

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

THERMO ELECTRON CORP
Form 10-Q/A
August 14, 2002

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

AMENDMENT NO. 1 ON FORM 10-Q/A

(mark one)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934 for the Quarter Ended June 29, 2002

Transition Report Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934

Commission File Number 1-8002

THERMO ELECTRON CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware 04-2209186
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

81 Wyman Street, P.O. Box 9046 02454-9046
Waltham, Massachusetts (Zip Code)
(Address of principal executive offices)

Registrant's telephone number, including area code: (781) 622-1000

Indicate by check mark whether the Registrant (1) has filed all reports required
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during
the preceding 12 months and (2) has been subject to such filing requirements for
the past 90 days. Yes No

Indicate the number of shares outstanding of each of the issuer's classes of
Common Stock, as of the latest practicable date.

Class	Outstanding at July 26, 2002
----- Common Stock, \$1.00 par value	----- 166,494,684

This Amendment No. 1 on Form 10-Q/A is being filed to amend and restate Note 14
to the financial statements.

PART I - Financial Information

Item 1 - Financial Statements

THERMO ELECTRON CORPORATION

Consolidated Balance Sheet
(Unaudited)

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

Assets

(In thousands)

Current Assets:

Cash and cash equivalents

Short-term available-for-sale investments, at quoted market value (amortized cost of \$654,079 and \$697,757; Notes 4, 11, and 14)

Accounts receivable, less allowances of \$26,042 and \$26,525

Unbilled contract costs and fees

Inventories:

Raw materials and supplies

Work in process

Finished goods (includes \$14,491 and \$14,918 at customer locations)

Deferred tax asset

Other current assets

Property, Plant, and Equipment, at Cost

Less: Accumulated depreciation and amortization

Long-term Available-for-sale Investments, at Quoted Market Value (amortized cost of \$5,729)

Other Assets

Goodwill (Notes 2, 8, and 12)

<

2

>

THERMO ELECTRON CORPORATION

Consolidated Balance Sheet (continued)
(Unaudited)

Liabilities and Shareholders' Investment

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

(In thousands except share amounts)

Current Liabilities:

Short-term obligations and current maturities of long-term obligations
(Notes 5 and 11)
Accounts payable
Accrued payroll and employee benefits
Accrued income taxes
Deferred revenue
Accrued restructuring costs (Note 13)
Other accrued expenses (Note 2)
Net liabilities of discontinued operations (Note 14)

Long-term Deferred Income Taxes and Other Deferred Items

Long-term Obligations:

Senior convertible obligations
Senior notes (Note 10)
Subordinated convertible obligations
Other

Minority Interest (Note 12)

Shareholders' Investment:

Preferred stock, \$100 par value, 50,000 shares authorized; none issued
Common stock, \$1 par value, 350,000,000 shares authorized; 179,003,871 and
199,816,264 shares issued (Note 16)
Capital in excess of par value
Retained earnings
Treasury stock at cost, 10,441,652 and 23,458,555 shares (Note 16)
Deferred compensation
Accumulated other comprehensive items (Notes 7 and 10)

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

<

3

>

THERMO ELECTRON CORPORATION

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

Consolidated Statement of Operations
(Unaudited)

(In thousands except per share amounts)

Revenues

Costs and Operating Expenses:

Cost of revenues (Note 13)

Selling, general, and administrative expenses

Research and development expenses

Restructuring and other unusual costs, net (Note 13)

Operating Income

Other Income (Expense), Net (Notes 4, 10, and 13)

Income from Continuing Operations Before Provision for Income Taxes, Minority
Interest, and Extraordinary Item

Provision for Income Taxes

Minority Interest Income

Income from Continuing Operations Before Extraordinary Item

Gain on Disposal of Discontinued Operations, Net (represents tax benefit in 2002; net
of income tax provision of \$17,259 in 2001; Note 14)

Income Before Extraordinary Item

Extraordinary Item (net of income tax provision of \$14; Note 5)

Net Income

Earnings per Share from Continuing Operations Before Extraordinary Item (Note 6):
Basic

Diluted

Earnings per Share (Note 6):

Basic

Diluted

Weighted Average Shares (Note 6):

Basic

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

Diluted

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

<

4

>

THERMO ELECTRON CORPORATION

Consolidated Statement of Operations
(Unaudited)

(In thousands except per share amounts)

Revenues

Costs and Operating Expenses:

Cost of revenues

Selling, general, and administrative expenses

Research and development expenses

Restructuring and other unusual costs, net (Note 13)

Operating Income

Other Income (Expense), Net (Notes 4, 10, and 13)

Income from Continuing Operations Before Provision for Income Taxes, Minority Interest, Extraordinary Item, and Cumulative Effect of Change in Accounting Principle

Provision for Income Taxes

Minority Interest Income

Income from Continuing Operations Before Extraordinary Item and Cumulative Effect of Change in Accounting Principle

Gain (Loss) on Disposal of Discontinued Operations, Net (includes tax benefit of \$13,408 in 2002; net of tax benefit of \$22,741 in 2001; Note 14)

Income (Loss) Before Extraordinary Item and Cumulative Effect of Change in Accounting Principle

Extraordinary Item (net of income tax benefit of \$366; Note 5)

Income (Loss) Before Cumulative Effect of Change in Accounting Principle

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

Cumulative Effect of Change in Accounting Principle (net of income tax benefit and minority interest of \$663)

Net Income (Loss)

Earnings per Share from Continuing Operations Before Extraordinary Item and Cumulative Effect of Change in Accounting Principle (Note 6):

Basic

Diluted

Earnings (Loss) per Share (Note 6):

Basic

Diluted

Weighted Average Shares (Note 6):

Basic

Diluted

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

<

5

>

THERMO ELECTRON CORPORATION

Consolidated Statement of Cash Flows (Unaudited)

(In thousands)

Operating Activities:

Net income (loss)

(Gain) loss on disposal of discontinued operations, net (Note 14)

Income from continuing operations

Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities:

Depreciation and amortization (Note 8)

Noncash restructuring and other unusual costs, net (Note 13)

Provision for losses on accounts receivable

Minority interest income

Equity in earnings of unconsolidated subsidiaries (Note 4)

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

Cumulative effect of change in accounting principle, net of income tax benefit and minority interest
Change in deferred income taxes
Gain on sale of businesses
(Gain) loss on investments, net (Note 4)
Extraordinary item, net of income taxes (Note 5)
Other noncash items, net
Changes in current accounts, excluding the effects of acquisitions and dispositions:
 Accounts receivable
 Inventories
 Other current assets
 Accounts payable
 Other current liabilities

Net cash provided by continuing operations
Net cash provided by (used in) discontinued operations

Net cash provided by (used in) operating activities

Investing Activities:

Purchases of available-for-sale investments
Proceeds from sale of available-for-sale investments (Note 4)
Proceeds from maturities of available-for-sale investments
Proceeds from sale of other investments (Note 4)
Purchases of property, plant, and equipment
Proceeds from sale of property, plant, and equipment
Acquisition of minority interest of subsidiary (Note 12)
Acquisitions, net of cash acquired (Note 2)
Collection of note receivables
Proceeds from sale of businesses, net of cash divested
Advance to affiliates

<

6

>

THERMO ELECTRON CORPORATION

Consolidated Statement of Cash Flows (continued)
(Unaudited)

(In thousands)

Investing Activities (continued):

Increase in other assets
Other

Net cash provided by (used in) continuing operations
Net cash provided by discontinued operations

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

Net cash provided by investing activities

Financing Activities:

Redemption and repayment of long-term obligations (Note 5)
Net proceeds from issuance of Company and subsidiary common stock
Purchases of Company common stock and subordinated convertible debentures (Note 5)
Increase (decrease) in short-term notes payable (Note 11)
Other

Net cash used in continuing operations
Net cash provided by (used in) discontinued operations

Net cash used in financing activities

Exchange Rate Effect on Cash of Continuing Operations
Exchange Rate Effect on Cash of Discontinued Operations

Increase (Decrease) in Cash and Cash Equivalents
Cash and Cash Equivalents at Beginning of Period

Cash and Cash Equivalents of Discontinued Operations at End of Period

Cash and Cash Equivalents at End of Period

Noncash Activities:

Fair value of assets of acquired businesses
Cash paid for acquired businesses

Liabilities assumed of acquired businesses

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

<

7

>

THERMO ELECTRON CORPORATION

Notes to Consolidated Financial Statements

1. General

The interim consolidated financial statements presented have been prepared by Thermo Electron Corporation (the Company), are unaudited and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair statement of the financial position at June 29, 2002, the results of operations for the three- and six-month periods ended June 29, 2002,

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

and June 30, 2001, and the cash flows for the six-month periods ended June 29, 2002, and June 30, 2001. Prior-period amounts have been reclassified to conform to the presentation in the current financial statements. Interim results are not necessarily indicative of results for a full year.

The consolidated balance sheet presented as of December 29, 2001, has been derived from the audited consolidated financial statements as of that date. The consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain all of the information that is included in the annual financial statements and notes of the Company. The consolidated financial statements and notes included in this report should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2001, filed with the Securities and Exchange Commission (SEC).

2. Acquisitions

In April 2002, the Company's Life and Laboratory Sciences segment acquired 11,265,873 shares (or approximately 97%) of CRS Robotics Corporation (CRS), a Toronto Stock Exchange-listed company, for 5.75 Canadian dollars per share (approximately \$3.68 per share) in completion of the Company's cash tender offer to acquire all of the outstanding shares of CRS. In May 2002, the segment completed the acquisition of the remaining CRS shares outstanding and subsequently renamed the business Thermo CRS. The aggregate purchase price was approximately \$42 million, including related expenses. Thermo CRS is a global supplier of lab automation robotics, software, and equipment to the drug-discovery market. The purchase price exceeded the fair value of the acquired net assets and, accordingly, \$23.7 million has been allocated as goodwill. In addition, during the second quarter of 2002, the Company acquired a product line of microbeam X-ray fluorescence (XRF) metrology tools for approximately \$4 million in cash. Allocation of the purchase price for these acquisitions was based on estimates of the fair value of the net assets acquired and is subject to adjustment upon finalization of the purchase price allocation. The Company has gathered no information that indicates the final purchase price allocation will differ materially from the preliminary estimates. The results of operations of the acquisitions are included in the Company's consolidated financial statements from the respective dates of acquisition. Pro forma results are not presented as the acquisitions did not materially affect the Company's results of operations.

The Company has undertaken restructuring activities at acquired businesses. The Company's restructuring activities, which were accounted for in accordance with Emerging Issues Task Force Pronouncement (EITF) 95-3, primarily have included reductions in staffing levels and the abandonment of excess facilities. In connection with these restructuring activities, as part of the cost of acquisitions, the Company established reserves, primarily for severance and excess facilities. In accordance with EITF 95-3, the Company finalizes its restructuring plans no later than one year from the respective dates of the acquisitions. Accrued acquisition expenses are included in other accrued expenses in the accompanying balance sheet.

<

8

>

THERMO ELECTRON CORPORATION

2. Acquisitions (continued)

A summary of the changes in accrued acquisition expenses for acquisitions completed during 2002 is as follows:

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

(In thousands)	Severance	Abandonment of Excess Facilities
Reserves established	\$ 739	\$ 509
Payments	(241)	-
Currency translation	36	57
	-----	-----
Balance at June 29, 2002	\$ 534	\$ 566
	=====	=====

The principal accrued acquisition expenses for 2002 acquisitions were for severance for approximately 40 acquired employees, primarily in manufacturing and research and development, and for closure of a Thermo CRS manufacturing facility in Austria, with a lease expiring in 2005. The operations of this facility will be consolidated into existing facilities in Canada.

A summary of the changes in accrued acquisition expenses for acquisitions completed before and during 1999 is as follows:

(In thousands)	1999 Acquisitions		
	Severance	Abandonment of Excess Facilities	Other
Balance at December 29, 2001	\$ 626	\$ 10	\$ 131
Payments	(21)	(11)	(74)
Decrease recorded as a reduction in other intangible assets	(300)	-	-
Decrease recorded as a reduction in goodwill	(29)	-	(74)
Currency translation	41	1	17
	-----	-----	-----
Balance at June 29, 2002	\$ 317	\$ -	\$ -
	=====	=====	=====

The remaining accrued acquisition expenses for pre-1999 acquisitions represent lease obligations for four operating facilities in England with leases expiring through 2014.

The principal accrued acquisition expenses for 1999 acquisitions were for severance for approximately 175 employees across all functions and for abandoned facilities, primarily at Spectra-Physics AB. The amounts captioned as "other" primarily represent relocation, contract termination, and other exit costs. The Company expects to pay amounts accrued for acquisition expenses primarily through 2002. The Company finalized its restructuring plans for Spectra-Physics and other 1999 acquisitions in 1999 and 2000.

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

The Company did not establish material reserves for restructuring businesses acquired in 2000 or 2001.

<

9

>

THERMO ELECTRON CORPORATION

3. Business Segment Information

(In thousands)	Three Months Ended	
	June 29, 2002	June 30, 2001
Revenues:		
Life and Laboratory Sciences	\$ 275,007	\$ 270,669
Measurement and Control	147,654	171,432
Optical Technologies	88,596	103,906
Intersegment (a)	(2,144)	(3,535)
	\$ 509,113	\$ 542,472
	=====	=====
Income from Continuing Operations Before Provision for Income Taxes, Minority Interest, Extraordinary Item, and Cumulative Effect of Change in Accounting Principle:		
Life and Laboratory Sciences (b)	\$ 41,865	\$ 24,442
Measurement and Control (c)	14,211	3,426
Optical Technologies (d)	(9,271)	(934)
	46,805	26,934
Total Segment Operating Income (e)	46,805	26,934
Corporate/Other (f)	26,660	(12,917)
	\$ 73,465	\$ 14,017
	=====	=====
Depreciation:		
Life and Laboratory Sciences	\$ 5,223	\$ 5,348
Measurement and Control	2,580	3,007
Optical Technologies	3,577	3,812
Corporate	727	551
	\$ 12,107	\$ 12,718
	=====	=====
Amortization (Note 8):		
Life and Laboratory Sciences	\$ 1,101	\$ 6,961
Measurement and Control	277	3,429
Optical Technologies	351	1,486

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

-----	-----
\$ 1,729	\$ 11,876
=====	=====

During the first six months of 2002, the Company transferred management responsibility for several businesses between segments as follows: (1) the spectroscopy businesses were moved to the renamed Life and Laboratory Sciences segment from the Measurement and Control segment; (2) the temperature-control businesses were moved to the Measurement and Control segment from the Optical Technologies segment; (3) the electrochemistry products business was moved to the Measurement and Control segment from the Life and Laboratory Sciences segment; and (4) the Thermo Projects unit was moved from a separate segment (previously included as "Other") to the Life and Laboratory Sciences segment. Prior-period segment information has been restated to reflect these changes.

< 10 >

THERMO ELECTRON CORPORATION

3. Business Segment Information (continued)

- (a) Intersegment sales are accounted for at prices that are representative of transactions with unaffiliated parties.
- (b) Includes restructuring and other unusual costs, net, of \$3.6 million, \$10.3 million, \$3.3 million, and \$13.1 million in the second quarter of 2002 and 2001 and first six months of 2002 and 2001, respectively.
- (c) Includes restructuring and other unusual costs, net, of \$1.1 million, \$14.9 million, \$0.9 million, and \$20.9 million in the second quarter of 2002 and 2001 and first six months of 2002 and 2001, respectively.
- (d) Includes restructuring and other unusual costs, net, of \$11.4 million, \$8.5 million, \$19.7 million, and \$8.9 million in the second quarter of 2002 and 2001 and first six months of 2002 and 2001, respectively.
- (e) Segment operating income is income before corporate general and administrative expenses, other income and expense, minority interest income, income taxes, extraordinary item, and cumulative effect of change in accounting principle.
- (f) Includes corporate general and administrative expenses and other income and expense. Includes corporate restructuring and other unusual costs of \$0.9 million, \$3.3 million, \$1.6 million, and \$4.9 million in the second quarter of 2002 and 2001 and first six months of 2002 and 2001, respectively. Other income, net, in the second quarter and first six months of 2002 includes gains of \$31.6 million and \$87.9 million, respectively, on sales of shares of FLIR Systems, Inc. Other expense, net, in the first six months of 2001 includes a charge of \$2.0 million for impairment of an available-for-sale investment.

4. Other Income (Expense), Net

The components of other income (expense), net, in the accompanying statement of operations are as follows:

	Three Months Ended	
(In thousands)	June 29, 2002	June 2001
-----	-----	-----

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

Interest Income	\$ 12,621	\$ 15,
Interest Expense (Note 10)	(10,216)	(18,
Equity in Earnings of Unconsolidated Subsidiaries	-	1,
Gain (Loss) on Investments, Net	36,033	1,
Other Items, Net	(149)	
	-----	-----
	\$ 38,289	\$ (
	=====	=====

The Company sold 756,000 and 2,006,000 shares of FLIR Systems, Inc. common stock during the second quarter and first six months of 2002, respectively, and realized gains of \$31.6 million and \$87.9 million, including \$8.8 million and \$23.2 million from the recovery of amounts written down in prior years. The Company historically reported its pro-rata share of FLIR's results on a one-quarter lag. In December 2001, following a sale of shares, the Company's ownership of FLIR fell below 20%. In the first quarter of 2002, the Company recorded its share of FLIR's fourth quarter 2001 earnings through the date on which the Company's ownership fell below 20%. The Company's share of such earnings totaled \$2.1 million. As of March 30, 2002, the Company accounts for its investment in FLIR as an available-for-sale security and no longer records its share of FLIR's earnings. As an available-for-sale security, the investment in FLIR is recorded at quoted market value in current assets and unrealized gains or losses are recorded as a part of accumulated other comprehensive items in the accompanying 2002 balance sheet.

< 11

>

THERMO ELECTRON CORPORATION

5. Redemption and Repurchase of Subordinated Convertible Debentures and Extraordinary Item

In March 2002, the Company redeemed all of its outstanding 4 1/4% and 4 5/8% subordinated convertible debentures due 2003 with the objective of minimizing interest costs. The principal amounts redeemed for the 4 1/4% and 4 5/8% debentures were \$398.4 million and \$57.9 million, respectively. The redemption price was 100% of the principal amount of the debentures, plus accrued interest. During the first six months of 2002, the Company repurchased \$41.6 million principal amount of its other subordinated convertible debentures for \$41.2 million in cash. These transactions resulted in net extraordinary charges of \$0.7 million for the first six months of 2002, net of taxes of \$0.4 million.

6. Earnings (Loss) per Share

Basic and diluted earnings (loss) per share were calculated as follows:

(In thousands except per share amounts)	Three Months Ended	
	June 29, 2002	June 29, 2001
Income from Continuing Operations Before Extraordinary Item and Cumulative Effect of Change in Accounting Principle	\$ 49,490	\$ 9,

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

Gain (Loss) on Disposal of Discontinued Operations, Net	19,000	15,
Extraordinary Item	27	
Cumulative Effect of Change in Accounting Principle	-	
	-----	-----
Net Income (Loss) for Basic Earnings (Loss) per Share	68,517	24,
Effect of Convertible Debentures	3,011	
	-----	-----
Income (Loss) Available to Common Shareholders, as Adjusted for Diluted Earnings (Loss) per Share	\$ 71,528	\$ 24,
	-----	-----
Basic Weighted Average Shares	171,122	181,
Effect of:		
Stock options	2,054	2,
Convertible debentures	13,564	
	-----	-----
Diluted Weighted Average Shares	186,740	185,
	-----	-----

< 12

>

THERMO ELECTRON CORPORATION

6. Earnings (Loss) per Share (continued)

	Three Months Ended	
(In thousands except per share amounts)	June 29, 2002	June 29, 2001
	-----	-----
Basic Earnings (Loss) per Share:		
Continuing operations before extraordinary item and cumulative effect of change in accounting principle	\$.29	\$.29
Discontinued operations	.11	.11
Extraordinary item	-	-
Cumulative effect of change in accounting principle	-	-
	-----	-----
	\$.40	\$.40
	=====	=====
Diluted Earnings (Loss) per Share:		
Continuing operations before extraordinary item and cumulative effect of change in accounting principle	\$.28	\$.28
Discontinued operations	.10	.10
Extraordinary item	-	-
Cumulative effect of change in accounting principle	-	-
	-----	-----
	\$.38	\$.38
	=====	=====

Options to purchase 10,898,000 and 4,890,000 shares of common stock for

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

the second quarter of 2002 and 2001, respectively, and 9,237,000 and 3,855,000 shares of common stock for the first six months of 2002 and 2001, respectively, were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price for the common stock and their effect would have been antidilutive.

The computation of diluted earnings per share for the second quarter and first six months of 2002 excludes the effect of assuming the conversion of the Company's 4 3/8% subordinated convertible debentures, with a principal balance of \$74,618,000 as of June 29, 2002, and convertible at \$111.83 per share, because the effect would be antidilutive. The computation of diluted earnings per share for the second quarter and first six months of 2001 excludes the effect of assuming the conversion of the Company's subordinated convertible debentures, except for the Company's 0% subordinated convertible debentures, because the effect would be antidilutive.

7. Comprehensive Income

Comprehensive income combines net income and other comprehensive items, which represents certain amounts that are reported as components of shareholders' investment in the accompanying balance sheet, including currency-translation adjustments and unrealized net of tax gains and losses on available-for-sale investments and hedging instruments (Note 10). During the second quarter of 2002 and 2001, the Company had comprehensive income of \$95.9 million and \$14.6 million, respectively. During the first six months of 2002 and 2001, the Company had comprehensive income of \$155.3 million and a comprehensive loss of \$50.3 million, respectively. Comprehensive income in the first six months of 2002 excludes the effect on unrealized gains of \$111 million that existed at the date the Company reclassified equity interests in FLIR and Thoratec Corporation to available-for-sale investments (Notes 4 and 14).

<

13

>

THERMO ELECTRON CORPORATION

8. Recent Accounting Pronouncements and Pro Forma Results

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." The Company adopted the requirements of SFAS No. 142 effective December 30, 2001. SFAS No. 142 requires companies to cease amortization of all goodwill. SFAS No. 142 also requires companies to annually test goodwill for impairment and to perform an initial test in the year of adoption. The Company has completed this initial test and determined that no impairment of goodwill existed at the adoption date. Goodwill amortization for the second quarter and first six months of 2001, was \$10.1 million and \$20.1 million, respectively. Pro forma results for the second quarter and first six months of 2001, as if the standard had been adopted at the beginning of 2001, are as follows:

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

(In thousands except per share amounts)

Income from Continuing Operations Before Extraordinary Item and Cumulative Effect of Change in Accounting Principle:

As reported
Pro forma

Basic Earnings per Share from Continuing Operations Before Extraordinary Item and Cumulative Effect of Change in Accounting Principle:

As reported
Pro forma

Diluted Earnings per Share from Continuing Operations Before Extraordinary Item and Cumulative Effect of Change in Accounting Principle:

As reported
Pro forma

Net Income (Loss):

As reported
Pro forma

Basic Income (Loss) per Share:

As reported
Pro forma

Diluted Income (Loss) per Share:

As reported
Pro forma

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets." The standard provides guidance on measuring impairment of long-lived assets and applying discontinued operations accounting upon adoption. The Company adopted the standard during the first quarter of 2002. Adoption of the standard did not materially affect the Company's financial statements.

<

14

>

THERMO ELECTRON CORPORATION

8. Recent Accounting Pronouncements and Pro Forma Results (continued)

In May 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Adoption of the standard is generally required in the fiscal year beginning after May 15, 2002. Under the standard, transactions currently classified by the Company as extraordinary items will no longer be treated as such but instead will be reported as other nonoperating income or expenses.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which supersedes EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." The standard affects the accounting for restructuring charges and related

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

activities. The provisions of this statement are required to be adopted for exit or disposal activities that are initiated after December 31, 2002. The provisions of EITF 94-3 will continue to apply with regard to the Company's previously announced restructuring plans.

9. Note Receivable

In July 2000, the Company completed the sale of its wholly owned Spectra Precision businesses to Trimble Navigation Limited for \$208.1 million in net cash proceeds and \$80.0 million in seller debt financing at an initial interest rate of 10%. The note from the buyer called for repayment in two equal, annual installments beginning in July 2001, but permitted extension of maturity under certain conditions. Trimble elected to defer the note payment due in July 2001, and in March 2002, the Company and Trimble negotiated a change in terms. Under the revised terms, Trimble paid \$12 million of principal, together with \$10 million of accrued interest. Maturity for the remaining balance was extended to July 2004, and the amended note carries an interest rate of 10.41% and has provisions that require earlier repayment under certain conditions. In addition, the Company obtained warrants to purchase up to 376,233 shares of Trimble at \$15.11 per share, of which 200,000 shares are exercisable immediately through 2007 and the balance of which becomes exercisable for five-year terms at various times for as long as the note remains outstanding. Spectra Precision, formerly part of the Measurement and Control segment, was acquired as part of Spectra-Physics AB and provides the construction, surveying, and heavy-machine industries with precision-positioning equipment.

10. Derivative Instruments and Hedging

The Company uses forward currency exchange contracts primarily to hedge certain operational (cash-flow hedges) and balance sheet (fair-value hedges) exposures resulting from changes in currency exchange rates. Such exposures result from sales that are denominated in currencies other than the functional currencies of the respective operations. The Company enters into these currency exchange contracts to hedge anticipated product sales and recorded accounts receivable made in the normal course of business, and accordingly, the hedges are not speculative in nature. As part of the Company's overall strategy to manage the level of exposure to the risk of currency exchange fluctuations, some operating units hedge a portion of their currency exposures anticipated over the ensuing 12-month period, using exchange contracts that have maturities of 12 months or less. The Company does not hold or engage in transactions involving derivative instruments for purposes other than risk management.

The Company records its forward currency exchange contracts at fair value in its consolidated balance sheet as other current assets or other accrued expenses and, for cash-flow hedges, the related gains or losses on these contracts are deferred as a component of accumulated other comprehensive items in the accompanying balance sheet. These deferred gains and losses are recognized in income in the period in which the underlying anticipated transaction occurs. At June 29, 2002, the Company had deferred losses, net of income taxes, relating to forward currency exchange contracts of approximately \$2.4 million, substantially all of which is expected to be recognized as expense over the next 12 months. Unrealized gains and losses resulting from the impact of currency exchange rate movements on fair-value hedges are recognized in earnings in the period in which the exchange rates change and offset the currency gains and losses on the underlying exposure being hedged.

<

>

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

10. Derivative Instruments and Hedging (continued)

During the first quarter of 2002, the Company entered into interest rate swap arrangements for its \$128.7 million principal amount 7.625% senior notes, due in 2008, with the objective of minimizing interest costs. The arrangements provide that the Company will receive a fixed interest rate of 7.625% and will pay a variable rate of 90-day LIBOR plus 2.19% (4.09% as of June 29, 2002). The swaps have terms expiring at the maturity of the debt. The swaps are designated as fair-value hedges and as such, are carried at fair value. Changes in the fair value of these swaps and the changes in the fair value of the debt that result from changes in LIBOR are recorded in interest expense in the accompanying statement of operations. The swap arrangements are with different counterparties than the holders of the underlying debt. Management believes that any credit risk associated with the swaps is remote based on the creditworthiness of the financial institutions issuing the swaps.

11. Securities-Lending Agreements

In connection with the March 2002 debt redemption discussed in Note 5, the Company entered into securities-lending agreements with third parties under which the Company may borrow funds for short-term needs. Borrowings are collateralized by available-for-sale investments. As of June 29, 2002, the Company had outstanding borrowings of \$337.4 million under these arrangements with maturities between July and October 2002. The proceeds of the borrowings were used to partially fund the debt redemption discussed in Note 5. The borrowings carried a weighted average interest rate of 2.2% at June 29, 2002. The Company has pledged \$354.3 million of available-for-sale securities in the accompanying 2002 balance sheet as collateral for such borrowings.

12. Purchase of Minority Interest in Spectra-Physics

Following the completion of a cash tender offer in December 2001 for all of the shares of Spectra-Physics it did not previously own, the Company completed a short-form merger with Spectra-Physics in February 2002. After the merger, Spectra-Physics was no longer publicly traded and became a wholly owned subsidiary of the Company. The Company expended \$22.0 million of cash to complete the purchase of the minority interest and recorded an increase in goodwill of \$15.6 million. Options to purchase shares of Spectra-Physics were exchanged for options to purchase 2,241,598 shares of Thermo Electron common stock. The exchange of options was accounted for in accordance with the methodology set forth in FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" (Note 13).

13. Restructuring and Other Unusual Costs, Net

In response to a downturn in telecommunications, semiconductor, and other markets served by the Company's businesses and in an effort to further integrate business units, the Company initiated restructuring actions in the second quarter of 2001 in a number of business units to reduce costs and shed unproductive assets. Further actions were initiated in the fourth quarter of 2001 and in the first half of 2002. The restructuring and related actions primarily consisted of headcount reductions, writedowns of telecommunication equipment and excess telecommunication inventories at Spectra-Physics, discontinuance of a number of mature or unprofitable product lines, and consolidation of facilities to streamline operations and reduce costs. The Company expects to incur an additional \$3 million of restructuring costs in the third quarter of 2002 and thereafter for charges associated with these actions that cannot be recorded until incurred. The Company expects that the restructuring actions undertaken in 2001 and 2002 will be substantially completed by the end of 2002.

<

>

THERMO ELECTRON CORPORATION

13. Restructuring and Other Unusual Costs, Net (continued)

During the second quarter of 2002, the Company recorded net restructuring and other charges by segment as follows:

(In thousands)	Life and Laboratory Sciences	Measurement and Control	Optical Technologies
Cost of Revenues	\$ 569	\$ -	\$ 982
Restructuring and Other Unusual Costs, Net	3,027	1,115	10,445
	-----	-----	-----
	\$ 3,596	\$ 1,115	\$11,427
	=====	=====	=====

During the first six months of 2002, the Company recorded net restructuring and other charges by segment as follows:

(In thousands)	Life and Laboratory Sciences	Measurement and Control	Optical Technologies
Cost of Revenues	\$ 569	\$ -	\$ 982
Restructuring and Other Unusual Costs, Net	2,710	867	18,703
	-----	-----	-----
	\$ 3,279	\$ 867	\$19,685
	=====	=====	=====

The components of net restructuring and other charges by segment are as follows:

Life and Laboratory Sciences

The Life and Laboratory Sciences segment recorded \$3.6 million of net restructuring and other charges in the second quarter of 2002. The segment recorded \$0.6 million of charges to cost of revenues, which consisted of \$0.4 million for a discontinued product line and \$0.2 million for the sale of inventory revalued at the date of acquisition. The segment also recorded \$3.0 million of restructuring and other unusual costs, including \$2.4 million of cash costs principally associated with facility consolidations. The cash costs included \$0.7 million of severance for 12 employees across all functions; \$0.7 million of pension costs for terminated employees that was accrued as a pension liability; \$0.4 million of employee-retention costs; \$0.1 million of abandoned-facility lease costs; and \$0.5 million of other cash costs, primarily relocation expenses. In addition, the segment sold two small operating units and a building for a net loss of \$0.5 million and had other asset writedowns of \$0.1

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

million.

In the first quarter of 2002, this segment recorded \$0.3 million of other unusual income, net. The unusual income included a gain on the sale of a product line of \$1.5 million. This gain was offset by cash costs of \$1.2 million associated with the restructuring actions initiated in 2001, including \$0.6 million of employee-retention costs; \$0.4 million of severance for eight employees, primarily in administrative and sales functions; and \$0.2 million of other cash costs, primarily relocation costs.

Measurement and Control

The Measurement and Control segment recorded \$1.1 million of net restructuring and other charges in the second quarter of 2002. These charges included \$2.2 million of cash costs principally associated with facility consolidations, including \$0.7 million of relocation costs; \$0.7 million of employee-retention costs; \$0.6 million of severance; and \$0.2 million of abandoned-facility lease costs. These costs were offset in part by \$1.1 million of net gains on the sale of a small business unit and a building.

<

17

>

THERMO ELECTRON CORPORATION

13. Restructuring and Other Unusual Costs, Net (continued)

In the first quarter of 2002, this segment recorded \$0.2 million of other unusual income, net. The unusual income included gains of \$1.5 million from the favorable resolution of a dispute on a business sold in 2000 and the sale of a small business unit in 2002. These gains were offset by \$1.1 million of cash costs associated with the restructuring actions initiated in 2001, including \$0.5 million of severance; \$0.1 million of employee-retention costs; and \$0.5 million of other cash costs, primarily relocation and contract-termination costs. The charge also included \$0.2 million of asset writedowns, primarily for asset impairment of a building held for sale.

Optical Technologies

The Optical Technologies segment recorded \$11.4 million of net restructuring and other charges in the second quarter of 2002. The segment recorded \$1.0 million of charges to cost of revenues, including \$0.7 million for a discontinued product line and the balance for the sale of inventory revalued at the date of acquisition. The segment also recorded \$10.4 million of restructuring and other unusual costs, including \$5.5 million of asset writedowns and \$4.9 million of cash costs. The cash costs included \$3.2 million of severance for 117 employees across all functions; \$1.0 million for abandoned-equipment leases; and \$0.7 million for the settlement of litigation (Note 15). The asset writedowns included \$5.3 million of abandoned telecommunications equipment and \$0.2 million of goodwill on a small business held for sale. Following actions in the first and second quarter of 2002, the Company has suspended initiatives for products that address telecom markets based on the continuing economic downturn in these markets.

In the first quarter of 2002, this segment recorded \$8.3 million of restructuring and other charges. These charges included \$6.8 million of cash costs at Spectra-Physics, including \$4.5 million of lease costs, primarily for abandoned equipment; \$2.1 million of severance for 76 employees across all

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

functions; \$0.1 million of employee-retention costs; and \$0.1 million of other cash costs. The charges also included \$0.7 million of asset writeoffs for abandoned manufacturing equipment and \$0.8 million resulting from the exchange of options to purchase shares of Spectra-Physics for options to purchase shares of Thermo Electron following the acquisition of the minority interest in this business in February 2002 (Note 12).

Corporate

The Company recorded \$0.9 million of restructuring and other charges at its corporate office in the second quarter of 2002, primarily for third-party advisory fees associated with the Company's reorganization plan. While the Company no longer has any public subsidiaries, it has numerous subsidiaries through which the formerly public subsidiaries conducted business. The third-party advisory fees are being incurred to simplify this legal structure.

In the first quarter of 2002, the Company recorded \$0.7 million of restructuring and other charges at its corporate office, all of which were cash costs. This amount included \$0.6 million of third-party advisory fees associated with the Company's reorganization plan; and \$0.1 million of severance for three employees.

< 18

>

THERMO ELECTRON CORPORATION

13. Restructuring and Other Unusual Costs, Net (continued)

General

The following table summarizes the Company's severance actions in 2001 and 2002.

2000 Restructuring Plans

Remaining Terminations at December 30, 2000

Additional Terminations Announced in 2001

Terminations Occurring in 2001

Adjustment to Plan

Remaining Terminations at December 29, 2001

Terminations Occurring in 2002

Remaining Terminations at June 29, 2002

2001 Restructuring Plans

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

Terminations Announced in 2001

Terminations Occurring in 2001

Remaining Terminations at December 29, 2001

Additional Terminations Announced in 2002

Terminations Occurring in 2002

Remaining Terminations at June 29, 2002

<

19

>

THERMO ELECTRON CORPORATION

13. Restructuring and Other Unusual Costs, Net (continued)

The following table summarizes the cash components of the Company's restructuring plans. The noncash components and other amounts reported as restructuring and other unusual costs, net, in the accompanying 2002 statement of operations have been summarized in the notes to the table.

(In thousands)	Severance	Employee Retention (a)	Abandonment of Excess Facilities
1998 Restructuring Plans			
Balance at December 29, 2001	\$ -	\$ -	\$ -
Transfer to accrued pension costs (b)	-	-	-
Currency translation	-	-	-
	-----	-----	-----
Balance at June 29, 2002	\$ - =====	\$ - =====	\$ - =====
1999 Restructuring Plans			
Balance at December 29, 2001	\$ 571	\$ -	\$ -
Payments	(157)	-	-
	-----	-----	-----
Balance at June 29, 2002	\$ 414 =====	\$ - =====	\$ - =====
2000 Restructuring Plans			
Balance at December 29, 2001	\$ 1,588	\$ 6,287	\$ 1,866
Costs incurred in 2002	-	-	-
Payments	(999)	(6,015)	(337)
Currency translation	104	-	71
	-----	-----	-----

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

Balance at June 29, 2002	\$ 693	\$ 272	\$ 1,600
	=====	=====	=====
2001 Restructuring Plans			
Balance at December 29, 2001	\$ 26,092	\$ 143	\$ 19,765
Costs incurred in 2002 (c)	8,158	1,780	4,895
Reserves reversed	(489)	(4)	(102)
Payments	(19,291)	(1,630)	(3,162)
Currency translation	1,406	28	423
	-----	-----	-----
Balance at June 29, 2002	\$ 15,876	\$ 317	\$ 21,819
	=====	=====	=====

- (a) Employee-retention costs are accrued ratably over the period through which employees must work to qualify for a payment. The 2000 awards were based on specified percentages of employees' salaries and were generally awarded to help ensure continued employment at least through completion of the Company's reorganization plan.
- (b) Balance of accrued restructuring costs from 1998 plans related to pension liability associated with employees terminated in 1998, which was transferred to accrued pension costs in 2002.
- (c) Excludes net gains of \$0.9 million and \$2.4 million in the Life and Laboratory Sciences and Measurement and Control segments, respectively; noncash charges of \$7.0 million in the Optical Technologies segment; a cash charge of \$0.7 million recorded in accrued pension costs in the Life and Laboratory Sciences segment; and loss on litigation of \$0.7 million in the Optical Technologies segment.

The Company expects to pay accrued restructuring costs as follows: severance, employee-retention obligations, and other costs, which primarily represent cancellation/termination fees, primarily in 2002; and abandoned-facility payments, over lease terms expiring through 2012.

< 20

>

THERMO ELECTRON CORPORATION

14. Discontinued Operations

Net liabilities of discontinued operations in the accompanying 2002 balance sheet principally represents remaining obligations of the discontinued businesses, including severance, lease, litigation, and other obligations, offset by the net assets of two remaining operating units held for sale. These two businesses have aggregate annual revenues of approximately \$90 million.

During the second quarter and first six months of 2002, the Company's discontinued operations had revenues of \$24.1 million and \$44.4 million, respectively, and operating income, of \$2.4 million and \$4.2 million, respectively. During the second quarter and first six months of 2001, the Company's discontinued operations had revenues of \$216.3 million and \$438.1 million, respectively, and operating income of \$24.6 million and \$34.8 million, respectively.

Thermo Cardiosystems

The Company announced in January 2000 that Thermo Cardiosystems Inc. and all of the Company's noninstrument businesses other than Thermo Ecotek were to

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

be sold or spun-off. These divestitures totaled approximately 40 businesses with revenues of \$1.8 billion. (The Company later sold Thermo Ecotek as well). Accordingly, the Company treated the divestiture of these businesses together with Thermo Cardiosystems as discontinued operations in its financial statements.

In February 2001, the Company sold Thermo Cardiosystems to Thoratec in exchange for 19.3 million shares of Thoratec common stock, a 34% interest, which had a market value of \$11.56 per share on the date of the transaction. Certain restrictions limited the timing of the Company's ability to sell these shares, although the restrictions fully lapse in August 2002. The Company continued to account for the sale of Thermo Cardiosystems and the ownership of the Thoratec shares as discontinued operations. The Company recorded an after-tax charge of \$66.0 million in the first quarter of 2001 for a decline in market value of Thoratec common stock as a loss on disposal of discontinued operations and thereafter carried the shares at a new cost basis of \$6.50 per share. In February 2002, the Company sold 6.9 million shares of Thoratec for net proceeds of \$105 million, and realized an after-tax gain of \$38.4 million as a gain on disposal of discontinued operations. Following the sale of shares in 2002, the Company owned less than 20% of Thoratec's outstanding shares and, pursuant to SFAS No. 115, began accounting for its investment as an available-for-sale security in continuing operations in the first quarter of 2002. As such, the investment is recorded at quoted market value in current assets and unrealized gains or losses are recorded as a part of accumulated other comprehensive items in the accompanying 2002 balance sheet. As of June 29, 2002, the Company held 7.7 million shares of Thoratec with a market value of \$69 million, substantially all of which were restricted from trading until August 2002.

The SEC has announced that it is reviewing the 10-K filings of Fortune 500 and other large companies. In July 2002, as part of such a review, the Company received a "comment" letter from the staff of the SEC concerning the Company's 2001 Form 10-K. In its comment letter, the SEC staff inquired about the accounting for the investment in Thoratec, the related writedown of that investment recorded in March 2001 following a significant decline in its market value, and the treatment of Thermo Cardiosystems as a discontinued operation. The Company responded to the SEC staff's questions and on August 14, 2002, the SEC staff notified the Company that it completed its review without requiring any change to the Company's previously reported results.

Power-Generation Business

In March 2002, the Company sold the last remaining component of its former power-generation business and realized a gain from the disposition totaling \$13.0 million, principally for previously unrecognized tax benefits that were realized upon the sale.

< 21

>

THERMO ELECTRON CORPORATION

14. Discontinued Operations (continued)

Other

As a result of new tax regulations concerning deductible losses from divested businesses, the Company revised its estimate of the tax consequences of business disposals in discontinued operations and recorded a tax benefit of \$19.0 million in the second quarter of 2002.

15. Litigation

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

Continuing Operations

During the second quarter of 2002, the Company settled a patent-infringement matter that Rockwell International Corp. had brought against Spectra-Physics and its Opto Power subsidiary. Under the settlement, the Company paid Rockwell \$4.0 million. The settlement was charged against a reserve established for this matter except for \$0.7 million that was included in restructuring and other unusual costs in the second quarter of 2002 (Note 13).

Discontinued Operations

During the second quarter of 2002, the Company settled a patent-infringement matter that Fischer Imaging Corporation had brought against the Company's former Trex Medical subsidiary. The Company sold Trex Medical in 2000 but retained this obligation as a term of the sale. Under the settlement, the Company paid Fischer \$25 million and agreed to pay an additional \$7.2 million over eight years. The portion of the settlement that was paid was charged against a reserve established for this matter. The balance of the amount to be paid will also be charged against the reserve as paid.

16. Common Stock

During the second quarter of 2002, the Company restored 22,000,000 shares of common stock to authorized but unissued status, which had been held in treasury stock.

17. Subsequent Events

Acquisition

In July 2002, the Measurement and Control segment acquired the radiation-monitoring products business (RMP) of Saint-Gobain for \$30 million in cash. RMP is a major supplier of radiation safety, security, and industrial equipment to the U.S. market, and the leader in personal radiation monitoring in the United Kingdom.

Divestitures

In July 2002, the Measurement and Control segment completed the sale of its Thermo Nobel and Thermo BLH subsidiaries for \$18.5 million in cash. These businesses are engaged in the production and sale of weighing systems, instruments, and components and were deemed noncore businesses and placed for sale in 2001.

<

22

>

THERMO ELECTRON CORPORATION

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

Forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, are made throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "seeks," "estimates," and similar expressions are intended to identify forward-looking

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

statements. While the Company may elect to update forward-looking statements in the future, it specifically disclaims any obligation to do so, even if the Company's estimates change, and readers should not rely on those forward-looking statements as representing the Company's views as of any date subsequent to the date of the filing of this Quarterly Report. There are a number of important factors that could cause the results of the Company to differ materially from those indicated by such forward-looking statements, including those detailed under the heading "Forward-looking Statements" in this report on Form 10-Q/A.

Results of Operations

During the first six months of 2002, the Company transferred management responsibility for several businesses as follows: (1) the spectroscopy businesses were moved to the renamed Life and Laboratory Sciences segment from the Measurement and Control segment; (2) the temperature-control businesses were moved to the Measurement and Control segment from the Optical Technologies segment; (3) the electrochemistry products business was moved to the Measurement and Control segment from the Life and Laboratory Sciences segment; and (4) the Company's Thermo Projects unit was moved from a separate segment (previously included as "Other") to the Life and Laboratory Sciences segment. Prior-period segment results have been restated to reflect these changes.

Second Quarter 2002 Compared With Second Quarter 2001

Continuing Operations

Sales in the second quarter of 2002 were \$509.1 million, a decrease of \$33.4 million from the second quarter of 2001. Excluding the effect of acquisitions, divestitures, and currency translation, revenues decreased \$33.5 million, or 6%. Currency translation had a favorable effect on revenues as discussed below by segment, due to the weakening of the U.S. dollar relative to currencies in certain of the countries in which the Company operates.

Operating income was \$35.2 million in the second quarter of 2002, compared with \$14.2 million in the second quarter of 2001. Segment operating income increased to \$46.8 million in 2002 from \$26.9 million in 2001. (Segment operating income is operating income excluding costs incurred at the Company's corporate office.) Operating and segment operating income in the second quarter of 2002 were affected by charges associated with a restructuring plan initiated during the fourth quarter of 2001, other restructuring actions initiated in 2002, and certain other unusual income/costs, net (Note 13). Operating and segment operating income in the second quarter of 2001 were affected by charges associated with a restructuring plan initiated during the quarter and certain other unusual charges. The unusual items in both periods are discussed by segment below. Excluding these unusual costs, which totaled \$16.1 million in 2002 and \$33.6 million in 2001, segment operating income was \$62.9 million in 2002 and \$60.5 million in 2001. The 2001 period included \$10.1 million of goodwill amortization. Amortization of goodwill ceased following the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," effective in 2002 (Note 8). Excluding goodwill amortization and unusual items, segment operating income totaled \$70.6 million in 2001. Segment operating income excluding goodwill amortization and unusual items decreased due to lower revenues and profitability at certain businesses discussed below.

<

23

>

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

Second Quarter 2002 Compared With Second Quarter 2001 (continued)

The Company believes the following represent its critical accounting policies and estimates used in the preparation of its financial statements. a) The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to pay amounts due. If the financial condition of the Company's customers were to deteriorate, reducing their ability to make payments, additional allowances would be required. b) The Company writes down its inventories for estimated obsolescence for differences between the cost and estimated net realizable value based on recent usage and expected demand. If ultimate usage varies significantly from expected usage, additional writedowns may be required. c) The Company assesses the realizability of its notes receivable based on judgments concerning the borrower's ability to make the required payments and the value of collateral, if any. If the financial condition of the borrower or the value of the collateral were to deteriorate, charges to reduce the carrying value of notes receivable may be necessary. d) The Company periodically evaluates goodwill for impairment under the guidelines of SFAS No. 142. Should the fair value of the Company's goodwill decline because of reduced operating performance, market declines, or other indicators of impairment, charges for impairment of goodwill may be necessary. e) The Company periodically reviews other intangible assets for impairment based on estimated future cash flows associated with the assets. Should future cash flows decline significantly from estimated amounts, charges for impairment of other intangible assets may be necessary. f) At the time the Company recognizes revenue it provides for the estimated cost of product warranties based primarily on historical experience. Should product failure rates or the actual cost of correcting product failures vary from estimates, revisions to the estimated warranty liability would be necessary. g) The Company estimates the degree to which tax assets and loss carryforwards will result in a benefit based on expected profitability by tax jurisdiction and provides a valuation allowance for tax assets and loss carryforwards that it believes will more likely than not go unused. Should the Company's actual future taxable income by tax jurisdiction vary from estimates, additional allowances may be necessary. h) The Company estimates losses on contingencies and litigation and provides a reserve for these losses. Should the ultimate losses on contingencies and litigation vary from estimates, adjustments to those reserves may be required. i) The Company recorded restructuring charges for asset impairment in 2001 based on estimated future cash flows associated with the equipment and for the cost of vacating facilities based on expected sub-rental income. Should actual cash flows associated with impaired equipment and sub-rental income from vacated facilities vary from estimated amounts, additional charges may be required. j) The Company estimates the expected proceeds from the sale of its discontinued businesses and recorded losses in 1999-2001 to reduce the carrying value of these businesses to estimated realizable value. Should the actual proceeds vary from estimates, actual results could differ from expected amounts.

Life and Laboratory Sciences

Sales in the Life and Laboratory Sciences segment increased \$4.3 million to \$275.0 million in the second quarter of 2002. The favorable effects of currency translation resulted in an increase in revenues of \$5.3 million in 2002. Sales increased \$0.9 million due to an acquisition, net of divestitures. Excluding the effect of currency translation, divestitures, and an acquisition, revenues decreased \$1.8 million, or 1%. Weakened demand for spectroscopy instruments and sample-preparation products was substantially offset by strong sales of mass spectrometry equipment as well as increased sales of histology and cytology products.

Operating income margin increased to 15.2% in the second quarter of 2002 from 9.0% in the second quarter of 2001. The segment's margin increased primarily due to ceasing goodwill amortization due to the adoption of SFAS No. 142 in 2002 and the inclusion of unusual costs in the 2001 period. Excluding

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

restructuring and unusual costs, net, of \$3.6 million in 2002 and \$10.3 million in 2001, and goodwill amortization of \$5.9 million in 2001, operating income margin was 16.5% in 2002 and 15.0% in 2001. Cost reduction and productivity measures undertaken in 2001 and 2002 contributed to the improved margin. In the second quarter of 2002, the segment recorded restructuring and unusual cash costs of \$2.4 million, primarily for employee retention and severance at businesses being consolidated. In addition, the segment sold two small operating units and a building for a net loss of \$0.5 million and had other asset writedowns of \$0.1 million. Also in 2002, the segment recorded charges to cost of revenues of \$0.6 million, principally for a discontinued product line (Note 13). Restructuring and unusual costs in 2001 represent cash costs of \$4.7 million, primarily for severance and abandoned facilities; \$3.4 million of charges to cost of revenues, principally for discontinued product lines; and \$2.2 million of asset writedowns.

<

24

>

THERMO ELECTRON CORPORATION

Second Quarter 2002 Compared With Second Quarter 2001 (continued)

Measurement and Control

Sales in the Measurement and Control segment decreased \$23.8 million to \$147.7 million in the second quarter of 2002. Sales decreased \$8.6 million due to divestitures. The favorable effects of currency translation resulted in an increase in revenues of \$2.4 million in 2002. Excluding the effect of divestitures and currency translation, revenues decreased \$17.5 million, or 11%. The decrease was due to a decline in revenues in each of the segment's principal businesses due to economic conditions facing customers, particularly in the semiconductor, energy, and steel industries. The Company expects that a continued downturn in markets served by the segment will unfavorably affect the segment's revenue comparisons with corresponding prior-year periods for at least the near-term.

The principal divestitures by the segment referenced above included the August 2001 sale of its Pharos Marine unit, which manufactures and sells marine-navigation equipment and systems and the July 2001 sale of its ThermoMicroscopes unit, a manufacturer of scanning probe microscopes.

Operating income margin increased to 9.6% in the second quarter of 2002 from 2.0% in the second quarter of 2001, primarily due to restructuring and unusual costs in 2001 and ceasing amortization of goodwill due to the adoption of SFAS No. 142 in 2002. Operating income margin, excluding restructuring and unusual costs, net, of \$1.1 million in 2002 and \$14.9 million in 2001, and goodwill amortization of \$3.1 million in 2001, decreased to 10.4% in 2002 from 12.5% in 2001. The decrease in operating income margin resulted primarily from lower revenues, offset in part by the effects of cost reduction and productivity measures undertaken in 2001. In the second quarter of 2002, the segment recorded restructuring and unusual costs, net, of \$1.1 million, including cash costs of \$2.2 million, principally for severance, employee retention, relocation, and other costs of facility consolidations. These costs were offset in part by \$1.1 million of net gains on the sale of a small business unit and a building (Note 13). Restructuring and unusual costs, net, in 2001 included cash costs of \$8.0 million, primarily for severance and abandoned facilities; \$3.3 million of charges to cost of revenues principally for discontinued product lines; \$1.6 million as a revision to the estimated loss recorded in the first quarter of 2001 for the disposal of ThermoMicroscopes; \$1.5 million of asset writedowns; and \$0.5 million for a post-closing adjustment on two businesses sold in 2000.

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

Optical Technologies

Sales in the Optical Technologies segment decreased \$15.3 million to \$88.6 million in the second quarter of 2002. The unfavorable effects of currency translation resulted in a decrease in revenues of \$0.4 million in 2002. Sales increased \$0.6 million due to the acquisition of a product line, net of a divestiture. Excluding the effect of currency translation, an acquisition, and a divestiture, revenues decreased \$15.5 million, or 15%. The decrease was due to the severe slowdown in the semiconductor and telecommunication industries that has adversely affected a number of the segment's businesses. These industries are highly cyclical and have experienced downturns that began in 2001. The Company expects that the slowdowns in semiconductor and telecommunication markets will continue to result in unfavorable revenue and profitability comparisons with corresponding prior-year periods for at least the near-term. A prolonged downturn could adversely affect the realizability of the segment's inventories, which would result in charges for impairment.

The segment's backlog decreased 8% during the first six months of 2002 to \$143.0 million from year-end 2001. Having completed the acquisition of the minority interest in Spectra-Physics (Note 12), the Company expects in the third quarter of 2002 to conform Spectra-Physics' policy concerning the determination of backlog from its current and historical practice of including orders expected to ship within 12 months to the prevailing practice at the Company's other businesses of including in backlog orders expected to ship within six months. The Company expects that the conforming adjustment will reduce the segment's backlog by approximately \$37-\$42 million as of June 29, 2002, and by a comparable amount at December 29, 2001.

<

25

>

THERMO ELECTRON CORPORATION

Second Quarter 2002 Compared With Second Quarter 2001 (continued)

Operating income margin was negative 10.5% in the second quarter of 2002, compared with negative 0.9% in the second quarter of 2001. Excluding restructuring and unusual costs, net, of \$11.4 million in 2002 and \$8.5 million in 2001, and goodwill amortization of \$1.1 million in 2001, operating income margin was 2.4% in 2002 and 8.4% in 2001. The decrease in operating income margin was due to lower revenues at each of the segment's principal businesses.

In the second quarter of 2002, the segment recorded restructuring and unusual charges of \$11.4 million, including \$4.9 million of cash costs principally for severance and abandoned-equipment leases as well as \$0.7 million for the settlement of litigation (Note 15). In addition, this segment wrote off assets totaling \$5.5 million, including \$5.3 million of abandoned telecommunications equipment and \$0.2 million of goodwill on a small business held for sale. The segment also recorded \$1.0 million of charges to cost of revenues, principally for a discontinued product line (Note 13). Restructuring and unusual costs, net, in 2001 include \$6.6 million of charges to cost of revenues for inventories; \$2.2 million of cash costs for severance, abandoned facilities, and other exit costs; and income of \$0.3 million from the sale of a facility.

Other Income (Expense), Net

The Company reported other income, net, of \$38.3 million in the second quarter of 2002 and other expense, net, of \$0.1 million in the second quarter of 2001 (Note 4). Other income (expense), net, includes interest income, interest expense, equity in earnings of unconsolidated subsidiaries in 2001, gain (loss)

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

on investments, net, and other items, net. Interest income decreased to \$12.6 million in 2002 from \$15.8 million in 2001, primarily due to lower invested cash balances following the repurchase of Company securities and the acquisition of the minority interest in Spectra-Physics. The Company expects that a trend of lower market interest rates in 2002 will continue to adversely affect the yield it earns as maturing investments are reinvested at lower market rates. Interest expense decreased to \$10.2 million in 2002 from \$18.5 million in 2001, as a result of the redemption, maturity, and repurchase of debentures, offset in part by interest on borrowings under securities-lending arrangements (Note 11).

During 2002 and 2001, the Company had gains on sale of investments, net, of \$36.0 million and \$1.3 million, respectively. The 2002 gain includes \$31.6 million from the sale of 756,000 shares of FLIR Systems, Inc. Of the total gain from the sale of FLIR shares, \$8.8 million represents a recovery of previous writedowns on the shares that were sold during the period. The Company recorded income from equity in earnings of unconsolidated subsidiaries of \$1.1 million in 2001, which primarily relates to the investment in FLIR. Following a reduction in the Company's percentage ownership of FLIR to less than 20%, the Company no longer reports its pro-rata share of FLIR's earnings but instead accounts for its remaining investment as an available-for-sale security (Note 4).

Provision for Income Taxes

The Company's effective tax rate was 32.6% and 38.6% in the second quarter of 2002 and 2001, respectively. Excluding restructuring and unusual costs or income, the effective tax rate was 31.8% and 38.6% in 2002 and 2001, respectively. The effective tax rate decreased in 2002, primarily due to the absence of nondeductible goodwill amortization following the adoption of SFAS No. 142 and, to a lesser extent, a reorganization in Europe that resulted in a more tax-efficient corporate structure. The effective tax rate exceeded the statutory federal income tax rate in 2001 due to the impact of state income taxes and nondeductible expenses, which included goodwill amortization. Excluding restructuring and unusual costs or income, and the amortization of goodwill, the effective tax rate was 33.5% in the second quarter of 2001.

<

26

>

THERMO ELECTRON CORPORATION

Second Quarter 2002 Compared With Second Quarter 2001 (continued)

Minority Interest Income

The Company recorded minority interest income of \$0.8 million in the second quarter of 2001, representing minority shareholders' allocable share of a loss at Spectra-Physics. Following the acquisition of the minority interest in Spectra-Physics in February 2002 (Note 12), the Company has no minority interest income or expense.

Income from Continuing Operations

Income from continuing operations before extraordinary item was \$49.5 million in the second quarter of 2002, compared with \$9.4 million in the second quarter of 2001. Results in both periods were affected by unusual items, discussed above. Excluding the unusual items in both periods, income from continuing operations before extraordinary item increased to \$40.2 million in 2002 from \$31.4 million in 2001 due to the absence of goodwill amortization in 2002, offset in part by the reasons discussed above.

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

Discontinued Operations

As a result of new tax regulations concerning deductible losses from divested businesses, the Company revised its estimate of the tax consequences of business disposals in discontinued operations and recorded a tax benefit of \$19.0 million in the second quarter of 2002.

The Company sold a substantial portion of its discontinued power-generation business during the second quarter of 2001 for \$238 million and realized a net of tax gain of \$15.6 million on the disposition.

First Six Months 2002 Compared With First Six Months 2001

Continuing Operations

Sales in the first six months of 2002 were \$1.000 billion, a decrease of \$115.1 million from the first six months of 2001. Excluding the effect of acquisitions, divestitures, and currency translation, revenues decreased \$83.1 million, or 8%. Currency translation had a net unfavorable effect on revenues in the six-month period as discussed below by segment, due to the strengthening of the U.S. dollar relative to other currencies of countries in which the Company operates.

Operating income was \$71.9 million in the first six months of 2002, compared with \$54.0 million in the first six months of 2001. Segment operating income increased to \$95.4 million in 2002 from \$79.0 million in 2001. Operating and segment operating income in the first six months of 2002 were affected by charges associated with a restructuring plan initiated during the fourth quarter of 2001, other restructuring actions initiated in 2002, and certain other unusual income/costs, net (Note 13). Operating and segment operating income in the first six months of 2001 were affected by charges associated with a restructuring plan initiated during the second quarter and certain other unusual charges, net. The unusual items in both periods are discussed by segment below. Excluding these unusual costs, which totaled \$23.9 million in 2002 and \$43.0 million in 2001, segment operating income was \$119.2 million in 2002 and \$122.0 million in 2001. The 2001 period included \$20.1 million of goodwill amortization. Amortization of goodwill ceased following the adoption of SFAS No. 142, effective in 2002 (Note 8). Excluding goodwill amortization and unusual items, segment operating income totaled \$142.1 million in 2001. Segment operating income excluding goodwill amortization and unusual items decreased in 2002 due to lower revenues and profitability at certain businesses discussed below.

<

27

>

THERMO ELECTRON CORPORATION

First Six Months 2002 Compared With First Six Months 2001 (continued)

Life and Laboratory Sciences

Sales in the Life and Laboratory Sciences segment decreased \$2.4 million to \$543.1 million in the first six months of 2002. The unfavorable effects of currency translation resulted in a decrease in revenues of \$1.0 million in 2002. Sales decreased \$0.2 million due to divestitures, net of acquisitions. Excluding the effect of currency translation, divestitures, and acquisitions, revenues decreased \$1.3 million. Weakened demand for spectroscopy instruments and sample-preparation products was substantially offset by strong sales of mass spectrometry equipment as well as increased sales of histology and cytology

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

products.

Operating income margin increased to 15.8% in the first six months of 2002 from 10.8% in the first six months of 2001. The segment's margin increased primarily due to ceasing goodwill amortization due to the adoption of SFAS No. 142 in 2002 and the inclusion of unusual costs in the 2001 period. Excluding restructuring and unusual costs, net, of \$3.3 million in 2002 and \$13.1 million in 2001, and goodwill amortization of \$11.8 million in 2001, operating income margin was 16.4% in 2002 and 15.4% in 2001. Cost reduction and productivity measures undertaken in 2001 and 2002 contributed to the improved margin. In the first six months of 2002, the segment recorded restructuring and unusual cash costs of \$3.6 million, primarily for employee retention and severance at businesses being consolidated, and charges to cost of revenues of \$0.6 million, principally for a discontinued product line. In addition, the segment wrote down \$0.1 million of fixed assets and realized a net gain of \$1.0 million on the sale of a product line, two small business units, and a building (Note 13). Restructuring and unusual costs, net, in 2001 included cash costs of \$4.6 million, primarily for severance and abandoned facilities; \$3.4 million of charges to cost of revenues, principally for discontinued product lines; a charge of \$3.4 million for the writeoff of in-process research and development at an acquired business; \$2.2 million of asset writedowns; and a \$0.5 million gain on the sale of product line.

Measurement and Control

Sales in the Measurement and Control segment decreased \$69.3 million to \$293.4 million in the first six months of 2002. Sales decreased \$30.1 million due to divestitures, net of an acquisition. The favorable effects of currency translation resulted in an increase in revenues of \$0.2 million in 2002. Excluding the effect of divestitures, an acquisition, and currency translation, revenues decreased \$39.5 million, or 12%. The decrease was due to a decline in revenues in each of the segment's principal businesses due to economic conditions facing customers, particularly in the semiconductor, energy, and steel industries.

The principal divestitures referenced above included the businesses discussed in the results of the second quarter and the April 2001 sale of the CAC and Mid South businesses, which provide the oil and gas industry with wellhead safety and control products.

Operating income margin increased to 9.8% in the first six months of 2002 from 3.6% in the first six months of 2001, primarily due to restructuring and unusual costs in 2001 and ceasing amortization of goodwill due to the adoption of SFAS No. 142 in 2002. Operating income margin, excluding restructuring and unusual costs, net, of \$0.9 million in 2002 and \$20.9 million in 2001, and goodwill amortization of \$6.1 million in 2001, decreased to 10.1% in 2002 from 11.1% in 2001. The decrease in operating income margin resulted primarily from the decrease in revenues, offset in part by the effects of cost reduction and productivity measures undertaken in 2001 and 2002. In the first six months of 2002, the segment recorded restructuring and unusual costs, net, of \$0.9 million, including \$3.3 million of cash costs associated with the restructuring actions initiated in 2001 and gains totaling \$2.6 million from the favorable resolution of a dispute on a business sold in 2000 and the sale of two small business units and a building, offset in part by and a charge of \$0.2 million, primarily for asset impairment of a building held for sale (Note 13). Restructuring and unusual costs, net, in 2001 include \$8.2 million of cash costs, primarily for severance and abandoned facilities; charges of \$6.4 million to reduce the carrying value of ThermoMicroscopes to disposal value; \$3.3 million of charges to cost of revenues, principally for discontinued product lines; \$1.5 million of asset writedowns; \$1.0 million for impairment of a note receivable; and \$0.5 million for a post-closing adjustment on two businesses sold in 2000.

<

28

>

THERMO ELECTRON CORPORATION

First Six Months 2002 Compared With First Six Months 2001 (continued)

Optical Technologies

Sales in the Optical Technologies segment decreased \$45.1 million to \$168.5 million in the first six months of 2002. The unfavorable effects of currency translation resulted in a decrease in revenues of \$1.4 million in 2002. Sales increased \$0.4 million due to the acquisition of a product line, net of a divestiture. Excluding the effect of currency translation, an acquisition, and a divestiture, revenues decreased \$44.1 million, or 21%. The decrease was due to a severe slowdown in the semiconductor and telecommunication industries that has adversely affected a number of the segment's businesses. These industries are highly cyclical and have experienced downturns that began in 2001.

Operating income margin was negative 11.5% in the first six months of 2002, compared with positive 3.3% in the first six months of 2001. Excluding restructuring and unusual costs, net, of \$19.7 million in 2002 and \$8.9 million in 2001, and goodwill amortization of \$2.3 million in 2001, operating income margin was 0.1% in 2002 and 8.5% in 2001. The decrease in operating income margin was due to lower revenues at each of the segment's principal businesses and in particular at Spectra-Physics, where the decline in revenues led to operating losses. The Company initiated additional restructuring actions at Spectra-Physics in 2002, following those announced in the fourth quarter of 2001. These actions are discussed below and in Note 13.

In the first six months of 2002, the segment recorded restructuring and unusual charges of \$19.7 million, including \$11.7 million of cash costs principally for abandoned-equipment leases and severance associated with suspended telecom initiatives (Note 13). The cash costs include \$0.7 million for the settlement of litigation (Note 15). In addition, this segment wrote off assets totaling \$6.2 million, including \$6.0 million of abandoned fixed assets and \$0.2 million of goodwill at a business held for sale. The segment also recorded a charge of \$0.8 million resulting from the exchange of options to purchase shares of Spectra-Physics for options to purchase shares of Thermo Electron following the acquisition of the minority interest in this business in February 2002 (Note 12). During the first six months of 2002, the segment recorded \$1.0 million of charges to cost of revenues, principally for discontinued product lines. Restructuring and unusual costs, net, in 2001 included \$6.6 million of charges to cost of revenues for provisions for inventories; \$2.2 million of cash costs for severance, abandoned facilities, and other exit costs; a \$0.4 million charge to write off costs associated with a cancelled financing at Spectra-Physics, and \$0.3 million of income from the sale of a facility.

Other Income (Expense), Net

The Company reported other income, net, of \$99.3 million in the first six months of 2002 and other expense, net, of \$3.9 million in the first six months of 2001 (Note 4). Interest income decreased to \$27.0 million in 2002 from \$33.5 million in 2001, primarily due to lower invested cash balances following the repurchase of Company securities and the acquisition of the minority interest in Spectra-Physics. Interest expense decreased to \$23.7 million in 2002 from \$38.0 million in 2001, as a result of the redemption, maturity, and repurchase of debentures as well as entering into an interest rate swap arrangement (Note 10),

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

offset in part by interest on borrowings under securities-lending arrangements (Note 11).

During 2002, the Company had gains on sale of investments, net, of \$94.0 million, compared with a loss on investments, net, of \$0.8 million in 2001. The 2002 gain includes \$87.9 million from the sale of 2,006,000 shares of FLIR. Of the total gain from the sale of FLIR shares, \$23.2 million represents a recovery of previous writedowns on the shares that were sold during the period. Of the loss on investments recorded in 2001, \$2.0 million arose as a result of impairment of an available-for-sale security that the Company deemed other than temporary. The security was a preacquisition asset of an acquired business. The Company recorded income from equity in earnings of unconsolidated subsidiaries of \$2.2 million in 2002 and \$1.3 million in 2001, which primarily related to the investment in FLIR through the first quarter of 2002.

<

29

>

THERMO ELECTRON CORPORATION

First Six Months 2002 Compared With First Six Months 2001 (continued)

Provision for Income Taxes

The Company's effective tax rate was 33.7% and 39.2% in the first six months of 2002 and 2001, respectively. Excluding restructuring and unusual costs or income, the effective tax rate was 32.4% and 39.0% in 2002 and 2001, respectively. The effective tax rate decreased in 2002, primarily due to the absence of nondeductible goodwill amortization following the adoption of SFAS No. 142 and, to a lesser extent, a reorganization in Europe that resulted in a more tax-efficient corporate structure. The effective tax rate exceeded the statutory federal income tax rate in 2001 due to the impact of state income taxes and nondeductible expenses, which included goodwill amortization. Excluding restructuring and unusual costs or income, and the amortization of goodwill, the effective tax rate was 34.0% in the first six months of 2001.

Minority Interest Income

The Company recorded minority interest income of \$0.3 million and \$0.8 million in the first six months of 2002 and 2001, respectively, representing minority shareholders' allocable share of losses at Spectra-Physics through the date on which the Company acquired the minority interest in this subsidiary in February 2002 (Note 12).

Income from Continuing Operations

Income from continuing operations before extraordinary item was \$113.9 million in the first six months of 2002, compared with \$31.2 million in the first six months of 2001. Results in both periods were affected by unusual items, discussed above. Excluding the unusual items in both periods, income from continuing operations before extraordinary item increased to \$73.9 million in 2002 from \$60.9 million in 2001 due to the absence of goodwill amortization in 2002, offset in part by the reasons discussed above.

Extraordinary Item

The Company repurchased and redeemed debentures during the first six months of 2002, resulting in an extraordinary charge of \$0.7 million, net of tax (Note 5).

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

Cumulative Effect of Change in Accounting Principle

The Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, in the first quarter of 2001 and recorded an after-tax charge of \$1.0 million representing the cumulative effect of the change in accounting principle.

Discontinued Operations

During the first quarter of 2002, the Company sold the last remaining component of its former power-generation business and realized a gain from the disposition totaling \$13.0 million, principally for previously unrecognized tax benefits that were realized upon the sale. As a result of new tax regulations concerning deductible losses from divested businesses, the Company revised its estimate of the tax consequences of business disposals in discontinued operations and recorded a tax benefit of \$19.0 million in the second quarter of 2002.

In February 2001, the Company sold Thermo Cardiosystems Inc. to Thoratec Corporation in exchange for 19.3 million shares of Thoratec common stock. Certain restrictions limit the timing of the Company's ability to sell these shares, although the restrictions fully lapse in August 2002. The Company recorded an after-tax charge of \$66.0 million in the first quarter of 2001 for a decline in market value of Thoratec common stock as a loss on disposal of discontinued operations. During the first quarter of 2002, the Company sold 6.9 million shares of Thoratec for net

<

30

>

THERMO ELECTRON CORPORATION

First Six Months 2002 Compared With First Six Months 2001 (continued)

proceeds of \$105 million, and realized an after-tax gain of \$38.4 million as a gain on disposal of discontinued operations. Following the sale of shares in 2002, the Company owned less than 20% of Thoratec's outstanding shares and began accounting for its investment as an available-for-sale security in continuing operations in the first quarter of 2002 with unrealized gains or losses recorded as part of accumulated other comprehensive items in the accompanying 2002 balance sheet (Note 14).

The Company sold a substantial portion of its discontinued power-generation business in June 2001 for \$238 million and realized a net of tax gain of \$15.6 million on the disposition.

Liquidity and Capital Resources

Consolidated working capital was \$821.0 million at June 29, 2002, compared with \$823.2 million at December 29, 2001. Included in working capital were cash, cash equivalents, and short-term available-for-sale investments of \$976.4 million at June 29, 2002, compared with \$1.042 billion at December 29, 2001. In addition, the Company had \$9.4 million of long-term available-for-sale investments at December 29, 2001.

Operating activities used cash of \$49.1 million during the first six months of 2002. The use of \$50.7 million of cash by discontinued operations was offset in part by cash of \$1.6 million provided by continuing operations. A decrease in other current liabilities used \$39.5 million of cash from continuing operations, including \$17.0 million for restructuring actions, \$11.9 million of accrued payroll and employee benefits due to timing of payments, and \$8.1

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

million of accrued interest, principally due to the debt redemption discussed in Note 5. The Company's cash flow from continuing operations in the first six months of 2002 was reduced by income tax payments of approximately \$34 million related to gains from the sale of investments. The principal cash outflows from discontinued operations were the payment of liabilities including the settlement of litigation (Note 15).

In connection with certain restructuring actions undertaken by the Company's continuing operations, the Company had accrued \$43.7 million for restructuring costs at June 29, 2002. The Company expects to pay approximately \$20 million of this amount for severance, employee retention, lease obligations, and other costs primarily through 2002. The balance will be paid through the expiration of additional lease obligations through 2012. In addition, at June 29, 2002, the Company had accrued \$7.8 million for acquisition expenses. Accrued acquisition expenses included \$0.9 million of severance obligations, which the Company expects to pay primarily through 2002. The balance primarily represents abandoned-facility payments and will be paid over the remaining terms of the leases through 2014.

During the first six months of 2002, the primary investing activities of the Company's continuing operations, excluding available-for-sale investment activities, included the sale of other investments, acquisitions, the collection of notes receivable, the purchase of shares of a majority-owned subsidiary, and the purchase of property, plant, and equipment. The Company's continuing operations received proceeds of \$65.2 million from the sale of other investments, principally shares of FLIR (Note 4). In addition, the Company's continuing operations expended \$46.2 million for acquisitions (Note 2), \$22.0 million to purchase the remaining minority-owned shares of its Spectra-Physics subsidiary (Note 12), and \$19.9 million for purchases of property, plant, and equipment, net of dispositions. The Company's continuing operations collected \$48.6 million from notes receivable, principally the repayment of Viasys Healthcare Inc.'s \$33.4 million principal amount note in May 2002 and repayments from Trimble Navigation Limited in March 2002 (Note 9). In July 2002, the Company acquired the radiation-monitoring products business of Saint-Gobain for \$30 million in cash and sold its Thermo BLH and Thermo Nobel businesses for \$18.5 million in cash (Note 17). During the first six months of 2002, investing activities of the Company's discontinued operations provided \$106.4 million of cash, primarily representing proceeds of \$105 million from the sale of Thoratec common stock (Note 14).

<

31

>

THERMO ELECTRON CORPORATION

Liquidity and Capital Resources (continued)

The Company's financing activities used \$306.4 million of cash during the first six months of 2002, including \$306.5 million for continuing operations. During the first six months of 2002, the Company's continuing operations expended \$456.3 million to redeem all of its outstanding 4 1/4% and 4 5/8% subordinated convertible debentures due 2003. The redemption price was 100% of the principal amount of the debentures, plus accrued interest. The Company increased short-term notes payable by \$345.9 million, primarily to partially fund the debt redemption (Note 11). The Company's continuing operations received net proceeds of \$12.5 million from the exercise of employee stock options. During the first six months of 2002, the Company expended \$208.5 million to repurchase its securities. As of June 29, 2002, the Company had approximately \$80 million remaining under Board of Directors' authorizations to repurchase its own securities.

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

The Company has no material commitments for purchases of property, plant, and equipment and expects that for all of 2002, such expenditures will approximate \$50 - \$60 million.

As of June 29, 2002, the Company's net debt (debt, net of cash and available-for-sale investments) totaled \$131 million. The Company's net debt/liquidity position in the future will be primarily affected by the level of cash flow from operations and the amount of cash expended on acquisitions and repurchases of the Company's securities. The Company believes that its existing resources together with cash it expects to generate from operations are sufficient to meet the working capital requirements of its existing businesses for the foreseeable future, including at least the next 24 months.

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

The Company's exposure to market risk from changes in interest rates, currency exchange rates, and equity prices has not changed materially from its exposure at year-end 2001, except that a 10% decrease in market interest rates at June 29, 2002, would result in a negative impact to the Company of \$1 million on the net fair value of its interest-sensitive financial instruments; a 10% decrease in market equity prices at June 29, 2002, would result in a negative impact to the Company of \$12 million on the net fair value of its price-sensitive equity financial instruments; and a 100-basis point increase in 90-day LIBOR at June 29, 2002, would increase the Company's annual pre-tax interest expense by \$3 million.

Forward-looking Statements

In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, Thermo Electron wishes to caution readers that the following important factors, among others, in some cases have affected, and in the future could affect, Thermo Electron's actual results and could cause its actual results in 2002 and beyond to differ materially from those expressed in any forward-looking statements made by, or on behalf of, Thermo Electron.

Thermo Electron must develop new products, adapt to rapid and significant technological change, and respond to introductions of new products in order to remain competitive. Thermo Electron's growth strategy includes significant investment in and expenditures for product development, including in the area of proteomics. Thermo Electron sells its products in several industries that are characterized by rapid and significant technological changes, frequent new product and service introductions, and enhancements and evolving industry standards. Without the timely introduction of new products, services, and enhancements, Thermo Electron's products and services will likely become technologically obsolete over time, in which case its revenue and operating results would suffer.

Thermo Electron's customers use many of its products to develop, test, and manufacture their own products. As a result, Thermo Electron must anticipate industry trends and develop products in advance of the commercialization of its customers' products. If it fails to adequately predict its customers' needs and future activities, Thermo Electron may invest heavily in research and development of products and services that do not lead to significant revenue.

<

32

>

THERMO ELECTRON CORPORATION

Forward-looking Statements (continued)

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

Many of its products and products under development are technologically innovative and require significant planning, design, development, and testing at the technological, product, and manufacturing-process levels. These activities require Thermo Electron to make significant investments.

Products in Thermo Electron's markets undergo rapid and significant technological change because of quickly changing industry standards and the introduction of new products and technologies that make existing products and technologies uncompetitive or obsolete. Thermo Electron's competitors may adapt more quickly to new technologies and changes in customers' requirements than Thermo Electron can. The products Thermo Electron is currently developing, or those it will develop in the future, may not be technologically feasible or accepted by the marketplace, and its products or technologies could become uncompetitive or obsolete.

Thermo Electron sells its products and services to a number of companies that operate in cyclical industries, which could adversely affect its results of operations when those industries experience a downturn. The growth and profitability of certain of Thermo Electron's businesses depend in part on sales to industries that are subject to cyclical downturns and are experiencing slowing trends. For example, Thermo Electron's Optical Technologies segment depends in part on sales to the semiconductor industry and the growth and profitability of Thermo Electron's Measurement and Control segment depends in part on sales to the steel and cement industries. A prolonged slowdown in these industries would adversely affect sales by these segments, which in turn could adversely affect Thermo Electron's revenues and results of operations.

Changes in governmental regulations may reduce demand for Thermo Electron's products or increase its expenses. Thermo Electron competes in many markets in which it and its customers must comply with federal, state, local, and international regulations, such as environmental, health and safety, and food and drug regulations. Thermo Electron develops, configures, and markets its products to meet customer needs created by those regulations. Any significant change in regulations could reduce demand for Thermo Electron's products. For example, many of Thermo Electron's instruments are marketed to the pharmaceutical industry for use in discovering and developing drugs. Changes in the U.S. Food and Drug Administration's regulation of the drug discovery and development process could have an adverse effect on the demand for these products.

Demand for some of Thermo Electron's products depends on capital spending policies of its customers and on government funding policies. Thermo Electron's customers include manufacturers of semiconductors and products incorporating semiconductors, pharmaceutical and chemical companies, laboratories, universities, healthcare providers, government agencies, and public and private research institutions. Many factors, including public policy spending priorities, available resources, and economic cycles, have a significant effect on the capital spending policies of these entities. These policies in turn can have a significant effect on the demand for our products. For example, as a result of the continuing recession, a customer of Thermo Electron's Optical Technologies segment has reduced its capital expenditure budget and cancelled \$1.0 million in laser orders.

Thermo Electron faces a number of challenges in integrating its businesses. Thermo Electron has historically operated its businesses largely as autonomous, unaffiliated operations. As part of its reorganization, Thermo Electron has begun to manage these operations in a more coordinated manner. The following factors may make it difficult to successfully integrate and consolidate Thermo Electron's operations:

- Thermo Electron's success in integrating these businesses depends on

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

its ability to coordinate geographically separate organizations and integrate personnel with different business backgrounds and corporate cultures.

- Thermo Electron's ability to combine these businesses requires coordination of previously autonomous administrative, sales and marketing, distribution, and accounting and finance functions, and expansion and integration of information and management systems.

- The integration process could be disruptive to Thermo Electron's businesses.

<

33

>

THERMO ELECTRON CORPORATION

Forward-looking Statements (continued)

Moreover, Thermo Electron may not be able to realize all of the cost savings and other benefits that it expects to result from the integration process.

It may be difficult for Thermo Electron to expand because some of the markets for its products are not growing. Some of the markets in which Thermo Electron competes have been flat or declining over the past several years. To address this issue, Thermo Electron is pursuing a number of strategies to improve its internal growth, including:

- finding new markets for its products, including in the area of proteomics;
- developing new applications for its technologies;
- combining sales and marketing operations in appropriate markets to compete more effectively;
- actively funding research and development; and
- strengthening its presence in selected geographic markets.

Thermo Electron may not be able to successfully implement these strategies, and these strategies may not result in growth of Thermo Electron's business.

As a result of the spin-off of Kadant, Thermo Electron remains as the guarantor of indebtedness issued by Kadant even though Thermo Electron no longer controls Kadant's business or operations. Thermo Electron has guaranteed the payment of principal and interest on \$153 million principal amount of debentures issued by Kadant, the outstanding principal balance of which was \$88.3 million as of June 29, 2002. These debentures mature in July 2004. Thermo Electron remains liable as a guarantor for this obligation following the spin-off, although it no longer controls the business or operations of Kadant.

Thermo Electron has significant international operations, which entail the risk that exchange rate fluctuations may negatively affect demand for its products and its profitability. International revenues account for a substantial portion of Thermo Electron's revenues, and Thermo Electron intends to continue expanding its presence in international markets. In 2001, Thermo Electron's international revenues from continuing operations, including export revenues from the United States, accounted for approximately 50% of its total revenues. International revenues are subject to the risk that changes in exchange rates

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

may adversely affect product demand and the profitability in U.S. dollars of products and services provided by Thermo Electron in international markets, where payment for Thermo Electron's products and services is made in the local currency. For example, in fiscal 2001, the unfavorable effects of currency translation decreased revenues of Thermo Electron's continuing operations by \$46.5 million.

Thermo Electron has acquired several companies and businesses; as a result it has recorded significant goodwill on its balance sheet, which it must continually evaluate for potential impairment. Thermo Electron has acquired significant intangible assets, including approximately \$1.4 billion of goodwill that it has recorded on its balance sheet as of June 29, 2002. Thermo Electron assesses the future useful life of the goodwill it has on its books whenever events or changes in circumstances indicate that the current useful life has diminished. These events or circumstances generally include operating losses or a significant decline in earnings associated with the acquired business or asset. Thermo Electron's ability to realize the value of the goodwill that it has recorded as a result of its acquisition of the minority interests in its formerly publicly-traded subsidiaries will depend on the future cash flows of these businesses. These cash flows in turn depend in part on how well Thermo Electron has integrated these businesses.

<

34

>

THERMO ELECTRON CORPORATION

Item 4 - Submission of Matters to a Vote of Security Holders

On May 15, 2002, at the Annual Meeting of Stockholders, the stockholders elected three incumbent directors to a three-year term expiring in 2005. The directors elected at the meeting were: John L. LaMattina, Michael E. Porter, and Richard F. Syron. Dr. LaMattina received 147,400,870 shares voted in favor of his election and 1,987,215 shares were withheld. Dr. Porter received 147,414,420 shares voted in favor of his election and 1,973,665 shares were withheld. Mr. Syron received 147,398,847 shares voted in favor of his election and 1,989,238 shares were withheld. No abstentions or broker "non-votes" were recorded on the election of directors.

PART II - OTHER INFORMATION

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

See Exhibit Index on page immediately preceding exhibits.

(b) Reports on Form 8-K

On June 4, 2002, the Company filed a Current Report on Form 8-K with respect to the change in certifying accountant for the Company's 401(k) plan.

On June 21, 2002, the Company filed a Current Report on Form 8-K with respect to the change in certifying accountant for the Company.

<

35

>

Edgar Filing: THERMO ELECTRON CORP - Form 10-Q/A

THERMO ELECTRON CORPORATION

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 as of the 14th day of August 2002.

THERMO ELECTRON CORPORATION

/s/ Theo Melas-Kyriazi

Theo Melas-Kyriazi
Vice President and Chief Financial Officer

/s/ Peter E. Hornstra

Peter E. Hornstra
Corporate Controller and Chief Accounting Officer

<

36

>

THERMO ELECTRON CORPORATION

EXHIBIT INDEX

Exhibit Number	Description

10.1*	Master Securities Loan Agreement between Thermo Electron Corporation and JPMorgan Chase Bank.
10.2*	Master Securities Loan Agreement between Thermo Electron Corporation and ABN AMRO Inc.
99.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*Previously filed on Form 10-Q for the quarter ended June 29, 2002, filed August 13, 2002.

<

37

>