

TELEDYNE TECHNOLOGIES INC
Form 10-Q
November 08, 2016
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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 October 2, 2016

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	25-1843385
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1049 Camino Dos Rios	91360-2362
Thousand Oaks, California	(Zip Code)
(Address of principal executive offices)	(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 (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

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 November 4, 2016
Common Stock, \$.01 par value per share	34,941,356 shares

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

TELEDYNE TECHNOLOGIES INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

FOR THE THIRD QUARTER AND NINE MONTHS ENDED OCTOBER 2, 2016 AND SEPTEMBER 27, 2015

(Unaudited - Amounts in millions, except per-share amounts)

	Third Quarter		Nine Months	
	2016	2015	2016	2015
Net sales	\$526.8	\$551.7	\$1,586.9	\$1,686.8
Costs and expenses				
Cost of sales	317.0	340.3	968.8	1,036.9
Selling, general and administrative expenses	139.3	139.6	432.3	441.4
Total costs and expenses	456.3	479.9	1,401.1	1,478.3
Operating income	70.5	71.8	185.8	208.5
Interest expense, net	(5.6)	(6.0)	(17.2)	(17.9)
Other income/(expense), net	(0.7)	(2.1)	15.2	2.1
Income before income taxes	64.2	63.7	183.8	192.7
Provision for income taxes	11.1	13.9	44.3	50.9
Net income from continuing operations	53.1	49.8	139.5	141.8
Loss from discontinued operations, net of income taxes	(1.1)	(1.5)	(1.6)	(1.8)
Net income	52.0	48.3	137.9	140.0
Noncontrolling interest	—	—	—	0.3
Net income attributable to Teledyne	\$52.0	\$48.3	\$137.9	\$140.3
Amounts attributable to Teledyne:				
Net income from continuing operations	\$53.1	\$49.8	\$139.5	\$142.1
Loss from discontinued operations, net of income taxes	(1.1)	(1.5)	(1.6)	(1.8)
Net income attributable to Teledyne	\$52.0	\$48.3	\$137.9	\$140.3
Basic earnings per common share:				
Continuing operations	\$1.53	\$1.41	\$4.04	\$4.01
Discontinued operations	(0.03)	(0.04)	(0.04)	(0.05)
Basic earnings per common share	\$1.50	\$1.37	\$4.00	\$3.96
Weighted average common shares outstanding	34.7	35.3	34.5	35.4
Diluted earnings per common share:				
Continuing operations	\$1.49	\$1.38	\$3.94	\$3.93
Discontinued operations	(0.03)	(0.04)	(0.04)	(0.05)
Diluted earnings per common share	\$1.46	\$1.34	\$3.90	\$3.88
Weighted average diluted common shares outstanding	35.6	36.1	35.4	36.2

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

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TELEDYNE TECHNOLOGIES INCORPORATED
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 FOR THE THIRD QUARTER AND NINE MONTHS ENDED OCTOBER 2, 2016 AND SEPTEMBER 27, 2015
 (Unaudited - Amounts in millions)

	Third Quarter		Nine Months	
	2016	2015	2016	2015
Net income	\$52.0	\$48.3	\$137.9	\$140.0
Other comprehensive (loss) income:				
Foreign exchange translation adjustment	(7.7)	(33.9)	3.6	(62.3)
Hedge activity, net of tax	(0.9)	(1.4)	4.6	(1.9)
Pension and postretirement benefit adjustments, net of tax	3.3	4.8	10.8	13.7
Other comprehensive (loss) income	(5.3)	(30.5)	19.0	(50.5)
Comprehensive income	46.7	17.8	156.9	89.5
Noncontrolling interest	—	—	—	0.3
Comprehensive income attributable to Teledyne	\$46.7	\$17.8	\$156.9	\$89.8

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

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

	October 2, 2016	January 3, 2016
Assets		
Current Assets		
Cash	\$99.5	\$85.1
Restricted cash	19.5	—
Accounts receivable, net	371.5	368.6
Inventories, net	325.0	304.1
Prepaid expenses and other current assets	35.7	59.4
Assets held for sale	—	12.1
Total current assets	851.2	829.3
Property, plant and equipment, net of accumulated depreciation and amortization of \$465.0 at October 2, 2016 and \$443.2 at January 3, 2016	319.4	318.8
Goodwill	1,183.5	1,140.2
Acquired intangibles, net	237.7	243.3
Prepaid pension assets	130.9	111.0
Other assets, net	71.0	74.5
Total Assets	\$2,793.7	\$2,717.1
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$142.3	\$134.2
Accrued liabilities	272.1	237.5
Short-term debt, current portion of long-term debt and capital leases	114.6	19.1
Liabilities held for sale	—	2.8
Total current liabilities	529.0	393.6
Long-term debt and capital leases	498.4	761.5
Other long-term liabilities	221.2	217.9
Total Liabilities	1,248.6	1,373.0
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, \$0.01 par value; outstanding shares - none	—	—
Common stock, \$0.01 par value; authorized 125,000,000 shares; issued shares: 37,697,865 at October 2, 2016 and January 3, 2016; outstanding shares; 34,940,356 at October 2, 2016 and 34,514,599 at January 3, 2016	0.4	0.4
Additional paid-in capital	338.8	345.3
Retained earnings	1,859.4	1,721.5
Treasury stock, 2,757,509 at October 2, 2016 and 3,183,266 at January 3, 2016	(259.3)	(309.9)
Accumulated other comprehensive loss	(394.2)	(413.2)
Total Stockholders' Equity	1,545.1	1,344.1
Total Liabilities and Stockholders' Equity	\$2,793.7	\$2,717.1

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

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TELEDYNE TECHNOLOGIES INCORPORATED
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE NINE MONTHS ENDED OCTOBER 2, 2016 AND SEPTEMBER 27, 2015
 (Unaudited - Amounts in millions)

	Nine Months	
	2016	2015
Operating Activities		
Net income	\$137.9	\$140.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	65.0	67.6
Deferred income taxes	9.0	(2.8)
Stock-based compensation	12.2	9.7
Gain on sale of facility	(17.9)	—
Changes in operating assets and liabilities:		
Accounts receivable	2.5	12.8
Inventories	(19.7)	(27.0)
Prepaid expenses and other assets	(1.6)	(0.9)
Accounts payable	8.7	(10.4)
Accrued liabilities	38.3	(38.8)
Income taxes receivable/payable, net	26.7	6.4
Long-term assets	1.0	5.2
Other long-term liabilities	6.0	(1.8)
Pension and postretirement benefits	(12.3)	(9.1)
Other, net	(3.5)	(4.5)
Net cash provided by operating activities from continuing operations	252.3	146.4
Net cash provided (used) by discontinued operations	(1.6)	2.8
Net cash provided by operating activities	250.7	149.2
Investing Activities		
Purchases of property, plant and equipment	(44.9)	(31.3)
Purchase of businesses and other investments, net of cash acquired	(58.5)	(63.7)
Proceeds from sale of assets	29.6	3.4
Sales proceeds transferred to escrow as restricted cash	(19.5)	—
Net cash used in investing activities from continuing operations	(93.3)	(91.6)
Net cash used in discontinued operations	—	(0.3)
Net cash used in investing activities	(93.3)	(91.9)
Financing Activities		
Net proceeds (payments) on credit facility	(150.5)	100.0
Proceeds from other debt	6.1	4.7
Payments on other debt	(22.7)	(97.1)
Proceeds from exercise of stock options	26.7	13.5
Purchase of treasury stock	—	(142.0)
Other, net	(1.1)	2.7
Net cash used in financing activities	(141.5)	(118.2)
Effect of exchange rate changes on cash	(1.5)	(9.0)
Increase (decrease) in cash	14.4	(69.9)
Cash—beginning of period	85.1	141.4
Cash—end of period	\$99.5	\$71.5

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

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TELEDYNE TECHNOLOGIES INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
October 2, 2016

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 related notes in Teledyne’s Annual Report on Form 10-K for the fiscal year ended January 3, 2016 (“2015 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 October 2, 2016 and the consolidated results of operations and consolidated comprehensive income for the three and nine months then ended and cash flows for the nine months then ended. The results of operations and cash flows for the periods ended October 2, 2016 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 prior year amounts have been reclassified to conform to the current period presentation.

In the third quarter of 2016, Teledyne sold assets of the Printed Circuit Technology (“PCT”) business for \$9.3 million in cash. As a result, these financial statements reflect the classification of our PCT business as a discontinued operation. See Note 14 to these condensed consolidated financial statements for additional information.

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09, Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting. The ASU is intended to simplify several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted for any entity in any interim or annual period. Teledyne elected to adopt early this ASU in the third quarter of 2016, therefore Teledyne is required to report the material impacts of this standard as though the ASU had been adopted at the beginning of the fiscal year. Accordingly, Teledyne recognized additional income tax benefits as an increase to net income of \$4.0 million and \$5.8 million during the third quarter and nine months ended October 2, 2016. The adjustments for the third quarter included only the quarterly impacts, whereas the adjustments for the first nine months of 2016 include the first and second quarter additional income tax benefits of \$0.6 million and \$1.2 million, respectively and the immaterial impact for reclassification of amounts from financing activities to operating activities in the condensed consolidated statement of cash flows. Teledyne has elected to record forfeitures as they occur, which did not have a material impact on the condensed consolidated financial results. The new guidance did not impact any periods prior to our 2016 fiscal year, as the changes were applied on a prospective basis.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most current revenue recognition guidance. In July 2015, the FASB deferred the effective date by one year, but will allow early adoption as of the original adoption date. This new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is

currently in the process of determining its implementation approach and evaluating the impact this guidance will have on the consolidated financial statements and footnote disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The new guidance will require lessees to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability, other than leases that meet the definition of a short-term lease. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. The new guidance will be effective for fiscal years beginning after December 15, 2018, and interim

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periods within those fiscal years, with early adoption permitted. The new guidance must be adopted using a modified retrospective transition, requiring application at the beginning of the earliest comparative period presented. The Company is currently evaluating the impact this guidance will have on the consolidated financial statements and footnote disclosures.

Note 2. Accumulated Other Comprehensive Loss

The changes in accumulated other comprehensive income/(loss) (“AOCI”) by component, net of tax, for the third quarter and nine months ended October 2, 2016 and September 27, 2015 are as follows (in millions):

	Cash			
	Foreign Currency Translation	Flow Hedges and Other	Pension and Postretirement Benefits	Total
Balance as of July 3, 2016	\$ (162.9)	\$ (1.2)	\$ (224.8)	\$ (388.9)
Other comprehensive loss before reclassifications	(7.7)	(0.8)	—	(8.5)
Amounts reclassified from AOCI	—	(0.1)	3.3	3.2
Net other comprehensive income (loss)	(7.7)	(0.9)	3.3	(5.3)
Balance as of October 2, 2016	\$ (170.6)	\$ (2.1)	\$ (221.5)	\$ (394.2)

	Cash			
	Foreign Currency Translation	Flow Hedges and Other	Pension and Postretirement Benefits	Total
Balance as of June 28, 2015	\$ (119.0)	\$ (5.8)	\$ (218.4)	\$ (343.2)
Other comprehensive loss before reclassifications	(33.9)	(3.2)	—	(37.1)
Amounts reclassified from AOCI	—	1.8	4.8	6.6
Net other comprehensive income (loss)	(33.9)	(1.4)	4.8	(30.5)
Balance as of September 27, 2015	\$ (152.9)	\$ (7.2)	\$ (213.6)	\$ (373.7)

	Cash			
	Foreign Currency Translation	Flow Hedges and Other	Pension and Postretirement Benefits	Total
Balance as of January 3, 2016	\$ (174.2)	\$ (6.7)	\$ (232.3)	\$ (413.2)
Other comprehensive income before reclassifications	3.6	2.5	—	6.1
Amounts reclassified from AOCI	—	2.1	10.8	12.9
Net other comprehensive income	3.6	4.6	10.8	19.0
Balance as of October 2, 2016	\$ (170.6)	\$ (2.1)	\$ (221.5)	\$ (394.2)

	Cash			
	Foreign Currency Translation	Flow Hedges and Other	Pension and Postretirement Benefits	Total
Balance as of December 28, 2014	\$ (90.6)	\$ (5.3)	\$ (227.3)	\$ (323.2)
Other comprehensive loss before reclassifications	(62.3)	(6.1)	—	(68.4)
Amounts reclassified from AOCI	—	4.2	13.7	17.9

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Net other comprehensive income (loss)	(62.3)	(1.9)	13.7	(50.5)
Balance as of September 27, 2015	\$ (152.9)	\$ (7.2)	\$ (213.6)	\$ (373.7)

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The reclassifications out of AOCI for the third quarter and nine months ended October 2, 2016 and September 27, 2015 are as follows (in millions):

	Amount Reclassified from AOCI Three Months Ended October 2, 2016	Amount Reclassified from AOCI Three Months Ended September 27, 2015	Statement of Income Presentation
(Gain) loss on cash flow hedges:			
(Gain) loss recognized in income on derivatives	\$ (0.1)	\$ 2.4	Cost of sales
Income tax benefit	—	(0.6)	Income tax benefit
Total	\$ (0.1)	\$ 1.8	