TELEDYNE TECHNOLOGIES INC
Form 10-K
February 26, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 28, 2014
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-15295
TELEDYNE TECHNOLOGIES INCORPORATED
(Exact name of registrant as specified in its charter)

Delaware	25-1843385
(State or other jurisdiction of incorporation of organization)	(I.R.S. Employer Identification Number)
1049 Camino Dos Rios, Thousand Oaks, California	91360-2362
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (805)-373-4545
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ý 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 Exchange Act). Yes ¨ No ý

The aggregate market value of the registrant's Common Stock held by non-affiliates on June 27, 2014, was $3.4 billion, based on the closing price of a share of Common Stock on such date, which is the last business day of the registrant's most recently completed fiscal second quarter. Shares of Common Stock known by the registrant to be beneficially owned by the registrant's directors and the registrant's executive officers subject to Section 16 of the Securities Exchange Act of 1934 are not included in the computation. The registrant, however, has made no determination that such persons are "affiliates" within the meaning of Rule 12b-2 under the Securities Exchange Act of 1934.

At February 24, 2015, there were 35,266,140 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Selected portions of the registrant's proxy statement for its 2015 Annual Meeting of Stockholders (the "2015 Proxy Statement") are incorporated by reference in Part III of this Report. Information required by paragraphs (d)(1)-(3) and (e)(5) of Item 407 of Regulation S-K shall not be deemed "soliciting material" or to be filed with the Commission as permitted by Item 407 of Regulation S-K.

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PART IV

Explanatory Notes

In this Annual Report on Form 10-K, Teledyne Technologies Incorporated is sometimes referred to as the “Company” or “Teledyne”.

For a discussion of risk factors and uncertainties associated with Teledyne and any forward looking statements made by us, see the discussion beginning at page 13 of this Annual Report on Form 10-K.

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PART I

Item 1. Business

Who We Are

Teledyne Technologies Incorporated provides enabling technologies for industrial growth markets. We have evolved from a company that was primarily focused on aerospace and defense to one that serves multiple markets that require advanced technology and high reliability. These markets include deepwater oil and gas exploration and production, oceanographic research, air and water quality environmental monitoring, electronics design and development, factory automation and medical imaging. Our products include monitoring and control instrumentation for marine and environmental applications, harsh environment interconnects, electronic test and measurement equipment, digital imaging sensors and cameras, aircraft information management systems, and defense electronic and satellite communication subsystems. We also supply engineered systems for defense, space, environmental and energy applications. We differentiate ourselves from many of our direct competitors by having a customer and company sponsored applied research center that augments our product development expertise.

Total sales in 2014 were $2,394.0 million, compared with $2,338.6 million in 2013 and $2,127.3 million in 2012. Our aggregate segment operating profit and other segment income were $338.4 million in 2014, $277.9 million in 2013 and $279.8 million in 2012. Approximately 75% of our total sales in 2014 were to commercial and international customers and the balance was to the U.S. Government, as a prime contractor or subcontractor. Approximately 58% of these U.S. Government sales were attributable to fixed-price type contracts and the balance to cost-plus-fee type contracts. Sales to international customers accounted for approximately 45% of total sales in 2014.

Our businesses are divided into four business segments: Instrumentation, Digital Imaging, Aerospace and Defense Electronics and Engineered Systems. The respective percentage contributions of our four business segments to our total sales in 2014, 2013 and 2012 are summarized in the following table:

	Percentage of Sales		
Segment (a)	2014	2013	2012
Instrumentation	47 %	44 %	38 %
Digital Imaging	17 %	18 %	20 %
Aerospace and Defense Electronics	25 %	26 %	28 %
Engineered Systems	11 %	12 %	14 %
Total	100 %	100 %	100 %

(a) Reflects a revised segment reporting structure adopted in 2013. All years presented reflect the new structure. See further discussion of our four segments in Note 13 to the Notes to Consolidated Financial Statements

Our principal executive offices are located at 1049 Camino Dos Rios, Thousand Oaks, California 91360-2362. Our telephone number is (805) 373-4545. We are a Delaware corporation that was spun-off as an independent company from Allegheny Teledyne Incorporated (now known as Allegheny Technologies Incorporated) on November 29, 1999.

Strategy

Our strategy continues to emphasize growth in our core markets of instrumentation, digital imaging, aerospace and defense electronics and engineered systems. Our core markets are characterized by high barriers to entry and include specialized products and services not likely to be commoditized. We intend to strengthen and expand our core businesses with targeted acquisitions and through product development. We continue to focus on balanced and disciplined capital deployment among capital expenditures, acquisitions and share repurchases. We aggressively pursue operational excellence to continually improve our margins and earnings. At Teledyne, operational excellence includes the rapid integration of the businesses we acquire. Using complementary technology across our businesses and internal research and development, we seek to create new products to grow our company and expand our addressable markets. We continue to evaluate our businesses to ensure that they are aligned with our strategy.

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Our Recent Acquisitions

Consistent with our strategy, during 2014, we made the following acquisitions and investments for a total $195.8 million:

To broaden our marine instrumentation capabilities:

- Bolt Technology Corporation ("Bolt") - Bolt, headquartered in Norwalk, Connecticut, with additional operations in Houston, Texas and San Diego, California, supplies marine seismic energy sources and related equipment for offshore energy exploration and, through its SeaBotix business, designs and manufactures miniature underwater remotely operated vehicles ("Mini ROVs").
- Assets of The Oceanscience Group Ltd. ("Oceanscience") - Oceanscience, headquartered in Carlsbad, California, develops oceanographic and hydrographic deployment equipment designed to save survey time and improve data quality.
- Assets of Atlas Hydrographic GmbH ("Atlas") - Atlas, based in Bremen, Germany, designs, manufactures, and integrates marine sonar systems for mid and deep water applications.
- Investment in Ocean Aero, Inc. ("Ocean Aero") - Ocean Aero, based in Poway, California, is designing an unmanned surface vehicle that will also have the ability to descend subsea.

To expand our environmental instrumentation product lines:

- Photon Machines, Inc. ("Photon") - Photon, headquartered in Bozeman, Montana, designs and manufactures laser-based sample introduction equipment for laboratory instrumentation.

Available Information

Our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, any Current Reports on Form 8-K, and any amendments to these reports, are available on our website as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the Securities and Exchange Commission (the "SEC"). The SEC also maintains a website that contains these reports and other information we file, including our proxy statements, at www.sec.gov. Any materials we file with the SEC may be viewed at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, our Corporate Governance Guidelines, our Global Code of Ethical Business Conduct, our Codes of Ethics for Financial Executives, Directors and Service Providers and the Charters of the standing committees of our Board of Directors are available on our website. We intend to post any amendments to these policies, guidelines and charters on our website. Our website address is www.teledyne.com. This information on our website is available free-of-charge. Alternatively, if you would like a paper copy of any report we file with the SEC (without exhibits) or other document, please write to Melanie S. Cibik, Senior Vice President, General Counsel and Secretary, Teledyne Technologies Incorporated, 1049 Camino Dos Rios, Thousand Oaks, California 91360-2362, and a copy of such requested document will be provided to you, free-of-charge.

Our Business Segments

Our businesses are divided into four segments: Instrumentation, Digital Imaging, Aerospace and Defense Electronics, and Engineered Systems. Financial information about our business segments can be found in Note 13 to our Notes to Consolidated Financial Statements in this Annual Report on Form 10-K.

Instrumentation

Our Instrumentation segment provides monitoring and control instruments for marine, environmental, industrial and other applications, as well as electronic test and measurement equipment. We also provide power and communications connectivity devices for distributed instrumentation systems and sensor networks deployed in mission critical, harsh environments.

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Marine Instrumentation

We offer a variety of products designed for use in harsh underwater environments, instruments that measure currents and other physical properties in the water column, systems that create acoustic images of objects beneath the water's surface, including the bottom of a body of water, and sensors that determine the geologic structure below the bottom. We also design and manufacture vehicles that utilize and transport these sensors over and beneath the water's surface. We design and manufacture geophysical streamer cables, hydrophones, seismic energy sources and specialty products used in offshore hydrocarbon exploration to locate oil and gas reserves beneath the ocean floor. Through our 2014 acquisition of Bolt, we are now a leading supplier of marine seismic energy sources and replacement parts for offshore energy exploration. Our Acoustic Doppler Current profilers ("ADCPs") precisely measure currents at varying depths in oceans and rivers, and our Doppler Velocity Logs ("DVLs") are used for navigation by civilian and military surface ships, unmanned underwater vehicles and naval divers. In addition to our DVLs, which are acoustic navigation devices, we design and manufacture inertial sensing and navigation products, as well as subsea pipe and cable detection systems for offshore energy, oceanographic and military marine markets. With the 2013 acquisition of CDL Limited ("CDL"), we obtained additional subsea inertial sensing and navigation products, and our goal is to accelerate the development and deployment of real-time motion sensing and communication systems for our subsea oceanographic and oil and gas customers. With the 2014 acquisition of Oceanscience, we design and manufacture remotely-controlled and tethered instrumentation deployment vehicles used for current measurement, seafloor mapping and measurement of physical parameters such as salinity.

Additionally, we design and manufacture hydrographic survey instrumentation used in port surveys, dredging, pre- and post-installation of offshore energy infrastructure and other challenging underwater applications. Our multibeam sonar systems range from portable high-resolution systems used on autonomous underwater vehicles ("AUVs") to full ocean depth vessel-mounted oceanographic systems. We offer 3D imaging systems for use from aircraft, fixed platforms, surface vessels and subsurface vessels over a wide range of distances and water depths. Our multibeam sonar systems are used for creating highly accurate maps of underwater offshore constructions, wrecks or quay walls in harbors. In particular, the multibeam sonars are used to produce high quality maps of the seafloor. With advanced imaging capabilities, our sonars create images of hidden structures on the seafloor and are also used for detecting underwater mineral deposits, gas and oil seeps streaming from the seabed. Sonars are used to create real-time images of the environment in the oceans and enable precise navigation of AUVs, which are essentially advanced robots navigating through the oceans autonomously. Our products are being utilized in both commercial and defense applications where we provide systems for detecting mines in the water.

We provide a broad range of end-to-end undersea interconnect solutions to the offshore oil and gas, naval defense, oceanographic and telecom markets. We manufacture subsea, wet-mateable electrical and fiber-optic interconnect systems and subsea pressure vessel penetrators and connector systems with glass-to-metal seals. Our water-proof and splash-proof neoprene and glass reinforced epoxy connectors and cable assemblies are used in underwater equipment and submerged monitoring systems. Bolt, acquired in 2014, added high-reliability underwater cables and connectors, as well as related electronic controllers, monitoring systems and other auxiliary equipment. We also manufacture subsea and topside pipeline corrosion and erosion monitoring detectors as well as flow integrity monitoring solutions for the oil and gas industry. These flow assurance sensors and equipment rely on our wet-mateable interconnect systems and our sensor feed-through systems. Our Teledyne Oil & Gas group and Teledyne Scientific Company continue to work collaboratively to improve the reliability of materials exposed to ultra deep-sea conditions.

We offer a variety of marine instrumentation products used by the U.S. Navy and in energy exploration, oceanographic research and port and harbor security services. Our products include acoustic modems for networked underwater communication and sidescan and sub-bottom profiling sonar systems. Using our acoustic technology, we also provide quality control and package integrity systems under the Taptone® brand to the food and beverage, personal care and pharmaceutical industries.

We manufacture complete autonomous underwater vehicle systems. Our marine gliders use a silent buoyancy engine for propulsion that takes advantage of changes in buoyancy in conjunction with wings and tail steering to convert vertical motion to horizontal displacement, thereby propelling the system on a programmed route with very low power consumption. Glider applications range from oceanographic research to military persistent surveillance systems as

part of a mobile underwater sensing and communication network. The modular design of our battery-powered, man-portable Gavia™ AUV allows for rapid sensor bay reconfiguration and battery replacement capability. Our Slocum gliders, as well as our ADCPs, are being used as part of the National Science Foundation's Ocean Observatories Initiative to collect physical, chemical, geological and biological data from the ocean and the seafloor on coastal, regional and global scales. Through the SeaBotix business, we design and manufacture Mini ROVs used in maritime security, search and rescue, aquaculture, and scientific research applications.

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Environmental Instrumentation

We offer a wide range of products used for environmental monitoring, instruments that enable measurement and monitoring of key air environmental parameters as well as gas purity and content for industrial and manufacturing applications, sensors for the measurement and monitoring of the physical and chemical properties of untreated water, and laboratory systems that improve sample acquisition, handling, and preparation for analysis.

Our instrumentation monitors trace levels of gases such as sulfur dioxide, carbon monoxide, carbon dioxide, oxides of nitrogen and ozone in order to measure the quality of the air we breathe. Our instrumentation also monitors particulate air pollution, and we supply environmental monitoring systems for the detection, measurement and automated reporting of air pollutants from industrial stack emissions. We serve the process control and monitoring needs of industrial plants with instruments that include gas analyzers, vacuum and flow measurement devices and torque measurement sensors. We were a pioneer in the development of precision trace oxygen analyzers, and we now manufacture a wide range of process gas and liquid analysis products for the measurement of process contaminants, hydrocarbons, combustibles, oil-in-water, moisture, pH and many other parameters. Our instrumentation is also used to detect a variety of water quality parameters. Our sampler products include portable, refrigerated and specialty samplers used in hazardous location applications. Flow meters include ultrasonic, submerged probe, bubbler and area velocity models. Laser technology is now part of our flow capabilities. Our custom analyzer systems provide turn-key solutions to complex process monitoring and/or control applications found in petrochemical and refinery facilities. Our broad line of instruments for precise measurement and control of vacuum and gas flow are used in varied applications such as semiconductor manufacturing, refrigeration, metallurgy and food processing.

We provide laboratory instrumentation that complements our process or field environmental instrumentation. We manufacture laboratory instrumentation that automates the preparation and concentration of organic samples for the analysis of trace levels of volatile organic compounds by a gas chromatograph and mass spectrometer. We also provide laboratory instrumentation for the detection of total organic carbon and total nitrogen in water and wastewater samples. In addition, we provide inductively coupled plasma laboratory spectrometers, atomic absorption spectrometers, mercury analyzers and calibration standards. With the 2013 acquisition of assets of CETAC Technologies (“CETAC”), we enhanced our laboratory automation and robotics capabilities as well as our elemental and chemical analysis systems. Our 2014 acquisition of Photon complements our CETAC business by adding laser-ablation components to CETAC’s sample introduction systems. Our advanced elemental analysis products are used by environmental and quality control laboratories to detect trace levels of inorganic contaminants in water, foods, soils and other environmental and geological samples. Our high precision, high pressure syringe pumps measure process extraction rates of fluids ranging from liquefied gases to viscous tars. Plus, we manufacture liquid chromatography instruments and accessories for the purification of organic compounds. Our liquid chromatography customers include pharmaceutical laboratories involved in drug discovery and development.

Test and Measurement Instrumentation

Since our August 2012 acquisition of LeCroy Corporation (“LeCroy”), we develop, manufacture, sell and license high-performance oscilloscopes and high speed protocol analyzers for various computer communication links. We also provide related test and measurement equipment, probes, accessories and application solutions. To a lesser extent, we provide extended warranty contracts, maintenance contracts and repairs and calibrations on our instruments after their warranties expire.

Our oscilloscopes are tools used by designers and engineers to measure and analyze complex electronic signals in order to develop high-performance systems, validate electronic designs and improve time to market. We offer eight families of real-time oscilloscopes, which address different needs: HDO4000/HDO6000, our 12-bit, high definition oscilloscopes; LabMaster 10 Zi-A; WaveMaster, our industry leading high-end oscilloscope family; WavePro, which is targeted at the mid-to high-range performance sector; WaveRunner, designed for the general purpose and bench-top sector; WaveSurfer designed for users in the lower bandwidth bench-top sector of the market; WaveJet, designed for value-oriented users in the economy sector of the market; and WaveAce, our entry-level oscilloscope products. In addition to our real-time oscilloscopes, we have the WaveExpert family of sampling oscilloscopes and modules. In 2014, we released the world’s first 100GHz real-time scope, aimed at applications such as high speed optical communications, and we extended our line of 12 bit oscilloscopes to include an eight channel product with specialized

capabilities for analyzing power and efficiency of motors and the associated drive circuitry. In collaboration with Teledyne Scientific Company, we also completed the design of a next generation indium phosphide (“InP”) chip. The integrated circuit represents the first device in an expansive chip set planned for future generations of high speed oscilloscopes.

Our protocol analyzers are used by designers and engineers to reliably and accurately monitor communications traffic and diagnose operational problems in a variety of communications devices to ensure that they comply with industry standards.

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Our test and measurement products are sold into a broad range of industry sectors, including computer, semiconductor, consumer electronics, data storage, automotive, industrial, military, aerospace and telecommunications. We believe designers in all of these industry sectors are developing products which rely on increasingly complex electronic signals to provide the features and performance their customers require.

Digital Imaging

Our Digital Imaging segment includes high performance sensors, cameras and systems, within the visible, infrared, ultraviolet and X-ray spectra for use in industrial, government and medical applications, as well as micro electro-mechanical systems ("MEMS"). It also includes our sponsored and centralized research laboratories benefiting government programs and businesses.

We design, develop and manufacture image capture products, primarily consisting of high performance image sensors and digital cameras for use in industrial, scientific, medical and professional applications. We also design, develop and manufacture image processing products, primarily consisting of hardware and software for image processing in industrial and medical applications. We continue to develop high-resolution, low dose X-ray sensors for medical, dental and industrial applications. Our high performance image sensors utilize both charge coupled device ("CCD") and complementary metal-oxide semiconductor ("CMOS") technology. In particular, our CMOS image sensing technology is used in our large flat panel detectors for X-ray imaging and in some of our sensors used for industrial machine vision applications. Our image processing software allows original equipment manufacturers ("OEMs") and systems integrators to develop vision applications using our image acquisition and processing hardware. Our smart camera products are user-friendly, cost-effective vision appliances for task-specific factory floor applications such as gauging, high-precision alignment, inspection, assembly verification and machine guidance. Unlike our OEM imaging products, this category of cameras is designed to be quickly deployed by technicians on the factory floor. Additionally, we produce and provide manufacturing services for MEMS and high voltage CMOS devices and complete integrated circuit ("IC") products. The majority of our semiconductor manufacturing capacity is consumed by external customers with the remaining capacity applied towards supplying unique CCD and microbolometer fabrication services for our internal image sensor requirements.

Our Digital Imaging segment also provides Light Detection and Ranging ("LIDAR") systems for airborne terrestrial mapping, mobile mapping, bathymetry and laser-based 3D imaging applications through our majority-owned subsidiary, Optech. These imaging and mapping systems are used by commercial and government customers serving energy, natural resources and infrastructure applications.

We provide research and engineering capabilities primarily in the areas of electronics, materials, optical systems, and information science to military, aerospace and industrial customers, as well as to various businesses throughout Teledyne. We receive funding from the Defense Advanced Research Products Agency ("DARPA"), the Intelligence Advanced Projects Research Activity ("IARPA"), and various other U.S. Department of Defense funding agencies, and we collaborate with researchers at universities and national laboratories to stay at the forefront of emerging technologies. We have developed high speed electronics, MEMS sensors and actuators, advanced functional and structural materials, liquid-crystal based optical devices, and image processing algorithms.

We produce advanced focal plane arrays, sensors, and subsystems that cover a broad spectrum of frequencies from X-ray wavelengths to 18 micron long-wave infrared wavelengths. We develop imaging process algorithms and manufacture compact mid-wave and short-wave infrared camera systems. We are a leader in the development and production of large format focal plane array sensors for both military and space science markets.

We deliver advanced imaging solutions to the U.S. Department of Defense, NASA, prime system integrators, foreign space agencies and commercial customers. Our sensor technologies are on the Hubble Space Telescope and weather satellites, are orbiting the moon and Mars, are on the way to Pluto and asteroid missions, and can be found at major ground-based telescopes. In the U.S. defense arena, our sensors are integrated into several major systems for space surveillance, persistent surveillance, chemical detection and target identification, among others. We have developed various sensors, subassemblies and cameras for air- and ground-based applications. We have developed infrared cameras and hyperspectral sensors for unmanned aerial vehicles. We also design and manufacture advanced military laser protection eyewear. Finally, we develop low-noise, high performance cameras for use in laboratory instruments.

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Aerospace and Defense Electronics

Our Aerospace and Defense Electronics segment provides sophisticated electronic components and subsystems and communications products, including defense electronics, harsh environment interconnects, data acquisition and communications equipment for aircraft, and components and subsystems for wireless and satellite communications, as well as general aviation batteries.

Over the years, principally through focused acquisitions, we have expanded our microwave components and subsystems business with a goal of providing more highly integrated microwave subsystems and solutions to our customers. Historically, we designed and manufactured helix traveling wave tubes, commonly called TWTs, used to provide broadband power amplification of microwave signals. Military applications include radar, electronic warfare and satellite communication. We make TWTs for commercial applications as well, such as electromagnetic compatibility test equipment and satellite communication terminals. More recently, we have designed and delivered high power solid state TWT replacement amplifiers and complete amplifiers that incorporate a TWT and a power supply.

We design and manufacture solid state radio frequency ("RF") and microwave components and subassemblies used in a wide variety of applications. As components which form the building blocks for electronic systems, we produce amplifiers, voltage-controlled oscillators, YIGs, BAWs, low noise amplifiers ("LNAs"), microwave mixers, and detectors using LDMOS, GaAs, GaN, InP, and SiC technologies. These components form the basis for our line of solid state power amplifiers, RF converters, and modems which are used in systems that provide communications links between ground stations, mobile units, UAVs, and orbiting satellites. Such products are also used in mobile telephone, TV broadcast and commercial data communications networks. In addition, some of our products are modified to design and manufacture higher level subsystems including: UAV, mobile, and fixed location radar transmitters and receivers; test and measurement systems; and Instantaneous Frequency Measurement ("IFM")-based systems and subsystems. The latter includes integrated frequency locked sources and set-on receiver jammers used for the U.S. Navy and Air Force training.

We supply a variety of connectors and cable assemblies, including specialized high voltage connectors and subassemblies and coax microwave cable and connectors, for defense, aerospace and industrial applications. We also provide custom, high-reliability bulk wire and cable assemblies to a number of marine, environmental and industrial markets. Additionally, we produce pilot helmet mounted display components and subsystems for the Joint Helmet Mounted Cueing System ("JHMCS") used in the F-15, F-16 and F-18 aircrafts. The JHMCS system is a multi-role system designed to enhance pilot situational awareness and provides visual control of aircraft targeting systems and sensors. We manufacture microprocessor-controlled aircraft ejection seat sequencers and related support elements to military aircraft programs. We continue to pursue the development of electronic safe and arm devices for use in a number of military applications.

We provide specialty electronic manufacturing services. We develop and manufacture custom microelectronic modules that provide both high reliability and extremely dense packaging for military applications. We also develop custom tamper-resistant microcircuits designed to provide enhanced security in military communication. We serve the market for high-mix, low-volume manufacturing of sophisticated military electronics equipment. We manufacture advanced packaging solutions for military and commercial aircraft using rigid and rigid-flex printed circuit boards.

We supply electromechanical relays, solid state power relays and coaxial switching devices to military, aerospace and other industrial markets. Applications include microwave and wireless communication infrastructure, RF and general broadband test equipment, test equipment used in semiconductor manufacturing, and industrial and commercial machinery and control equipment. On commercial aircraft, our solid state and electromechanical relays are used in a variety of applications, including jet engine fuel control, management of control surfaces and other on-board applications.

We are a leading supplier of digital flight data acquisition and analysis systems to the civil aviation market. These systems acquire data for use by the aircraft's flight data recorder as well as record additional data for the airline's operation, such as aircraft and engine condition monitoring. We provide the means to transfer this data, using Teledyne's patented wireless technology, from the aircraft to the airline operation center. We also design and manufacture airborne networking products, including servers, as well as aircraft data loading equipment, flight line

maintenance terminals and data distribution software used by commercial airlines and the U.S. military. In 2013, the Boeing Company awarded us a single source contract to develop and supply the next generation of aircraft data acquisition and information management systems for the majority of future Boeing commercial aircraft. Development has commenced with expected initial delivery of the systems expected to start in the third quarter of 2015.
We also provide lead acid aircraft batteries for general aviation, and business and light jet applications.

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Engineered Systems

Our Engineered Systems segment provides innovative systems engineering and integration and advanced technology development as well as manufacturing solutions for defense, space, environmental and energy applications. This segment also designs and manufactures electrochemical energy systems and small turbine engines.

Engineered Products and Services

Teledyne Brown Engineering, Inc. is a well-recognized whole life-cycle space, missile defense, marine systems, and energy company. With changes in U.S. fiscal policy, we have been working to shift its focus from chiefly supporting U.S. Government space and defense programs to increasing its commercial portfolio.

We lead and support air and missile defense programs, including the Objective Simulation Framework ("OSF") and Test Execution Services and Launch Augmentation programs ("TESTLA"). As the Missile Defense Agency ("MDA") prime contractor for the OSF contract, we design, develop, test, implement and maintain the OSF. The OSF is being designed to support full scale simulations, ground tests and live fire events throughout the life cycle of the Ballistic Missile Defense System. Under the 2013-awarded TESTLA contract, we will continue development, manufacturing and integration of product solutions in support of the warfighter.

We specialize in marine systems design and manufacturing. For the U.S. Special Operations Command, we are the prime contractor engaged to design, develop, test, manufacture and sustain the Shallow Water Command Submersible ("SWCS") vehicle to replace the current SEAL Delivery Vehicle. With the design of the SWCS vehicle nearing completion, we started the manufacturing and test phase in 2014. We are producing the Littoral Battlespace Sensing Glider ("LBS-G") system for the U.S. Navy Program Executive Office - Command, Control, Computer and Intelligence ("PEO-C4I"). Teledyne Webb Research is the glider developer and manufacturer on the LBS-G program. We manufacture gun mounts for the Littoral Combat Ship program. Under contract to Raytheon Company, we continue to manufacture advanced mine detection and neutralization systems.

We are active in U.S. space programs and continue to play a vital role in the science operations area of the International Space Station ("ISS") program. We provide 24-hour-per-day payload operations in the ISS Payload Operations and Integration Center located at NASA's Marshall Space Flight Center. In 2012, NASA awarded us a cooperative agreement to foster the commercial utilization of the ISS. Under this agreement, we continue to work to develop a commercial earth imaging platform known as the Multi-User System for Earth Imaging ("MUSES"). We also design, develop, and manufacture components for liquid rocket engines, scientific payloads, and human space flight vehicles.

We operate a full service radiological analysis laboratory in Knoxville, Tennessee, which principally supports nuclear power plants in United States. We also manage and operate a separation, purification and analysis of atmospheric samples laboratory for the U.S. Government. Additionally, we provide engineering and manufacturing for customers in the commercial nuclear market.

Extending our historic facilities and plant management services to the commercial arena, in November 2012, we were awarded a three-year lab and office facility management contract for the management and support of research services from the Dow Chemical Company. We are currently leading on-site and off-site management and support of research services at three Dow Chemical research facilities.

We manufacture products that are primarily highly engineered and high quality machined and metal fabricated components and assemblies for external customers across the spectrum of our core business base, including NASA, the U.S. Department of Defense customers and the U.S. Department of Energy, as well as commercial customers. Through our U.K.-based operations, we manufacture advanced composites for the government and commercial aviation customers.

Energy Systems

We manufacture hydrogen/oxygen gas generators used worldwide in electrical power generation plants, semiconductor manufacturing, optical fiber production, chemical processing, specialty metals, float glass and other industrial processes. Our sales of hydrogen generators have been primarily in developing countries and domestic applications where delivered merchant gas is not practical. We also provide thermoelectric and electrochemical energy technology solutions for use in U.S. Government programs.

Turbine Engines

We design, develop and manufacture small turbine engines primarily used in tactical missiles for military markets. Our engines power the Boeing/U.S. Navy Harpoon and Standoff Land Attack Missile systems, and we are the sole source provider of engines for the baseline Lockheed Martin/U.S. Air Force Joint Air-to-Surface Standoff Missile ("JASSM"). We also continue to work on advanced technology for small turbine engines and components for programs sponsored by the U.S. Air Force Research Laboratory.

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Customers

We have hundreds of customers in the various industries we serve. No commercial customer accounted for more than 10% of our total sales, nor more than 10% of any segment sales, during 2014, 2013 or 2012. Our largest commercial customer, a customer of our Instrumentation segment, accounted for 2.8%, 3.6% and 3.4% of total sales in 2014, 2013 and 2012, respectively.

Sales to international customers accounted for approximately 45% of total sales in 2014, compared with 44% in 2013 and 39% in 2012. In 2014, we sold products to customers in over 100 foreign countries. Approximately 90% of our sales to foreign-based customers were made to customers in 24 foreign countries. The 2014 top five countries for international sales were the United Kingdom, Norway, China, Germany and South Korea and constituted approximately 21% of our total sales.

Approximately 25%, 27% and 32% of our total sales for 2014, 2013 and 2012, respectively, were derived from contracts with agencies of, and prime contractors to, the U.S. Government. Information on our sales to the U.S. Government, including direct sales as a prime contractor and indirect sales as a subcontractor, is as follows (in millions):

	2014	2013	2012
Instrumentation	$38.6	$40.6	$39.9
Digital Imaging	102.2	120.2	128.8
Aerospace and Defense Electronics	245.3	260.2	269.9
Engineered Systems	221.8	209.2	245.4
Total U.S. Government sales	$607.9	$630.2	$684.0

Our principal U.S. Government customer is the U.S. Department of Defense. These sales represented 20%, 21% and 26% of our total sales for 2014, 2013 and 2012, respectively. In 2014 and 2013, our largest program with the U.S. Government was the Objective Simulation Framework contract with the Missile Defense Agency, which represented 1.3% and 1.4% of our total sales, respectively. In 2012, our largest program with the U.S. Government was the Systems Development and Operations Support contract with NASA’s Marshall Space Flight Center, which represented 1.9% of our total sales in 2012.

As described under risk factors, there are risks associated with doing business with the U.S. Government. In 2014, approximately 58% of our U.S. Government prime contracts and subcontracts were fixed-price type contracts, compared to 60% in 2013 and 59% in 2012. Under these types of contracts, we bear the inherent risk that actual performance cost may exceed the fixed contract price. Such contracts are typically not subject to renegotiation of profits if we fail to anticipate technical problems, estimate costs accurately or control costs during performance. Additionally, U.S. Government contracts are subject to termination by the U.S. Government at its convenience, without identification of any default. When contracts are terminated for convenience, we typically recover costs incurred or committed, settlement expenses and profit on work completed prior to termination. We had three U.S. Government contracts terminated for convenience in 2014, compared with four in 2013 and six in 2012.

Our total backlog of confirmed orders was approximately $944.6 million at December 28, 2014, compared with $941.2 million at December 29, 2013, and $952.5 million at December 30, 2012. We expect to fulfill 99% of such backlog of confirmed orders during 2015.

Raw Materials and Suppliers

Generally, our businesses have experienced minimal fluctuations in the supply of raw materials, but not without some price volatility. While some of our businesses provide services, for those businesses that sell hardware and product, a portion of the value that we provide is labor oriented, such as design, engineering, assembly and test activities. In manufacturing our products, we use our own production capabilities and also third party suppliers and subcontractors, including international sources. Some of the items we use for the manufacture of our products, including certain gyro components for some marine navigation applications, certain magnets and helix wire for our traveling wave tubes and certain infrared detectors substrates, certain ceramics and molding compounds used in our sonar systems, as well as certain scintillator materials use in the production of our X-ray detectors, are purchased from limited or single sources, including international sources, due to technical capability, price and other factors. While over the years we have not experienced much difficulty in procuring raw materials, components, sub-assemblies and other supplies required in

our manufacturing processes, disruption in the global economy and financial markets could trigger increased pricing or otherwise affect our suppliers and negatively impact our ability to procure such supplies.

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Sales and Marketing

Our sales and marketing approach varies by segment and by products within our segments. A shared fundamental tenet is the commitment to work closely with our customers to understand their needs, with an aim to secure preferred supplier and longer-term relationships.

Our segments use a combination of internal sales forces, distributors and commissioned sales representatives to market and sell our products and services. Our Teledyne Instruments companies and other businesses have been working over the years to consolidate or share internal sales and servicing efforts. Several Teledyne businesses have been marketing and selling products collaboratively to similar customers to promote “one-stop” shopping under singular “brand” names, including Teledyne Oil & Gas, Teledyne Marine, Teledyne Nuclear, Teledyne Water Quality and Teledyne Microwave Solutions.

Products are also advertised in appropriate trade journals and by means of various websites. To promote our products and other capabilities, our personnel regularly participate in relevant trade shows and professional associations.

Many of our government contracts are awarded after a competitive bidding process in which we seek to emphasize our ability to provide superior products and technical solutions in addition to competitive pricing.

Through Teledyne Technologies International Corp. and other subsidiaries, we have established offices in foreign countries to facilitate international sales for various businesses. Locations include Brazil, China, France, Germany, Italy, Japan, Malaysia, Singapore, South Korea, Switzerland and the United Arab Emirates.

Competition

We believe that technological capabilities and innovation and the ability to invest in the development of new and enhanced products are critical to obtaining and maintaining leadership in our markets and the industries in which we compete. Although we have certain advantages that we believe help us compete effectively in our markets, each of our markets is highly competitive. Because of the diversity of products sold and the number of markets we serve, we encounter a wide variety of competitors, none of which we believe offer all of the same product and service lines or serve all of the same markets as we do. Our businesses vigorously compete on the basis of quality, product performance and reliability, technical expertise, price and service. Many of our competitors have, and potential competitors could have, greater name recognition, a larger installed base of products, more extensive engineering, manufacturing, marketing and distribution capabilities and greater financial, technological and personnel resources than we do.

Research and Development

Our research and development efforts primarily involve engineering and design related to improving existing products and developing new products and technologies in the same or similar fields. We spent a total of $428.8 million in 2014, $388.2 million in 2013 and $364.2 million in 2012 on research and development and bid and proposal costs. Customer-funded research and development, most of which was attributable to work under contracts with the U.S. Government, represented approximately 61% of total research and development costs for 2014, compared with 57% of total research and development costs for 2013 and 64% in 2012.

In 2014, we incurred $166.9 million in Company-funded research and development and bid and proposal costs. We expect the level of Company-funded research and development and bid and proposal costs to be approximately $180.0 million in 2015.

Intellectual Property

While we own and control various intellectual property rights, including patents, trade secrets, confidential information, trademarks, trade names, and copyrights, which, in the aggregate, are of material importance to our business, we believe that our business as a whole is not materially dependent upon any one intellectual property or related group of such properties. We own several hundred active patents and are licensed to use certain patents, technology and other intellectual property rights owned and controlled by others. Similarly, other companies are licensed to use certain patents, technology and other intellectual property rights owned and controlled by us. Patents, patent applications and license agreements will expire or terminate over time by operation of law, in accordance with their terms or otherwise. We do not expect the expiration or termination of these patents, patent applications and license agreements to have a material adverse effect on our business, results of operations or financial condition.

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Employees

We consider our relations with our employees to be good. At December 28, 2014, our total workforce consisted of approximately 9,800 employees, of which approximately 7,400 employees were located in the United States.

Executive Management

Teledyne's executive management includes:

Name and Title	Age	Principal Occupations Last 5 Years
Executive Officers:		
Robert Mehrabian* Chairman, President and Chief Executive Officer; Director	73	Dr. Mehrabian has served as Chairman, President and Chief Executive Officer of Teledyne for more than five years.
Aldo Pichelli* Executive Vice President Instrumentation and Aerospace and Defense Electronics Segments	63	Mr. Pichelli has been an Executive Vice President of Teledyne having responsibility for the Instrumentation and Aerospace and Defense Electronics segments since July 1, 2013. Prior to that, he had been President and Chief Operating Officer of Teledyne's Instrumentation and Aerospace and Defense Electronics segments since January 2, 2011. From September 1, 2007, to that date, he had been President and Chief Operating Officer of the Electronics and Communications segment.
Rex D. Geveden* Executive Vice President Engineered Systems and Digital Imaging Segments	53	Mr. Geveden has been an Executive Vice President of Teledyne having responsibility for the Engineered Systems and Digital Imaging segments since July 1, 2013. Since May 16, 2014, he also holds the title of President of Teledyne DALSA. From August 1, 2007, until his promotion as Executive Vice President, he had been President of the Engineered Systems segment. Since August 1, 2007, he has been the President of Teledyne Brown Engineering, Inc. From January 16, 2012, to July 1, 2013, he had also been the President and Chief Executive Officer of Teledyne Scientific & Imaging, LLC. From January 1, 2008, From January 1, 2008, through January 2, 2011, he had been the President of the Energy and Power Systems segment.
Melanie S. Cibik* Senior Vice President, General Counsel and Secretary	55	Miss Cibik has been Senior Vice President, General Counsel and Secretary of Teledyne since September 1, 2012. For more than five years prior to that, she had been Vice President, Associate General Counsel and Assistant Secretary of Teledyne.
Susan L. Main* Senior Vice President and Chief Financial Officer	56	Ms. Main has been Senior Vice President and Chief Financial Officer of Teledyne since November 19, 2012. For more than five years prior to that, she had been Vice President and Controller of Teledyne.
Jason VanWees* Senior Vice President, Strategy and Mergers & Acquisitions	43	Mr. VanWees has been Senior Vice President, Strategy and Mergers & Acquisitions since July 1, 2013. Prior to his promotion, he had been Vice President, Strategy and Mergers & Acquisitions since September 1, 2012. Prior to that, he had been Vice President, Corporate Development and Investor Relations of Teledyne for more than five years.
Wajid Ali* Vice President and Controller	41	Mr. Ali has been Vice President and Controller of Teledyne since November 19, 2012. For more than five years prior to that, he had been Vice President and Chief Financial Officer of Teledyne DALSA, Inc. (formerly known as DALSA Corporation).
George C. Bobb III*	40	

Chief Compliance Officer, Vice President Information Technology and Deputy General Counsel for Litigation	Mr. Bobb has been Chief Compliance Officer, Vice President-Information Technology and Deputy General Counsel for Litigation of Teledyne since July 22, 2014. Prior to that he had been Vice President, Chief Compliance Officer and Deputy General Counsel for Litigation of Teledyne since September 1, 2012. Prior to that, he had been an Associate General Counsel of Teledyne and the General Counsel of the Engineered Systems and Digital Imaging segments since August 2011. Since December 20, 2011, he has been Teledyne's Chief Ethics Officer. Prior to that, he held numerous legal roles since he joined Teledyne in July 2008.

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Name and Title	Age	Principal Occupations Last 5 Years
Other Officers:		
Cynthia Belak Vice President, Business Risk Assurance	58	Ms. Belak has been Vice President, Business Risk Assurance of Teledyne since January 24, 2012. Prior to that, since January 4, 2010, Ms. Belak had been Group Controller within the Aerospace and Defense Electronics segment.
Stephen F. Blackwood Vice President and Treasurer	52	Mr. Blackwood has been Vice President and Treasurer of Teledyne for more than five years.
Anna Segobia Masters Vice President, Human Resources and Deputy General Counsel	56	Ms. Masters has been Vice President, Human Resources and Deputy General Counsel of Teledyne since joining on July 7, 2014. For more than five years prior to that, Ms. Masters served as a partner in the Los Angeles office of the law firm Winston & Strawn LLP, focusing on employment law matters.
Edwin Roks Vice President and Chief Technology Officer	50	Mr. Roks has been Vice President and Chief Technology Officer of Teledyne since January 2, 2014. Prior to that and since April 2010, Mr. Roks served as Executive Vice President and General Manager of the professional imaging division of Teledyne DALSA, Inc. (formerly known as DALSA Corporation). Before that he had been Vice President and General Manager of both the professional imaging and CMOS integrated circuits groups of DALSA.

* Such officers are subject to the reporting and other requirements of Section 16 of the Securities Exchange Act of 1934, as amended.

Dr. Robert Mehrabian and Teledyne have entered into a Fifth Amended and Restated Employment Agreement dated as of October 22, 2013. Under the agreement, we will employ Dr. Mehrabian as the Chairman, President and Chief Executive Officer of Teledyne through December 31, 2017, at an annual base salary that is currently $955,000. The agreement provides that Dr. Mehrabian is entitled to participate in Teledyne's annual incentive bonus plan ("AIP") and other executive compensation and benefit programs. The agreement provides Dr. Mehrabian with a non-qualified pension arrangement, under which Teledyne will pay him annually starting six months following his retirement and for a period of 10 years, as payments supplemental to any accrued pension under our qualified pension plan, an amount equal to 50% of his base compensation as in effect on retirement.

On May 16, 2014, Rex Geveden and Teledyne entered into a letter agreement in connection with Mr. Geveden's appointment as President of Teledyne DALSA, Inc. ("DALSA") and his temporary relocation to Ontario, Canada. Pursuant to the letter agreement, effective May 16, 2014, Mr. Geveden's annual base salary is $435,000 (from his 2014 beginning base salary of $410,000), he will be entitled to participate in the AIP and other executive compensation and benefit programs, he will be eligible for reimbursement of up to $200,000 to cover all relocation costs for his move to Canada and up to $200,000 to cover all relocation costs for his move back to the United States to further his employment with Teledyne, in each case net of taxes, and Teledyne will make an additional tax equalization payment to compensate Mr. Geveden for any additional Canadian income tax liability which he may incur as a result of the performance of his duties in Canada.

Thirteen current members of management (including the named executives) have entered into change of control severance agreements. The agreements have a three-year, automatically renewing term, except as noted below. The executive is entitled to severance benefits if (1) there is a change in control of the Company and (2) within three months before or 24 months after the change in control, either we terminate the executive's employment for reasons other than cause or the executive terminates the employment for good reason. "Severance benefits" currently consist of:

- A cash payment equal to three times in the case of Dr. Mehrabian or two times in the other cases the sum of (i) the executive's highest annual base salary within the year preceding the change in control and (ii) the Annual Incentive Plan bonus target for the year in which the change in control occurs or the average actual bonus payout for the three

years immediately preceding the change in control, whichever is higher.

- A cash payment for the current Annual Incentive Plan bonus cycle based on the fraction of the year worked times the Annual Incentive Plan target objectives at 100%.
- Payment in cash for unpaid performance share program awards, assuming applicable goals are met at 120% of performance targets.
- Continued equivalent health and welfare (e.g., medical, dental, vision, life insurance and disability) benefits at our expense for a period of up to 36 months (24 months in some agreements) after termination (with the executive bearing any portion of the cost the executive bore prior to the change in control); provided, however, such benefits would be discontinued to the extent the executive receives similar benefits from a subsequent employer.
- Removal of restrictions on restricted stock issued under our restricted stock award programs.
- Full vesting under the Company's pension plans (within legal parameters) such that the executive shall be entitled to receive the full accrued benefit under all such plans in effect as of the date of the change in control, without any actuarial reduction for early payment.

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- Up to $25,000 ($15,000 in some agreements) reimbursement for actual professional outplacement services.
- Immediate vesting of all stock options, with options being exercisable for the full remainder of the term.
- There is no “gross up payment” to hold the executive harmless against the impact, if any, of federal excise taxes imposed on executive as a result of “excess parachute” payments as defined in Section 280G of the Internal Revenue Code. The executive will receive the better of, on an after-tax basis, (a) the unreduced excess parachute payment with no tax gross up payment, or (b) a parachute payment reduced to a level below which an excise tax is imposed.
- Certain payments are deferred for six months following a separation of service to assure compliance with Section 409A of the Internal Revenue Code.

The Company has entered into individual Indemnification Agreements with directors and certain officers and executives of Teledyne, including those members of Executive Management listed above. The Indemnification Agreements provide the directors and executives who are parties to the agreements with a stand-alone contractual right to indemnification and expense advancement to the greatest extent allowable under Delaware law. The Indemnification Agreements also provide:

- In a third-party proceeding, an indemnitee is entitled to indemnification if the indemnitee acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company and, if in a criminal action or proceeding, if the indemnitee had no reason to believe that his or her conduct was unlawful. In a third party proceeding, the indemnification obligation covers reasonable expenses, judgment fines, and amounts paid in settlement actually and reasonably incurred by the indemnity.
- In proceedings by or in the name of the Company (e.g., derivative suits), an indemnitee is entitled to indemnification if the indemnitee acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company. In derivative suits, the indemnification obligation covers reasonable expenses, but in proceedings where the Company is alleging harm caused by the indemnitee, the indemnitee would generally not be entitled to be indemnified for judgments, fines and amounts paid in settlement (otherwise the Company would effectively not recover any damages), unless perhaps a Delaware or other court determines otherwise despite the finding of liability.
- The Company has an obligation to advance, on an unsecured and interest free basis, reasonable expenses incurred by the indemnitee within 30 days of the indemnitee’s request. The indemnitee does not need to meet any standard of conduct to be entitled to advancement of expenses and there is no determination requirement to be made by the Board in connection with the advancements of expenses. An indemnity must repay any amounts advanced if it ultimately determined that the indemnity is not entitled to indemnification.

Our indemnification obligations do not cover the following situations: (1) where indemnification payments have been made under director’s and officer’s insurance or other indemnification provisions; (2) where the claim is based on disgorgement of short-swing profits under Section 16(b) of the Exchange Act; (3) where the claim is based on reimbursement by the indemnitee to the Company of a bonus or other incentive-based or equity-based compensation if required under the Exchange Act (e.g., in connection with a restatement as a result of the company’s noncompliance with the financial reporting requirements required by Section 304 of the Sarbanes-Oxley Act); or (4) where the proceeding is initiated by the indemnitee (other than proceedings that are consented to by the Board or that the indemnitee initiates against the Company to enforce the Agreement).

Under the Indemnification Agreements, in the event of a change in control or we reduce or do not renew our director’s and officer’s insurance coverage, we are required to purchase (or cause the acquirer or successor to the Company to purchase or maintain) a six-year tail policy, subject to a 200% premium cap. The agreements continue until the later of (i) 10 years after the indemnitee ceases to serve as a director or officer, and (ii) one year following the final termination of any proceeding subject to the agreement.

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Item 1A. Risk Factors

Risk Factors; Cautionary Statement as to Forward-Looking Statements

The following text highlights various risks and uncertainties associated with Teledyne. These factors could materially affect "forward-looking statements" (within the meaning of the Private Securities Litigation Reform Act of 1995) that we may make from time to time, including forward-looking statements contained in "Item 1. Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K and in Teledyne's 2014 Annual Report to Stockholders. It is not possible for management to predict all such factors, and new factors may emerge. Additionally, management cannot assess the impact of each such factor on Teledyne or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

A new global recession, continued economic uncertainty in Europe or an economic downturn in China may adversely affect us.

If another global recession emerges, if economic uncertainty in Europe continues or worsens, or if economic growth in China substantially slows, we may experience declines in revenues, profitability and cash flows from reduced orders, payment delays, collection difficulties, increased price pressures for our products, increased risk of excess and obsolete inventories or other factors caused by the economic problems of customers. If negative conditions in the global credit markets prevent our customers' access to credit or render them insolvent, orders for our products may decrease, which would result in lower revenue. Likewise, if our suppliers face challenges in obtaining credit, in selling their products, or otherwise in operating their businesses or remaining solvent, they may become unable to offer the materials we use to manufacture our products. These events could adversely impact our ability to manufacture affected products and could also result in reductions in our revenue, increased price competition, and increased operating costs, which could adversely affect our business, financial condition, results of operations, and cash flows.

We develop and manufacture products for customers in the energy exploration and production markets, domestic and international commercial aerospace markets, the semiconductor industry, the consumer electronics and automotive industries, each of which has been cyclical and suffered from fluctuating market demands. A cyclical downturn in these markets may materially affect future operating results.

In addition, we sell products and services to customers in industries that are sensitive to the level of general economic activity and consumer spending habits and in more mature industries that are sensitive to capacity. Adverse economic conditions affecting these industries may reduce demand for our products and services, which may reduce our revenues, profits or production levels. For example, several of our major customers have recently announced a reduction in their marine seismic operations, including reduction in the size of their fleets and steps to reduce costs and capital expenditures in connection with a general slowdown in the marine seismic exploration industry. Some of our businesses serve industries such as power generation and petrochemical refining, which may be negatively impacted by reductions in global capital expenditures and manufacturing capacity.

We are subject to the risks associated with international sales and international operations, which could harm our business or results of operations.

During 2014, sales to international customers accounted for approximately 45% of our total revenues, compared with 44% in 2013 and 39% in 2012. In 2014, we sold products to customers in over 100 countries. The 2014 top five countries for international sales were the United Kingdom, Norway, China, Germany and South Korea, constituting 21% of our total sales. Our acquisitions, including Bolt in 2014, RESON in 2013, LeCroy in 2012 and DALSA in 2011, contributed to greater international sales. We anticipate that future sales to international customers will continue to account for a significant and increasing percentage of our revenues, particularly since business and growth plans for many Teledyne businesses focus on sales outside of the United States, including to emerging markets such as China, Brazil and West Africa.

Risks associated with international sales include:

- political and economic instability;
- international terrorism;

- export controls, including U.S. export controls related to China, sanctions related to Russia, and increased scrutiny of exports of marine instruments, digital imaging and other products;
- changes in legal and regulatory requirements;
- U.S. and foreign government policy changes affecting the markets for our products;
- changes in tax laws and tariffs;
- changes in U.S. - China and U.S. - Russia relations;
- difficulties in protection and enforcement of intellectual property rights;

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- transportation, including piracy in international waters; and
- exchange rate fluctuations.

Any of these factors could have a material adverse effect on our business, results of operations and financial condition. Exchange rate fluctuations may negatively affect the cost of our products to international customers and therefore reduce our competitive position. With the 2011 acquisition of Canada-based DALSA and the 2012 acquisitions of the majority interest in the parent company of Optech, also Canada-based, volatility in the value of the Canadian dollar relative to the U.S. dollar, or other foreign currencies, could adversely affect the business, operations and the financial condition of our Digital Imaging segment. Our U.K.-based businesses and sales to customers in the U.K. could be adversely impacted by uncertainty related to continued U.K. membership in the European Union and continued austerity measures imposed by the U.K. Government.

Sales of our products and services internationally are subject to U.S. and local government regulations and procurement policies and practices including regulations relating to import-export control. Violations of export control rules could result in the impositions of fines and penalties or the suspension of our ability to export items from one or more businesses or the entire corporation. Depending on the scope of the suspension, this could have a material effect on our ability to perform certain international contracts.

Among other things, we are subject to the U.S. Foreign Corrupt Practices Act, or FCPA, which generally prohibits U.S. companies and their intermediaries from bribing foreign officials for the purpose of obtaining or keeping business or otherwise obtaining favorable treatment. Further, in 2011, the United Kingdom also implemented the U.K. Bribery Act, which raised the bar for anti-bribery law enforcement and compliance relative to the FCPA. Any determination that we had violated the FCPA, the U.K. Bribery Act, or equivalent anti-bribery and corruption laws in countries in which we do business could result in sanctions that could have a material adverse effect on our business, financial condition and results of operations. While we have procedures and compliance programs in place and conduct FCPA and other trainings, we cannot provide assurance that our internal controls will always protect us from misconduct by our employees, agents or business partners.

Our international operations are subject to risks customarily encountered in foreign operations, including interruption to transportation flows for delivery of parts to us and finished goods to our customers, changes in a specific country's or region's political or economic conditions, trade protection measures, import or export licensing requirements, consequences from changes in tax laws and regulatory requirements, difficulty in staffing and managing widespread operations, differing labor regulations, differing protection of intellectual property and geopolitical turmoil, including terrorism and war. We are also exposed to foreign currency exchange rate risk inherent in our sales commitments, anticipated sales and expenses, and assets and liabilities denominated in currencies other than the local functional currency, and may also become subject to interest rate risk inherent in any debt we incur, or investment portfolios we hold.

An increasingly material amount of our total revenues is derived from companies in the oil and gas industry, especially the offshore oil and gas industry, a historically cyclical industry with levels of activity that are significantly affected by the levels and volatility of oil and gas prices.

An increasingly material amount of our total revenues is derived from customers in or connected to the oil and gas exploration, development and production, especially the offshore oil and gas industry. Our largest commercial customer is in the offshore oil and gas industry and accounted for 2.8%, 3.6% and 3.4% of total sales in 2014, 2013 and 2012, respectively. The oil and gas industry is a historically cyclical industry characterized by significant changes in the levels of exploration and development activities. In 2014, the price of Brent crude oil experienced dramatic declines, from a high of $116 in June 2014, to a low of $56 in December 2014. Oil and gas prices, and market expectations of potential changes in those prices, significantly affect the levels of those activities. Worldwide political, economic and military events have contributed to oil and gas price volatility and are likely to continue to do so in the future. Any prolonged reduction in the overall level of offshore oil and gas exploration and development activities, whether resulting from changes in oil and gas prices or otherwise, could materially and adversely affect our financial condition and results of operations of our businesses within our Instrumentation segment. Some factors that have affected and are likely to continue affecting oil and gas prices and the level of demand for our services and products include the following:

- worldwide demand for oil and gas;
- general economic and business conditions and industry trends;
- the ability of the Organization of Petroleum Exporting Countries, or OPEC, to set and maintain production levels;
- the level of production by non-OPEC countries;
- the ability of oil and gas companies to generate funds for capital expenditures;
- domestic and foreign tax policy;
- laws and governmental regulations that restrict exploration and development of oil and gas in various offshore jurisdictions;
- laws and governmental regulation that restrict the use of hydraulic fracturing;
- technological changes;

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- the political environment of oil-producing regions;
- the price and availability of alternative fuels; and
- climate change regulation that provide incentives to conserve energy or use alternative energy sources.

Our 2014 acquisition of Bolt increases our exposure to offshore oil and gas exploration markets. Teledyne manufactures seismic sources, interconnects and data acquisition products used in offshore energy exploration. When crude oil and natural gas prices are low, the level of marine seismic exploration activity typically decreases, potentially resulting in reduced demand for our products used in offshore energy exploration. In addition, a decline in the level of capital spending by oil and natural gas companies may result in a reduced pace of development of new energy reserves, which could adversely affect demand for our products related to energy production, and, in certain instances, result in the cancellation, modification or rescheduling of existing orders.

Acquisitions involve inherent risks that may adversely affect our operating results and financial condition.

Our growth strategy includes acquisitions. Acquisitions involve various inherent risks, such as:

- our ability to assess accurately the value, strengths, weaknesses, internal controls, contingent and other liabilities and potential profitability of acquisition candidates;
- the potential loss of key personnel of an acquired business;
- our ability to integrate acquired businesses and to achieve identified financial, operating and other synergies anticipated to result from an acquisition;
- our ability to assess, integrate and implement internal controls of acquired businesses in accordance with Section 404 of the Sarbanes-Oxley Act of 2002;
- the distraction of management resulting from the need to integrate acquired businesses;
- increased competition for acquisition targets, which may increase acquisition costs;
- the potential impairment of assets;
- potential unknown liabilities associated with a business we acquire or in which we invest, including environmental liabilities;
- the risks associated with acquiring privately-held companies, which generally do not have as formal or comprehensive internal controls and compliance systems in place as public companies;
- production delays associated with consolidating acquired facilities and manufacturing operations;
- risks associated with owning and operating businesses internationally, including those arising from U.S. and foreign government policy changes or actions and exchange rate fluctuations; and
- unanticipated changes in business and economic conditions affecting an acquired business.

While we conduct financial and other due diligence in connection with our acquisitions and generally seek some form of protection, including indemnification from a seller and sometimes an escrow of a portion of the purchase price to cover potential issues, such acquired companies may have weaknesses or liabilities that are not accurately assessed or brought to our attention at the time of the acquisition. Further, indemnities or escrows may not fully cover such matters, particularly matters identified after a closing.

As they have over the last few years, acquisitions may also change the nature and level of various risks faced by Teledyne. For example, our acquisition of Bolt in 2014 increases our exposure to the offshore energy exploration market. The Bolt acquisition, the DALSA acquisition in 2011 and the LeCroy acquisition in 2012 increased the percentage of sales attributable to commercial customers as opposed to the U.S. Government. These acquisitions, coupled with our acquisitions of additional Canada-based companies (Optech and VariSystems) and U.K.-based PDM Neptec in 2012 and also our 2013 acquisitions of Denmark-based RESON, U.K.-based CDL and Netherlands-based Axiom, also increased the percentage of revenues and expenses that arise from international sources and consequently our exposure to U.S. and foreign policy changes and exchange rate fluctuations. Additionally, both DALSA's and LeCroy's businesses have been more capital intensive than other Teledyne businesses, increasing Teledyne's capital requirements.

Under SEC rules, Teledyne must issue a report on management's assessment of the effectiveness of internal controls over financial reporting. The SEC permits a limited time-based exclusion for acquisitions to give a company an opportunity to evaluate more fully the internal controls of acquired companies and correct deficiencies and institute

new or additional internal controls. Our 2014 management's report specifically excludes from its scope and coverage our 2014 acquisitions of Bolt, Oceanscience, Atlas and Photon, allowing us additional time to evaluate existing internal controls and implement additional controls as appropriate. With regard to future acquisitions, we can provide no assurance that we will be able to provide a report that contains no significant deficiencies or material weaknesses with respect to these acquired companies or other acquisitions.

In connection with our acquisitions, including ones which we do not complete, we may incur significant transaction costs. We are required to expense, as incurred, such transaction costs, which may have an adverse impact on our quarterly financial results. Further, the acquisitions of public companies, such as Bolt and LeCroy, now routinely trigger purported class action

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lawsuits, filed by shareholders of the target companies, the defense of which has increased transaction costs, among other things.

United States and global responses to terrorism, the winding down of war in Afghanistan, continuing turmoil in Middle Eastern countries, concerns regarding nuclear proliferation and the safety of nuclear energy, potential epidemics, financial issues facing airlines and volatile energy prices increase uncertainties with respect to many of our businesses and may adversely affect our business and results of operations.

United States' and global responses to terrorism, the winding down of war in Afghanistan, continuing turmoil in Middle Eastern countries and nuclear proliferation concerns increase uncertainties with respect to U.S. and other business and financial markets and could adversely affect our business and operations.

Air travel declines have occurred after terrorist attacks and heightened security alerts, as well as after the H1N1 virus, SARS and bird flu scares. While travel by our sales and service personnel to various regions has been affected by such factors, additional declines in air travel resulting from such factors and other factors could adversely affect the financial condition of many of our commercial airline and aircraft manufacturer customers and, in turn, could adversely affect our Aerospace and Defense Electronics segment. In addition, a prolonged virus epidemic or pandemic, or the threat thereof, could result in worker absences, lower productivity, voluntary closure of our offices and manufacturing facilities, disruptions in our supply chain, travel restrictions on our employees, and other disruptions to our businesses. Moreover, health epidemics may force local health and government authorities to mandate the temporary closure of our offices and manufacturing facilities.

Deterioration of financial performance of airlines could result in a reduction of discretionary spending for upgrades of avionics and in-flight communications equipment, which would adversely affect our Aerospace and Defense Electronics segment.

Higher oil prices could adversely affect commercial airline-related customers of our Aerospace and Defense Electronics segment. Conversely, lower oil prices could decrease oil exploration and petrochemical refining activities and hinder our marine and other instrumentation businesses. In addition, instability in the Middle East or other oil-producing regions could adversely affect expansion plans of the oil and gas industry customers of our instrumentation and cable solutions businesses.

Our dependence on revenue from government contracts subjects us to many risks:

Our revenue from government contracts depends on the continued availability of funding from the U.S. Government, and, accordingly, we have the risk that funding for our existing contracts may be canceled or diverted to other uses or delayed.

We perform work on a number of contracts with the U.S. Department of Defense and other agencies and departments of the U.S. Government including sub-contracts with government prime contractors. Sales under contracts with the U.S. Government as a whole, including sales under contracts with the U.S. Department of Defense, as prime contractor or subcontractor, represented approximately 25% of our total revenue in 2014, compared with 27% in 2013 and 32% in 2012. Performance under government contracts has inherent risks that could have a material effect on our business, results of operations, and financial condition.

Government contracts are conditioned upon the continuing availability of Congressional appropriations and the failure of Congress to appropriate funds for programs in which we participate could negatively affect our results of operations. The U.S. Government shutdown during 2013 negatively affected many of our businesses, and the failure by Congress to approve future budgets on a timely basis could delay procurement of our services and products and cause us to lose future revenues. Additionally, defense spending is expected to continue to decline in some areas over the next few years. A continued emphasis on Federal deficit and debt reduction could lead to a further decrease in overall defense spending. The continued war on terrorism and the winding down of the war in Afghanistan also could result in a diversion of funds from programs in which Teledyne participates. Budgetary concerns could result in future contracts being awarded more on price than on other competitive factors, and smaller defense budgets could result in government in-sourcing of programs and more intense competition on programs that are not in-sourced, which could result in lower revenues and profits.

The sequestration provision of the Budget Control Act of 2011 originally imposed $500 billion of defense cuts over nine years starting in fiscal year 2013, which represented approximately 9% of planned defense funding over the

period. While the two-year budget agreement set forth in the Bipartisan Budget Act of 2013 lessened the across-the-board cuts of sequestration, sequestration continues to be in effect, including for the U.S. Department of Defense. The two-year budget agreement reduced the $52 billion that the U.S. Department of Defense was supposed to lose in 2014 by $21 billion, which translates to a 1.2% reduction compared to 2013, as compared to the originally set 6% reduction. Cuts for 2015 were reduced by $10 billion. Sequestration has already negatively affected some of the defense programs in which we participate as well, including the Missile Defense Agency's Objective Simulation Framework program, and we expect our defense programs to continue to be negatively impacted by the continuing effects of sequestration or other defense spending delays and cuts.

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Continued defense spending does not necessarily correlate to continued business for us, because not all of the programs in which we participate or have current capabilities may be provided with continued funding. Changes in policy and budget priorities by the President, his Administration and our Congress for various Defense and NASA programs could continue to impact our Engineered Systems and Aerospace and Defense Electronics segments. For example, changes in national space policy that affect NASA's budget have occurred. There have also been significant reductions in missile defense budgets. We anticipate continuing scrutiny of those budgets to impact our revenues. Our Engineered Systems segment may be further impacted by delays in production runs under the JASSM and Harpoon missile programs. The timing of program cycles can affect our results of operations for a particular quarter or year. It is not uncommon for the U.S. Department of Defense to delay the timing of awards for major programs for six to twelve months, or more, beyond the original projected timeframe, as evidenced by the 2013-awards of the Test Execution Services and Launch Augmentation program. Reductions and delays in research and development funding by the U.S. Government may continue to impact our revenues. As DARPA reviews its programs aimed to technologically enhance U.S. military capabilities and national security, changes to the DARPA research and technology development programs in which we participate could occur. Finally, various U.S. Department of Defense initiatives, such as the emphasis on in-sourcing positions to the Government and anticipated reductions or cancellations of existing programs, could negatively impact our Engineered Systems segment.

Our participation in government programs may decrease or be subject to renegotiation as those programs evolve over time.

The U.S. Government has been placing emphasis on small business quotas and increasing small business contract set asides and minimum work percentages. In some cases, prime contractors are required to reduce participation by large subcontractors like Teledyne in order to fill small business quotas and be responsive to proposals and bids. As a result, our Engineered Systems segment could be significantly impacted.

Over time, and for a variety of reasons, programs can evolve and affect the extent of our participation. For example, Teledyne Brown Engineering, Inc.'s Ground-based Midcourse Defense program was negatively impacted by both the nominal end date of development activity and the change in focus of the current Administration relative to missile defense.

We have been a significant participant in NASA programs, primarily through our Engineered Systems segment and through Teledyne Scientific Company. The current Administration introduced significant changes to the national space policy, including the cancellation of the NASA's Constellation Program which includes Ares launch vehicles. The Administration plans to utilize commercial launch vehicles for crew and cargo ISS expeditions, and develop a NASA heavy lift launch vehicle for space exploration. As a result of these changes, we have been attempting to transition our business to meet the needs of the new policy and programs, with the further understanding that the existing ISS will continue to be fully functional and supported and that the U.S. will continue investment in human space flight. While most recently, in early 2014, we were awarded a five-year $60 million contract by NASA's Marshall Space Flight Center to develop and manufacture the Launch Vehicle Stage Adapter for the Space Launch System, failure to further transition our business successfully could result in reduced sales. In addition, delayed funding and changes in support for NASA's current space policy could negatively impact our business.

Our contracts with the U.S. Government are subject to termination rights that could adversely affect us.

Most of our U.S. Government contracts are subject to termination by the U.S. Government either at its convenience or upon the default of the contractor. Termination for convenience provisions provide only for the recovery of costs incurred or committed, settlement expenses, and profit on work completed prior to termination. Termination for default clauses impose liability on the contractor for excess costs incurred by the U.S. Government in re-procuring undelivered items from another source. We had three U.S. Government contracts terminated for convenience in 2014, compared with four in 2013 and six in 2012. No contracts were terminated for default during such three-year period.

We may lose money or generate less than expected profits on our fixed-price government contracts and we may lose money if we fail to meet certain pre-specified targets in government contracts.

There is no guarantee that U.S. Government contracts will be profitable. A number of our U.S. Government prime contracts and subcontracts are fixed-price type contracts (58% of our total U.S. Government contracts were fixed-price in 2014, 60% in 2013 and 59% in 2012). Under these types of contracts, we bear the inherent risk that

actual performance cost may exceed the fixed contract price. Under such contracts, we must absorb cost overruns, notwithstanding the difficulty of estimating all of the costs we will incur in performing these contracts. We cannot assure that our contract loss provisions in our financial statements will be adequate to cover all actual future losses. We may lose money on some contracts if we fail to meet these estimates.

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Our business is subject to government contracting regulations and our failure to comply with such laws and regulations could harm our operating results and prospects.

We, like other government contractors, are subject to various audits, reviews and investigations (including private party "whistleblower" lawsuits) relating to our compliance with federal and state laws. More routinely, the U.S. Government may audit the costs we incur on our U.S. Government contracts, including allocated indirect costs. Such audits could result in adjustments to our contract costs. Any costs found to be improperly allocated to a specific contract will not be reimbursed, and such costs already reimbursed would need to be refunded. We have recorded contract revenues based upon costs we expect to realize on final audit. In a worst case scenario, should a business or division involved be charged with wrongdoing, or should the U.S. Government determine that the business or division is not a "presently responsible contractor", that business or division, and conceivably our Company as a whole, could be temporarily suspended or, in the event of a conviction, could be debarred for up to three years from receiving new government contracts or government-approved subcontracts. In addition, we could expend substantial amounts defending against such charges and in damages, fines and penalties if such charges were proven or were to result in negotiated settlements.

Our indebtedness, and any failure to comply with our covenants that apply to our indebtedness, could materially and adversely affect our business.

As of December 28, 2014, we had $694.7 million in total outstanding indebtedness. This indebtedness included $375.0 million in senior unsecured notes, $200.0 million in term loans, $105.0 million under our $750.0 million 2013-amended credit facility and $14.7 million in other debt. Our indebtedness could harm our business by, among other things, reducing the funds available to make new strategic acquisitions or reducing our flexibility in planning for or reacting to changes in our business and market conditions. Our indebtedness exposes us to interest rate risk since a portion of our debt obligations are at variable rates. Our indebtedness could also have a material adverse effect on our business by increasing our vulnerability to general adverse economic and industry conditions or a downturn in our business. General adverse economic and industry conditions or a downturn in our business could result in our inability to repay this indebtedness in a timely manner. We may elect to raise other forms of debt capital, depending on financial, market and economic conditions.

Product liability claims, product recalls and field service actions could have a material adverse effect on our reputation, business, results of operations and financial condition and we may have difficulty obtaining product liability and other insurance coverage.

As a manufacturer and distributor of a wide variety of products, including monitoring instruments, products used in offshore oil and gas production, products used in commercial aviation and products used in medical devices (most recently including X-ray detectors), our results of operations are susceptible to adverse publicity regarding the quality or safety of our products. In part, product liability claims challenging the safety of our products may result in a decline in sales for a particular product, which could adversely affect our results of operations. This could be the case even if the claims themselves are proven untrue or settled for immaterial amounts.

While we have general liability and other insurance policies concerning product liabilities, we have self-insured retentions or deductibles under such policies with respect to a portion of these liabilities. Awarded damages could be more than our accruals. We could incur losses above the aggregate annual policy limit as well. We cannot assure that, for 2014 and in future years, insurance carriers will be willing to renew coverage or provide new coverage for product liability.

Product recalls can be expensive and tarnish our reputation and have a material adverse effect on the sales of our products.

We have been joined, among a number of defendants (often over 100), in lawsuits alleging injury or death as a result of exposure to asbestos. In addition, because of the prominent "Teledyne" name, we may continue to be mistakenly joined in lawsuits involving a company or business that was not assumed by us as part of our 1999 spin-off. To date, we have not incurred material liabilities in connection with these lawsuits. However, our historic insurance coverage, including that of its predecessors, may not fully cover such claims and the defense of such matters. Coverage typically depends on the year of purported exposure and other factors. Nonetheless, we intend to vigorously defend our position against these claims.

Certain gas generators historically manufactured by Teledyne Energy Systems, Inc. contained a sealed, wetted asbestos component. While the company has transitioned to a replacement material, had placed warning labels on its products and took care in the handling of this discontinued material by employees, there is no assurance that the company will not face product liability or workers compensation claims involving this component.

Our Teledyne Brown Engineering, Inc.'s laboratory in Knoxville, Tennessee performs radiological analyses. Our Teledyne DALSA Professional Imaging unit develops image sensors used in medical and dental X-ray applications. In addition, our Teledyne DALSA Digital Imaging unit develops equipment and sensors used in eye examination and general surgical vision applications. Errors and omissions in analyses may occur or erroneous images could be captured. Our insurance coverage or indemnities may not be adequate to cover potential problems associated with faulty radiological analyses.

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Teledyne Brown Engineering, Inc. and other Teledyne companies manufacture components for customers in the nuclear power market, including utilities and certain governmental entities. Certain liabilities associated with such products are covered by the Price Anderson Act and other statutory and common law defenses, and we have received indemnities from some of our customers. However, there is no assurance we will not face product liability claims related to such products or that our exposure will not exceed the amounts for which we have liability coverage or protection.

We cannot assure that we will not have additional product liability claims or that we will not recall any products.

Our pension expense and the value of our pension assets are affected by factors outside of our control, including the performance of plan assets, the stock market, interest rates and actuarial experience.

We have a defined benefit qualified pension plan covering most of our U.S. employees hired prior to 2004 or approximately 18% of our active employees. The value of the combined pension assets is currently greater than our qualified pension benefit obligation. The accounting rules applicable to our qualified pension plan require that amounts recognized in the financial statements be determined on an actuarial basis, rather than as contributions are made to the plan. Two significant elements in determining our pension income or pension expense are the expected return on plan assets and the discount rate used in projecting pension benefit obligations. Declines in the stock market and lower rates of return could increase required contributions to our qualified pension plan and/or result in a change to shareholders' equity. Our investment strategy may not produce the expected returns if the credit, financial or stock markets deteriorate. Any decreases or increases in market interest rates will affect the discount rate assumption used in projecting pension benefit obligations. In addition, changes in other actuarial assumptions such as mortality assumptions or change due to legislative or regulatory actions could impact our pension income or expense as well as funding obligations. Recently, the Society of Actuaries released revised mortality tables, which update life expectancy assumptions. In consideration of these tables, we modified the mortality assumptions used in determining our pension and post-retirement benefit obligations as of December 28, 2014, which will have a related impact on our future pension and post-retirement benefit expense. In 2012, in an effort to reduce the risks associated with our current and future domestic pension obligation, we amended the pension plan to change the rate at which pension benefits accrue after February 29, 2012. In 2012 and in 2014, we offered and made lump sum payments to certain participants in the plan whose employment with Teledyne had terminated. In 2014, 2013 and 2012, we have made aggregate voluntary pretax cash contributions of $175.8 million to the domestic pension plan. If, and to the extent, decreases in our pension assets are not offset by voluntary contributions, recovered through future asset returns, mitigated by an increase in the rate at which the benefit obligation is discounted, or other actions, our required cash contributions and pension expense could increase under the plans. For additional discussion of pension matters, see the discussion under "Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition" and Notes 2 and 12 to Notes to Consolidated Financial Statements.

Our business and operations could suffer in the event of cyber security breaches.

Attempts by others to gain unauthorized access to our information technology systems have become more sophisticated and are sometimes successful. These attempts, which might be related to industrial or foreign government espionage, activism, or other motivations, include covertly introducing malware to our computers and networks, performing reconnaissance, impersonating authorized users, and stealing or corrupting data, among other activities. We continue to update our infrastructure, security tools and processes to protect against security incidents, including both external and internal threats, and to prevent their recurrence. Company personnel and third parties have been tasked to detect and investigate such incidents, but it is possible that we might not prevent or be aware of an incident or its magnitude and effects. The theft, unauthorized use or publication of our intellectual property and/or confidential business information could harm our competitive position, reduce the value of our investment in research and development and other strategic initiatives or otherwise adversely affect our business. We are subject to U.S. Department of Defense regulations applicable to certain types of data residing on or transiting through certain information systems, and we expect these regulations will be incorporated into certain contracts we hold. To the extent that any security breach results in inappropriate disclosure of confidential or controlled information of employees, third parties or the U.S. Government, we may incur liability or the loss of contracts or security clearances as a result. In addition, we expect to continue devoting additional resources to the security of our information

technology systems. More resources may be required in the defense arena to the extent the U.S. Government increases its cyber security mandates.

Our future financial results could be adversely impacted by asset impairment charges.

December 28, 2014, Teledyne's goodwill was $1,150.6 million and net acquired intangible assets were $277.6 million. Under current accounting guidance, we are required to test annually both acquired goodwill and other indefinite-lived intangible assets for impairment based upon a fair value approach, rather than amortizing them over time. We have chosen to perform our annual impairment reviews of goodwill and other indefinite-lived intangible assets during the fourth quarter of each fiscal year. We also are required to test goodwill for impairment between annual tests if events occur or circumstances change that would more likely than not reduce our enterprise fair value below its book value. These events or circumstances could include a significant change in the business climate, including a significant sustained decline in an entity's market value, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business, or other factors. If the fair market value is less than the carrying value, including goodwill, we could be required to record an

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impairment charge. The valuation of reporting units requires judgment in estimating future cash flows, discount rates and estimated product life cycles. In making these judgments, we evaluate the financial health of the business, including such factors as industry performance, changes in technology and operating cash flows. As we have grown through acquisitions, the amount of goodwill and net acquired intangible assets is significant compared with our total assets. As a result, the amount of any annual or interim impairment could be significant and could have a material adverse effect on our reported financial results for the period in which the charge is taken. We also may be required to record an earnings charge or incur unanticipated expenses if, as a result of a change in strategy or other reason, we were to determine the value of other assets had been impaired.

We may not have sufficient resources to fund all future research and development and capital expenditures or possible acquisitions.

In order to remain competitive, we must make substantial investments in research and development of new or enhanced products and continuously upgrade our process technology and manufacturing capabilities. In September 2006, we acquired a provider of research and development services primarily in the areas of electronics, optics, information sciences and materials technologies that is currently Teledyne Scientific Company, and in 2013, 2012 and 2011, we acquired RESON, LeCroy and DALSA, respectively, each of which had historically made significant investments in research and development relative to total revenues. Our Teledyne Scientific Company subsidiary has been actively promoting and funding joint research and development projects with other Teledyne businesses, including our Teledyne Oil & Gas businesses, Teledyne Reynolds, Inc., Teledyne Brown Engineering, Inc., DALSA and LeCroy. Additionally, some of our businesses are actively pursuing governmental support and funding for some of their research and development initiatives, including DALSA with respect to its CMOS and uncooled infrared image sensor development efforts. Nonetheless, we may be unable to fund all of our research and development and capital investment needs or possible acquisitions. Our ability to raise additional capital will depend on a variety of factors, some of which will not be within our control, including the existence of bank and capital markets, investor perceptions of us, our businesses and the industries in which we operate, and general economic conditions. Failure to successfully raise needed capital on a timely or cost-effective basis could have a material adverse effect on our business, results of operations and financial condition. In addition, if we fail to accurately predict future customer needs and preferences or fail to produce viable technologies, we may invest heavily in research and development of products that do not lead to significant revenue, which would adversely affect our profitability.

We may be unsuccessful in our efforts to increase our participation in new markets.

We intend to both adapt our existing technologies and develop new products to expand into new market segments. We may be unsuccessful in accessing these and other new markets if our products do not meet our customers' requirements, as a result of changes in either technology and industry standards or because of actions taken by our competitors.

Limitations in customer funding for applied research and development and technology insertion projects and government support for research and development expenditures may reduce our ability to apply our ongoing investments in some market areas.

We may be unable to successfully introduce new and enhanced products in a timely and cost-effective manner, which could harm our growth and prospects.

Our operating results depend in part on our ability to introduce new and enhanced products on a timely basis. In order to improve our product development capabilities we purchased the research center that is now Teledyne Scientific Company in 2006 and in 2011 we purchased DALSA, which has access to a well-equipped MEMS research and development center. In 2013, we opened a 52,000-square-foot technology development center in Daytona Beach, Florida primarily to serve the offshore oil and gas production and exploration industries. Deepwater and harsh environments demand new materials and technology from our Teledyne Oil & Gas businesses to support high temperature, high pressure locations. Successful product development and introduction depend on numerous factors, including our ability to anticipate customer and market requirements, changes in technology and industry standards, our ability to differentiate our offerings from offerings of our competitors, and market acceptance. We may not be able to develop and introduce new or enhanced products in a timely and cost-effective manner or to develop and introduce products that satisfy customer requirements.

Our new products also may not achieve market acceptance or correctly address new industry standards and technological changes. We may also lose any technological advantage to competitors if we fail to develop new products in a timely manner.

Additionally, new products may trigger increased warranty costs as such products are tested further by actual usage. Accelerated entry of new products to meet heightened market demand and competitive pressures may cause additional warranty costs as development and testing time periods might be accelerated or condensed.

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Technological change and evolving industry and regulatory standards could cause some of our products or services to become obsolete or non-competitive.

The markets for some of our products and services are characterized by rapid technological development, evolving industry standards, changes in customer requirements and new product introductions and enhancements. A faster than anticipated change in one or more of the technologies related to our products or services, or in market demand for products or services based on a particular technology, could result in faster than anticipated obsolescence of certain of our products or services and could have a material adverse effect on our business, results of operations and financial condition. Currently accepted industry and regulatory standards are also subject to change, which may contribute to the obsolescence of our products or services.

We may not be able to reduce the costs of our products to satisfy customers' cost reduction mandates, which could harm our sales or margins.

More and more customers continue to seek price reductions of our products. While we continually work to reduce our manufacturing and other costs of our products, without affecting product quality and reliability, there is no assurance that we will be able to do so and do so in a timely manner to satisfy the pricing pressures of our customers. Cost reductions of raw materials and other components used in our products may be beyond our control depending on market, credit and economic conditions. Customers may seek lower cost products from China and other developing countries where manufacturing costs are lower.

The airline industry is heavily regulated, and if we fail to comply with applicable requirements, our results of operations could suffer.

Governmental agencies throughout the world, including the U.S. Federal Aviation Administration, or the FAA, prescribe standards and qualification requirements for aircraft components, including virtually all commercial airline and general aviation products. Specific regulations vary from country to country, although compliance with FAA requirements generally satisfies regulatory requirements in other countries. If any material authorization or approval qualifying us to supply our products is revoked or suspended, then the sale of the product would be prohibited by law, which would have an adverse effect on our business, financial condition and results of operations.

From time to time, the FAA or equivalent regulatory agencies in other countries propose new regulations or changes to existing regulations, which are usually more stringent than existing regulations. If these proposed regulations are adopted and enacted, we may incur significant additional costs to achieve compliance, which could have a material adverse effect on our business, financial condition and results of operations.

Increasing competition could reduce the demand for our products and services.

Each of our markets is highly competitive. Many of our competitors have, and potential competitors could have, greater name recognition, a larger installed base of products, more extensive engineering, manufacturing, marketing and distribution capabilities and greater financial, technological and personnel resources than we do. New or existing competitors may also develop new technologies that could adversely affect the demand for our products and services. Industry acquisition and consolidation trends, particularly among aerospace and defense contractors, have adversely impacted demand for our aerospace and defense related engineering services as large prime contractors in-source increased amounts of major acquisition programs and also require significant expansion in small business participation to meet Government contracting goals. Low-cost competition from China and other developing countries could also result in decreased demand for our products. Increasing competition could reduce the volume of our sales or the prices we may charge, which would negatively impact our revenues. Smaller defense budgets both in the United States and Europe could result in additional competition for new and existing defense programs.

We sell products to customers in industries that may again undergo rapid and unpredictable changes, which could adversely affect our operational results or production levels.

We develop and manufacture products for customers in industries that have undergone rapid changes in the past, including the semiconductor and the telecommunications industries. In 2009, DALSA experienced a significant decline in demand for its products for the semiconductor and electronics inspection industries. These industries, or others that we serve, may exhibit rapid changes in the future and may adversely affect our operating results, or our production levels, or both.

Our business and financial results could be adversely affected by conditions and other factors associated with our suppliers.

Some items we purchase for the manufacture of our products are purchased from limited or single sources of supply due to technical capability, price and other factors. For example, DALSA has an internal single source of supply for CCD semiconductor wafers used to assemble image sensors and an external single source of supply for CMOS semiconductor wafers used to assemble X-ray panel products. LeCroy continues to outsource a portion of its research and development activities to a third party engineering firm in Malaysia where it may be more difficult for us to enforce our intellectual property rights. We

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have also outsourced from time to time the manufacturing of certain parts, components, subsystems and even finished products to single or limited sources, including international sources. Disruption of these sources could cause delays or reductions in shipments of our products or increases in our costs, which could have an adverse effect on our financial condition or operations. International sources possess additional risks, some of which are similar to those described above in regard to international sales. With any continuing disruption in the global economy and financial markets, some of our suppliers may also continue to face issues gaining access to sufficient credit and materials to maintain their businesses, which could reduce the availability of some components and, to the extent such suppliers are single source suppliers, could adversely affect our ability to continue to manufacture and sell our products. Continuing economic pressure on suppliers, especially suppliers in the defense industry, may also trigger increased pricing or workforce reductions or reduced workweeks and a shrinking supply base, possibly creating longer lead times to obtain needed components for our products, delays in material acceptance and a greater risk of receiving counterfeit parts.

Some of our commercial product lines may have one or a limited number of customers, the loss of which could adversely affect our business or financial results.

While no commercial customer accounted for more than 10% of our total sales during 2014, 2013 and 2012 and we have hundreds of customers in the various industries that we serve, some of our product lines may have one or a few key customers the loss of which could adversely affect our business or financial results. Teledyne's largest commercial customer, a customer of our Instrumentation segment, accounted for 2.8%, 3.6% and 3.4% of total sales in 2014, 2013 and 2012, respectively.

Newer products, such as our X-ray panel products, may initially be more heavily dependent on a singular or limited number of customers until market acceptance is obtained or due to contractual terms. Similarly, some older product lines may be more heavily dependent on a singular or limited number of customers. In either such case, program delays of such customer or customers, as well as the loss of such customer or customers, could adversely affect our business or financial results.

We face risks related to sales through distributors and other third parties that we do not control, which could harm our business.

We sell a portion of our products through third parties such as distributors, value-added resellers and OEMs (collectively "distributors"). Using third parties for distribution exposes Teledyne to many risks, including competitive pressure, concentration, credit risk and compliance risks. We may rely on one or more key distributors for a product, and the loss of these distributors could reduce our revenue. Distributors may face financial difficulties, including bankruptcy, which could harm our collection of accounts receivables and financial results. Violations of the FCPA or similar anti-bribery laws by distributors or other third party intermediaries could have a material impact on our business. Failing to manage risks related to our use of distributors may reduce sales, increase expenses, and weaken our competitive position, and could result in sanctions against us.

Compliance with increasing environmental and climate change regulations, as well as the effects of potential environmental liabilities, could have a material adverse financial effect on us.

We, like other industry participants, are subject to various federal, state, local and international environmental laws and regulations. We may be subject to increasingly stringent environmental standards in the future, particularly as greenhouse gas emissions and climate change regulations and initiatives increase. Future developments, administrative actions or liabilities relating to environmental and climate change matters could have a material adverse effect on our business, results of operations or financial condition. Environmental regulations on hydraulic fracturing and the use of seismic energy sources for offshore energy exploration could adversely affect some product lines of our Instrumentation segment.

Our manufacturing operations could expose us to material environmental liabilities and companies we acquire may have environmental liabilities that are not accurately assessed or brought to our attention at the time of the acquisition. In 2013, we established an environmental reserve related to potential soil remediation activities at a former leased facility, which as of December 28, 2014, was $5.2 million.

For additional discussion of environmental matters, see the discussion under the caption "Other Matters - Environmental" of "Item 7. Management's Discussion and Analysis of Results of Operation and Financial Condition" and

Note 15 to our Notes to Consolidated Financial Statements.

The U.S. Environmental Protection Agency ("EPA") has focused on greenhouse gases ("GHGs"), maintaining GHGs threaten the public health and welfare of the American people. The EPA also maintains that GHG emissions from on-road vehicles contribute to that threat. The EPA's endangerment finding covers emissions of six greenhouse gases. The EPA's continuing efforts to limit GHG emissions could adversely affect our U.S. manufacturing operations, increase prices for energy, fuel and transportation, require us to accommodate changes in parameters, such as the way parts are manufactured, and may, in some cases, require us to redesign of certain products. This could lead to increased costs, which we may not be able to recover from customers, delays in product shipments and loss of market share to competitors.

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Our inability to attract and retain key personnel could have a material adverse effect on our future success.
Our future success depends to a significant extent upon the continued service of our executive officers and other key management and technical personnel and on our ability to continue to attract, retain and motivate qualified personnel. We also have a maturing work force. While we have engaged in succession planning, the loss of the services of one or more of our key employees or our failure to attract, retain and motivate qualified personnel could have a material adverse effect on our business, financial condition and results of operations.
We may not be able to sell, exit or reconfigure businesses that we determine no longer meet with our growth strategy.
Consistent with our strategy to emphasize growth in our core markets, we continually evaluate our businesses to ensure that they are aligned with our strategy. This review led to the decision to sell our general aviation piston engine businesses, which sale was completed in April 2011. As a result of our review and declines in our electronic manufacturing services businesses, in 2013, we closed our Teledyne Microelectronics Technologies' facility in Marina del Rey, California and relocated several of its product lines to other Teledyne locations. In further response to downturns in our defense businesses, in 2013, we also began consolidating some of our microelectronic component operations into our Mountain View, California facility and also our Shipley, England facility, and relatedly sold a former manufacturing site in Sunnyvale, California. Additionally, we closed Teledyne CML Group Limited's precision machining and fabrications business in Birkenhead, England to focus more on its advanced composites manufacturing business.
Our ability to dispose of, exit or reconfigure businesses that may no longer be aligned with our growth strategy will depend on many factors, including the terms and conditions of any asset purchase and sale agreement, as well as industry, business and economic conditions. We cannot provide any assurance that we will be able to sell non-strategic businesses on terms that are acceptable to us, or at all. In addition, if the sale of any non-strategic business cannot be consummated or is not practical, alternative courses of action, including relocation of product lines or closure, may not be available to us or may be more costly than anticipated.
Natural and man-made disasters could adversely affect our business, results of operations and financial condition.
Several of our facilities, as a result of their locations, could be subject to a catastrophic loss caused by earthquakes, hurricanes, tornados, floods, ice storms or other natural disasters. Many of our production facilities and our headquarters are located in California and thus are in areas with above average seismic activity and may also be at risk of damage in wildfires. Teledyne DALSA's semiconductor facilities in Quebec, Canada have been impacted by severe ice storms, including a storm in 2013. In addition, we have manufacturing facilities in the Southeastern United States and Texas that have been threatened and struck by major hurricanes. In October 2012, LeCroy and other Teledyne facilities incurred business interruptions and were without power for several days as a result of Hurricane Sandy. Our facilities in Alabama, Florida, Nebraska, Tennessee and Virginia have also been threatened by tornados. In June 2012, a tornado caused substantial damage to and interrupted business at our Teledyne Hastings Instruments facility in Hampton, Virginia. In April 2011, tornados caused substantial damage in Huntsville, Alabama. While Teledyne Brown Engineering's main facility in Huntsville, Alabama incurred minimal building damage and business interruption, the facility was without power for several days. If any of our California facilities, including our California headquarters, were to experience a catastrophic earthquake or wildfire loss or if any of our Alabama, Florida, Louisiana, Nebraska, Tennessee or Texas facilities were to experience a catastrophic hurricane, storm, tornado or other natural disaster, or if DALSA's facilities in Quebec experience long-term loss of electrical power, such event could disrupt our operations, delay production, shipments and revenue, and result in large expenses to repair or replace the facility or facilities. While Teledyne has property insurance to partially reimburse it for losses caused by windstorm and earth movement, such insurance would not cover all possible losses. In addition, our existing disaster recovery and business continuity plans (including those relating to our information technology systems) may not be fully responsive to, or minimize losses associated with, catastrophic events.
The environmental disaster triggered by the Deepwater Horizon rig explosion and oil spill in 2010 resulted in a moratorium on offshore oil and gas production in the Gulf of Mexico that adversely affected the results of operations of some of our Teledyne oil and gas businesses, although such adverse impact was offset, in part, by the products we manufacture that supported well-capping and environmental clean-up efforts. Environmental regulations enacted in the wake of this oil spill have resulted in increased compliance costs to some of our Teledyne oil and gas businesses.

Similar future man-made disasters that limit or cease offshore oil and gas production or further exploration in the regions in which we sell our products could have a material adverse effect on our business, results of operations and financial condition.

Disasters that do not directly impact us can have an indirect adverse impact on our business. For example, in 2011 the earthquake in northern Japan and the related tsunami and severe flooding in Thailand resulted in certain of our customers delaying orders for our products because they were unable to obtain critical supplies from vendors in the impacted areas.

Teledyne Brown Engineering, Inc. is building an imaging platform to be affixed to the ISS. For the program to be financially successful, the 16 year-old ISS must continue to fly in a safe and human tended condition. While certain

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spaceflight risks, such as a high velocity debris impact to the station causing significant structural damage or necessitating the evacuation of the ISS, have been regarded as small, if such event were to occur, the ISS program continuation could be threatened, jeopardizing our investment and potential revenue generation from ISS-based Earth imaging.

We may not be able to enforce or protect our intellectual property rights, or third parties may claim infringement of their intellectual rights, each which may harm our ability to compete and thus harm our business.

Our ability to enforce and protect our patents, copyrights, software licenses, trade secrets, know how, and other intellectual property rights is subject to general litigation risks, as well as uncertainty as to the enforceability of our intellectual property rights in various countries. When we seek to enforce our rights, we have found that various claims may be asserted against us, including claims that our intellectual property right is invalid, is otherwise not enforceable or is licensed to the party against whom we are asserting a claim. In addition, we may be the target of aggressive and opportunistic enforcement of patents by third parties. If we are not ultimately successful in defending ourselves against these claims in litigation, we may not be able to sell a particular product or family of products due to an injunction, or we may have to pay damages that could, in turn, harm our results of operations. Our inability to enforce our intellectual property rights under these circumstances may harm our competitive position and our business.

Increases in our effective tax rate may harm our results of operations.

Our effective tax rate for 2014 was 23.6%, compared with 17.7% for 2013 and 28.7% for 2012. While there continues to be Congressional discussion about lowering the corporate tax rate in the U.S. to improve global competitiveness, a number of factors may impact our effective tax rates, which could reduce our net income, including:

- the relative amount of income we earn in jurisdictions;
- changes in tax laws or their interpretation, including changes in the U.S. to the taxation of foreign income and expenses, changes in tax laws in foreign jurisdictions, and changes in U.S. generally accepted accounting principles and governing body pronouncements and interpretations;
- the resolution of issues arising from tax audits;
- changes in valuation of our deferred tax assets and liabilities, including deferred tax valuation allowances;
- adjustments to income taxes upon finalization of tax returns;
- increases in expense not deductible for tax purposes;
- changes in available tax credits; and
- any decision to repatriate non-U.S. earnings for which we have not previously provided for U.S. taxes.

Our inability to efficiently implement changes to our enterprise resource planning software could result in higher than expected costs or otherwise adversely impact our internal controls environment, operations and profitability.

We are implementing enterprise resource planning software systems, which are intended to improve our business processes in certain business units. The costs associated with such systems are significant and we could incur costs in excess of budgeted costs. Any technical or other difficulties in developing or implementing this initiative may increase the costs of the project and have an adverse effect on our operations and reporting processes, including our internal controls over financial reporting. As we make adjustments to operations as a result of this project, we may incur incremental expenses prior to realizing the benefits of a more efficient workforce and operating structure. Although implementation has occurred in only selected business units to date and efforts have been made to minimize adverse impacts on our controls, we cannot assure that all such impacts have been mitigated. Further, we may not realize anticipated cost improvements and greater efficiencies from the project.

Our financial statements are based on estimates required by GAAP, and actual results may differ materially from those estimated under different assumptions or conditions.

Our financial statements are prepared in conformity with generally accepted accounting principles in the United States. These principles require our management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. For example, estimates are used when accounting for items such as asset valuations, allowances for doubtful accounts, allowance for excess and obsolete inventory, depreciation and amortization, impairment

assessments, employee benefits, taxes, recall and warranty costs, product and general liability and contingencies. While we base our estimates on historical experience and on various assumptions that we believe to be reasonable under the circumstances at the time made, actual results may differ materially from those estimated. Our most critical accounting estimates are described in the Management Discussion in this Form 10-K under “Critical Accounting Estimates.”

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While we believe our internal control systems are effective, there are inherent limitations in all control systems, and misstatements resulting from error or fraud may occur and may not be detected.

We continue to take action to assure compliance with the internal controls, disclosure controls and other requirements of the Sarbanes-Oxley Act of 2002. Our management, including our Chief Executive Officer and Chief Financial Officer, cannot guarantee that our internal controls and disclosure controls will prevent all possible errors or all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be relative to their costs. Because of the inherent limitations in all control systems, no system of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Further, controls can be circumvented by individual acts of some persons, by collusion of two or more persons, or by management override of the controls. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may be inadequate because of changes in conditions or the degree of compliance with the policies or procedures may deteriorate. Because of inherent limitations in a cost-effective control system, misstatements resulting from error or fraud may occur and may not be detected.

Provisions of our governing documents, applicable law, and our Change in Control Severance Agreements could make an acquisition of Teledyne more difficult.

Our Restated Certificate of Incorporation, our Amended and Restated Bylaws and the General Corporation Law of the State of Delaware contain several provisions that could make the acquisition of control of Teledyne, in a transaction not approved by our board of directors, more difficult. We have also entered into Change in Control Severance Agreements with thirteen members of our current management, which could have an anti-takeover effect. These provisions may prevent or discourage attempts to acquire our company.

The market price of our Common Stock has fluctuated significantly since we became a public company, and could continue to do so.

Since we became an independent public company on November 29, 1999, the market price of our Common Stock has fluctuated substantially and fluctuations in our stock price could continue. Among the factors that could affect our stock price are:

- quarterly variations in our operating results;
- strategic actions by us or our competitors;
- acquisitions;
- divestitures;
- stock repurchases;
- adverse business developments;
- war in the Middle East or elsewhere;
- terrorists activities;
- military or homeland defense activities;
- changes to the U.S. Federal budget;
- changes in the energy exploration or production, semiconductor, digital imaging, telecommunications, commercial aviation, and electronic manufacturing services markets;
- general market conditions;
- changes in tax laws;
- general economic factors unrelated to our performance;
- changes from analysts' expectations in revenues, earnings or other financial results; and
- one or more of the risk factors described in this report.

The stock markets in general, and the markets for high technology companies in particular, have experienced a high degree of volatility that is not necessarily related to the operating performance of these companies. We cannot provide

assurances as to our stock price.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

The Company has 66 principal operating facilities in 18 states and four foreign countries. Of these facilities, 24 are owned by the Company and 42 are leased. The Company's executive offices are located in Thousand Oaks, California. Its principal research and development center is also located in Thousand Oaks, California. Our facilities are considered to be suitable and adequate for the purposes for which they are intended and overall have sufficient capacity to conduct business as currently conducted.

Information on the number, ownership and location of principal operating facilities by segment was as follows at February 24, 2015:

Segment	Owned	Leased	Location of Facilities States	Countries
Instrumentation	10	18	California, Colorado, Connecticut, Florida, Louisiana, Massachusetts, Nebraska, New Hampshire, New York, Ohio, Texas and Virginia	United States, United Kingdom, Canada and Denmark
Digital Imaging	6	4	California, Massachusetts, North Carolina and Pennsylvania	United States, Canada and The Netherlands
Aerospace and Defense Electronics	7	15	California, Illinois, New Hampshire, Pennsylvania, Tennessee and Texas	United States and United Kingdom
Engineered Systems	1	5	Alabama, Colorado, Maryland, Ohio and Tennessee	United States and United Kingdom
Total	24	42		

Item 3. Legal Proceedings

From time to time, we become involved in various lawsuits, claims and proceedings arising out of, or incident to, our ordinary course of business including lawsuits, claims or proceedings pertaining to product liability, patent infringement, commercial contracts, employment and employee benefits. While we cannot predict the outcome of any lawsuit, claim or proceeding, our management does not believe that the disposition of any pending matters is likely to have a material adverse effect on our business, financial condition or liquidity. The resolution in any reporting period of one or more of these matters, however, could have a material adverse effect on the results of operations for that period.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Price Range of Common Stock and Dividend Policy

Our Common Stock is listed on the New York Stock Exchange and traded under the symbol "TDY." The following table sets forth, for the periods indicated, the high and low sale prices for the Common Stock as reported by the New York Stock Exchange.

	High	Low
2013		
1st Quarter	$78.71	$63.00
2nd Quarter	$79.04	$72.49
3rd Quarter	$87.10	$76.26
4th Quarter	$93.77	$82.42
2014		
1st Quarter	$102.40	$87.50
2nd Quarter	$101.43	$91.46
3rd Quarter	$100.23	$90.54
4th Quarter	$109.18	$91.17
2015		
1st Quarter (through February 24, 2015)	$105.50	$93.19

On February 24, 2015, the closing sale price of our Common Stock as reported by the New York Stock Exchange was $102.99 per share. As of February 24, 2015, there were 4,074 holders of record of the Common Stock.

We currently intend to retain any future earnings to fund the development and growth of our businesses, including through acquisitions. Therefore, we do not anticipate paying any cash dividends in the foreseeable future.

Information relating to compensation plans under which our equity securities are outstanding for issuance is set forth in Part III, Item 12 of this Annual Report on Form 10-K.

Issuer Purchases of Equity Securities

In October 2011, our Board of Directors approved a stock repurchase program ("2011 repurchase program") authorizing the Company to repurchase up to 2,500,000 shares of its common stock. In 2011, Teledyne repurchased 658,562 shares of Teledyne common stock for $34.9 million under the 2011 repurchase program. No repurchases were made in 2013 or 2012.

As part of the 2011 repurchase program, in September 2014, the Company entered into a $101.6 million accelerated share repurchase ("ASR") agreement with a financial institution ("ASR counterparty") in a privately negotiated transaction for 1,030,000 shares of the Company's common stock at an initial price of $98.62 per share. Pursuant to the ASR agreement, in September 2014, the Company advanced $101.6 million to the ASR counterparty and received 927,000 shares of common stock, which used $91.4 million of the $101.6 million advanced, representing 90% of the estimated shares to be repurchased under the ASR agreement. No repurchases were made in the fourth quarter of 2014.

In 2014, the Company spent $146.6 million, which includes $101.6 million advanced under the ASR agreement, to repurchase a total of 1,396,290 shares of its common stock at an average price $97.70 per share common stock.

Teledyne issues shares for share-based compensation plans from treasury stock. Teledyne had 1,042,281 shares of treasury stock at December 28, 2014. At December 28, 2014, 342,148 shares remain available for repurchase under the 2011 repurchase program.

On January 27, 2015, Teledyne's Board of Directors approved an additional stock repurchase program authorizing the Company to repurchase up to an additional 2,500,000 shares of its common stock ("2015 repurchase program"), noting that 342,148 shares remain available for repurchase under the 2011 repurchase program. On February 2, 2015, the Company entered into a $142.0 million ASR agreement with a financial institution in a privately negotiated

transaction for 1,500,000 shares of the Company's common stock at an initial price of $94.68 per share. Pursuant to the ASR agreement, in February 2015, the Company advanced $142.0 million to the ASR counterparty and received 1,425,000 shares of common stock, which used $134.9 million of the $142.0 million advanced, representing 95% of the estimated shares to be repurchased under the ASR agreement. The ASR was funded by cash on hand and floating rate borrowings of $120.0 million under the $750 million credit facility.

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Item 6. Selected Financial Data

The following table presents our summary consolidated financial data. We derived the following historical selected financial data from our audited consolidated financial statements. Our fiscal year is determined based on a 52- or 53-week convention ending on the Sunday nearest to December 31. Each fiscal year presented below contained 52 weeks. The five-year summary of selected financial data should be read in conjunction with the discussion under "Item 7-Management's Discussion and Analysis of Financial Condition and Results of Operation."

Five-Year Summary of Selected Financial Data

	2014	2013	2012	2011	2010
	(In millions, except per-share amounts)				
Sales	$2,394.0	$2,338.6	$2,127.3	$1,941.9	$1,644.2
Net income from continuing operations	$217.7	$185.0	$161.8	$142.1	$119.9
Net income from discontinued operations	$—	$—	$2.3	$113.1	$0.6
Net income attributable to Teledyne	$217.7	$185.0	$164.1	$255.2	$120.5
Working capital	$402.7	$381.0	$337.5	$268.5	$306.8
Total assets	$2,862.2	$2,751.1	$2,406.4	$1,826.1	$1,557.8
Long-term debt and capital lease obligations, net of current portion	$618.9	$549.0	$556.2	$311.4	$265.3
Total equity	$1,468.5	$1,518.7	$1,203.4	$984.1	$787.0
Basic earnings per common share - continuing operations	$5.87	$4.96	$4.41	$3.88	$3.31
Diluted earnings per common share - continuing operations	$5.75	$4.87	$4.33	$3.81	$3.25
Basic earnings per common share	$5.87	$4.96	$4.47	$6.97	$3.33
Diluted earnings per common share	$5.75	$4.87	$4.39	$6.84	$3.27

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Teledyne Technologies Incorporated provides enabling technologies for industrial growth markets. We have evolved from a company that was primarily focused on aerospace and defense to one that serves multiple markets that require advanced technology and high reliability. These markets include deepwater oil and gas exploration and production, oceanographic research, air and water quality environmental monitoring, factory automation and medical imaging. Our products include monitoring instrumentation for marine and environmental applications, harsh environment interconnects, electronic test and measurement equipment, digital imaging sensors and cameras, aircraft information management systems, and defense electronic and satellite communication subsystems. We also supply engineered systems for defense, space, environmental and energy applications. We differentiate ourselves from many of our direct competitors by having a customer and company sponsored applied research center that augments our product development expertise.

Strategy/Overview

Our strategy continues to emphasize growth in our core markets of instrumentation, digital imaging, aerospace and defense electronics and engineered systems. Our core markets are characterized by high barriers to entry and include specialized products and services not likely to be commoditized. We intend to strengthen and expand our core businesses with targeted acquisitions and through product development. We continue to focus on balanced and disciplined capital deployment among capital expenditures, acquisitions and share repurchases. We aggressively pursue operational excellence to continually improve our margins and earnings. At Teledyne, operational excellence includes the rapid integration of the businesses we acquire. Using complementary technology across our businesses

and internal research and development, we seek to create new products to grow our company and expand our addressable markets. We continue to evaluate our businesses to ensure that they are aligned with our strategy. Consistent with this strategy, we made four acquisitions in 2014, four acquisitions in 2013 and five acquisitions in 2012. Our largest acquisition in 2014, Bolt Technology Corporation (“Bolt”) expanded our capabilities related to offshore oil and natural gas exploration, as well as increased our offerings of remotely operated robotic vehicles systems. We acquired the assets of The Oceanscience Group Ltd. (“Oceanscience”) to enhance our capabilities related to marine sensor platforms and unmanned surface vehicles. We acquired assets of Atlas Hydrographic GmbH (“Atlas”) to add marine sonar systems for mid

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and deep water applications. We acquired Photon Machines, Inc. (“Photon”) to supplement our offerings of laser-based sample introduction equipment for laboratory instrumentation. In addition, in 2014 we made an investment in Ocean Aero, Inc.

In 2013, we acquired RESON A/S (“RESON”) to increase our capabilities related to multibeam sonar systems and specialty acoustic sensors for hydrography, global marine infrastructure and offshore energy operations. We acquired C.D. Limited (“CDL”) to obtain additional inertial sensing and navigation products, and to accelerate the development of real-time motion sensing and communication systems for our subsea oil and gas customers. We acquired SD Acquisition, Inc. d/b/a CETAC Technologies (“CETAC”) to expand our automated sample handling and sample introduction equipment for laboratory instrumentation capabilities. These three acquisitions are part of the Instrumentation segment. We acquired Axiom IC B.V. (“Axiom”) to add high-performance CMOS mixed-signal integrated circuits to our portfolio. Axiom is part of the Digital Imaging segment. In addition, in 2013 a subsidiary of Teledyne purchased the remaining 49% interest in Nova Research, Inc. (“Nova Sensors”).

Our largest acquisition in 2012, LeCroy Corporation (“LeCroy”), broadened our portfolio of analytical instrumentation with the addition of electronic test and measurement solutions. We acquired VariSystems Inc. (“VariSystems”) to expand our portfolio of rugged interconnect solutions. We acquired BlueView Technologies, Inc. (“BlueView”) principally to increase our instrumentation content on AUVs and ROVs used in oil and gas and marine survey applications. Through the acquisition of a majority interest in the parent company of Optech Incorporated (“Optech”), we added 3D imaging capability to our portfolio of visible, X-ray and ultraviolet sensors, cameras. Optech’s bathymetric LIDAR systems are used for coastal mapping and shallow water profiling also complement our marine survey sensors and systems. The acquisition of the parent company of PDM Neptec Limited (“PDM Neptec”) expanded our line of harsh environmental marine connectors. In April 2011, we completed the sale of our general aviation piston engine businesses and consequently classified our Aerospace Engines and Components segment as a discontinued operation.

During 2013, in an effort to reduce ongoing costs and improve operating performance we took actions to consolidate and relocate certain facilities and reduce headcount across various businesses, reducing our exposure to weak end markets and high cost locations. In connection with these efforts, in 2013, we incurred pretax charges totaling $24.0 million for severance and facility consolidation expense and environmental reserves. The charges were comprised of $10.4 million in severance related costs and $13.6 million in facility closure and relocation costs, which included $5.3 million of environmental reserves. The actions were substantially completed by year-end 2013, although we incurred $4.4 million of similar expenses in 2014. At December 28, 2014, we had $8.9 million in short-term reserves related to these actions.

Given the strength and diversity of Teledyne’s businesses, our consistent focus on operational excellence, as well as strategic acquisitions, we were able to achieve record sales and earnings in 2014. In 2014, sales and net income attributable to Teledyne increased by 2.4% and 17.7%, respectively over 2013 results. Diluted earnings per share in 2014 increased 18.1% over 2013. In 2014, sales totaled $2,394.0 million, compared with sales of $2,338.6 million in 2013. Net income attributable to Teledyne for 2014, was $217.7 million or $5.75 per diluted share, compared with $185.0 million or $4.87 per diluted share in 2013. The increase in revenue included incremental sales from acquisitions of $53.8 million. Net income for 2014 and 2013 also included net discrete tax benefits of $8.9 million and $21.3 million, respectively.

With the recent acquisition of Bolt in 2014 and acquisitions made throughout 2011 through 2013, as well as growth in our commercial markets, our business mix has continued to evolve. We have worked to transform our product portfolio into that of a high technology industrial company that is less dependent on U.S. Government business. For 2014, Teledyne’s sales were approximately 75% to commercial and international customers and 25% to the U.S. Government. This has changed from about 68% commercial and international customers and 32% U.S. government in 2012. Our international sales also increased to 45% of total sales in 2014, compared with 39% in 2012.

Recent Acquisitions

The Company spent $195.8 million, $128.2 million and $389.2 million on acquisitions and investments in 2014, 2013 and 2012, respectively.

On November 18, 2014, Teledyne acquired all of the outstanding common shares of Bolt for $22.00 per share payable in cash. The aggregate value for the transaction was $171.0 million, excluding transaction costs and taking into account Bolt's stock options, other liabilities and net cash on hand. Bolt is a developer and manufacturer of marine seismic data acquisition equipment used for offshore oil and natural gas exploration. Bolt is also a developer and manufacturer of remotely operated robotic vehicles systems used for a variety of underwater tasks. Bolt had sales of $67.5 million for its fiscal year ended June 30, 2014.

On October 22, 2014, a subsidiary of Teledyne acquired the assets of Oceanscience for $14.7 million, net of cash acquired. Oceanscience designs and manufactures marine sensor platforms and unmanned surface vehicles. Oceanscience had sales of $6.8 million for its fiscal year ended December 31, 2013.

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On August 18, 2014, a subsidiary of Teledyne acquired assets Atlas for $5.2 million. On March 31, 2014, a subsidiary of Teledyne acquired Photon for an initial payment of $3.3 million. Teledyne expects to pay an additional $0.7 million in equal installments over the next three years. On July 1, 2014, Teledyne made an investment in Ocean Aero. Based in San Diego, California. Ocean Aero is designing an unmanned surface vehicle that will also have the ability to descend subsea. Teledyne owns a 29.7% interest in Ocean Aero and it is accounted for as an equity investment.
All of the 2014 acquisitions are part of the Instrumentation segment.
On October 22, 2013, a subsidiary of Teledyne acquired CDL for $21.8 million in cash, net of cash acquired. CDL is headquartered in Aberdeen, Scotland, is a leading supplier of subsea inertial navigation systems and motion sensors for a variety of marine applications. CDL had sales of £9.9 million for its fiscal year ended December 31, 2012, and is part of the Instrumentation segment.
On August 30, 2013, a subsidiary of Teledyne acquired CETAC for $26.4 million. Teledyne paid a $0.4 million purchase price adjustment in the fourth quarter. CETAC, headquartered in Omaha, Nebraska, is a designer and manufacturer of automated sample handling and sample introduction equipment for laboratory instrumentation. CETAC had sales of $24.0 million for its fiscal year ended December 31, 2012, and is part of the Instrumentation segment.
On July 8, 2013, a subsidiary of Teledyne purchased the remaining 49% interest in Nova Sensors that it did not already own for $4.9 million. Nova Sensors produces compact short-wave and mid-wave infrared cameras and operates within the Digital Imaging segment.
On May 8, 2013, a subsidiary of Teledyne acquired Axiom, for an initial payment of $4.0 million, net of cash acquired, with an additional $1.3 million expected to be paid in equal installments over three years. Axiom is located in the Netherlands and is a fabless semiconductor company that develops high-performance CMOS mixed-signal integrated circuits and is part of the Digital Imaging segment.
On March 1, 2013, a subsidiary of Teledyne acquired all the outstanding shares of RESON for $69.7 million, net of cash acquired. RESON, headquartered in Slangerup, Denmark, provides multibeam sonar systems and specialty acoustic sensors for hydrography, global marine infrastructure and offshore energy operations. RESON had sales of €50.8 million for its fiscal year ended December 31, 2012, and is part of the Instrumentation segment. Also in 2013, the Company spent $1.4 million on the purchase of a product line.
On August 3, 2012, Teledyne acquired the stock of LeCroy for $301.3 million, net of cash acquired. LeCroy, headquartered in Chestnut Ridge, New York, is a leading supplier of oscilloscopes, protocol analyzers and signal integrity test solutions. LeCroy had sales of $178.1 million for its fiscal year ended June 30, 2011, and is part of the Instrumentation segment.
Also on August 3, 2012, a subsidiary of Teledyne acquired the parent company of PDM Neptec for $7.4 million in cash, net of cash acquired. PDM Neptec, located in Hampshire, United Kingdom, is part of the Instrumentation segment and operates as Teledyne Impulse-PDM Ltd. PDM Neptec had sales of £5.5 million for its fiscal year ended March 31, 2012.
On July 2, 2012, a subsidiary of Teledyne acquired BlueView for $16.3 million in cash, net of cash acquired. BlueView, located in Seattle, Washington, is part of the Instrumentation segment and operates as Teledyne BlueView, Inc. BlueView had sales of $7.1 million for its fiscal year ended December 31, 2011.
On April 2, 2012, Teledyne acquired a majority interest in the parent company of Optech for $27.9 million, net of cash acquired. The purchase increased Teledyne's ownership percentage to 51% from the original 19% interest purchased in the first quarter of 2011. With the April 2012 purchase, we now consolidate Optech's financial results into Teledyne's results with an appropriate adjustment for the minority ownership. At the time of the purchase, the value of Optech's total equity was based on the same per share price as those shares purchased by Teledyne to obtain the majority interest in 2012 and the value of the non-controlling interest was 49% of Optech's total equity and was equal to $49.8 million. The minority ownership of Optech was $41.3 million and $47.3 million at December 28, 2014, and December 29, 2013, respectively. Optech had sales of CAD $54.7 million for its fiscal year ended March 30, 2012, and is reported as part of the Digital Imaging segment.
On February 25, 2012, Teledyne acquired VariSystems for $34.9 million, net of cash acquired. Teledyne paid a $1.4 million purchase price adjustment in the second quarter of 2012. VariSystems, headquartered in Calgary, Alberta,

Canada, is a leading supplier of custom harsh environment interconnects used in energy exploration and production. VariSystems had sales of CAD $27.5 million for its fiscal year ended May 31, 2011, and is part of the Instrumentation segment.

See Note 3 to our Consolidated Financial Statements for additional information about our recent acquisitions. On February 2, 2015, a subsidiary of Teledyne acquired Bowtech Products Limited for $18.4 million in cash, net of cash acquired and including an estimated working capital adjustment. Based in Aberdeen, Scotland, Bowtech designs and manufactures harsh underwater environment vision systems.

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Our fiscal year is determined based on a 52- or 53-week convention ending on the Sunday nearest to December 31. Fiscal years 2014, 2013 and 2012 each contained 52 weeks. The following is our financial information for 2014, 2013 and 2012 (in millions, except per-share amounts):

	2014	2013	2012
Sales	$2,394.0	$2,338.6	$2,127.3
Costs and Expenses			
Cost of sales	1,487.1	1,500.0	1,379.1
Selling, general and administrative expenses	612.4	598.3	505.1
Total costs and expenses	2,099.5	2,098.3	1,884.2
Operating Income	294.5	240.3	243.1
Interest and debt expense, net	(19.0)	(20.4)	(17.8)
Other income, net	6.6	4.1	2.9
Income from continuing operations before income taxes	282.1	224.0	228.2
Provision for income taxes(a)	66.5	39.5	65.4
Income from continuing operations including noncontrolling interest	215.6	184.5	162.8
Discontinued operations, net of income taxes	—	—	2.3
Net income	215.6	184.5	165.1
Noncontrolling interest	2.1	0.5	(1.0)
Net income attributable to Teledyne	$217.7	$185.0	$164.1
Income from continuing operations including noncontrolling interest	$215.6	$184.5	$162.8
Noncontrolling interest	2.1	0.5	(1.0)
Net income from continuing operations	217.7	185.0	161.8
Discontinued operations, net of income taxes	—	—	2.3
Net income attributable to Teledyne	$217.7	$185.0	$164.1
Basic earnings per common share:			
Continuing operations	$5.87	$4.96	$4.41
Discontinued operations	—	—	0.06
Basic earnings per common share	$5.87	$4.96	$4.47
Diluted earnings per common share:			
Continuing operations	$5.75	$4.87	$4.33
Discontinued operations	—	—	0.06
Diluted earnings per common share	$5.75	$4.87	$4.39

(a) Fiscal years 2014, 2013 and 2012 include net discrete tax benefits of $8.9 million, $21.3 million and $5.4 million, respectively.

Our businesses are divided into four business segments: Instrumentation, Digital Imaging, Aerospace and Defense Electronics and Engineered Systems. Our four business segments and their respective percentage contributions to our total sales in 2014, 2013 and 2012 are summarized in the following table:

	Percentage of Sales		
Segment	2014	2013	2012
Instrumentation	47%	44%	38%
Digital Imaging	17%	18%	20%
Aerospace and Defense Electronics	25%	26%	28%
Engineered Systems	11%	12%	14%

	100	%	100	%	100	%

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Results of Operations
2014 compared with 2013

Sales	2014	2013	% Change
	(in millions)		
Instrumentation	$1,115.5	$1,022.8	9.1 %
Digital Imaging	403.6	414.8	(2.7)%
Aerospace and Defense Electronics	603.0	625.1	(3.5)%
Engineered Systems	271.9	275.9	(1.4)%
Total sales	$2,394.0	$2,338.6	2.4 %

Operating profit and other segment income	2014	2013	% Change
	(in millions)		
Instrumentation	$181.6	$162.0	12.1 %
Digital Imaging	37.1	28.2	31.6 %
Aerospace and Defense Electronics	88.3	65.7	34.4 %
Engineered Systems	31.4	22.0	42.7 %
Segment operating profit and other segment income	338.4	277.9	21.8 %
Corporate expense	(43.9)	(37.6)	16.8 %
Interest and debt expense, net	(19.0)	(20.4)	(6.9)%
Other income, net	6.6	4.1	61.0 %
Income before income taxes	282.1	224.0	25.9 %
Provision for income taxes(a)	66.5	39.5	68.4 %
Net income	215.6	184.5	16.9 %
Noncontrolling interest	2.1	0.5	320.0 %
Net income attributable to Teledyne	$217.7	$185.0	17.7 %

(a) Fiscal years 2014 and 2013 include net discrete tax benefits of $8.9 million and $21.3 million, respectively,

The table below presents sales and cost of sales by segment and total company:

(Dollars in millions)	2014	2013	Change
Instrumentation			
Sales	$1,115.5	$1,022.8	$92.7
Cost of sales	$630.0	$570.9	$59.1
Cost of sales % of sales	56.5 %	55.8 %	
Digital Imaging			
Sales	$403.6	$414.8	$(11.2)
Cost of sales	$252.0	$263.7	$(11.7)
Cost of sales % of sales	62.4 %	63.6 %	
Aerospace and Defense Electronics			
Sales	$603.0	$625.1	$(22.1)
Cost of sales	$386.6	$434.6	$(48.0)
Cost of sales % of sales	64.2 %	69.5 %	
Engineered Systems			
Sales	$271.9	$275.9	$(4.0)
Cost of sales	$218.5	$230.8	$(12.3)

Cost of sales % of sales	80.4	%	83.6	%	
Total Company					
Sales	$2,394.0		$2,338.6	$55.4	
Cost of sales	$1,487.1		$1,500.0	$(12.9	)
Cost of sales % of sales	62.1	%	64.1	%	

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We reported 2014 sales of $2,394.0 million, compared with sales of $2,338.6 million for 2013, an increase of 2.4%. Net income attributable to Teledyne was $217.7 million ($5.75 per diluted share) for 2014, compared with net income attributable to Teledyne of $185.0 million ($4.87 per diluted share) for 2013, an increase of 17.7%. Total year 2014 and 2013 reflected pretax charges totaling $4.4 million and $24.0 million, respectively, for severance and facility consolidation expenses. Net income for 2014 and 2013 also included net discrete tax benefits of $8.9 million and $21.3 million, respectively.

Sales

The increase in sales in 2014, compared with 2013, reflected higher sales in the Instrumentation segment, partially offset by lower sales in the Aerospace and Defense Electronics, Digital Imaging and the Engineered Systems segments. Sales in the Instrumentation segment reflected $53.6 million of incremental sales from recent acquisitions, as well as higher organic sales for marine products. Sales of marine products increased by $74.4 million and included incremental sales of $32.5 million from recent acquisitions. Sales in the Aerospace and Defense Electronics segment primarily reflected increased sales of $17.8 million from avionics products and electronic relays, more than offset by decreased sales of microwave devices, due to the completion of a program with a foreign government. Sales in both the Digital Imaging segment and the Engineered Systems segment decreased slightly. The incremental increase in revenue in 2014 from businesses acquired in 2014 and in 2013 was $53.8 million.

Sales under contracts with the U.S. Government were approximately 25% of sales in 2014 and 27% of sales in 2013. Sales to international customers represented approximately 45% of sales in 2014 and 44% of sales in 2013.

Operating Income

Segment operating profit and other segment income for 2014, compared with 2013, increased by $60.5 million, or 21.8%. Operating income reflected lower costs as a result of the cost reduction actions taken in 2013 and the impact of pension income. Operating income in 2014 included $4.4 million in severance and facility consolidation costs, compared with $24.0 million of similar costs in 2013. The incremental operating income included in the results for 2014 from recent acquisitions was $6.3 million which included $1.2 million in additional intangible asset amortization expense. Operating income in 2014 included pension income of $1.3 million, compared with pension expense of $17.5 million in 2013. The change to pension income in 2014 from pension expense in 2013, primarily reflected the impact of using a 5.4 percent discount rate to determine the benefit obligation for the domestic plan in 2014 compared with a 4.4 percent discount rate used in 2013. Pension expense allocated to contracts pursuant to U.S. Government Cost Accounting Standards (“CAS”) was $13.8 million in 2014, compared with $14.5 million in 2013. Pension expense determined allowable under CAS can generally be recovered through the pricing of products and services sold to the U.S. Government. LIFO income was less than $0.1 million in 2014 and was $0.7 million in 2013.

Cost of Sales

Total company cost of sales decreased by $12.9 million in 2014, compared with 2013, and reflected $16.1 million in lower severance and facility consolidation expense and environmental reserves and lower pension expense, partially offset by higher sales. The Instrumentation segment cost of sales increase of $59.1 million reflected the impact of recent acquisitions, the impact of organic sales increases, as well as increased customer funded research and development. The Aerospace and Defense Electronics segment decrease in cost of sales of $48.0 million reflected the impact of lower sales as well as $14.8 million in lower severance and facility consolidation expense and environmental reserves. The total company cost of sales as a percentage of sales for 2014 was 62.1%, compared with 64.1% for 2013. The lower cost of sales percentage reflected the impact of lower severance and facility consolidation expense and environmental reserves and lower pension expense.

Selling, general and administrative expenses

Selling, general and administrative expenses, including research and development and bid and proposal expense, in total dollars were higher in 2014 compared with 2013. The increase reflected the impact of higher sales and higher corporate administrative expense. Corporate administrative expense in 2014 was $43.9 million, compared with $37.6 million in 2013 an increase of 16.8%. The increase in corporate administrative expense reflected higher compensation and professional fees expense. For 2014, we recorded a total of $14.0 million in stock option expense, of which $4.5 million was recorded as corporate expense and $9.5 million was recorded in the operating segment results. For

2013, we recorded a total of $10.7 million in stock option expense, of which $3.4 million was recorded as corporate expense and $7.3 million was recorded in the operating segment results. Selling, general and administrative expenses for 2014, as a percentage of sales, were 25.6% for both 2014 and 2013.

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Pension Income/Expense

Included in operating profit in 2014 was pension income of $1.3 million compared with pension expense of $17.5 million in 2013. In accordance with CAS, $13.8 million in pension costs are recoverable from certain government contracts for 2014, compared with $14.5 million for 2013. The change to pension income in 2014 from pension expense in 2013 primarily reflected the impact of using a 5.4 percent discount rate to determine the benefit obligation for the domestic plan in 2014 compared with a 4.4 percent discount rate used in 2013. For the Company's domestic pension plan, the discount rate for 2015 will decrease to 4.5% from 5.4% which will increase pension expense for 2015, compared with 2014.

Interest Expense and Other Income and Expense

Total interest expense, including credit facility fees and other bank charges, was $19.0 million in 2014 and $20.9 million in 2013. Interest income was $0.2 million in 2014 and $0.5 million in 2013. Other income and expense in 2014 included a net gain on legal settlements of $6.5 million. Other income and expense in 2013 included $3.6 million from the reversal of reserves no longer needed in connection with a legal settlement.

Income Taxes

The Company's effective tax rate for 2014 was 23.6%, compared with 17.7% for 2013. The increase primarily reflected lower net discrete tax benefits in 2014. Fiscal year 2014 included net discrete tax benefits of $8.9 million primarily related to the remeasurement of uncertain tax positions, primarily due to an expiration of statute of limitations and the favorable resolution of a tax matter. Total year 2014 also included $5.6 million in research and development tax credits. Fiscal year 2013 included net discrete tax benefits of $21.3 million primarily related to the statute of limitations expirations, favorable tax audit resolutions, research and development credits and the remeasurement of uncertain tax positions. Excluding the impact of the net discrete tax benefits of $8.9 million for 2014 and $21.3 million for 2013, the effective tax rates would have been 26.7% for 2014, compared with 27.1% for 2013.

During the next twelve months, it is reasonably possible that favorable tax audit resolutions and expirations of the statutes of limitations could reduce unrecognized tax benefits by $8.7 million, either because our tax positions are sustained on audit, because the Company agrees to their disallowance, or because of the expiration of the statutes of limitations. Of the $8.7 million, $0.5 million would not impact tax expense as it would be offset by the reversal of deferred tax assets.

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2013 Compared with 2012

Sales	2013	2012	% Change
	(in millions)		
Instrumentation	$1,022.8	$804.7	27.1 %
Digital Imaging	414.8	415.9	(0.3)%
Aerospace and Defense Electronics	625.1	605.3	3.3 %
Engineered Systems	275.9	301.4	(8.5)%
Total sales	$2,338.6	$2,127.3	9.9 %

Operating profit and other segment income	2013	2012	% Change
	(in millions)		
Instrumentation	$162.0	$146.0	11.0 %
Digital Imaging	28.2	24.8	13.7 %
Aerospace and Defense Electronics	65.7	80.5	(18.4)%
Engineered Systems	22.0	28.5	(22.8)%
Segment operating profit and other segment income	277.9	279.8	(0.7)%
Corporate expense	(37.6)	(36.7)	2.5 %
Interest and debt expense, net	(20.4)	(17.8)	14.6 %
Other income, net	4.1	2.9	41.4 %
Income from continuing operations before income taxes	224.0	228.2	(1.8)%
Provision for income taxes(a)	39.5	65.4	(39.6)%
Income from continuing operations including noncontrolling interest	184.5	162.8	13.3 %
Discontinued operations, net of income taxes	—	2.3	*
Net income	184.5	165.1	11.8 %
Noncontrolling interest	0.5	(1.0)	*
Net income attributable to Teledyne	$185.0	$164.1	12.7 %

* not meaningful

(a) Fiscal years 2013 and 2012 include net discrete tax benefits of $21.3 million and $5.4 million, respectively.

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The table below presents sales and cost of sales by segment and total company:

(Dollars in millions)	2013	2012	Change
Instrumentation			
Sales	$1,022.8	$804.7	$218.1
Cost of sales	$570.9	$458.7	$112.2
Cost of sales % of sales	55.8 %	57.0 %	
Digital Imaging			
Sales	$414.8	$415.9	$(1.1)
Cost of sales	$263.7	$266.9	$(3.2)
Cost of sales % of sales	63.6 %	64.2 %	
Aerospace and Defense Electronics			
Sales	$625.1	$605.3	$19.8
Cost of sales	$434.6	$406.2	$28.4
Cost of sales % of sales	69.5 %	67.1 %	
Engineered Systems			
Sales	$275.9	$301.4	$(25.5)
Cost of sales	$230.8	$247.3	$(16.5)
Cost of sales % of sales	83.6 %	82.1 %	
Total Company			
Sales	$2,338.6	$2,127.3	$211.3
Cost of sales	$1,500.0	$1,379.1	$120.9
Cost of sales % of sales	64.1 %	64.8 %	

We reported 2013 sales of $2,338.6 million, compared with sales of $2,127.3 million for 2012, an increase of 9.9%. Net income from continuing operations was $185.0 million ($4.87 per diluted share) for 2013, compared with net income from continuing operations of $161.8 million ($4.33 per diluted share) for 2012, an increase of 14.3%. Net income for 2013 and 2012 also included net discrete tax benefits of $21.3 million and $5.4 million, respectively. Net income attributable to Teledyne, including discontinued operations, was $185.0 million ($4.87 per diluted share) for 2013, compared with $164.1 million ($4.39 per diluted share) for 2012.

Sales

The increase in sales in 2013, compared with 2012, reflected higher sales in both the Instrumentation and Aerospace and Defense Electronics segments, partially offset by lower sales in both the Engineered Systems and Digital Imaging segments. Sales in the Instrumentation segment reflected $178.4 million of incremental sales from acquisitions, as well as higher organic sales for marine products. Increased sales of test and measurement instrumentation of $103.6 million reflected the full year contribution from the LeCroy acquisition. Sales of marine products increased by $106.7 million and included incremental sales of $65.3 million from acquisitions. Sales in the Aerospace and Defense Electronics segment primarily reflected increased sales of $19.3 million from avionics products and electronic relays. Sales in the Digital Imaging segment decreased slightly. The decrease in the Engineered Systems segment revenue primarily reflected lower sales of $23.8 million from engineered products and services. The incremental increase in revenue in 2013 from businesses acquired in 2013 and in 2012 was $172.0 million.

Sales under contracts with the U.S. Government were approximately 27% of sales in 2013 and 32% of sales in 2012, principally reflective of our recent acquisitions. Such decline has been consistent with our strategy to be less dependent on U.S. government business. Sales to international customers represented approximately 44% of sales in 2013 and 39% of sales in 2012.

Operating Income

Segment operating profit and other segment income for 2013, compared with 2012, decreased by $1.9 million, or only 0.7%, despite $24.0 million in pretax charges for severance and facility consolidation expense and environmental reserves, compared with $1.7 million of similar charges in 2012. For 2013, the charges impacted each business segment as follows: Aerospace and Defense Electronics, $15.7 million; Digital Imaging, $3.9 million; Instrumentation, $2.5 million; and Engineered Systems, $1.9 million. In 2012, we incurred $1.7 million of similar charges which only impacted the Aerospace and Defense Electronics segment. Segment operating profit and other segment income for 2013 also reflected

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the impact of acquisitions as well as the impact of higher organic sales in each segment except the Engineered Systems segment. Operating profit included incremental operating profit from acquisitions of $11.7 million, which included intangible amortization of $5.0 million. LIFO income was $0.7 million in 2013 and was less than $0.1 million in 2012.

Cost of Sales

Total company cost of sales increased by $120.9 million in 2013, compared with 2012, and reflected $79.4 million in cost of sales from recent acquisitions, $15.4 million in higher severance and facility consolidation expense and environmental reserves, higher pension expense as well as the impact of organic sales increases. The Instrumentation segment cost of sales increase of $112.2 million reflected the impact of recent acquisitions as well as the impact of organic sales increases. The Aerospace and Defense Electronics segment increase in cost of sales of $28.4 million reflected the impact of higher sales as well as $14.0 million in severance and facility consolidation expense and environmental reserves. The total company cost of sales as a percentage of sales for 2013 was 64.1%, compared with 64.8% for 2012. The lower cost of sales percentage reflected the impact of the LeCroy and Optech cost structures which have a lower cost of sales percentage than the overall Teledyne cost of sales percentage, partially offset by severance and facility consolidation expense and environmental reserves. Excluding the impact of recent acquisitions, cost of sales as a percentage of sales for 2013 would have been 66.8%, compared with 64.8% in 2012. The higher percentage in 2013 reflects the impact of severance and facility consolidation expense and environmental reserves, higher pension expense and product mix differences in 2013.

Selling, general and administrative expenses

Selling, general and administrative expenses, including research and development and bid and proposal expense, in total dollars were higher in 2013 compared with 2012. The increase reflected the impact of higher sales, higher acquired intangible asset amortization of $5.0 million and higher research and development costs of $37.8 million. Corporate administrative expense in 2013 was $37.6 million, compared with $36.7 million in 2012 an increase of 2.5%. For 2013, we recorded a total of $10.7 million in stock option expense, of which $3.4 million was recorded as corporate expense and $7.3 million was recorded in segment results. For 2012, we recorded a total of $8.0 million in stock option expense, of which $2.4 million was recorded as corporate expense and $5.6 million was recorded in segment results. Selling, general and administrative expenses for 2013, as a percentage of sales, increased to 25.6%, compared with 23.7% for 2012 and reflected the impact of higher research and development costs and the recently acquired LeCroy and Optech cost structures which have a higher selling, general and administrative expense percentage of sales than the overall Teledyne selling, general and administrative expense percentage of sales.

Pension Income/Expense

Included in operating profit in 2013 was domestic pension expense of $17.5 million. In accordance with CAS, $14.5 million was recoverable from certain government contracts. Included in operating profit in 2012 was domestic pension expense of $6.6 million. In accordance with CAS, $12.7 million was recoverable from certain government contracts. The increase in pension expense primarily reflected the impact of using a 4.4% discount rate to determine the benefit obligation for the domestic plan in 2013 compared with a 5.5% discount rate used in 2012.

Interest Expense and Other Income and Expense

Total interest expense, including credit facility fees and other bank charges, was $20.9 million in 2013 and $18.2 million in 2012. Interest income was $0.5 million in 2013 and $0.4 million in 2012. The increase in interest expense reflected the impact of higher outstanding debt levels, partially offset by lower overall average interest rates. Other income and expense in 2013 included $3.6 million from the reversal of reserves no longer needed in connection with a legal settlement. Other income in 2012 included foreign currency translation gains of $0.8 million.

Income Taxes

The Company’s effective tax rate for 2013 was 17.7%, compared with 28.7% for 2012. The decrease reflected higher net discrete tax benefits in 2013 as well as a change in the proportion of domestic and international income. Fiscal year 2013 included net discrete tax benefits of $21.3 million primarily related to the statute of limitation expirations, favorable tax audit resolutions, research and development credits and the remeasurement of uncertain tax positions. Fiscal year 2012 included net discrete tax benefits of $5.4 million related to the remeasurement of uncertain tax positions and an expiration of the statute of limitations in the United States. Excluding the impact of the net discrete

tax benefits of $21.3 million for 2013 and $5.4 million for 2012, the effective tax rates would have been 27.1% for 2013, compared with 31.0% for 2012, which reflected a change in the proportion of domestic and international income.

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Segments

In the second quarter of 2013, the Company changed the reporting structure of two of its interconnect business units. The two interconnect business units were formerly reported as part of the Aerospace and Defense Electronics segment and are now reported as part of the Instrumentation segment. These business units primarily serve energy production markets and are now managed by and integrated with our other interconnect businesses within Teledyne Oil & Gas, which is part of the marine instrumentation product line. Previously reported segment data has been restated to reflect this change. Total sales for the two business units transferred to the Instrumentation segment from the Aerospace and Defense Electronics segment were $55.3 million for fiscal year 2012. The following discussion of our four segments should be read in conjunction with Note 13 to the Notes to Consolidated Financial Statements.

Instrumentation

(Dollars in millions)	2014		2013		2012	
Sales	$1,115.5		$1,022.8		$804.7	
Cost of sales	$630.0		$570.9		$458.7	
Selling, general and administrative expenses	$303.9		$289.9		$200.0	
Operating profit	$181.6		$162.0		$146.0	
Cost of sales % of sales	56.5	%	55.8	%	57.0	%
Selling, general and administrative expenses % of sales	27.2	%	28.4	%	24.9	%
Operating profit % of sales	16.3	%	15.8	%	18.1	%
International sales % of sales	58.1	%	56.3	%	53.7	%
Governmental sales % of sales	3.5	%	4.0	%	5.0	%
Capital expenditures	$17.0		$22.0		$14.4	

Our Instrumentation segment provides monitoring and control instruments for marine, environmental, industrial and other applications, as well as electronic test and measurement equipment. We also provide power and communications connectivity devices for distributed instrumentation systems and sensor networks deployed in mission critical, harsh environments.

2014 compared with 2013

Our Instrumentation segment sales were $1,115.5 million in 2014, compared with sales of $1,022.8 million in 2013, an increase of 9.1%. Operating profit was $181.6 million in 2014, compared with $162.0 million in 2013, an increase of 12.1%. The 2014 sales increase of $92.7 million resulted from higher sales in the marine instrumentation and environmental instrumentation product lines. The higher sales of $74.4 million for marine instrumentation reflected increased sales of marine acoustic sensors and systems, as well as interconnect systems used in offshore energy production, and also included a total of $32.5 million in incremental revenue from recent acquisitions including the November 2014 acquisition of Bolt, the March 2013 acquisition of RESON and the October 2013 acquisition of CDL. Sales for environmental instrumentation increased $19.8 million and included $21.1 million from the August 2013 acquisition of CETAC. Sales for electronic test and measurement instrumentation decreased by $1.5 million. The increase in operating profit reflected the impact of higher sales from both recent acquisitions and organic sales growth. The incremental operating profit from recent acquisitions was $6.1 million, which included $1.2 million in additional intangible asset amortization. In 2015, we expect increased sales of marine instrumentation as a result of acquisitions, as well as greater sales of marine interconnect systems, partially offset by reduced sales of geophysical sensors for oil and gas exploration.

Cost of sales increased by $59.1 million in 2014, compared with 2013, and primarily reflected the impact of higher sales, as well as increased customer funded research and development. The cost of sales percentage increased to 56.5% from 55.8%. Selling, general and administrative expenses, including research and development and bid and proposal expense, in 2014, increased by $14.0 million, compared with 2013, and reflected the impact of higher sales. Selling, general and administrative expenses for 2014, as a percentage of sales, decreased slightly to 27.2%, compared with 28.4% for 2013.

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2013 compared with 2012

Our Instrumentation segment sales were $1,022.8 million in 2013, compared with sales of $804.7 million in 2012, an increase of 27.1%. Operating profit was $162.0 million in 2013, compared with $146.0 million in 2012, an increase of 11.0%. The 2013 sales increase of $218.1 million resulted from higher sales of both marine and electronic test and measurement instrumentation. Marine instrumentation had higher sales of $106.7 million which reflected increased sales of marine acoustic sensors and systems, as well as interconnect systems used in offshore energy production, and also included a total of $65.3 million in incremental revenue from recent acquisitions including the March 2013 acquisition of RESON, which contributed $51.4 million in sales. Increased sales of $103.6 million for electronic test and measurement instrumentation resulted from the August 2012 acquisition of LeCroy. Sales for environmental instrumentation increased by $7.8 million, primarily due to the acquisition of CETAC. The increase in operating profit reflected the impact of higher sales from both recent acquisitions and organic sales growth. The incremental operating profit from recent acquisitions was $11.7 million, which included $4.6 million in additional intangible asset amortization.

Cost of sales increased by $112.2 million in 2013, compared with 2012, and reflected the impact of higher sales, product mix differences and $2.5 million in severance and facility consolidation expenses. The decrease in the cost of sales percentage to 55.8% from 57.0% largely reflected the impact of recent acquisitions which carry a lower cost of sales percentage than the average for our other businesses in this segment, partially offset by product mix differences.

Selling, general and administrative expenses, including research and development and bid and proposal expense, in 2013, increased by $89.9 million, compared with 2012, and reflected the impact of acquisitions, primarily LeCroy and RESON. The LeCroy and RESON acquisitions represented $77.7 million of the increase in selling, general and administrative expenses which included $27.5 million in incremental research and development expenses. Selling, general and administrative expenses for 2013, as a percentage of sales, increased to 28.4%, compared with 24.9% for 2012 and reflected higher research and development costs and the LeCroy cost structure which has a higher selling, general and administrative expense percentage of sales than other instrumentation businesses.

Digital Imaging

(Dollars in millions)	2014		2013		2012	
Sales	$403.6		$414.8		$415.9	
Cost of sales	$252.0		$263.7		$266.9	
Selling, general and administrative expenses	$114.5		$122.9		$124.2	
Operating profit	$37.1		$28.2		$24.8	
Cost of sales % of sales	62.4	%	63.6	%	64.2	%
Selling, general and administrative expenses % of sales	28.4	%	29.6	%	29.8	%
Operating profit % of sales	9.2	%	6.8	%	6.0	%
International sales % of sales	50.2	%	49.0	%	46.1	%
Governmental sales % of sales	25.3	%	29.0	%	31.0	%
Capital expenditures	$10.3		$20.2		$23.5	

Our Digital Imaging segment includes high performance sensors, cameras and systems, within the visible, infrared and X-ray spectra for use in industrial, government and medical applications, as well as MEMS. It also includes our sponsored and centralized research laboratories benefiting government programs and businesses.

2014 compared with 2013

Our Digital Imaging segment sales were $403.6 million in 2014, compared with sales of $414.8 million in 2013, a decrease of 2.7%. Operating profit was $37.1 million in 2014, compared with $28.2 million in 2013, an increase of 31.6%.

The 2014 sales decrease reflected increased sales of sensors and cameras for commercial machine vision applications, offset by lower sales of specialty imaging sensors, primarily for government applications. The increase in operating profit primarily reflected a greater mix of higher margin commercial sales and lower costs as a result of cost reduction actions taken in 2013, as well as lower research and development expense. Operating profit in 2014 included $2.7 million in severance and related expenses compared $3.9 million in severance and related expenses and a $1.2 million asset impairment charge in 2013.

Cost of sales for 2014 decreased by $11.7 million, compared with 2013, and primarily reflected lower costs as a result of cost reduction actions taken in 2013 and a greater mix of higher gross margin sales of sensors and cameras for commercial machine vision applications. The decrease in the cost of sales percentage primarily reflected lower costs as a result of cost reduction actions taken in 2013 and a greater mix of higher gross margin commercial sales. Selling, general and administrative expenses, for 2014, decreased to $114.5 million, compared with $122.9 million in 2013 and reflected lower research and development expenses. The selling, general and administrative expense percentage decreased to 28.4% in 2014 from 29.6% in 2013 and reflected lower expense in each major category of selling, general and administrative expense.

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2013 compared with 2012

Our Digital Imaging segment sales were $414.8 million in 2013, compared with sales of $415.9 million in 2012, a decrease of 0.3%. Operating profit was $28.2 million in 2013, compared with $24.8 million in 2012, an increase of 13.7%.

The 2013 sales decrease primarily reflected lower sales of imagers for remote sensing applications, LIDAR systems and MEMS products, nearly offset by increased sales of sensors and cameras for commercial machine vision and medical applications. The increase in operating profit reflected improved margins across multiple product lines, partially offset by $3.9 million in severance and related expenses and a $1.2 million asset impairment charge. The incremental operating loss for 2013 from recent acquisitions was $4.3 million which reflected $0.4 million in additional intangible asset amortization and a $1.2 million asset impairment charge.

Cost of sales for 2013 decreased by $3.2 million, compared with 2012, and primarily reflected the impact of product mix differences, partially offset by $2.3 million in severance and related expenses. The decrease in the cost of sales percentage reflected the impact of the Optech acquisition, which carries a lower cost of sales percentage than the average for our other products in this segment. Selling, general and administrative expenses, for 2013, decreased slightly to $122.9 million, compared with $124.2 million in 2012. The selling, general and administrative expense percentage decreased slightly to 29.6% in 2013 from 29.8% in 2012.

Aerospace and Defense Electronics

(Dollars in millions)	2014		2013		2012	
Sales	$603.0		$625.1		$605.3	
Cost of sales	$386.6		$434.6		$406.2	
Selling, general and administrative expenses	$128.1		$124.8		$118.6	
Operating profit	$88.3		$65.7		$80.5	
Cost of sales % of sales	64.2	%	69.5	%	67.1	%
Selling, general and administrative expenses % of sales	21.2	%	20.0	%	19.6	%
Operating profit % of sales	14.6	%	10.5	%	13.3	%
International sales % of sales	32.2	%	34.0	%	28.6	%
Governmental sales % of sales	40.7	%	41.6	%	44.6	%
Capital expenditures	$8.8		$15.3		$12.6	

Our Aerospace and Defense Electronics segment provides sophisticated electronic components and subsystems and communications products, including defense electronics, harsh environment interconnects, data acquisition and communications equipment for aircraft, and components and subsystems for wireless and satellite communications, as well as general aviation batteries.

2014 compared with 2013

Our Aerospace and Defense Electronics segment sales were $603.0 million in 2014, compared with sales of $625.1 million in 2013, a decrease of 3.5%. Operating profit was $88.3 million in 2014, compared with $65.7 million in 2013, an increase of 34.4%.

Sales for 2014 decreased by $22.1 million and reflected lower sales of $37.0 million from microwave and interconnect systems due to the completion of a program with a foreign government, which had sales of $44.3 million in 2013. Sales for 2014 also reflected increased sales of $17.8 million from avionics products and electronic relays and lower sales of $2.9 million from electronic manufacturing services products. Operating profit in 2014 increased by $22.6 million and reflected pension income of $1.2 million compared with $8.0 million of pension expense, and $0.9 million in severance and facility consolidation costs, compared with $15.7 million in severance and facility consolidation and environmental costs in 2013.

Cost of sales for 2014 decreased by $48.0 million, compared with 2013, and reflected the impact of lower sales, lower severance and facility consolidation costs and environmental reserves, as well as lower pension expense. Cost of sales as a percentage of sales for 2014 decreased to 64.2% from 69.5% in 2013 and reflected the impact of lower severance and facility consolidation costs, environmental reserves and lower pension expense. Selling, general and administrative expenses, including research and development and bid and proposal expense, increased to $128.1

million in 2014, compared with $124.8 million in 2013, and reflected $6.7 million in higher research and development and bid and proposal expense. The increase in the selling, general and administrative expense percentage to 21.2% for 2014, compared with 20.0% for 2013 reflected the impact of higher research and development and bid and proposal expense.

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2013 compared with 2012

Our Aerospace and Defense Electronics segment sales were $625.1 million in 2013, compared with sales of $605.3 million in 2012, an increase of 3.3%. Operating profit was $65.7 million in 2013, compared with $80.5 million in 2012, a decrease of 18.4%.

Sales for 2013 increased by $19.8 million, compared with 2012, and reflected higher sales of $19.3 million from avionics products and electronic relays and higher sales of $3.1 million from microwave and interconnect systems, partially offset by lower sales of electronic manufacturing service products. Operating profit in 2013 reflected $10.4 million for severance and facility consolidation costs and a $5.3 million charge for estimated environmental liabilities, partially offset by the impact of higher sales. Operating profit in 2012 reflected $1.7 million for severance and facility consolidation costs.

Cost of sales for 2013 increased by $28.4 million, compared with 2012, and reflected the impact of higher sales, $13.6 million for severance and facility consolidation costs and environmental reserves, $3.6 million in higher pension expense and product mix differences. Cost of sales as a percentage of sales for 2013 increased to 69.5% from 67.1% in 2012 and reflected the impact of severance and facility consolidation costs, environmental reserves and product mix differences. Selling, general and administrative expenses, including research and development and bid and proposal expense, increased to $124.8 million in 2013, compared with $118.6 million in 2012, and reflected $2.1 million in severance and facility consolidation costs. The increase in the selling, general and administrative expense percentage to 20.0% for 2013, compared with 19.6% for 2012 reflected the impact of severance and facility consolidation costs.

Engineered Systems

(Dollars in millions)	2014		2013		2012	
Sales	$271.9		$275.9		$301.4	
Cost of sales	$218.5		$230.8		$247.3	
Selling, general and administrative expenses	$22.0		$23.1		$25.6	
Operating profit	$31.4		$22.0		$28.5	
Cost of sales % of sales	80.4	%	83.6	%	82.0	%
Selling, general and administrative expenses % of sales	8.1	%	8.4	%	8.5	%
Operating profit % of sales	11.5	%	8.0	%	9.5	%
International sales % of sales	9.0	%	12.4	%	11.6	%
Governmental sales % of sales	81.6	%	75.8	%	81.4	%
Capital expenditures	$4.3		$3.6		$4.2	

Our Engineered Systems segment provides innovative systems engineering and integration, advanced technology development, and manufacturing solutions for defense, space, environmental and energy applications. This segment also designs and manufactures electrochemical energy systems and small turbine engines.

2014 compared with 2013

Our Engineered Systems segment sales were $271.9 million in 2014, compared with sales of $275.9 million in 2013, a decrease of 1.4%. Operating profit was $31.4 million in 2014, compared with $22.0 million in 2013, an increase of 42.7%.

The 2014 sales decrease of $4.0 million reflected lower sales of $6.1 million from engineered products and services, partially offset by higher sales of energy systems products of $1.6 million and higher turbine engines sales of $0.5 million. The sales decrease from engineered products and services, primarily reflected lower sales from missile defense and nuclear programs. The increase in operating profit in 2014 reflected the impact of pension income, compared with pension expense in 2013, lower severance and facility consolidation expenses, partially offset by the impact of lower sales. Pension income was $1.6 million for 2014, compared with pension expense of $6.7 million for 2013. Pension expense allocated to contracts pursuant to CAS was $8.8 million for 2014, compared with $8.5 million for 2013.

Cost of sales for 2014 decreased by $12.3 million, compared with 2013, and reflected the impact of lower sales and higher pension income. Cost of sales as a percentage of sales for 2014 decreased to 80.4%, compared with 83.6% in 2013 and reflected lower pension expense. Selling, general and administrative expenses, including research and

development and bid and proposal expense, decreased to $22.0 million in 2014, compared with $23.1 million in 2013, and reflected the impact of lower sales and lower research and development and bid and proposal expenses of $0.5 million. The selling, general and administrative expense percentage decreased slightly to 8.1% for 2014, compared with 8.4% for 2013.

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2013 compared with 2012

Our Engineered Systems segment sales were $275.9 million in 2013, compared with sales of $301.4 million in 2012, a decrease of 8.5%. Operating profit was $22.0 million in 2013, compared with $28.5 million in 2012, a decrease of 22.8%.

The 2013 sales decrease of $25.5 million reflected lower sales of $23.8 million from engineered products and services and lower sales of energy systems of $3.1 million, partially offset by higher turbine engines sales of $1.4 million. The sales decrease from engineered products and services, primarily reflected lower sales of defense and space programs. Operating profit in 2013 primarily reflected the impact of lower sales, $1.9 million in severance and facility consolidation expenses, as well as higher pension expense. Pension expense was $6.7 million for 2013, compared with $2.7 million for 2012. Pension expense allocated to contracts pursuant to CAS was $8.5 million for 2013, compared with $8.4 million for 2012.

Cost of sales for 2013 decreased by $16.5 million, compared with 2012, and reflected the impact of lower sales, partially offset by the severance and facility consolidation expenses and higher pension expense. Cost of sales as a percentage of sales for 2013 increased to 83.6%, compared with 82.0% in 2012 and reflected the severance and facility consolidation expenses and higher pension expense. Selling, general and administrative expenses, including research and development and bid and proposal expense, decreased to $23.1 million in 2013, compared with $25.6 million in 2012, and reflected the impact of lower sales and lower research and development and bid and proposal expenses of $1.6 million. The selling, general and administrative expense percentage decreased slightly to 8.4% for 2013, compared with 8.5% for 2012.

Financial Condition, Liquidity and Capital Resources

Principal Capital Requirements

Our principal capital requirements are to fund working capital needs, capital expenditures, voluntary and required pension contributions, debt service requirements, share repurchases and acquisitions. It is anticipated that operating cash flow, together with available borrowings under the credit facility described below, will be sufficient to meet these requirements and could be used to fund acquisitions in 2015. To support acquisitions, we may need to raise additional capital. Our liquidity is not dependent upon the use of off-balance sheet financial arrangements. We have no off-balance sheet financing arrangements that incorporate the use of special purpose or unconsolidated entities.

Revolving Credit Agreement, Senior Notes and Term Loans

In December 2014, the Company issued $125.0 million of senior unsecured notes which consisted of $30.0 million of 2.61% senior unsecured notes due December 2019, and $95.0 million of 3.09% senior unsecured notes due December 2021.

In March 2013, the Company amended its $550.0 million credit facility to increase the borrowing capacity to $750.0 million and extend the maturity date from February 2016 to March 2018. Excluding interest and fees, no payments are due under the credit facility until it matures. In November 2013, the Company amended its $200.0 million term loan agreements to extend the maturity dates from October 2015 to March 2019 and to lower the applicable interest rate. The credit agreements require the Company to comply with various financial and operating covenants, including maintaining certain consolidated leverage and interest coverage ratios. Borrowings under our credit facility and term loans are at variable rates which are, at our option, tied to a Eurocurrency rate equal to LIBOR (London Interbank Offered Rate) plus an applicable rate or a base rate as defined in our credit agreements. Eurocurrency rate loans may be denominated in U.S. dollars or an alternative currency as defined in the agreement. Eurocurrency or LIBOR based loans under the facility typically have terms of one, two, three or six months and the interest rate for each such loan is subject to change if the loan is continued or converted following the applicable maturity date. The Company has not drawn any loans with a term longer than three months under the credit facility. Base rate loans have interest rates that primarily fluctuate with changes in the prime rate. Interest rates are also subject to change based on our consolidated leverage ratio as defined in the credit agreement. The credit facility also provides for facility fees that vary between 0.125% and 0.30% of the credit line, depending on our consolidated leverage ratio as calculated from time to time.

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Long-term debt consisted of the following (in millions):

Balance at	December 28, 2014	December 29, 2013
4.04% Senior Notes due September 2015	$75.0	$75.0
4.74% Senior Notes due September 2017	100.0	100.0
2.61% Senior Notes due December 2019	30.0	—
5.30% Senior Notes due September 2020	75.0	75.0
3.09% Senior Notes due December 2021	95.0	—
Term Loans due through March 2019, weighted average rate of 1.28% at December 28, 2014, and 1.29% at December 29, 2013	200.0	200.0
Other debt at various rates due through 2031	14.7	16.0
$750.0 million revolving credit facility, due March 2018, weighted average rate of 1.24% at December 28, 2014, and 1.26% at December 29, 2013	105.0	74.2
Total debt	694.7	540.2
Less: current portion of long-term debt	(84.9)	(2.1)
Total long-term debt	$609.8	$538.1

The Company also has $10.4 million in capital leases, of which $1.3 million is current. At December 28, 2014, Teledyne had $16.8 million in outstanding letters of credit.

The credit agreements require the Company to comply with various financial and operating covenants, including maintaining certain consolidated leverage and interest coverage ratios, as well as minimum net worth levels and limits on acquired debt. At December 28, 2014, the Company was in compliance with these covenants and we had a significant amount of margin between required financial covenant ratios and our actual ratios. Currently, we do not believe our ability to undertake additional debt financing, if needed, is reasonably likely to be materially impacted by debt restrictions under our credit agreements subject to our complying with required financial covenants listed in the table below.

At December 28, 2014, the required financial covenant ratios and the actual ratios were as follows:

$750.0 million Credit Facility expires March 2018 and $200.0 million term loans due March 2019

Financial Covenant	Requirement	Actual Measure
Consolidated Leverage Ratio (Net Debt/EBITDA) (a)	No more than 3.25 to 1	1.7 to 1
Consolidated Interest Coverage Ratio (EBITDA/Interest) (b)	No less than 3.0 to 1	19.8 to 1

$250.0 million Private Placement Notes due 2015, 2017 and 2020 and $125.0 million Private Placement Notes due 2019 and 2021

Financial Covenant	Requirement	Actual Measure
Consolidated Leverage Ratio (Net Debt/EBITDA) (a)	No more than 3.25 to 1	1.7 to 1
Consolidated Interest Coverage Ratio (EBITDA/Interest) (b)	No less than 3.0 to 1	19.8 to 1

(a) The Consolidated Leverage Ratio is equal to Net Debt/EBITDA as defined in our private placement note purchase agreement and our $750.0 million credit agreement.

(b) The Consolidated Interest Coverage Ratio is equal to EBITDA/Interest as defined in our private placement note purchase agreement and our $750.0 million credit agreement.

Available borrowing capacity under the $750.0 million credit facility, which is reduced by borrowings and outstanding letters of credit, was $629.7 million at December 28, 2014. The available borrowing capacity does not reflect the payment on February 2, 2015, of $134.9 million in connection with an accelerated share repurchase agreement. Teledyne also has a $5.0 million uncommitted credit line which permits credit extensions up to $5.0 million plus an incremental $2.0 million solely for standby letters of credit. This credit line is utilized, as needed, for periodic cash needs. No amounts are outstanding under this facility at December 28, 2014. The maximum amount that could be borrowed under our $750.0 million credit facility as of December 28, 2014 while still remaining in

compliance with our consolidated leverage ratio covenant was $629.7 million.

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Permanently Reinvested Earnings

We consider the earnings of material non-U.S. subsidiaries to be indefinitely invested outside the United States on the basis of estimates that future domestic cash generation will be sufficient to meet future domestic cash requirements. At December 28, 2014, the amount of undistributed foreign earnings was $170.4 million. We have not recorded a deferred tax liability of approximately $43.1 million related to the $170.4 million of undistributed foreign earnings. Should we decide to repatriate the foreign earnings, we would need to adjust our income tax provision in the period we determined that the earnings will no longer be indefinitely invested outside the United States.

Contractual Obligations

The following table summarizes our expected cash outflows resulting from financial contracts and commitments at December 28, 2014. We have not included information on our normal recurring purchases of materials for use in our operations. These amounts are generally consistent from year to year, closely reflect our levels of production and are not long-term in nature (in millions):

Category	2015	2016	2017	2018	2019	After 2019	Total
Long-term debt obligations	$84.9	$10.6	$120.3	$131.4	$177.5	$170.0	$694.7
Interest expense(a)	18.8	16.4	14.9	9.9	8.1	8.5	76.6
Operating lease obligations	21.0	16.6	12.4	8.6	6.6	18.4	83.6
Capital lease obligations(b)	1.6	1.6	1.4	1.4	1.4	5.3	12.7
Purchase obligations (c)	72.5	5.0	1.2	1.1	0.8	1.1	81.7
Total	$198.8	$50.2	$150.2	$152.4	$194.4	$203.3	$949.3

(a) Interest expense related to the credit facility, including facility fees, is assumed to accrue at the rates in effect at year-end 2014 and is assumed to be paid at the end of each quarter with the final payment in March 2019 when the credit facility expires.

(b) Includes imputed interest and short-term portion.

(c) Purchase obligations generally include contractual obligations for the purchase of goods and services.

Unrecognized tax benefits of $32.3 million are not included in the table above because $1.3 million is offset by deferred tax assets, and the remainder cannot be reasonably estimated to be settled in cash due to a lack of prior settlement history.

At December 28, 2014, we are not required, and are not planning, to make any cash contributions to the domestic qualified pension plan for 2015. In addition, Teledyne does not expect to make any contributions to its foreign-based pension plans in 2015. Our minimum funding requirements after 2015, as set forth by ERISA, are dependent on several factors as discussed under “Accounting for Pension Plans” in the Critical Accounting Policies section of this Management’s Discussion and Analysis of Financial Condition and Results of Operation. Estimates beyond 2015 have not been provided due to the significant uncertainty of these amounts, which are subject to change until the Company’s pension assumptions can be updated at the appropriate times. In addition, certain pension contributions are eligible for future recovery through the pricing of products and services to the U.S. government under certain government contracts, therefore, the amounts noted are not necessarily indicative of the impact these contributions may have on our liquidity. We also have payments due under our other postretirement benefit plans. These plans are not required to be funded in advance, but are pay as you go. See further discussion in Note 12 of the Notes to Consolidated Financial Statements. Teledyne intends to continue to monitor and manage its defined pension benefit plans obligation and may take additional actions in the future.

Operating Activities

In 2014, net cash provided by operating activities was $287.9 million, compared with $203.3 million in 2013 and $189.2 million in 2012. The higher cash provided by operating activities in 2014, compared with 2013, reflected higher net income, the absence of pension contributions in 2014, while in 2013 we made a voluntary $83.0 million pretax cash contribution to the domestic pension plan, partially offset by higher income tax payments. The 2014 amount also reflected the receipt of $10.0 million related to a legal settlement. The higher cash provided by operating

activities in 2013, compared with 2012, reflected lower cash contributions to the domestic pension plan and higher net income, partially offset by higher income tax payments. The 2012 net cash provided by operating activities includes $92.8 million in voluntary cash contributions to the domestic pension plan.

Free cash flow (cash provided by operating activities less capital expenditures) was $244.4 million in 2014, compared with $130.7 million in 2013 and $123.9 million in 2012. Adjusted free cash flow eliminates the impact of pension contributions on a net of tax basis and was $244.4 million in 2014, compared with $182.1 million in 2013 and $184.2 million in 2012.

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Free Cash Flow(a) (in millions, brackets indicate use of funds)	2014	2013	2012
Cash provided by operating activities	$287.9	$203.3	$189.2
Capital expenditures for property, plant and equipment	(43.5)	(72.6)	(65.3)
Free cash flow	244.4	130.7	123.9
Pension contributions, net of tax(b)	—	51.4	60.3
Adjusted free cash flow	$244.4	$182.1	$184.2

a) We define free cash flow as cash provided by operating activities (a measure prescribed by generally accepted accounting principles) less capital expenditures for property, plant and equipment. Adjusted free cash flow eliminates the impact of pension contributions on a net of tax basis. We believe that this supplemental non-GAAP information is useful to assist management and the investment community in analyzing our ability to generate cash flow, including the impact of voluntary and required pension contributions.

b) All domestic pension cash contributions were voluntary.

Working Capital

Working capital increased to $402.7 million at year-end 2014, compared with $381.0 million at year-end 2013. The increase reflected the impact the Bolt acquisition and higher cash balances, partially offset by an increase in current maturities of long term debt.

Balance Sheet Changes

The changes in the following selected components of Teledyne's balance sheet are discussed below (in millions):

	2014	2013
Accounts receivable, net	$400.7	$378.0
Inventories, net	$311.8	$294.3
Property, plant and equipment, net	$336.5	$357.7
Goodwill	$1,150.6	$1,037.8
Acquired intangible assets, net	$277.6	$270.9
Prepaid pension assets	$86.3	$222.0
Long-term debt and capital lease obligations, net of current portion	$618.9	$549.0
Accumulated other comprehensive loss	$323.2	$165.5

The higher balances in accounts receivable, inventories, goodwill and acquired intangible assets were impacted by the acquisitions made in 2014. The accumulated other comprehensive loss increase reflects the non-cash adjustment of $97.5 million related to the increase in the unfunded pension liability in 2014 and $58.2 million of foreign currency changes. The lower balance in property, plant and equipment also reflected the impact of depreciation, partially offset by capital spending, and acquisitions made in 2014. Long-term debt increased and reflected the impact of funds used for acquisitions in 2014 and the 2011 stock repurchase program.

Investing Activities

Cash flows relating to investing activities consists primarily of cash used for acquisitions and capital expenditures. Net cash used in investing activities was $238.7 million, $195.0 million and $453.4 million for 2014, 2013 and 2012, respectively.

Capital Expenditures

Capital expenditures are presented below (in millions):

	2014	2013	2012
Instrumentation	$17.0	$22.0	$14.4
Digital Imaging	10.3	20.2	23.5
Aerospace and Defense Electronics	8.8	15.3	12.6
Engineered Systems	4.3	3.6	4.2
Corporate	3.1	11.5	10.6

$43.5	$72.6	$65.3

The decrease in spending in 2014, compared with 2013, reflected the completion of several major projects during 2013, including expanding production capabilities and a resource planning software system. The 2013 amount also reflected expenditures related to facility consolidations. During 2015 we plan to invest approximately $60.0 million in capital expenditures, principally to upgrade capital equipment, reduce manufacturing costs and introduce new products. Commitments at December 28, 2014, for capital expenditures were approximately $5.2 million.

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Acquisitions

Investing activities used cash for acquisitions and investments of $195.8 million, $128.2 million and $389.2 million, in fiscal 2014, 2013 and 2012, respectively (see “Recent Acquisitions”).

Teledyne funded the acquisitions primarily from borrowings under its credit facility and cash on hand.

For all acquisitions, the results of operations and cash flows are included in our consolidated financial statements from the date of each respective acquisition. The Axiom acquisition is part of the Digital Imaging segment. All other acquisitions in 2014, 2013 and 2012 are part of the Instrumentation segment.

The following table shows the purchase price (net of cash acquired), goodwill acquired and intangible assets acquired for the acquisitions and other investments made in fiscal 2014 and 2013 (in millions):

	2014			
Acquisition	Acquisition Date	Purchase Price	Goodwill Acquired	Acquired Intangible Assets
Photon	March 30, 2014	$2.9	$1.4	$1.5
Atlas	August 17, 2014	5.2	3.6	0.8
Bolt	November 18, 2014	171.0	128.8	41.5
Oceanscience	October 22, 2014	14.7	9.0	4.4
Other investments		2.0	—	—
		$195.8	$142.8	$48.2

	2013			
Acquisition	Acquisition Date	Purchase Price	Goodwill Acquired	Acquired Intangible Assets
RESON	March 1, 2013	$69.7	$35.1	$25.5
Axiom	May 8, 2013	4.0	3.4	0.3
CETAC	August 30, 2013	26.4	11.1	6.7
CDL	October 22, 2013	21.8	11.9	7.8
Purchase of remaining interest of Nova Sensors	July 8, 2013	4.9	—	—
Other investments		1.4	1.0	0.3
		$128.2	$62.5	$40.6

Except for the CETAC, Atlas and Oceanscience acquisitions, goodwill resulting from the acquisitions made in fiscal 2014 and 2013 will not be deductible for tax purposes.

The following is a summary, at the acquisition date, of the estimated fair values of the assets acquired and liabilities assumed for the acquisitions and other investments made in fiscal 2014 and 2013 (in millions):

	2014	2013
Current assets, excluding cash acquired	$34.0	$40.1
Property, plant and equipment	8.7	8.3
Goodwill	142.8	62.5
Intangible assets	48.2	40.6
Other long-term assets	5.3	—
Total assets acquired	239.0	151.5
Current liabilities, including short-term debt	(26.0)	(21.4)
Other long-term liabilities	(17.2)	(6.8)
Total liabilities assumed	(43.2)	(28.2)

Noncontrolling interests (a)	—	4.9
Purchase price, net of cash acquired	$195.8	$128.2

(a) Purchase of the remaining interest in Nova Sensors.

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Financing Activities

Cash provided by financing activities for 2014 reflected net proceeds from borrowings on long-term debt of $29.5 million, compared with net payments on long-term debt of $5.0 million for 2013 and net proceeds from borrowings of $229.2 million for 2012. In addition, in December 2014, the Company issued $125.0 million of senior unsecured notes, which consisted of $30.0 million of 2.61% senior unsecured notes due December 2019, and $95.0 million of 3.09% senior unsecured notes due December 2021. Fiscal years 2014, 2013 and 2012 reflect proceeds from the exercise of stock options of $18.3 million, $12.1 million and $19.9 million, respectively. Fiscal years 2014, 2013 and 2012 included $6.2 million, $5.4 million and $8.4 million, respectively, in excess tax benefits related to stock-based compensation. Cash provided by financing activities for 2014 also reflected the repurchase of common stock for $146.6 million.

Total debt at December 28, 2014, includes $375.0 million outstanding in senior notes, $200.0 million in term loans, $105.0 million outstanding under the $750.0 million credit facility and $14.7 million in other debt. The Company also has $10.4 million outstanding under capital leases, of which $1.3 million is current.

In October 2011, our Board of Directors approved a stock repurchase program (“2011 repurchase program”) authorizing the Company to repurchase up to 2,500,000 shares of its common stock. Shares may be repurchased from time to time in open market transactions at prevailing market prices or in privately negotiated transactions. In 2011, Teledyne repurchased 658,562 shares of Teledyne common stock for $34.9 million under the 2011 repurchase program. No repurchases were made in 2013 or 2012. As part of the 2011 repurchase program, in September 2014, the Company entered into a $101.6 million accelerated share repurchase (“ASR”) agreement with a financial institution (“ASR counterparty”) in a privately negotiated transaction for 1,030,000 shares of the Company’s common stock at an initial price of $98.62 per share. Pursuant to the ASR agreement, in September 2014, the Company advanced $101.6 million to the ASR counterparty and received 927,000 shares of common stock, which used $91.4 million of the $101.6 million advanced, representing 90% of the estimated shares to be repurchased under the ASR agreement. The up-front payment was accounted for as a reduction to stockholders’ equity in the Company’s Condensed Consolidated Balance Sheet in the period the payment was made. The total number of shares of common stock that the Company will repurchase under the ASR will be based on the average of the daily volume-weighted average prices of the common stock during the term of the ASR, less a discount. At settlement, the ASR Counterparty may be required to deliver additional shares of the Company’s common stock to the Company or, under certain circumstances, the Company may be required to deliver shares of its common stock or make a cash payment to the ASR Counterparty. Final settlement of the ASR agreement is expected to occur in June 2015, although the settlement may be accelerated at the ASR Counterparty’s option. The Company has treated the ASR as a treasury share repurchase of common stock in the period the shares are delivered for purposes of calculating earnings per share and as a forward contract indexed to its own common stock. The ASR meets all of the applicable criteria for equity classification, and, therefore, is not accounted for as a derivative instrument.

In 2014, the Company spent $146.6 million, which includes $101.6 million advanced under the ASR agreement, to repurchase a total of 1,396,290 shares of its common stock at an average price $97.70 per share common stock. Teledyne issues shares for share-based compensation plans from treasury stock. Teledyne had 1,042,281 shares of treasury stock at December 28, 2014. At December 28, 2014, 342,148 shares remain available for repurchase under the 2011 repurchase program.

On January 27, 2015, Teledyne’s Board of Directors approved an additional stock repurchase program authorizing the Company to repurchase up to an additional 2,500,000 shares of its common stock (“2015 repurchase program”), noting that 342,148 shares remain available for repurchase under the 2011 repurchase program. As part of the 2015 repurchase program, on February 2, 2015, the Company entered into a $142.0 million ASR agreement with a financial institution in a privately negotiated transaction for 1,500,000 shares of the Company's common stock at an initial price of $94.68 per share. Pursuant to the ASR agreement, in February 2015, the Company advanced $142.0 million to the ASR counterparty and received 1,425,000 shares of common stock, which used $134.9 million of the $142.0 million advanced, representing 95% of the estimated shares to be repurchased under the ASR agreement. The ASR was funded by cash on hand and floating rate borrowings of $120.0 million under the $750 million credit facility. The 2011 and 2015 repurchase programs are expected to remain open continuously, and the number of shares purchased

will depend on a variety of factors, such as share price, levels of cash and borrowing capacity available, alternative investment opportunities available immediately or longer-term, and other regulatory, market or economic conditions. Future repurchases would be funded with cash on hand and borrowings under the Company's credit facility.

Pension Plans

Teledyne has a domestic defined benefit pension plan covering substantially all U.S. employees hired before January 1, 2004, or approximately 18% of Teledyne's active employees. As of January 1, 2004, new hires participate in a defined contribution plan. In 2014, Teledyne's domestic pension plan was over 100% funded, thus no cash contribution was made. In 2013, Teledyne made a voluntary pretax contribution to its domestic qualified pension plan of $83.0 million, before recovery from the U.S. Government. In 2012, Teledyne made pretax cash contributions of approximately $92.8 million to its domestic pension plan before recovery from the U.S. Government. In connection with recent acquisitions the Company assumed

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responsibility for a several defined benefit pension plans based in the United Kingdom, Switzerland and the Netherlands covering approximately 520 participants in total. For the company's domestic pension plan, the discount rate for 2015 will decrease to 4.5% from 5.4% in 2014.

Other Matters

Income Taxes

Our income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits reflect management's best assessment of estimated current and future taxes to be paid. We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax expense.

The Company's effective tax rate for 2014 was 23.6%, compared with 17.7% for 2013 and 28.7% for 2012. Fiscal years 2014, 2013 and 2012 included net discrete tax benefits of $8.9 million, $21.3 million and $5.4 million, respectively. These relate primarily to the remeasurement of uncertain tax positions, including expirations of the statute of limitations and the favorable resolution of a tax matter. Excluding these items the Company's effective tax rates for fiscal years 2014, 2013 and 2012 would have been 26.7%, 27.1% and 31.0%, respectively. Total year 2014 also included $5.6 million in federal research and development tax credits. The lower 2013 effective tax rate, compared with the 2012 effective tax rate, excluding the net discrete tax benefits, primarily reflected increased federal tax credits for research and development, a lower state effective tax rate and a change in the portion of foreign and domestic income. Based on the Company's history of operating earnings, expectations of future operating earnings and potential tax planning strategies, management believes that it is possible that some portion of deferred taxes will not be realized as a future tax benefit and therefore has recorded a valuation allowance. Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amount in the financial statements, which will result in taxable or deductible amounts in the future. In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. In projecting future taxable income, we begin with historical results adjusted for the results of discontinued operations and incorporate assumptions about the amount of future state, federal and foreign pretax operating income adjusted for items that do not have tax consequences. The assumptions about future taxable income require significant judgment and are consistent with the plans and estimates we are using to manage the underlying businesses. In evaluating the objective evidence that historical results provide, we consider three years of cumulative operating income.

We file income tax returns in the United States federal jurisdiction and in various states and foreign jurisdictions. The Company has substantially concluded on all U.S. federal income tax matters for all years through 2010, California income tax matters for all years through 2009 and Canadian income tax matters for all years through 2006. The Company does not believe that the resolution of any of the audits will have a material adverse effect on the Company's results of operations. An appeal filed with a state tax authority for the 2011 tax year, if resolved favorably, could reduce income tax expense up to $1.0 million. Substantially all other material state, local and foreign income tax matters have been concluded for years through 2009.

Costs and Pricing

Inflationary trends in recent years have been moderate. Current inventory costs, the increasing costs of equipment and other costs are considered in establishing sales pricing policies. The Company emphasizes cost containment in all aspects of its business.

Hedging Activities; Market Risk Disclosures

Teledyne transacts business in various foreign currencies and has international sales and expenses denominated in foreign currencies, subjecting the Company to foreign currency risk. The Company's primary objective is to protect the United States dollar value of future cash flows and minimize the volatility of reported earnings. Following the acquisition of DALSA, the Company began to utilize foreign currency forward contracts to reduce the volatility of cash flows primarily related to forecasted revenue and expenses denominated in Canadian dollars. These contracts are designated and qualify as cash flow hedges.

The effectiveness of the cash flow hedge contracts, excluding time value, is assessed prospectively and retrospectively on a monthly basis using regression analysis, as well as using other timing and probability criteria. To receive hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedges and must be highly effective in offsetting changes to future cash flows on hedged transactions. The effective portion of the cash flow hedge contracts' gains or losses resulting from changes in the fair value of these hedges is initially reported, net of tax, as a component of accumulated other comprehensive income ("AOCI") in stockholders' equity until the underlying hedged item is reflected in our consolidated statements of income, at which time the effective amount in accumulated other comprehensive income is reclassified to cost of sales in our consolidated statements of income. The Company expects to reclassify a loss of

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approximately $2.9 million, net of tax, over the next 12 months based on the year-end 2014 exchange rate.
In the event that the gains or losses in AOCI are deemed to be ineffective, the ineffective portion of gains or losses resulting from changes in fair value, if any, is reclassified to other income and expense. In the event that the underlying forecasted transactions do not occur, or it becomes remote that they will occur, within the defined hedge period, the gains or losses on the related cash flow hedges will be reclassified from AOCI to other income and expense. During the current reporting period, all forecasted transactions occurred and, therefore, there were no such gains or losses reclassified to other income and expense. As of December 28, 2014, Teledyne had foreign currency forward contracts designated as cash flow hedges to buy Canadian dollars and to sell U.S. dollars totaling $76.3 million and these contracts had a negative fair value of $3.9 million. These foreign currency forward contracts have maturities ranging from March 2015 to June 2016.
In addition, the Company utilizes foreign currency forward contracts to mitigate foreign exchange rate risk associated with foreign currency denominated monetary assets and liabilities, including intercompany receivables and payables. As of December 28, 2014, Teledyne had foreign currency contracts of this type in the following currency pairs (in millions):

Contracts to Buy Currency	Amount	Contracts to Sell Currency	Amount
Canadian Dollar	C$ 44.2	U.S. Dollars	US$ 39.5
Euros	€ 1.0	Canadian Dollar	C$ 1.4
Euros	€ 11.0	U.S. Dollars	US$ 14.0
Great Britain Pounds	£ 1.0	Australian Dollars	A$ 1.8
Great Britain Pounds	£ 20.9	U.S. Dollars	US$ 34.0
U.S. Dollars	US$ 16.3	Euros	€ 13.0
U.S. Dollars	US$ 12.0	Great Britain Pounds	£ 7.7
U.S. Dollars	US$ 2.7	Japanese Yen	¥ 305.0
Singapore Dollar	S$ 1.0	U.S. Dollar	US$ 0.8

These contracts had a negative fair value of $4.5 million at December 28, 2014. The gains and losses on these derivatives which are not designated as hedging instruments under ASC 815, Derivatives and Hedging, are intended to, at a minimum, partially offset the transaction gains and losses recognized in earnings. All derivatives are recorded on the balance sheet at fair value. As discussed below, the accounting for gains and losses resulting from changes in fair value depends on the use of the derivative and whether it is designated and qualifies for hedge accounting. Teledyne does not use foreign currency forward contracts for speculative or trading purposes.
Notwithstanding our efforts to mitigate portions of our foreign currency exchange rate risks, there can be no assurance that our hedging activities will adequately protect us against the risks associated with foreign currency fluctuations. A hypothetical 10% appreciation of the U.S. dollar from its value at December 28, 2014, would decrease the fair value of our foreign currency forward contracts associated with our cash flow hedging activities by $7.6 million. A hypothetical 10% depreciation of the U.S. dollar from its value at December 28, 2014, would increase the fair value of our foreign currency forward contracts associated with our cash flow hedging activities by $7.6 million.

Borrowings under our credit facility are at fixed rates that vary with the term and timing of each loan under the facility. Loans under the facility typically have terms of one, two, three or six months and the interest rate for each such loan is subject to change if the loan is continued or converted following the applicable maturity date. Interest rates are also subject to change based on our debt to earnings before interest, taxes, depreciation and amortization ratio. As of December 28, 2014, we had $105.0 million outstanding indebtedness under our $750.0 million credit facility. Any borrowings under the Company’s revolving credit line are based on a fluctuating market interest rate and, consequently, the fair value of any outstanding debt should not be affected materially by changes in market interest rates. A 100 basis point increase in interest rates would result in an increase in annual interest expense of approximately $1.1 million, assuming the $105.0 million in debt was outstanding for the full year.
We believe that adequate controls are in place to monitor any hedging activities. Our primary exposure to market risk relates to changes in interest rates and foreign currency exchange rates. We periodically evaluate these risks and have

taken measures to mitigate these risks. We own assets and operate facilities in countries that have been politically stable.

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Related Party Transactions

Dr. von Schack is a director of The Bank of New York Mellon Corporation. Dr. Mehrabian was also a director of The Bank of New York Mellon Corporation until his retirement on April 12, 2011. From May 2010 to July 2014, Ms. Sherburne served as Senior Executive Vice President, General Counsel and Corporate Secretary of The Bank of New York Mellon Corporation. The Bank of New York Mellon Corporation is the successor to Mellon Financial Corporation following its merger with The Bank of New York in 2007. Mr. Cahouet had served as Chairman, President and Chief Executive Officer of Mellon Financial Corporation and Mellon Bank, N.A., having retired on December 31, 1998. Mr. Cahouet ceased being a director of Mellon Financial Corporation on April 18, 2000. We maintain various arms-length banking relationships with The Bank of New York Mellon Corporation. On March 1, 2013, we entered into a $750.0 million credit facility under which The Bank of New York Mellon Corporation is one of 13 lenders, having committed to lend up to $60.0 million. The Bank of New York Mellon Corporation also provides cash management services, serves as trustee for the Teledyne Technologies Incorporated Pension Plan and, through its subsidiaries and affiliates, provides asset management and transition management services for the Pension Plan. Notwithstanding these relationships, our Board of Directors has determined that Ms. Sherburne, Mr. Cahouet and Dr. von Schack are “independent,” within the meaning of the rules of the New York Stock Exchange, and are able to serve on the Audit Committee and the Nominating and Governance Committee of Teledyne’s Board of Directors, in the case of Mr. Cahouet, on the Personnel and Compensation Committee and the Nominating and Governance Committee of Teledyne’s Board of Directors, in the case of Dr. von Schack and on the Personnel and Compensation Committee and the Audit Committee, in the case of Ms. Sherburne.

Environmental

We are subject to various federal, state, local and international environmental laws and regulations which require that we investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations. These include sites at which Teledyne has been identified as a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act, commonly known as Superfund, and comparable state laws. We are currently involved in the investigation and remediation of a number of sites. Reserves for environmental investigation and remediation totaled $9.7 million at December 28, 2014, and $9.1 million at December 29, 2013. As investigation and remediation of these sites proceed and new information is received, the Company expects that accruals will be adjusted to reflect new information. Based on current information, we do not believe that future environmental costs, in excess of those already accrued, will materially and adversely affect our financial condition or liquidity. However, resolution of one or more of these environmental matters or future accrual adjustments in any one reporting period could have a material adverse effect on our results of operations for that period. See also our environmental risk factor disclosure beginning at page 22.

For additional discussion of environmental matters, see Notes 2 and 15 to the Notes to Consolidated Financial Statements.

Government Contracts

We perform work on a number of contracts with the U.S. Department of Defense and other agencies and departments of the U.S. Government including sub-contracts with government prime contractors. Sales under these contracts with the U.S. Government, which included contracts with the U.S. Department of Defense, were approximately 25% of total sales in 2014, 27% of total sales in 2013 and 32% of total sales in 2012. For a summary of sales to the U.S. Government by segment, see Note 13 to the Notes to Consolidated Financial Statements. Sales to the U.S. Department of Defense represented approximately 20%, 21% and 26% of total sales for 2014, 2013 and 2012, respectively. See also our government contracts risks factor disclosure beginning at page 16.

Performance under government contracts has certain inherent risks that could have a material adverse effect on the Company’s business, results of operations and financial condition. Government contracts are conditioned upon the continuing availability of Congressional appropriations, which usually occurs on a fiscal year basis even though contract performance may take more than one year.

For information on accounts receivable from the U.S. Government, see Note 5 to the Notes to Consolidated Financial Statements.

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Estimates and Reserves

Our discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. On an ongoing basis, we evaluate our estimates, including those related to product returns and replacements, allowance for doubtful accounts, inventories, intangible assets, income taxes, warranty obligations, pension and other postretirement benefits, long-term contracts, environmental, workers' compensation and general liability, employee dental and medical benefits and other contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances at the time, the results of which form the basis for making our judgments. Actual results may differ materially from these estimates under different assumptions or conditions. In some cases, such differences may be material. See "Other Matters - Critical Accounting Policies."

The following table reflects significant reserves and valuation accounts, which are estimates and based on judgments as described above, at December 28, 2014, and December 29, 2013 (in millions):

Reserves and Valuation Accounts (a)

	2014	2013
Allowance for doubtful accounts	$7.8	$5.2
LIFO inventory reserves	$16.5	$16.6
Other inventory reserves	$55.3	$44.8
Workers' compensation and general liability reserves(b)	$8.9	$9.1
Warranty reserves(b)	$18.5	$17.3
Environmental reserves(b)	$9.7	$9.1
Other accrued liability reserves(b)	$31.5	$28.6

(a) This table should be read in conjunction with the Notes to Consolidated Financial Statements.

(b) Includes both long-term and short-term reserves.

Some of the Company's products are subject to specified warranties and the Company provides for the estimated cost of product warranties. We regularly assess the adequacy of our pre-existing warranty liabilities and adjust amounts as necessary based on a review of historic warranty experience with respect to the applicable business or products, as well as the length and actual terms of the warranties, which are typically one year. The product warranty reserve is included in current accrued liabilities and other long-term liabilities on the balance sheet. Changes in the Company's product warranty reserve are as follows (in millions):

	2014	2013	2012
Balance at beginning of year	$17.3	$17.8	$13.3
Accruals for product warranties charged to expense	6.6	4.4	9.6
Cost of product warranty claims	(5.9)	(5.2)	(6.9)
Acquisitions	0.5	0.3	1.8
Balance at year-end	$18.5	$17.3	$17.8

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the notes to the financial statements. Some of those judgments can be subjective and complex, and therefore, actual results could differ materially from those estimates under different assumptions or conditions. Our critical accounting policies are those that are reflective of significant judgment, complexity and uncertainty, and may potentially result in materially different results under different assumptions and conditions. We have identified the following as critical accounting policies: revenue recognition; accounting for pension plans; accounting for business combinations, goodwill and other long-lived assets; and accounting for income taxes. For additional discussion of the application of these and other accounting policies, see Note 2 of the Notes to Consolidated

Financial Statements.

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Revenue Recognition

Revenue is recognized when the earnings process is substantially complete and all of the following criteria are met: 1) persuasive evidence of an arrangement exists; 2) delivery has occurred or services have been rendered; 3) our price to our customer is fixed or determinable; and 4) collectability is reasonably assured.

We determine the appropriate method by which we recognize revenue by analyzing the terms and conditions of our contracts or arrangements entered into with our customers. The majority of our revenue is recognized on certain product sales upon shipment to the customer, at fixed or determinable prices and with a reasonable assurance of collection, passage of title to the customer and fulfillment of all significant obligations. Revenue is recognized net of estimated sales returns and other allowances. The remaining revenue is generally associated with long-term contracts to design, develop and manufacture highly engineered products used in commercial or defense applications. Such contracts are generally accounted for using contract accounting, percentage-of-completion ("POC") method.

The Company's standard terms of sale are FOB shipping point. For a small percentage of sales where title and risk of loss passes at destination point, and assuming all other criteria for revenue recognition are met, the Company recognizes revenue after delivery to the customer. If any significant obligation to the customer with respect to a sales transaction remains following shipment, revenue recognition is deferred until such obligations have been fulfilled. In general, our revenue arrangements do not involve acceptance provisions based on customer specified acceptance criteria. In those circumstances when customer specified acceptance criteria exist, and if we cannot demonstrate that the system meets those specifications prior to the shipment, then revenue is deferred until customer acceptance is obtained. The Company does not offer substantial sales incentives and credits to customers.

We have a few contracts that require the Company to warehouse certain goods, for which revenue is recognized when all risks of loss is borne by the customer and all other criteria for revenue recognition are met.

We also have a small number of multiple elements arrangements (i.e., free product, training, installation, additional parts, etc.). If contract accounting does not apply, we allocate the contract price among the deliverables based on vendor-specific objective evidence of fair value to each element in the arrangement. If objective and reliable evidence of fair value of any element is not available, we use our best estimate of selling price for purposes of allocating the total arrangement consideration among the elements. Also, extended or non-customary warranties do not represent a significant portion of our revenue; however when our revenue arrangements include an extended or non-customary warranty provision the revenue is deferred and recognized ratably over the extended warranty period.

Contracts that require substantial performance over a long time period (generally one or more years), revenues are recorded under the POC method. We record net revenue and an estimated profit as work on our contracts progresses. The POC method for these contracts is dependent on the nature of the contract or products provided. Depending on the contract, we may measure the extent of progress toward completion using the units-of-delivery method, cost-to-cost method or upon attainment of scheduled performance contract milestones which could be time, event or expense driven. For example, for cost-reimbursable contracts we use the cost-to-cost method to measure progress toward completion. Under the cost-to-cost method of accounting, we recognize revenue and an estimated profit as allowable costs are incurred based on the proportion that the incurred costs bear to total estimated costs. Another example, for contracts that require us to provide a substantial number of similar items, we record revenue and an estimated profit on a POC basis using units-of-delivery as the basis to measure progress toward completing the contract. Occasionally, it is appropriate to combine individual customer orders and treat them as one arrangement when the underlying agreement was reached with the customer for a single large project.

The percentage of Company revenue recognized using the POC method was 28.7% in 2014, 32.1% in 2013 and 36.7% in 2012.

Accounting for contracts using the POC method requires management judgment relative to assessing risks, estimating contract revenue and cost, and making assumptions for schedule and technical issues. Contract revenue may include estimated amounts not contractually agreed to by the customer, including price redetermination, cost or performance incentives (such as award and incentives fees), un-priced change orders, claims and requests for equitable adjustment. The POC method requires management's judgment to make reasonably dependable cost estimates generally over a long time period. Since certain contracts extend over a long period of time, the impact of revisions in cost and revenue estimates during the progress of work may adjust the current period earnings on a cumulative catch-up basis. This

method recognizes, in the current period, the cumulative effect of the changes on current and prior quarters. Additionally, if the current contract estimate indicates a loss, a provision is made for the total anticipated loss in the period that it becomes evident. Contract cost and revenue estimates for significant contracts are generally reviewed and reassessed at least quarterly.

The net effect of the favorable and unfavorable changes in estimates were expense of $3.0 million in 2014, $1.8 million in 2013 and $1.2 million in 2012. The gross aggregate effects of these favorable and unfavorable changes in estimates in 2014, 2013 and 2012 were $22.9 million, $21.4 million and $18.0 million of favorable operating income and $25.9 million, $23.2 million and $19.2 million of unfavorable operating income, respectively. We do not believe that any discrete event or

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adjustment to an individual contract within the aggregate changes in contract estimates for 2014, 2013 or 2012 was material to the consolidated statements of income for such annual periods.

Accounting for Pension Plans

Teledyne has a defined benefit pension plan covering substantially all U.S. employees hired before January 1, 2004, or approximately 18% of Teledyne's active employees. As of January 1, 2004, new hires participate in a defined contribution plan. In connection with recent acquisitions, the Company assumed responsibility for several smaller foreign-based benefit pension plans. At December 28, 2014, the benefit obligation for the domestic defined benefit pension plan totaled $878.4 million and the fair value of the net plan assets were $957.4 million. At December 28, 2014, the benefit obligation for the foreign-based pension plans totaled $61.0 million and the fair value of the net plan assets were $47.7 million. The Company's accounting for its defined benefit pension plan requires that amounts recognized in financial statements be determined on an actuarial basis, rather than as contributions are made to the plan. In consultation with our actuaries, we determine the appropriate assumptions for use in determining the liability for future pension benefits. Significant assumptions used in determining the Company's pension income or expense is the expected long-term rate of return on plan assets, participant mortality estimates, expected rates of increase in future compensation levels, employee turnover, as well as the assumed discount rate on pension obligations. The Company has assumed, based upon the types of securities the plan assets are invested in and the long-term historical returns of these investments, that the long-term expected return on pension assets will be 8.25% in 2015 for its domestic pension plan and the assumed discount rate will be 4.5% in 2015 for its domestic pension plan. The Company's long-term expected return on pension assets used in 2014 was 8.25% for its domestic pension plans and the assumed discount rate used in 2014 was 5.4%. The actual rate of return on pension assets was 5.4% in 2014 and 19.6% in 2013 for its domestic pension plan. If the actual rate of return on pension assets is below the projection, the Company may be required to make additional contributions to the pension trust. At December 28, 2014, the domestic plan is over-funded and contributions are not required. The Company did not make any cash contributions to its domestic pension benefit plan in 2014 and made a voluntary pretax cash contribution of $83.0 million in 2013, before recovery from the U.S. Government. Recently, the Society of Actuaries released revised mortality tables, which update life expectancy assumptions. In consideration of these tables, we modified the mortality assumptions used in determining our pension and post-retirement benefit obligations as of December 28, 2014. The impact of these new mortality assumptions has resulted in an increase to our pension obligation and an increase in future pension expense. Our plan remains over-funded after the impact of the new mortality assumptions, as well as from changes to other relevant assumptions. At year-end 2014 the Company has a $229.3 million non-cash reduction to stockholders' equity and a long-term additional liability of $365.4 million related to its pension plans. At year-end 2013, the Company had a $133.2 million non-cash reduction to stockholders' equity and a long-term additional liability of $214.0 million related to its pension plans. See Note 12 of the Notes to Consolidated Financial Statements for additional pension disclosures.

Differences in the discount rate and expected long-term rate of return on assets within the indicated range would have had the following impact on 2014 pension expense (in millions):

	0.25 Percentage Point Increase	0.25 Percentage Point Decrease
Increase (decrease) to pension expense resulting from:		
Change in discount rate	$(2.0)	$2.0
Change in long-term rate of return on plan assets	$(2.3)	$2.3

See Note 12 of the Notes to Consolidated Financial Statements for additional pension disclosures.

Accounting for Business Combinations, Goodwill, Acquired Intangible Assets and Other Long-Lived Assets

The results for all acquisitions are included in the Company's consolidated financial statements from the date of each respective acquisition. Business acquisitions are accounted for under the purchase method by assigning the purchase price to tangible and intangible assets acquired and liabilities assumed. Assets acquired and liabilities assumed are recorded at their fair values and the excess of the purchase price over the amounts assigned is recorded as goodwill. We determine the fair value of such assets and liabilities, generally in consultation with third-party valuation advisors. Purchased intangible assets with finite lives are amortized over their estimated useful lives. Adjustments to fair value

assessments are recorded to goodwill over the purchase price allocation period.

Goodwill and acquired intangible assets with indefinite lives are not amortized. We review goodwill and acquired indefinite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. The Company also performs an annual impairment test in the fourth quarter of each year. We would test goodwill and acquired indefinite-lived intangible assets for impairment between annual tests if events occur or circumstances change that would more likely than not reduce our enterprise fair value below its book value. These events or circumstances could include a significant change in the business climate, including a significant sustained decline in an entity's market value, legal factors, operating performance indicators, competition, sale or disposition of a significant

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portion of the business, or other factors. Based on a quarterly impairment test completed in 2014, the Company recorded a $0.7 million impairment to acquired intangible assets. Based on the annual impairment test completed in the fourth quarter of 2013, the Company recorded a $1.2 million impairment to acquired intangible assets. No impairment of goodwill was indicated in 2014 or 2013, based on the annual impairment test completed in the fourth quarter of each year.

For goodwill impairment testing, the Company estimates the fair value of the reporting units, using a discounted cash flow model based on our best estimate of amounts and timing of future revenues and cash flows and our most recent business and strategic plans, and compares the estimated fair value to the carrying value of the reporting unit, including goodwill. The discounted cash flow model requires judgmental assumptions about projected revenue growth, future operating margins, discount rates and terminal values over a multi-year period. There are inherent uncertainties related to these assumptions and management's judgment in applying them to the analysis of goodwill impairment. While the Company believes it has made reasonable estimates and assumptions to calculate the fair value of its reporting units, it is possible a material change could occur. If actual results are not consistent with management’s estimates and assumptions, goodwill may be overstated and a charge would need to be taken against net earnings.

As of December 28, 2014, the Company had 26 reporting units for goodwill impairment testing. The carrying value of goodwill included in the Company’s individual reporting units ranges from $0.9 million to $275.1 million. The Company’s analysis in 2014 indicated that in all instances, the fair value of the Company’s reporting units exceeded their carrying values and consequently did not result in an impairment charge. The excess of the estimated fair value over the carrying value (expressed as a percentage of carrying value of the respective reporting unit) for each of the Company’s reporting units as of the fourth quarter of 2014, the annual testing date, ranged from approximately 57% to 5,670%.

Changes in these projections could affect the estimated fair value of certain of the Company’s reporting units and could result in a goodwill impairment charge in a future period. In order to evaluate the sensitivity of the fair value calculations used in the goodwill impairment test, the Company applied a hypothetical 10% decrease to the fair values of each reporting unit and compared those values to the reporting unit carrying values. Based on this sensitivity analysis, the Company did not identify any goodwill impairment. Due to the many variables inherent in the estimation of a reporting unit’s fair value and the relative size of our recorded goodwill, differences in assumptions may have a material effect on the results of our impairment analysis.

The impairment test for indefinite-lived intangibles other than goodwill (primarily trademarks and trade names) consists of a comparison of the fair value of the indefinite-lived intangible asset to the carrying value of the asset as of the impairment testing date. The Company estimates the fair value of its indefinite-lived intangibles using a discounted cash flow model based on our best estimate of amounts and timing of future revenues and cash flows and our most recent business and strategic plans, and compares the estimated fair value to the carrying value of the asset. The estimated fair values exceed the carrying value for each of the Company’s indefinite-lived intangible assets as of the fourth quarter of 2014, the annual testing date.

Accounting for Income Taxes

Income tax expense and deferred tax assets and liabilities reflect management’s assessment of actual future taxes to be paid on items reflected in the financial statements. Significant judgment is required in evaluating our tax positions and determining our provision for income taxes. Uncertainty exists regarding tax positions taken in previously filed tax returns still under examination and positions expected to be taken in the current year and future returns. Deferred tax assets and liabilities arise due to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax carryforwards. Although we believe our income tax expense and deferred tax assets and liabilities are reasonable, no assurance can be given that the final tax outcome will not be different from that which is reflected in our historical income tax provisions and accruals. To the extent that the final tax outcome is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of uncertain tax benefits that are considered appropriate, as well as the related net interest.

Significant judgment is required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, we consider all available evidence including past operating results, estimates of future taxable income and the feasibility of tax planning strategies. In the event that we change our determination as to the amount of deferred tax assets that can be realized, we will adjust our valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made.

We record uncertain tax benefits on the basis of a two-step process whereby (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the “more-likely-than-not” recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

An increase of 1% in our nominal tax rate would have resulted in additional income tax provision from continuing operations for the fiscal year ended December 28, 2014, of $2.8 million. For a description of the Company’s tax accounting policies, refer to Note 2 and Note 11 to the Company’s Consolidated Financial Statements.

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Recent Accounting Pronouncements

Effective December 30, 2013, the first day of our 2014 fiscal year, the Company adopted accounting guidance related to the presentation of an unrecognized tax benefit when a net operating loss carryforward (“NOL”), a similar tax loss or a tax credit carryforward exists. Under the guidance, an entity will be required to present an unrecognized tax benefit as a reduction of a deferred tax asset for a NOL or tax credit carryforward whenever the NOL or tax credit carryforward would be available to reduce the additional taxable income or tax due if the tax position is disallowed. The Company's adoption of the guidance did not have a material impact on its consolidated financial statements.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most current revenue recognition guidance. This new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption, with early application not permitted. The Company is currently in the process of determining its implementation approach and assessing the impact on the consolidated financial statements and footnote disclosures.

Safe Harbor Cautionary Statement Regarding Forward-Looking Information

This Management’s Discussion and Analysis of Financial Condition and Results of Operation contains forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995, directly and indirectly relating to earnings, growth opportunities, product sales, capital expenditures, pension matters, stock option compensation expense, the credit facility, interest expense, severance and relocation costs, environmental remediation cost, stock repurchases, taxes, exchange rates and strategic plans. All statements made in this Management’s Discussion and Analysis of Financial Condition and Results of Operation that are not historical in nature should be considered forward-looking. Actual results could differ materially from these forward-looking statements.

Many factors could change the anticipated results, including: disruptions in the global economy; changes in demand for products sold to the defense electronics, instrumentation, digital imaging, energy exploration and production, commercial aviation, semiconductor and communications markets; funding, continuation and award of government programs; and cuts to defense spending resulting from existing and future deficit reduction measures; threats to the security of our confidential and proprietary information, including cyber security threats. Lower oil and natural gas prices, as well as instability in the Middle East or other oil producing regions, and new regulations or restrictions relating to energy production, including with respect to hydraulic fracturing could negatively affect our businesses that supply the oil and gas industry. Increasing fuel costs could negatively affect the markets of our commercial aviation businesses. In addition, financial market fluctuations affect the value of our pension assets. Changes in the policies of U.S. and foreign governments could result, over time, in reductions or realignment in defense or other government spending and further changes in programs in which the Company participates.

While Teledyne’s growth strategy includes possible acquisitions, we cannot provide any assurance as to when, if or on what terms any acquisitions will be made. Acquisitions involve various inherent risks, such as, among others, our ability to integrate acquired businesses, retain customers and achieve identified financial and operating synergies. There are additional risks associated with acquiring, owning and operating businesses outside of the United States, including those arising from U.S. and foreign government policy changes or actions and exchange rate fluctuations.

We continue to take action to assure compliance with the internal controls, disclosure controls and other requirements of the Sarbanes-Oxley Act of 2012. While we believe our control systems are effective, there are inherent limitations in all control systems, and misstatements due to error or fraud may occur and may not be detected.

Additional information concerning factors that could cause actual results to differ materially from those projected in the forward-looking statements is contained beginning on page 13 of this Form 10-K under the caption “Risk Factors; Cautionary Statement as to Forward-Looking Statements.” Forward-looking statements are generally accompanied by words such as “estimate”, “project”, “predict”, “believes” or “expect”, that convey the uncertainty of future events or outcomes. We assume no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or otherwise.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information required by this item is included in this Report at page 48 under the caption “Other Matters - Hedging Activities; Market Risk Disclosures” of “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation.”

Item 8. Financial Statements and Supplementary Data

The information required by this item is included in this Report at pages 60 through 102. See the “Index to Financial Statements and Related Information” at page 59.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls

Teledyne’s disclosure controls and procedures are designed to ensure that information required to be disclosed in reports that it files or submits, under the Securities Exchange Act of 1934, was recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and to provide reasonable assurance that information required to be disclosed by us in such reports is accumulated and communicated to the Company’s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. The Company’s Chairman, President and Chief Executive Officer and Senior Vice President and Chief Financial Officer, with the participation and assistance of other members of management, have evaluated the effectiveness, as of December 28, 2014, of the Company’s “disclosure controls and procedures,” as that term is defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934, as amended (“the Exchange Act”). Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that the disclosure controls and procedures as of December 28, 2014, are effective.

Internal Controls

See Management Statement on page 60 for management’s annual report on internal control over financial reporting.

See Report of Independent Registered Public Accounting Firm on page 61 for Ernst & Young LLP’s attestation report on management’s assessment of internal control over financial reporting.

There was no change in the Company’s “internal control over financial reporting” (as such term is defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended December 28, 2014, that has materially affected, or is reasonably likely to materially effect, the Company’s internal control over financial reporting. There also were no material weaknesses identified for which corrective action needed to be taken.

Sarbanes-Oxley Disclosure Committee

The Company’s Sarbanes-Oxley Disclosure Committee includes the following members:

Wajid Ali, Vice President and Controller
Cynthia Belak, Vice President, Business Risk Assurance
Stephen F. Blackwood, Vice President and Treasurer
Melanie S. Cibik, Senior Vice President, General Counsel and Secretary
Brian A. Levan, Senior Director of Financial Reporting and Assistant Controller
Susan L. Main, Senior Vice President and Chief Financial Officer
S. Paul Sassalos, Associate General Counsel and Assistant Secretary
Jason VanWees, Senior Vice President, Strategy and Mergers & Acquisitions

Among its tasks, the Sarbanes-Oxley Disclosure Committee discusses and reviews disclosure issues to help us fulfill our disclosure obligations on a timely basis in accordance with SEC rules and regulations and is intended to be used as an additional resource for employees to raise questions regarding accounting, auditing, internal controls and disclosure matters. Our toll-free Ethics Help Line (1-877-666-6968) continues to be an alternative means to communicate

concerns to the Company's management.

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Item 9B. Other Information
None.
PART III

Item 10. Directors, Executive Officers and Corporate Governance.
In addition to the information set forth under the caption “Executive Management” beginning at page 10 in Part I of this Report, the information required by this item is set forth in the 2015 Proxy Statement under the captions “Item 1 on Proxy Card - Election of Directors,” “Board Composition and Practices,” “Corporate Governance,” “Committees of Our Board of Directors - Audit Committee” and “Report of the Audit Committee” and “Stock Ownership - Sections 16(a) Beneficial Ownership Reporting Compliance.” This information is incorporated herein by reference.

Item 11. Executive Compensation.
The information required by this item is set forth in the 2015 Proxy Statement under the captions “Executive and Director Compensation” “Compensation Committee Interlocks and Insider Participation” and “Personnel and Compensation Committee Report.” This information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.
Except for the table below, the information required by this item is set forth in the 2015 Proxy Statement under the caption “Stock Ownership Information” and is incorporated herein by reference.

Equity Compensation Plans Information
The following table summarizes information about our common stock that may be issued upon the exercise of options, warrant and rights under all of our equity compensation plans, as of December 28, 2014:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)		Weighted-Average Exercise Price of Outstanding Options, Warrants or Rights (b)		Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans [excluding securities reflected in column (a)]	
Equity compensation plans approved by security holders:						
1999 Incentive Plan(1)	329,250		42.80		—	
1999 Non-Employee Director Stock Compensation Plan(1)	62,182		30.80		—	
2002 Stock Incentive Plan(1)	298,877		41.24		—	
Amended and Restated 2008 Incentive Award Plan(2)	1,573,414		59.81		—	
2014 Incentive Award Plan	587,154	(3)	94.26	(4)	2,583,873	(5)
Employee Stock Purchase Plan(6)	—		—		1,000,000	
Equity Compensation plans not approved by security holders	—		—		—	
Total	2,850,877		$ 62.36		3,583,873	

1) The 1999 Incentive Plan, the 2002 Stock Incentive Plan and the 1999 Non-Employee Director Stock Compensation Plan terminated following stockholder approval of the 2008 Incentive Award Plan at our 2008 Annual

Meeting of Stockholders. No additional awards may be granted under these plans.

2) No additional awards may be granted under the Amended and Restated 2008 Incentive Award Plan (2008 Plan) following stockholder approval of 2014 Incentive Award Plan (2014 Plan) at our 2014 Annual Meeting of Stockholders. Any shares available under the 2008 Plan on the effective date of the 2014 Plan or that were subject to awards under the 2008 Plan that were forfeited or lapsed following the effective date of the 2014 Plan are automatically transferred to the 2014 Plan.

3) Does not include (i) 9,257 shares of stock potentially issuable to certain Canadian employees under the 2012-2014 cycle of our PSP, of which 1,945 shares were issued as part of the first installment payment in February 2015; and (ii) 4,443 shares subject to restricted stock unit awards.

4) Does not include the securities described in footnote (3) above, which do not have an exercise price.

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5) The number of shares available for future issuance (i) includes 1,378,233 shares transferred from the 2008 Plan (see footnote (2) above); (ii) assumes the issuance of up to 9,257 shares of stock potentially issuable to certain Canadian employees under the 2012-2014 cycle of our PSP, of which 1,945 shares were issued as part of the first installment payment in February 2015; and (iii) assumes the issuance of 4,443 shares subject to restricted stock unit awards.

6) We maintain an Employee Stock Purchase Plan (commonly known as The Stock Advantage Plan) for eligible employees. It enables employees to invest in our common stock through automatic, after-tax payroll deductions, within specified limits. We add a 25% matching Company contribution up to $1,200 annually. Our contribution is currently paid in cash and the plan administrator purchases shares of our common stock in the open market.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item is set forth in the 2015 Proxy Statement under the captions “Corporate Governance” and “Certain Transactions” and is incorporated herein by reference

Item 14. Principal Accountant Fees and Services.

The information required by this item is set forth in the 2015 Proxy Statement under the captions “Fees Billed by Independent Registered Public Accounting Firm” and “Audit Committee Pre-Approval Policies” under “Item 2 on Proxy Card - Ratification of Appointment of Independent Registered Public Accounting Firm” and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Exhibits and Financial Statement Schedules:

(1) Financial Statements

See the “Index to Financial Statements and Related Information” at page 59 of this Report, which is incorporated herein by reference.

(2) Financial Statement Schedules

See Schedule II captioned “Valuation and Qualifying Accounts” at page 100 of this Report, which is incorporated herein by reference.

(3) Exhibits

A list of exhibits filed with this Form 10-K or incorporated by reference is found in the Exhibit Index immediately following the certifications of this Report and incorporated herein by reference.

(b) Exhibits:

See Item 15(a)(3) above.

(c) Financial Schedules:

See Item 15(a)(2) above.

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INDEX TO FINANCIAL STATEMENTS AND RELATED INFORMATION