TELEFLEX INC
Form 10-Q
October 26, 2006

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 24, 2006

OR

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

For the transition period from to .

Commission file number 1-5353

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

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

(610) 948-5100

(Registrant s telephone number, including area code)

(None)

(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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

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

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

Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of Common Stock, as of October 17, 2006:

Common Stock, $1.00 Par Value	**39,015,104**
(Title of each class)	**(Number of shares)**

TELEFLEX INCORPORATED
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 24, 2006

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

TELEFLEX INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 24, 2006	September 25, 2005	September 24, 2006	September 25, 2005
	(Dollars and shares in thousands, except per share)			
Revenues	$ 639,132	$ 587,390	$ 1,953,914	$ 1,867,999
Materials, labor and other product costs	453,990	421,327	1,382,650	1,337,956
Gross profit	185,142	166,063	571,264	530,043
Selling, engineering and administrative expenses	115,009	104,666	367,793	337,236
(Gain) loss on sales of businesses and assets	(453)	(5,569)	732	(5,569)
Restructuring and impairment charges	3,275	5,776	16,243	19,723
Income from continuing operations before interest, taxes and minority interest	67,311	61,190	186,496	178,653
Interest expense	10,283	11,000	31,158	33,747
Interest income	(1,742)	(1,202)	(4,877)	(2,296)
Income from continuing operations before taxes and minority interest	58,770	51,392	160,215	147,202
Taxes on income from continuing operations	15,861	10,360	40,691	33,288
Income from continuing operations before minority interest	42,909	41,032	119,524	113,914
Minority interest in consolidated subsidiaries, net of tax	6,627	5,318	18,215	15,197
Income from continuing operations	36,282	35,714	101,309	98,717
Operating income (loss) from discontinued operations (including gain (loss) on disposal of $(401), $(1,291), $663 and $34,830, respectively)	(473)	(4,299)	(24)	3,645
Taxes (benefit) on income (loss) from discontinued operations	(157)	(2,185)	(426)	1,063
Income (loss) from discontinued operations	(316)	(2,114)	402	2,582

Net income	$ 35,966	$ 33,600	$ 101,711	$ 101,299
Earnings (losses) per share:				
Basic:				
Income from continuing operations	$ 0.92	$ 0.88	$ 2.53	$ 2.43
Income (loss) from discontinued operations	$ (0.01)	$ (0.05)	$ 0.01	$ 0.06
Net income	$ 0.91	$ 0.83	$ 2.54	$ 2.50
Diluted:				
Income from continuing operations	$ 0.92	$ 0.87	$ 2.52	$ 2.41
Income (loss) from discontinued operations	$ (0.01)	$ (0.05)	$ 0.01	$ 0.06
Net income	$ 0.91	$ 0.82	$ 2.53	$ 2.47
Dividends per share	$ 0.285	$ 0.250	$ 0.820	$ 0.720
Weighted average common shares outstanding:				
Basic	39,465	40,569	40,019	40,552
Diluted	39,566	41,185	40,241	40,972

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)

	September 24, 2006	December 25, 2005
	(Dollars in thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 202,425	$ 239,536
Accounts receivable, net	408,914	421,236
Inventories	422,290	404,271
Prepaid expenses	31,608	20,571
Deferred tax assets	66,254	57,915
Assets held for sale	14,859	16,899
Total current assets	1,146,350	1,160,428
Property, plant and equipment, net	424,084	447,816
Goodwill	495,340	504,666
Intangibles and other assets	247,717	259,218
Investments in affiliates	24,095	24,666
Deferred tax assets	5,304	6,254
Total assets	$ 2,342,890	$ 2,403,048
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Current borrowings	$ 59,323	$ 125,510
Accounts payable	211,505	206,548
Accrued expenses	189,430	206,231
Income taxes payable	38,160	46,222
Deferred tax liabilities	296	408
Liabilities held for sale	117	66
Total current liabilities	498,831	584,985
Long-term borrowings	486,001	505,272
Deferred tax liabilities	49,948	50,535
Other liabilities	106,075	102,782
Total liabilities	1,140,855	1,243,574
Minority interest in equity of consolidated subsidiaries	35,058	17,400
Commitments and contingencies		
Shareholders equity	1,166,977	1,142,074
Total liabilities and shareholders equity	$ 2,342,890	$ 2,403,048

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)

	Nine Months Ended September 24, 2006	Nine Months Ended September 25, 2005
	(Dollars in thousands)	
Cash Flows from Operating Activities of Continuing Operations:		
Net income	$ 101,711	$ 101,299
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations	(402)	(2,582)
Depreciation expense	62,119	65,930
Amortization expense of intangible assets	10,037	10,868
Amortization expense of deferred financing costs	963	757
Stock-based compensation	5,100	
(Gain) loss on sales of businesses and assets	732	(5,569)
Impairment of long-lived assets	5,230	2,664
Minority interest in consolidated subsidiaries	18,215	15,197
Other	649	(831)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	30,052	74,029
Inventories	(6,838)	(13,535)
Prepaid expenses	(4,468)	2,991
Accounts payable and accrued expenses	(6,257)	(12,319)
Income taxes payable and deferred income taxes	(3,142)	6,144
Net cash provided by operating activities from continuing operations	213,701	245,043
Cash Flows from Financing Activities of Continuing Operations:		
Proceeds from long-term borrowings		61,085
Reduction in long-term borrowings	(33,402)	(122,417)
Decrease in notes payable and current borrowings	(60,789)	(46,358)
Proceeds from stock compensation plans	8,939	21,191
Payments to minority interest shareholders	(618)	(14,035)
Purchases of treasury stock	(93,552)	(39,263)
Dividends	(33,006)	(29,200)
Net cash used in financing activities from continuing operations	(212,428)	(168,997)
Cash Flows from Investing Activities of Continuing Operations:		
Expenditures for property, plant and equipment	(42,343)	(45,690)
Payments for businesses acquired	(4,334)	(14,701)
Proceeds from sales of businesses and assets	3,643	124,420
Proceeds from affiliates	3,002	173
Working capital payment for divested business	(6,029)	

Net cash provided by (used in) investing activities from continuing operations	(46,061)	64,202
Cash Flows from Discontinued Operations 2005 Revised (See Note 1):		
Net cash provided by (used in) operating activities	851	(384)
Net cash used in financing activities		(198)
Net cash used in investing activities	(93)	(2,682)
Net cash provided by (used in) discontinued operations	758	(3,264)
Effect of exchange rate changes on cash and cash equivalents	6,919	(6,861)
Net increase (decrease) in cash and cash equivalents	(37,111)	130,123
Cash and cash equivalents at the beginning of the period	239,536	115,955
Cash and cash equivalents at the end of the period	$ 202,425	$ 246,078

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)
(Dollars in thousands, except per share)

Note 1 Basis of presentation/accounting policies

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

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

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

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

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

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

SFAS No. 123(R) requires companies to estimate the fair value of stock-based awards on the date of grant using an option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods. The Company adopted SFAS No. 123(R) using the modified prospective application method, which requires the application of the standard starting from December 26, 2005, the first day of the Company s 2006 fiscal year. The Company s condensed consolidated financial statements for the three and nine months ended September 24, 2006 reflect the impact of SFAS No. 123(R).

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TELEFLEX INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock-based compensation expense related to employee stock options recognized under SFAS No. 123(R) for the three and nine months ended September 24, 2006 was $1,795 and $5,100, respectively, and is included in selling, engineering and administrative expenses. The total income tax benefit recognized for share-based compensation arrangements for the three and nine months ended September 24, 2006 was $438 and $1,060, respectively. As of September 24, 2006, total unamortized stock-based compensation cost related to non-vested stock options, net of expected forfeitures, was $10,487, which is expected to be recognized over a weighted-average period of 2.0 years.

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

Stock-based compensation expense recognized during a period is based on the value of the portion of stock-based awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the three and nine months ended September 24, 2006 included compensation expense for (1) stock-based awards granted prior to, but not yet vested as of December 25, 2005, based on the fair value on the grant date estimated in accordance with the pro forma provisions of SFAS No. 123 and (2) compensation expense for the stock-based awards granted subsequent to December 25, 2005, based on the fair value on the grant date estimated in accordance with the provisions of SFAS No. 123(R). As stock-based compensation expense recognized for the third quarter and first nine months of fiscal 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The following table illustrates the pro forma net income and earnings per share for the three and nine months ended September 25, 2005 as if compensation expense for stock options issued to employees had been determined consistent with SFAS No. 123:

	Three Months Ended September 25, 2005	Nine Months Ended September 25, 2005
Net income, as reported	$ 33,600	$ 101,299
Deduct: Stock-based employee compensation determined under fair value based method, net of tax of $501 and $1,478, respectively	(817)	(2,413)
Pro forma net income	$ 32,783	$ 98,886
Earnings per share basic:		

Net income per share, as reported	$	0.83	$	2.50
Pro forma net income per share	$	0.81	$	2.44
Earnings per share diluted:				
Net income per share, as reported	$	0.82	$	2.47
Pro forma net income per share	$	0.80	$	2.42

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

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TELEFLEX INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

	Three Months Ended		Nine Months Ended	
	September 24, 2006	September 25, 2005	September 24, 2006	September 25, 2005
Risk-free interest rate	5.07%	4.11%	4.43%	4.09%
Expected life of option	4.46 yrs.	4.60 yrs.	4.46 yrs.	4.60 yrs.
Expected dividend yield	2.15%	1.40%	1.55%	1.71%
Expected volatility	24.49%	24.60%	23.30%	24.43%

On November 10, 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 123(R)-3, Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards, that allows for a simplified method to establish the beginning balance of the additional paid-in capital pool (APIC Pool) related to the tax effects of employee stock-based compensation and to determine the subsequent impact on the APIC Pool and consolidated statements of cash flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS No. 123(R). During the second quarter of 2006, the Company elected to adopt the simplified method.

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

Note 2 New accounting standards

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

Stock-Based Compensation: In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payment, which establishes accounting standards for transactions in which an entity receives employee services in exchange for (a) equity instruments of the entity or (b) liabilities that are based on the fair value of the entity s equity instruments or that may be settled by the issuance of equity instruments. SFAS No. 123(R) requires an entity to recognize the grant-date fair value of stock options and other equity-based compensation issued to employees in the statement of income. The statement also requires that such transactions be accounted for using the fair-value-based method, thereby eliminating use of the intrinsic value method of accounting in APB No. 25, Accounting for Stock Issued to

Employees, which was permitted under Statement 123, as originally issued. SFAS No. 123(R) is effective for fiscal years beginning after June 15, 2005. The Company adopted the provisions of this statement on December 26, 2005 using modified prospective application. See the Stock-based compensation section of Note 1 above for the effect of adoption on the Company s financial position, results of operations and cash flows.

Accounting Changes and Error Corrections: In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections. SFAS No. 154 replaces APB Opinion No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements and changes the requirements of the accounting for and reporting of a change in accounting principle. SFAS No. 154 also provides guidance on the accounting for and reporting of error corrections. The provisions of this statement are applicable for accounting

TELEFLEX INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

changes and error corrections made in fiscal years beginning after December 15, 2005. The Company adopted the provisions of this statement on December 26, 2005, and it did not have a material impact on the Company s financial position, results of operations or cash flows.

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

Uncertain Tax Positions: In June 2006, the FASB issued Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. FIN No. 48 requires that the impact of a tax position be recognized in the financial statements if it is more likely than not that the tax position will be sustained on tax audit, based on the technical merits of the position. FIN No. 48 also provides guidance on derecognition of tax positions that do not meet the more likely than not standard, classification of tax assets and liabilities, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN No. 48 are effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of FIN No. 48 on the Company s financial position, results of operations and cash flows.

Fair Value Measurements: In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. The provisions of this statement are effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS No. 157 on the Company s financial position, results of operations and cash flows.

Quantifying Misstatements: In September 2006, the Securities and Exchange Commission issued SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, which is aimed at eliminating the diversity in practice of quantifying an identified misstatement by putting forward a single quantification framework to be used by all public companies. The provisions of SAB No. 108 are effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The Company is currently evaluating the impact of SAB No. 108 on the Company s financial position, results of operations and cash flows.

Defined Benefit Pension and Other Postretirement Plans: In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an

TELEFLEX INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

amendment of FASB Statements No. 87, 88, 106 and 132(R). SFAS No. 158 requires the recognition of the funded status of a defined benefit plan in the statement of financial position, requires that changes in the funded status be recognized through comprehensive income, changes the measurement date for defined benefit plan assets and obligations to the entity s fiscal year-end and expands disclosures. The recognition and disclosures under SFAS No. 158 are required as of the end of the fiscal year ending after December 15, 2006 while the new measurement date is effective for fiscal years ending after December 15, 2008. The measurement date for the Company s defined benefit pension and postretirement plan assets and obligations is currently the Company s fiscal year-end. The Company is currently evaluating the impact of SFAS No. 158 on the Company s financial position, results of operations and cash flows.

Note 3 Acquisitions

Acquisition of Hudson Respiratory Care, Inc.

In connection with the acquisition of Hudson Respiratory Care Inc. (HudsonRCI) in July 2004, the Company formulated a plan related to the future integration of the acquired entity. The Company finalized the integration plan during the second quarter of 2005 and the integration activities are ongoing as of September 24, 2006. The Company has accrued estimates for certain costs, related primarily to personnel reductions and facility closings and the termination of certain distribution agreements at the date of acquisition, in accordance with Emerging Issues Task Force (EITF) Issue No. 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination. During June 2006, the Company determined that the remaining integration cost accrual exceeded the total amount of the remaining estimated integration costs and therefore adjusted the accrual with a corresponding reduction to goodwill. Set forth below is a reconciliation of the Company s future integration cost accrual:

	Involuntary Employee Termination Benefits	Facility Closure and Restructuring Costs	Total
Balance at December 25, 2005	$ 7,162	$ 4,914	$ 12,076
Costs incurred	(4,225)	(3,073)	(7,298)
Adjustments to reserve	(2,517)	(1,027)	(3,544)
Balance at September 24, 2006	$ 420	$ 814	$ 1,234

Note 4 Restructuring

2006 Restructuring Program

In June 2006, the Company began certain restructuring initiatives that affect all three of the Company s operating segments. These initiatives involve the consolidation of operations and a related reduction in workforce at several of the Company s facilities in Europe and North America. The Company has determined to undertake these initiatives as a means to improving operating performance and to better leverage the Company s existing resources.

For the three and nine months ended September 24, 2006, the charges associated with the 2006 restructuring program by segment that are included in restructuring and impairment charges were as follows:

	Three Months Ended September 24, 2006		
	Medical	**Aerospace**	**Total**
Termination benefits	$ 155	$ 650	$ 805
Other restructuring costs	20		20
	$ 175	$ 650	$ 825

TELEFLEX INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Nine Months Ended September 24, 2006			
	Commercial	Medical	Aerospace	Total
Termination benefits	$ 485	$ 1,419	$ 650	$ 2,554
Other restructuring costs		94		94
	$ 485	$ 1,513	$ 650	$ 2,648

Termination benefits are comprised of severance-related payments for all employees terminated in connection with the 2006 restructuring program. Other restructuring costs include expenses primarily related to the consolidation of operations and the reorganization of administrative functions.

At September 24, 2006, the accrued liability associated with the 2006 restructuring program consisted of the following and was entirely due within twelve months:

	Balance at December 25, 2005	Subsequent Accruals	Payments	Balance at September 24, 2006
Termination benefits	$	$ 2,554	$ (652)	$ 1,902
Other restructuring costs		94	(94)	
	$	$ 2,648	$ (746)	$ 1,902

As of September 24, 2006, the Company expects to incur the following future restructuring costs associated with the 2006 restructuring program in its Commercial, Medical and Aerospace segments over the next three quarters:

	Commercial	Medical	Aerospace
Termination benefits	$ 725 - 900	$ 1,750 - 2,250	$ 550 - 850
Contract termination costs		500 - 600	500 - 600
Other restructuring costs	950 - 1,425	300 - 500	250 - 400
	$ 1,675 - 2,325	$ 2,550 - 3,350	$ 1,300 - 1,850

During the second quarter of 2006, the Company determined that a minority held investment was impaired and recorded a charge of $3,868, which is included in restructuring and impairment charges.

Aerospace Segment Restructuring Activity

During the first quarter of 2006, the Company began a restructuring activity in its Aerospace Segment. The planned actions relate to the closure of a manufacturing facility, termination of employees and relocation of operations. For the three and nine months ended September 24, 2006, the Company recorded termination benefits of $131 and $437, respectively, asset impairments of $139 for both periods and other restructuring costs of $37 for both periods that are included in restructuring and impairment charges. As of September 24, 2006, the accrued liability associated with this activity was $179 and was entirely due within twelve months. The Company expects to incur future restructuring costs associated with this activity of approximately $900 during the remainder of 2006.

2004 Restructuring and Divestiture Program

During the fourth quarter of 2004, the Company announced and commenced implementation of a restructuring and divestiture program designed to improve future operating performance and position the Company for future earnings growth. The actions have included exiting or divesting non-core or low performing businesses, consolidating manufacturing operations and reorganizing administrative functions to enable businesses to share services.

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TELEFLEX INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three and nine months ended September 24, 2006 and the three and nine months ended September 25, 2005, the charges, including changes in estimates, associated with the 2004 restructuring and divestiture program by segment that are included in restructuring and impairment charges were as follows:

	Three Months Ended September 24, 2006 Medical	Nine Months Ended September 24, 2006 Medical
Termination benefits	$ 68	$ (20)
Contract termination costs	221	954
Asset impairments		927
Other restructuring costs	1,854	7,253
	$ 2,143	$ 9,114

	Three Months Ended September 25, 2005		
	Commercial	Medical	Total
Termination benefits	$ 715	$ 1,237	$ 1,952
Contract termination costs	148	48	196
Other restructuring costs	448	3,180	3,628
	$ 1,311	$ 4,465	$ 5,776

	Nine Months Ended September 25, 2005			
	Commercial	Medical	Aerospace	Total
Termination benefits	$ 2,711	$ 4,735	$ 517	$ 7,963
Contract termination costs	(313)	957		644
Asset impairments	156	610	1,898	2,664
Other restructuring costs	859	6,983	610	8,452
	$ 3,413	$ 13,285	$ 3,025	$ 19,723

Termination benefits are comprised of severance-related payments for all employees terminated in connection with the 2004 restructuring and divestiture program. Contract termination costs relate primarily to the termination of leases in conjunction with the consolidation of facilities in the Company s Medical Segment and in 2005 also include a $531 reduction in the estimated cost associated with a lease termination in conjunction with the consolidation of manufacturing facilities in the Company s Commercial Segment. Asset impairments relate primarily to machinery and equipment associated with the consolidation of manufacturing facilities. Other restructuring costs include expenses primarily related to the consolidation of manufacturing operations and the reorganization of administrative functions.

At September 24, 2006, the accrued liability associated with the 2004 restructuring and divestiture program consisted of the following and was entirely due within twelve months:

	Balance at December 25, 2005	Subsequent Accruals and Changes in Estimates	Payments	Balance at September 24, 2006
Termination benefits	$ 7,848	$ (20)	$ (6,326)	$ 1,502
Contract termination costs	775	954	(726)	1,003
Other restructuring costs	31	7,253	(7,284)	
	$ 8,654	$ 8,187	$ (14,336)	$ 2,505

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of September 24, 2006, the Company expects to incur the following future restructuring costs associated with the 2004 restructuring and divestiture program in its Medical Segment over the next three quarters:

Termination benefits	$ 125 - 150
Contract termination costs	350 - 1,200
Other restructuring costs	2,275 - 3,625
	$ 2,750 - 4,975

Note 5 Inventories

Inventories consisted of the following:

	September 24, 2006	December 25, 2005
Raw materials	$ 212,523	$ 199,955
Work-in-process	73,958	70,870
Finished goods	180,497	178,019
	466,978	448,844
Less: Inventory reserve	(44,688)	(44,573)
Inventories	$ 422,290	$ 404,271

Note 6 Goodwill and other intangible assets

Changes in the carrying amount of goodwill, by operating segment, for the nine months ended September 24, 2006 are as follows:

	Commercial	Medical	Aerospace	Total
Goodwill at December 25, 2005	$ 105,435	$ 391,933	$ 7,298	$ 504,666
Acquisitions		101		101
Dispositions	(172)	(938)		(1,110)
Adjustments(1)		(14,076)		(14,076)
Translation adjustment	3,756	2,003		5,759
Goodwill at September 24, 2006	$ 109,019	$ 379,023	$ 7,298	$ 495,340

(1) Goodwill adjustments relate primarily to the adjustment of the HudsonRCI integration cost accrual (see Note 3) and to purchase price allocation changes associated with certain tax adjustments.

Intangible assets consisted of the following:

	Gross Carrying Amount		Accumulated Amortization	
	September 24, 2006	December 25, 2005	September 24, 2006	December 25, 2005
Customer lists	$ 81,121	$ 80,362	$ 18,763	$ 13,930
Intellectual property	59,686	59,174	26,711	22,967
Distribution rights	36,023	35,820	17,906	16,602
Trade names	85,474	85,464		
	$ 262,304	$ 260,820	$ 63,380	$ 53,499

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amortization expense related to intangible assets was $3,366 and $10,037 for the three and nine months ended September 24, 2006, respectively, and $3,500 and $10,868 for the three and nine months ended September 25, 2005, respectively. Estimated annual amortization expense for each of the five succeeding years is as follows:

2006	$ 13,100
2007	12,000
2008	12,000
2009	11,900
2010	11,700

Note 7 Comprehensive income

The following table summarizes the components of comprehensive income:

	Three Months Ended		Nine Months Ended	
	September 24, 2006	September 25, 2005	September 24, 2006	September 25, 2005
Net income	$ 35,966	$ 33,600	$ 101,711	$ 101,299
Financial instruments marked to market	(300)	928	1,680	(3,062)
Cumulative translation adjustment	2,632	163	30,862	(32,998)
Comprehensive income	$ 38,298	$ 34,691	$ 134,253	$ 65,239

Note 8 Changes in shareholders equity

Set forth below is a reconciliation of the Company s issued common shares:

	Three Months Ended		Nine Months Ended	
	September 24, 2006	September 25, 2005	September 24, 2006	September 25, 2005
	(Shares in thousands)			
Common shares, beginning of period	41,282	40,791	41,123	40,450
Shares issued under compensation plans	21	275	180	616
Common shares, end of period	41,303	41,066	41,303	41,066

On July 25, 2005, the Company s Board of Directors authorized the repurchase of up to $140 million of outstanding Teleflex common stock over twelve months ended July 2006. In June 2006, the Company s Board of Directors extended for an additional six months, until January 2007, its authorization for the repurchase of shares. Under the approved plan, the Company repurchased (in thousands) a total of 2,317 shares on the open market during 2005 and the first nine months of 2006 for an aggregate purchase price of $140,000, and aggregate fees and commissions of $69, with 1,262 shares repurchased during the third quarter of 2006 for an aggregate purchase price of $70,902, and aggregate fees and commissions of $38.

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed in the same manner except that the weighted average number of shares is increased for dilutive securities. The difference between basic and diluted

TELEFLEX INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

weighted average common shares results from the assumption that dilutive stock options were exercised. A reconciliation of basic to diluted weighted average shares outstanding is as follows:

	Three Months Ended		Nine Months Ended	
	September 24, 2006	September 25, 2005	September 24, 2006	September 25, 2005
	(Shares in thousands)			
Basic	39,465	40,569	40,019	40,552
Dilutive shares assumed issued	101	616	222	420
Diluted	39,566	41,185	40,241	40,972

Weighted average stock options (in thousands) that were antidilutive and therefore not included in the calculation of earnings per share were 693 and 389 for the three and nine months ended September 24, 2006, respectively, and 4 and 259 for the three and nine months ended September 25, 2005, respectively.

Note 9 Stock compensation plans

The Company has stock-based compensation plans that provide for the granting of incentive and non-qualified options to officers and key employees to purchase up to 4,000,000 shares of common stock at the market price of the stock on the dates options are granted. Outstanding options generally are exercisable three to five years after the date of the grant and expire no more than ten years after the grant.

The following table summarizes the option activity as of September 24, 2006 and changes during the nine months then ended:

	Shares Subject to Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding, beginning of the period	1,809,234	$ 46.82		
Granted	684,631	64.23		
Exercised	(166,420)	45.85		
Forfeited or expired	(134,739)	54.92		
Outstanding, end of the period	2,192,706	$ 51.83	7.4	$ 12,257

Exercisable, end of the period	1,076,222	$	45.07	5.9	$	10,338

As of September 24, 2006, 902,472 shares were available for future grant under the plans.

The weighted average grant-date fair value was $12.20 and $14.26 for options granted during the three and nine months ended September 24, 2006, respectively, and $17.29 and $12.37 for options granted during the three and nine months ended September 25, 2005, respectively. The total intrinsic value of options exercised was $98 and $3,447 during the three and nine months ended September 24, 2006, respectively, and $5,773 and $9,679 during the three and nine months ended September 25, 2005, respectively.

Note 10 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 primarily 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Obligations under non-U.S. plans are systematically provided for by depositing funds with trustees or by book reserves.

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:

	Pension		Other Benefits		Pension		Other Benefits	
	Three Months Ended		Three Months Ended		Nine Months Ended		Nine Months Ended	
	September 24, 2006	September 25, 2005	September 24, 2006	September 25, 2005	September 24, 2006	September 25, 2005	September 24, 2006	September 25, 2005
Service cost	$ 1,024	$ 1,258	$ 77	$ 65	$ 3,065	$ 3,918	$ 220	$ 191
Interest cost	3,358	2,756	398	357	10,074	8,700	1,140	1,057
Expected return on plan assets	(3,690)	(2,690)			(11,139)	(8,419)		
Net amortization and deferral	486	505	266	122	1,492	1,568	761	361
Curtailment charge		116		115		116		115
Net benefit cost	$ 1,178	$ 1,945	$ 741	$ 659	$ 3,492	$ 5,883	$ 2,121	$ 1,724

Through September 24, 2006, contributions to U.S. and foreign pension plans amounted to $8,745. The Company s contributions to U.S. and foreign plans during all of 2006 are expected to be approximately $10 million.

Note 11 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 nine months ended September 24, 2006:

Balance December 25, 2005	$ 14,156
Accruals for warranties issued in 2006	7,615
Settlements (cash and in kind)	(9,536)

Accruals related to pre-existing warranties	402
Effect of translation	586
Balance September 24, 2006	$ 13,223

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 $6,413 at September 24, 2006. The Company s future payments cannot exceed the minimum rent obligation plus the residual value guarantee amount. The guarantee amounts are tied to the unamortized lease values of the assets under lease, and are due should the Company decide neither to renew these leases, nor to exercise its purchase option. At September 24, 2006, the Company had no liabilities

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

Accounts receivable securitization program: The Company uses an accounts receivable securitization program to gain access to enhanced credit markets and reduce financing costs. As currently structured, the Company sells certain trade receivables on a non-recourse basis to a consolidated special purpose entity, which in turn sells an interest in those receivables to a commercial paper conduit. The conduit issues notes secured by that interest to third party investors. The assets of the special purpose entity are not available to satisfy the obligations of the Company. In accordance with the provisions of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, transfers of assets under the program qualify as sales of receivables and accordingly, $40,068 of accounts receivable and the related amounts previously recorded in notes payable were removed from the condensed consolidated balance sheet as of both September 24, 2006 and December 25, 2005.

Environmental: The Company is subject to contingencies pursuant to 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 potentially responsible parties. At September 24, 2006, the Company s condensed consolidated balance sheet included an accrued liability of $7,296 relating to these matters. Considerable uncertainty exists with respect to these costs and, under adverse changes in circumstances, potential liability may exceed the amount accrued as of September 24, 2006. The time frame over which the accrued amounts may be paid out, based on past history, is estimated to be 15-20 years.

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.

In February 2004, a jury verdict of $34,800 was rendered against one of the Company s subsidiaries in a trademark infringement action. In February 2005, the trial judge entered an order rejecting the jury award in its entirety. Both parties have filed notice to appeal on various grounds. While the Company cannot predict the outcome of the appeals, it will continue to vigorously contest this litigation. No accrual has been recorded in the Company s condensed consolidated financial statements.

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12 Business segment information

Information about continuing operations by business segment is as follows:

	Three Months Ended		Nine Months Ended	
	September 24, 2006	September 25, 2005	September 24, 2006	September 25, 2005
Segment data:				
Commercial	$ 290,357	$ 270,173	$ 932,051	$ 888,687
Medical	207,722	196,553	628,604	624,410
Aerospace	141,053	120,664	393,259	354,902
Revenues	639,132	587,390	1,953,914	1,867,999
Commercial	14,756	9,199	60,092	59,377
Medical	44,223	38,938	111,819	114,878
Aerospace	12,205	11,521	34,994	20,054
Segment operating profit	71,184	59,658	206,905	