slightly lower cash used for funding trade accounts receivable, inventories and accounts payable during the period compared to the prior year, partially offset by increased cash used for payments for income taxes, certain employee related benefits and accrued expenses compared to the prior year.
- On March 23, 2018, Danaher entered into the $1.0 billion 364-Day Facility which provides liquidity support for an expansion of Danaher's U.S. and euro-denominated commercial paper programs and for general corporate purposes. Danaher used proceeds from the issuance of U.S. dollar and euro-denominated commercial paper to fund a portion of the purchase price for the acquisition of IDT in April 2018.
- The Company repaid the $500 million of 2018 U.S. Notes (plus accrued interest) upon their maturity in September 2018 using available cash and proceeds from the issuance of commercial paper.
- As of September 28, 2018, the Company held $776 million of cash and cash equivalents.

Operating Activities

Cash flows from operating activities can fluctuate significantly from period-to-period as working capital needs and the timing of payments for income taxes, restructuring activities, pension funding and other items impact reported cash flows.

Operating cash flows from continuing operations were approximately $2.8 billion for the first nine months of 2018, an increase of $141 million, or approximately 5%, as compared to the comparable period of 2017. The year-over-year change in operating cash flows from 2017 to 2018 was primarily attributable to the following factors:

- 2018 operating cash flows reflected an increase of $291 million in net earnings from continuing operations for the first nine months of 2018 as compared to the comparable period in 2017.
- Net earnings from continuing operations for the first nine months of 2018 reflected an increase of $57 million of depreciation and amortization expense as compared to the comparable period of 2017. Amortization expense primarily relates to the amortization of intangible assets acquired in connection with acquisitions and increased due to

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recently acquired businesses. Depreciation expense relates to both the Company's manufacturing and operating facilities as well as instrumentation leased to customers under operating-type lease arrangements and increased due primarily to the impact of increased capital expenditures. Depreciation and amortization are noncash expenses that decrease earnings without a corresponding impact to operating cash flows.

- The aggregate of trade accounts receivable, inventories and trade accounts payable used $55 million in operating cash flows during the first nine months of 2018, compared to $72 million of operating cash flows used in the comparable period of 2017. The amount of cash flow generated from or used by the aggregate of trade accounts receivable, inventories and trade accounts payable depends upon how effectively the Company manages the cash conversion cycle, which effectively represents the number of days that elapse from the day it pays for the purchase of raw materials and components to the collection of cash from its customers and can be significantly impacted by the timing of collections and payments in a period.
- The aggregate of prepaid expenses and other assets and accrued expenses and other liabilities used $153 million of operating cash flows during the first nine months of 2018, compared to $28 million of operating cash flows provided in the comparable period of 2017. This use of operational cash flow in the first nine months of 2018 resulted primarily from the timing of cash payments for income taxes, various employee-related liabilities, customer funding and accrued expenses during the first nine months of 2018 compared to the comparable period of 2017.

Investing Activities

Cash flows relating to investing activities consist primarily of cash used for acquisitions and capital expenditures, including instruments leased to customers, cash used for investments and cash proceeds from divestitures of businesses or assets.

Net cash used in investing activities from continuing operations was approximately $2.7 billion during the first nine months of 2018 compared to $528 million of cash used in the first nine months of 2017. For a discussion of the Company's acquisitions during the first nine months of 2018 refer to "—Overview".

Capital expenditures are made primarily for increasing capacity, replacing equipment, supporting new product development, improving information technology systems and the manufacture of instruments that are used in operating-type lease arrangements that certain of the Company's businesses enter into with customers. Capital expenditures decreased $5 million on a year-over-year basis for the first nine months of 2018 compared to 2017 due to decreased investment in construction of new facilities, partially offset by increases in investments in operating assets at newly acquired businesses such as IDT. For the full year 2018, the Company forecasts capital spending to be approximately $675 million, though actual expenditures will ultimately depend on business conditions.

During the first nine months of 2018, the Company received cash proceeds of $22 million from the collection of short-term other receivables related to the sale of certain marketable equity securities during 2017.

Financing Activities and Indebtedness

Cash flows relating to financing activities consist primarily of cash flows associated with the issuance and repayments of commercial paper and other debt, issuance and repurchases of common stock and payments of cash dividends to shareholders. Financing activities from continuing operations provided cash of $118 million during the first nine months of 2018 compared to approximately $2.5 billion of cash used in the comparable period of 2017. The year-over-year increase in cash provided by financing activities was due primarily to higher net proceeds from commercial paper borrowings in 2018, as the Company issued commercial paper to pay for a portion of the acquisition price of IDT in April 2018. Additionally, despite the repayment of the $500 million of 2018 U.S. Notes upon their maturity in September 2018, long-term debt repayments were lower in the first nine months of 2018 as compared to the comparable period in 2017 which contributed to the cash provided by financing activities. Both of these factors were partially offset by lower proceeds from the issuance of long-term notes in the first nine months of 2018 as compared to the comparable period of 2017. In addition, the Company paid $64 million to a noncontrolling interest holder in the first quarter of 2017 which contributed to the use of cash from financing activities in the prior period.

For a description of the Company’s outstanding debt as of September 28, 2018, the debt issued and debt repaid during the nine-month period ended September 28, 2018 and the Company’s commercial paper programs and credit facilities, refer to Note 7 to the accompanying Consolidated Condensed Financial Statements. As of September 28, 2018, the Company was in compliance with all of its debt covenants.

The Company satisfies any short-term liquidity needs that are not met through operating cash flow and available cash primarily through issuances of commercial paper under its U.S. dollar and euro-denominated commercial paper programs. Credit support for the commercial paper programs is generally provided by the Company's $4.0 billion Credit Facility and $1.0 billion 364-Day Facility.

As of September 28, 2018, Danaher had the ability to incur an additional approximately $1.7 billion of indebtedness in direct borrowings under the Credit Facility, 364-Day Facility or under outstanding commercial paper facilities (based on aggregate amounts available under the Credit Facility and 364-Day Facility that were not being used to backstop outstanding commercial paper balances).

The Company has classified the €600 million of 2019 Euronotes and approximately $3.3 billion of its borrowings outstanding under the commercial paper programs as of September 28, 2018 as long-term debt in the accompanying Consolidated Condensed Balance Sheet as the Company had the intent and ability, as supported by availability under the Credit Facility, to refinance these borrowings for at least one year from the balance sheet date. As commercial paper obligations mature, the Company may issue additional short-term commercial paper obligations to refinance all or part of these borrowings.

Stock Repurchase Program

For information regarding the Company's stock repurchase program, please see Part II—Item 2, "Unregistered Sales of Equity Securities and Use of Proceeds," in this Form 10-Q.

Dividends

Aggregate cash payments for dividends during the first nine months of 2018 were $321 million. The increase over the comparable period of 2017 results from increases in the quarterly dividend rate effective with respect to the dividend paid in the second quarter of 2017 and with respect to the dividend paid in the second quarter of 2018.

In the third quarter of 2018, the Company declared a regular quarterly dividend of $0.16 per share payable on October 26, 2018 to holders of record on September 28, 2018, reflecting a 14% increase in the per share amount of the Company's quarterly dividend compared to the third quarter of 2017.

Cash and Cash Requirements

As of September 28, 2018, the Company held $776 million of cash and cash equivalents that were held on deposit with financial institutions or invested in highly liquid investment-grade debt instruments with a maturity of 90 days or less with an approximate weighted average annual interest rate of 1.3%. Of this amount, $61 million was held within the United States and $715 million was held outside of the United States. The Company will continue to have cash requirements to support working capital needs, capital expenditures and acquisitions, pay interest and service debt, pay taxes and any related interest or penalties, fund its restructuring activities and pension plans as required, pay dividends to shareholders, repurchase shares of the Company's common stock and support other business needs.

The Company generally intends to use available cash and internally generated funds to meet these cash requirements, but in the event that additional liquidity is required, particularly in connection with acquisitions, the Company may also borrow under its commercial paper programs or the credit facilities, enter into new credit facilities and either borrow directly thereunder or use such credit facilities to backstop additional borrowing capacity under its commercial paper programs and/or access the capital markets. The Company also may from time to time access the capital markets to take advantage of favorable interest rate environments or other market conditions. With respect to the Company's commercial paper scheduled to mature during the remainder of 2018, the Company expects to repay the principal amounts when due using available cash, proceeds from the issuance of commercial paper and/or proceeds from other debt issuances.

While repatriation of some cash held outside the United States may be restricted by local laws, most of the Company's foreign cash could be repatriated to the United States. Following enactment of the TCJA and the associated Transition Tax, in general, repatriation of cash to the United States can be completed with no incremental U.S. tax; however, repatriation of cash could subject the Company to non-U.S. jurisdictional taxes on distributions. The cash that the Company's non-U.S. subsidiaries hold for indefinite reinvestment is generally used to finance foreign operations and investments, including acquisitions. The income taxes, if any, applicable to such earnings including basis differences in our foreign subsidiaries are not readily determinable. The Company continues to evaluate the impact of the TCJA

on its election to indefinitely reinvest certain of its non-U.S. earnings. As of September 28, 2018, management believes that it has sufficient liquidity to satisfy its cash needs, including its cash needs in the United States.
During 2018, the Company's cash contribution requirements for its U.S. and non-U.S. defined benefit pension plans are forecasted to be approximately $30 million and $50 million, respectively. The ultimate amounts to be contributed depend

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upon, among other things, legal requirements, underlying asset returns, the plan's funded status, the anticipated tax deductibility of the contribution, local practices, market conditions, interest rates and other factors.

CRITICAL ACCOUNTING ESTIMATES

Except as set forth below in connection with the adoption of ASC 606, there have been no changes to the Company's critical accounting estimates described in the Annual Report on Form 10-K for the year ended December 31, 2017 that have a material impact on the Company's Consolidated Condensed Financial Statements and the related Notes.

Revenue Recognition—The Company derives revenues from the sale of products and services. Refer to Note 1 to the accompanying Consolidated Condensed Financial Statements for a description of the Company's revenue recognition policies.

Although most of the Company's sales agreements contain standard terms and conditions, certain agreements contain multiple products or services or nonstandard terms and conditions. As a result, judgment is sometimes required to determine the appropriate accounting, including whether the products or services specified in these agreements should be treated as separate units of accounting for revenue recognition purposes, and, if so, how the consideration should be allocated among the distinct products or services and when to recognize revenue for each element. The Company allocates the contract's transaction price at inception of the contract to each performance obligation on a relative standalone selling price basis using the Company's best estimate of the standalone selling price of each distinct product or service in the contract. The Company's estimate of standalone selling price impacts the amount and timing of revenue recognized in arrangements with multiple products or services. The Company also enters into lease arrangements with customers, which requires the Company to determine whether the arrangements are operating or sales-type leases. Certain of the Company's lease contracts are customized for larger customers and often result in complex terms and conditions that typically require significant judgment in applying the lease accounting criteria.

If the Company's judgments regarding revenue recognition prove incorrect, the Company's reported revenues in particular periods may be adversely affected.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risk appear in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Instruments and Risk Management," in the Company's 2017 Annual Report. There were no material changes during the quarter ended September 28, 2018 to this information reported in the Company's 2017 Annual Report.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's President and Chief Executive Officer, and Executive Vice President and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's President and Chief Executive Officer, and Executive Vice President and Chief Financial Officer, have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective.

There have been no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the Company's most recent completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In September 2016, the U.S. Environmental Protection Agency ("EPA") issued a Notice of Violation to the Richmond, Illinois facility of Leica Biosystems Richmond, Inc. ("Leica Biosystems"), an indirect subsidiary of the Company, alleging that the facility violated certain provisions of the Clean Air Act and related regulations pertaining to permitting requirements, emissions limitations and the installation and use of proper controls. In July 2018, Leica Biosystems and the EPA executed an agency administrative settlement whereby all of Leica Biosystems' alleged violations were settled for a payment of approximately $175 thousand and certain injunctive relief.

For additional information regarding legal proceedings, refer to the section titled "Legal Proceedings" in MD&A in the 2017 Consolidated Financial Statements.

ITEM 1A. RISK FACTORS

Information regarding risk factors can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Information Related to Forward-Looking Statements," in Part I—Item 2 of this Form 10-Q and in Part I—Item 1A of Danaher's 2017 Annual Report. There were no material changes during the quarter ended September 28, 2018 to the risk factors reported in the Company's 2017 Annual Report.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Neither the Company nor any "affiliated purchaser" repurchased any shares of Company common stock during the nine-month period ended September 28, 2018. On July 16, 2013, the Company's Board of Directors approved a repurchase program (the "Repurchase Program") authorizing the repurchase of up to 20 million shares of the Company's common stock from time to time on the open market or in privately negotiated transactions. There is no expiration date for the Repurchase Program, and the timing and amount of any shares repurchased under the program will be determined by the Company's management based on its evaluation of market conditions and other factors. The Repurchase Program may be suspended or discontinued at any time. Any repurchased shares will be available for use in connection with the Company's equity compensation plans (or any successor plans) and for other corporate purposes. As of September 28, 2018, 20 million shares remained available for repurchase pursuant to the Repurchase Program. The Company expects to fund any future stock repurchases using the Company's available cash balances or proceeds from the issuance of debt.

During the third quarter of 2018, there were no Liquid Yield Option Notes due 2021 converted into shares of Danaher common stock.

ITEM 6. EXHIBITS

(a) Exhibits:

3.1	Restated Certificate of Incorporation of Danaher Corporation (incorporated by reference from Exhibit 3.1 to Danaher Corporation's Quarterly Report on Form 10-Q for the quarter ended June 29, 2012 (Commission File Number: 1-8089))
3.2	Amended and Restated By-laws of Danaher Corporation (incorporated by reference from Exhibit 3.2 to Danaher Corporation's Current Report on Form 8-K filed December 6, 2016 (Commission File Number: 1-8089))
10.1	Danaher Corporation and Subsidiaries Amended and Restated Executive Deferred Incentive Program
10.2	Danaher Corporation Excess Contribution Program, a sub-plan under the 2007 Omnibus Incentive Plan, as amended and restated
10.3	Danaher Corporation Deferred Compensation Plan
11.1	Computation of per-share earnings (See Note 13, "Net Earnings Per Share from Continuing Operations", to the Consolidated Condensed Financial Statements)
12.1	Calculation of ratio of earnings to fixed charges
31.1	Certification of Chief Executive Officer Pursuant to Item 601(b)(31) of Regulation S-K, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Item 601(b)(31) of Regulation S-K, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document **
101.SCH	XBRL Taxonomy Extension Schema Document **
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document **
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document **
101.LAB	XBRL Taxonomy Extension Label Linkbase Document **
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document **

** Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Condensed Balance Sheets as of September 28, 2018 and December 31, 2017, (ii) Consolidated Condensed Statements of Earnings for the three and nine-month periods ended September 28, 2018 and September 29, 2017, (iii) Consolidated Condensed Statements of Comprehensive Income for the three and nine-month periods ended September 28, 2018 and September 29, 2017, (iv) Consolidated Condensed Statement of Stockholders' Equity for the nine-month period ended September 28, 2018, (v) Consolidated Condensed Statements of Cash Flows for the nine-month periods ended September 28, 2018 and September 29, 2017, and (vi) Notes to Consolidated Condensed Financial Statements.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DANAHER CORPORATION

Date:	October 17, 2018	By:	/s/ Daniel L. Comas
			Daniel L. Comas
			Executive Vice President and Chief Financial Officer

Date:	October 17, 2018	By:	/s/ Robert S. Lutz
			Robert S. Lutz
			Senior Vice President and Chief Accounting Officer

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