

TELEDYNE TECHNOLOGIES INC

Form 10-Q

August 10, 2010

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

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

**For the quarterly period ended July 4, 2010**

**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  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  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  Accelerated filer  Non-accelerated filer  Smaller reporting company   
 (Do not check if a 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

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

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Class  
Common Stock, \$.01 par value per share

Outstanding at July 30, 2010  
36,257,566 shares

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**TELEDYNE TECHNOLOGIES INCORPORATED AND SUBSIDIARIES  
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TELEDYNE TECHNOLOGIES INCORPORATED AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
FOR THE THREE MONTHS AND SIX MONTHS ENDED JULY 4, 2010 AND JUNE 28, 2009  
(Unaudited Amounts in millions, except per-share amounts)

	Three Months		Six Months	
	2010	2009	2010	2009
<b>Net Sales</b>	<b>\$ 442.5</b>	\$ 441.1	<b>\$ 881.7</b>	\$ 881.4
<b>Costs and expenses</b>				
Cost of sales	<b>309.9</b>	313.8	<b>622.1</b>	627.6
Selling, general and administrative expenses	<b>86.9</b>	83.6	<b>174.0</b>	174.8
Total costs and expenses	<b>396.8</b>	397.4	<b>796.1</b>	802.4
<b>Income before other income and expense and income taxes</b>	<b>45.7</b>	43.7	<b>85.6</b>	79.0
Other income (expense), net	<b>0.5</b>	(0.6)	<b>1.2</b>	(0.2)
Interest and debt expense, net	<b>(0.7)</b>	(1.5)	<b>(1.7)</b>	(2.6)
<b>Income before income taxes</b>	<b>45.5</b>	41.6	<b>85.1</b>	76.2
Provision for income taxes	<b>16.9</b>	16.2	<b>31.5</b>	29.8
<b>Net income before noncontrolling interest</b>	<b>28.6</b>	25.4	<b>53.6</b>	46.4
Less: Net income attributable to noncontrolling interest		(0.2)		(0.4)
<b>Net income attributable to Teledyne Technologies</b>	<b>\$ 28.6</b>	\$ 25.2	<b>\$ 53.6</b>	\$ 46.0
<b>Basic earnings per common share</b>	<b>\$ 0.79</b>	\$ 0.70	<b>\$ 1.48</b>	\$ 1.28
<b>Weighted average common shares outstanding</b>	<b>36.2</b>	36.0	<b>36.2</b>	36.0
<b>Diluted earnings per common share</b>	<b>\$ 0.78</b>	\$ 0.69	<b>\$ 1.46</b>	\$ 1.26
<b>Weighted average diluted common shares outstanding</b>	<b>36.9</b>	36.6	<b>36.8</b>	36.5

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)

	July 4, 2010	January 3, 2010
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 36.5	\$ 26.1
Accounts receivable, net	270.0	245.8
Inventories, net	191.3	189.6
Deferred income taxes, net	38.0	37.4
Prepaid expenses and other current assets	26.2	32.8
<b>Total current assets</b>	<b>562.0</b>	531.7
Property, plant and equipment, at cost, net of accumulated depreciation and amortization of \$289.9 at July 4, 2010 and \$275.9 at January 3, 2010	199.9	206.6
Deferred income taxes, net	33.8	29.9
Goodwill, net	502.6	502.4
Acquired intangibles, net	103.4	109.6
Other assets, net	54.3	41.3
<b>Total Assets</b>	<b>\$ 1,456.0</b>	\$ 1,421.5
<b>Liabilities and Stockholders Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 103.6	\$ 103.8
Accrued liabilities	171.8	176.8
Current portion of long-term debt and capital leases	0.6	0.5
<b>Total current liabilities</b>	<b>276.0</b>	281.1
Long-term debt and capital leases	236.5	251.6
Accrued pension obligation	81.8	79.8
Accrued postretirement benefits	14.7	15.7
Other long-term liabilities	126.7	125.9
<b>Total Liabilities</b>	<b>735.7</b>	754.1
<b>Stockholders Equity</b>		
Preferred stock, \$0.01 par value; outstanding shares-none		
Common stock, \$0.01 par value; outstanding shares 36,254,122 at July 4, 2010 and 36,078,269 at January 3, 2010	0.4	0.4
Additional paid-in capital	261.7	254.7
Retained earnings	636.8	583.2
Accumulated other comprehensive loss	(179.6)	(171.8)

<b>Total Teledyne Technologies Stockholders Equity</b>	<b>719.3</b>	666.5
Noncontrolling interest	<b>1.0</b>	0.9
<b>Total Stockholders Equity</b>	<b>720.3</b>	667.4
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 1,456.0</b>	\$ 1,421.5

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 SIX MONTHS ENDED JULY 4, 2010 AND JUNE 28, 2009  
(Unaudited Amounts in millions)

	Six Months	
	2010	2009
<b>Operating Activities</b>		
Net income before noncontrolling interest	\$ 53.6	\$ 46.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22.4	23.0
Deferred income taxes	(5.0)	17.8
Stock option expense	2.5	2.8
Noncontrolling interest		0.4
Excess income tax benefits from stock options exercised	(0.7)	(0.1)
Loss on sale of fixed assets		0.2
Changes in operating assets and liabilities, excluding the effect of business acquired:		
Decrease (increase) in accounts receivable	(24.7)	9.7
Decrease (increase) in inventories	(2.0)	8.7
Decrease in prepaid expenses and other assets	4.3	2.6
Increase (decrease) in accounts payable		(3.7)
Decrease in accrued liabilities	(2.8)	(33.7)
Increase in income taxes payable, net	2.8	19.4
Increase in long-term assets	(1.8)	(3.1)
Increase in other long-term liabilities	1.2	7.2
Increase (decrease) in accrued pension obligation	2.0	(69.4)
Decrease in accrued postretirement benefits	(1.1)	(1.0)
Other operating, net	(0.6)	1.0
Net cash provided by operating activities	50.1	28.2
<b>Investing Activities</b>		
Purchases of property, plant and equipment	(10.5)	(17.5)
Purchase of businesses and other investments	(16.8)	(7.3)
Proceeds from disposal of fixed assets	0.1	
Net cash used by investing activities	(27.2)	(24.8)
<b>Financing Activities</b>		
Net proceeds from (repayments of) debt	(14.2)	0.8
Purchase of treasury stock		(0.8)
Proceeds from exercise of stock options	1.6	0.2
Issuance of cash flow hedges	(0.6)	
Excess income tax benefits from stock options exercised	0.7	0.1
Net cash provided (used) by financing activities	(12.5)	0.3



Increase in cash and cash equivalents	<b>10.4</b>	3.7
Cash and cash equivalents beginning of period	<b>26.1</b>	20.4
Cash and cash equivalents end of period	<b>\$ 36.5</b>	\$ 24.1

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

July 4, 2010

**Note 1. General**

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared by Teledyne Technologies Incorporated (Teledyne Technologies 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 Technologies Annual Report on Form 10-K for the fiscal year ended January 3, 2010 (2009 Form 10-K).

In the opinion of Teledyne Technologies 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 Technologies consolidated financial position as of July 4, 2010 and the consolidated results of operations and cash flows for the three months and six months then ended. The results of operations and cash flows for the period ended July 4, 2010 are not necessarily indicative of the results of operations or cash flows to be expected for any subsequent quarter or the full fiscal year.

**Accounting Adjustment**

In the second quarter of 2010, the Company recorded a non-cash pre-tax charge totaling \$8.2 million to correct cost of sales that had been recorded incorrectly by the Company during the periods covering 2003 through the first quarter of 2010 primarily as a result of incorrect inventory valuations at a business unit. The Company evaluated the impact of the incorrect inventory valuations in accordance with Securities and Exchange Commission Staff Accounting Bulletins ( SAB ) No. 99, Materiality ( SAB No. 99 ) and SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, ( SAB No. 108 ), and determined the impact of the incorrect inventory entries to be immaterial to any period presented. The Company considered several qualitative and quantitative factors, including income before taxes it reported in each of the prior years and for the current year, the trend in earnings for each period, the impact on earnings per diluted share, the impact on operating segment results, the impact on Teledyne s stockholder s equity and the non-cash nature of the incorrect inventory entries in each of the prior years. The Company recorded a cumulative accounting adjustment in the second quarter of 2010, the effect of which resulted in an \$8.2 million pre-tax increase in costs of sales, a \$7.7 million decrease in inventories and a \$0.5 million decrease in prepaid expenses and other current assets. These adjustments decreased operating profit by \$8.2 million and decreased net income by \$5.1 million for the three months and six months ended July 4, 2010. This adjustment was not material to any individual prior period or to the results expected for the current year and, accordingly, the prior period results have not been adjusted. The correction did not affect compliance with the financial covenants under Teledyne s credit facility in any period.

**Note 2. Business Combinations and Investments, Goodwill and Acquired Intangible Assets**

In March 2010, Teledyne Scientific & Imaging, LLC ( Teledyne Scientific ) acquired a 17% minority interest in Optical Alchemy, Inc., a designer and manufacturer of ultra-light electro optical gimbal systems located in Nashua, New Hampshire, for \$4.6 million, which includes \$0.1 million in acquisition expenses, accounted for under the cost basis method. In June 2010, Teledyne Scientific acquired Optimum Optical Systems, Inc. ( Optimum Optical ) located in Camarillo, California for \$5.7 million, net of cash acquired. Optimum Optical is a designer and manufacturer of custom optics and optomechanical assemblies. The results of Optimum Optical have been included from the date of acquisition. The purchase of Optimum Optical resulted in \$4.3 million of goodwill and \$1.9 million of other acquired intangible assets. Optimum Optical is part of the Electronics and Components segment. The goodwill acquired will not be deductible for

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income tax purposes. Also in June 2010, Teledyne acquired a 16% minority interest in Intelek plc ( Intelek ) for \$6.9 million, accounted for under the cost basis method. Intelek plc has locations in the United Kingdom and State College, Pennsylvania. Intelek designs and manufactures satellite modems, transceivers, block up-converters, solid state power amplifiers, low noise amplifiers and associated equipment for the terrestrial segment of the satellite communications market. In the third quarter of 2010, Teledyne completed the acquisition of Intelek plc for an additional \$38.5 million, which includes \$2.0 million in acquisition expenses. In 2010, Teledyne also made a scheduled payment of \$0.3 million for a prior acquisition and received \$0.7 million for a purchase price adjustment for a prior acquisition. In 2009, Teledyne paid \$5.9 million for the purchase of Ocean Design, Inc. ( ODI ) shares, \$1.4 million to acquire assets of a marine sensor product line, \$0.3 million for scheduled payment for a prior acquisition and received \$0.3 million for a purchase price adjustment for a prior acquisition.

Teledyne funded the purchases primarily from borrowings under its credit facility and cash on hand. The primary reasons for the above acquisitions was to strengthen and expand our core businesses through adding complementary product and service offerings, allowing greater integrated products and services, enhancing our technical capabilities or increasing our addressable markets. The significant factors that resulted in recognition of goodwill were: (a) the purchase price was based on cash flow and return on capital projections assuming integration with our businesses and (b) the calculation of the fair value of tangible and intangible assets acquired that qualified for recognition.

Teledyne's goodwill was \$502.6 million at July 4, 2010 and \$502.4 million at January 3, 2010. The increase in the balance of goodwill in 2010 primarily resulted from goodwill from the purchase of Optimum Optical, partially offset by foreign currency changes. Teledyne's net acquired intangible assets were \$103.4 million at July 4, 2010 and \$109.6 million at January 3, 2010. The change in the balance of acquired intangible assets in 2010 resulted from amortization, as well as foreign currency changes.

**Note 3. Comprehensive Income**

Teledyne's comprehensive income is comprised of net income attributable to common stockholders, minimum pension liability adjustments, unamortized cash flow hedge losses and foreign currency translation adjustments. Teledyne's total comprehensive income for the second quarter and six months of 2010 and 2009 consists of the following (in millions):

	Three Months		Six Months	
	2010	2009	2010	2009
Net income before noncontrolling interest	\$ 28.6	\$ 25.4	\$ 53.6	\$ 46.4
Other comprehensive gain (loss), net of tax:				
Foreign currency translation gains (losses)	(0.2)	14.8	(7.5)	5.5
Cash flow hedge position	(1.0)		(0.6)	
Minimum pension liability adjustment			0.3	
Total other comprehensive gain (loss)	(1.2)	14.8	(7.8)	5.5
Total comprehensive income	27.4	40.2	45.8	51.9
Less: Amounts attributable to noncontrolling interests:				
Net income		(0.2)		(0.4)
Foreign currency translation gains		0.2		0.1
Total other comprehensive loss				(0.3)
Comprehensive income attributable to common stockholders	\$ 27.4	\$ 40.2	\$ 45.8	\$ 51.6

**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.

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The following table sets forth the computations of basic and diluted earnings per share (amounts in millions, except per share data):

	Three Months		Six Months	
	2010	2009	2010	2009
<b>Basic earnings per share</b>				
Net income attributable to common stockholders	\$ 28.6	\$ 25.2	\$ 53.6	\$ 46.0
Weighted average common shares outstanding	36.2	36.0	36.2	36.0
Basic earnings per common share	\$ 0.79	\$ 0.70	\$ 1.48	\$ 1.28
<b>Diluted earnings per share</b>				
Net income attributable to common stockholders	\$ 28.6	\$ 25.2	\$ 53.6	\$ 46.0
Weighted average common shares outstanding	36.2	36.0	36.2	36.0
Dilutive effect of exercise of options outstanding	0.7	0.6	0.6	0.5
Weighted average diluted common shares outstanding	36.9	36.6	36.8	36.5
Diluted earnings per common share	\$ 0.78	\$ 0.69	\$ 1.46	\$ 1.26

**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.

The following disclosures are based on stock options granted to Teledyne's employees and directors. The Company recorded a total of \$1.2 million and \$2.5 million in stock option compensation expense for the second quarter and first six months of 2010, respectively. For the second quarter and six months of 2009, the Company recorded a total of \$1.2 million and \$2.8 million, respectively in stock option expense. Employee stock option grants are expensed evenly over the three year vesting period. In 2010, the Company currently expects approximately \$5.0 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 used a combination of its historical stock price volatility and the volatility of exchange traded options 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 six years. The period used for the exchange traded options 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. The following assumptions were

used in the valuation of stock options granted in 2010 and 2009:

	2010	2009
Expected dividend yield		
Expected volatility	<b>35.3%</b>	38.8%
Risk-free interest rate	<b>2.4%</b>	2.1%
Expected life in years	<b>6.0</b>	5.6

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Based on the assumptions in the table above, the grant date fair value of stock options granted in 2010 and 2009 was \$16.44 and \$10.02, respectively.

Stock option transactions for Teledyne's employee stock option plans for the second quarter and six months ended July 4, 2010 are summarized as follows:

	2010			
	Second Quarter	Weighted Average Exercise Price	Six Months	Weighted Average Exercise Price
	Shares		Shares	
Beginning balance	2,622,270	\$ 32.60	2,249,050	\$ 30.40
Granted		\$	433,094	\$ 42.09
Exercised	(23,700)	\$ 18.98	(74,998)	\$ 18.42
Cancelled or expired	(4,041)	\$ 45.33	(12,617)	\$ 30.42
Ending balance	2,594,529	\$ 32.70	2,594,529	\$ 32.70
Options exercisable at end of period	2,055,625	\$ 29.79	2,055,625	\$ 29.79

Stock option transactions for Teledyne's non-employee director stock option plan for the second quarter and six months ended July 4, 2010 are summarized as follows:

	2010			
	Second Quarter	Weighted Average Exercise Price	Six Months	Weighted Average Exercise Price
	Shares		Shares	
Beginning balance	414,845	\$ 26.91	418,817	\$ 26.66
Granted	32,735	42.99	36,763	41.18
Exercised	(6,936)	13.45	(14,936)	13.50
Canceled	(2,000)	\$ 14.95	(2,000)	\$ 14.95
Ending balance	438,644	\$ 28.38	438,644	\$ 28.38
Options exercisable at end of period	399,879	\$ 27.22		