

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-08-02** | Period of Report: **1994-07-03**
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FILER

EG&G INC

CIK: **31791** | IRS No.: **042052042** | State of Incorporation: **MA** | Fiscal Year End: **1231**
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Mailing Address
45 WILLIAM ST
WELLESLEY MA 02181

Business Address
45 WILLIAM ST
WELLESLEY MA 02181-4078
6172375100

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended July 3, 1994

OR

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

Commission File Number 1-5075

EG&G, Inc.

(Exact name of registrant as specified in its charter)

Massachusetts 04-2052042
(State or other jurisdiction of (I.R.S. employer identification no.)
incorporation or organization)

45 William Street, Wellesley, Massachusetts 02181
(Address of principal executive offices) (Zip Code)

(617) 237-5100
(Registrant's telephone number, including area code)

NONE

(Former name, former address and former fiscal year,
if changed since last report)

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

Yes X No

Number of shares outstanding of each of the issuer's classes of common
stock, as of the latest practicable date:

Class	Outstanding at July 31, 1994
Common Stock, \$1 par value	55,121,000

(Excluding treasury shares)

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

EG&G, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

For the Three and Six Months Ended July 3, 1994 and July 4, 1993

(Unaudited)

<TABLE>
<CAPTION>

(In Thousands Except Per Share Data)

Three Months Ended		Six Months Ended	
July 3, 1994	July 4, 1993	July 3, 1994	July 4, 1993

<S>	<C>	<C>	<C>	<C>
Sales:				
Products	\$353,531	\$388,073	\$ 734,844	\$ 765,984
Services	292,466	273,980	587,639	544,995
Total Sales	645,997	662,053	1,322,483	1,310,979
Costs and Expenses:				
Cost of sales:				
Products	290,583	326,721	614,832	647,930
Services	267,034	245,358	538,459	486,582
Total cost of sales	557,617	572,079	1,153,291	1,134,512
Selling, general and administrative expenses	62,873	58,621	121,751	115,732
Total Costs and Expenses	620,490	630,700	1,275,042	1,250,244
Income From Operations	25,507	31,353	47,441	60,735
Other income (expense), net (Note 2)	(433)	328	(454)	(322)
Income Before Income Taxes	25,074	31,681	46,987	60,413
Provision for Federal and non-U.S. income taxes	8,651	10,613	16,211	20,238
Income Before Cumulative Effect of Accounting Changes	16,423	21,068	30,776	40,175
Cumulative Effect of Accounting Changes:				
Income taxes (Note 3)	-	-	-	(7,300)
Postretirement benefits other than pensions (Note 4)	-	-	-	(13,200)
Net Income	\$ 16,423	\$ 21,068	\$ 30,776	\$ 19,675

</TABLE>

EG&G, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

For the Three and Six Months Ended July 3, 1994 and July 4, 1993 (Continued)

<TABLE>

<S>	<C>	<C>	<C>	<C>
Earnings Per Share:				
Income Before Cumulative Effect of Accounting Changes	\$.30	\$.37	\$.56	\$.71
Cumulative Effect of Accounting Changes:				
Income taxes	-	-	-	(.13)
Postretirement benefits other than pensions	-	-	-	(.23)
Net Income	\$.30	\$.37	\$.56	\$.35
Cash Dividends Per Common Share	\$.14	\$.13	\$.28	\$.26
Weighted Average Shares of Common Stock Outstanding	55,121	56,489	55,421	56,606

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

</TABLE>

EG&G, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

As of July 3, 1994 and January 2, 1994

(Dollars in Thousands)

<TABLE>

<CAPTION>

	July 3, 1994	January 2, 1994
	(Unaudited)	
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	\$ 55,518	\$ 72,185
Accounts receivable (including unbilled receivables of \$65,700 as of July 3, 1994)		

and \$67,800 as of January 2, 1994), less reserves	236,224	237,609
Inventories (Note 5)	129,312	121,581
Other	42,251	33,657
	-----	-----
Total Current Assets	463,305	465,032
	-----	-----
Property, Plant and Equipment:		
At cost (Note 6)	350,227	327,416
Less - Accumulated depreciation and amortization	234,613	221,320
	-----	-----
Net Property, Plant and Equipment	115,614	106,096
	-----	-----
Investments (Note 7)	29,465	25,920
	-----	-----
Intangible and Other Assets (Note 8)	186,214	171,760
	-----	-----
Total Assets	\$794,598	\$768,808
	=====	=====

</TABLE>

EG&G, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (Continued)

As of July 3, 1994 and January 2, 1994

<TABLE>

<S>	<C>	<C>
Current Liabilities:		
Short-term debt	\$ 55,131	\$ 43,589
Accounts payable	60,241	60,794
Accrued expenses (Note 9)	130,347	132,714
	-----	-----
Total Current Liabilities	245,719	237,097
	-----	-----
Long-Term Liabilities	57,792	54,177
Contingencies	-	-
Stockholders' Equity:		
Preferred stock - \$1 par value, authorized 1,000,000 shares; none outstanding	-	-
Common stock - \$1 par value, authorized 100,000,000 shares; issued 60,102,000 shares	60,102	60,102
Capital in excess of par value	-	-
Retained earnings	511,596	496,063
Cumulative translation adjustments	3,986	(8,287)
Unrealized gain on marketable investments (Note 7)	4,053	-
	-----	-----
	579,737	547,878
Less - Cost of shares held in treasury; 4,981,000 shares at July 3, 1994 and 3,970,000 shares at January 2, 1994	88,650	70,344
	-----	-----
Total Stockholders' Equity	491,087	477,534
	-----	-----
Total Liabilities and Stockholders' Equity	\$794,598	\$768,808
	=====	=====

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

</TABLE>

EG&G, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months Ended July 3, 1994 and July 4, 1993

(Unaudited)

<TABLE>

<CAPTION>

	(In Thousands)	

	Six Months Ended	
	-----	-----
	July 3,	July 4,
	1994	1993
	-----	-----
<S>	<C>	<C>
Cash Flows From Operating Activities:		
Net income	\$ 30,776	\$ 19,675
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of accounting changes	-	20,500
Depreciation and amortization	17,737	19,008

Changes in assets and liabilities, net of effects from companies purchased:		
Decrease in accounts receivable	4,439	10,064
Increase in inventories	(5,704)	(1,342)
Decrease in accounts payable and accrued expenses	(5,534)	(7,620)
Other	(18,972)	(17,060)
	-----	-----
Net Cash Provided by Operating Activities	22,742	43,225
	-----	-----
Cash Flows From Investing Activities:		
Capital expenditures	(21,253)	(12,335)
Cost of acquisitions, net of cash and cash equivalents acquired	-	(33,548)
Other	3,217	(1,722)
	-----	-----
Net Cash Used in Investing Activities	(18,036)	(47,605)
	-----	-----
Cash Flows From Financing Activities:		
Changes in commercial paper	9,967	29,984
Other changes in debt	759	(2,694)
Proceeds from issuing common stock	1,166	6,453
Purchases of common stock	(19,139)	(17,292)
Cash dividends	(15,576)	(14,747)
	-----	-----
Net Cash Provided by (Used in) Financing Activities	(22,823)	1,704
	-----	-----
Effect of exchange rate changes on cash and cash equivalents	1,450	(1,197)
	-----	-----
Net Decrease in Cash and Cash Equivalents	(16,667)	(3,873)
	-----	-----
Cash and cash equivalents at beginning of period	72,185	69,752
	-----	-----
Cash and cash equivalents at end of period	\$ 55,518	\$ 65,879
	=====	=====

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

</TABLE>

EG&G, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Principles of Consolidation

The consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The Company believes, however, that the disclosures are adequate to make the information presented not misleading. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest annual report on Form 10-K. The balance sheet amounts as of January 2, 1994 in this report were extracted from the Company's audited 1993 financial statements included in the latest annual report on Form 10-K.

In the opinion of management, the unaudited consolidated financial statements included herein contain all adjustments, consisting only of normal recurring accruals, necessary to present fairly the financial position as of July 3, 1994 and the results of operations for the three and six months ended July 3, 1994 and July 4, 1993 and the cash flows for the six months then ended. The results of operations are not necessarily to be considered indicative of the results for the entire year.

Effective January 3, 1994, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 112 on accounting for postemployment benefits. This new standard requires that benefits paid for former or inactive employees after employment but prior to retirement must be accrued if certain criteria are met. Adoption of the statement did not have a material impact on the Company's financial position or results of operations.

(2) Other Income (Expense), Net

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

<TABLE>

<CAPTION>

(In Thousands)

	Three Months Ended		Six Months Ended	
	July 3, 1994	July 4, 1993	July 3, 1994	July 4, 1993
<S>	<C>	<C>	<C>	<C>
Interest and dividend income	\$ 614	\$ 832	\$ 1,453	\$ 1,686
Interest expense	(1,145)	(1,582)	(2,110)	(3,083)
Other	98	1,078	203	1,075
	\$ (433)	\$ 328	\$ (454)	\$ (322)
	=====	=====	=====	=====

</TABLE>

EG&G, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(3) Accounting for Income Taxes

Effective January 4, 1993, the Company adopted SFAS No. 109 on accounting for income taxes. As part of adopting the new standard, the Company recorded a one-time, non-cash charge against earnings of \$7.3 million (\$.13 per share) in the first quarter of 1993.

(4) Postretirement Benefits Other Than Pensions

Effective January 4, 1993, the Company adopted SFAS No. 106 on accounting for postretirement benefits other than pensions for its U.S. retiree health benefits. As part of adopting the new standard, the Company recorded a one-time, non-cash charge against earnings of \$20 million before taxes, or \$13.2 million after income taxes (\$.23 per share), in the first quarter of 1993.

(5) Inventories

Inventories consisted of the following:

	(In Thousands)	
	July 3, 1994	January 2, 1994
<S>	<C>	<C>
Finished goods	\$ 34,579	\$ 30,864
Work in process	32,929	30,393
Raw materials	61,804	60,324
	\$129,312	\$121,581
	=====	=====

</TABLE>

(6) Property, Plant and Equipment, at Cost

Property, plant and equipment consisted of the following:

	(In Thousands)	
	July 3, 1994	January 2, 1994
<S>	<C>	<C>
Land	\$ 17,303	\$ 14,327
Buildings and leasehold improvements	97,266	91,280
Machinery and equipment	235,658	221,809
	\$350,227	\$327,416
	=====	=====

EG&G, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(7) Investments

Investments consisted of the following:

</TABLE>

<TABLE>
<CAPTION>

	(In Thousands)	
	July 3, 1994	January 2, 1994
<S>	<C>	<C>
Marketable investments	\$12,881	\$ 6,838
Other investments	11,801	13,426
Joint venture investments	4,783	5,656
	-----	-----
	\$29,465	\$25,920
	=====	=====

</TABLE>
Effective January 3, 1994, the Company adopted SFAS No. 115 on accounting for certain investments in debt and equity securities. This new standard requires that available-for-sale investments in equity securities that have readily determinable fair values be measured at fair value in the balance sheet and that unrealized holding gains and losses for these investments be reported in a separate component of stockholders' equity until realized. At July 3, 1994, marketable investments classified as available-for-sale had an aggregate market value of \$12.9 million and gross unrealized holding gains of \$6.3 million. At July 3, 1994, \$4.1 million was reported as a separate component of stockholders' equity, representing the unrealized holding gains, net of deferred federal income taxes.

(8) Intangible and Other Assets

Intangible and other assets consisted of the following:

	(In Thousands)	
	July 3, 1994	January 2, 1994
<S>	<C>	<C>
Intangible assets	\$143,922	\$139,205
Other assets	42,292	32,555
	-----	-----
	\$186,214	\$171,760
	=====	=====

</TABLE>
The majority of the increase in other assets was due to an increase in prepaid pension expense.

EG&G, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(9) Accrued Expenses

Accrued expenses consisted of the following:

	(In Thousands)	
	July 3, 1994	January 2, 1994
<S>	<C>	<C>
Payroll	\$ 13,032	\$ 13,375
Employee benefits	47,624	46,121
Federal, non-U.S. and state income taxes	21,150	26,119
Other	48,541	47,099
	-----	-----
	\$130,347	\$132,714
	=====	=====

</TABLE>

Item 2. Management's Discussion and Analysis of Financial Condition and

Results of Operations

EG&G, INC. AND SUBSIDIARIES

Results of Operations

The following industry segment information is presented as an aid to a better understanding of the operating results:

<TABLE>
<CAPTION>

	(In Thousands)					
	Three Months Ended			Six Months Ended		
	July 3, 1994	July 4, 1993	Increase (Decrease)	July 3, 1994	July 4, 1993	Increase (Decrease)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Sales:						
Technical Services	\$149,253	\$161,176	\$ (11,923)	\$ 305,674	\$ 319,267	\$ (13,593)
DOE Support	316,117	334,705	(18,588)	666,856	664,067	2,789
Instruments	71,074	55,449	15,625	133,929	102,671	31,258
Mechanical Components	58,386	62,644	(4,258)	114,425	126,285	(11,860)
Optoelectronics	51,167	48,079	3,088	101,599	98,689	2,910
Total	\$645,997	\$662,053	\$ (16,056)	\$1,322,483	\$1,310,979	\$ 11,504
Income from Operations:						
Technical Services	\$ 11,798	\$ 17,409	\$ (5,611)	\$ 23,639	\$ 33,360	\$ (9,721)
DOE Support	11,455	12,723	(1,268)	21,516	26,974	(5,458)
Instruments	2,448	1,300	1,148	2,935	2,245	690
Mechanical Components	4,126	5,554	(1,428)	7,478	10,047	(2,569)
Optoelectronics	3,786	984	2,802	7,194	1,760	5,434
General Corporate Expenses	(8,106)	(6,617)	(1,489)	(15,321)	(13,651)	(1,670)
Total	\$ 25,507	\$ 31,353	\$ (5,846)	\$ 47,441	\$ 60,735	\$ (13,294)

</TABLE>

The discussion that follows is a summary analysis of the major changes in operating results by industry segment that occurred for the three and six months ended July 3, 1994 compared to the three and six months ended July 4, 1993.

EG&G, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Second Quarter 1994 Compared to Second Quarter 1993

Sales

Sales for the second quarter of 1994 of \$646 million were \$16 million below 1993 levels. Lower sales in Technical Services resulted primarily from a \$12 million reduction in program expenditures under the new base operations contract at the Kennedy Space Center. In addition, sales returned to more normal levels in the automotive testing business following increases in 1993 caused by the introduction of new industry testing protocols. Department of Energy (DOE) Support sales levels declined primarily as a result of reduced program expenditures under the Rocky Flats contract. The increase in Instruments sales was due primarily to the acquisition of Wallac late in the second quarter of 1993 and, to a lesser extent, several large shipments of security instruments. In Mechanical Components, the decrease resulted primarily from the sale of an operation in late 1993. In Optoelectronics, the increase was caused by a higher level of shipments for flash products.

Income from Operations

Income from operations in 1994 was \$25.5 million, \$5.8 million less than 1993. In Technical Services, lower sales in the automotive testing business resulted in reduced income. The decrease also reflected the reduction in available fee under the new base operations contract at the Kennedy Space Center. The 1993 results of this segment included favorable contract adjustments negotiated in the second quarter.

In DOE Support, the reduction was due to lower performance grades earned under the Idaho and Rocky Flats contracts. Uncertainty continues to exist in the DOE Support segment. The Idaho contract is scheduled to expire October 1, 1994. The Company is participating as the majority interest in a joint venture that has submitted a proposal for increased work scope at the facility. The DOE has not awarded the contract as of the date of this filing. The terms of the joint venture's proposal could result in a reduction of income to the Company.

The DOE is proceeding with a contract reform initiative and has recently announced that five DOE sites will be competitively bid at the expiration

of the current contracts. In addition to Idaho, the list of sites includes the Nevada Test Site and Rocky Flats where the Company's contracts with the DOE expire late in 1995. The contract reform initiative also provides for increased contractor liability. The Company is reviewing and evaluating the recently issued request for proposal for the Rocky Flats contract.

The decrease in Mechanical Components was due to increased start up costs for the transportation element of the electromechanical business and the impact of lower sales in the industrial seal business. The

EG&G, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Optoelectronics increase was due to a higher level of shipments of flash products and the continued benefit of cost reductions implemented in 1993.

In Instruments, the income contributed by the Wallac sales was offset by costs associated with delays in new diagnostic product introductions and continued price erosion in the security instruments business.

Several operating elements, particularly in the Instruments segment, continue to underperform against key measures of profitability and return on investment. Management has intensified the ongoing review and is focusing on the development of alternative programs to achieve business goals. This review may result in a charge to operating income if the Company determines that restructuring is advantageous or if it is unable to realize the value of any associated assets, including goodwill.

The increase in general corporate expenses was due to separation costs and general cost increases. The change in other income (expense) was due primarily to foreign exchange losses.

Six Months 1994 Compared to Six Months 1993

Sales

Sales for the six months of 1994 of \$1.3 billion were slightly ahead of 1993. Technical Services sales declined \$13.6 million primarily from a \$21 million reduction in program costs at the Kennedy Space Center, partially offset by an increase in sales at the Tooele chemical demilitarization facility which is preparing for operational start-up. Instruments sales increased \$31.3 million in 1994 primarily due to the acquisition of Wallac late in the second quarter of 1993. The \$11.9 million decrease in Mechanical Components is primarily due to the divestiture of an operation late in 1993. Lower sales in our industrial seal and valve businesses also contributed to the decrease.

Income from Operations

Income from operations of \$47.4 million declined \$13.3 million in 1994. The \$9.7 million decrease in Technical Services reflects the reduction in available fee at the Kennedy Space Center and the impact of lower sales in the automotive testing business. In addition, the 1993 results of Technical Services included adjustments from favorable contract negotiations. The decrease in DOE Support operating income is the result of lower performance grades at Rocky Flats and Idaho. In Instruments, the income contributed by the Wallac acquisition was offset by costs associated with delays in new diagnostic product introductions and price

EG&G, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

erosion in security instruments. The Mechanical Components decrease resulted from lower sales and inventory adjustments in the industrial seal business and costs associated with new programs. In Optoelectronics, the increase resulted from higher levels of shipments and improved margins resulting from cost reductions. The increase in general corporate expenses was due to separation costs and general cost increases.

Liquidity and Capital Resources

The Company's cash and cash equivalents decreased \$16.7 million in the first six months of 1994 while total debt increased \$11.2 million. Net cash provided by operating activities totaled \$22.7 million during the period. The Company invested \$21.3 million in physical plant and equipment during the first half of 1994. The \$8.9 million increase in

capital expenditures over 1993 was due primarily to a higher level of investment to support new product development initiatives in the Optoelectronics segment.

In the fourth quarter of 1993, the Board of Directors authorized the purchase of up to a total of 5.5 million shares of the Company's common stock through periodic purchases on the open market. The Company has purchased 2.2 million shares under this program to date, including 1.1 million shares purchased in the first quarter of 1994. No shares were purchased under the program in the second quarter pending an evaluation of investment opportunities.

Effective March 21, 1994, the Company concluded the restructuring of its credit facilities with the signing of two revolving credit agreements totaling \$250 million. These agreements consist of a \$175 million 364-day facility and a \$75 million three-year facility and serve as backup facilities for the commercial paper borrowing.

PART II. OTHER INFORMATION

EG&G, INC. AND SUBSIDIARIES

Item 6. Exhibits and Reports on Form 8-K

- (b) Reports on Form 8-K - There were no reports on Form 8-K filed for the three months ended July 3, 1994.

EG&G, INC. AND SUBSIDIARIES

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.

EG&G, Inc.

By /s/ Thomas J. Sauser

Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date August 1, 1994

