PERKINELMER INC
Form 8-K
November 13, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

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

Date of report (Date of earliest event reported): October 16, 2001

PerkinElmer, Inc.
(Exact Name of Registrant as Specified in Charter)

| | | |
|---|---|---|
| Massachusetts | 1-5075 | 04-2052 |
| (State or Other Jurisdiction of Incorporation) | (Commission File Number) | (IRS Empl Identific |

45 William Street, Wellesley Massachusetts 02481
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (781) 237-5100

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

ITEM 5. OTHER EVENTS.

On October 16, 2001 the Board of Directors of PerkinElmer, Inc. (the "Company") voted to authorize the sale of the Company's Fluid Sciences segment. Accordingly, the Company has accounted for the Fluid Sciences segment as a discontinued operation in accordance with APB No. 30, Reporting the Results of Operations. Therefore, the results of operations of the Fluid Sciences segment have been segregated from continuing operations and reported as a separate line item in the Company's consolidated income statements for the three years ended December 31, 2000, the three months ended April 1, 2001 and April 2, 2000 and the three and six months ended July 1, 2001 and July 2, 2000. The following statements and other information are included in this filing to reflect the Fluid Sciences segment as a discontinued operation. In addition, the following statements give effect to the Company's Security and Detection Systems business as a discontinued operation in accordance with APB Opinion No. 30, and the two-for-one stock split which was effected on June 1, 2001 by means of a 100% stock dividend to shareholders of record as of May 15, 2001, both of which were included in the Current Report on Form 8-K filed August 3, 2001.

PERKINELMER, INC.

I. ANNUAL FINANCIAL STATEMENTS:

A. Consolidated Income Statements for the three years ended December 31, 2000

B. Consolidated Balance Sheets as of December 31, 2000 and January 2, 2000

C. Consolidated Statements of Stockholders' Equity for the three years ended December 31, 2000

D. Consolidated Statements of Cash Flows for the three years ended December 31, 2000

E. Notes to Consolidated Financial Statements

F. Report of Independent Public Accountants

II. OTHER ANNUAL INFORMATION:

A. Selected Financial Information for the five years ended December 31, 2000

B. Management's Discussion and Analysis of Results of Operations and Financial Condition Relating to Annual Financial Information

III. INTERIM FINANCIAL STATEMENTS (UNAUDITED) -- April 1, 2001 and April 2, 2000:

A. Consolidated Income Statements for the three months ended April 1, 2001 and April 2, 2000

B. Consolidated Balance Sheets as of April 1, 2001 and December 31, 2000

C. Consolidated Statements of Cash Flows for the three months ended April 1, 2001 and April 2, 2000

D. Notes to Consolidated Financial Statements (Unaudited)

IV. OTHER INTERIM INFORMATION -- April 1, 2001 and April 2, 2000:

A. Management's Discussion and Analysis of Results of Operations and Financial Condition Relating to Quarterly Financial Information

V. INTERIM FINANCIAL STATEMENTS (UNAUDITED) -- July 1, 2001 and July 2, 2000:

A. Consolidated Income Statements for the three and six months ended July 1, 2001 and July 2, 2000

B. Consolidated Balance Sheets as of July 1, 2001 and December 31, 2000

C. Consolidated Statements of Cash Flows for the six months ended July 1, 2001 and July 2, 2000

D. Notes to the Consolidated Financial Statements (Unaudited)

VI. OTHER INTERIM INFORMATION -- July 1, 2001 and July 2, 2000:

A. Management's Discussion and Analysis of Results of Operations and Financial Condition Relating to Quarterly Financial Information

VII. FORWARD LOOKING INFORMATION AND FACTORS AFFECTING FUTURE PERFORMANCE

VIII. EXHIBIT INDEX

I. ANNUAL FINANCIAL STATEMENTS

I A. CONSOLIDATED INCOME STATEMENTS FOR THE THREE YEARS ENDED DECEMBER 31, 2000

PERKINELMER, INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

| (IN THOUSANDS EXCEPT PER SHARE DATA) | Years En 2000 | 1 |
|---|---|---|
| SALES | | |
| Products | $ 1,177,714 | $ 94 |
| Services | 157,818 | 10 |
| TOTAL SALES | 1,335,532 | 1,05 |
| COST OF SALES | | |
| Products | 699,602 | 54 |
| Services | 55,470 | 7 |
| Revaluation of Acquired Inventory | 1,818 | |
| TOTAL COST OF SALES | 756,890 | 62 |
| Selling, General and Administrative Expenses | 375,942 | 29 |
| Research and Development Expenses | 76,920 | 6 |
| In-Process Research and Development Charges | 24,300 | 2 |
| Restructuring Charges, Net | 3,900 | 1 |
| Asset Impairment Charges | -- | 1 |
| Gains on Dispositions | (35,089) | (1 |
| OPERATING INCOME FROM CONTINUING OPERATIONS | 132,669 | 2 |
| Other (Expense) Income, Net | (33,692) | (1 |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 98,977 | 1 |
| Provision for Income Taxes | 39,699 | |
| INCOME FROM CONTINUING OPERATIONS | 59,278 | |
| Income from Discontinued Operations, Net of Income Taxes | 26,789 | 3 |
| Gain on Disposition of Discontinued Operations, Net of Income Taxes | 4,453 | 11 |
| NET INCOME | $ 90,520 | $ 15 |

BASIC EARNINGS PER SHARE

| | | |
|---|---|---|
| Continuing Operations ........................... | $ 0.60 | $ |
| Discontinued Operations .......................... | 0.32 | |
| Net Income ...................................... | $ 0.92 | $ |
| DILUTED EARNINGS PER SHARE | | |
| Continuing Operations ........................... | $ 0.58 | $ |
| Discontinued Operations .......................... | 0.31 | |
| Net Income ...................................... | $ 0.89 | $ |

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

I B. CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2000 AND JANUARY 2, 2000

PERKINELMER, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

| (IN THOUSANDS EXCEPT PER SHARE DATA) | | 200 |
|---|---|---|
| Current Assets: | | |
| Cash and Cash Equivalents..................................................... | $ | 12 |
| Accounts Receivable, net...................................................... | | 29 |
| Inventories................................................................... | | 19 |
| Other Current Assets.......................................................... | | 16 |
| Net Assets of Discontinued Operations......................................... | | 14 |
| TOTAL CURRENT ASSETS.......................................................... | | 92 |
| Property, Plant and Equipment: | | |
| At Cost....................................................................... | | 42 |
| Accumulated Depreciation and Amortization..................................... | | (18 |
| Net Property, Plant and Equipment............................................. | | 23 |
| Investments................................................................... | | 3 |
| Intangible Assets, net........................................................ | | 88 |
| Other Assets.................................................................. | | 10 |
| TOTAL ASSETS.................................................................. | $ | 2,18 |
| Current Liabilities: | | |
| Short-Term Debt............................................................... | $ | 18 |
| Accounts Payable.............................................................. | | 11 |
| Accrued Restructuring Costs................................................... | | 4 |
| Accrued Expenses.............................................................. | | 29 |
| TOTAL CURRENT LIABILITIES..................................................... | | 64 |
| Long-Term Debt................................................................ | | 58 |
| Long-Term Liabilities......................................................... | | 23 |
| Commitments and Contingencies | | |
| Stockholders' Equity: | | |
| Preferred Stock -- $1 par value, authorized 1,000,000 shares; | | |

| | | |
|---|---|---|
| none issued or outstanding.................................................... | | |
| Common Stock -- $1 par value, authorized 300,000,000 shares; issued 122,908,000 shares in 2000 and 120,204,000 in 1999........................... | | 12 |
| Capital in Excess of Par Value................................................ | | 3 |
| Retained Earnings............................................................. | | 83 |
| Accumulated Other Comprehensive Loss.......................................... | | (3 |
| Cost of Shares Held in Treasury -- 23,360,000 shares in 2000 and 27,472,000 shares in 1999................................................ | | (22 |
| Total Stockholders' Equity.................................................... | | 72 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY ......................................... | $ | 2,18 |

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

I C. CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE YEARS ENDED DECEMBER 31, 2000

PERKINELMER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE YEARS ENDED DECEMBER 31, 2000

| (DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA) | COMPREHENSIVE INCOME | COMMON STOCK | RETAI EARNI |
|---|---|---|---|
| BALANCE, DECEMBER 28, 1997......................... | | $ 120,204 | $ 48 |
| Comprehensive income: | | | |
| Net income .................................... | $ 102,002 | -- | 10 |
| Other comprehensive income (loss), net of tax: | | | |
| Foreign currency translation adjustments. ........................... | 4,608 | -- | |
| Reclassification adjustment for translation losses realized upon sale of Sealol Industrial Seals ......................... | 3,115 | -- | |
| Unrealized losses on securities arising during the period......................... | (137) | -- | |
| Other comprehensive income...................... | 7,586 | | |
| Comprehensive income.............................. | $ 109,588 | | |
| Cash dividends ($.28 per share).................... | | -- | (2 |
| Exercise of employee stock options and related income tax benefits .................... | | -- | |
| Purchase of common stock for treasury.............. | | -- | |
| BALANCE, JANUARY 3, 1999........................... | | 120,204 | 56 |
| Comprehensive income: | | | |
| Net income..................................... | $ 154,316 | -- | 15 |
| Other comprehensive income (loss), net of tax: | | | |
| Foreign currency translation adjustments...... | (17,804) | -- | |
| Unrealized gains on securities: | | | |
| Gains arising during the period........... | 93 | | |

| | | | |
|---|---|---|---|
| Reclassification adjustment............... | (58) | | |
| Net unrealized gains......................... | 35 | -- | |
| Other comprehensive loss........................ | (17,769) | | |
| Comprehensive income............................. | $ 136,547 | | |
| Cash dividends ($.28 per share).................... | | -- | (2 |
| Exercise of employee stock options and related income tax benefits...................... | | -- | |
| Issuance of common stock for employee benefit plans. | | -- | |
| Purchase of common stock for treasury.............. | | -- | |
| BALANCE, JANUARY 2, 2000........................... | | 120,204 | 70 |
| Comprehensive income: | | | |
| Net income....................................... | $ 90,520 | -- | 9 |
| Other comprehensive income (loss), net of tax: | | | |
| Foreign currency translation adjustments...... | (25,484) | -- | |
| Unrealized gains on securities: | | | |
| Gains arising during the period........... | 481 | | |
| Reclassification adjustment............... | 1 | | |
| Net unrealized gains......................... | 482 | -- | |
| Other comprehensive loss........................ | (25,002) | | |
| Comprehensive income............................. | $ 65,518 | | |
| Cash dividends ($.28 per share).................... | | -- | (2 |
| Exercise of employee stock options and related income tax benefits .................... | | -- | 1 |
| Issuance of common stock for employee benefit plans. | | | |
| Purchase of common stock for treasury.............. | | -- | |
| Mergers, acquisitions and other | | 2,704 | 5 |
| BALANCE, DECEMBER 31, 2000......................... | | $ 122,908 | $ 83 |

| (DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA) | ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) | COS SHA HEL TREA |
|---|---|---|
| BALANCE, DECEMBER 28, 1997 ........................................... | $ (3,857) | $ ( |
| Comprehensive income: | | |
| Net income ................................................... | -- | |
| Other comprehensive income (loss), net of tax: | | |
| Foreign currency translation adjustments...................... | 4,608 | |
| Reclassification adjustment for translation losses realized upon sale of Sealol Industrial Seals................ | 3,115 | |
| Unrealized losses on securities arising during the period: ..... | (137) | |
| Other comprehensive income ........................................ | | |
| Comprehensive income ................................................ | | |
| Cash dividends ($.28 per share)...................................... | -- | |
| Exercise of employee stock options and related income tax benefits.... | -- | |

| | | |
|---|---|---|
| Purchase of common stock for treasury................................ | -- | |
| BALANCE, JANUARY 3, 1999 ............................................ | 3,729 | ( |
| Comprehensive income: | | |
| Net income........................................................... | -- | |
| Other comprehensive income (loss), net of tax: | | |
| Foreign currency translation adjustments........................ | (17,804) | |
| Unrealized gains on securities: | | |
| Gains arising during the period ............................ | | |
| Reclassification adjustment................................. | | |
| Net unrealized gains............................................ | 35 | |
| Other comprehensive loss ........................................ | | |
| Comprehensive income................................................. | | |
| Cash dividends ($.28 per share) ..................................... | -- | |
| Exercise of employee stock options and related income tax benefits ... | -- | |
| Issuance of common stock for employee benefit plans ................. | -- | |
| Purchase of common stock for treasury. .............................. | -- | |
| BALANCE, JANUARY 2, 2000............................................. | (14,040) | ( |
| Comprehensive income: | | |
| Net income........................................................... | -- | |
| Other comprehensive income (loss), net of tax: | | |
| Foreign currency translation adjustments ....................... | (25,484) | |
| Unrealized gains on securities: | | |
| Gains arising during the period............................. | | |
| Reclassification adjustment................................. | | |
| Net unrealized gains ........................................... | 482 | |
| Other comprehensive loss ........................................ | | |
| Comprehensive income . .............................................. | | |
| Cash dividends ($.28 per share) ..................................... | -- | |
| Exercise of employee stock options and related income tax benefits.... | -- | |
| Issuance of common stock for employee benefit plans.................. | -- | |
| Purchase of common stock for treasury ............................... | -- | |
| Mergers, acquisitions and other...................................... | -- | |
| BALANCE, DECEMBER 31, 2000........................................... | $ (39,042) | $ ( |

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

I D. CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE YEARS ENDED DECEMBER 31, 2000

PERKINELMER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE YEARS ENDED DECEMBER 31, 2000

| (DOLLARS IN THOUSANDS) | 2000 | |
|---|---|---|
| Operating Activities: | | |
| Net income.............................................................. | $ 90,520 | $ |
| Deduct net income from discontinued operations..................... | (26,789) | |
| Deduct net gain on disposition of discontinued operations.......... | (4,453) | |
| Income from continuing operations ................................ | 59,278 | |

| | | |
|---|---|---|
| Adjustments to reconcile income from continuing operations to net cash provided by continuing operations: | | |
| Revaluation of acquired inventory | 1,818 | |
| In-process research and development charges | 24,300 | |
| Noncash portion of restructuring charges | 2,900 | |
| Asset impairment charges | -- | |
| Depreciation and amortization | 65,717 | |
| Amortization of deferred debt issuance cost | 8,567 | |
| Gains on dispositions and sales of investments, net | (37,189) | |
| Changes in assets and liabilities which provided (used) cash, excluding effects from companies purchased and divested: | | |
| Accounts receivable | 510 | |
| Inventories | (17,890) | |
| Accounts payable and accrued expenses | 18,625 | |
| Tax benefit of common stock options | 30,843 | |
| Accrued restructuring costs | (31,474) | |
| Prepaid and deferred taxes | -- | |
| Prepaid expenses and other | (27,822) | |
| Net Cash Provided by Continuing Operations Operating Activities | 98,183 | |
| Net Cash Provided by Discontinued Operations Operating Activities | 47,365 | |
| Net Cash Provided by Operating Activities | 145,548 | |
| Investing Activities: | | |
| Capital expenditures | (55,318) | |
| Proceeds from dispositions of businesses and sales of property, plant and equipment | 81,192 | |
| Cost of acquisitions, net of cash and cash equivalents acquired | (411,040) | |
| Proceeds from sales/costs of purchases of investments | (20,457) | |
| Other | 1,919 | |
| Net Cash (Used in) Provided by Continuing Operations Investing Activities | (403,704) | |
| Net Cash Provided by (Used in) Discontinued Operations Investing Activities | 2,274 | |
| Net Cash Used in Investing Activities | (401,430) | |
| Financing Activities: | | |
| Proceeds from issuance of convertible debt | 448,000 | |
| Increase (decrease) in commercial paper borrowings | 37,000 | |
| Payment of acquired Lumen revolving credit borrowings | -- | |
| Other debt increases (decreases) | (233,991) | |
| Proceeds from issuance of common stock | 46,902 | |
| Purchases of common stock | (10,589) | |
| Cash dividends | (27,533) | |
| Net Cash Provided by Financing Activities | 259,789 | |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | (5,006) | |
| Net (Decrease) Increase in Cash and Cash Equivalents | (1,099) | |
| Cash and Cash Equivalents at Beginning of Year | 126,650 | |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 125,551 | $ |
| Supplemental Disclosures of Cash Flow Information for continuing and discontinued operations (see also Note 2): | | |
| Cash paid during the year for: | | |
| Interest | $ 45,236 | $ |
| Income taxes | 21,819 | |
| Noncash Investing and Financing Activities: | | |

| | | |
|---|---|---|
| One-year secured 5% promissory notes issued to PE Corp. in connection with the acquisition of the Analytical Instruments Division (Note 2).................. | $ -- | $ |

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

I E. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of PerkinElmer, Inc. (formerly EG&G, Inc.) and its subsidiaries (the Company). All material intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations: PerkinElmer, Inc. is a global high technology company which provides products and systems to the telecom, medical, pharmaceutical, chemical, semiconductor, photographic and other markets. The Company's operating segments are Life Sciences, Optoelectronics and Instruments. In August 1999, the Company divested its Technical Services segment, which is presented as discontinued operations in accordance with Accounting Principles Board (APB) Opinion No. 30, Reporting the Results of Operations (see Note 7). In July 2001, the Company approved a plan to sell its Security and Detection Systems business, which is presented as discontinued operations in accordance with APB Opinion No. 30 (see Note 7). In October 2001, the Company approved a plan to sell its Fluid Sciences operating segment, which is presented as part of discontinued operations in accordance with APB Opinion No. 30 (see Note 7).

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Sales: The majority of the Company's product sales are recorded at the time of shipment and when persuasive evidence of an arrangement exists, the seller's price to the buyer is fixed or determinable and collectibility is reasonably assured. Provision is made at the time the related revenue is recognized for the cost of any installation obligations and the estimated cost of product warranties. When other significant obligations remain after products are delivered, including certain customer acceptance provisions, revenue is recognized only after such obligations are fulfilled. If a loss is anticipated on any contract, provision for the entire loss is made immediately. Revenue related to the sale of maintenance contracts is deferred and amortized on a straight-line basis over the service period. For equipment leased to a customer under a sales-type lease, revenue recognition generally commences when the equipment has been shipped and installed.

In the fourth quarter of 2000, retroactive to January 1, 2000, the Company adopted Securities and Exchange Commission (SEC) Staff Accounting Bulletin ("SAB") No. 101, Revenue Recognition in Financial Statements, which provides guidance in applying generally accepted accounting principles to certain revenue recognition issues. The adoption of SAB No. 101 did not have a material impact on the Company's financial position or quarterly or annual results of operations.

The former Technical Services segment had cost-reimbursement contracts with governmental agencies. These contracts included both cost plus fixed fee contracts and cost plus award fee contracts based on performance. Sales under cost-reimbursement contracts were recorded as costs when incurred and included applicable income in the proportion that costs incurred bear to total estimated costs.

Inventories: Inventories, which include material, labor and manufacturing overhead, are valued at the lower of cost or market. The majority of inventories is accounted for using the first-in, first-out method of determining inventory costs; remaining inventories are accounted for using the last-in, first-out (LIFO) method.

Property, Plant and Equipment: For financial statement purposes, the Company depreciates plant and equipment using the straight-line method over their estimated useful lives, which generally fall within the following ranges: buildings and special-purpose structures --10 to 25 years; leasehold improvements -- estimated useful life or remaining term of lease, whichever is shorter; machinery and equipment -- 3 to 7 years. Nonrecurring tooling costs are capitalized, while recurring costs are expensed. For income tax purposes, the Company depreciates plant and equipment over their estimated useful lives using accelerated methods.

Pension Plans: The Company's funding policy provides that payments to the U.S. pension trusts shall at least be equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974. Non-U.S. plans are accrued for, but generally not funded, and benefits are paid from operating funds.

Translation of Foreign Currencies: The balance sheet accounts of non-U.S. operations, exclusive of stockholders' equity, are translated at year-end exchange rates, and income statement accounts are translated at weighted-average rate in effect during the year; any translation adjustments are made directly to a component of stockholders' equity.

Intangible Assets: In accordance with Statement of Financial Accounting Standards (SFAS) No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, and APB Opinion No. 17, Intangible Assets, the Company reviews long-lived assets and all intangible assets (including goodwill) for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows of the operation to which the assets relate, to the carrying amount including associated intangible assets of such operation. If the operation is determined to be unable to recover the carrying amount of its assets, then intangible assets are written down first, followed by the other long-lived assets of the operation, to fair value. Fair value is determined based on discounted cash flows or appraised values, depending upon the nature of the assets. (See Note 4 for further discussion of asset impairment charges.)

Stock-Based Compensation: In accordance with SFAS No. 123, Accounting for Stock-Based Compensation, the Company accounts for stock-based compensation at intrinsic value with disclosure of the effects of fair value accounting on net income and earnings per share on a pro forma basis.

Cash Flows: For purposes of the Consolidated Statements of Cash Flows, the Company considers all highly liquid instruments with a purchased maturity of three months or less to be cash equivalents. The carrying amount of cash and cash equivalents approximates fair value due to the short maturities.

Environmental Matters: The Company accrues for costs associated with the remediation of environmental pollution when it is probable that a liability has been incurred and the Company's proportionate share of the amount can be reasonably estimated. Any recorded liabilities have not been discounted.

Comprehensive Income: The Company has adopted the provisions of SFAS No. 130, Reporting Comprehensive Income, which established standards for reporting and display of comprehensive income and its components. Comprehensive income is the total of net income and all other nonowner changes in stockholders' equity.

Segments and Related Information: The Company has adopted the provisions of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. The statement established standards for the way that public business enterprises report information and operating segments in annual financial statements and requires reporting of selected information in interim financial reports.

Derivative Instruments and Hedging: The Financial Accounting Standards Board issued SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of SFAS No. 133, in June 1999. SFAS No. 133 is now effective for all fiscal quarters of all fiscal years beginning after June 15, 2000; earlier adoption is allowed. The statement requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The effect of the adoption of SFAS No. 133 as of January 1, 2001 will not be material.

Reclassifications: Certain amounts from prior years have been reclassified to conform to the 2000 financial statement presentation.

NOTE 2. ACQUISITIONS AND DIVESTITURES

On July 31, 2000, the Company completed its acquisition of NEN Life Sciences, Inc. (NEN), a provider of state-of-the-art drug discovery products, services, reagents and technologies to the life sciences industry. The Company purchased NEN from an investor group led by Genstar Capital LLC for an aggregate purchase price of approximately $400 million. In connection with the acquisition, the Company paid approximately $350 million in cash and issued warrants to purchase approximately 600,000 shares of the Company's common stock in exchange for all of the outstanding shares, options and warrants of NEN. In addition, the Company repaid approximately $50 million of outstanding indebtedness of NEN. The Company financed the acquisition and repayment of the outstanding indebtedness with $410 million of commercial paper borrowings with a weighted-average interest rate of 7%. These short-term borrowings were repaid in early August with proceeds from the issuance of long-term convertible debentures (see Note 14).

NEN's operations, included in the consolidated results of the Company from the date of acquisition, are reported in the Life Sciences segment. The acquisition was accounted for as a purchase under APB Opinion No. 16, Business Combinations, and the Company allocated the purchase price of NEN based on the fair values of the net assets acquired and liabilities assumed. The allocation of the purchase price has not yet been finalized, however, the Company does not expect material changes. Portions of the purchase price, including intangible assets, were valued by independent appraisers utilizing customary valuation procedures and techniques. These intangible assets included approximately $24.3 million for acquired in-process research and development (R&D) for projects that had not reached technological feasibility as of the acquisition date and for which no alternative use existed. This allocation represents the estimated fair value based on risk-adjusted cash flows related to the in-process R&D projects; these costs were expensed in the third quarter of 2000. Other acquired intangible assets totaling $75.9 million included the fair value of trade names, trademarks, patents and developed technology with lives ranging from 10 - 20 years. Goodwill of $270.8 million resulting from the acquisition of NEN is being amortized over 20 years. Approximately $4 million has been recorded as accrued restructuring costs in connection with the acquisition of NEN. The restructuring plans include initiatives to integrate the operations of the Company and NEN. The primary components of these plans relate to employment costs, consolidation of certain facilities, and the termination of certain leases and other contractual obligations. The majority of the restructuring actions are expected to occur during 2001 and early 2002.

The components of NEN's purchase price and preliminary allocation were as follows:

(IN THOUSANDS)

| | | |
|---|---|---|
| Consideration and acquisition costs: | | |
| Cash paid to NEN.................................. | $ | 348,918 |
| Debt assumed...................................... | | 48,262 |
| Acquisition costs................................. | | 13,647 |
| Fair value of warrants issued..................... | | 6,940 |
| Total...................................... | $ | 417,767 |
| Preliminary allocation of purchase price: | | |
| Current assets.................................... | $ | 34,327 |
| Property, plant and equipment..................... | | 59,755 |
| Other assets...................................... | | 739 |
| Acquired intangibles.............................. | | 75,900 |
| In-process R&D.................................... | | 24,300 |
| Goodwill.......................................... | | 270,790 |
| Liabilities....................................... | | (48,044) |
| Total...................................... | $ | 417,767 |

On May 28, 1999, the Company completed its acquisition of the Analytical Instruments Division (AI) of PE Corp. for an aggregate purchase price of approximately $425 million, plus acquisition costs. In addition, under the terms of the Purchase Agreement dated March 8, 1999 between the Company and PE Corp. (the "Purchase Agreement"), the Company assumed German and other pension liabilities of approximately $65 million. These pension liabilities were historically funded on a pay-as-you-go basis, and the funding going-forward is expected to remain consistent. The acquisition was accounted for as a purchase under APB Opinion No. 16. In accordance with APB Opinion No. 16, the Company allocated the purchase price of AI based on the fair values of the net assets acquired and liabilities assumed. AI produces high-quality analytical testing instruments and consumables, and generated 1998 fiscal year sales of $569 million. AI's operations are reported in the Company's Instruments segment. Portions of the purchase price, including intangible assets, were valued by independent appraisers utilizing customary valuation procedures and techniques. These intangible assets included approximately $23 million for acquired in-process R&D. This allocation represents the estimated fair value based on risk-adjusted cash flows related to the in-process R&D projects. At the date of the acquisition of AI, the development of these projects had not yet reached technological feasibility, and the R&D in process had no alternative future uses. Accordingly, these costs were expensed in the second quarter of 1999. Other acquired intangibles totaling $163.8 million included the fair value of trade names, trademarks, patents and developed technology. These intangibles are being amortized over their respective estimated useful lives ranging from 10-40 years. Goodwill resulting from the acquisition of AI is being amortized over 40 years. Approximately $28 million was recorded as accrued restructuring charges in connection with the acquisition of AI. The restructuring plans include initiatives to integrate the operations of the Company and of AI. The primary components of these plans relate to: (a) employee termination benefits and related costs for approximately 20% of the acquired workforce of approximately 3,000 employees; (b) consolidation or shutdown of certain operational facilities worldwide and (c) termination of certain leases and other contractual obligations.

During the second quarter of 2000, the Company finalized its restructuring plan for AI. Based on continued aggressive actions by the Company to improve the cost structure of the acquired business, and increased costs related primarily to employment integration, the Company adjusted its original estimate of restructuring costs recorded at the acquisition date in connection with purchase accounting. The majority of the remaining restructuring actions are expected to occur through fiscal 2001.

The components of the purchase price and allocation were as follows:

(IN THOUSANDS)

| | |
|---|---|
| Consideration and acquisition costs: | |
| Cash paid........................................... | $ 275,000 |
| Seller note......................................... | 150,000 |
| Pension liabilities assumed......................... | 65,000 |
| Acquisition costs................................... | 10,000 |
| Total...................................... | $ 500,000 |
| Preliminary allocation of purchase price: | |
| Current assets.................................. | $ 253,777 |
| Property, plant and equipment................... | 33,308 |
| Acquired intangibles............................ | 163,800 |
| In-process R&D.................................. | 23,000 |
| Goodwill........................................ | 185,941 |
| Liabilities..................................... | (159,826) |
| Total...................................... | $ 500,000 |

On December 16, 1998, the Company acquired substantially all of the outstanding common stock and options of Lumen Technologies, Inc. (Lumen), a maker of high-technology specialty light sources. The purchase price of approximately $253 million, which included $75 million of assumed debt, was funded with existing cash and commercial paper borrowings. The acquisition was accounted for as a purchase under APB Opinion No. 16, and the Company allocated the purchase price of Lumen based on the fair values of the assets acquired and liabilities assumed. Portions of the purchase price, including intangible assets, were valued by independent appraisers utilizing customary valuation procedures and techniques. These intangible assets included approximately $2.3 million for acquired in-process R&D for projects that did not have future alternative uses. This allocation represents the estimated fair value based on risk-adjusted cash flows related to the in-process R&D projects. At the date of the acquisition, the development of these projects had not yet reached technological feasibility, and the R&D in process had no alternative future uses. Accordingly, these costs were expensed in the fourth quarter of 1998. Acquired intangibles totaling $11.8 million included the fair value of trade names, trademarks and patents. These intangibles are being amortized over their estimated useful life of 10 years. Goodwill resulting from the Lumen acquisition is being amortized over 30 years. Approximately $5 million was recorded as accrued restructuring charges in connection with the acquisition. The restructuring plans included initiatives to integrate the operations of the Company and Lumen. The primary components of these plans related to: (a) transfer of certain manufacturing activities to lower-cost facilities, (b) integration of the sales and marketing organization and (c) termination of certain contractual obligations.

Unaudited pro forma operating results for the Company, assuming the acquisitions of Lumen and AI occurred on December 29, 1997, and NEN occurred on January 3, 1999, are as follows:

| (IN THOUSANDS EXCEPT PER SHARE DATA) | 2000 | 1999 | 1998 |
|---|---|---|---|
| Sales from continuing operations............. | $ 1,405,376 | $ 1,369,523 | $ 1,246,858 |
| Income from continuing operations............ | 66,192 | (25,007) | 38,313 |
| Basic earnings per share.................. | 0.67 | (0.27) | 0.42 |
| Diluted earnings per share................ | 0.65 | (0.27) | 0.42 |
| Net Income.................................. | $ 97,434 | $ 122,398 | $ 68,814 |
| Basic earnings per share.................. | 0.99 | 1.34 | 0.76 |
| Diluted earning per share................. | 0.95 | 1.31 | 0.75 |

The pro forma amounts in the table above exclude the in-process R&D charges of $24.3 million, $23 million and $2.3 million for NEN, AI and Lumen, respectively. The unaudited pro forma financial information is provided for informational purposes only and is not necessarily indicative of the Company's operating results that would have occurred had the acquisitions been consummated on the date for which the consummation of the acquisitions is being given effect, nor is it necessarily

indicative of the Company's future operating results. The pro forma amounts do not reflect any operating efficiencies and cost savings that the Company believes are achievable.

During the first quarter of 2000, the Company sold its micromachined sensors and specialty semiconductor businesses for cash of $24.3 million, resulting in a pre-tax gain of $6.7 million. Combined financial results of the divested businesses for 2000 and 1999 were not material to the consolidated results of the Company.

During the fourth quarter of 2000, the Company sold its Berthold business at a pre-tax gain of $10 million. The Company has deferred gain recognition of approximately $11.9 million of sales proceeds from this divestiture in connection with certain contingencies related to the sale. Revenues for 2000 and 1999 for the divested business were $30 million and $38 million, respectively. Also during the fourth quarter of 2000, the Company recorded a pre-tax gain of $16 million from the sale of a building.

During the second quarter of 1998, the Company sold its Sealol Industrial Seals division for cash of $100 million, resulting in a pre-tax gain of $58.3 million. The after-tax gain of this divestiture was $42.6 million. Sealol's 1998 sales prior to the disposition were $23 million, and its operating income was $2.1 million. In January 1998, the Company sold its Rotron division for $103 million in cash, resulting in a pre-tax gain of $64.4 million. During the first quarter of 1998, the Company also sold a small product line for $4 million in cash, resulting in a pre-tax gain of $3.1 million. The after-tax gain of these divestitures was $45.2 million in 1998. During 2000 and 1999, in connection with the 1998 dispositions of the Company's Rotron and Sealol Industrial Seals divisions, the Company recognized approximately $3.7 million and $13.2 million respectively, of pre-tax gains from the previously deferred sales proceeds as a result of the favorable resolution of certain events and contingencies.

All of the gains described above are reported on the "Gains on Dispositions" line in the consolidated income statements.

NOTE 3. RESTRUCTURING AND INTEGRATION CHARGES

The Company developed restructuring plans during 1998 to integrate and consolidate its businesses and recorded restructuring charges in the first and second quarters of 1998, which are discussed separately below.

During the first quarter of 1998, management developed a plan to restructure certain businesses. A discussion of the businesses affected within each segment is presented below. The plan resulted in pre-tax restructuring charges totaling $16.5 million. The principal actions in the restructuring plan included close-down or consolidation of a number of offices and facilities, transfer of assembly activities to lower-cost geographic locations, disposal of underutilized assets, withdrawal from certain product lines and general cost reductions.

Specific businesses within each segment which were affected by the restructuring actions are as follows: the Optoelectronics businesses affected produce various lighting and sensor components and systems; the Instruments restructuring related primarily to its Instruments for Research and Applied Science business which produces particle detector equipment.

During the second quarter of 1998, the Company expanded its continuing effort to restructure certain businesses to further improve performance. The plan resulted in additional pre-tax restructuring charges of $18.3 million. The components of the restructuring charges met the criteria set forth in Emerging Issues Task Force Issue 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring). The charges do not include additional costs associated with the restructuring plans, such as training, consulting, purchase of equipment and relocation of employees and equipment. These costs were charged to operations or capitalized, as appropriate, when incurred.

During the third quarter of 1999, due to the substantial completion of the actions of the 1998 restructuring plans, the Company reevaluated its 1998 restructuring plans. As a result of this review, costs associated with the previously planned shutdown of two businesses were no longer required due to actions taken to improve performance. As a result of these developments, the Company recognized a restructuring credit of $3.3 million during the third quarter of 1999, which primarily affected the Optoelectronics segment.

During the second quarter of 2000, the Company recognized an additional restructuring credit of $6.3 million related to its 1998 restructuring plans. This resulted from the elimination of certain planned actions, actions taken to improve performance at costs lower than originally estimated, and the sale of certain businesses included in the restructuring plans.

These credits are reflected in "Restructuring Charges, Net" in the consolidated income statements.

The restructuring charges related to continuing operations recorded in 1998 were broken down as follows by operating segment:

| (IN MILLIONS) | EMPLOYEE SEPARATION COSTS | DISPOSAL OF CERTAIN PRODUCT LINES AND ASSETS |
|---|---|---|
| Life Sciences | $ 3.6 | $ 0.4 |
| Optoelectronics | 8.5 | 6.4 |
| Instruments | 4.9 | 0.8 |
| Corporate and Other | 3.8 | -- |
| Total restructuring charges | 20.8 | 7.6 |
| Amounts incurred through January 3, 1999 | (7.8) | (7.6) |
| Accrued restructuring costs at January 3, 1999 | 13.0 | -- |
| Amounts incurred during 1999 | (7.1) | -- |
| Amounts reversed during 1999 | (1.2) | -- |
| Accrued restructuring costs at January 2, 2000 | 4.7 | -- |
| Amounts incurred during 2000 | -- | -- |
| Amounts reversed during 2000 | (4.7) | -- |
| Accrued restructuring costs at December 31, 2000 | $ -- | $ -- |

The acquisitions by the Company discussed in Note 2 and the Company's divestiture during the third quarter of 1999 of its Technical Services segment (exiting government services) were strategic milestones in the Company's transition to a commercial high-technology company. Consistent with the strategic direction of the Company and concurrent with the reevaluation of existing restructuring plans during the third quarter of 1999, the Company developed additional plans to restructure certain businesses to continue to improve the Company's performance.

These plans resulted in a pre-tax restructuring charge of $18.0 million recorded in the third quarter of 1999. The principal actions in these restructuring plans include close-down or consolidation of a number of offices and facilities, transfer of assembly activities to lower-cost geographic locations, disposal of underutilized assets, withdrawal from certain product lines and general cost reductions. The restructuring plans are expected to result in the elimination of approximately 400 positions, primarily in the manufacturing and sales categories. The major components of the restructuring charge were $8.4 million of employee separation costs to restructure the worldwide organization, including the sales and manufacturing focus, $2.1 million of noncash charges to dispose of certain product lines and assets through sale or abandonment and $7.5 million of charges to terminate lease and other contractual obligations no longer required as a result of the restructuring plans. The charges do not include additional costs associated with the restructuring plans, such as training, consulting, purchase of equipment and relocation of employees and equipment. These costs will be charged to operations or capitalized, as appropriate, when incurred.

The restructuring actions related to the 1999 charge are broken down as follows by business segment:

| (IN MILLIONS) | EMPLOYEE SEPARATION COSTS | DISPOSAL OF CERTAIN PRODUCT LINES AND ASSETS |
|---|---|---|
| Life Sciences | $ 0.5 | $ 0.8 |
| Optoelectronics | 6.1 | 0.8 |
| Instruments | 1.8 | -- |
| Corporate and Other | -- | 0.5 |
| Total restructuring charges | 8.4 | 2.1 |
| Amounts incurred through January 2, 2000 | (1.7) | (0.2) |
| Accrued restructuring costs at January 2, 2000 | $ 6.7 | $ 1.9 |
| Amounts incurred during 2000 | (5.8) | (0.2) |
| Amounts reversed during 2000 | (0.9) | (1.7) |
| Accrued restructuring costs at December 31, 2000 | $ -- | $ -- |

Further details of the Company's restructuring actions are presented below. Specific businesses within each segment which were affected by the restructuring actions are as follows: the Optoelectronics businesses affected produce various lighting and sensor components and systems; the Instruments restructuring relates to its analytical instruments business and its Instruments for Research and Applied Science business which produces particle detector equipment.

Close-down of certain facilities: Costs have been accrued for the closing down of certain facilities. These costs relate primarily to the Instruments and Optoelectronics segments.

Transfer of assembly activities: The Company continues to relocate certain activities, primarily in its Optoelectronics segment, to lower-cost geographic areas, such as the Philippines, Indonesia and China. The costs included in the restructuring charges related to costs associated with exiting the previous operations. Actual costs to physically relocate are charged to operations as incurred.

Disposal of underutilized assets: The Company plans to dispose of underutilized assets either through sale or abandonment, primarily in its Instruments and Optoelectronics segments.

Withdrawal from certain product lines: The Company has made a strategic decision to discontinue certain unprofitable product lines, primarily in its Optoelectronics segment.

During the fourth quarter of 2000, the Company reevaluated its 1999 restructuring plan due to the substantial completion of the respective actions and the continuing transformation of the portfolio of businesses during 2000. This resulted in the reversal of $4.9 million of remaining reserves from the 1999 plan and the recording of a pre-tax restructuring charge of $15.1 million for actions to be completed in 2001 (the "2000 plan"). These charges related to the Company's Life Sciences and Optoelectronics segments. The principal actions in the restructuring plans included close-down or consolidation of a number of offices and facilities, transfer of assembly activities to lower cost geographic locations, disposal of underutilized assets and general cost reductions. The restructuring charges were broken down as follows by operating segment: The Life Sciences' principal actions are associated with rationalization of its distribution network and overall facility consolidation. The Optoelectronics principal actions are associated with its Lighting and Imaging businesses and relate to the shift of certain manufacturing to low cost geographic areas, facility consolidation and general cost reductions.

The following table summarizes activity related to the 2000 plan:

| (IN MILLIONS) | EMPLOYEE SEPARATION COSTS | DISPOSAL OF CERTAIN PRODUCT LINES AND ASSETS |
|---|---|---|
| Life Sciences | $ 2.9 | $ .1 |
| Optoelectronics | 7.2 | 2.8 |
| Total restructuring charges | 10.1 | 2.9 |
| Amounts incurred during 2000 | -- | -- |
| Accrued restructuring costs at December 31, 2000 | $ 10.1 | $ 2.9 |

During the second quarter of 2000, the Company finalized its restructuring plan for AI. Based on continued aggressive actions by the Company to improve the cost structure of the acquired business, and increased costs related primarily to employment integration, the Company adjusted its original estimate of restructuring costs recorded at the acquisition date in connection with purchase accounting. The majority of the remaining restructuring actions are expected to occur through fiscal 2001 and early fiscal 2002.

The following table summarizes reserve activity through December 31, 2000 related to the May 1999 AI acquisition as discussed in Note 2:

| (IN MILLIONS) | |
|---|---|
| Accrued restructuring costs at beginning of period | $ 12.4 |
| Provisions, through purchase accounting, net | 24.0 |
| Charges/Writeoffs | (7.7) |
| Accrued restructuring costs | $ 28.7 |

The following table summarizes reserve activity through December 31, 2000 related to the December 1998 Lumen acquisition and July 2000 NEN acquisition as discussed in Note 2 (all Lumen actions were completed during 2000):

| (IN MILLIONS) | |
|---|---|
| Accrued restructuring costs at beginning of period (Lumen) | $ 1.7 |
| Provisions, through purchase accounting, net | 4.0 |
| Charges/Writeoffs | (2.1) |

| | |
|---|---|
| Accrued restructuring costs | $ 3.6 |

Cash outlays during 2000 were approximately $17 million for all of these plans. The majority of the actions remaining are expected to occur during 2001 and early fiscal 2002.

NOTE 4. ASSET IMPAIRMENT CHARGES

During the third quarter of 1999, in connection with its ongoing review of its portfolio of businesses, the Company conducted a strategic review of certain units within its business segments. The strategic review triggered an impairment review of long-lived assets of certain business units that were expected to be disposed. The Company calculated the present value of expected cash flows of certain business units to determine the fair value of those assets. Accordingly, in the third quarter of 1999, the Company recorded non-cash impairment charges and wrote down goodwill by $15 million in the Instruments segment and $3 million in the Optoelectronics segment. Sales and operating profit for the businesses under strategic review were approximately $54 million and $2 million, respectively, in 1999.

NOTE 5. OTHER (EXPENSE) INCOME

Other (expense) income, net, consisted of the following:

| (IN THOUSANDS) | 2000 | 1999 | 1998 |
|---|---|---|---|
| Interest Income | $ 3,844 | $ 3,020 | $ 6,791 |
| Interest Expense | (36,745) | (24,704) | (8,820) |
| Gains on sales of investments, net | 1,294 | 1,952 | 4,465 |
| Other | (2,085) | 8,658 | (439) |
| | $ (33,692) | $ (11,074) | $ 1,997 |

Other consists mainly of foreign exchange losses, and $2.2 million of income received by the Company in 1999 related to the demutualization of a life insurance company in which the Company is a policyholder. The increase in interest expense in 2000 versus 1999 is due to the impact of higher debt levels resulting from acquisitions.

NOTE 6. INCOME TAXES

The components of income from continuing operations before income taxes for financial reporting purposes were as follows:

| (IN THOUSANDS) | 2000 | 1999 | 1998 |
|---|---|---|---|
| U.S. | $ (11,325) | $ (28,342) | $ 14,843 |
| Non-U.S | 110,302 | 39,838 | 88,076 |
| | $ 98,977 | $ 11,496 | $ 102,919 |

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The components of the provision for income taxes for continuing operations were as follows:

| (IN THOUSANDS) | CURRENT | DEFERRED (PREPAID) | TOTAL |
|---|---|---|---|
| 2000 | | | |
| Federal........................... | $ 1,314 | $ 11,561 | $ 12,875 |
| State............................. | 504 | 2,380 | 2,884 |
| Non-U.S. ......................... | 25,257 | (1,317) | 23,940 |
| | $ 27,075 | $ 12,624 | $ 39,699 |
| 1999 | | | |
| Federal........................... | $ 6,511 | $ (12,706) | $ (6,195) |
| State............................. | 330 | (1,970) | (1,640) |
| Non-U.S. ......................... | 13,234 | (814) | 12,420 |
| | $ 20,075 | $ (15,490) | $ 4,585 |
| 1998 | | | |
| Federal........................... | $ 25,741 | $ (7,650) | $ 18,091 |
| State............................. | 3,054 | (982) | 2,072 |
| Non-U.S. ......................... | 15,234 | (3,979) | 11,255 |
| | $ 44,029 | $ (12,611) | $ 31,418 |

The total provision for income taxes included in the consolidated financial statements was as follows:

| (IN THOUSANDS) | 2000 | 1999 | 1998 |
|---|---|---|---|
| Continuing Operations ............... | $ 39,699 | $ 4,585 | $ 31,418 |
| Discontinued Operations............. | 21,570 | 92,436 | 22,614 |
| | $ 61,269 | $ 97,021 | $ 54,032 |

The major differences between the Company's effective tax rate for continuing operations and the federal statutory rate were as follows:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Federal statutory rate ..................... | 35.0% | 35.0% | 35.0% |
| Non-U.S. rate differential, net............ | (18.7) | (23.4) | (21.3) |
| Future remittance of non-U.S. earnings...... | 0.0 | 0.0 | 9.7 |

| | | | |
|---|---|---|---|
| State income taxes, net | 2.0 | (6.2) | 1.2 |
| Goodwill amortization | 12.0 | 29.7 | 0.7 |
| Goodwill write-downs | 0.0 | 45.6 | 0.0 |
| In-process R&D | 11.5 | 0.0 | 0.0 |
| Change in valuation allowance | (2.5) | 35.1 | 2.3 |
| Other, net | 0.8 | (75.9) | 2.9 |
| Effective tax rate | 40.1% | 39.9% | 30.5% |

The 2000 tax provision and effective rate for continuing operations includes tax for nonrecurring items such as the disposals of Berthold, IC Sensors and Judson. The 1999 tax provision and effective rate for continuing operations was impacted by a non-deductible goodwill write-down.

The tax effects of temporary differences and carryovers that gave rise to deferred income tax assets and liabilities as of December 31, 2000 and January 2, 2000 were as follows:

| (IN THOUSANDS) | 2000 | 1999 |
|---|---|---|
| Deferred tax assets: | | |
| Inventory reserves | $ 149 | $ 3,895 |
| Other reserves | 17,300 | 10,645 |
| Deferred income | 6,179 | 6,024 |
| Vacation pay | 4,991 | 4,072 |
| Net operating loss carryforwards | 14,447 | 28,562 |
| Post-retirement health benefits | 5,191 | 4,282 |
| Restructuring reserve | 15,995 | 15,557 |
| In-process R&D | 10,726 | 8,970 |
| All other, net | 45,806 | 48,837 |
| Total deferred tax assets | 120,784 | 130,844 |
| Deferred tax liabilities: | | |
| Pension contribution | (11,912) | (10,555) |
| Amortization | (5,877) | (995) |
| Depreciation | (26,467) | (8,324) |
| All other, net | (16,081) | (16,852) |
| Total deferred tax liabilities | (60,337) | (36,726) |
| Valuation allowance | (14,447) | (28,580) |
| Net prepaid taxes | $ 46,000 | $ 65,538 |

At December 31, 2000, the Company had non-U.S. (primarily from Germany) net operating loss carryovers of $53.4 million, substantially all of which carry forward indefinitely. The valuation allowance results primarily from these carryovers, for which the Company currently believes it is more likely than not that they will not be realized.

Current deferred tax assets of $53 million and $84 million were included in other current assets at December 31, 2000 and January 2, 2000, respectively. Long-term deferred tax liabilities of $8 million and $19 million were included in long-term liabilities at December 31, 2000 and January 2, 2000, respectively.

In general, it is the practice and intention of the Company to reinvest the earnings of its non-U.S. subsidiaries in those operations. Repatriation of retained earnings is done only when it is advantageous. Applicable federal taxes are provided only on amounts planned to be remitted. In connection with 1998 divestitures, certain proceeds will not be permanently reinvested in those operations, and, accordingly, federal taxes in the amount of $10 million were provided in connection with those earnings.

NOTE 7. DISCONTINUED OPERATIONS

On August 20, 1999, the Company sold the assets of its Technical Services segment, including the outstanding capital stock of EG&G Defense Materials, Inc., a subsidiary of the Company, to EG&G Technical Services, Inc., an affiliate of The Carlyle Group L.P. (the "Buyer"), for approximately $250 million in cash and the assumption by the Buyer of certain liabilities of the Technical Services segment. Approximately $2.1 million of the cash purchase price will be paid by the Buyer to the Company on the seventh anniversary of the closing of this transaction. The Company recorded an additional pre-tax gain of $7.3 million on the disposition of discontinued operations as a result of a post-closing selling price settlement in the second quarter of 2000.

The results of operations of the Technical Services segment were previously reported as one of five business segments of the Company. The Company accounted for the sale of its Technical Services segment as a discontinued operation in accordance with APB Opinion No. 30 and, accordingly, the results of operations of the Technical Services segment have been segregated from continuing operations and reported as a separate line item on the Company's Consolidated Income Statements. The Company recorded a pre-tax gain on disposition of discontinued operations of $181 million, net of transaction and related costs, during 1999. The $110 million after-tax gain was reported separately from the results of the Company's continuing operations.

The Company's former Department of Energy (DOE) segment is also presented as discontinued operations in accordance with APB Opinion No. 30. The Company's last DOE management and operations contract expired in 1997. The Company is in the process of negotiating contract closeouts and does not anticipate incurring any material loss in excess of previously established reserves.

In July 2001, the Company approved a plan to sell its Security and Detection Systems business. The results of operations of the Security and Detection Systems business were previously reported as part of the Instruments segment. In October 2001, The Company approved a plan to sell its Fluid Sciences segment. The Company has accounted for the plan to sell both businesses as discontinued operations in accordance with APB Opinion No. 30, and accordingly, the results of operations of the Security and Detection Systems business and the Fluid Sciences segment have been segregated from continuing operations and reported as a separate line on the Company's Consolidated Income Statements.

Summary operating results of the discontinued operations for the Technical Services and Fluid Sciences segments and the Security and Detection Systems business (through December 31, 2000) were as follows:

| (IN THOUSANDS) | 2000 | 1999 | 19 |
|---|---|---|---|
| Sales | $ 359,735 | $ 615,070 | $ 862 |
| Costs and Expenses | 305,829 | 546,454 | 808 |
| Operating income from discontinued operations | 53,906 | 68,616 | 54 |
| Other expense | (8,394) | (9560) | (1 |
| Income from discontinued operations before income taxes | 45,512 | 59,056 | 53 |
| Provision for income taxes | 18,723 | 21,931 | 22 |
| Income from discontinued operations, net of income taxes | $ 26,789 | $ 37,125 | $ 30 |

NOTE 8. EARNINGS PER SHARE

Basic earnings per share was computed by dividing net income by the weighted-average number of common shares outstanding during the year. Diluted earnings per share was computed by dividing net income by the weighted-average number of common shares outstanding plus all potentially dilutive common shares outstanding, primarily shares issuable upon the exercise of stock options using the treasury stock method. The following table reconciles the number of shares utilized in the earnings per share calculations:

| (IN THOUSANDS) | 2000 | 1999 | 1998 |
|---|---|---|---|
| Number of common shares -- basic | 98,212 | 91,044 | 90,644 |
| Effect of dilutive securities | | | |
| Stock options | 4,022 | 2,030 | 1,032 |
| Other | 44 | 64 | 92 |
| Number of common shares -- diluted | 102,278 | 93,138 | 91,768 |

Options to purchase 54,400 and 184,000 shares of common stock were not included in the computation of diluted earnings per share for 2000 and 1998, respectively, because the options' exercise prices were greater than the average market price of the common shares and thus their effect would have been antidilutive. Additionally, the Company's zero coupon senior convertible debentures (See Note 14) are currently convertible into 10.8 million shares of the Company's common stock at approximately $42.50 per share. Conversion of the debentures was not assumed in the computation of diluted earnings per share because the effect of assumed conversion would have been antidilutive.

NOTE 9. ACCOUNTS RECEIVABLE

Accounts receivable were net of reserves for doubtful accounts of $13.3 million and $11.7 million as of December 31, 2000 and January 2, 2000, respectively. The increase is primarily due to the higher revenues in 2000 versus 1999 and the inclusion of NEN in 2000.

NOTE 10. INVENTORIES

Inventories as of December 31, 2000 and January 2, 2000, consisted of the following:

| (IN THOUSANDS) | 2000 | 1999 |
|---|---|---|
| Raw materials............... | $ 61,564 | $ 81,606 |
| Work in progress............ | 46,785 | 21,272 |
| Finished goods ............. | 82,177 | 73,838 |
| | $ 190,526 | $ 176,716 |

The increase in inventories was primarily due to the acquisition of NEN in 2000.

NOTE 11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, at cost, as of December 31, 2000 and January 2, 2000 consisted of the following:

| (IN THOUSANDS) | 2000 | 1999 |
|---|---|---|
| Land .................................... | $ 23,767 | $ 23,815 |
| Building and leasehold improvements....... | 125,830 | 105,349 |
| Machinery and equipment.................. | 274,544 | 244,066 |
| | $ 424,141 | $ 373,230 |

Increases in property, plant and equipment due to the acquisition of NEN and capital expenditures during 2000 were partially offset by decreases resulting from dispositions and the effect of translating fixed assets denominated in non-U.S. currencies at current exchange rates.

NOTE 12. INVESTMENTS

Investments as of December 31, 2000 and January 2, 2000 consisted of the following:

| (IN THOUSANDS) | 2000 | 1999 |
|---|---|---|
| Marketable investments .................... | $ 21,936 | $ 11,082 |
| Joint venture and other investments......... | 14,290 | 3,115 |
| | $ 36,226 | $ 14,197 |

The primary components of the increase in investments in 2000 versus 1999 are certain strategic alliances and equity investments made through the

Company's Life Sciences and Optoelectronics segments.

Joint venture investments are accounted for using the equity method. Marketable investments consisted of trust assets which were carried at market value and were primarily invested in common stocks and fixed-income securities to meet the supplemental executive retirement plan obligation, as well as an $8 million equity investment in Genomic Solutions made in 2000. The market values were based on quoted market prices. As of December 31, 2000 the fixed-income securities, on average, had maturities of approximately 15 years.

The net unrealized holding gain on marketable investments, net of deferred income taxes, reported as a component of accumulated other comprehensive income (loss) in stockholders' equity, was $0.9 million and $0.4 million at December 31, 2000 and January 2, 2000, respectively. During 2000, the Company completed a strategic alliance with and made an initial $5 million investment in Bragg Photonics, a maker of key fiber optic components. The Company's initial 13% investment in Bragg Photonics was increased to 26% during the year for a total investment at December 31, 2000 of $10 million.

Marketable investments classified as available for sale as of December 31, 2000 and January 2, 2000 consisted of the following:

| (IN THOUSANDS) | MARKET VALUE | COST | GROSS UNREALIZED HOLDING GAINS | GROSS UNREALIZED HOLDING (LOSSES) |
|---|---|---|---|---|
| 2000 | | | | |
| Common stocks................ | $ 17,356 | $ 16,021 | $ 1,689 | $ (354) |
| Fixed-income security........ | 4,143 | 4,074 | 69 | -- |
| Other........................ | 437 | 492 | -- | (55) |
| | $ 21,936 | $ 20,587 | $ 1,758 | $ (409) |
| 1999 | | | | |
| Common stocks ............... | $ 7,046 | $ 6,345 | $ 721 | $ (20) |
| Fixed-income security........ | 3,360 | 3,449 | -- | (89) |
| Other........................ | 676 | 652 | 24 | -- |
| | $ 11,082 | $ 10,446 | $ 745 | $ (109) |

NOTE 13. INTANGIBLE ASSETS

Intangible assets consist mainly of goodwill from acquisitions accounted for using the purchase method of accounting, representing the excess of cost over the fair market value of the net assets of the acquired businesses. Goodwill is being amortized over periods of 10-40 years. Goodwill, net of accumulated amortization, was $631 million and $386 million at December 31, 2000 and January 2, 2000, respectively. Other identifiable intangible assets from acquisitions include patents, trademarks, trade names and developed technology and are being amortized over periods of 10-40 years. Other identifiable intangible assets, net of accumulated amortization, were $256 million and $172 million at December 31, 2000 and January 2, 2000, respectively. Intangible assets as of December 31, 2000 and January 2, 2000 consisted of the following:

| (IN THOUSANDS) | 2000 | 1999 |
|---|---|---|

| | | |
|---|---|---|
| Goodwill .................................... | $ 677,029 | $ 438,406 |
| Other identifiable intangible assets.......... | 293,900 | 178,550 |
| | 970,929 | 616,956 |
| Less: Accumulated amortization ............. | 84,360 | 59,000 |
| | $ 886,569 | $ 557,956 |

The increase in intangible assets resulted primarily from the NEN acquisition.

NOTE 14. DEBT

Short-term debt at December 31, 2000 was $183 million and was comprised primarily of commercial paper borrowings. The weighted average interest rate on the commercial paper borrowings, which had maturities of 60 days or less, was 6.7%.

Short-term debt at January 2, 2000 was $382 million and included one-year promissory notes of $150 million issued to PE Corp. at an interest rate of 5%, money market loans of $85 million and commercial paper borrowings of $140 million.

In March 2001, the Company's $300 million revolving credit facility was refinanced and will expire in March 2002 and the Company also refinanced an additional $100 million revolving credit facility which expires in March 2006. These agreements, which serve as backup facilities for the commercial paper borrowings, have no significant commitment fees. There were no amounts outstanding under these lines at December 31, 2000 or January 2, 2000.

At December 31, 2000 and January 2, 2000, long-term debt was $583.3 million and $114.9 million, respectively, and included $115 million of unsecured ten-year notes issued in October 1995 at an interest rate of 6.8%, which mature in 2005 as well as $460 million of zero coupon senior convertible debentures described below. The carrying amount of the unsecured ten-year notes approximated the estimated fair value at December 31, 2000, based on a quoted market price. The estimated fair value of the convertible debentures approximated $558 million at December 31, 2000, also based on a quoted market price.

In August 2000, the Company sold zero coupon senior convertible debentures with an aggregate purchase price of $460 million. The Company used the offering's net proceeds of approximately $448 million to repay a portion of its commercial paper borrowings, which had been increased temporarily to finance the NEN acquisition. Deferred issuance costs of $12 million were recorded as a noncurrent asset and are being amortized over three years. The debentures, which were offered by a prospectus supplement pursuant to the Company's effective shelf registration statement, are due August 2020, and were priced with a yield to maturity of 3.5%. At maturity, the Company will repay $921 million, comprised of $460 million of original purchase price plus accrued original issue discount. The Company may redeem some or all of the debentures at any time on or after August 7, 2003 at a redemption price equal to the issue price plus accrued original issue discount through the redemption date. Holders of the debentures may require the Company to repurchase some or all of the debentures in August 2003 and August 2010, or at any time when there is a change in control of the Company, as is customary and ordinary for debentures of this nature, at a repurchase price equal to the initial price to the public plus accrued original issue discount through the date of the repurchase. The debentures are currently convertible into 10.8 million shares of the Company's common stock at approximately $42.50 per share.

In connection with the completion of the NEN acquisition on July 31, 2000, the Company paid approximately $350 million in cash as a part of the purchase price. In addition, the Company repaid approximately $50 million of outstanding indebtedness of NEN. The Company financed the acquisition and repayment of the outstanding indebtedness with $410 million of commercial paper borrowings with a weighted-average interest rate of 7%. These short-term borrowings were repaid in early August with proceeds from the issuance of long-term convertible debentures, as discussed above.

NOTE 15. ACCRUED EXPENSES

Accrued expenses as of December 31, 2000 and January 2, 2000 consisted of the following:

| (IN THOUSANDS) | 2000 | 1999 |
|---|---|---|
| Payroll and incentives ........................ | $ 34,498 | $ 26,285 |
| Employee benefits ............................. | 42,126 | 44,375 |
| Federal, non-U.S. and state income taxes........ | 39,973 | 47,808 |
| Other accrued operating expenses ............... | 180,299 | 141,767 |
| | $ 296,896 | $ 260,235 |

The increase is due primarily to the inclusion of NEN, which was acquired in 2000.

NOTE 16. EMPLOYEE BENEFIT PLANS

The following employee benefit plan disclosures include amounts and information, on a combined basis, for both the continuing and discontinued operations of the Company.

Savings Plan: The Company has a savings plan for the benefit of qualified U.S. employees. Under this plan, the Company contributes an amount equal to the lesser of 55% of the amount of the employee's voluntary contribution or 3.3% of the employee's annual compensation. Savings plan expense charged to continuing operations was $5.4 million in 2000, $3.9 million in 1999, and $2.7 million in 1998.

Pension Plans: The Company has defined benefit pension plans covering substantially all U.S. employees and non-U.S. pension plans for non-U.S. employees. The plans provide benefits that are based on an employee's years of service and compensation near retirement. Assets of the U.S. plan are comprised primarily of equity and debt securities.

Net periodic pension cost included the following components:

| (IN THOUSANDS) | 2000 | 1999 | 1998 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Service cost | $ 6,063 | $ 8,539 | $ 9,365 |
| Interest cost | 16,974 | 19,528 | 18,300 |
| Expected return on plan assets | (17,998) | (23,130) | (23,360) |
| Net amortization and deferral | (487) | (645) | (825) |
| | $ 4,552 | $ 4,292 | $ 3,480 |

The following table sets forth the changes in the funded status of the principal U.S. pension plan and the principal non-U.S. pension plans and the amounts recognized in the Company's consolidated balance sheets as of December 31, 2000 and January 2, 2000.

| | 2000 | |
|---|---|---|
| (IN THOUSANDS) | NON-U.S. | U.S. |
| Actuarial present value of benefit obligations: | | |
| Accumulated benefit obligations | $ 63,518 | $ 157,587 |
| Projected benefit obligations at beginning of year | $ 91,888 | $ 171,106 |
| AI projected benefit obligations at date of acquisition | -- | -- |
| Service cost | 1,439 | 4,624 |
| Interest cost | 4,778 | 12,196 |
| Benefits paid | (3,398) | (9,677) |
| Actuarial loss (gain) | (4,168) | (3,898) |
| Effect of exchange rate changes | (6,251) | -- |
| Dispositions | (17,584) | -- |
| Settlement loss - discontinued operations | -- | -- |
| Curtailment gain - discontinued operations | -- | -- |
| Reduction of projected benefit obligations-discontinued operations | -- | -- |
| Projected benefit obligations at end of year | 66,704 | 174,351 |
| Fair value of plan assets at beginning of year | -- | 254,535 |
| Actual return on plan assets | -- | (14,038) |
| Benefits paid and plan expenses | -- | (9,678) |
| Transfer out - discontinued operations | -- | (472) |
| Fair value of plan assets at end of year | -- | 230,347 |
| Plan assets less (greater) than projected benefit obligations | 66,704 | (55,996) |
| Unrecognized net transition asset | -- | 512 |
| Unrecognized prior service costs | (732) | (52) |
| Unrecognized net gain | 3,252 | 19,469 |
| Accrued pension liability (asset) | $ 69,224 | $ (36,067) |
| Actuarial assumptions as of the year-end measurement date: | | |
| Discount rate | 6.0% | 7.5% |

| | | |
|---|---|---|
| Rate of compensation increase .............................. | 3.3% | 4.5% |
| Expected rate of return on assets .......................... | -- | 9.0% |

Non-U.S. accrued pension liabilities classified as long-term liabilities totaled $86 million and $122 million as of December 31, 2000 and January 2, 2000, respectively. The U.S. pension asset was classified as other noncurrent assets.

The Company also sponsors a supplemental executive retirement plan to provide senior management with benefits in excess of normal pension benefits. At December 31, 2000 and January 2, 2000, the projected benefit obligations were $16.4 million and $14.9 million, respectively. Assets with a fair value of $9.2 million and $9.8 million segregated in a trust, were available to meet this obligation as of December 31, 2000 and January 2, 2000, respectively. Pension expense for this plan was approximately $2.0 million in 2000, $1.8 million in 1999 and $1.4 million in 1998.

Postretirement Medical Plans: The Company provides health care benefits for eligible retired U.S. employees under a comprehensive major medical plan or under health maintenance organizations where available. The majority of the Company's U.S. employees become eligible for retiree health benefits if they retire directly from the Company and have at least ten years of service. Generally, the major medical plan pays stated percentages of covered expenses after a deductible is met and takes into consideration payments by other group coverage's and by Medicare. The plan requires retiree contributions under most circumstances and has provisions for cost-sharing changes. For employees retiring after 1991, the Company has capped its medical premium contribution based on employees' years of service. The Company funds the amount allowable under a 401(h) provision in the Company's defined benefit pension plan. Assets of the plan are comprised primarily of equity and debt securities.

Net periodic post-retirement medical benefit cost (credit) included the following components:

| (IN THOUSANDS) | 2000 | 1999 | 1998 |
|---|---|---|---|
| Service cost ...................... | $ 232 | $ 289 | $ 360 |
| Interest cost ..................... | 992 | 1,036 | 1,250 |
| Expected return on plan assets...... | (1,219) | (1,304) | (1,245) |
| Net amortization and deferral....... | (1,516) | (1,022) | (402) |
| | $ (1,511) | $ (1,001) | $ (37) |

The following table sets forth the changes in the postretirement medical plan's funded status and the amounts recognized in the Company's consolidated balance sheets at December 31, 2000 and January 2, 2000:

| (IN THOUSANDS) | 2000 |
|---|---|
| Actuarial present value of benefit obligations: | |
| Retirees ........................................................... | $ 10,379 |
| Active employees eligible to retire ................................ | 371 |
| Other active employees............................................... | 2,117 |

| | |
|---|---|
| Accumulated benefit obligations at beginning of year | 12,867 |
| Service cost | 232 |
| Interest cost | 992 |
| Benefits paid | (1,196) |
| Actuarial loss (gain) | 430 |
| Plan adjustments | 530 |
| Settlement loss - discontinued operations | -- |
| Curtailment gain - discontinued operations | -- |
| Reduction of projected benefit obligations - discontinued operations | -- |
| Change in accumulated benefit obligations during the year | 988 |
| Retirees | 10,651 |
| Active employees eligible to retire | 400 |
| Other active employees | 2,804 |
| Accumulated benefit obligations at end of year | 13,855 |
| Fair value of plan assets at beginning of year | 14,474 |
| Actual return on plan assets | (590) |
| Benefits paid and plan expenses | (1,630) |
| Transfer out - discontinued operations | -- |
| Fair value of plan assets at end of year | 12,254 |
| Fair value of plan assets less (greater) than accumulated benefit obligations | 1,601 |
| Unrecognized prior service costs | (489) |
| Unrecognized net gain | 4,614 |
| Accrued post-retirement medical liability | $ 5,726 |

| | |
|---|---|
| Actuarial assumptions as of the year-end measurement date: | |
| Discount rate | 7.5% |
| Expected rate of return on assets | 9.0% |
| Health care cost trend rate: | |
| First year | 8.0% |
| Ultimate | 5.5% |
| Time to reach ultimate | 3 years |

The accrued postretirement medical liability included $4.7 million and $6.6 million classified as long-term liabilities as of December 31, 2000 and January 2, 2000, respectively.

If the health care cost trend rate was increased 1%, the accumulated postretirement benefit obligations would have increased by approximately $0.6 million at December 31, 2000. The effect of this increase on the annual cost for 2000 would have been approximately $42,000. If the health care cost trend rate was decreased 1%, the accumulated postretirement benefit obligations would have decreased by approximately $0.5 million at December 31, 2000. The effect of this decrease on the annual cost for 2000 would have been approximately $37,000.

Deferred Compensation Plans: During 1998, the Company implemented certain nonqualified deferred compensation programs that provide benefits payable to officers and certain key employees or their designated beneficiaries at specified future dates, upon retirement or death. Benefit payments under these plans are funded by a combination of contributions from participants and the Company.

Other: In April 1999, the Company's stockholders approved the 1999 Incentive Plan, under which cash performance awards as well as an aggregate of 3.5 million shares of the Company's common stock were made available for option grants, restricted stock awards, performance units and other stock-based awards.

NOTE 17. REIMBURSEMENT OF INVESTED CAPITAL

In 1997, the Company received a $30.4 million payment as part of the negotiation of a joint development contract. This payment represented a $27 million reimbursement of previously invested capital, which will be amortized to income over the estimated life of the related assets, and a $3.4 million reimbursement of cost of capital, which was included in other income. The reimbursement, net of accumulated amortization, included in long-term liabilities was $11 million as of December 31, 2000 and $15.3 million as of January 2, 2000.

NOTE 18. COMMITMENTS AND CONTINGENCIES

The Company is subject to various claims, legal proceedings and investigations covering a wide range of matters that arise in the ordinary course of its business activities. Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be resolved unfavorably to the Company. The Company has established accruals for matters that are probable and reasonably estimable. Management believes that any liability that may ultimately result from the resolution of these matters in excess of amounts provided will not have a material adverse effect on the financial position or results of operations of the Company.

In addition, the Company is conducting a number of environmental investigations and remedial actions at current and former Company locations and, along with other companies, has been named a potentially responsible party (PRP) for certain waste disposal sites. The Company accrues for environmental issues in the accounting period that the Company's responsibility is established and when the cost can be reasonably estimated. The Company has accrued $5.4 million as of December 31, 2000, representing management's estimate of the total cost of ultimate disposition of known environmental matters. Such amount is not discounted and does not reflect any recovery of any amounts through insurance or indemnification arrangements. These cost estimates are subject to a number of variables, including the stage of the environmental investigations, the magnitude of the possible contamination, the nature of the potential remedies, possible joint and several liability, the timeframe over which remediation may occur and the possible effects of changing laws and regulations. For sites where the Company has been named a PRP, management does not currently anticipate any additional liability to result from the inability of other significant named parties to contribute. The Company expects that such accrued amounts could be paid out over a period of up to five years. As assessments and remediation activities progress at each individual site, these liabilities are reviewed and adjusted to reflect additional information as it becomes available. There have been no environmental problems to date that have had or are expected to have a material effect on the Company's financial position or results of operations. While it is reasonably possible that a material loss exceeding the amounts recorded may have been incurred, the preliminary stages of the investigations make it impossible for the Company to reasonably estimate the range of potential exposure.

During the third quarter of 2001 the Company received notice from the Internal Revenue Service (IRS) that a previously brought US Tax Court case had been settled in the Company's favor, resulting in a immaterial refund. The total additional tax proposed by the IRS previously amounted to $74 million plus interest.

NOTE 19. RISKS AND UNCERTAINTIES

For information concerning various investigations, claims, legal proceedings, environmental investigations and remedial actions, and notices from the IRS, see Note 18. For information concerning factors affecting future performance, see Management's Discussion and Analysis.

Costs incurred under cost-reimbursable government contracts, primarily in the former Technical Services segment, which is presented as discontinued operations, are subject to audit by the government. The results of prior audits, completed through 1996, have not had a material effect on the Company.

The Company's management and operations contracts with the DOE are presented as discontinued operations. The Company's last DOE management and operations contract expired on September 30, 1997. The Company is in the process of negotiating contract closeouts and does not anticipate incurring any material loss in excess of previously established reserves.

NOTE 20. STOCKHOLDERS' EQUITY

Stock-Based Compensation: Under the 1999 Incentive Plan, 3.5 million additional shares of the Company's common stock were made available for option grants, restricted stock awards, performance units and other stock-based awards. At December 31, 2000, 1.9 million shares of the Company's common stock were reserved for employee benefit plans.

The Company has nonqualified and incentive stock option plans for officers and key employees. Under these plans, options may be granted at prices not less than 100% of the fair market value on the date of grant. Options expire 7-10 years from the date of grant, and options granted become exercisable, in ratable installments, over periods of 3-5 years from the date of grant. The Compensation Committee of the Board o