TELEDYNE TECHNOLOGIES INC
Form 10-Q
November 04, 2013
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 29, 2013

OR

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

For the transition period from to

Commission file number 1-15295

TELEDYNE TECHNOLOGIES INCORPORATED
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	25-1843385 (I.R.S. Employer Identification Number)
1049 Camino Dos Rios Thousand Oaks, California (Address of principal executive offices)	91360-2362 (Zip Code)

(805) 373-4545
(Registrant's telephone number, including area code)

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 ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

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

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

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 October 31, 2013
Common Stock, $.01 par value per share	37,519,937 shares

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements
TELEDYNE TECHNOLOGIES INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THIRD QUARTER AND NINE MONTHS ENDED SEPTEMBER 29, 2013 AND SEPTEMBER 30, 2012
(Unaudited - Amounts in millions, except per-share amounts)

	Third Quarter		Nine Months	
	2013	2012	2013	2012
Net Sales	$571.6	$547.4	$1,742.0	$1,559.9
Costs and expenses				
Cost of sales	369.0	349.0	1,118.0	1,020.1
Selling, general and administrative expenses	149.6	138.1	447.2	364.3
Total costs and expenses	518.6	487.1	1,565.2	1,384.4
Income before other income/(expense) and income taxes	53.0	60.3	176.8	175.5
Other income/(expense), net	(0.7)	1.2	(1.2)	2.2
Interest and debt expense, net	(5.1)	(4.5)	(15.6)	(12.6)
Income before income taxes	47.2	57.0	160.0	165.1
Provision for income taxes	0.3	13.9	30.0	46.8
Net income	46.9	43.1	130.0	118.3
Noncontrolling interest	(0.1)	(0.4)	0.1	(0.4)
Net income attributable to Teledyne	$46.8	$42.7	$130.1	$117.9
Basic earnings per common share	$1.25	$1.16	$3.49	$3.22
Weighted average common shares outstanding	37.3	36.7	37.3	36.6
Diluted earnings per common share	$1.23	$1.14	$3.42	$3.16
Weighted average diluted common shares outstanding	38.1	37.4	38.0	37.3

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

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TELEDYNE TECHNOLOGIES INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THIRD QUARTER AND NINE MONTHS ENDED SEPTEMBER 29, 2013 AND SEPTEMBER 30, 2012
(Unaudited - Amounts in millions, except per-share amounts)

	Third Quarter		Nine Months	
	2013	2012	2013	2012
Net income	$46.9	$43.1	$130.0	$118.3
Other comprehensive income (loss), net of tax:				
Foreign exchange translation adjustment	21.7	16.2	(7.7)	18.6
Hedge activity and interest rate swap	1.5	2.1	(0.3)	1.7
Pension and postretirement benefit adjustments	5.2	3.4	16.3	9.8
Other comprehensive income, net of tax	28.4	21.7	8.3	30.1
Comprehensive income	75.3	64.8	138.3	148.4
Less amounts attributable to noncontrolling interest, net of tax:				
Net loss (income)	0.1	(0.4)	(0.1)	(0.4)
Foreign exchange translation adjustment	(3.6)	—	(6.2)	—
Other comprehensive income, net of tax	(3.5)	(0.4)	(6.3)	(0.4)
Comprehensive income attributable to Teledyne	$71.8	$64.4	$132.0	$148.0

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

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TELEDYNE TECHNOLOGIES INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Current period unaudited - Amounts in millions, except share amounts)

	September 29, 2013	December 30, 2012
Assets		
Current Assets		
Cash and cash equivalents	$88.7	$45.8
Accounts receivable, net	368.9	350.3
Inventories, net	304.0	281.2
Deferred income taxes, net	30.1	39.8
Prepaid expenses and other current assets	51.2	27.7
Total current assets	842.9	744.8
Property, plant and equipment, at cost, net of accumulated depreciation and amortization of $357.5 at September 29, 2013 and $327.9 at December 30, 2012	361.0	349.5
Goodwill, net	1,030.3	990.2
Acquired intangibles, net	274.2	265.7
Other assets, net	112.3	56.2
Total Assets	$2,620.7	$2,406.4
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$160.0	$148.6
Accrued liabilities	242.1	256.7
Current portion of long-term debt and capital leases	4.5	2.0
Total current liabilities	406.6	407.3
Long-term debt and capital leases	638.6	556.2
Accrued pension obligation	10.7	57.0
Accrued postretirement benefits	12.4	12.8
Other long-term liabilities	192.8	169.7
Total Liabilities	1,261.1	1,203.0
Stockholders' Equity		
Preferred stock, $0.01 par value; outstanding shares-none	—	—
Common stock, $0.01 par value; authorized 125 million shares; issued and outstanding shares; 37,490,566 at September 29, 2013 and 37,162,697 at December 30, 2012	0.4	0.4
Additional paid-in capital	322.1	297.8
Retained earnings	1,253.0	1,123.0
Accumulated other comprehensive loss	(265.1)	(273.4)
Total Teledyne Stockholders' Equity	1,310.4	1,147.8
Noncontrolling interest	49.2	55.6
Total Stockholders' Equity	1,359.6	1,203.4
Total Liabilities and Stockholders' Equity	$2,620.7	$2,406.4

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

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TELEDYNE TECHNOLOGIES INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 29, 2013 AND SEPTEMBER 30, 2012
(Unaudited - Amounts in millions)

	Nine Months	
	2013	2012
Operating Activities		
Net income	$130.0	$118.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	67.1	56.4
Deferred income taxes	33.2	(1.8)
Stock option expense	7.6	5.9
Excess income tax benefits from stock options exercised	(3.8)	(4.7)
Changes in operating assets and liabilities, excluding the effect of businesses acquired:		
Accounts receivable	(0.1)	(27.1)
Inventories	(10.2)	(12.9)
Prepaid expenses and other assets	0.9	(2.6)
Accounts payable	2.2	26.0
Accrued liabilities	(16.0)	(35.0)
Income taxes payable, net	(22.2)	23.7
Long-term assets	(8.2)	(2.3)
Other long-term liabilities	4.9	11.0
Accrued pension obligation	(80.7)	(88.7)
Accrued postretirement benefits	(0.5)	(0.8)
Other operating, net	1.4	2.2
Net cash provided by operating activities	105.6	67.6
Investing Activities		
Purchases of property, plant and equipment	(54.0)	(43.0)
Purchase of businesses and other investments	(106.4)	(389.2)
Proceeds from the disposal of fixed assets	0.2	1.0
Net cash used in investing activities	(160.2)	(431.2)
Financing Activities		
Net proceeds from debt	84.0	318.2
Proceeds from exercise of stock options	10.0	12.2
Excess income tax benefits from stock options exercised	3.8	4.7
Issuance of cash flow hedges	(0.3)	3.3
Net cash provided by financing activities	97.5	338.4
Increase (decrease) in cash and cash equivalents	42.9	(25.2)
Cash and cash equivalents—beginning of period	45.8	49.4
Cash and cash equivalents—end of period	$88.7	$24.2

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

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TELEDYNE TECHNOLOGIES INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 29, 2013

Note 1. General
Basis of Presentation
The accompanying unaudited condensed consolidated financial statements have been prepared by Teledyne Technologies Incorporated (“Teledyne” or the “Company”) pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in notes to consolidated financial statements have been condensed or omitted pursuant to such rules and regulations, but resultant disclosures are in accordance with accounting principles generally accepted in the United States as they apply to interim reporting. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in Teledyne’s Annual Report on Form 10-K for the fiscal year ended December 30, 2012 (“2012 Form 10-K”).
In the opinion of Teledyne’s management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly, in all material respects, Teledyne’s consolidated financial position as of September 29, 2013 and the consolidated results of operations, consolidated comprehensive income third quarter and nine months then ended and consolidated cash flows for the nine months then ended. The results of operations and cash flows for the period ended September 29, 2013 are not necessarily indicative of the results of operations or cash flows to be expected for any subsequent quarter or the full fiscal year.
Recent Accounting Pronouncements
Effective December 31, 2012, the Company adopted accounting guidance on the testing of indefinite-lived intangible assets for impairment. The guidance allows entities to first perform a qualitative assessment to determine the likelihood of an impairment for an indefinite-lived intangible asset and whether it is necessary to perform the quantitative impairment assessment currently required. The Company’s adoption of this guidance did not have any impact on Teledyne's financial position, results of operations or cash flows.

Effective December 31, 2012, the Company adopted accounting guidance which updates the presentation of reclassifications from comprehensive income to net income in consolidated financial statements. Under this guidance, an entity is required to provide information about the amounts reclassified out of accumulated other comprehensive income (“AOCI”) either by the respective line items of net income or by cross-reference to other required disclosures. The guidance does not change the requirements for reporting net income or other comprehensive income in financial statements. As the guidance relates to presentation only, the adoption did not have any impact on Teledyne's financial position, results of operations or cash flows.

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The changes in AOCI by component, net of tax, for the third quarter and first nine months ended September 29, 2013 are as follows (in millions):

	Foreign Currency Translation	Cash Flow Hedges	Pension and Postretirement Benefits	Total
Balance as of June 30, 2013	$(46.6)	$(3.7)	$ (243.2)	$(293.5)
Other comprehensive income (loss) before reclassifications	21.7	0.8	(0.2)	22.3
Amounts reclassified from AOCI	—	0.7	5.4	6.1
Net other comprehensive income	21.7	1.5	5.2	28.4
Balance as of September 29, 2013	$(24.9)	$(2.2)	$ (238.0)	$(265.1)

	Foreign Currency Translation	Cash Flow Hedges	Pension and Postretirement Benefits	Total
Balance as of December 31, 2012	$(17.2)	$(1.9)	$ (254.3)	$(273.4)
Other comprehensive loss before reclassifications	(7.7)	(1.3)	—	(9.0)
Amounts reclassified from AOCI	—	1.0	16.3	17.3
Net other comprehensive income (loss)	(7.7)	(0.3)	16.3	8.3
Balance as of September 29, 2013	$(24.9)	$(2.2)	$ (238.0)	$(265.1)

The reclassifications out of AOCI for the third quarter and first nine months of 2013 are as follows (in millions):

	Amount Reclassified from AOCI Third Quarter Ended September 29, 2013	Amount Reclassified from AOCI Nine Months Ended September 29, 2013	Statement of Income Presentation
Loss on cash flow hedges:			
Loss recognized in income on derivatives	$0.9	$1.3	Other expense
Income tax benefit	(0.2)	(0.3)	Income tax benefit
Total	$0.7	$1.0	
Amortization of defined benefit pension and postretirement plan items:			
Amortization of prior service cost	$(1.3)	$(3.9)	Pension expense
Amortization of net actuarial loss	10.1	30.5	Pension expense
Total before tax	8.8	26.6	
Tax benefit	(3.4)	$(10.3)	Income tax benefit
Total	$5.4	$16.3	

Note 2. Business Combinations and Investments, Goodwill and Acquired Intangible Assets
Teledyne spent $106.4 million and $389.2 million on acquisitions in the first nine months of 2013 and 2012, respectively.
On August 30, 2013, a subsidiary of Teledyne acquired the assets of SD Acquisition, Inc. d/b/a CETAC Technologies ("CETAC") for $26.4 million. Teledyne expects to pay a $0.4 million purchase price adjustment in the fourth quarter. CETAC, headquartered in Omaha, Nebraska is a designer and manufacturer of automated sample handling and sample introduction equipment for laboratory instrumentation. CETAC had sales of $24.0 million for its fiscal year ended December 31, 2012, and is part of the Instrumentation segment.
On July 5, 2013, a subsidiary of Teledyne purchased the remaining 49% interest in Nova Research, Inc. ("Nova Sensors") that it did not already own for $4.9 million. Nova Sensors is part of the Digital Imaging segment. In the third quarter of 2013, the Company spent $1.4 million on certain assets.

On May 8, 2013, a subsidiary of Teledyne acquired Axiom IC B.V. ("Axiom"), for an initial payment of $4.0 million, net of cash acquired, with an additional $1.3 million expected to be paid in equal installments over three years. Axiom is located in the Netherlands and is a fabless semiconductor company that develops high-performance CMOS mixed-signal integrated circuits and is part of the Digital Imaging segment.
On March 1, 2013, a subsidiary of Teledyne acquired all the outstanding shares of RESON A/S ("RESON") for $69.7 million, net of cash acquired. RESON, headquartered in Slangerup, Denmark, provides multibeam sonar systems and specialty acoustic sensors for hydrography, global marine infrastructure and offshore energy operations. RESON had sales of €50.8 million for its fiscal year ended December 31, 2012 and is part of the Instrumentation segment.
On August 3, 2012, Teledyne acquired LeCroy Corporation ("LeCroy") for $301.3 million, net of cash acquired. LeCroy, headquartered in Chestnut Ridge, New York is a leading supplier of oscilloscopes, protocol analyzers and signal integrity test solutions. LeCroy is part of the Instrumentation segment.
Also on August 3, 2012, a subsidiary of Teledyne acquired the parent company of PDM Neptec Limited ("PDM Neptec") for $7.4 million in cash, net of cash acquired. PDM Neptec, located in Hampshire, United Kingdom, is part of the Instrumentation segment and operates as Teledyne Impulse-PDM Ltd.
On July 2, 2012, a subsidiary of Teledyne acquired BlueView Technologies Inc. ("BlueView") for $16.3 million in cash, net of cash acquired. BlueView, located in Seattle, Washington, is part of the Instrumentation segment and operates as Teledyne BlueView, Inc.
On April 2, 2012, a subsidiary of Teledyne acquired a majority interest in the parent company of Optech Incorporated ("Optech") for $27.9 million, net of $4.8 million in cash acquired. The purchase increased Teledyne's ownership percentage to 51 percent from the original 19 percent interest purchased in the first quarter of 2011. With the April 2012 purchase, we now consolidate Optech's financial results into Teledyne's results with an appropriate adjustment for the minority ownership. At the time of the purchase, the value of Optech's total equity was based on the same per share price as those shares purchased by Teledyne to obtain the majority interest in 2012 and the value of the non-controlling interest was 49.0% of Optech's total equity and was equal to $49.8 million. The minority ownership of Optech was $49.2 million and $49.8 million at September 29, 2013 and December 30, 2012, respectively. Optech is part of the Digital Imaging segment.
On February 25, 2012, Teledyne acquired VariSystems Inc. ("VariSystems") for $34.9 million, net of cash acquired. Teledyne paid a $1.4 million purchase price adjustment in the second quarter of 2012. VariSystems, headquartered in Calgary, Alberta, Canada, supplies custom harsh environment interconnects used in energy exploration and production. VariSystems is part of the Digital Imaging segment.
Teledyne funded the purchases primarily from borrowings under its credit facility and cash on hand. The results of these acquisitions have been included in Teledyne's results since the dates of the respective acquisitions.

Teledyne's goodwill was $1,030.3 million at September 29, 2013 and $990.2 million at December 30, 2012. The increase in the balance of goodwill in 2013 resulted from the CETAC, RESON and Axiom acquisitions partially offset by the impact of exchange rate changes and also reflected a $4.9 million reduction related to a purchase accounting adjustment for the LeCroy acquisition. In the second quarter of 2013, the Company identified an immaterial misstatement in purchase accounting related to the 2012 LeCroy acquisition after the allocation period had ended. The Company increased long term deferred tax assets by $4.9 million and reduced goodwill by the same amount in the second quarter of 2013. Teledyne's net acquired intangible assets were $274.2 million at September 29, 2013 and $265.7 million at December 30, 2012. The increase in the balance of acquired intangible assets in 2013 primarily resulted from the CETAC and RESON acquisitions, partially offset by amortization and the impact of exchange rate changes. The Company's cost to acquire CETAC, RESON and Axiom has been allocated to the assets acquired and liabilities assumed based upon their respective fair values as of the date of the completion of the acquisition. The differences between the fair value of the consideration paid and the estimated fair value of the assets and liabilities acquired has been recorded as goodwill. The Company has completed the process of specifically identifying the amounts assigned to assets and liabilities and acquired intangible assets and the related impact on goodwill for the RESON and Axiom acquisitions. The Company is still in the process of specifically identifying the amount to be assigned to certain liabilities and the related impact on taxes and goodwill for the CETAC acquisition. The Company made preliminary estimates as of September 29, 2013, since there was insufficient time between the acquisition date and the end of the period to finalize the analysis.

The following is a summary at the acquisition date of the estimated fair values allocated to the assets acquired and liabilities assumed for the acquisitions made in 2013, excluding the purchase of the remaining 49% interest in Nova Sensors. (in millions):

Current assets	$36.0
Property, plant and equipment	5.8
Goodwill	50.6
Acquired intangible assets	32.8
Current liabilities	(18.7)
Long-term liabilities	(5.0)
Net assets acquired	$101.5

Except for the CETAC acquisition, goodwill resulting from the acquisitions made in 2013 and 2012 will not be deductible for tax purposes.

The following table is a summary at the acquisition date of the acquired intangible assets and weighted average useful life in years for the acquisitions made in 2013, excluding the purchase of the remaining 49% interest in Nova Sensors (dollars in millions):

	Amount	Weighted Average Useful Life in Years
Intangibles subject to amortization:		
Proprietary Technology	$13.6	9.4
Customer List/Relationships	8.6	12.0
Backlog	0.6	0.7
Total intangibles subject to amortization	22.8	10.1
Intangibles not subject to amortization:		
Trademarks and trade names	10.0	n/a
Total intangibles not subject to amortization	10.0	
Total acquired intangible assets	$32.8	

Note 3. Derivative Instruments

Teledyne transacts business in various foreign currencies and has international sales and expenses denominated in foreign currencies, subjecting the Company to foreign currency risk. The Company’s primary foreign currency risk management objective is to protect the United States dollar value of future cash flows and minimize the volatility of reported earnings. The Company utilizes foreign currency forward contracts to reduce the volatility of cash flows primarily related to forecasted revenue and expenses denominated in Canadian dollars. These contracts are designated and qualify as cash flow hedges.

Cash Flow Hedging Activities

The effectiveness of the cash flow hedge contracts, excluding time value, is assessed prospectively and retrospectively on a monthly basis using regression analysis, as well as using other timing and probability criteria. To receive hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedges and must be highly effective in offsetting changes to future cash flows on hedged transactions. The effective portion of the cash flow hedge contracts’ gains or losses resulting from changes in the fair value of these hedges is initially reported, net of tax, as a component of AOCI in stockholders’ equity until the underlying hedged item is reflected in our consolidated statements of income, at which time the effective amount in AOCI is reclassified to cost of sales in our consolidated statements of income. The Company expects to reclassify a loss of approximately $0.1 million over the next 12 months based on the September 29, 2013 exchange rate.

In the event that the gains or losses in AOCI are deemed to be ineffective, the ineffective portion of gains or losses resulting from changes in fair value, if any, is reclassified to other income and expense. In the event that the underlying forecasted transactions do not occur, or it becomes remote that they will occur, within the defined hedge period, the gains or losses on the related cash flow hedges will be reclassified from AOCI to other income and expense. During the current reporting period, all forecasted transactions occurred and, therefore, there were no such gains or losses reclassified to other income and expense. As of September 29, 2013, Teledyne had foreign currency forward contracts designated as cash flow hedges to buy Canadian dollars and to sell U.S. dollars totaling $81.1 million and these contracts had a fair value of $0.2 million. These foreign currency forward contracts have maturities ranging from December 2013 to February 2015.

Non-Designated Hedging Activities

In addition, the Company utilizes foreign currency forward contracts to mitigate foreign exchange rate risk associated with foreign-currency-denominated monetary assets and liabilities, including intercompany receivables and payables. As of September 29, 2013, Teledyne had foreign currency contracts of this type in the following pairs (in millions):

Contracts to Buy			Contracts to Sell		
Currency	Amount		Currency	Amount	
Canadian Dollars	C$	35.4	U.S. Dollars	US$	34.3
Great Britain Pounds	£	12.7	U.S. Dollars	US$	19.8
U.S. Dollars	US$	12.2	Euros	€	9.2
U.S. Dollars	US$	1.6	Japanese Yen	¥	158.0
Euros	€	1.0	Canadian Dollars	C$	1.4
Japanese Yen	¥	86.0	Canadian Dollars	C$	0.9
Singapore Dollars	S$	0.9	U.S. Dollars	US$	0.7

The gains and losses on these derivatives which are not designated as hedging instruments are intended to, at a minimum, partially offset the transaction gains and losses recognized in earnings. All derivatives are recorded on the balance sheet at fair value. As discussed below, the accounting for gains and losses resulting from changes in fair value depends on the use of the derivative and whether it is designated and qualifies for hedge accounting. Teledyne does not use foreign currency forward contracts for speculative or trading purposes.

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The effect of derivative instruments designated as cash flow hedges in our condensed consolidated financial statements for the third quarter and nine months ended September 29, 2013 and September 30, 2012 was as follows (in millions):

	Third Quarter		Nine Months	
	2013	2012	2013	2012
Net gain (loss) recognized in AOCI (a)	$1.1	$3.3	$(1.6)	$2.6
Net loss reclassified from AOCI into cost of sales (a)	$(0.7)	$(0.4)	$(1.0)	$(0.9)
Net foreign exchange gain recognized in other income and expense (b)	$0.2	$0.1	$0.4	$0.4

(a) Effective portion
(b) Amount excluded from effectiveness testing

The effect of derivative instruments not designated as cash flow hedges recognized in other income and expense for the third quarter and nine months ended September 29, 2013 was a benefit of $1.0 million and an expense of $0.6 million respectively. The effect of derivative instruments not designated as cash flow hedges recognized in other income and expense for the third quarter and nine months ended September 30, 2012 was a benefit of $0.6 million and $0.4 million, respectively.

Fair Value of Derivative Financial Instruments

The fair values of the Company’s derivative financial instruments are presented below. All fair values for these derivatives were measured using Level 2 information as defined by the accounting standard hierarchy (in millions):

Asset/(Liability) Derivatives	Balance sheet location	September 29, 2013	December 30, 2012
Derivatives designated as hedging instruments:			
Cash flow forward contracts	Other assets	$0.6	$0.8
Cash flow forward contracts	Accrued liabilities	(0.4)	—
Total derivatives designated as hedging instruments		0.2	0.8
Derivatives not designated as hedging instruments:			
Non-designated forward contracts	Other current assets	1.0	0.1
Non-designated forward contracts	Accrued liabilities	(0.5)	(0.2)
Total derivatives not designated as hedging instruments		0.5	(0.1)
Total asset derivatives		$0.7	$0.7

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Note 4. Earnings Per Share

Basic and diluted earnings per share were computed based on net earnings. The weighted average number of common shares outstanding during the period was used in the calculation of basic earnings per share. This number of shares was increased by contingent shares that could be issued under various compensation plans as well as by the dilutive effect of stock options based on the treasury stock method in the calculation of diluted earnings per share.

For the third quarter and first nine months of 2013 and 2012, no stock options were excluded in the computation of diluted earnings per share. The following table sets forth the computations of basic and diluted earnings per share (amounts in millions, except per share data):

	Third Quarter		Nine Months	
	2013	2012	2013	2012
Net income attributable to Teledyne	$46.8	$42.7	$130.1	$117.9
Basic earnings per share:				
Weighted average common shares outstanding	37.3	36.7	37.3	36.6
Basic earnings per common share	$1.25	$1.16	$3.49	$3.22
Diluted earnings per share:				
Weighted average common shares outstanding	37.3	36.7	37.3	36.6
Dilutive effect of exercise of options outstanding	0.8	0.7	0.7	0.7
Weighted average diluted common shares outstanding	38.1	37.4	38.0	37.3
Diluted earnings per common share	$1.23	$1.14	$3.42	$3.16

Note 5. Stock-Based Compensation Plans

Teledyne has long-term incentive plans pursuant to which it has granted non-qualified stock options, restricted stock and performance shares to certain employees. The Company also has non-employee director stock compensation plans, pursuant to which non-qualified stock options and common stock have been issued to its directors.

Stock Incentive Plan

The following disclosures are based on stock options granted to Teledyne’s employees and directors. The Company recorded a total of $3.0 million and $7.6 million in stock option compensation expense for the third quarter and first nine months of 2013, respectively. For the third quarter and first nine months of 2012, the company recorded a total of $2.3 million and $5.9 million, respectively. Employee stock option grants are charged to expense evenly over the three year vesting period. Director stock option grants are charged to expense evenly over the one-year vesting period. In 2013, the Company currently expects approximately $10.8 million in stock option compensation expense based on stock options already granted and current assumptions regarding the estimated fair value of stock option grants expected to be issued during the remainder of the year. However, our assessment of the estimated compensation expense will be affected by our stock price and actual stock option grants during the remainder of the year as well as assumptions regarding a number of complex and subjective variables and the related tax impact. These variables include, but are not limited to, the volatility of our stock price and employee stock option exercise behaviors. The Company issues shares of common stock upon the exercise of stock options.

The Company uses a combination of its historical stock price volatility and the volatility of exchange traded options, if any, on the Company stock to compute the expected volatility for purposes of valuing stock options issued. The period used for the historical stock price corresponded to the expected term of the options and was seven years, three months. The period used for the exchange traded options, if any, included the longest-dated options publicly available, generally three months. The expected dividend yield is based on Teledyne’s practice of not paying dividends. The risk-free rate of return is based on the yield of U. S. Treasury Strips with terms equal to the expected life of the options as of the grant date. The expected life in years is based on historical actual stock option exercise experience.

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The following assumptions were used in the valuation of stock options granted in 2013 and 2012:

	2013	2012
Expected dividend yield	—	—
Expected volatility	31.9 %	34.1 %
Risk-free interest rate	0.9 %	1.1 %
Expected life in years	7.3	6.7

Based on the assumptions in the table above, the grant date weighted average fair value of employee stock options granted in 2013 and 2012 was $27.17 and $23.90, respectively.

Stock option transactions for Teledyne's employee stock option plans for the third quarter and nine months ended September 29, 2013 are summarized as follows:

	2013 Third Quarter		Nine Months	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Beginning balance	2,551,480	$52.95	2,203,005	$45.90
Granted	—	$—	573,724	$75.17
Exercised	(67,814)	$38.31	(257,463)	$37.87
Canceled or expired	—	$—	(35,600)	$55.81
Ending balance	2,483,666	$53.35	2,483,666	$53.35
Options exercisable at end of period	1,469,655	$43.04	1,469,655	$43.04

Stock option transactions for Teledyne's non-employee director stock option plans for the third quarter and nine months ended September 29, 2013 are summarized as follows:

	2013 Third Quarter		Nine Months	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Beginning balance	344,604	$43.43	308,908	$39.35
Granted	2,485	$51.89	41,914	$71.29
Exercised	(4,000)	$46.00	(7,403)	$29.50
Canceled or expired	—	$—	(330)	$40.70
Ending balance	343,089	$43.46	343,089	$43.46
Options exercisable at end of period	300,394	$39.58	300,394	$39.58