TELEDYNE TECHNOLOGIES INC
Form 10-Q
May 10, 2007

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

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

For the quarterly period ended April 1, 2007

OR

o **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	**25-1843385**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1049 Camino Dos Rios	
Thousand Oaks, California	**91360-2362**
(Address of principal executive offices)	(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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

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 May 1, 2007
Common Stock, $.01 par value per share	34,959,899 shares

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	April 1, 2007 (Unaudited)	December 31, 2006
Assets		
Current Assets		
Cash and cash equivalents	$ 16.3	$ 13.0
Receivables, net	245.6	226.1
Inventories, net	166.4	155.8
Deferred income taxes, net	36.0	34.4
Prepaid expenses and other	12.5	17.5
Total current assets	476.8	446.8
Property, plant and equipment, at cost, net of accumulated depreciation and amortization of $208.2 at April 1, 2007 and $203.1 at December 31, 2006	171.4	164.8
Deferred income taxes, net	40.1	38.6
Goodwill, net	345.7	313.6
Acquired intangibles, net	63.7	69.4
Other assets	28.0	28.2
Total Assets	$ 1,125.7	$ 1,061.4
Liabilities and Stockholders Equity		
Current Liabilities		
Accounts payable	$ 102.5	$ 94.1
Accrued liabilities	148.7	135.1
Current portion of long-term debt and capital lease obligation	1.2	1.2
Total current liabilities	252.4	230.4
Long-term debt and capital lease obligation	243.3	230.7
Accrued pension obligation	41.1	38.4
Accrued postretirement benefits	23.9	24.4
Minority interest	6.4	5.7
Other long-term liabilities	100.9	100.0
Total Liabilities	668.0	629.6
Stockholders Equity		
Common stock, $0.01 par value; outstanding shares 34,882,152 at April 1, 2007 and 34,719,700 at December 31, 2006	0.3	0.3

Additional paid-in capital	193.7	188.0
Retained earnings	306.1	285.8
Accumulated other comprehensive loss	(42.4)	(42.3)
Total Stockholders Equity	457.7	431.8
Total Liabilities and Stockholders Equity	$ 1,125.7	1,061.4

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

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TELEDYNE TECHNOLOGIES INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED APRIL 1, 2007 AND APRIL 2, 2006
(Unaudited Amounts in millions, except per-share amounts)

	First Quarter	
	2007	2006
Net Sales	$ 385.6	$ 330.2
Costs and expenses		
Cost of sales	272.0	236.8
Selling, general and administrative expenses	76.7	67.1
Total costs and expenses	348.7	303.9
Income before other income and expense and income taxes	36.9	26.3
Other income, net	0.3	3.5
Interest and debt expense, net	(3.6)	(1.1)
Minority interest	(0.7)	
Income before income taxes	32.9	28.7
Provision for income taxes	12.4	10.8
Net income	$ 20.5	$ 17.9
Basic earnings per common share	$ 0.59	$ 0.53
Weighted average common shares outstanding	34.8	34.0
Diluted earnings per common share	$ 0.57	$ 0.51
Weighted average diluted common shares outstanding	35.8	35.1

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 THREE MONTHS ENDED APRIL 1, 2007 AND APRIL 2, 2006
(Unaudited Amounts in millions)

	Three Months	
	2007	2006
Cash flow from operating activities		
Net income	$ 20.5	$ 17.9
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	7.7	6.6
Disposal of fixed assets	(0.1)	
Deferred income taxes	(3.1)	0.9
Stock option compensation expense	1.7	1.4
Excess income tax benefits from stock options	(0.6)	(3.9)
Changes in operating assets and liabilities, excluding the effect of acquisitions:		
Increase in accounts receivable	(14.5)	(13.2)
Increase in inventories	(2.8)	(19.6)
(Increase) decrease in prepaid expenses and other assets	1.1	(1.9)
Increase in accounts payable	6.2	7.4
Increase in accrued liabilities	3.6	0.7
Increase in income taxes payable, net	12.6	10.1
Increase in long-term assets	0.3	0.8
Increase in other long-term liabilities	0.9	0.2
Increase in accrued pension obligation	2.8	1.1
Decrease in accrued postretirement benefits	(0.5)	(0.3)
Other operating, net	0.7	(0.2)
Net cash provided by operating activities	36.5	8.0
Cash flow from investing activities		
Purchases of property, plant and equipment	(12.3)	(4.4)
Purchase of businesses, net of cash acquired	(36.1)	(32.2)
Proceeds from sale of assets	0.5	0.1
Net cash used by investing activities	(47.9)	(36.5)
Cash flow from financing activities		
Borrowings of debt, net	12.5	19.5
Proceeds from exercise of stock options	1.6	5.0
Excess income tax benefits from stock options	0.6	3.9
Net cash provided by financing activities	14.7	28.4
Increase (decrease) in cash and cash equivalents	3.3	(0.1)
Cash and cash equivalents beginning of period	13.0	9.3

Cash and cash equivalents end of period	$ 16.3	$ 9.2

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
April 1, 2007

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 December 31, 2006 (2006 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 April 1, 2007, and the consolidated results of operations and cash flows for the three months then ended. The results of operations and cash flows for the period ended April 1, 2007, are not necessarily indicative of the results of operations or cash flows to be expected for any subsequent quarter or the full fiscal year.

Certain reclassifications have been made to the financial statements and notes for the prior year to conform to the 2007 presentation.

Recent Accounting Pronouncements

On January 1, 2007, Teledyne Technologies adopted Financial Accounting Standards Board (FASB) Interpretation 48, Accounting for Uncertainty in Income Taxes (FIN 48). As a result of the implementation the Company recognized a $0.2 million increase in the liability for unrecognized tax benefits, which was accounted for as a cumulative-effect adjustment (decrease) to the beginning balance of retained earnings. As of the date of adoption and after the impact of recognizing the increase in the liability noted above, the Company s total gross unrecognized tax benefits totaled $5.5 million. Due to offsetting tax benefits, $3.9 million represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods. See Note 9 for additional disclosures regarding the adoption of FIN 48.

In September 2006, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS 158), which provides guidance for recognition of a net liability or asset to report the funded status of company defined benefit pension and other postretirement benefit plans (collectively referred to herein as benefit plans) on company balance sheets. Teledyne Technologies adopted SFAS 158 effective as of the end of the 2006 fiscal year. The impact of the adoption of SFAS 158 increased the minimum benefit plan liability component of accumulated other comprehensive loss and reduced stockholders s equity by $41.1 million at December 31, 2006.

In December 2004, the FASB issued SFAS No. 123(R), Share Based Payment (SFAS No. 123(R)), that requires compensation costs related to share-based payment transactions to be recognized in the financial statements. On January 2, 2006, Teledyne Technologies adopted SFAS No. 123(R), using the modified prospective method. See Note 5 for additional disclosures regarding the adoption of SFAS No. 123(R).

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Note 2. Business Combinations

On March 30, 2007, Teledyne Technologies through its subsidiary, Teledyne Instruments, Inc., completed the acquisition of assets of D.G. O Brien, Inc. (DGO). DGO, headquartered in Seabrook, N.H., is a leading manufacturer of highly reliable electrical and fiber-optic interconnect systems, primarily for subsea military and offshore oil and gas applications. At April 1, 2007, total cash paid, including other fees was $36.1 million. DGO s balance sheet is reflected in the Teledyne Technologies condensed consolidated balance sheet at April 1, 2007. DGO s results of operations and cash flows will be included beginning April 2, 2007. DGO had sales of $26.2 million for its fiscal year ended September 2006. Teledyne Technologies will operate this business under the name Teledyne D.G. O Brien.

On September 15, 2006, Teledyne Technologies through its subsidiary, Teledyne Brown Engineering, Inc. acquired Rockwell Scientific for $167.5 million in cash, with the sellers retaining certain liabilities. Total cash paid, including other fees, net of $9.5 million in cash acquired was $158.6 million. The Company now operates as Teledyne Scientific & Imaging, LLC (Scientific Company). Headquartered in Thousand Oaks, California, Scientific Company is a leading provider of research and development services, as well as a leader in developing and manufacturing infrared and visible light imaging sensors for surveillance applications.

Scientific Company s results have been included since the date of the acquisition. The unaudited pro forma information below assumes that Scientific Company had been acquired at the beginning of the 2006 fiscal year and includes the effect of estimated amortization of acquired identifiable intangible assets, increased depreciation expense for fixed assets, as well as increased interest expense on acquisition debt. This unaudited pro forma financial information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have resulted had the acquisition been in effect at the beginning of the period. In addition, the unaudited pro forma results are not intended to be a projection of future results and do not reflect any operating efficiencies or cost savings that might be achievable.

(Unaudited in millions, except per share amounts)	First Quarter 2006
Net sales	$ 359.5
Net income	$ 16.8
Basic earnings per common share	$ 0.49
Diluted earnings per common share	$ 0.48

(a) The above unaudited proforma information is presented for the Scientific Company acquisition as it is considered a material acquisition in accordance with SFAS 141, Business Combinations.

On August 16, 2006, Teledyne Technologies through its subsidiary, Teledyne Instruments, Inc., acquired a majority interest in Ocean Design, Inc. (ODI) for approximately $30 million in cash. ODI, headquartered in Daytona Beach, Florida, is a leading manufacturer of subsea, wet-mateable electrical and fiber-optic interconnect systems used in offshore oil and gas production, oceanographic research, and military applications.

The ODI minority stockholders have the option to sell their shares to Teledyne Instruments following the end of each quarter through the quarter ended March 31, 2009, at a formula-determined price. In September 2006, Teledyne Instruments acquired an additional 9.9% of ownership in ODI for $5.8 million. In April 2007, Teledyne Instruments acquired an additional 0.3% of ownership in ODI for $0.1 million. To date, total cash paid, including the initial investment and subsequent share purchases, net of cash acquired was $34.5 million. All shares not sold to Teledyne Instruments following the quarter ended March 31, 2009, will be purchased by Teledyne Instruments following the quarter ended June 30, 2009, at the same formula-determined price, at which time Teledyne Instruments will own all of the ODI shares held by the participating stockholders.

On August 16, 2006, Teledyne Technologies, through its subsidiary, Teledyne Brown Engineering, Inc., acquired CollaborX, Inc. (CollaborX) for consideration of $17.5 million, less certain transaction-related expenses. Teledyne Technologies recorded $2.9 million in notes payable related to the transaction, payable through 2009. At April 1, 2007, total cash paid, including other fees, net of cash acquired was $14.9 million. CollaborX, based in Colorado Springs, Colorado, provides government engineering services primarily to the U.S. Air Force and select joint military commands.

On April 28, 2006, Teledyne Wireless, Inc. completed the acquisition of certain assets of KW Microwave Corporation (KW Microwave), a manufacturer of defense microwave components and subsystems, for $10.5 million in cash. Total cash paid, including the receipt of a $0.2 million purchase price adjustment, was $10.3 million. Principally located in Poway, California, the business operates as Teledyne KW Microwave. KW Microwave designs and manufactures high performance microwave filters and integrated filter assemblies that are used in military electronic warfare, communication and navigation systems.

On January 27, 2006, we acquired all of the outstanding shares of Benthos for $17.50 per share in cash. The aggregate consideration for the outstanding Benthos shares was approximately $40.6 million (including payments for the settlement of outstanding stock options) or $32.2 million taking into consideration $8.4 million in cash acquired. Benthos, located in North Falmouth, Massachusetts, is a provider of oceanographic products used in port and harbor security services, military applications, energy exploration and oceanographic research.

Teledyne Technologies funded the acquisitions primarily from borrowings under its credit facility and cash on hand.

The following is a summary at the acquisition date of the estimated fair values of the assets acquired and liabilities assumed for the DGO acquisition made in 2007 (in millions):

Current assets, excluding cash acquired	$ 12.9
Property, plant and equipment	1.5
Goodwill	18.6
Acquired intangible assets	6.0
Other assets	0.1
Total assets acquired	39.1
Current liabilities	3.0
Total liabilities assumed	3.0
Purchase price	$ 36.1

Teledyne Technologies goodwill was $345.7 million at April 1, 2007 and $313.6 million at December 31, 2006. Teledyne Technologies net acquired intangible assets were $63.7 million at April 1, 2007 and $69.4 million at December 31, 2006. The change in the balance of goodwill in 2007 resulted from the acquisition made in 2007 and an adjustment for the Scientific Company acquisition. The change in the balance of acquired intangibles in 2007 resulted from the acquisition made in 2007, an adjustment for the Scientific Company acquisition and amortization. In all acquisitions, the results are included in the Company s consolidated financial statements from the date of each respective acquisition, except as noted for DGO. Each of the companies acquired, except for CollaborX, Inc., is part of the Electronics and Communications segment. CollaborX, Inc. is part of the Systems Engineering and Solutions segment. The Company is in the process of specifically identifying the amount to be assigned to intangible assets, as well as, certain assets and liabilities for the CollaborX, ODI and Scientific Company acquisitions made in 2006 and the DGO acquisition made in 2007. The Company has made preliminary estimates of the amounts assigned to intangible assets, as well as, certain assets and liabilities at April 1, 2007, as there was insufficient time between the acquisition dates and the end of the period to finalize the valuations. The preliminary amount of goodwill and acquired intangible assets recorded as of April 1, 2007 for the ODI acquisition was $15.9 million and $13.8 million, respectively, and did not change from December 31, 2006. The preliminary amount of goodwill and acquired intangible assets recorded as of April 1, 2007 for the CollaborX, Inc.

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acquisition was $14.2 million and $2.1 million, respectively, and did not change from December 31, 2006. The revised preliminary amount of goodwill and gross acquired intangible assets recorded as of April 1, 2007 for the Scientific Company acquisition was $73.7 million and $8.3 million, respectively. The preliminary amount of goodwill and gross acquired intangible assets recorded as of December 31, 2006 for the Rockwell Scientific acquisition was $60.1 million and $19.0 million, respectively. The primary change was a $10.7 million reduction to acquired intangible assets and a corresponding increase to goodwill to reflect changes in the estimated amount of acquired intangible assets following the receipt of a preliminary appraisal report for the valuation of acquired intangible assets. The preliminary amount of goodwill and acquired intangible assets recorded as of April 1, 2007 for the DGO acquisition was $18.6 million and $6.0 million, respectively. These amounts were based on estimates that are subject to change pending the completion of the Company s internal review and the receipt of third party valuations and appraisals. Goodwill resulting from the CollaborX, Scientific Company and DGO acquisitions will be deductible for tax purposes.

Note 3. Comprehensive Income and Retained Earnings

Teledyne Technologies comprehensive income is comprised of net income and foreign currency translation adjustments. Teledyne Technologies total comprehensive income for the first quarter of 2007 and 2006 consists of the following (in millions):

	First Quarter	
	2007	2006
Net income	$ 20.5	$ 17.9
Other comprehensive gain (loss), net of tax:		
Foreign currency translation gains (losses)	(0.1)	0.3
Total other comprehensive gain (loss)	(0.1)	0.3
Total comprehensive income	$ 20.4	$ 18.2

The following is a rollforward of the balance of retained earnings (in millions):

	First Quarter	
	2007	2006
Balance at beginning of year	$ 285.8	$ 205.5
Net income	20.5	17.9
Cumulative effect of the adoption of Fin 48 (a)	(0.2)	
Balance at end of quarter	$ 306.1	$ 223.4

(a) Reflects impact of the adoption of FIN 48 effective January 1, 2007.

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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.

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

	First Quarter	
	2007	2006
Basic earnings per share		
Net income	$ 20.5	$ 17.9
Weighted average common shares outstanding	34.8	34.0
Basic earnings per common share	$ 0.59	$ 0.53
Diluted earnings per share		
Net income	$ 20.5	$ 17.9
Weighted average common shares outstanding	34.8	34.0
Dilutive effect of exercise of options outstanding	1.0	1.1
Weighted average diluted common shares outstanding	35.8	35.1
Diluted earnings per common share	$ 0.57	$ 0.51

Note 5. Stock-Based Compensation Plans

Teledyne Technologies 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 Technologies employees and directors. Effective January 2, 2006, the Company adopted the provisions of SFAS No. 123(R) using the modified prospective method and began recording stock option compensation expense in the consolidated statements of income, but did not restate prior year financial statements. For the first quarter of 2007 and the first quarter of 2006, the Company recorded a total of $1.7 million and $1.4 million, respectively in stock option expense. In 2007, the Company expects approximately $6.7 million in stock option compensation expense based on current assumptions regarding the estimated fair value of expected stock option grants during the remainder of the year. However, our assessment of the estimated compensation expense is affected by our stock price 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.

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The Company used a combination of the historical volatility of Teledyne Technologies stock price and the implied volatility based on the price of traded options on Teledyne Technologies stock to calculate the expected volatility assumption to value stock options. The Company used the actual stock trading history since January 2001 in its volatility calculation. The expected dividend yield is based on Teledyne Technologies 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 option 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 2007 and 2006:

	2007	2006
Expected dividend yield		
Expected volatility	33.0%	36.0%
Risk-free interest rate	4.9%	4.7%
Expected life in years	5.6	5.5
Fair value per option granted	$ 15.54	$ 13.30

Stock option transactions for Teledyne Technologies employee stock option plans for the quarter ended April 1, 2007 are summarized as follows:

	Shares	Weighted Average Exercise Price
Beginning balance	2,537,559	$ 20.97
Granted	528,153	$ 39.47
Exercised	(79,901)	$ 20.32
Canceled or expired	(720)	$ 19.32
Ending balance	2,985,091	$ 24.20
Options exercisable at quarter-end	2,017,502	$ 18.82

Stock option transactions for Teledyne Technologies non-employee director stock option plan for the first quarter ended April 1, 2007 are summarized as follows:

	Shares	Weighted Average Exercise Price
Beginning balance	301,186	$ 19.32
Granted	5,855	$ 26.12
Ending balance	307,041	$ 19.45
Options exercisable at quarter-end	258,230	$ 16.68

Note 6. Cash Equivalents

Cash equivalents consist of highly liquid money-market mutual funds and bank deposits with maturities of three months or less when purchased. Cash equivalents totaled $2.3 million at April 1, 2007 and $6.0 million at December 31, 2006.

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Note 7. Inventories

Inventories are primarily valued under the LIFO method. Since an actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time, interim LIFO calculations must necessarily be based on the Company s estimates of expected year-end inventory levels and costs. Because these are subject to many factors beyond the Company s control, interim results are subject to the final year-end LIFO inventory valuation. Inventories consist of the following (in millions):

Balance at	April 1, 2007	December 31, 2006
Raw materials and supplies	$ 63.6	$ 59.3
Work in process	110.0	106.2
Finished goods	19.4	15.9
	193.0	181.4
Progress payments	(1.7)	(1.2)
LIFO reserve	(24.9)	(24.4)
Total inventories, net	$ 166.4	$ 155.8

Note 8. Supplemental Balance Sheet Information