TELEFLEX INC
Form 10-Q
May 01, 2007

Table of Contents

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 April 1, 2007

OR

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

For the transition period from to .

Commission file number 1-5353

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

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

(610) 948-5100

(Registrant s telephone number, including area code)

(None)

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

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

Yes þ No o

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

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

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

Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of Common Stock, as of April 23, 2007:

Common Stock, $1.00 Par Value	**39,190,573**
(Title of each class)	**(Number of shares)**

TELEFLEX INCORPORATED
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED APRIL 1, 2007

TABLE OF CONTENTS

		Page
	PART I FINANCIAL INFORMATION	
Item 1:	Financial Statements:	
	Condensed Consolidated Statements of Income for the three months ended April 1, 2007 and March 26, 2006 (Unaudited)	2
	Condensed Consolidated Balance Sheets as of April 1, 2007 and December 31, 2006 (Unaudited)	3
	Condensed Consolidated Statements of Cash Flows for the three months ended April 1, 2007 and March 26, 2006 (Unaudited)	4
	Notes to Condensed Consolidated Financial Statements (Unaudited)	5
Item 2:	Management s Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3:	Quantitative and Qualitative Disclosures About Market Risk	19
Item 4:	Controls and Procedures	20
	PART II OTHER INFORMATION	
Item 1:	Legal Proceedings	21
Item 1A:	Risk Factors	21
Item 2:	Unregistered Sales of Equity Securities and Use of Proceeds	21
Item 3:	Defaults Upon Senior Securities	21
Item 4:	Submission of Matters to a Vote of Security Holders	21
Item 5:	Other Information	21
Item 6:	Exhibits	21
SIGNATURES		22

SENIOR EXECUTIVE OFFICER SEVERANCE AGREEMENT
SENIOR EXECUTIVE OFFICER SEVERANCE AGREEMENT
SENIOR EXECUTIVE OFFICER SEVERANCE AGREEMENT
SENIOR EXECUTIVE OFFICER SEVERANCE AGREEMENT
SENIOR EXECUTIVE OFFICER SEVERANCE AGREEMENT
CONFIDENTIAL RELEASE AND SEPARATION AGREEMENT
CERTIFICATION OF CHIEF EXECUTIVE OFFICER
CERTIFICATION OF CHIEF FINANCIAL OFFICER
CERTIFICATION OF CHIEF EXECUTIVE OFFICER
CERTIFICATION OF CHIEF FINANCIAL OFFICER

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

TELEFLEX INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended	
	April 1, 2007	March 26, 2006
	(Dollars and shares in thousands, except per share)	
Revenues	$ 667,342	$ 599,883
Materials, labor and other product costs	457,916	420,836
Gross profit	209,426	179,047
Selling, engineering and administrative expenses	130,862	120,907
Gain on sales of assets	(793)	(643)
Restructuring and impairment charges	482	4,493
Income from continuing operations before interest, taxes and minority interest	78,875	54,290
Interest expense	9,338	9,945
Interest income	(1,409)	(1,508)
Income from continuing operations before taxes and minority interest	70,946	45,853
Taxes on income from continuing operations	20,365	12,659
Income from continuing operations before minority interest	50,581	33,194
Minority interest in consolidated subsidiaries, net of tax	7,483	5,653
Income from continuing operations	43,098	27,541
Operating income from discontinued operations (including gain on disposal of $0 and $64, respectively)	2,771	2,484
Taxes on income from discontinued operations	1,595	919
Income from discontinued operations	1,176	1,565
Net income	$ 44,274	$ 29,106
Earnings per share:		
Basic:		

Income from continuing operations	$	1.10	$	0.68
Income from discontinued operations	$	0.03	$	0.04
Net income	$	1.13	$	0.72
Diluted:				
Income from continuing operations	$	1.09	$	0.68
Income from discontinued operations	$	0.03	$	0.04
Net income	$	1.12	$	0.72
Dividends per share	$	0.285	$	0.250
Weighted average common shares outstanding:				
Basic		39,032		40,346
Diluted		39,403		40,626

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

TELEFLEX INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	April 1, 2007	December 31, 2006
	(Dollars in thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 254,677	$ 248,409
Accounts receivable, net	404,424	376,404
Inventories	402,130	415,879
Prepaid expenses	27,461	27,689
Deferred tax assets	60,735	60,963
Assets held for sale	82,413	10,185
Total current assets	1,231,840	1,139,529
Property, plant and equipment, net	391,690	422,178
Goodwill	511,612	514,006
Intangibles and other assets	267,645	259,229
Investments in affiliates	23,343	23,076
Deferred tax assets	5,317	3,419
Total assets	$ 2,431,447	$ 2,361,437
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Current borrowings	$ 21,895	$ 31,022
Accounts payable	207,611	210,890
Accrued expenses	111,002	115,657
Payroll and benefit-related liabilities	70,660	74,407
Income taxes payable	23,711	16,125
Deferred tax liabilities	578	164
Liabilities held for sale	19,788	
Total current liabilities	455,245	448,265
Long-term borrowings	487,976	487,370
Deferred tax liabilities	30,084	25,272
Pension and postretirement benefit liabilities	97,502	97,191
Other liabilities	91,502	71,861
Total liabilities	1,162,309	1,129,959
Minority interest in equity of consolidated subsidiaries	49,678	42,057

Commitments and contingencies (See Note 11)		
Shareholders equity	1,219,460	1,189,421
Total liabilities and shareholders equity	$ 2,431,447	$ 2,361,437

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

Table of Contents

TELEFLEX INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended	
	April 1, 2007	March 26, 2006
	(Dollars in thousands)	
Cash Flows from Operating Activities of Continuing Operations:		
Net income	$ 44,274	$ 29,106
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations	(1,176)	(1,565)
Depreciation expense	18,244	18,671
Amortization expense of intangible assets	3,277	3,475
Amortization expense of deferred financing costs	278	402
Stock-based compensation	2,023	1,647
Gain on sales of assets	(793)	(643)
Impairment of long-lived assets		869
Minority interest in consolidated subsidiaries	7,483	5,653
Other	(1,902)	(668)
Changes in operating assets and liabilities, net of effects of acquisitions and disposals:		
Accounts receivable	(51,319)	(16,911)
Inventories	(4,640)	(9,156)
Prepaid expenses	(670)	1,142
Accounts payable and accrued expenses	(2,130)	(8,794)
Income taxes payable and deferred income taxes	14,780	8,640
Net cash provided by operating activities from continuing operations	27,729	31,868
Cash Flows from Financing Activities of Continuing Operations:		
Reduction in long-term borrowings	(118)	(6,146)
Decrease in notes payable and current borrowings	(9,086)	(35,986)
Proceeds from stock compensation plans	3,649	3,908
Purchases of treasury stock		(18,179)
Dividends	(11,112)	(10,113)
Net cash used in financing activities from continuing operations	(16,667)	(66,516)
Cash Flows from Investing Activities of Continuing Operations:		
Expenditures for property, plant and equipment	(12,303)	(13,195)
Payments for businesses acquired		(4,334)
Proceeds from sales of assets	8,180	968
Proceeds from affiliates	66	2,696
Working capital payment for divested business		(5,629)

Net cash used in investing activities from continuing operations	(4,057)	(19,494)
Cash Flows from Discontinued Operations:		
Net cash provided by (used in) operating activities	(2,198)	2,759
Net cash used in investing activities	(913)	(1,027)
Net cash provided by (used in) discontinued operations	(3,111)	1,732
Effect of exchange rate changes on cash and cash equivalents	2,374	1,729
Net increase (decrease) in cash and cash equivalents	6,268	(50,681)
Cash and cash equivalents at the beginning of the period	248,409	239,536
Cash and cash equivalents at the end of the period	$ 254,677	$ 188,855

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

4

Table of Contents

TELEFLEX INCORPORATED AND SUBSIDIARIES

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

Note 1 Basis of presentation

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 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 31, 2006 filed with the Securities and Exchange Commission.

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.

Note 2 New accounting standards

Certain Hybrid Financial Instruments: In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (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

TELEFLEX INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 15, 2006. The Company adopted the provisions of this statement on January 1, 2007 and it did not have a material impact on the Company s financial position, results of operations or 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. In connection with its adoption of the provisions of FIN No. 48 on January 1, 2007, the Company recognized a charge of approximately $13,200 to retained earnings.

See Note 11 for additional information regarding the Company s uncertain tax positions.

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.

Fair Value Option: In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115, which permits an entity to measure certain financial assets and financial liabilities at fair value, with unrealized gains and losses reported in earnings at each subsequent measurement date. The fair value option may be elected on an instrument-by-instrument basis, as long as it is applied to the instrument in its entirety. The fair value option election is irrevocable, unless a new election date occurs. This statement is effective as of the beginning of the first fiscal year that begins after November 15, 2007. The Company is currently evaluating the impact of SFAS No. 159 on the Company s financial position, results of operations and cash flows.

Note 3 Acquisitions

Acquisition of Taut, Inc.

On November 8, 2006, the Company completed the acquisition of substantially all of the assets of Taut Inc. (Taut), a provider of instruments and devices for minimally invasive surgical procedures, particularly laparoscopic surgery, for $28,002. The results for Taut are included in the Company s Medical Segment.

During the first quarter of 2007, the Company revised the purchase price allocation for the Taut acquisition. Based on the revised allocation, an additional $1,358 and $3,986 was allocated to inventories and intangible assets, respectively. These amounts were previously allocated to goodwill.

Acquisition of Ecotrans Technologies, Inc.

On November 30, 2006, the Company completed the acquisition of all of the issued and outstanding capital stock of Ecotrans Technologies, Inc. (Ecotrans), a supplier of locomotive anti-idling and emissions reduction solutions for the railroad industry, for $10,118. During the first quarter of 2007, the Company revised the purchase price allocation and recognized an additional $1,108 of goodwill. The results for Ecotrans are included in the Company s Commercial Segment.

TELEFLEX INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4 Restructuring

The amounts recognized in restructuring and impairment charges for the three months ended April 1, 2007 and March 26, 2006 consisted of the following:

	Three Months Ended	
	April 1, 2007	March 26, 2006
2006 restructuring program	$ 112	$
Aerospace segment restructuring activity		199
2004 restructuring and divestiture program	370	4,294
	$ 482	$ 4,493

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 determined to undertake these initiatives as a means to improving operating performance and to better leverage the Company s existing resources.

For the three months ended April 1, 2007, the charges, including changes in estimates, associated with the 2006 restructuring program by segment that are included in restructuring and impairment charges were as follows:

	Three Months Ended April 1, 2007			
	Commercial	Medical	Aerospace	Total
Termination benefits	$	$ 181	$ (111)	$ 70
Other restructuring costs	42			42
	$ 42	$ 181	$ (111)	$ 112

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 April 1, 2007, the accrued liability associated with the 2006 restructuring program consisted of the following and was entirely due within twelve months:

	Balance at December 31, 2006	Subsequent Accruals and Changes in Estimates	Payments	Balance at April 1, 2007
Termination benefits	$ 3,406	$ 70	$ (1,144)	$ 2,332
Contract termination costs	95			95
Other restructuring costs	4	42	(46)	
	$ 3,505	$ 112	$ (1,190)	$ 2,427

Table of Contents

TELEFLEX INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of April 1, 2007, the Company expects to incur the following future restructuring costs associated with the 2006 restructuring program in its Commercial, Medical and Aerospace segments during 2007:

	Commercial	Medical	Aerospace
Termination benefits	$ 250 - 500	$ 550 - 1,350	$ 250 - 625
Contract termination costs		500 - 600	500 - 600
Other restructuring costs	100 - 300	2,950 - 3,050	1,500 - 2,000
	$ 350 - 800	$ 4,000 - 5,000	$ 2,250 - 3,225

Aerospace Segment Restructuring Activity

During the first quarter of 2006, the Company began a restructuring activity in its Aerospace Segment. The actions related to the closure of a manufacturing facility, termination of employees and relocation of operations. For the three months ended April 1, 2007 and March 26, 2006, the Company recorded termination benefits of $0 and $199, respectively, that are included in restructuring and impairment charges. As of April 1, 2007, the accrued liability associated with this activity was $23 and was entirely due within twelve months. The Company does not expect to incur future restructuring costs associated with this activity.

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.

For the three months ended April 1, 2007 and March 26, 2006, the charges, including changes in estimates, associated with the 2004 restructuring and divestiture program for the Company s Medical Segment that are included in restructuring and impairment charges were as follows:

	Three Months Ended	
	April 1, 2007	March 26, 2006
Termination benefits	$	$ 234
Contract termination costs		733
Asset impairments		869
Other restructuring costs	370	2,458
	$ 370	$ 4,294

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. 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.

Table of Contents

TELEFLEX INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At April 1, 2007, 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 31, 2006	Subsequent Accruals and Changes in Estimates	Payments	Balance at April 1, 2007
Termination benefits	$ 204	$	$ (34)	$ 170
Contract termination costs	1,952		(245)	1,707
Other restructuring costs	99	370	(469)	
	$ 2,255	$ 370	$ (748)	$ 1,877

As of April 1, 2007, the Company expects to incur future restructuring costs associated with the 2004 restructuring and divestiture program of between $300 and $650 in its Medical Segment during 2007.

Note 5 Inventories

Inventories consisted of the following:

	April 1, 2007	December 31, 2006
Raw materials	$ 205,669	$ 214,440
Work-in-process	51,422	65,058
Finished goods	192,808	182,954
	449,899	462,452
Less: Inventory reserve	(47,769)	(46,573)
Inventories	$ 402,130	$ 415,879

Note 6 Goodwill and other intangible assets

Changes in the carrying amount of goodwill, by operating segment, for the three months ended April 1, 2007 are as follows:

	Commercial	Medical	Aerospace	Total
Goodwill at December 31, 2006	$ 114,878	$ 391,830	$ 7,298	$ 514,006
Adjustments[1]	1,108	(3,778)	(747)	(3,417)
Translation adjustment	698	325		1,023
Goodwill at April 1, 2007	$ 116,684	$ 388,377	$ 6,551	$ 511,612

(1) Goodwill adjustments relate primarily to purchase price allocation changes associated with the Taut and Ecotrans acquisitions (see Note 3) and the purchase of shares from minority shareholders of a subsidiary in the Company s Medical Segment.

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	
	April 1, 2007	December 31, 2006	April 1, 2007	December 31, 2006
Customer lists	$ 83,104	$ 84,593	$ 21,903	$ 20,246
Intellectual property	73,046	68,476	30,319	28,388
Distribution rights	36,086	36,266	19,363	19,124
Trade names	90,170	90,252	19	
	$ 282,406	$ 279,587	$ 71,604	$ 67,758

Amortization expense related to intangible assets was $3,277 and $3,475 for the three months ended April 1, 2007 and March 26, 2006, respectively. Estimated annual amortization expense for each of the five succeeding years is as follows:

2007	$ 13,300
2008	13,300
2009	13,100
2010	12,800
2011	12,500

Note 7 Comprehensive income

The following table summarizes the components of comprehensive income:

	Three Months Ended	
	April 1, 2007	March 26, 2006
Net income	$ 44,274	$ 29,106
Financial instruments marked to market, net of tax	863	1,007
Cumulative translation adjustment	4,758	9,482
Comprehensive income	$ 49,895	$ 39,595

Note 8 Shareholders equity

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

	Three Months Ended	
	April 1, 2007	March 26, 2006
	(Shares in thousands)	
Common shares, beginning of period	41,364	41,123
Shares issued under compensation plans	86	83
Common shares, end of period	41,450	41,206

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 weighted average common shares results from the assumption that dilutive stock options were exercised and

TELEFLEX INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

dilutive restricted stock units were vested. A reconciliation of basic to diluted weighted average shares outstanding is as follows:

	Three Months Ended	
	April 1, 2007	March 26, 2006
	(Shares in thousands)	
Basic	39,032	40,346
Dilutive shares assumed issued	371	280
Diluted	39,403	40,626

Weighted average stock options (in thousands) that were antidilutive and therefore not included in the calculation of earnings per share were 794 and 211 for the three months ended April 1, 2007 and March 26, 2006, respectively.

Note 9 Stock compensation plans

The Company has stock-based compensation plans that provide for the granting of incentive and non-qualified options and restricted stock units to officers and key employees to obtain up to 4,000,000 shares of common stock at the market price of the stock on the dates options or restricted stock units 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. Outstanding restricted stock units generally vest in two to three years.

During the first quarter of 2007, the Company granted incentive and non-qualified options to purchase 291,694 shares of common stock and granted restricted stock units representing 80,891 shares of common stock.

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 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.

The parent Company and certain 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

	Three Months Ended		Three Months Ended	
	April 1, 2007	March 26, 2006	April 1, 2007	March 26, 2006
Service cost	$ 996	$ 886	$ 106	$ 76
Interest cost	3,177	2,912	415	398
Expected return on plan assets	(3,411)	(3,123)		
Net amortization and deferral	682	560	282	265
Net benefit cost	$ 1,444	$ 1,235	$ 803	$ 739

TELEFLEX INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 three months ended April 1, 2007:

Balance December 31, 2006	$ 14,058
Accruals for warranties issued in 2007	3,955
Settlements (cash and in kind)	(2,473)
Accruals related to pre-existing warranties	185
Effect of translation	98
Balance April 1, 2007	$ 15,823

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 $4,240 at April 1, 2007. 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 April 1, 2007, 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.

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 April 1, 2007 and December 31, 2006.

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 April 1, 2007, the Com