

TELEFLEX INC  
Form 10-Q  
April 28, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended March 28, 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 1-5353**

**TELEFLEX INCORPORATED**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**23-1147939**

(I.R.S. employer identification no.)

**155 South Limerick Road, Limerick, Pennsylvania**

(Address of principal executive offices)

**19468**

(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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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.

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 Act). Yes  No

**On April 16, 2010, 39,913,203 shares of the registrant's common stock, \$1.00 par value, were outstanding.**



**TELEFLEX INCORPORATED**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE QUARTER ENDED MARCH 28, 2010**  
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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

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

	<b>Three Months Ended</b>	
	<b>March 28,</b>	<b>March 29,</b>
	<b>2010</b>	<b>2009</b>
	<b>(Dollars and shares in thousands, except per share)</b>	
Net revenues	\$ 436,460	\$ 440,068
Materials, labor and other product costs	238,867	251,614
Gross profit	197,593	188,454
Selling, engineering and administrative expenses	117,388	117,133
Research and development expenses	9,560	7,565
Net loss on sales of businesses and assets		2,597
Restructuring and other impairment charges	463	2,463
Income from continuing operations before interest and taxes	70,182	58,696
Interest expense	19,034	25,397
Interest income	(218)	(209)
Income from continuing operations before taxes	51,366	33,508
Taxes on income from continuing operations	15,433	8,912
Income from continuing operations	35,933	24,596
Operating income from discontinued operations (including gain on disposal of \$9,737 and \$275,787, respectively)	9,681	301,579
Taxes on income from discontinued operations	7,656	100,568
Income from discontinued operations	2,025	201,011
Net income	37,958	225,607
Less: Net income attributable to noncontrolling interest	286	236
Income from discontinued operations attributable to noncontrolling interest		9,860
Net income attributable to common shareholders	\$ 37,672	\$ 215,511
Earnings per share available to common shareholders:		
Basic:		
Income from continuing operations	\$ 0.90	\$ 0.61
Income from discontinued operations	\$ 0.05	\$ 4.82

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Net income	\$	0.95	\$	5.43
Diluted:				
Income from continuing operations	\$	0.89	\$	0.61
Income from discontinued operations	\$	0.05	\$	4.79
Net income	\$	0.94	\$	5.40
Dividends per share	\$	0.34	\$	0.34
Weighted average common shares outstanding:				
Basic		39,791		39,692
Diluted		40,199		39,876
Amounts attributable to common shareholders:				
Income from continuing operations, net of tax	\$	35,647	\$	24,360
Income from discontinued operations, net of tax		2,025		191,151
Net income	\$	37,672	\$	215,511

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)**

	<b>March 28, 2010</b>	<b>December 31, 2009</b>
	<b>(Dollars in thousands)</b>	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 210,719	\$ 188,305
Accounts receivable, net	297,445	265,305
Inventories, net	353,775	360,843
Prepaid expenses and other current assets	25,858	21,872
Income taxes receivable	34,643	100,733
Deferred tax assets	58,306	58,010
Assets held for sale	8,521	8,866
Total current assets	989,267	1,003,934
Property, plant and equipment, net	305,525	317,499
Goodwill	1,439,709	1,459,441
Intangibles and other assets, net	1,025,857	1,045,706
Investments in affiliates	13,901	12,089
Deferred tax assets		336
Total assets	\$ 3,774,259	\$ 3,839,005
 <b>LIABILITIES AND EQUITY</b>		
Current liabilities		
Current borrowings	\$ 41,460	\$ 4,008
Accounts payable	86,354	94,983
Accrued expenses	82,023	97,274
Payroll and benefit-related liabilities	62,726	70,537
Derivative liabilities	15,896	16,709
Accrued interest	18,611	22,901
Income taxes payable	12,940	30,695
Deferred tax liabilities	3,355	
Total current liabilities	323,365	337,107
Long-term borrowings	1,141,280	1,192,491
Deferred tax liabilities	401,341	398,923
Pension and postretirement benefit liabilities	164,215	164,726
Other liabilities	156,436	160,684
Total liabilities	2,186,637	2,253,931
Commitments and contingencies		
Total common shareholders' equity	1,582,821	1,580,241
Noncontrolling interest	4,801	4,833



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Total equity	1,587,622	1,585,074
Total liabilities and equity	\$ 3,774,259	\$ 3,839,005

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

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

	<b>Three Months Ended</b>	
	<b>March 28,</b>	<b>March 29, 2009</b>
	<b>2010</b>	<b>2009</b>
	<b>(Dollars in thousands)</b>	
<b>Cash Flows from Operating Activities of Continuing Operations:</b>		
Net income	\$ 37,958	\$ 225,607
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Income from discontinued operations	(2,025)	(201,011)
Depreciation expense	12,420	13,771
Amortization expense of intangible assets	11,103	10,918
Amortization expense of deferred financing costs	945	2,641
Stock-based compensation	1,853	2,151
Net loss on sales of businesses and assets		2,597
Other	554	717
Changes in operating assets and liabilities, net of effects of acquisitions and disposals:		
Accounts receivable	(48,210)	(16,170)
Inventories	(1,240)	(11,004)
Prepaid expenses and other current assets	(2,654)	1,830
Accounts payable and accrued expenses	(28,841)	(34,089)
Income taxes receivable and payable, net and deferred income taxes	50,337	(5,599)
Net cash provided by (used in) operating activities from continuing operations	32,200	(7,641)
<b>Cash Flows from Financing Activities of Continuing Operations:</b>		
Proceeds from long-term borrowings		10,000
Reduction in long-term borrowings	(51,090)	(249,178)
Increase (decrease) in notes payable and current borrowings	39,700	(659)
Proceeds from stock compensation plans	3,670	367
Payments to noncontrolling interest shareholders		(295)
Dividends	(13,536)	(13,511)
Net cash used in financing activities from continuing operations	(21,256)	(253,276)
<b>Cash Flows from Investing Activities of Continuing Operations:</b>		
Expenditures for property, plant and equipment	(7,159)	(6,525)
Proceeds from sales of businesses and assets, net of cash sold	24,750	296,883
Payments for businesses and intangibles acquired, net of cash acquired	(81)	(1,108)
Net cash provided by investing activities from continuing operations	17,510	289,250

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Cash Flows from Discontinued Operations:		
Net cash (used in) provided by operating activities	(1,137)	20,370
Net cash used in financing activities		(11,075)
Net cash used in investing activities	(189)	(1,598)
Net cash (used in) provided by discontinued operations	(1,326)	7,697
Effect of exchange rate changes on cash and cash equivalents	(4,714)	(254)
Net increase in cash and cash equivalents	22,414	35,776
Cash and cash equivalents at the beginning of the period	188,305	107,275
Cash and cash equivalents at the end of the period	\$ 210,719	\$ 143,051

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

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**TELEFLEX INCORPORATED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**(Unaudited)**

	Common Shares	Stock Dollars	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Shares	Treasury Dollars	Noncontrolling Interest	Total Equity	Comprehensive Income
(Dollars and shares in thousands, except per share)										
Balance at December 31, 2008	41,995	\$ 41,995	\$ 268,263	\$ 1,182,906	\$ (108,202)	2,311	\$ (138,507)	\$ 39,428	\$ 1,285,883	
Net income				215,511				10,096	225,607	\$ 225,607
Cash dividends (\$0.34 per share)				(13,511)					(13,511)	
Financial instruments marked to market, net of tax of \$1,541					4,781				4,781	4,781
Cumulative translation adjustment ( CTA )					(46,344)			(99)	(46,443)	(46,443)
Reclassification of CTA to gain					(9,365)				(9,365)	(9,365)
Pension liability adjustment, net of tax of \$498					1,061				1,061	1,061
Distributions to noncontrolling interest shareholders								(295)	(295)	
Disposition of noncontrolling interest								(45,019)	(45,019)	
Comprehensive income										\$ 175,641
Shares issued under compensation plans	10	10	1,596			(12)	792		2,398	
Deferred compensation						(9)	343		343	
	42,005	\$ 42,005	\$ 269,859	\$ 1,384,906	\$ (158,069)	2,290	\$ (137,372)	\$ 4,111	\$ 1,405,440	

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Balance at  
March 29, 2009

Balance at December 31, 2009	42,033	\$ 42,033	\$ 277,050	\$ 1,431,878	\$ (34,120)	2,278	\$ (136,600)	\$ 4,833	\$ 1,585,074	
Net income				37,672				286	37,958	\$ 37,958
Cash dividends (\$0.34 per share)				(13,536)					(13,536)	
Financial instruments marked to market, net of tax of \$462					835				835	835
Cumulative translation adjustment					(29,638)			47	(29,591)	(29,591)
Pension liability adjustment, net of tax of \$448					1,309				1,309	1,309
Deconsolidation of VIE				253				(365)	(112)	
Comprehensive income										\$ 10,511
Shares issued under compensation plans	81	81	4,969			(7)	395		5,445	
Deferred compensation						(6)	240		240	
Balance at March 28, 2010	42,114	\$ 42,114	\$ 282,019	\$ 1,456,267	\$ (61,614)	2,265	\$ (135,965)	\$ 4,801	\$ 1,587,622	

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

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

**Note 1 Basis of presentation**

We prepared the accompanying unaudited condensed consolidated financial statements of Teleflex Incorporated on the same basis as our annual consolidated financial statements, with the exception of changes resulting from the adoption of new accounting guidance during the first three months of 2010 as described in Note 2 below.

In the opinion of management, our financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of financial statements for interim periods in accordance with U.S. generally accepted accounting principles (GAAP) and with Rule 10-01 of SEC Regulation S-X, which sets forth the instructions for financial statements included in Form 10-Q. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our financial statements, as well as the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

In accordance with applicable accounting standards, the accompanying condensed consolidated financial statements do not include all of the information and footnote disclosures that are required to be included in our annual consolidated financial statements. The year-end condensed balance sheet data was derived from audited financial statements, but, as permitted by Rule 10-01 of SEC Regulation S-X does not include all disclosures required by GAAP for complete financial statements. Accordingly, our quarterly condensed financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009.

As used in this report, the terms we, us, our, Teleflex and the Company mean Teleflex Incorporated and its subsidiaries, unless the context indicates otherwise. The results of operations for the periods reported are not necessarily indicative of those that may be expected for a full year.

**Note 2 New accounting standards**

The Company adopted the following amendments to accounting standards as of January 1, 2010, the first day of its 2010 fiscal year:

*Accounting for Transfers of Financial Assets – an amendment to Transfers and Servicing:* In June 2009, the Financial Accounting Standards Board ( FASB ) issued guidance to improve the information that is reported in financial statements about the transfer of financial assets and the effects of transfers of financial assets on financial position, financial performance and cash flows and a transferor’s continuing involvement, if any, with transferred financial assets. In addition, the guidance limits the circumstances in which a financial asset or a portion of a financial asset should be derecognized in the financial statements being presented when the transferor has not transferred the entire original financial asset. Upon the adoption of this guidance in the first quarter of 2010, the \$39.7 million of trade receivables under the Company’s accounts receivable securitization program (the Securitization Program ) that were previously treated as sold and removed from the balance sheet are now included in accounts receivable, net, and the amounts outstanding under the Securitization Program are accounted for as a secured borrowing and reflected as short-term debt on the Company’s balance sheet (which as of March 28, 2010 is \$39.7 million.) In addition, while there has been no change in the arrangement under the Securitization Program, the adoption of this amendment reduced cash flow from operations by approximately \$39.7 million and resulted in a corresponding increase in cash flow from financing activities.

*Amendment to Consolidation:* In June 2009, the FASB issued guidance that requires an enterprise to perform an analysis to determine whether the enterprise’s variable interest or interests give it a controlling financial interest in a variable interest entity (which would result in the enterprise being deemed the primary beneficiary of that entity and, therefore, obligated to consolidate the variable interest entity in its financial statements); to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity; to revise guidance for determining whether an entity is a variable interest entity; and to require enhanced disclosures that will provide more transparent information about an enterprise’s involvement with a variable interest entity whose revenue was

approximately \$10 million during 2009. As a result of the adoption of this guidance, the Company deconsolidated a variable interest entity. Refer to the Company's condensed consolidated statements of changes in equity for the impact of the deconsolidation.

**Table of Contents****TELEFLEX INCORPORATED AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Amendment to Fair Value Measurements and Disclosures:* In January 2010, the FASB enhanced and clarified disclosure requirements regarding fair value of financial instruments for interim and annual reporting periods. The guidance requires additional disclosure for transfer activity pertaining to Level 1 and 2 fair value measurements and purchase, sale, issuance, and settlement activity for Level 3 fair value measurements. Additionally, the FASB clarified disclosure requirements related to level of disaggregation, inputs and valuation techniques used to measure fair value. The guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures related to Level 3 fair value measurement activity which is effective for fiscal years beginning after December 15, 2010.

The Company will adopt the following new accounting standards as of January 1, 2011, the first day of its 2011 fiscal year:

*Amendment to Software:* In October 2009, the FASB changed the accounting model for revenue arrangements for certain tangible products containing software components and nonsoftware components. The guidance provides direction on how to determine which software, if any, relating to the tangible product is excluded from the scope of the software revenue guidance. The amendment will be effective prospectively for fiscal years beginning on or after June 15, 2010. The Company is currently evaluating this guidance to determine the impact on the Company's results of operations, cash flows, and financial position.

*Amendment to Revenue Recognition:* In October 2009, the FASB established the criteria for multiple-deliverable revenue arrangements by establishing new guidance on how to separate deliverables and how to measure and allocate arrangement consideration to one or more units of accounting. Additionally, this requires vendors to expand their disclosures around multiple-deliverable revenue arrangements and will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is currently evaluating the guidance to determine the impact on the Company's results of operations, cash flows, and financial position.

**Note 3 Integration***Integration of Arrow*

In connection with the acquisition of Arrow International, Inc. ( Arrow ) in October 2007, the Company formulated a plan related to the integration of Arrow and the Company's Medical businesses. The integration plan focuses on the closure of Arrow corporate functions and the consolidation of manufacturing, sales, marketing and distribution functions in North America, Europe and Asia. The Company finalized its estimate of the costs to implement the plan in the fourth quarter of 2008. The Company has accrued estimates for certain costs, related primarily to personnel reductions and facility closures and the termination of certain distribution agreements, at the date of acquisition.

The following table provides information relating to changes in the accrued liability associated with the Arrow integration plan during the three months ended March 28, 2010:

	<b>Balance at December 31, 2009</b>	<b>Payments</b>	<b>Balance at March 28, 2010</b>
	<b>(Dollars in millions)</b>		
Termination benefits	\$ 0.4	\$	\$ 0.4
Facility closure costs	0.5	(0.1)	0.4
Contract termination costs	2.7		2.7
	\$ 3.6	\$ (0.1)	\$ 3.5

Contract termination costs represent the termination of a European distributor agreement that is currently in litigation but is expected to be paid in 2010.



In conjunction with the plan for the integration of Arrow and the Company's Medical businesses, the Company has taken actions that affect employees and facilities of Teleflex. This aspect of the integration plan is explained in Note 4, Restructuring and other impairment charges. Costs that affect employees and facilities of Teleflex are charged to earnings and included in restructuring and other impairment charges within the condensed consolidated statement of operations for the periods in which the costs are incurred.

**Table of Contents****TELEFLEX INCORPORATED AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 4 Restructuring and other impairment charges**

The amounts included in restructuring and other impairment charges in the condensed consolidated statement of income for the three months ended March 28, 2010 and March 29, 2009 consisted of the following:

	<b>Three Months Ended</b>	
	<b>March 28,</b>	<b>March 29,</b>
	<b>2010</b>	<b>2009</b>
	<b>(Dollars in thousands)</b>	
2008 Commercial Segment program	\$	\$ 1,138
2007 Arrow integration program	463	1,325
Restructuring and other impairment charges	\$ 463	\$ 2,463

*2008 Commercial Segment Restructuring Program*

In December 2008, the Company began certain restructuring initiatives with respect to the Company's Commercial Segment. The initiatives involved the consolidation of operations and a related reduction in workforce at certain of the Company's facilities in North America and Europe. The Company determined to undertake these initiatives as a means to improve operating performance and to better leverage its resources due to weakness in the marine and industrial markets.

By December 31, 2009, the Company had completed the 2008 Commercial Segment restructuring program, and all costs associated with the program were fully paid during 2009. No changes were recorded under this program in 2010. The charges associated with the 2008 Commercial Segment restructuring program that were included in restructuring and other impairment charges in the condensed consolidated statements of income during the three months ended March 29, 2009 were as follows:

	<b>Three Months Ended</b>	
	<b>March 29, 2009</b>	
	<b>Commercial</b>	
	<b>(Dollars in thousands)</b>	
Termination benefits	\$	1,138
	\$	1,138

Termination benefits were comprised of severance-related payments for all employees terminated in connection with the restructuring program.

*2007 Arrow Integration Program*

The charges associated with the 2007 Arrow integration program that were included in restructuring and other impairment charges for the three months ended March 28, 2010 and March 29, 2009, are as follows:

	<b>Medical</b>	
	<b>Three Months Ended</b>	<b>Three Months Ended</b>
	<b>March 28,</b>	<b>March 29, 2009</b>
	<b>2010</b>	

	<b>(Dollars in thousands)</b>	
Termination benefits	\$ 230	\$ 1,097
Facility closure costs	425	51
Contract termination costs	(195)	62
Other restructuring costs	3	115
	\$ 463	\$ 1,325

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At March 28, 2010, the accrued liability associated with the 2007 Arrow integration program consisted of the following:

	<b>Balance at December 31, 2009</b>	<b>Subsequent Accruals</b>	<b>Payments</b>	<b>Translation</b>	<b>Balance at March 28, 2010</b>
	<b>(Dollars in thousands)</b>				
Termination benefits	\$ 2,183	\$ 230	\$ (1,194)	\$ (64)	\$ 1,155
Facility closure costs	302	425	(642)	(15)	70
Contract termination costs	687	(195)		(13)	479
Other restructuring costs	23	3	(3)	(1)	22
	<b>\$ 3,195</b>	<b>\$ 463</b>	<b>\$ (1,839)</b>	<b>\$ (93)</b>	<b>\$ 1,726</b>

Termination benefits are comprised of severance-related payments for all employees terminated in connection with the 2007 Arrow integration program. Facility closure costs relate primarily to costs to prepare a facility for closure. Contract termination costs relate primarily to the termination of a European distributor agreement and leases in conjunction with the consolidation of facilities.

As of March 28, 2010, the Company expects to incur the following restructuring expenses associated with the 2007 Arrow integration program in its Medical Segment through December 2010:

	<b>(Dollars in millions)</b>	
Termination benefits	\$ 0.8	1.1
Facility closure costs	0.5	0.7
Contract termination costs	0.2	0.5
Other restructuring costs	0.1	0.2
	<b>\$ 1.6</b>	<b>2.5</b>

**Note 5 Inventories**

Inventories consisted of the following:

	<b>March 28, 2010</b>	<b>December 31, 2009</b>
	<b>(Dollars in thousands)</b>	
Raw materials	\$ 145,735	\$ 150,508
Work-in-process	60,699	53,847
Finished goods	181,607	191,747
	388,041	396,102
Less: Inventory reserve	(34,266)	(35,259)
Inventories	<b>\$ 353,775</b>	<b>\$ 360,843</b>

**Note 6 Goodwill and other intangible assets**

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Changes in the carrying amount of goodwill, by operating segment, for the three months ended March 28, 2010 are as follows:

	<b>Medical</b>	<b>Commercial</b>	<b>Total</b>
	<b>(Dollars in thousands)</b>		
Balance as of December 31, 2009			
Goodwill	\$ 1,444,354	\$ 15,087	\$ 1,459,441
Accumulated impairment losses			
	1,444,354	15,087	1,459,441
Goodwill related to dispositions	(9,224)		(9,224)
Translation adjustment	(10,508)		(10,508)
Balance as of March 28, 2010			
Goodwill	1,424,622	15,087	1,439,709
Accumulated impairment losses			
	\$ 1,424,622	\$ 15,087	\$ 1,439,709

**Table of Contents****TELEFLEX INCORPORATED AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Intangible assets consisted of the following:

	Gross Carrying Amount		Accumulated Amortization	
	March 28, 2010	December 31, 2009	March 28, 2010	December 31, 2009
	(Dollars in thousands)			
Customer lists	\$ 555,792	\$ 559,207	\$ 79,960	\$ 74,047
Intellectual property	207,021	208,247	63,853	59,824
Distribution rights	21,694	22,094	16,972	17,066
Trade names	334,502	336,673	3,828	3,708
	\$ 1,119,009	\$ 1,126,221	\$ 164,613	\$ 154,645

Amortization expense related to intangible assets was approximately \$11.1 million and \$10.9 million for the three months ended March 28, 2010 and March 29, 2009, respectively. Estimated annual amortization expense for each of the five succeeding years is as follows (dollars in thousands):

2010	\$ 44,600
2011	44,400
2012	44,200
2013	43,200
2014	40,300

**Note 7 Financial instruments**

The Company uses derivative instruments for risk management purposes. Forward rate contracts are used to manage foreign currency transaction exposure and interest rate swaps are used to reduce exposure to interest rate changes. These derivative instruments are designated as cash flow hedges and are recorded on the balance sheet at fair market value. The effective portion of the gains or losses on derivatives are reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. See Note 8, Fair Value Measurement for additional information.

The location and fair values of derivative instruments designated as hedging instruments in the condensed consolidated balance sheet are as follows:

	March 28, 2010 Fair Value	December 31, 2009 Fair Value
	(Dollars in thousands)	
Asset derivatives:		
Foreign exchange contracts:		
Other assets - current	\$ 2,979	\$ 1,356
Total asset derivatives	\$ 2,979	\$ 1,356

Liability derivatives:  
Interest rate contracts:

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Derivative liabilities current	\$	15,499	\$	15,848
Other liabilities noncurrent		13,145		12,258
Foreign exchange contracts:				
Derivative liabilities current		397		860
Total liability derivatives	\$	29,041	\$	28,966

**Table of Contents****TELEFLEX INCORPORATED AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The location and amount of the gains and losses for derivatives in cash flow hedging relationships that were reported in other comprehensive income ( OCI ), accumulated other comprehensive income ( AOCI ) and the condensed consolidated statement of income for the three months ended March 28, 2010 and March 29, 2009 are as follows:

	<b>After Tax Gain/(Loss) Recognized in OCI</b>	
	<b>March 28, 2010</b>	<b>March 29, 2009</b>
	<b>(Dollars in thousands)</b>	
Interest rate contracts	\$ (312)	\$ 3,098
Foreign exchange contracts	1,147	1,683
Total	\$ 835	\$ 4,781

	<b>Pre-Tax (Gain)/Loss Reclassified from AOCI into Income</b>	
	<b>March 28, 2010</b>	<b>March 29, 2009</b>
	<b>(Dollars in thousands)</b>	
Interest rate contracts:		
Interest expense	\$ 4,580	\$ 4,357
Foreign exchange contracts		
Net revenues	(11)	799
Materials, labor and other product costs	(735)	1,616
Income from discontinued operations		337
Total	\$ 3,834	\$ 7,109

For the three months ended March 28, 2010 and March 29, 2009, there was no ineffectiveness related to the Company's derivatives.

**Note 8 Fair value measurement**

The following tables provide the financial assets and liabilities carried at fair value measured on a recurring basis as of March 28, 2010 and March 29, 2009:

	<b>Total carrying value at March 28, 2010</b>	<b>Quoted prices in active markets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
	<b>(Dollars in thousands)</b>			
Cash and cash equivalents	\$ 10,000	\$ 10,000	\$	\$
Deferred compensation assets	\$ 3,338	\$ 3,338	\$	\$
Derivative assets	\$ 2,979	\$	\$ 2,979	\$
Derivative liabilities	\$ 29,041	\$	\$ 29,041	\$



	<b>Total carrying  value at March 29, 2009</b>	<b>Quoted prices in active markets  (Level 1)</b>	<b>Significant other observable inputs  (Level 2)</b>	<b>Significant unobservable inputs  (Level 3)</b>
	<b>(Dollars in thousands)</b>			
Cash and cash equivalents	\$ 30,000	\$ 30,000	\$	\$
Deferred compensation assets	\$ 2,233	\$ 2,233	\$	\$
Derivative assets	\$ 992	\$	\$ 992	\$
Derivative liabilities	\$ 48,376	\$	\$ 48,376	\$

The carrying amount reported in the condensed consolidated balance sheet as of March 28, 2010 for long-term debt is \$1,141.3 million. Using a discounted cash flow technique that incorporates a market interest yield curve with adjustments for duration, optionality, and risk profile, the Company has determined the fair value of its debt to be \$1,116.6 million at March 28, 2010. The Company's implied credit rating is a factor in determining the market interest yield curve.

**Table of Contents****TELEFLEX INCORPORATED AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Valuation Techniques**

The Company's cash and cash equivalents valued based upon Level 1 inputs are comprised of overnight investments in money market funds. The funds invest in obligations of the U.S. Treasury, including Treasury bills, bonds and notes. The funds seek to maintain a net asset value of \$1.00 per share.

The Company's financial assets valued based upon Level 1 inputs are comprised of investments in marketable securities held in Rabbi Trusts which are used to pay benefits under certain deferred compensation plan benefits. Under these deferred compensation plans, participants designate investment options to serve as the basis for measurement of the notional value of their accounts. The investment assets of the rabbi trust are valued using quoted market prices multiplied by the number of shares held in the trust.

The Company's financial assets valued based upon Level 2 inputs are comprised of foreign currency forward contracts. The Company's financial liabilities valued based upon Level 2 inputs are comprised of an interest rate swap contract and foreign currency forward contracts. The Company has taken into account the creditworthiness of the counterparties in measuring fair value. The Company uses forward rate contracts to manage currency transaction exposure and interest rate swaps to manage exposure to interest rate changes. The fair value of the interest rate swap contract is developed from market-based inputs under the income approach using cash flows discounted at relevant market interest rates. The fair value of the foreign currency forward exchange contracts represents the amount required to enter into offsetting contracts with similar remaining maturities based on quoted market prices. See Note 7, Financial Instruments for additional information.

**Note 9 Changes in shareholders' equity**

On June 14, 2007, the Company's Board of Directors authorized the repurchase of up to \$300 million of outstanding Company common stock. Repurchases of Company stock under the Board authorization may be made from time to time in the open market and may include privately-negotiated transactions as market conditions warrant and subject to regulatory considerations. The stock repurchase program has no expiration date and the Company's ability to execute on the program will depend on, among other factors, cash requirements for acquisitions, cash generation from operations, debt repayment obligations, market conditions and regulatory requirements. In addition, the Company's senior loan agreements limit the aggregate amount of share repurchases and other restricted payments the Company may make to \$75 million per year in the event the Company's consolidated leverage ratio exceeds 3.5 to 1. Accordingly, these provisions may limit the Company's ability to repurchase shares under this Board authorization. Through March 28, 2010, no shares have been purchased under this Board authorization.

A reconciliation of basic to diluted weighted average shares outstanding is as follows:

	<b>Three Months Ended</b>	
	<b>March 28, 2010</b>	<b>March 29, 2009</b>
	<b>(Shares in thousands)</b>	
Basic	39,791	39,692
Dilutive shares assumed issued	408	184
Diluted	40,199	39,876

Weighted average stock options that were antidilutive and therefore not included in the calculation of earnings per share were approximately 738 thousand and 1,483 thousand for the three months ended March 28, 2010 and March 29, 2009, respectively.

**Note 10 Stock compensation plans**

The Company has two stock-based compensation plans under which equity-based awards may be made. The Company's 2000 Stock Compensation Plan (the "2000 plan") provides for the granting of incentive and non-qualified stock options and restricted stock awards to directors, officers and key employees. Under the 2000 plan, the Company

is authorized to issue up to 4 million shares of common stock, but no more than 800,000 of those shares may be issued as restricted stock. Options granted under the 2000 plan have an exercise price equal to the average of the high and low sales prices of the Company's common stock on the date of the grant, rounded to the nearest \$0.25. Generally, options granted under the 2000 plan are exercisable three to five years after the date of the grant and expire no more than ten years after the grant date. Restricted stock awards generally vest in one to three years. During the first three months of 2010, the Company granted restricted stock awards representing 148,287 shares of common stock under the 2000 plan. The unrecognized compensation for these awards as of the grant date was \$8.5 million, which will be recognized over the vesting period of the award.

**Table of Contents****TELEFLEX INCORPORATED AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company's 2008 Stock Incentive Plan (the 2008 plan) provides for the granting of various types of equity-based awards to directors, officers and key employees. These awards include incentive and non-qualified stock options, stock appreciation rights, stock awards and other stock-based awards. Under the 2008 plan, the Company is authorized to issue up to 2.5 million shares of common stock, but grants of awards other than stock options and stock appreciation rights may not exceed 875,000 shares. Options granted under the 2008 plan have an exercise price equal to the closing price of the Company's common stock on the date of grant. Generally, options granted under the 2008 plan are exercisable three years after the date of the grant and expire no more than ten years after the grant date. During the first three months of 2010, the Company granted incentive and non-qualified options to purchase 586,642 shares of common stock under the 2008 plan. The unrecognized compensation for these awards as of the grant date was \$7.2 million, which will be recognized over the vesting period of the award.

**Note 11 Pension and other postretirement benefits**

The Company has a number of defined benefit pension and postretirement plans covering eligible U.S. and non-U.S. employees. The defined benefit pension plans are noncontributory. The benefits under these plans are based primarily on years of service and employees' pay near retirement. The Company's funding policy for U.S. plans is to contribute annually, at a minimum, amounts required by applicable laws and regulations. Obligations under non-U.S. plans are systematically provided for by depositing funds with trustees or by book reserves.

In 2009, the Company offered certain qualifying individuals an early retirement program. Based on the individuals that accepted the offer the Company recognized special termination benefits of \$402 thousand in pension expense and \$395 thousand in postretirement expense in the second quarter of 2009.

The Company and certain of its subsidiaries provide medical, dental and life insurance benefits to pensioners and survivors. The associated plans are unfunded and approved claims are paid from Company funds.

Net benefit cost of pension and postretirement benefit plans consisted of the following:

	<b>Pension</b>		<b>Other Benefits</b>	
	<b>Three Months Ended</b>		<b>Three Months Ended</b>	
	<b>March 28,</b>	<b>March 29,</b>	<b>March 28,</b>	<b>March 29,</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(Dollars in thousands)</b>			
Service cost	\$ 720	\$ 915	\$ 235	\$ 284
Interest cost	4,678	4,150	770	900
Expected return on plan assets	(4,366)	(3,538)		
Net amortization and deferral	1,085	1,235	214	220
Settlement gain	(35)			
Net benefit cost	\$ 2,082	\$ 2,762	\$ 1,219	\$ 1,404

**Note 12 Commitments and contingent liabilities**

*Product warranty liability:* The Company warrants to the original purchaser of certain of its products that it will, at its option, repair or replace, without charge, such products if they fail due to a manufacturing defect. Warranty periods vary by product. The Company has recourse provisions for certain products that would enable recovery from third parties for amounts paid under the warranty. The Company accrues for product warranties when, based on available information, it is probable that customers will make claims under warranties relating to products that have been sold, and a reasonable estimate of the costs (based on historical claims experience relative to sales) can be made. Set forth below is a reconciliation of the Company's estimated product warranty liability for the three months ended March 28, 2010 (dollars in thousands):

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Balance	December 31, 2009	\$	12,085
Accruals for warranties issued in 2010			959
Settlements (cash and in kind)			(1,376)
Accruals related to pre-existing warranties			175
Effect of translation			(217)
Balance	March 28, 2010	\$	11,626

**Table of Contents****TELEFLEX INCORPORATED AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Operating leases:* The Company uses various leased facilities and equipment in its operations. The terms for these leased assets vary depending on the lease agreement. In connection with these operating leases, the Company had residual value guarantees in the amount of approximately \$9.7 million at March 28, 2010. The Company's future payments under the operating leases cannot exceed the minimum rent obligation plus the residual value guarantee amount. The residual value guarantee amounts are based upon the unamortized lease values of the assets under lease, and are payable by the Company if the Company declines to renew the leases or to exercise its purchase option with respect to the leased assets. At March 28, 2010, the Company had no liabilities recorded for these obligations. Any residual value guarantee amounts paid to the lessor may be recovered by the Company from the sale of the assets to a third party.

*Environmental:* The Company is subject to contingencies as a result of environmental laws and regulations that in the future may require the Company to take further action to correct the effects on the environment of prior disposal practices or releases of chemical or petroleum substances by the Company or other parties. Much of this liability results from the U.S. Comprehensive Environmental Response, Compensation and Liability Act ( CERCLA ), often referred to as Superfund, the U.S. Resource Conservation and Recovery Act ( RCRA ) and similar state laws. These laws require the Company to undertake certain investigative and remedial activities at sites where the Company conducts or once conducted operations or at sites where Company-generated waste was disposed.

Remediation activities vary substantially in duration and cost from site to site. These activities, and their associated costs, depend on the mix of unique site characteristics, evolving remediation technologies, diverse regulatory agencies and enforcement policies, as well as the presence or absence of other potentially responsible parties. At March 28, 2010, the Company's condensed consolidated balance sheet included an accrued liability of approximately \$8.3 million relating to these matters. Considerable uncertainty exists with respect to these costs and, if adverse changes in circumstances occur, potential liability may exceed the amount accrued as of March 28, 2010. The time frame over which the accrued amounts may be paid out, based on past history, is estimated to be 15-20 years.

*Regulatory matters:* On October 11, 2007, the Company's subsidiary, Arrow International, Inc. ( Arrow ), received a corporate warning letter from the U.S. Food and Drug Administration (FDA). The letter cites three site-specific warning letters issued by the FDA in 2005 and subsequent inspections performed from June 2005 to February 2007 at Arrow's facilities in the United States. The letter expresses concerns with Arrow's quality systems, including complaint handling, corrective and preventive action, process and design validation, inspection and training procedures. It also advises that Arrow's corporate-wide program to evaluate, correct and prevent quality system issues has been deficient. Limitations on pre-market approvals and certificates for foreign governments had previously been imposed on Arrow based on prior inspections and the corporate warning letter did not impose additional sanctions that are expected to have a material financial impact on the Company.

In connection with its acquisition of Arrow, completed on October 1, 2007, the Company developed an integration plan that included the commitment of significant resources to correct these previously-identified regulatory issues and further improve overall quality systems. Senior management officials from the Company have met with FDA representatives, and a comprehensive written corrective action plan was presented to FDA in late 2007. At the end of 2009, the FDA began its reinspections of the Arrow facilities covered by the corporate warning letter. These inspections have been completed, and the FDA has issued certain written observations to Arrow as a result of those inspections. Arrow has responded in writing to those observations and is communicating with the FDA regarding resolution of all outstanding issues.

While the Company continues to believe it has substantially remediated the issues raised in the corporate warning letter through the corrective actions taken to date, and that it has responded thoroughly and comprehensively to each of the observations resulting from the recent inspections, there can be no assurance that these matters have been resolved to the satisfaction of the FDA. If the Company's remedial actions are not satisfactory to the FDA, the Company may have to devote additional financial and human resources to its efforts, and the FDA may take further regulatory actions against the Company.

*Litigation:* The Company is a party to various lawsuits and claims arising in the normal course of business. These lawsuits and claims include actions involving product liability, intellectual property, employment and environmental matters. Based on information currently available, advice of counsel, established reserves and other resources, the Company does not believe that any such actions are likely to be, individually or in the aggregate, material to its business, financial condition, results of operations or liquidity. However, in the event of unexpected further developments, it is possible that the ultimate resolution of these matters, or other similar matters, if unfavorable, may be materially adverse to the Company's business, financial condition, results of operations or liquidity. Legal costs such as outside counsel fees and expenses are charged to expense in the period incurred.

**Table of Contents****TELEFLEX INCORPORATED AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Tax Audit and Examinations:* In an April 12, 2010 notice to our subsidiary Arrow International CR, the taxing authority in the Czech Republic has questioned the transfer pricing Arrow International CR utilized for certain products sold during 2006. The notice requests additional information and states that if the tax authority is not satisfied with our response, they intend to challenge certain tax incentives received by Arrow International CR for the 2001-2006 years in their entirety. We have consulted with external advisors and believe the transfer pricing policy of Arrow International CR met the essential requirements of the tax incentive program. If the taxing authority were to ultimately prevail in disallowing the entire tax incentive benefit, the cost, including penalties and interest, would not have a material adverse effect on the Company. The tax incentive program expired in 2006 in accordance with its intended term, therefore any loss of the tax incentives benefit would not have an impact on current or future operations.

In addition, the Company and its subsidiaries are routinely subject to income tax examinations by various taxing authorities. As of March 28, 2010, the most significant tax examinations in process are in the jurisdictions of the United States, Czech Republic, Germany, Italy, and France. It is uncertain as to when these examinations may be concluded and the ultimate outcome of such examinations. As a result of the uncertain outcome of these ongoing examinations, future examinations, or the expiration of statutes of limitation for certain jurisdictions, it is reasonably possible that the related unrecognized tax benefits for tax positions taken could materially change from those recorded as liabilities at March 28, 2010. Due to the potential for resolution of certain foreign and U.S. examinations, and the expiration of various statutes of limitation, it is reasonably possible that the Company's unrecognized tax benefits may change within the next twelve months by a range of zero to \$23 million.

*Other:* The Company has various purchase commitments for materials, supplies and items of permanent investment incident to the ordinary conduct of business. On average, such commitments are not at prices in excess of current market.

**Note 13 Business segment information**

Information about continuing operations by business segment is as follows:

	<b>Three Months Ended</b>	
	<b>March 28, 2010</b>	<b>March 29, 2009</b>
	<b>(Dollars in thousands)</b>	
Segment data:		
Medical	\$ 343,537	\$ 334,785
Aerospace	36,873	43,729
Commercial	56,050	61,554
Segment net revenues	\$ 436,460	\$ 440,068
Medical	\$ 73,498	\$ 69,412
Aerospace	1,744	3,037
Commercial	3,060	2,036
Segment operating profit	78,302	74,485
Less: Corporate expenses	7,943	10,965
Net loss on sales of businesses and assets		2,597
Restructuring and impairment charges	463	2,463
Noncontrolling interest	(286)	(236)
Income from continuing operations before interest and taxes	\$ 70,182	\$ 58,696



**Note 14 Divestiture-related activities**

When dispositions occur in the normal course of business, gains or losses on the sale of such businesses or assets are recognized in the income statement line item *Net loss on sales of businesses and assets*.

The following table provides the amount of *Net loss on sales of businesses and assets* for the three months ended March 28, 2010 and March 29, 2009:

	<b>Three Months Ended</b>	
	<b>March 28,</b>	<b>March 29,</b>
	<b>2010</b>	<b>2009</b>
	<b>(Dollars in thousands)</b>	
Net loss on sales of businesses and assets	\$	\$ 2,597

During the first quarter of 2009, the Company realized a loss of \$2.6 million on the sale of a product line in its Marine business.

***Assets Held for Sale***

Assets held for sale at March 28, 2010 and December 31, 2009 consists of four buildings which the Company is actively marketing.

Table of Contents**TELEFLEX INCORPORATED AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Discontinued Operations***

On March 2, 2010, the Company completed the sale of its SSI Surgical Services Inc. business ( SSI ), a reporting unit within its Medical Segment, to a privately-owned multi-service line healthcare company for approximately \$25 million and realized a gain of \$2.1 million, net of tax.

During the third quarter of 2009, the Company completed the sale of its Power Systems operations to Fuel Systems Solutions, Inc. for \$14.5 million and realized a loss of \$3.3 million, net of tax. During the second quarter, the Company recognized a non-cash goodwill impairment charge of \$25.1 million to adjust the carrying value of these operations to their estimated fair value. In the third quarter of 2009, the Company reported the Power Systems operations, including the goodwill impairment charge, in discontinued operations.

On March 20, 2009, the Company completed the sale of its 51 percent share of Airfoil Technologies International Singapore Pte. Ltd. ( ATI Singapore ) to GE Pacific Private Limited for \$300 million in cash. ATI Singapore, which provides engine repair products and services for critical components of flight turbines, was part of a joint venture between General Electric Company ( GE ) and the Company. In December 2009, the Company completed the transfer of its ownership interest in the remaining ATI business to GE.

The following table presents the operating results for the three months ended March 28, 2010 and March 29, 2009 of the operations that have been treated as discontinued operations:

	<b>Three Months Ended</b>	
	<b>March 28,</b>	<b>March 29, 2009</b>
	<b>2010</b>	
	<b>(Dollars in thousands)</b>	
Net revenues	\$ 3,198	\$ 97,328
Costs and other expenses	3,254	71,536
Gain on disposition	(9,737)	(275,787)
Income from discontinued operations before income taxes	9,681	301,579
Provision for income taxes	7,656	100,568
Income from discontinued operations	2,025	201,011
Less: Income from discontinued operations attributable to noncontrolling interest		9,860
Income from discontinued operations attributable to common shareholders	\$ 2,025	\$ 191,151

Net assets and liabilities sold in 2010 in relation to the discontinued operations were comprised of the following:

	<b>(Dollars in thousands)</b>	
Net assets	\$	18,403
Net liabilities		3,147
	\$	15,256

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Forward-Looking Statements**

All statements made in this Quarterly Report on Form 10-Q, other than statements of historical fact, are forward-looking statements. The words anticipate, believe, estimate, expect, intend, may, plan, will, guidance, potential, continue, project, forecast, confident, prospects, and similar expressions typically identify forward-looking statements. Forward-looking statements are based on the then-current expectations, beliefs, assumptions, estimates and forecasts about our business and the industry and markets in which we operate. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or implied by these forward-looking statements due to a number of factors, including our ability to resolve, to the satisfaction of the U.S. Food and Drug Administration (FDA), the issues identified in the corporate warning letter issued to Arrow International; changes in business relationships with and purchases by or from major customers or suppliers, including delays or cancellations in shipments; demand for and market acceptance of new and existing products; our ability to integrate acquired businesses into our operations, realize planned synergies and operate such businesses profitably in accordance with expectations; our ability to effectively execute our restructuring programs; competitive market conditions and resulting effects on revenues and pricing; increases in raw material costs that cannot be recovered in product pricing; and global economic factors, including currency exchange rates and interest rates; difficulties entering new markets; and general economic conditions. For a further discussion of the risks relating to our business, see Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009. We expressly disclaim any obligation to update these forward-looking statements, except as otherwise specifically stated by us or as required by law or regulation.

**Overview**

Teleflex is principally a global provider of medical technology products that enable healthcare providers to improve patient outcomes, reduce infections and enhance patient and provider safety. We primarily develop, manufacture and supply single-use medical devices used by hospitals and healthcare providers for common diagnostic and therapeutic procedures in critical care and surgical applications. We serve hospitals and healthcare providers in more than 140 countries.

We provide a broad-based platform of medical products, which we categorize into four groups: Critical Care, Surgical Care, Cardiac Care and OEM and Development Services. Critical care, representing our largest product group, includes medical devices used in vascular access, anesthesia, urology and respiratory care applications; surgical care includes surgical instruments and devices; and cardiac care includes cardiac assist devices and equipment. We also design and manufacture instruments and devices for other medical device manufacturers.

In addition to our medical business, we also have businesses that serve niche segments of the aerospace and commercial markets with specialty engineered products. Our aerospace products include cargo-handling systems, containers, and pallets for commercial air cargo, and military aircraft actuators. Our commercial products include driver controls, engine assemblies and drive parts for the marine industry and rigging products and services for commercial industries.

Over the past several years, we have engaged in an extensive acquisition and divestiture program to improve margins, reduce cyclicality and focus our resources on the development of our healthcare business. We have significantly changed the composition of our portfolio of businesses, expanding our presence in the medical device industry, while divesting many of our businesses serving the aerospace and industrial markets. The most significant of these transactions occurred in 2007 with our acquisition of Arrow International, a leading global supplier of catheter-based medical technology products used for vascular access and cardiac care, and the divestiture of our automotive and industrial businesses. Our acquisition of Arrow significantly expanded our disposable medical product offerings for critical care, enhanced our global footprint and added to our research and development capabilities.

We continually evaluate the composition of the portfolio of our products and businesses to ensure alignment with our overall objectives. We strive to maintain a portfolio of products and businesses that provide consistency of performance, improved profitability and sustainable growth.

On March 2, 2010, we completed the sale of our SSI Surgical Services Inc. business ( SSI ), a reporting unit within our Medical Segment, to a privately-owned multi-service line healthcare company for approximately \$25 million. We realized a gain of \$2.1 million, net of tax, on this transaction.

During the third quarter of 2009, we completed the sale of our Power Systems operations to Fuel Systems Solutions, Inc. for \$14.5 million and realized a loss of \$3.3 million, net of tax. During the second quarter of 2009, we recognized a non-cash goodwill impairment charge of \$25.1 million to adjust the carrying value of the Power Systems operations to their estimated fair value.

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On March 20, 2009, we completed the sale of our 51 percent ownership interest in ATI Singapore to GE Pacific Private Limited for \$300 million in cash. ATI Singapore, which provides engine repair products and services for critical components of flight turbines, was part of a joint venture between General Electric Company ( GE ) and us. In December 2009, we completed the transfer of our ownership interest in the remaining ATI business (together with ATI Singapore, the ATI businesses ) to GE for a nominal amount.

The Medical, Aerospace and Commercial segments comprised 79%, 8% and 13% of our revenues, respectively, for the three months ended March 28, 2010 and comprised 76%, 10% and 14% of our revenues, respectively, for the same period in 2009.

**Health Care Reform**

On March 23, 2010 the Patient Protection and Affordable Care Act was signed into law. This legislation will have a significant impact on our business. For medical device companies such as Teleflex, the expansion of medical insurance coverage should lead to greater utilization of the products we manufacture, but this legislation also contains provisions designed to contain the cost of healthcare, which could negatively affect pricing we receive from the sale of our products. In addition, commencing in 2013, the legislation imposes a 2.3% excise tax on sales of medical devices. As this new law is implemented over the next 2-3 years, we will be in a better position to ascertain its impact on our business. We currently estimate the impact of the medical device excise tax will be approximately \$16 million annually, beginning in 2013. We also evaluated the change in the tax regulations related to the Medicare Part D subsidy as currently outlined in the new legislation and determined that it did not have a significant impact on our financial position or results of operations.

**Results of Operations**

Discussion of growth from acquisitions reflects the impact of a purchased company for up to twelve months beyond the date of acquisition. Activity beyond the initial twelve months is considered core growth. Core growth excludes the impact of translating the results of international subsidiaries at different currency exchange rates from year to year and the comparable activity of divested companies within the most recent twelve-month period.

The following comparisons exclude the operations of SSI, Power Systems and the ATI businesses which have been presented in our consolidated financial results as discontinued operations (see Note 14 to our condensed consolidated financial statements included in this report for discussion of discontinued operations).

**Revenues**

	<b>Three Months Ended</b>	
	<b>March 28,</b>	<b>March 29, 2009</b>
	<b>2010</b>	
	<b>(Dollars in millions)</b>	
Net revenues	\$ 436.5	\$ 440.1

Net revenues for the first quarter of 2010 decreased approximately 1% to \$436.5 million from \$440.1 million in the first quarter of 2009. Core revenues for the quarter declined 3%, offset by foreign currency translation which favorably impacted sales 3%. The disposition of a product line in the Commercial Segment during the first quarter of 2009 accounted for a 1% decline in revenues. Core revenues were down in the Aerospace Segment (20%), due to softness in commercial aviation markets and in the Commercial Segment (6%), as weak global economic conditions continue to negatively impact the markets served by our rigging services products but the Marine market is showing signs of recovery. Core revenues in the Medical Segment were unchanged from the first quarter of 2009 as the negative impact from a voluntary recall of a product in our critical care product group and lower sales of surgical products and orthopedic devices sold to medical original equipment manufacturers, or OEMs, was offset by higher sales of other critical care products.

**Gross profit**

	<b>Three Months Ended</b>	
	<b>March 28,</b>	<b>March 29, 2009</b>
	<b>2010</b>	

	<b>(Dollars in millions)</b>			
Gross profit	\$	197.6	\$	188.5
Percentage of sales		45.3%		42.8%

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Gross profit as a percentage of revenues for the first quarter of 2010 increased to 45.3% from 42.8% in 2009. Gross profit as a percentage of revenues increased in the Medical and Commercial segments, due mainly to lower raw material and manufacturing costs. Gross profit as a percentage of revenues decreased in the Aerospace Segment due to lower sales volume of cargo containers and a shift in sales mix away from higher margin wide body cargo system spare components and repairs and towards lower margin single deck wide body cargo loading systems.

***Selling, engineering and administrative***

	<b>Three Months Ended</b>	
	<b>March 28,</b>	
	<b>2010</b>	<b>March 29, 2009</b>
	<b>(Dollars in millions)</b>	
Selling, engineering and administrative	\$ 117.4	\$ 117.1
Percentage of sales	26.9%	26.6%

Selling, engineering and administrative expenses (operating expenses) as a percentage of revenues for the first quarter of 2010 increased to 26.9% from 26.6% in 2009. Foreign currency movements increased selling, engineering and administrative expenses approximately \$3 million during the period, but was offset by a net \$3 million reduction principally related to cost reduction initiatives throughout the Company, including lower spending on remediation of FDA regulatory issues.

***Research and development***

	<b>Three Months Ended</b>	
	<b>March 28,</b>	
	<b>2010</b>	<b>March 29, 2009</b>
	<b>(Dollars in millions)</b>	
Research and development	\$ 9.6	\$ 7.6
Percentage of sales	2.2%	1.7%

Higher levels of research and development expenses reflect increased investments related to antimicrobial technologies and the establishment of an innovation center in Malaysia.

***Interest expense***

	<b>Three Months Ended</b>	
	<b>March 28,</b>	
	<b>2010</b>	<b>March 29, 2009</b>
	<b>(Dollars in millions)</b>	
Interest expense	\$ 19.0	\$ 25.4
Average interest rate on debt	5.7%	5.7%

Interest expense decreased in the first quarter of 2010 compared to the same period of 2009 due to a reduction of approximately \$280 million in average outstanding debt.

***Taxes on income from continuing operations***

	<b>Three Months Ended</b>	
	<b>March 28,</b>	
	<b>2010</b>	<b>March 29, 2009</b>
	<b>(Dollars in millions)</b>	
Effective income tax rate	30.0%	26.6%

The effective income tax rate for the three months ended March 28, 2010 was 30.0% compared to 26.6% for the three months ended March 29, 2009. The increase in the effective tax rate is due to a larger inclusion of foreign income taxable in the United States previously excluded under tax regulations prior to 2010 and an increase in discrete tax charges in 2010 compared to 2009. These increases were partly offset by a larger benefit from lower foreign taxes.





**Table of Contents*****Restructuring and other impairment charges***

	<b>Three Months Ended</b>	
	<b>March 28, 2010</b>	<b>March 29, 2009</b>
	<b>(Dollars in millions)</b>	
2008 Commercial restructuring program	\$	\$ 1.2
2007 Arrow integration program	0.5	1.3
Total	\$ 0.5	\$ 2.5

In December 2008, we began certain restructuring initiatives that affected the Commercial Segment. These initiatives involved the consolidation of operations and a related reduction in workforce at three of our facilities in Europe and North America. We determined to undertake these initiatives to improve operating performance and to better leverage our existing resources in light of expected weakness in the marine and industrial markets. By December 31, 2009, we had completed the 2008 Commercial Segment restructuring program and all costs associated with the program were fully paid during 2009. Therefore, no charges were recorded under this program in 2010. We expect to realize annual pre-tax savings of between \$3.5 - \$4.5 million in 2010 as a result of actions taken in connection with this program.

In connection with the acquisition of Arrow in 2007, we formulated a plan related to the integration of Arrow and our other Medical businesses. The integration plan focused on the closure of Arrow corporate functions and the consolidation of manufacturing, sales, marketing and distribution functions in North America, Europe and Asia. Costs related to actions that affected employees and facilities of Arrow have been included in the allocation of the purchase price of Arrow. Costs related to actions that affected employees and facilities of Teleflex are charged to earnings and included in restructuring and impairment charges within the condensed consolidated statement of operations. These costs amounted to approximately \$0.5 million during the three months ended March 28, 2010. As of March 28, 2010, we estimate that, for the remainder of 2010, the aggregate of future restructuring and impairment charges that we will incur in connection with the Arrow integration plan are approximately \$1.6 - \$2.5 million. Of this amount, \$0.8 - \$1.1 million relates to employee termination costs, \$0.5 - \$0.7 million relates to facility closure costs, \$0.2 - \$0.5 million relates to contract termination costs associated with the termination of leases and certain distribution agreements and \$0.1 - \$0.2 million relates to other restructuring costs. We expect to have realized aggregate annual pre-tax savings of between \$70 - \$75 million after these integration and restructuring actions are complete.

For additional information regarding our restructuring programs, see Note 4 to our condensed consolidated financial statements included in this report.

**Segment Reviews**

	<b>Three Months Ended</b>		<b>% Increase/ (Decrease)</b>
	<b>March 28, 2010</b>	<b>March 29, 2009</b>	
	<b>(Dollars in millions)</b>		
Medical	\$ 343.5	\$ 334.8	3
Aerospace	36.9	43.7	(16)
Commercial	56.1	61.6	(9)
Segment net revenues	\$ 436.5	\$ 440.1	(1)
Medical	\$ 73.5	\$ 69.4	6
Aerospace	1.7	3.1	(43)

Commercial		3.1		2.0	50
Segment operating profit <sup>(1)</sup>	\$	78.3	\$	74.5	5

(1) See Note 13 of our condensed consolidated financial statements for a reconciliation of segment operating profit to income from continuing operations before interest and taxes.

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The percentage changes in net revenues during the three months ended March 28, 2010 compared to the same period in 2009 are due to the following factors:

	% Increase / (Decrease) 2010 vs. 2009			Total
	Medical	Aerospace	Commercial	
Core growth		(20)	(6)	(3)
Currency impact	3	4	1	3
Dispositions			(4)	(1)
Total change	3	(16)	(9)	(1)

The following is a discussion of our segment operating results.

*Comparison of the three months ended March 28, 2010 and March 29, 2009*

**Medical**

Medical Segment net revenues increased 3% in the first quarter of 2010 to \$343.5 million, from \$334.8 million in the same period last year. This increase was due entirely to foreign currency movements, as core revenue was unchanged from the first quarter of 2009. Core revenue during the first quarter of 2010 was negatively impacted 2% overall by a voluntary recall of our custom IV tubing product, which is in the critical care product group. Other core revenue increases in the North American, European and Asia/Latin American critical care product groups were offset by declines in OEM orthopedic instrumentation products and in North American surgical products.

Information regarding net revenues by product group is provided in the following tables.

	Three Months Ended		% Increase/ (Decrease)		Total Change
	March 28, 2010 (Dollars in millions)	March 29, 2009	Core Growth	Currency Impact/ Other	
Critical Care	\$ 225.9	\$ 218.1	1	3	4
Surgical Care	63.1	63.3	(4)	4	
Cardiac Care	18.3	15.4	11	8	19
OEM	35.3	34.2	2	1	3
Other	0.9	3.8	(54)	(24) <sup>(a)</sup>	(78)
Total net revenues	\$ 343.5	\$ 334.8		3	3

(a) Other in 2009 included the net revenues of a variable interest entity that was deconsolidated in the first quarter of 2010 as a result of the adoption of new accounting guidance. See

Note 2 to our condensed consolidated financial statements for information on the new accounting guidance.

Medical Segment net revenues for the three months ended March 28, 2010 and March 29, 2009, respectively, by geographic location were as follows:

	<b>2010</b>	<b>2009</b>
North America	52%	54%
Europe, Middle East and Africa	37%	36%
Asia and Latin America	11%	10%

Excluding the impact of the custom IV tubing product recall initiated during the first quarter of 2010, all of our critical care product categories (vascular, anesthesia, respiratory and urology) contributed growth in the current quarter compared with the prior year, led principally by higher sales of vascular, respiratory care, and anesthesia products in North America and Asia/Latin America and urology products in North America and Europe. Respiratory care core revenue during the first quarter of 2010 compared favorably with the same period of 2009 because of a weak flu season and distributor inventory reductions that occurred in the first quarter of 2009.

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Surgical core revenue declined approximately 4% in the first quarter of 2010 compared with 2009. The decline resulted from lower sales of general instrument and closure devices mainly in North America.

Core revenue of cardiac care products during the first quarter of 2010 compare favorably to the same period of 2009 because 2009 first quarter revenues were adversely affected by sales credits issued to customers and the related delay in shipments of replacement products in connection with a voluntary recall of certain intra aortic balloon pump catheters.

Core revenue to OEMs increased 2% in the first quarter of 2010 compared with 2009. This increase is largely attributable to higher sales of specialty products, partially offset by lower sales of orthopedic instrumentation products due to customer inventory rebalancing, a reduction in new product launches by OEM customers and overall weakness in the OEM orthopedic markets.

Operating profit in the Medical Segment increased 6%, from \$69.4 million in the first quarter of 2009 to \$73.5 million during the first quarter of 2010. Operating profit during the first quarter of 2010 was favorably impacted by a weaker U.S. dollar compared to the same period of a year ago, improved sales mix of approximately \$2 million (loss of lower margin custom IV tubing sales were replaced with sales of higher margin vascular access products), lower manufacturing and raw material costs of approximately \$3 million and lower spending on remediation of FDA regulatory issues of approximately \$2 million, offset by approximately \$5 million higher spending on sales, marketing and research and development activities.

**Aerospace**

Aerospace Segment revenues declined 16% in the first quarter of 2010 to \$36.9 million, from \$43.7 million in the same period in 2009. Core revenue declined 20%, while currency movements increased sales 4%. Higher sales of wide-body cargo handling systems to aircraft manufacturers and increases in actuation sales were more than offset by lower cargo systems sales for aftermarket conversions, lower sales of narrow-body cargo handling systems, lower demand for cargo containers and reduced sales of cargo system spare components and repairs.

Segment operating profit decreased 43% in the first quarter of 2010, from \$3.1 million to \$1.7 million. This decline was principally due to the sharply lower sales volumes across the product lines noted above, including an unfavorable mix of lower margin systems sales compared with spares and repairs. The decrease was partially offset by cost reduction initiatives that resulted in operating cost reductions of approximately \$1 million in the first quarter of 2010 compared to the same period in 2009.

**Commercial**

Commercial Segment revenues declined approximately 9% in the first quarter of 2010 to \$56.1 million, from \$61.6 million in the same period last year. Core revenue reductions accounted for 6% of the decline, which was a result of a decrease in demand for rigging services (16%), offset by an increase in sales of marine products to OEM manufacturers for the recreational boat market and spare parts in the Marine aftermarket (10%). Higher sales of Marine products are indicative of improved conditions in that sector compared to the significantly depressed conditions that existed during the same period of a year ago. However, markets served by our rigging services products (oil and natural gas exploration, construction and material handling) continue to be weak.

During the first quarter of 2010, operating profit in the Commercial Segment increased 50%, from \$2.0 million in the first quarter of 2009 to \$3.1 million, in spite of a 9% decrease in revenue. The trend in operating income was favorably impacted by the elimination of approximately \$3 million of operating costs compared to the corresponding prior year quarter.

**Liquidity and Capital Resources**

Operating activities from continuing operations provided net cash of approximately \$32.2 million during the first three months of 2010. Year over year cash flow from operating activities increased \$39.8 million from the first quarter of 2009. The increase is due to a tax refund of \$49.4 million in 2010 coupled with improved operations from the synergies achieved through the restructuring and integration programs as well as improved management of inventories and receivables. The increase was partly offset by a decrease of \$39.7 million that resulted from the adoption of an amendment to Financial Accounting Standards Board Accounting Standards Codification topic 860, Transfers and Servicing (ASC topic 860) in the first quarter of 2010. Specifically, upon adoption of the amendment, the accounts receivable that we previously treated as sold and removed from the balance sheet under our securitization program are

now required to be accounted for as secured borrowings and reflected as short-term debt on our balance sheet. The effect of the amendment is reflected in our condensed consolidated statements of cash flows under financing activities in the increase (decrease) in notes payable and current borrowings and under operating activities in the accounts receivable use of cash.

Financing activities from continuing operations used net cash of \$21.3 million during the first three months of 2010 due to the payments of \$51.1 million of long-term borrowings and \$13.5 million of dividends, partly offset by the \$39.7 million effect of adopting the amendment to ASC topic 860. This amendment is reflected in the \$39.7 million increase (decrease) in notes payable and current borrowings source of cash reflecting the securitization program as a secured borrowing. Other than the accounting amendment there has been no change to our securitization program.

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Investing activities from continuing operations provided net cash of \$17.5 million during the first three months of 2010 reflecting \$24.8 million in proceeds from the sale of SSI, partly offset by capital expenditures of \$7.2 million.

On June 14, 2007, our Board of Directors authorized the repurchase of up to \$300 million of our outstanding common stock. Repurchases of our stock under the Board authorization may be made from time to time in the open market and may include privately-negotiated transactions as market conditions warrant and subject to regulatory considerations. The stock repurchase program has no expiration date and our ability to execute on the program will depend on, among other factors, cash requirements for acquisitions, cash generation from operations, debt repayment obligations, market conditions and regulatory requirements. In addition, our senior loan agreements limit the aggregate amount of share repurchases and other restricted payments we may make to \$75 million per year in the event our consolidated leverage ratio exceeds 3.5 to 1. Accordingly, these provisions may limit our ability to repurchase shares under this Board authorization. Through March 28, 2010, no shares have been purchased under this Board authorization.

The following table provides our net debt to total capital ratio:

	<b>March 28, 2010</b>	<b>December 31, 2009</b>
	<b>(Dollars in millions)</b>	
Net debt includes:		
Current borrowings	\$ 41.4	\$ 4.0
Long-term borrowings	1,141.3	1,192.5
<b>Total debt</b>	<b>1,182.7</b>	<b>1,196.5</b>
Less: Cash and cash equivalents	210.7	188.3
<b>Net debt</b>	<b>\$ 972.0</b>	<b>\$ 1,008.2</b>
Total capital includes:		
Net debt	\$ 972.0	\$ 1,008.2
Total common shareholders' equity	1,582.8	1,580.2
<b>Total capital</b>	<b>\$ 2,554.8</b>	<b>\$ 2,588.4</b>

Percent of net debt to total capital 38% 39%

Our senior credit agreement and senior note agreements, which we refer to as the senior loan agreements, contain covenants that, among other things, limit or restrict our ability, and the ability of our subsidiaries, to incur debt, create liens, consolidate, merge or dispose of certain assets, make certain investments, engage in acquisitions, pay dividends on, repurchase or make distributions in respect of capital stock and enter into swap agreements. These agreements also require us to maintain a Consolidated Leverage Ratio (generally, Consolidated Total Indebtedness to Consolidated EBITDA, each as defined in the senior credit agreement) and a Consolidated Interest Coverage Ratio (generally, Consolidated EBITDA to Consolidated Interest Expense, each as defined in the senior credit agreement) at specified levels as of the last day of any period of four consecutive fiscal quarters ending on or nearest to the end of each calendar quarter, calculated pursuant to the definitions and methodology set forth in the senior credit agreement.

As of March 28, 2010, the aggregate amount of debt maturing for each year is as follows (dollars in millions):

2010	\$ 41.4
2011	145.0
2012	769.7
2013	
2014	136.5

2015 and thereafter

90.1

We believe that our cash flow from operations and our ability to access additional funds through credit facilities will enable us to fund our operating requirements and capital expenditures and meet debt obligations. As of March 28, 2010, we had no outstanding borrowings and approximately \$5 million in outstanding standby letters of credit issued under our \$400 million revolving credit facility. Depending on conditions in the capital markets and other factors, we will from time to time consider other financing transactions, the proceeds of which could be used to refinance current indebtedness or for other purposes.



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**Potential Tax Legislation**

President Obama and the U.S. Treasury Department proposed, on May 5, 2009, changing certain tax rules for U.S. corporations doing business outside the United States. The proposed changes would limit the ability of U.S. corporations to deduct expenses attributable to foreign earnings, modify the foreign tax credit rules and further restrict the ability of U.S. corporations to transfer funds between foreign subsidiaries without triggering U.S. income tax. It is unclear whether these proposed tax reforms will be enacted or, if enacted, what the ultimate scope of the reforms will be. Depending on their content, such reforms, if enacted, could have an adverse effect on our future operating results.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no significant changes in market risk for the quarter ended March 28, 2010. See the information set forth in Part II, Item 7A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

**Item 4. Controls and Procedures**

**(a) Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

**(b) Change in Internal Control over Financial Reporting**

No change in our internal control over financial reporting occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

On October 11, 2007, the Company's subsidiary, Arrow International, Inc. ( Arrow ), received a corporate warning letter from the U.S. Food and Drug Administration (FDA). The letter cited three site-specific warning letters issued by the FDA in 2005 and subsequent inspections performed from June 2005 to February 2007 at Arrow's facilities in the United States. The letter expressed concerns with Arrow's quality systems, including complaint handling, corrective and preventive action, process and design validation, inspection and training procedures. It also advised that Arrow's corporate-wide program to evaluate, correct and prevent quality system issues has been deficient. Limitations on pre-market approvals and certificates for foreign governments had previously been imposed on Arrow based on prior inspections and the corporate warning letter did not impose additional sanctions that are expected to have a material financial impact on the Company.

In connection with its acquisition of Arrow, completed on October 1, 2007, the Company developed an integration plan that included the commitment of significant resources to correct these previously-identified regulatory issues and further improve overall quality systems. Senior management officials from the Company have met with FDA representatives, and a comprehensive written corrective action plan was presented to FDA in late 2007. At the end of 2009, the FDA began its reinspections of the Arrow facilities covered by the corporate warning letter. These inspections have been completed, and the FDA has issued certain written observations to Arrow as a result of those inspections. Arrow has responded in writing to those observations and is communicating with the FDA regarding resolution of all outstanding issues.

While the Company continues to believe it has substantially remediated the issues raised in the corporate warning letter through the corrective actions taken to date, and that it has responded thoroughly and comprehensively to each of the observations resulting from the recent inspections, there can be no assurance that these matters have been resolved to the satisfaction of the FDA. If the Company's remedial actions are not satisfactory to the FDA, the Company may have to devote additional financial and human resources to its efforts, and the FDA may take further regulatory actions against the Company.

In addition, we are a party to various lawsuits and claims arising in the normal course of business. These lawsuits and claims include actions involving product liability, intellectual property, employment and environmental matters. Based on information currently available, advice of counsel, established reserves and other resources, we do not believe that any such actions are likely to be, individually or in the aggregate, material to our business, financial condition, results of operations or liquidity. However, in the event of unexpected further developments, it is possible that the ultimate resolution of these matters, or other similar matters, if unfavorable, may be materially adverse to our business, financial condition, results of operations or liquidity.

**Item 1A. Risk Factors**

There have been no significant changes in risk factors for the quarter ended March 28, 2010. See the information set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not applicable.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 5. Other Information**

Not applicable.

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**Item 6. Exhibits**

The following exhibits are filed as part of this report:

<b>Exhibit No.</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934.
32.2	Certification of Chief Financial Officer, Pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TELEFLEX INCORPORATED

By: /s/ Jeffrey P. Black  
Jeffrey P. Black  
*Chairman and Chief Executive Officer*  
*(Principal Executive Officer)*

By: /s/ Richard A. Meier  
Richard A. Meier  
*Executive Vice President and Chief Financial Officer*  
*(Principal Financial Officer)*

By: /s/ Charles E. Williams  
Charles E. Williams  
*Corporate Controller and Chief Accounting Officer*  
*(Principal Accounting Officer)*

Dated: April 27, 2010

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**; STOCK OPTIONS AND WARRANTS**

The Company grants stock options under its 2003 Stock Option and 2004 Stock and Incentive Awards Plans (the Plans). Under the terms of the Plans, the Company has reserved 13,500,000 shares for issuance to key employees, consultants and directors. The Company's Board of Directors approved an increase to the number of shares available under the Plan by 1,000,000 shares contingent upon the Company's achievement of at least 100% of each of the targeted financial metrics under its bonus program for fiscal 2012. The contingent share increase was approved by the Company's shareholders at the 2011 annual shareholders meeting, but such shares are not included in the total above. The options generally vest and become exercisable ratably between one month and five years although longer vesting periods have been used in certain circumstances. Exercisability of the options granted to employees are contingent on the employees' continued employment and non-vested options are subject to forfeiture if employment terminates for any reason. Options under the Plans have a maximum life of 10 years. In the past, the Company has granted both ISOs and NQSOs, although in July 2008, the Company adopted a policy of thereafter only granting NQSOs. Restricted stock awards have no vesting period and have been issued to certain non-employee directors in lieu of cash compensation pursuant to elections made under the Company's non-employee director compensation program. The Plans also provide to certain employees accelerated vesting in the event of certain changes of control of the Company as well as under other special circumstances.

In fiscal 2011, the Company converted all of its existing ISO awards to NQSO awards. No consideration was given to the employees for their voluntary conversion of ISO awards.

The Company granted accelerated vesting stock options in May 2011 under its 2004 Stock and Incentive Awards Plan to provide an opportunity for its employees to earn long-term equity incentive awards based on the Company's financial performance for fiscal 2012. An aggregate of 459,041 stock options were granted on the third business day following the Company's public release of its fiscal 2011 results at an exercise price per share of \$4.19, which was the closing sale price of the Company's Common Stock on that date. The stock options will only vest, however, if the optionee remains employed and the Company is successful in achieving at least 100% of the target levels for each of the Company's three financial metric targets for fiscal 2012, and if the Company's stock price equals or exceeds \$5.00 per share for at least 20 trading days during any 90-day period during the options' ten-year term.

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For the three and nine months ended December 31, 2011, the Company granted 8,637 and 19,533 shares from the 2004 Stock and Incentive Awards Plan to certain non-employee directors who elected to receive stock awards in lieu of cash compensation. The shares were valued ranging from \$2.75 per share to \$4.19 per share, the closing market prices as of the grant dates.

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The following amounts of stock-based compensation were recorded (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2010	2011	2010	2011
Cost of product revenue	\$ 42	\$ 37	\$ 116	\$ 114
General and administrative	147	144	417	440
Sales and marketing	123	119	377	391
Research and development	9	9	21	21
<b>Total</b>	<b>\$ 321</b>	<b>\$ 309</b>	<b>\$ 931</b>	<b>\$ 966</b>

As of December 31, 2011, compensation cost related to non-vested common stock-based compensation, excluding performance stock option awards, amounted to \$3.4 million over a remaining weighted average expected term of 6.7 years.

The following table summarizes information with respect to the Plans:

	Options Outstanding				
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Balance at March 31, 2011	1,577,676	3,658,768	\$ 3.83	6.60	
Granted stock options	(1,251,356)	1,251,356	3.79		
Granted shares	(19,533)				
Forfeited	747,633	(747,633)	4.25		
Exercised		(79,413)	1.25		
Balance at December 31, 2011	1,054,420	4,083,078	\$ 3.89	6.95	\$ 810,806
Exercisable at December 31, 2011		1,846,129	\$ 3.86	5.17	\$ 610,279

The aggregate intrinsic value represents the total pre-tax intrinsic value, which is calculated as the difference between the exercise price of the underlying stock options and the fair value of the Company's closing common stock price of \$2.95 as of December 31, 2011.

A summary of the status of the Company's outstanding non-vested stock options as of December 31, 2011 was as follows:

Non-vested at March 31, 2011	1,832,167
Granted	1,251,356
Vested	(341,845)
Forfeited	(504,729)
Non-vested at December 31, 2011	2,236,949

The Company has previously issued warrants in connection with various private placement stock offerings and services rendered. The warrants granted the holder the option to purchase common stock at specified prices for a specified period of time. No warrants were issued in fiscal 2011 or during the nine months ended December 31, 2011.

Outstanding warrants are comprised of the following:

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	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>
Balance at March 31, 2011	38,980	\$ 2.25
Balance at December 31, 2011	38,980	\$ 2.25

A summary of outstanding warrants at December 31, 2011 follows:

Exercise Price	Number of Warrants	Expiration
\$2.25	38,980	Fiscal 2015

**NOTE I SEGMENTS**

The descriptions of the Company's segments and their summary financial information are summarized below.

**Energy Management**

The Energy Management Division develops, manufactures, integrates and sells commercial high intensity fluorescent, or HIF, lighting systems and energy management systems.

**Engineered Systems**

The Engineered Systems Division sells and integrates alternative renewable energy systems, such as solar and wind.

**Corporate and Other**

Corporate and Other is comprised of selling, general and administrative expenses not directly allocated to the Company's segments and adjustments to reconcile to consolidated results, which primarily include intercompany eliminations.

(dollars in thousands)	Revenues		Operating Income (Loss)	
	For the Three Months Ended December 31, 2010	2011	For the Three Months Ended December 31, 2010	2011
Segments:				
Energy Management	\$ 22,042	\$ 20,544	\$ 3,499	\$ 1,459
Engineered Systems	1,602	6,862	(640)	(132)
Corporate and Other			(1,583)	(1,263)
	\$ 23,644	\$ 27,406	\$ 1,276	\$ 64

(dollars in thousands)	Revenues		Operating Income (Loss)	
	For the Nine Months Ended December 31, 2010	2011	For the Nine Months Ended December 31, 2010	2011
Segments:				
Energy Management	\$ 54,121	\$ 55,061	\$ 5,268	\$ 4,060
Engineered Systems	2,352	24,041	(1,658)	663
Corporate and Other			(4,977)	(3,790)
	\$ 56,473	\$ 79,102	\$ (1,367)	\$ 933

(dollars in thousands)	Total Assets		Deferred Revenue	
	March 31, 2011	December 31, 2011	March 31, 2011	December 31, 2011
Segments:				
Energy Management	\$ 66,795	\$ 67,770	\$ 533	\$ 1,017
Engineered Systems	20,422	13,252	9,671	3,106
Corporate and Other	33,870	43,879		



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\$ 121,087	\$ 124,901	\$ 10,204	\$ 4,123
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The Company's revenue and long-lived assets outside the United States are insignificant.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis of our financial condition and results of operations should be read together with our unaudited condensed consolidated financial statements and related notes included elsewhere in the Form 10-Q. It should also be read in conjunction with our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K/A for the year ended March 31, 2011.*

**Cautionary Note Regarding Forward-Looking Statements**

Any statements in this Quarterly Report on Form 10-Q about our expectations, beliefs, plans, objectives, prospects, financial condition, assumptions or future events or performance are not historical facts and are forward-looking statements as that term is defined under the federal securities laws. These statements are often, but not always, made through the use of words or phrases such as believe, anticipate, should, intend, plan, will, expects, estimates, projects, positioned, strategy, outlook and similar words. You should read the statements that contain words carefully. Such forward-looking statements are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what is expressed or implied in such forward-looking statements. There may be events in the future that we are not able to predict accurately or over which we have no control. Potential risks and uncertainties include, but are not limited to, those discussed in Part I, Item 1A. Risk Factors in our fiscal 2011 Annual Report filed on Form 10-K/A for the fiscal year ended March 31, 2011 and elsewhere in this Quarterly Report. We urge you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We do not undertake any obligation to release publicly any revisions to such forward-looking statements to reflect events or uncertainties after the date hereof or to reflect the occurrence of unanticipated events.

**Overview**

We design, manufacture, market and implement energy management systems consisting primarily of high-performance, energy efficient lighting systems, controls and related services and market and implement renewable energy systems consisting primarily of solar generating photovoltaic, or PV, systems and wind turbines. We operate in two business segments, which we refer to as our Energy Management Division and our Engineered Systems Division.

We currently generate the substantial majority of our revenue from sales of high intensity fluorescent, or HIF, lighting systems and related services to commercial and industrial customers. We typically sell our HIF lighting systems in replacement of our customers' existing high intensity discharge, or HID, fixtures. We call this replacement process a retrofit. We frequently engage our customer's existing electrical contractor to provide installation and project management services. We also sell our HIF lighting systems on a wholesale basis, principally to electrical contractors and value-added resellers to sell to their own customer bases.

We have sold and installed more than 2,232,000 of our HIF lighting systems in over 7,673 facilities from December 1, 2001 through December 31, 2011. We have sold our products to 139 Fortune 500 companies, many of which have installed our HIF lighting systems in multiple facilities. Our top direct customers by revenue in fiscal 2011 included Coca-Cola Enterprises Inc., U.S. Foodservice, SYSCO Corp., Ball Corporation, MillerCoors and Pepsico, Inc. and its affiliates.

Our fiscal year ends on March 31. We call our prior fiscal year which ended on March 31, 2011, fiscal 2011. We call our current fiscal year, which will end on March 31, 2012, fiscal 2012. Our fiscal first quarter ended on June 30, our fiscal second quarter ended on September 30, our fiscal third quarter ended on December 31 and our fiscal fourth quarter ends on March 31.

Because of the recessed state of the global economy, especially as it impacted capital equipment manufacturers, our results for the first half of fiscal 2011 were impacted by lengthened customer sales cycles and sluggish customer capital spending. During the second half of fiscal 2011 and the first nine months of fiscal 2012, capital equipment purchases were slightly improved and we continue to remain optimistic regarding customer behaviors for the remainder of fiscal year 2012. To address these difficult economic conditions, we implemented \$3.2 million of annualized cost reductions during the first quarter of fiscal 2010. These cost containment initiatives included reductions related to headcount, work hours and discretionary spending and began to show results in the second half of fiscal 2010 and the first half of fiscal 2011. During the second quarter of fiscal 2011, we identified an additional \$1 million of annualized cost reductions related to decreased product costs, improved manufacturing efficiencies and reduced operating expenses. We realized these cost reductions beginning during the fiscal 2011 third quarter through reduction in general and administrative expenses and improved product margins for our HIF lighting systems.

Despite these recent economic challenges, we remain optimistic about our near-term and long-term financial performance. Our near-term optimism is based upon our record level of revenue in fiscal 2011 along with our return to profitability, our record level of order backlog heading into the fourth quarter of fiscal 2012, the increasing volume of unit sales in the first nine months of fiscal 2012 of our new products, specifically our exterior HIF fixtures, InteLite wireless dynamic controls, and our Apollo light pipes, and our cost reduction plans completed during fiscal 2011. Our long-term optimism is based upon the considerable size of the existing market opportunity for lighting retrofits, the continued development of our new products and product enhancements, the opportunity for additional revenue from sales of renewable technologies through our Orion Engineered Systems Division, the opportunity for our participation in the replacement part aftermarket and the increasing national recognition of the importance of environmental stewardship, including legislation in the State of Wisconsin passed in fiscal 2011 that recognized our solar Apollo light pipe as a renewable product offering and qualified it for incentives currently offered to other renewable technologies.

In August 2009, we created Orion Engineered Systems, a new operating division which has been offering our customers additional alternative renewable energy systems. In fiscal 2010, we sold and installed three solar PV electricity generating projects, completing our test analysis on two of the three in the fiscal 2010 third quarter, and executed our first cash sale and our first power purchase agreement, or PPA, as a result of the successful testing of these systems. We completed the installation and customer acceptance of the third system, a cash sale, during our fiscal 2011 first quarter. During our fiscal 2011 second quarter, we received an \$8.3 million cash order for a solar PV generating system for which we recognized revenue in fiscal 2012.

During our fiscal 2011 third quarter, we introduced the presentation of operating segments. We now report our Energy Management and Engineered Systems groups as separate segments. Our Energy Management division develops, manufactures, integrates and sells commercial high intensity fluorescent, or HIF, lighting systems and energy management systems. Our Engineered Systems division sells and integrates alternative renewable energy systems.

In response to the constraints on our customers' capital spending budgets, we have more aggressively promoted the advantages to our customers of purchasing our energy management systems through our Orion Throughput Agreement, or OTA, financing program. Our OTA financing program provides for our customer's purchase of our energy management systems without an up-front capital outlay. The OTA contracts under this sales-type financing are either structured with a fixed term, typically 60 months, and a bargain purchase option at the end of the term, or are one year in duration and, at the completion of the initial one-year term, provide for (i) one to four automatic one-year renewals at agreed upon pricing; (ii) an early buyout for cash; or (iii) the return of the equipment at the customer's expense. The revenue that we are entitled to receive from the sale of our energy management systems under our OTA financing program is fixed and is based on the cost of the energy management system and applicable profit margin. Our revenue from agreements entered into under this program is not dependent upon our customers' actual energy savings. During the third quarter of fiscal 2012, we entered into an arrangement with a national equipment finance company to provide immediate non-recourse funding of pre-credit approved OTA finance contracts upon project completion and customer acceptance. We have now secured multiple funding sources for our OTA projects. We expect that the number of customers who choose to purchase our systems by using our OTA financing program will continue to increase in future periods. Additionally, we have provided a financing program to our alternative renewable energy system customers called a solar power purchase agreement, or PPA, as an alternative to purchasing our systems for cash. The PPA is a supply side agreement for the generation of electricity and subsequent sale to the end user. We do not intend to use our own cash balances to fund future PPA opportunities and have been able to secure several external sources of funding for PPAs on behalf of our customers.

## **Revenue and Expense Components**

*Revenue.* We sell our energy management products and services directly to commercial and industrial customers, and indirectly to end users through wholesale sales to electrical contractors and value-added resellers. We currently generate the substantial majority of our revenue from sales of HIF lighting systems and related services to commercial and industrial customers. While our services include comprehensive site assessment, site field verification, utility incentive and government subsidy management, engineering design, project management, installation and recycling in connection with our retrofit installations, we separately recognize service revenue only for our installation and recycling services. Our service revenues are recognized when services are complete and customer acceptance has been received. In fiscal 2011, we increased our efforts to expand our value-added reseller channels, including through developing a partner standard operating procedural kit, providing our partners with product marketing materials and providing training to channel partners on our sales methodologies. These wholesale channels accounted for approximately 53% of our total revenue in fiscal 2011, not taking into consideration our renewable technologies revenue generated through our Orion Engineered Systems Division. During the first nine months of fiscal 2012, wholesale revenues accounted for approximately 64% of our total revenue, not taking into consideration our renewable technologies revenue generated through our Orion Engineered Systems Division, compared to 51% for the first nine months of fiscal 2011. We are changing the manner in which we sell our solar PV systems. Instead of reselling the solar PV equipment from a solar PV equipment manufacturer, we are encouraging our customers to purchase their solar PV systems directly from the manufacturer, while we provide the value-added installation and integration services. This change in approach is expected to result in reduced revenue from solar orders, but is expected to result in improved gross margins as discussed below.



Additionally, we offer our OTA sales-type financing program under which we finance the customer's purchase of our energy management systems. We recognize revenue from OTA contracts at the net present value of the future cash flows at the completion date of the installation of the energy management systems and the customer's acknowledgement that the system is operating as specified.

In fiscal 2011, we recognized \$10.7 million of revenue from 127 completed OTA contracts. For the three months ended December 31, 2011, we recognized \$2.5 million of revenue from 29 completed contracts. For the nine months ended December 31, 2011, we recognized \$9.1 million of revenue from 111 completed contracts. In the future, we expect an increase in the volume of OTA contracts as our customers take advantage of the value proposition without incurring any up-front capital cost.

For sales of solar photovoltaic systems, which are governed by customer contracts that require the Company to deliver functioning solar power systems and are generally completed within three to 15 months, the Company recognizes revenue from fixed price construction contracts using the percentage-of-completion method in accordance with ASC 605-35, Construction-Type and Production-Type Contracts. Under this method, revenue arising from fixed price construction contracts is recognized as work is performed based upon the percentage of incurred costs to estimated total forecasted costs. The Company has determined that the appropriate method of measuring progress on these sales is measured by the percentage of costs incurred to date of the total estimated costs for each contract as materials are installed. The percentage-of-completion method requires revenue recognition from the delivery of products to be deferred and the cost of such products to be capitalized as a deferred cost and current asset on the balance sheet. The Company performs periodic evaluations of the progress of the installation of the solar photovoltaic systems using actual costs incurred over total estimated costs to complete a project. Provisions for estimated losses on uncompleted contracts, if any, are recognized in the period in which the loss first becomes probable and reasonably estimable.

Our PPA financing program provides for our customer's purchase of electricity from our renewable energy generating assets without an upfront capital outlay. Our PPA is a longer-term contract, typically in excess of 10 years, in which we receive monthly payments over the life of the contract. This program creates an ongoing recurring revenue stream, but reduces near-term revenue as the payments are recognized as revenue on a monthly basis over the life of the contract versus upfront upon product shipment or project completion. In fiscal 2011, we recognized \$0.4 million of revenue from completed PPAs. In the first nine months of fiscal 2012, we recognized \$0.5 million of revenue from completed PPAs. As of December 31, 2011, we had signed one customer to two separate PPAs representing future potential discounted revenue streams of \$3.2 million. We discount the future revenue from PPAs due to the long-term nature of the contracts, typically in excess of 10 years. The timing of expected future discounted GAAP revenue recognition and the resulting operating cash inflows from PPAs, assuming the systems perform as designed, was as follows as of December 31, 2011 (in thousands):

Fiscal 2012	\$ 130
Fiscal 2013	646
Fiscal 2014	536
Fiscal 2015	436
Fiscal 2016	436
Beyond	1,027
<b>Total expected future discounted revenue from PPAs</b>	<b>\$ 3,211</b>

We recognize revenue on product only sales at the time of shipment. For projects consisting of multiple elements of revenue, such as a combination of product sales and services, we recognize revenue by allocating the total contract revenue to each element based on their relative selling prices. We determine the selling price of products based upon the price charged when these products are sold separately. For services, we determine the selling price based upon management's best estimate giving consideration to pricing practices, margin objectives, competition, scope and size of individual projects, geographies in which we offer our products and services, and internal costs. We recognize revenue at the time of product shipment on product sales and on services completed prior to product shipment. We recognize revenue associated with services provided after product shipment, based on their relative selling price, when the services are completed and customer acceptance has been received. When other significant obligations or acceptance terms remain after products are delivered, revenue is recognized only after such obligations are fulfilled or acceptance by the customer has occurred.

Our dependence on individual key customers can vary from period to period as a result of the significant size of some of our retrofit and multi-facility roll-out projects. Our top 10 customers accounted for approximately 30% and 45% of our total revenue for the first nine months of fiscal 2011 and fiscal 2012, respectively. No customers accounted for more than 10% of our revenue in the first nine months of fiscal 2011 and two customers accounted for more than 10% of our total revenue in the first nine months of fiscal 2012. To the extent that large retrofit and roll-out projects and/or large solar projects or solar roll-outs become a greater component of our total revenue, we may experience more customer concentration in given periods. The loss of, or substantial reduction in sales volume to, any of our significant customers could have a material adverse effect on our total revenue in any given period and may result in significant annual and quarterly revenue variations.

Our level of total revenue for any given period is dependent upon a number of factors, including (i) the demand for our products and systems, including our OTA and PPA programs and any new products, applications and service that we may introduce through our Orion Engineered Systems division; (ii) the number and timing of large retrofit and multi-facility retrofit, or roll-out, projects; (iii) the level of our wholesale sales; (iv) our ability to realize revenue from our services; (v) market conditions; (vi) our execution of our sales process; (vii) our ability to compete in a highly competitive market and our ability to respond successfully to market competition; (viii) the selling price of our products and services; (ix) changes in capital investment levels by our customers and prospects; and (x) customer sales and budget cycles. As a result, our total revenue may be subject to quarterly variations and our total revenue for any particular fiscal quarter may not be indicative of future results.

*Backlog.* We define backlog as the total contractual value of all firm orders and OTA contracts received for our lighting products and services where delivery of product or completion of services has not yet occurred as of the end of any particular reporting period. Such orders must be evidenced by a signed proposal acceptance or purchase order from the customer. Our backlog does not include PPAs or national contracts that have been negotiated, but under which we have not yet received a purchase order for the specific location. As of December 31, 2011, we had a backlog of firm purchase orders of approximately \$50.6 million, which included \$44.4 million of solar PV orders, compared to \$23.6 million as of September 30, 2011, which included \$16.5 million of solar PV orders. We currently expect approximately \$9.9 million of our backlog to be recognized as revenue in our fiscal 2012 fourth quarter. We expect approximately \$22.4 million of our backlog to be recognized in fiscal 2013 and the remainder in future years. We generally expect this level of firm purchase order backlog related to HIF lighting systems to be converted into revenue within the following quarter. We generally expect our firm purchase order backlog related to solar PV systems to be recognized within the following three to 15 months, although during the third quarter of fiscal 2012 we received an \$18.3 million single order for which the solar PV system construction will not begin until our fiscal 2014. Principally as a result of the increased volume of our solar PV orders, the continued lengthening of our customer's purchasing decisions because of current recessed economic conditions and related factors, the continued shortening of our installation cycles and the number of projects sold through OTAs, a comparison of backlog from period to period is not necessarily meaningful and may not be indicative of actual revenue recognized in future periods.

*Cost of Revenue.* Our total cost of revenue consists of costs for: (i) raw materials, including sheet, coiled and specialty reflective aluminum; (ii) electrical components, including ballasts, power supplies and lamps; (iii) wages and related personnel expenses, including stock-based compensation charges, for our fabricating, coating, assembly, logistics and project installation service organizations; (iv) manufacturing facilities, including depreciation on our manufacturing facilities and equipment, taxes, insurance and utilities; (v) warranty expenses; (vi) installation and integration; and (vii) shipping and handling. Our cost of aluminum can be subject to commodity price fluctuations, which we attempt to mitigate with forward fixed-price, minimum quantity purchase commitments with our suppliers. We also purchase many of our electrical components through forward purchase contracts. We buy most of our specialty reflective aluminum from a single supplier, and most of our ballast and lamp components from a single supplier, although we believe we could obtain sufficient quantities of these raw materials and components on a price and quality competitive basis from other suppliers if necessary. Purchases from our current primary supplier of ballast and lamp components constituted 27% of our total cost of revenue for the first nine months of fiscal 2012 and were 29% of our total cost of revenue for the first nine months of fiscal 2011. Our cost of revenue from OTA projects is recorded upon customer acceptance and acknowledgement that the system is operating as specified. Our production labor force is non-union and, as a result, our production labor costs have been relatively stable. We have been expanding our network of qualified third-party installers to realize efficiencies in the installation process.

*Gross Margin.* Our gross profit has been, and will continue to be, affected by the relative levels of our total revenue and our total cost of revenue, and as a result, our gross profit may be subject to quarterly variation. Our gross profit as a percentage of total revenue, or gross margin, is affected by a number of factors, including: (i) our level of solar PV sales which generally have substantially lower relative gross margins than our traditional energy management systems; (ii) our mix of large retrofit and multi-facility roll-out projects with national accounts; (iii) the level of our wholesale and partner sales (which generally have historically resulted in lower relative gross margins, but higher relative net margins, than our sales to direct customers); (iv) our realization rate on our billable services; (v) our project pricing; (vi) our level of warranty claims; (vii) our level of utilization of our manufacturing facilities and production equipment and related absorption of our manufacturing overhead costs; (viii) our level of efficiencies in our manufacturing operations; and (ix) our level of efficiencies from our subcontracted installation service providers. We are changing the manner in which we sell our solar PV systems. Instead of reselling the solar PV equipment obtained from a solar PV equipment manufacturer, we are encouraging our customers to purchase their solar PV systems directly from the manufacturer, while we provide the value-added installation and integration services. This change in approach is expected to result in increased solar PV gross margins.



*Operating Expenses.* Our operating expenses consist of: (i) general and administrative expenses; (ii) sales and marketing expenses; and (iii) research and development expenses. Personnel related costs are our largest operating expense. In fiscal 2012, we are increasing personnel in our sales areas for telemarketing and direct sales employees as we believe that future opportunities within our business remain strong.

Our general and administrative expenses consist primarily of costs for: (i) salaries and related personnel expenses, including stock-based compensation charges related to our executive, finance, human resource, information technology and operations organizations; (ii) public company costs, including investor relations, external audit and internal audit; (iii) occupancy expenses; (iv) professional services fees; (v) technology related costs and amortization; (vi) bad debt and asset impairment charges; and (vii) corporate-related travel.

Our sales and marketing expenses consist primarily of costs for: (i) salaries and related personnel expenses, including stock-based compensation charges related to our sales and marketing organization; (ii) internal and external sales commissions and bonuses; (iii) travel, lodging and other out-of-pocket expenses associated with our selling efforts; (iv) marketing programs; (v) pre-sales costs; and (vi) other related overhead.

Our research and development expenses consist primarily of costs for: (i) salaries and related personnel expenses, including stock-based compensation charges, related to our engineering organization; (ii) payments to consultants; (iii) the design and development of new energy management products and enhancements to our existing energy management system; (iv) quality assurance and testing; and (v) other related overhead. We expense research and development costs as incurred.

In fiscal 2011 and continuing in the first nine months of fiscal 2012, we invested in marketing efforts to our direct end customers and to our channel partners through increasing advertising, marketing collateral materials and participating in national industry and customer trade shows. We expense all pre-sale costs incurred in connection with our sales process prior to obtaining a purchase order. These pre-sale costs may reduce our net income in a given period prior to recognizing any corresponding revenue. We also intend to continue investing in our research and development of new and enhanced energy management products and services.

We recognize compensation expense for the fair value of our stock option awards granted over their related vesting period. We recognized \$1.0 million for the first nine months of fiscal 2012 and \$0.9 million for the first nine months of fiscal 2011. As a result of prior option grants, we expect to recognize an additional \$3.4 million of stock-based compensation over a weighted average period of approximately seven years, including \$0.3 million over the remaining quarter of fiscal 2012. These charges have been, and will continue to be, allocated to cost of product revenue, general and administrative expenses, sales and marketing expenses and research and development expenses based on the departments in which the personnel receiving such awards have primary responsibility. A substantial majority of these charges have been, and likely will continue to be, allocated to general and administrative expenses and sales and marketing expenses.

*Interest Expense.* Our interest expense is comprised primarily of interest expense on outstanding borrowings under long-term debt obligations, including the amortization of previously incurred financing costs. We amortize deferred financing costs to interest expense over the life of the related debt instrument, ranging from two to ten years.

*Interest Income.* We report interest income earned on our cash and cash equivalents and short term investments. We also report interest income earned from our financed OTA contracts.

*Income Taxes.* As of December 31, 2011, we had net operating loss carryforwards of approximately \$5.9 million for federal tax purposes and \$4.4 million for state tax purposes. Included in these loss carryforwards were \$2.2 million for federal and \$1.9 million for state tax purposes of compensation expenses that were associated with the exercise of nonqualified stock options. The benefit from our net operating losses created from these compensation expenses has not yet been recognized in our financial statements and will be accounted for in our shareholders' equity as a credit to additional paid-in capital as the deduction reduces our income taxes payable. We also had federal tax credit carryforwards of approximately \$1.0 million and state credit carryforwards of approximately \$0.6 million. A full valuation allowance has been set up for the state tax credits. We believe it is more likely than not that we will realize the benefits of most of these assets and we have reserved for an allowance due to our state apportioned income and the potential expiration of the state tax credits due to the carryforward period. These federal and state net operating losses and credit carryforwards are available, subject to the discussion in the following paragraph, to offset future taxable income and, if not utilized, will begin to expire in varying amounts between 2014 and 2030.



Generally, a change of more than 50% in the ownership of a company's stock, by value, over a three-year period constitutes an ownership change for federal income tax purposes. An ownership change may limit a company's ability to use its net operating loss carryforwards attributable to the period prior to such change. In fiscal 2007 and prior to our IPO, past issuances and transfers of stock caused an ownership change for certain tax purposes. When certain ownership changes occur, tax laws require that a calculation be made to establish a limitation on the use of net operating loss carryforwards created in periods prior to such ownership change. For fiscal year 2008, utilization of our federal loss carryforwards was limited to \$3.0 million. There was no limitation that occurred for fiscal 2010 or fiscal 2011. For fiscal 2012, we do not anticipate a limitation on the use of our net operating loss carryforwards.

## Results of Operations

The following table sets forth the line items of our consolidated statements of operations on an absolute dollar basis and as a relative percentage of our total revenue for each applicable period, together with the relative percentage change in such line item between applicable comparable periods set forth below (dollars in thousands):

Amount	Three Months Ended December 31,			% Change	Nine Months Ended December 31,			
	2010	% of Revenue	2011		2010	% of Revenue	2011	
21,633	91.5 %	\$ 24,274	88.6 %	12.2%	\$ 52,476	92.9 %	\$ 71,746	90.7 %
2,011	8.5 %	3,132	11.4 %	55.7 %	3,997	7.1 %	7,356	9.3 %
23,644	100.0 %	27,406	100.0 %	15.9%	56,473	100.0 %	79,102	100.0 %
14,134	59.8 %	17,445	63.7 %	23.4%	34,186	60.5 %	50,484	63.8 %
1,676	7.1 %	2,447	8.9 %	46.0 %	3,091	5.5 %	5,716	7.2 %
15,810	66.9 %	19,892	72.6 %	25.8 %	37,277	66.0 %	56,200	71.0 %
7,834	33.1 %	7,514	27.4 %	(4.1)%	19,196	34.0 %	22,902	29.0 %
2,709	11.4 %	2,841	10.4 %	4.9 %	8,642	15.3 %	8,641	10.9 %
3,235	13.7 %	4,053	14.8 %	25.3 %	10,124	17.9 %	11,557	14.6 %
614	2.6 %	556	2.0 %	(9.4)%	1,797	3.2 %	1,771	2.3 %
1,276	5.4 %	64	0.2 %	(95.0)%	(1,367)	(2.4)%	933	1.2 %
98	0.4 %	160	0.5 %	63.3 %	223	0.4 %	397	0.5 %
189	0.8 %	226	0.8 %	19.6 %	435	0.8 %	594	0.7 %
1,367	5.8 %	130	0.5 %	(90.5)%	(1,155)	(2.0)%	1,130	1.4 %
1,549	6.6 %	56	0.2 %	(96.4)%	(976)	(1.7)%	490	0.6 %

(182) (0.8)% \$ 74 0.3 % 140.7% \$ (179) (0.3)% \$ 640 0.8 %

*Revenue.* Product revenue increased from \$21.6 million for the fiscal 2011 third quarter to \$24.3 million for the fiscal 2012 third quarter, an increase of \$2.7 million, or 12.2%. The increase in product revenue was a result of increased sales of our solar PV systems. Service revenue increased from \$2.0 million for the fiscal 2011 third quarter to \$3.1 million for the fiscal 2012 third quarter, an increase of \$1.1 million, or 55.7%. The increase in service revenues was a result of the increase in sales of PV systems and the related installation revenue. Total revenue from solar PV systems was \$6.9 million for the fiscal 2012 third quarter compared to \$1.6 million for the fiscal 2011 third quarter, an increase of \$5.3 million or 331%. Product revenue increased from \$52.5 million for the first nine months of fiscal 2011 to \$71.7 million for the first nine months of fiscal 2012, an increase of \$19.2 million, or 36.7%. Service revenue increased from \$4.0 million for the first nine months of fiscal 2011 to \$7.4 million for the first nine months of fiscal 2012, an increase of \$3.4 million, or 84.0%. Total revenue from renewable energy systems was \$24.0 million for the fiscal 2012 first nine months compared to \$2.4 million for the fiscal 2011 first nine months, an increase of \$21.6 million, or 900%. The increase in service revenue was due to the related installation services resulting from the increased sales of PV systems for both the three and nine month periods. For the first nine months of fiscal 2012, our wholesale channels accounted for approximately 64% of our total revenue, not taking into consideration sales of solar PV systems, compared to 51% for the first nine months of fiscal 2011. We continue to experience revenue growth through the use of our OTA finance contracts.

*Cost of Revenue and Gross Margin.* Our cost of product revenue increased from \$14.1 million for the fiscal 2011 third quarter to \$17.4 million for the fiscal 2012 third quarter, an increase of \$3.3 million, or 23.4%. Our cost of service revenue increased from \$1.7 million for the fiscal 2011 third quarter to \$2.4 million for the fiscal 2012 third quarter, an increase of \$0.7 million, or 46.0%. Total gross margin was 33.1% and 27.4% for the fiscal 2011 third quarter and fiscal 2012 third quarters, respectively. Our gross margin on renewable revenues was 13.1% during the fiscal 2012 third quarter. Gross margin from our HIF integrated systems revenue for the fiscal 2012 third quarter was 32.2%. Total cost of product revenue increased from \$34.2 million for the fiscal 2011 first nine months to \$50.5 million for the fiscal 2012 first nine months, an increase of \$16.3 million, or 47.7%. Our cost of service revenue increased from \$3.1 million for the fiscal 2011 first nine months to \$5.7 million for the fiscal 2012 first nine months, an increase of \$2.6 million, or 84.9%. Total gross margin decreased from 34.0% for the fiscal 2011 first nine months to 29.0% for the fiscal 2012 first nine months. For the fiscal 2012 first nine months, our gross margin declined due to a higher mix of renewable product and service revenues from our Orion Engineered Systems division. Our gross margin on renewable revenues was 17.1% during the fiscal 2012 first nine months. Gross margin from our HIF integrated systems revenue for the fiscal 2012 first nine months was 34.3%.

*General and Administrative.* Our general and administrative expenses increased from \$2.7 million for the fiscal 2011 third quarter to \$2.8 million for the fiscal 2012 third quarter, an increase of \$0.1 million, or 4.9%. Our general and administrative expenses were \$8.6 million for both the first nine months of fiscal 2011 and the first nine months of fiscal 2012. For the first nine months of fiscal 2012, expenses increased as a result of \$0.1 million incurred for depreciation and software license costs for our new enterprise resource planning, or ERP, system and \$0.1 million for increased stock compensation costs versus the prior fiscal year's period. These increases were offset by reduced legal expenses and discretionary spending reductions.

*Sales and Marketing.* Our sales and marketing expenses increased from \$3.2 million for the fiscal 2011 third quarter to \$4.1 million for the fiscal 2012 third quarter, an increase of \$0.9 million, or 25.3%. Our sales and marketing expenses increased from \$10.1 million for the first nine months of fiscal 2011 to \$11.6 million for the first nine months of fiscal 2012, an increase of \$1.5 million, or 14.2%. The increase was a result of increased costs for headcount additions in our newly formed telemarketing department, higher commission expense on our increased revenue and increased depreciation for our new customer relationship management, or CRM, system. Total sales and marketing headcount was 87 and 97 at December 31, 2010 and 2011, respectively.

*Research and Development.* Our research and development expenses were \$0.6 million for both the fiscal 2011 third quarter and the fiscal 2012 third quarter. Our research and development expenses of \$1.8 million for the first nine months of fiscal 2012 were similar to our research and development expenses for the first nine months of fiscal 2011. Expenses incurred in the first nine months of fiscal 2012 related to compensation costs for the development and support of our new products, depreciation expenses for lab and research equipment and sample and testing costs related to our dynamic control devices and our light emitting diode, or LED, product initiatives.

*Interest Expense.* Our interest expense increased from \$0.1 million for the fiscal 2011 third quarter to \$0.2 million for the fiscal 2012 third quarter, an increase of \$0.1 million, or 63.3%. Our interest expense increased from \$0.2 million for the first nine months of fiscal 2011 to \$0.4 million for the first nine months of fiscal 2012, an increase of \$0.2 million, or 78.0%. The increase in our interest expense was due to additional debt funding completed during the second half of fiscal 2011 and the first half of fiscal 2012 for the purpose of financing our OTA projects.

*Interest Income.* Interest income was relatively unchanged at \$0.2 million for both the fiscal 2011 and fiscal 2012 third quarters. Interest income increased from \$0.4 million for the first nine months of fiscal 2011 to \$0.6 million for the first nine months of fiscal 2012, an increase of \$0.2 million or 36.6%. Interest income increased due to an increase in completed OTA contracts and the related interest income under the financing terms.

*Income Taxes.* Our income tax expense decreased from an expense of \$1.5 million for the fiscal 2011 third quarter to an income tax expense of \$0.1 million for the fiscal 2012 third quarter, a decrease of \$1.4 million or 96.4%. Our income tax benefit decreased from a benefit of \$1.0 million for the first nine months of fiscal 2011 to an income tax expense of \$0.5 million for the first nine months of fiscal 2012, a decrease of \$1.5 million or 150.2%. Our effective income tax rate for the first nine months of fiscal 2011 was (84.5)%, compared to 43.4% for the nine months of fiscal 2012. The change in our effective tax rate was due to the conversion of our incentive stock options, or ISOs, to non-qualified stock options, or NQSOs, completed during the second half of fiscal 2011 and a decrease due to prior year permanent adjustments. The conversion of our ISOs to NQSOs eliminated the volatility in our effective tax rates at lower pre-tax earnings levels and should result in an effective tax rate in the 38% to 40% range for future periods.

## Energy Management Segment

The following table summarizes our Energy Management segment operating results:

(dollars in thousands)	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2010	2011	2010	2011
Revenues	\$ 22,042	\$ 20,544	\$ 54,121	\$ 55,061
Operating income	\$ 3,499	\$ 1,459	\$ 5,268	\$ 4,060
Operating margin	15.9 %	7.1 %	9.7 %	7.4 %

Energy Management segment revenue decreased \$1.5 million, or 6.8%, from \$22.0 million for the fiscal 2011 third quarter to \$20.5 million for the fiscal 2012 third quarter. The decrease was due to reduced order volumes at calendar-year end as our customers did not allocate capital budget dollars as they had in prior calendar year-ends. Energy Management segment revenue increased \$1.0 million, or 1.7%, from \$54.1 million for the first nine months of fiscal 2011 to \$55.1 million for the first nine months of fiscal 2012. The increase was due to increased sales of our HIF lighting systems to our national account and wholesale customers, increased revenue from new product offerings, including exterior lighting and LED fixtures.

Energy Management segment operating income decreased \$2.0 million, or 58.3%, from \$3.5 million for the fiscal 2011 third quarter to \$1.5 million for the fiscal 2012 third quarter due to the reduction in volume and the increase in sales and marketing expenses. Energy Management segment operating income decreased \$1.2 million, or 22.9%, from \$5.3 million for the first nine months of fiscal 2011 to \$4.1 million for the first nine months of fiscal 2012. The decrease in operating income for the first nine months of fiscal 2012 was due to our increase in sales and marketing expenses.

## Engineered Systems Segment

The following table summarizes our Engineered Systems segment operating results:

(dollars in thousands)	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2010	2011	2010	2011
Revenues	\$ 1,602	\$ 6,862	\$ 2,352	\$ 24,041
Operating income (loss)	\$ (640)	\$ (132)	\$ (1,658)	\$ 663
Operating margin	(40.0) %	(1.9)%	(70.5) %	2.8%

Engineered Systems segment revenue increased \$5.3 million, or 328.3%, from \$1.6 million for the fiscal 2011 third quarter to \$6.9 million for the fiscal 2012 third quarter. Energy Systems segment revenue increased \$21.6 million, or 922.2%, from \$2.4 million for the first nine months of fiscal 2011 to \$24.0 million for the first nine months of fiscal 2012. The increase was due to increased sales of solar renewable technologies for the fiscal 2012 third quarter and the first nine months of fiscal 2012. We believe that revenue activity increased at the calendar year end as customers took advantage of expiring tax benefits. During the same periods of fiscal 2010, our Engineered Systems segment efforts were primarily focused on research of renewable technology products and understanding if there was a market for these technologies within our customer base.

Engineered Systems segment operating loss decreased \$0.5, or 79.4%, million from an operating loss of \$0.6 million for the fiscal 2011 third quarter to \$0.1 million for the fiscal 2012 third quarter. Energy Systems segment operating income increased \$2.4 million, or 140%, from an operating loss of \$1.7 million for the first nine months of fiscal 2011 to operating income of \$0.7 million for the first nine months of fiscal 2012. The increase in operating income for both the quarter and year-to-date, was a result of the increased revenue volume and resulting contribution margin from sales of solar renewable energy systems.

## Liquidity and Capital Resources

### Overview

We had approximately \$18.2 million in cash and cash equivalents and \$1.0 million in short-term investments as of December 31, 2011, compared to \$11.6 million and \$1.0 million at March 31, 2011. Our cash equivalents are invested in money market accounts with maturities of less than 90 days and an average yield of 0.24%. Our short-term investment account consists of a bank certificate of deposit in the amount of \$1.0 million with an expiration date of March 2012 and a yield of 0.50%. Additionally, as of December 31, 2011, we had \$13.3 million of borrowing availability under our revolving credit agreement. We also had \$3.2 million of availability on our recently completed OTA credit

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agreement, which can be utilized for the sole purpose of funding customer OTA projects. During the first nine months of fiscal 2012, we borrowed \$4.6 million to finance our OTA projects. In November 2011, we entered into an arrangement with a national equipment finance company to provide immediate non-recourse funding of pre-credit approved OTA finance contracts upon project completion and customer acceptance. We have now secured multiple debt and equipment finance sources for our OTA finance contracts and believe that our sources of OTA funding are sufficient to meet near-term OTA finance program requirements. In October 2011, our board of directors approved a \$1.0 million share repurchase plan, which was increased to \$2.5 million in November 2011. We believe that our existing cash and cash equivalents, our anticipated cash flows from operating activities and our borrowing capacity under our revolving credit facility and our OTA credit facility will be sufficient to meet our anticipated cash needs for at least the next 12 months, dependent upon our growth opportunities with our cash and finance customers.

**Cash Flows**

The following table summarizes our cash flows for the nine months ended December 31, 2010 and 2011 (in thousands):

	<b>Nine Months Ended December 31,</b>	
	<b>2010</b>	<b>2011</b>
Operating activities	\$ (10,585)	\$ 6,486
Investing activities	(5,589)	(3,584)
Financing activities	2,668	3,771
 (Decrease) increase in cash and cash equivalents	 \$ (13,506)	 \$ 6,673

*Cash Flows Related to Operating Activities.* Cash provided by operating activities for the first nine months of fiscal 2012 was \$6.5 million and consisted of net cash provided from changes in operating assets and liabilities of \$2.0 million and net income adjusted for non-cash expense items of \$4.5 million. Cash provided by changes in operating assets and liabilities consisted of a decrease of \$6.9 million in deferred contract costs due to project progress for solar projects, a \$1.6 million decrease in total accounts receivable due to customer payments received and a \$3.0 million increase in accounts payable related to payment terms on inventory purchases. Cash used from changes in operating assets and liabilities included a \$3.6 million increase in inventory for purchases described under *Liquidity and Capital Resources* Working Capital below and a \$6.1 million decrease in deferred revenue as a result of project completions.

Cash used in operating activities for the first nine months of fiscal 2011, was \$10.6 million and consisted of net cash of \$13.3 million used for changes in operating assets and liabilities offset by a net loss adjusted for non-cash expense items of \$2.7 million. Cash used for changes in operating assets and liabilities consisted of an increase in accounts receivables of \$10.1 million due to the increase in revenue, an increase in deferred contract costs of \$5.6 million for solar project costs incurred and an increase of \$6.2 million for inventory purchases, including \$1.8 million for purchases of wireless control inventories and a \$4.4 million increase in ballast component inventories due to concerns over supply availability and component shortages. Cash provided by changes in operating assets and liabilities included a \$7.6 million increase in accounts payable related to payment terms on inventory purchases and a \$3.2 million increase in deferred revenue.

*Cash Flows Related to Investing Activities.* For the first nine months of fiscal 2012, cash used in investing activities was \$3.6 million. This included a net \$3.4 million for capital improvements related to our information technology systems, manufacturing and tooling improvements and facility investments and \$0.2 million for investment in patent activities.

For the first nine months of fiscal 2011, cash used in investing activities was \$5.6 million. This included \$3.0 million for capital improvements related to our information technology systems, renewable technologies, manufacturing and tooling improvements and facility investments, \$2.1 million invested in equipment related to our PPA finance programs, \$0.3 million for long-term investments and \$0.1 million for patent investments.

*Cash Flows Related to Financing Activities.* For the first nine months of fiscal 2012, cash flows provided by financing activities were \$3.8 million. This included \$4.6 million in new debt borrowings to fund OTAs, \$0.7 million for excess tax benefits from stock-based compensation and \$0.1 million received from stock option and warrant exercises. Cash flows used in financing activities included \$1.3 million for repayment of long-term debt, \$0.3 million for common share repurchases and \$0.1 million for debt closing costs.

For the first nine months of fiscal 2011, cash flows provided by financing activities were \$2.7 million. This included \$2.7 million in new debt borrowings to fund OTA and capital projects, \$0.4 million received from stock option exercises and \$0.2 million for excess tax benefits from stock-based compensation. Cash flows used in financing activities included \$0.5 million for repayment of long-term debt and \$0.1 million for costs related to our new credit agreement.

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### ***Working Capital***

Our net working capital as of December 31, 2011 was \$41.5 million, consisting of \$65.4 million in current assets and \$23.9 million in current liabilities. Our net working capital as of March 31, 2011 was \$40.0 million, consisting of \$64.2 million in current assets and \$24.2 million in current liabilities. Our accounts receivables have decreased from fiscal 2011 year-end by \$2.9 million as a result of cash collections from customers. Our inventories increased from our fiscal 2011 year-end by \$3.6 million due to a \$1.6 million increase in fluorescent lamps due to supply concerns, a \$1.2 million increase in raw materials for new products and to help address certain electronic component supply concerns and a \$0.8 million increase in our work-in process inventories for product orders to be delivered in our fiscal 2012 fourth quarter.

During fiscal 2011, we increased our inventory levels of key electronic components, specifically electronic ballasts, to avoid potential shortages and customer service issues as a result of lengthening supply lead times and product availability issues. During fiscal 2012, we have maintained these higher levels of ballast inventories. We continue to monitor supply side concerns within the electronic component market and believe that our current inventory levels are sufficient to protect us against the risk of being unable to deliver product as specified by our customers requirements. During fiscal 2012, we were made aware of concerns over shortages of rare earth minerals used in the production of fluorescent lamps. We have increased our purchase commitments related to these components to ensure that we will have product availability to meet customer demands. We are continually monitoring supply side concerns through conversations with our key vendors and currently believe that supply availability concerns appear to have moderated, but have not diminished to the point where we anticipate reducing safety stock to the levels that existed prior to the electrical components supply issues.

We generally attempt to maintain at least a three-month supply of on-hand inventory of purchased components and raw materials to meet anticipated demand, as well as to reduce our risk of unexpected raw material or component shortages or supply interruptions. Our accounts receivables, inventory and payables may increase to the extent our revenue and order levels increase.

### ***Indebtedness***

#### ***Revolving Credit Agreement***

On June 30, 2010, we entered into a new credit agreement, or Credit Agreement, with JP Morgan Chase Bank, N.A., or JP Morgan. The Credit Agreement replaced our former credit agreement.

The Credit Agreement provides for a revolving credit facility, or Credit Facility, that matures on June 30, 2012. We are currently working on an amendment to the Credit Facility to extend the maturity date to June 30, 2013. Borrowings under the Credit Facility are limited to (i) \$15.0 million or (ii) during periods in which the outstanding principal balance of outstanding loans under the Credit Facility is greater than \$5.0 million, the lesser of (A) \$15.0 million or (B) the sum of 75% of the outstanding principal balance of certain accounts receivable and 45% of certain inventory. We also may cause JP Morgan to issue letters of credit for our account in the aggregate principal amount of up to \$2.0 million, with the dollar amount of each issued letter of credit counting against the overall limit on borrowings under the Credit Facility. As of December 31, 2011, we had outstanding letters of credit totaling \$1.7 million, primarily for securing collateral requirements under equipment operating leases. In fiscal 2011, we incurred \$57,000 of total deferred financing costs related to the Credit Agreement which is being amortized over the two-year term of the Credit Agreement. We had no outstanding borrowings under the Credit Agreement as of March 31, 2011 or December 31, 2011.

The Credit Agreement is secured by a first lien security interest in our accounts receivable, inventory and general intangibles, and a second lien priority in our equipment and fixtures. All OTAs, PPAs, leases, supply agreements and/or similar agreements relating to solar photovoltaic and wind turbine systems or facilities, as well as all of our accounts receivable and assets related to the foregoing, are excluded from these liens.

We must pay a fee of 0.25% on the average daily unused amount of the Credit Facility and a fee of 2.00% on the daily average face amount of undrawn issued letters of credit. The fee on unused amounts is waived if we or our affiliates maintain funds on deposit with JP Morgan or its affiliates above a specified amount. We satisfied the deposit requirement to waive the unused fee as of December 31, 2011.

**OTA Credit Agreement**

In September 2011, we entered into a credit agreement with JP Morgan that provided us with \$5.0 million immediately available to fund completed customer contracts under our OTA finance program and an additional \$5.0 million upon our achievement of meeting a trailing 12-month earnings before interest, taxes, depreciation and amortization (EBITDA) target of \$8.0 million. We have one-year from the date of the commitment to borrow under the credit agreement. In September 2011, we borrowed \$1.8 million. We did not borrow on the credit facility during our fiscal 2012 third quarter. The borrowing is collateralized by the OTA-related equipment and the expected future monthly payments under the supporting 27 individual OTA customer contracts. The current borrowing under the credit agreement bears interest at LIBOR plus 4% and matures in September 2016. The credit agreement includes certain financial covenants, including funded debt to EBITDA and debt service coverage ratios.

**Capital Spending**

Capital expenditures totaled \$3.4 million during the first nine months of fiscal 2012 due to investments in information technologies and other tooling and equipment for new products, as well as cost improvements in our manufacturing facility and a research and training addition to our Manitowoc facility. We expect to incur approximately \$1.0 million in capital expenditures during the remainder of fiscal 2012, excluding capital to support expected OTA growth. Our capital spending plans predominantly consist of the completion of projects that have been in place for several months and for which we have already invested significant capital. We consider the investment into our training and research facility critical to our long-term success. We expect to finance these capital expenditures primarily through our existing cash, equipment secured loans and leases, to the extent needed, long-term debt financing, or by using our available capacity under our credit facility.

**Contractual Obligations and Commitments**

The following table is a summary of our long-term contractual obligations as of December 31, 2011 (dollars in thousands):

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Bank debt obligations	\$ 8,685	\$ 2,344	\$ 3,960	\$ 1,492	\$ 889
Cash interest payments on debt	1,241	401	456	155	229
Operating lease obligations	8,177	1,728	1,837	1,702	2,910
Purchase order and cap-ex commitments(1)	14,937	10,454	4,483		
<b>Total</b>	<b>\$ 33,040</b>	<b>\$ 14,927</b>	<b>\$ 10,736</b>	<b>\$ 3,349</b>	<b>\$ 4,028</b>

(1) Reflects non-cancellable purchase order commitments in the amount of \$14.9 million for certain inventory items entered into in order to secure better pricing and ensure materials on hand.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

**Inflation**

Our results from operations have not been, and we do not expect them to be, materially affected by inflation.

**Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our consolidated financial statements requires us to make certain estimates and judgments that affect our reported assets, liabilities, revenue and expenses, and our related disclosure of contingent assets and liabilities. We re-evaluate our estimates on an ongoing basis, including those related to revenue recognition, inventory valuation, the collectability of receivables, stock-based compensation, warranty reserves and income taxes. We base our estimates on historical experience and on various assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. A summary of our critical accounting policies is set forth in the Critical Accounting Policies and Estimates section of our



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Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K/A for the year ended March 31, 2011. There have been no material changes in any of our accounting policies since March 31, 2011.

## **Recent Accounting Pronouncements**

For a complete discussion of recent accounting pronouncements, refer to Note B in the condensed consolidated financial statements included elsewhere in this report.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our exposure to market risk was discussed in the Quantitative and Qualitative Disclosures About Market Risk section contained in our Annual Report on Form 10-K/A for the year ended March 31, 2011. There have been no material changes to such exposures since March 31, 2011.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

We maintain a system of disclosure controls and procedures designed to provide reasonable assurance as to the reliability of our published financial statements and other disclosures included in this report. Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter ended December 31, 2011 pursuant to Rules 13a-15(b) of the Securities Exchange Act of 1934, or the Exchange Act.

### **Material Weaknesses in Internal Control over Financial Reporting**

In connection with the assessment of our internal control over financial reporting as of December 31, 2011, management has identified the following deficiencies that constituted individually, or in the aggregate, material weaknesses in our internal control over financial reporting as of December 31, 2011:

We did not maintain an effective control environment, as evidenced by the combination of (i) having an insufficient number of personnel appropriately qualified to perform an appropriately detailed review of the accounting for nonroutine revenue transactions, and (ii) having inadequate disclosure controls to ensure timely internal notification of business transactions impacting revenue recognition and decisions requiring accounting entries.

We did not maintain an effective control environment over our financial close and reporting processes as evidenced by having an insufficient number of personnel appropriately qualified to support timely and thorough reconciliation of significant accounts. The material weaknesses described above resulted in a restatement of our annual and interim consolidated financial statements. Because of these material weaknesses, management concluded that we did not maintain effective internal control over financial reporting as of December 31, 2011.

### **Plans for Remediation of Material Weaknesses**

Our Board, the Audit & Finance Committee and management have added resources and are developing and implementing new processes, procedures and internal controls to remediate the material weaknesses that existed in our internal control over financial reporting as it related to revenue recognition, our financial close process and our disclosure controls and procedures, as of December 31, 2011.

We have developed a remediation plan (the Remediation Plan) to address the material weaknesses for the affected areas presented above. The Remediation Plan ensures that each area affected by a material control weakness is put through a comprehensive remediation process. The Remediation Plan entails a thorough analysis which includes the following phases:

Define and assess each control deficiency: ensure a thorough understanding of the as is state, process owners, and procedural or technological gaps causing the deficiency;

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Design and evaluate a remediation action for each control deficiency for each affected area; validate or improve the related policy and procedures; evaluate skills of the process owners with regard to the policy and adjust as required;

Implement specific remediation actions: train process owners, allow time for process adoption and adequate transaction volume for next steps;

Test and measure the design and effectiveness of the remediation actions; test and provide feedback on the design and operating effectiveness of the controls, and;

Review and acceptance of completion of the remediation effort by management and the Audit & Finance Committee.

The following are steps we have taken in this process:

In the second quarter of fiscal 2012, we hired a Corporate controller and in the third quarter of fiscal 2012, we hired a corporate tax manager;

In April 2012, we developed and implemented a new sub-certification process with our management group in order to identify new revenue sources and identify legal contractual terms and conditions revisions;

In the first quarter of fiscal 2012, we implemented a new enterprise resource planning, or ERP, system to improve our process transactions and the underlying data that supports our financial closing and reporting process.

We have identified external resources for the purpose of engaging them to perform detailed accounting analysis on complex nonroutine revenue transactions.

The Remediation Plan is being administered by our Chief Financial Officer and involves key leaders from across the organization.

We will continue to monitor the effectiveness of our internal control over financial reporting in the areas affected by the material weaknesses described above and employ any additional tools and resources deemed necessary to ensure that our financial statements are fairly stated in all material respects.

#### **Changes in Internal Control over Financial Reporting**

Except as described above in Plans for Remediation of Material Weaknesses, there were no other changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### **ITEM 1A. RISK FACTORS**

We operate in a rapidly changing environment that involves a number of risks that could materially affect our business, financial condition or future results, some of which are beyond our control. In addition to the other information set forth in this Quarterly Report on Form 10-Q, the risks and uncertainties that we believe are most important for you to consider are discussed in Part I Item 1A under the heading Risk Factors in our Annual Report on Form 10-K/A for the fiscal year ended March 31, 2011, which we filed with the SEC on June 14, 2012. During the nine months ended December 31, 2011, there were no material changes to the risk factors that were disclosed in Part I Item 1A under the heading Risk Factors in our Annual Report on Form 10-K/A for the fiscal year ended March 31, 2011.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****(c) Purchases of Equity Securities**

The table below summarizes stock repurchases for the three-month period ended December 31, 2011.

Period	Total		Total Number of	Approximate Dollar Value of Shares that May Yet Be
	Number of	Average Price	Shares Purchased as	
	Shares	Paid per Share	Part of Publicly	Purchased Under the
	Purchased		Announced	Plans or Programs(1)
			Plans	
			or Programs(1)	
October 1 - October 31, 2011		\$		\$ 2,500,000
November 1 - November 30, 2011	8,300	\$ 2.62	8,300	\$ 2,478,000
December 1 - December 31, 2011	90,000	\$ 2.86	90,000	\$ 2,221,000
	98,300		98,300	

- (1) On November 23, 2011, we announced that our board of directors had authorized the repurchase of up to an additional \$1.5 million of our outstanding common stock. The action supplemented the \$1 million share repurchase authorization announced on November 2, 2011. Unless terminated earlier by resolution of our board of directors, this repurchase program will expire when we have repurchased all shares authorized for repurchase thereunder.

**ITEM 5. OTHER INFORMATION****Statistical Data**

The following table presents certain statistical data, cumulative from December 1, 2001 through December 31, 2011, regarding sales of our HIF lighting systems, total units sold (including HIF lighting systems), customer kilowatt demand reduction, customer kilowatt hours saved, customer electricity costs saved, indirect carbon dioxide emission reductions from customers' energy savings, and square footage we have retrofitted. The assumptions behind our calculations are described in the footnotes to the table below.

	Cumulative From December 1, 2001 Through December 31, 2011 (in thousands, unaudited)
HIF lighting systems sold (1)	2,232
Total units sold (including HIF lighting systems)	3,005
Customer kilowatt demand reduction (2)	700
Customer kilowatt hours saved (2)(3)	19,268,376
Customer electricity costs saved (4)	\$ 1,483,665
Indirect carbon dioxide emission reductions from customers' energy savings (tons) (5)	12,457
Square footage retrofitted (6)	1,155,627

- (1) HIF lighting systems includes all HIF units sold under the brand name Compact Modular and its predecessor, Illuminator.
- (2) A substantial majority of our HIF lighting systems, which generally operate at approximately 224 watts per six-lamp fixture, are installed in replacement of HID fixtures, which generally operate at approximately 465 watts per fixture in commercial and industrial applications. We calculate that each six-lamp HIF lighting system we install in replacement of an HID fixture generally reduces electricity consumption

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by approximately 241 watts (the difference between 465 watts and 224 watts). In retrofit projects where we replace fixtures other than HID fixtures, or where we replace fixtures with products other than our HIF lighting systems (which other products generally consist of products with lamps similar to those used in our HIF systems, but with varying frames, ballasts or power packs), we generally achieve similar wattage reductions (based on an analysis of the operating wattages of each of our fixtures compared to the operating wattage of the fixtures they typically replace). We calculate the amount of kilowatt demand reduction by multiplying (i) 0.241 kilowatts per six-lamp equivalent unit we install by (ii) the number of units we have installed in the period presented, including products other than our HIF lighting systems (or a total of approximately 3.0 million units).

- (3) We calculate the number of kilowatt hours saved on a cumulative basis by assuming the demand (kW) reduction for each fixture and assuming that each such unit has averaged 7,500 annual operating hours since its installation.
- (4) We calculate our customers' electricity costs saved by multiplying the cumulative total customer kilowatt hours saved indicated in the table by \$0.077 per kilowatt hour. The national average rate for 2011, which is the most current full year for which this information is available, was \$0.1002 per kilowatt hour according to the United States Energy Information Administration.

- (5) We calculate this figure by multiplying (i) the estimated amount of carbon dioxide emissions that result from the generation of one kilowatt hour of electricity (determined using the Emissions and Generation Resource Integration Database, or EGrid, prepared by the United States Environmental Protection Agency), by (ii) the number of customer kilowatt hours saved as indicated in the table.
- (6) Based on 3.0 million total units sold, which contain a total of approximately 15.0 million lamps. Each lamp illuminates approximately 75 square feet. The majority of our installed fixtures contain six lamps and typically illuminate approximately 450 square feet.

**ITEM 6. EXHIBITS**

**(a) Exhibits**

- 31.1 Certification of Chief Executive Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
- 31.2 Certification of Chief Financial Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
- 32.1 Certification of Chief Executive Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH Taxonomy extension schema document
- 101.CAL Taxonomy extension calculation linkbase document
- 101.LAB Taxonomy extension label linkbase document
- 101.PRE Taxonomy extension presentation linkbase document

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on June 14, 2012.

ORION ENERGY SYSTEMS, INC.

Registrant

By /s/ Scott R. Jensen  
Scott R. Jensen  
Chief Financial Officer

(Principal Financial Officer and Authorized Signatory)



**Exhibit Index to Form 10-Q for the Period Ended December 31, 2011**

31.1	Certification of Chief Executive Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
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