TELEFLEX INC
Form 10-Q
April 28, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 26, 2006

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 1-5353

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

Delaware	**23-1147939**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. employer identification no.)**
155 South Limerick Road, Limerick, Pennsylvania	**19468**
(Address of principal executive offices)	**(Zip Code)**

(610) 948-5100

(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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Exchange Act Rule 12b-2).

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 Act).

Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of Common Stock, as of April 19, 2006:

Common Stock, $1.00 Par Value	**40,256,464**

(Title of each class)	(Number of shares)

TELEFLEX INCORPORATED
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 26, 2006
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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

TELEFLEX INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended	
	March 26, 2006	March 27, 2005
	(Dollars and shares in thousands, except per share)	
Revenues	$ 632,167	$ 623,600
Materials, labor and other product costs	448,569	449,858
Gross profit	183,598	173,742
Selling, engineering and administrative expenses	123,119	116,347
Gain on sales of businesses and assets	(643)	
Restructuring costs	4,493	7,294
Income from continuing operations before interest, taxes and minority interest	56,629	50,101
Interest expense	9,945	11,615
Interest income	(1,508)	(527)
Income from continuing operations before taxes and minority interest	48,192	39,013
Taxes on income from continuing operations	13,539	9,450
Income from continuing operations before minority interest	34,653	29,563
Minority interest in consolidated subsidiaries, net of tax	5,653	4,698
Income from continuing operations	29,000	24,865
Operating income from discontinued operations (including gain on disposal of $64 and $34,434 respectively)	145	21,368
Taxes on income from discontinued operations	39	7,507
Income from discontinued operations	106	13,861
Net income	$ 29,106	$ 38,726
Earnings per share:		
Basic:		
Income from continuing operations	$ 0.72	$ 0.61
Income from discontinued operations	$	$ 0.34
Net income	$ 0.72	$ 0.96

Diluted:				
Income from continuing operations	$	0.71	$	0.61
Income from discontinued operations	$		$	0.34
Net income	$	0.72	$	0.95
Dividends per share	$	0.25	$	0.22
Weighted average common shares outstanding:				
Basic		40,346		40,453
Diluted		40,626		40,699

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

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TELEFLEX INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 26, 2006	December 25, 2005
	(Dollars in thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 188,855	$ 239,536
Accounts receivable, net	442,283	421,236
Inventories	416,895	404,271
Prepaid expenses	23,243	20,571
Deferred tax assets	50,711	57,915
Assets held for sale	14,853	16,899
Total current assets	1,136,840	1,160,428
Property, plant and equipment, net	436,597	447,816
Goodwill	502,918	504,666
Intangibles and other assets	252,359	259,218
Investments in affiliates	28,008	24,666
Deferred tax assets	19,731	6,254
Total assets	$ 2,376,453	$ 2,403,048
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Current borrowings	$ 90,257	$ 125,510
Accounts payable	215,422	206,548
Accrued expenses	177,504	206,231
Income taxes payable	65,658	46,222
Deferred tax liabilities	342	408
Liabilities held for sale	77	66
Total current liabilities	549,260	584,985
Long-term borrowings	500,185	505,272
Deferred tax liabilities	40,466	50,535
Other liabilities	103,782	102,782
Total liabilities	1,193,693	1,243,574
Minority interest in equity of consolidated subsidiaries	23,144	17,400
Commitments and contingencies		
Shareholders equity	1,159,616	1,142,074
Total liabilities and shareholders equity	$ 2,376,453	$ 2,403,048

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

TELEFLEX INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended	
	March 26, 2006	March 27, 2005
	(Dollars in thousands)	
Cash Flows from Operating Activities of Continuing Operations:		
Net income	$ 29,106	$ 38,726
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations	(106)	(13,861)
Depreciation expense	20,447	21,288
Amortization expense of intangible assets	3,459	3,785
Amortization expense of deferred financing costs	402	234
Stock-based compensation	1,647	
Gain on sales of businesses and assets	(643)	
Impairment of long-lived assets	869	2,388
Minority interest in consolidated subsidiaries	5,653	4,698
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(16,518)	4,419
Inventories	(9,522)	(2,357)
Prepaid expenses	636	(5,680)
Accounts payable and accrued expenses	(9,183)	6,311
Income taxes payable and deferred income taxes	9,723	2,482
Net cash provided by operating activities from continuing operations	35,970	62,433
Cash Flows from Financing Activities of Continuing Operations:		
Proceeds from long-term borrowings		16,000
Reduction in long-term borrowings	(6,146)	(40,411)
Decrease in notes payable and current borrowings	(35,986)	(43,575)
Proceeds from stock compensation plans	3,908	5,080
Payments to minority interest shareholders		(3,920)
Purchases of treasury stock	(18,179)	
Dividends	(10,113)	(8,918)
Net cash used in financing activities from continuing operations	(66,516)	(75,744)
Cash Flows from Investing Activities of Continuing Operations:		
Expenditures for property, plant and equipment	(14,200)	(13,470)
Payments for businesses acquired	(4,334)	
Proceeds from sales of businesses and assets	968	86,920
Proceeds from affiliates	2,696	96
Working capital payment for divested business	(5,629)	
Other	(651)	(1,336)

Net cash provided by (used in) investing activities from continuing operations	(21,150)	72,210
Cash Flows from Discontinued Operations 2005 Revised (See Note 1):		
Net cash used in operating activities	(692)	(6,921)
Net cash used in financing activities		(76)
Net cash used in investing activities	(22)	(839)
Net cash used in discontinued operations	(714)	(7,836)
Effect of exchange rate changes on cash and cash equivalents	1,729	(1,612)
Net increase (decrease) in cash and cash equivalents	(50,681)	49,451
Cash and cash equivalents at the beginning of the period	239,536	115,955
Cash and cash equivalents at the end of the period	$ 188,855	$ 165,406

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

TELEFLEX INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share)

Note 1 Basis of presentation/accounting policies

Teleflex Incorporated (the Company) is a diversified industrial company specializing in the design, manufacture and distribution of specialty-engineered products. The Company serves a wide range of customers in niche segments of the commercial, medical and aerospace industries. The Company s products include: driver controls, motion controls, power and vehicle management systems and fluid management systems for commercial industries; disposable medical products, surgical instruments, medical devices and specialty devices for hospitals and health-care providers; and repair products and services, precision-machined components and cargo-handling systems for commercial and military aviation as well as other industrial markets.

The accompanying condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

The accompanying financial information is unaudited; however, in the opinion of the Company s management, all adjustments (consisting of normal recurring adjustments and accruals) necessary for a fair statement of the financial position, results of operations and cash flows for the periods reported have been included. The results of operations for the periods reported are not necessarily indicative of those that may be expected for a full year.

This quarterly report should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s audited consolidated financial statements presented in the Company s Annual Report on Form 10-K for the fiscal year ended December 25, 2005 filed with the Securities and Exchange Commission.

The Company has revised its condensed consolidated statements of cash flows to attribute cash flows from discontinued operations to each of operating, financing and investing activities. Previously, the Company reported cash flows from discontinued operations as one line item. The Company has also revised its condensed consolidated statements of cash flows to attribute payments to minority interest shareholders as cash flows from financing activities of continuing operations. Previously, the Company reported these cash flows as part of cash flows from operating activities of continuing operations. The Company revised its 2005 condensed consolidated balance sheet to adjust for the netting of non-current deferred tax assets and liabilities. In addition, certain reclassifications have been made to the prior year condensed consolidated financial statements to conform to current period presentation. Certain financial information is presented on a rounded basis, which may cause minor differences.

Stock-based compensation: On December 26, 2005, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment, which requires the measurement and recognition of compensation expense for all stock-based awards made to employees based on estimated fair values. SFAS No. 123(R) supersedes previous accounting under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees for periods beginning in fiscal 2006. In March 2005, the SEC issued Staff Accounting Bulletin (SAB) No. 107, providing supplemental implementation guidance for SFAS 123(R). The Company has applied the provisions of SAB No. 107 in its adoption of SFAS No. 123(R).

SFAS No. 123(R) requires companies to estimate the fair value of stock-based awards on the date of grant using an option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods. The Company adopted SFAS No. 123(R) using the

TELEFLEX INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

modified prospective application, which requires the application of the standard starting from December 26, 2005, the first day of the Company s fiscal year 2006. The Company s condensed consolidated financial statements for the three months ended March 26, 2006 reflect the impact of SFAS No. 123(R).

Stock-based compensation expense related to employee stock options recognized under SFAS No. 123(R) for the three months ended March 26, 2006 was $1,647 and is included in selling, engineering and administrative expenses. The total income tax benefit recognized for share-based compensation arrangements for the three months ended March 26, 2006 was $322. As of March 26, 2006, total unamortized stock-based compensation cost related to non-vested stock options was $12,318, net of expected forfeitures, which is expected to be recognized over a weighted-average period of 2.3 years.

Prior to the adoption of SFAS No. 123(R), the Company accounted for stock-based awards to employees using the intrinsic value method in accordance with APB No. 25, as allowed under SFAS No. 123, Accounting for Stock-Based Compensation. Under the intrinsic value method, no stock-based compensation expense for employee stock options had been recognized in the Company s consolidated statements of operations because the exercise price of the Company s stock options granted to employees equaled the fair market value of the underlying stock at the date of grant. In accordance with the modified prospective transition method the Company used in adopting SFAS No. 123(R), the Company s results of operations prior to fiscal 2006 have not been restated to reflect, and do not include, the impact of SFAS No. 123(R).

Stock-based compensation expense recognized during a period is based on the value of the portion of stock-based awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the three months ended March 26, 2006 included compensation expense for (1) stock-based awards granted prior to, but not yet vested as of December 25, 2005, based on the fair value on the grant date estimated in accordance with the pro forma provisions of SFAS No. 123 and (2) compensation expense for the stock-based awards granted subsequent to December 25, 2005, based on the fair value on the grant date estimated in accordance with the provisions of SFAS No. 123(R). As stock-based compensation expense recognized for the first quarter of fiscal 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The following table illustrates the pro forma net income and earnings per share for the three months ended March 27, 2005 as if compensation expense for stock options issued to employees had been determined consistent with SFAS No. 123:

Net income, as reported	$	38,726
Deduct: Stock-based employee compensation determined under fair value based method, net of tax of $481		(786)
Pro forma net income	$	37,940
Earnings per share basic:		
Net income per share, as reported	$	0.96
Pro forma net income per share	$	0.94
Earnings per share diluted:		
Net income per share, as reported	$	0.95
Pro forma net income per share	$	0.94

Stock-based compensation expense is measured using a multiple point Black-Scholes option pricing model that takes into account highly subjective and complex assumptions. The expected life of options granted is derived from the vesting period of the award, as well as historical exercise behavior, and represents the period of time that options granted are expected to be outstanding. Expected volatilities are based on a blend

TELEFLEX INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of historical volatility and implied volatility derived from publicly traded options to purchase the Company s common stock, which the Company believes is more reflective of the market conditions and a better indicator of expected volatility than solely using historical volatility. The risk-free interest rate is the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life of the option.

The fair value for options granted in 2006 was estimated at the date of grant using a multiple point Black-Scholes option pricing model. The fair value for options granted in 2005 was estimated at the date of grant using the Black-Scholes option pricing model. The following weighted-average assumptions were used:

	Three Months Ended	
	March 26, 2006	March 27, 2005
Risk-free interest rate	4.35%	4.12%
Expected life of option	4.46 yrs.	4.60 yrs.
Expected dividend yield	1.52%	1.70%
Expected volatility	23.36%	24.43%

On November 10, 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 123(R)-3, Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards, that allows for a simplified method to establish the beginning balance of the additional paid-in capital pool (APIC Pool) related to the tax effects of employee stock-based compensation and to determine the subsequent impact on the APIC Pool and consolidated statements of cash flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS No. 123(R). The Company has not yet determined if it will elect to adopt the simplified method.

See Note 9 for additional information regarding the Company s stock compensation plans.

Note 2 New accounting standards

Inventory Costs: In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4, which clarifies the types of costs that should be expensed rather than capitalized as inventory. This statement also clarifies the circumstances under which fixed overhead costs associated with operating facilities involved in inventory processing should be capitalized. The provisions of SFAS No. 151 are effective for fiscal years beginning after June 15, 2005. The Company adopted the provisions of this statement on December 26, 2005 and it did not have a material impact on the Company s financial position, results of operations or cash flows.

Stock-Based Compensation: In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payment, which establishes accounting standards for transactions in which an entity receives employee services in exchange for (a) equity instruments of the entity or (b) liabilities that are based on the fair value of the entity s equity instruments or that may be settled by the issuance of equity instruments. SFAS No. 123(R) requires an entity to recognize the grant-date fair value of stock options and other equity-based compensation issued to employees in the statement of income. The statement also requires that such transactions be accounted for using the fair-value-based method, thereby eliminating use of the intrinsic value method of accounting in APB No. 25, Accounting for Stock Issued to Employees, which was permitted under Statement 123, as originally issued. SFAS No. 123(R) is effective for fiscal years beginning after June 15, 2005. The Company adopted the provisions of this statement on December 26, 2005 using modified prospective application. See the Stock-based compensation section of Note 1 above for the effect of adoption on the Company s financial position, results of operations and cash flows.

TELEFLEX INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Accounting Changes and Error Corrections: In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections. SFAS No. 154 replaces APB Opinion No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements and changes the requirements of the accounting for and reporting of a change in accounting principle. SFAS No. 154 also provides guidance on the accounting for and reporting of error corrections. The provisions of this statement are applicable for accounting changes and error corrections made in fiscal years beginning after December 15, 2005. The Company adopted the provisions of this statement on December 26, 2005 and it did not have a material impact on the Company s financial position, results of operations or cash flows.

Certain Hybrid Financial Instruments: In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments. SFAS No. 155 provides entities with relief from having to separately determine the fair value of an embedded derivative that would otherwise be required to be bifurcated from its host contract in accordance with Statement 133. SFAS No. 155 allows an entity to make an irrevocable election to measure such a hybrid financial instrument at fair value in its entirety, with changes in fair value recognized in earnings. The election may be made on an instrument-by-instrument basis and can be made only when a hybrid financial instrument is initially recognized or when certain events occur that constitute a remeasurement (i.e., new basis) event for a previously recognized hybrid financial instrument. An entity must document its election to measure a hybrid financial instrument at fair value, either concurrently or via a preexisting policy for automatic election. Once the fair value election has been made, that hybrid financial instrument may not be designated as a hedging instrument pursuant to Statement 133. Additionally, SFAS No. 155 requires that interests in securitized financial assets be evaluated to identify whether they are freestanding derivatives or hybrid financial instruments containing an embedded derivative that requires bifurcation (previously, these were exempt from Statement 133). When determining whether an interest in securitized financial assets is a hybrid financial instrument, SFAS No. 155 does not consider a concentration of credit risk, in the form of subordination of one interest in securitized assets to another, to be an embedded derivative. The provisions of this statement are applicable for all financial instruments acquired, issued or subject to a remeasurement (new basis) event occurring in fiscal years beginning after September 15, 2006. The Company is currently evaluating the impact of SFAS No. 155 on the Company s financial position, results of operations and cash flows.

Note 3 Acquisitions

Acquisition of Hudson Respiratory Care, Inc.

In connection with the acquisition of Hudson Respiratory Care Inc. (HudsonRCI) in July 2004, the Company formulated a plan related to the future integration of the acquired entity. The Company finalized the integration plan during the second quarter of 2005 and the integration activities are ongoing as of March 26, 2006. The Company has accrued estimates for certain costs, related primarily to personnel reductions and facility closings and the termination of certain distribution agreements at the date of acquisition, in accordance with EITF Issue No. 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination. Set forth below is a reconciliation of the Company s future integration cost accrual:

	Involuntary Employee Termination Benefits	Facility Closure and Restructuring Costs	Total
Balance at December 25, 2005	$ 7,162	$ 4,914	$ 12,076
Costs incurred	(277)	(1,910)	(2,187)
Balance at March 26, 2006	$ 6,885	$ 3,004	$ 9,889

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TELEFLEX INCORPORATED AND SUBSIDIARIES
NOTES