

Edgar Filing: TECHNITROL INC - Form 10-Q

TECHNITROL INC
Form 10-Q
August 10, 2005

UNITED STATES
SECURITIES & EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

The Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the three months ended July 1, 2005, 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 No. 1-5375

TECHNITROL, INC.
(Exact name of registrant as specified in its Charter)

PENNSYLVANIA
(State or other jurisdiction of
incorporation or organization)

23-1292472
(IRS Employer
Identification Number)

1210 Northbrook Drive, Suite 470
Trevose, Pennsylvania
(Address of principal executive offices)

19053
(Zip Code)

Registrant's telephone number, including area code: 215-355-2900

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 the filing requirements for at least the past 90 days. YES NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act.) YES NO

Common Stock - Shares Outstanding as of July 28, 2005: 40,529,568

(Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable dates.)

1

PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

Technitrol, Inc. and Subsidiaries

Consolidated Balance Sheets

In thousands

Edgar Filing: TECHNITROL INC - Form 10-Q

Assets	July 1, 2005	December 31, 2004
	----- (unaudited)	-----
Current assets:		
Cash and cash equivalents	\$ 182,111	\$ 155,952
Trade receivables, net	105,714	109,652
Inventories	65,303	77,481
Assets of discontinued operations held for sale	4,346	--
Prepaid expenses and other current assets	16,545	20,917
	-----	-----
Total current assets	374,019	364,002
Property, plant and equipment	201,768	233,563
Less accumulated depreciation	119,774	131,387
	-----	-----
Net property, plant and equipment	81,994	102,176
Deferred income taxes	8,245	8,898
Goodwill	97,687	126,178
Other intangibles, net	9,334	22,685
Other assets	2,353	2,648
	-----	-----
	\$ 573,632	\$ 626,587
	=====	=====
 Liabilities and Shareholders' Equity		
Current liabilities:		
Current installments of long-term debt	\$ 121	\$ 130
Short-term debt	4,735	6,717
Accounts payable	45,055	48,655
Liabilities of discontinued operations held for sale	2,576	--
Accrued expenses	72,405	69,602
	-----	-----
Total current liabilities	124,892	125,104
Long-term liabilities:		
Long-term debt, excluding current installments	6,217	7,125
Other long-term liabilities	14,174	14,766
Minority interest	14,444	14,730
Shareholders' equity:		
Common stock and additional paid-in capital	215,376	213,694
Retained earnings	194,859	239,752
Deferred compensation	(2,018)	(1,968)
Other comprehensive income	5,688	13,384
	-----	-----
Total shareholders' equity	413,905	464,862
	-----	-----
	\$ 573,632	\$ 626,587
	=====	=====

See accompanying Notes to Unaudited Consolidated Financial Statements.

Edgar Filing: TECHNITROL INC - Form 10-Q

Technitrol, Inc. and Subsidiaries

Consolidated Statements of Operations

(Unaudited)

In thousands, except per share data

	Three Months Ended	
	July 1, 2005	June 25, 2004
Net sales	\$ 143,305	\$ 141,301
Costs and expenses:		
Cost of sales	110,766	102,060
Selling, general and administrative expenses	26,512	28,137
Severance and asset impairment expense	48,261	1,484
	185,539	131,681
Operating (loss) profit	(42,234)	9,620
Other income (expense):		
Interest income (expense), net	541	(153)
Equity method investment earnings	--	257
Other	(471)	1,290
	70	1,394
(Loss) earnings from continuing operations before taxes and minority interest	(42,164)	11,014
Income taxes	899	1,775
Minority interest	497	--
	\$ (43,560)	\$ 9,239
Net earnings from discontinued operations, net of taxes	646	35
	\$ (42,914)	\$ 9,274
	\$ (42,914)	\$ 9,274
Basic and diluted (loss) earnings per share from continuing operations	\$ (1.08)	\$ 0.23
	\$ (1.08)	\$ 0.23
Basic and diluted earnings per share from discontinued operations	\$ 0.02	\$ 0.00
	\$ 0.02	\$ 0.00
Basic and diluted (loss) earnings per share	\$ (1.06)	\$ 0.23
	\$ (1.06)	\$ 0.23

See accompanying Notes to Unaudited Consolidated Financial Statements.

Edgar Filing: TECHNITROL INC - Form 10-Q

3

Technitrol, Inc. and Subsidiaries
 Consolidated Statements of Cash Flows
 (Unaudited)
 In thousands

	Six Months Ended	
	July 1, 2005	June 25, 2004
	-----	-----
Cash flows from operating activities:		
Net (loss) earnings	\$ (38,111)	\$ 14,912
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:		
Depreciation and amortization	10,948	11,801
Tax effect of employee stock compensation	98	--
Amortization of stock incentive plan expense	1,686	1,665
Minority interest in net earnings of consolidated subsidiary	286	--
Severance and asset impairment expense, net of cash payments	47,060	2,800
Changes in assets and liabilities, net of effect of acquisitions:		
Trade receivables	(4,645)	(6,573)
Inventories	1,890	(7,219)
Prepaid expenses and other current assets	3,188	595
Accounts payable and accrued expenses	(81)	4,489
Other, net	3,534	(4,234)
	-----	-----
Net cash provided by operating activities	25,853	18,236
	-----	-----
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(1,240)	(4,050)
Proceeds from sale of business	6,724	--
Capital expenditures	(8,204)	(3,866)
Proceeds from sale of property, plant and equipment	975	413
Foreign currency impact on intercompany lending	8,501	1,882
	-----	-----
Net cash provided by (used in) investing activities	6,756	(5,621)
	-----	-----
Cash flows from financing activities:		
Principal payments of long-term debt, net	(90)	(322)
Principal payments of short-term debt, net	(1,982)	--
Dividends paid	(3,541)	--
Sale of stock through employee stock purchase plan	--	427
	-----	-----
Net cash (used in) provided by financing activities	(5,613)	105
	-----	-----
Net effect of exchange rate changes on cash	(2,066)	(893)
	-----	-----
Net increase in cash and cash equivalents from continuing operations	24,930	11,827

Edgar Filing: TECHNITROL INC - Form 10-Q

Net increase (decrease) in cash and cash equivalents from discontinued operations	1,229	(1,222)
	-----	-----
Cash and cash equivalents at beginning of period	155,952	143,448
	-----	-----
Cash and cash equivalents at end of period	\$ 182,111	\$ 154,053
	=====	=====

See accompanying Notes to Unaudited Consolidated Financial Statements.

4

Technitrol, Inc. and Subsidiaries

Consolidated Statement of Changes in Shareholders' Equity

Six Months Ended July 1, 2005

(Unaudited)
In thousands

	Common stock and paid-in capital		Retained earnings	Deferred compen- sation	Other Accu
	Shares	Amount			
	-----	-----	-----	-----	-----
Balance at December 31, 2004	40,448	\$ 213,694	\$239,752	\$ (1,968)	\$
Stock options, awards and related compensation	21	594	--	28	
Tax effect of stock compensation	--	(54)	--	--	
Currency translation adjustments	--	--	--	--	
Net earnings	--	--	5,109	--	
Comprehensive income	--	--	--	--	
Dividends declared (\$0.0875 per share)	--	--	(3,541)	--	
	-----	-----	-----	-----	-----
Balance at April 1, 2005	40,469	214,234	241,320	(1,940)	
Stock options, awards and related compensation	61	990	--	(78)	
Tax effect of stock compensation	--	152	--	--	
Currency translation adjustments	--	--	--	--	
Net (loss)	--	--	(42,914)	--	
Comprehensive (loss)	--	--	--	--	
Dividends declared (\$0.0875 per share)	--	--	(3,547)	--	
	-----	-----	-----	-----	-----
Balance at July 1, 2005	40,530	\$ 215,376	\$194,859	\$ (2,018)	\$
	=====	=====	=====	=====	=====

Edgar Filing: TECHNITROL INC - Form 10-Q

See accompanying Notes to Unaudited Consolidated Financial Statements.

5

Technitrol, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(1) Accounting Policies

For a complete description of the accounting policies of Technitrol, Inc. and its consolidated subsidiaries, refer to Note 1 of Notes to Consolidated Financial Statements included in Technitrol's Form 10-K filed for the year ended December 31, 2004. We sometimes refer to Technitrol as "we" or "our".

The results for the six months ended July 1, 2005 and June 25, 2004 have been prepared by our management without audit by our independent auditors. In the opinion of management, the financial statements fairly present in all material respects, the financial position and results of operations for the periods presented. To the best of our knowledge and belief, all adjustments have been made to properly reflect income and expenses attributable to the periods presented. Except for severance and asset impairment expenses, all such adjustments are of a normal recurring nature. Operating results for the six months ended July 1, 2005 are not necessarily indicative of annual results.

New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment, ("SFAS No. 123(R)"), which amends SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123(R) requires compensation expense to be recognized for all share-based payments made to employees based on the fair value of the award at the date of grant, eliminating the intrinsic value alternative allowed by SFAS No. 123. Generally, the approach to determining fair value under the original pronouncement has not changed, however, there are revisions to the accounting guidelines established, such as accounting for forfeitures. SFAS No. 123(R) is effective for the beginning of our fiscal 2006. Adoption of this standard is not expected to have a material impact on our revenue, operating results, financial position or liquidity.

In December 2004, the FASB issued FASB Staff Position No. FAS 109-2 ("FAS 109-2"), Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creations Act of 2004. The American Jobs Creation Act ("AJCA") introduces a limited time 85% dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer (repatriation provision), provided certain criteria are met. FAS 109-2 provides accounting and disclosure guidance for the repatriation provision. Although FAS 109-2 is effective immediately, we do not expect to be able to complete our evaluation of the repatriation provision until after sources and uses of cash for the remainder of 2005 are finalized in terms of location (U.S. or foreign), amounts and timing.

In November 2004, the FASB issued Statement No. 151, Inventory Costs or Amendment of ARB No.43, Chapter 4 ("SFAS 151"). SFAS 151 provides for certain fixed production overhead cost to be reflected as a period cost and not capitalized as inventory. SFAS 151 is effective for the beginning of our fiscal 2006. Adoption of this standard is not expected to have a material impact on our revenue, operating results, financial position or liquidity.

Reclassifications

Edgar Filing: TECHNITROL INC - Form 10-Q

Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation.

6

Technitrol, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements, continued

(2) Acquisitions

Full Rise Electronic Co., Ltd. (FRE): FRE is based in the Republic of China (Taiwan) and manufactures connector products, including single and multiple-port jacks, and supplies products to us under a cooperation agreement. In April 2001, we made a minority investment in the common stock of FRE, which was accounted for by the cost-basis method of accounting. On July 27, 2002, we made an additional investment in FRE of \$6.7 million which increased the total investment to \$20.9 million. As a result of the increased ownership percentage to approximately 29%, we began to account for the investment under the equity method of accounting beginning in the three months ended September 27, 2002. Shares of FRE began trading on the Taiwan Stock Exchange in January 2003, and they experienced considerable price volatility. In the three months ended December 26, 2003, we recorded an \$8.7 million net loss to adjust our original cost basis of the investment to market value. In July 2004, we purchased an additional 9.0 million shares of common stock in FRE for \$10.5 million. On September 13, 2004, we acquired an additional 2.4 million shares of common stock in FRE for \$2.5 million, bringing our ownership percentage up to 51%. Accordingly, FRE's operating results were consolidated with our own beginning September 13, 2004. Our net earnings therefore reflect FRE's net earnings, after deducting the minority interest due to the minority shareholders. During the six months ended July 1, 2005, we acquired an additional 1.4 million shares of common stock in FRE for \$1.2 million, bringing our ownership percentage up to 54%. Additional purchases of common stock in FRE are allocated, on a pro rata basis, to goodwill, identifiable intangible assets, and property, plant, and equipment according to amounts recorded as of September 13, 2004. The fair value of the net tangible assets acquired through September 13, 2004 approximated \$28.8 million, less a minority interest of \$14.0 million. Based on the fair value of net tangible assets acquired and our current ownership percentage, the allocation of the investment to intangibles includes \$0.5 million for technology, \$0.6 million for trademarks, \$2.1 million for customer relationships and \$9.3 million of goodwill. All of the separately identifiable intangibles are being amortized, with useful lives of 4 years for technology and customer relationships.

(3) Severance and asset impairment expense

In the six months ended July 1, 2005, we accrued \$3.2 million for a number of actions to streamline operations at Pulse and AMI Doduco. These include severance and related payments comprised of \$1.0 million related to Pulse's termination of manufacturing and support personnel at a facility in Italy and Turkey, \$1.2 million related to AMI Doduco's termination of manufacturing and support personnel at a facility in Italy, \$0.3 million related to the Pulse's termination of a lease in China, and \$0.7 million for severance at other locations. The majority of these accruals will be paid by December 31, 2005, except for remaining lease or severance payments to be made over a specified term. Additionally, in the quarter ended July 1, 2005, we recorded a \$46.0 million impairment charge of Pulse Consumer Division assets consisting of \$25.6 million of goodwill, \$11.5 million of identifiable intangibles, and \$8.9 million of property, plant, and equipment. These impairments resulted from updated cash

Edgar Filing: TECHNITROL INC - Form 10-Q

flow projections which reflect the shift of production by Pulse to China-based locations, decreasing average selling prices for television transformers, and the overall decline in the European television market. We expect to accrue an additional \$1.0 million of severance in the third quarter of 2005 in connection with the termination of manufacturing and support personnel in the Consumer Division. Additionally, we expect to accrue an additional \$0.8 million in contract termination costs and asset impairments at AMI Doduco's facility in Italy in the third quarter of 2005.

In the six months ended June 25, 2004, we accrued \$4.3 million for severance and related payments comprised of \$2.5 million related to AMI Doduco's termination of manufacturing and support

7

Technitrol, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements, continued

(3) Severance and asset impairment expense, continued

personnel at a facility in Germany, \$0.8 million related to the termination of manufacturing and support personnel at a facility in France, \$0.7 million related to Pulse's shutdown of a facility in Carlsbad, California and \$0.3 million for other severances in various locations. The vast majority of these accruals were utilized by December 31, 2004. We accrued an additional \$2.0 million of severance and asset impairment expense in the third quarter of 2004 in connection with the completion of the shutdown of the AMI Doduco facility in France and the termination of manufacturing and support personnel in Germany.

Our severance and asset impairment charges are summarized on a year-to-date basis for 2005 as follows (in millions):

	AMI Doduco	Pulse	Total
	-----	-----	-----
Balance accrued at December 31, 2004	\$ 1.8	\$ 1.2	\$ 3.0
Accrued during the six months ended July 1, 2005	1.5	47.7	49.2
Severance and other cash payments	(0.8)	(1.2)	(2.0)
Non-cash asset disposals	(0.4)	(46.0)	(46.4)
	-----	-----	-----
Balance accrued at July 1, 2005	\$ 2.1	\$ 1.7	\$ 3.8
	=====	=====	=====

(4) Inventories

Inventories consisted of the following (in thousands):

	July 1, 2005	December 31, 2004
	-----	-----
Finished goods	\$ 26,620	\$ 27,394
Work in process	18,008	20,312
Raw materials and supplies	20,675	29,775
	-----	-----
	\$ 65,303	\$ 77,481
	=====	=====

(5) Derivatives and Other Financial Instruments

Edgar Filing: TECHNITROL INC - Form 10-Q

We utilize derivative financial instruments, primarily forward exchange contracts, to manage foreign currency risks. While these hedging instruments are subject to fluctuations in value, such fluctuations are generally offset by the value of the underlying exposures being hedged.

At July 1, 2005, we had one foreign exchange forward contract outstanding to sell forward approximately 50.7 million euros in the aggregate, in order to hedge intercompany loans. The term of this contract was approximately 30 days although we routinely settle such obligations and enter into new 30-day contracts each month. We had no other derivative instruments at July 1, 2005. In addition, management believes that there is no material risk of loss from changes in inherent market rates or prices in our other financial instruments.

8

Technitrol, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements, continued

(6) Earnings Per Share

Basic earnings per share are calculated by dividing net earnings by the weighted average number of common shares outstanding (excluding restricted shares) during the period. We had unvested restricted shares outstanding of approximately 226,000 and 256,000 as of July 1, 2005 and June 25, 2004, respectively. For calculating diluted earnings per share, common share equivalents and unvested restricted stock outstanding are added to the weighted average number of common shares outstanding. Common share equivalents are comprised of outstanding options to purchase common stock and the amount of compensation cost attributed to future services not yet recognized as calculated using the treasury stock method. There were no common share equivalents for the three and six months ended July 1, 2005, as the exercise prices of outstanding share options were greater than the average stock price for the period. There were approximately 516,000 stock options outstanding as of July 1, 2005 and approximately 457,000 as of June 25, 2004.

Earnings (loss) per share calculations are as follows (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	July 1, 2005	June 25, 2004	July 1, 2005	June 2004
Net (loss) earnings from continuing operations	\$ (43,560)	\$ 9,239	\$ (38,111)	\$ 14,000
Net earnings from discontinued operations	646	35	306	0
Net (loss) earnings	\$ (42,914)	\$ 9,274	\$ (37,805)	\$ 15,000
Basic (loss) earnings per share:				
Shares	40,296	40,164	40,270	40,000
Continuing operations	\$ (1.08)	\$ 0.23	\$ (0.95)	\$ 0.00
Discontinued operations	0.02	0.00	0.01	0.00
Per share amount	\$ (1.06)	\$ 0.23	\$ (0.94)	\$ 0.00

Diluted (loss) earnings per share:

Edgar Filing: TECHNITROL INC - Form 10-Q

Shares	40,296	40,408	40,270	40,
Continuing operations	\$ (1.08)	\$ 0.23	\$ (0.95)	\$ 0
Discontinued operations	0.02	0.00	0.01	0
	-----	-----	-----	-----
Per share amount	\$ (1.06)	\$ 0.23	\$ (0.94)	\$ 0
	=====	=====	=====	=====

9

Technitrol, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements, continued

(7) Business Segment Information

For the three and six months ended July 1, 2005 and June 25, 2004 there were immaterial amounts of intersegment revenues eliminated in consolidation. There has been no material change in segment assets from December 31, 2004 to July 1, 2005, except for the impairment writedown in the Pulse Consumer Division. In addition, the basis for determining segment financial information has not changed from 2004. Specific segment data are as follows:

Net sales:	Three Months Ended		
	July 1, 2005	June 25, 2004	
	-----	-----	-----
Pulse	\$ 78,350	\$ 81,456	\$
AMI Doduco	64,955	59,845	
	-----	-----	-----
Total	\$ 143,305	\$ 141,301	\$
	=====	=====	=====
(Loss) earnings before income taxes and minority interest:			
Pulse	\$ (42,023)	\$ 9,772	\$
AMI Doduco	(211)	(152)	
	-----	-----	-----
Operating (loss) profit	(\$42,234)	9,620	
Other income (expense), net	70	1,394	
	-----	-----	-----
(Loss) Earnings before income taxes and minority interest	\$ (42,164)	\$ 11,014	\$
	=====	=====	=====

(8) Accounting for Stock Based Compensation

We adopted SFAS 123, as amended by SFAS 148, at the beginning of the 2003 fiscal year. We implemented SFAS 123 under the prospective method approach per SFAS 148, whereby compensation expense is recorded for all awards granted subsequent to adoption.

If compensation cost for our stock option plan and stock purchase plan had been determined based on the fair value as required by SFAS 123 for all awards (including those made prior to 2003), our pro forma net earnings and earnings per basic and diluted share would have been as follows, (in thousands, except per share amounts):

Edgar Filing: TECHNITROL INC - Form 10-Q

	Three Months Ended		
	July 1, 2005	June 25, 2004	
	-----	-----	---
Net (loss) earnings, as reported	\$ (42,914)	\$ 9,274	\$
Add: Stock-based compensation expense included in reported net (loss) earnings, net of taxes	536	614	
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of taxes	(749)	(882)	
	-----	-----	---
Net (loss) earnings adjusted	\$ (43,127)	\$ 9,006	\$
Basic net (loss) earnings per share - as reported	\$ (1.06)	\$ 0.23	\$
Basic net (loss) earnings per share - adjusted	\$ (1.07)	\$ 0.22	\$
Diluted net (loss) earnings per share - as reported	\$ (1.06)	\$ 0.23	\$
Diluted net (loss) earnings per share - adjusted	\$ (1.07)	\$ 0.22	\$

10

Technitrol, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements, continued

(8) Accounting for Stock Based Compensation, continued

At July 1, 2005, we had approximately 516,000 options outstanding, representing approximately 1% of our outstanding shares of common stock. The value of restricted stock has always been and continues to be recorded as compensation expense over the restriction period, and such expense is included in the results of operations for the periods ended July 1, 2005 and June 25, 2004, respectively.

(9) Pension

In the six months ended July 1, 2005 we were not required to, nor did we, make any contributions to our qualified pension plan. Our net periodic expense was approximately \$0.7 million and \$0.7 million in the six months ended July 1, 2005 and June 25, 2004, respectively, and is expected to be approximately \$1.4 million for the full fiscal year in 2005.

(10) Discontinued Operations

In the three months ended April 1, 2005, our board of directors approved a plan to divest AMI Doduco's bimetall and metal cladding operations located in North Carolina. In the second quarter of 2005, we received approximately \$6.7 million in cash and realized a gain of approximately \$1.4 million from the sale of approximately \$5.1 million of inventory and \$0.2 million of machinery and equipment. During the six months ended July 1, 2005, we accrued \$0.8 million for severance and related payments resulting from the announcement to terminate manufacturing and support personnel. Additionally, we realized a \$0.6 million curtailment gain as a result of the reduced estimated future service period of the severed personnel. We have reflected the results of the bimetall and metal cladding operations as discontinued operations on the consolidated statements of operations for all periods presented. Summary results of operations for the bimetall and metal cladding operations were as follows (in thousands):

Edgar Filing: TECHNITROL INC - Form 10-Q

	Three Months Ended		Six Months Ended	
	July 1, 2005	June 25, 2004	July 1, 2005	June 25, 2004
Net sales	\$ 3,548	\$ 5,670	\$ 9,020	\$ 9,987
Earnings before income taxes	993	55	471	195

The assets and liabilities of the bimetal and metal cladding operations, which were presented as assets of discontinued operations held for sale and liabilities of discontinued operations held for sale, respectively, on the consolidated balance sheet at July 1, 2005, were as follows (in thousands):

Trade receivables, net	\$ 1,243
Property, plant and equipment, net	1,336
Other assets	1,767

Assets of discontinued operations held for sale	\$ 4,346
	=====
Accounts payable	\$ 1,100
Accrued expenses	1,476

Liabilities of discontinued operations held for sale	\$ 2,576
	=====

We expect the majority of assets of discontinued operations held for sale, excluding the property, plant and equipment, and liabilities of the discontinued operations held for sale to be realized by December 31, 2005.

11

Technitrol, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements, continued

(11) Goodwill and Other Intangibles

The changes in the carrying amounts of goodwill for the six months ended July 1, 2005 is as follows (in thousands):

Balance at December 31, 2004	\$ 126,178
Goodwill acquired during the year	32
Impairment adjustment	(25,118)
Currency translation adjustment	(3,405)

Balance at July 1, 2005	\$ 97,687

The majority of our goodwill and other intangibles relate to our Pulse segment.

Other intangible assets were as follows (in thousands):

	July 1, 2005

Intangible Assets Subject to Amortization (Definite Lived)	\$ 10,682
Accumulated Amortization	(6,006)
Net Intangible Assets Subject to	

Edgar Filing: TECHNITROL INC - Form 10-Q

Amortization	4,676
Intangibles Assets Not Subject to Amortization (Indefinite Lived)	4,658

	\$ 9,334
	=====

Amortization expense was \$1.1 million and \$2.1 million for the six months ended July 1, 2005 and June 25, 2004, respectively. Estimated annual amortization expense for each of the next five years is as follows (in thousands):

Year Ending	
2006	\$ 909
2007	909
2008	838
2009	260
2010	--

In the quarter ended July 1, 2005, we recorded a \$46.0 million impairment charge of Pulse Consumer Division assets consisting of \$25.6 million of goodwill and \$11.5 million of identifiable intangibles. These impairments resulted from updated cash flow projections which reflect the shift of production by Pulse to China-based locations, decreasing average selling prices for television transformers, and the overall decline in the European television market.

12

Technitrol, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements, continued

(12) Subsequent Event

On August 9, 2005 we announced an agreement to acquire LK Products Oy (LK), a leading global producer of antennas and modules for mobile communication and information devices, from Filtronic PLC. LK's products are used in wireless applications for handsets, notebook computers, personal digital assistants (PDAs) and similar wireless devices. LK is based in Kempele, Finland and has additional production operations in Finland, China and Hungary as well as offices in South Korea and San Diego, California. The purchase price is (euro)67.0 million, or approximately \$82.8 million (at the close of trading Friday, August 5, 2005). The acquisition will be financed either entirely with cash on hand or with a combination of cash and credit under Technitrol's multi-currency credit facility. In addition, the terms of the purchase include a revenue-based earnout provision whereby we will pay Filtronic one euro for each euro of revenue in excess of (euro)85.0 million achieved by LK for the 12 months ending May 31, 2006. Revenues were approximately (euro)74.0 million (\$91.0 million) in the 12 months ended December 31, 2004. In addition, we entered into a foreign exchange forward contract on August 9, 2005 in order to sell forward an equivalent amount of U.S. dollars to hedge the (euro)67.0 million purchase price. Closing of the transaction is expected before September 30, 2005.

13

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

Edgar Filing: TECHNITROL INC - Form 10-Q

Introduction

This discussion and analysis of our financial condition and results of operations as well as other sections of this report, contain certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and involve a number of risks and uncertainties. Actual results may differ materially from those anticipated in these forward-looking statements for many reasons, including the risks faced by us described in "Risk Factors" section of this report on page 25 through 32.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires us to make judgments, assumptions and estimates that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Note 1 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the period ended December 31, 2004 describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. Estimates are used for, but not limited to, the accounting for inventory valuation, impairment of goodwill and other intangibles, severance and asset impairment expense, income taxes, and contingency accruals. Actual results could differ from these estimates. The following critical accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the Consolidated Financial Statements.

Inventory Valuation. We carry our inventories at lower of cost or market. We establish inventory provisions to write down excess and obsolete inventory to market value. We utilize historical trends and customer forecasts to estimate expected usage of on-hand inventory. In addition, inventory purchases are based upon future demand forecasts estimated by taking into account actual sales of our products over recent historical periods and customer forecasts. If there is a sudden and significant decrease in demand for our products or there is a higher risk of inventory obsolescence because of rapidly changing technology or customer requirements, we may be required to write down our inventory and our gross margin could be negatively affected. Conversely, if we were to sell or use a significant portion of inventory already written down, our gross margin could be positively affected.

Impairment of Goodwill and Other Intangibles. We assess the carrying cost of goodwill and intangible assets with indefinite lives on an annual basis and on an interim basis in certain circumstances. This assessment is based on comparing fair value to carrying cost. Fair value is based on estimating future cash flows using various growth assumptions and discounting based on a present value factor. Assigning a useful life and periodically reassessing a remaining useful life (for purposes of systematic amortization) is also predicated on various economic assumptions. Our intangible assets are also subject to impairment as a result of other factors such as changing technology, declines in demand that lead to excess capacity and other factors. In addition to the various assumptions, judgments and estimates mentioned above, we may strategically realign our resources and consider restructuring, disposing of, or otherwise exiting businesses in response to changes in industry or market conditions, which could result in an impairment of goodwill or other intangibles.

Severance and Asset Impairment Expense. We record severance, tangible asset and other restructuring charges such as lease terminations, in response to declines in demand that lead to excess capacity, changing technology and other factors. These costs are expensed during the period in which we determine that we will incur those costs, and all of the requirements for accrual are met in accordance with the applicable accounting guidance. Restructuring costs are

Edgar Filing: TECHNITROL INC - Form 10-Q

recorded based upon our best estimates at the time, such as estimated residual values. Our actual expenditures for the restructuring activities may differ from the initially recorded costs. If this occurs, could be required either to record additional expenses in future periods if our initial estimates were too low, or reverse part of the charges that we recorded initially

14

if our initial estimates were too high. In the case of acquisition-related restructuring costs, depending on whether the assets impacted came from the acquired entity and the timing of the restructuring charge, such adjustment would generally require a change in value of the goodwill appearing on our balance sheet, which may not affect our earnings.

Income Taxes. We use the asset and liability method of accounting for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year and for deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. We must make assumptions, judgments and estimates to determine our current provision for income taxes and also our deferred tax assets and liabilities and any valuation allowance to be recorded against a deferred tax asset. Our judgments, assumptions and estimates relative to the current provision for income tax take into account current tax laws, our interpretation of current tax laws and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. Changes in tax law or our interpretation of tax laws and the resolution of current and future tax audits could significantly impact the amounts provided for income taxes in our consolidated financial statements. Our assumptions, judgments and estimates relative to the value of a deferred tax asset take in to account predictions of the amount and category of future taxable income. Actual operating results and the underlying amount and category of income in future years could render our current assumptions, judgments and estimates of recoverable net deferred taxes inaccurate. Any of the assumptions, judgments and estimates mentioned above could cause our actual income tax obligations to differ from our estimates.

Contingency Accruals. During the normal course of business, a variety of issues may arise, which may result in litigation, environmental compliance and other contingent obligations. In developing our contingency accruals we consider both the likelihood of a loss or incurrence of a liability as well as our ability to reasonably estimate the amount of exposure. We record contingency accruals when a liability is probable and the amount can be reasonably estimated. We periodically evaluate available information to assess whether contingency accruals should be adjusted. Our evaluation includes an assessment of legal interpretations, judicial proceedings, recent case law and specific changes or developments regarding known claims. We could be required to record additional expenses in future periods if our initial estimates were too low, or reverse part of the charges that we recorded initially if our estimates were too high.

Overview

We are a global producer of precision-engineered passive magnetics-based electronic components and electrical contact products and materials. We believe we are a leading global producer of these products and materials in the primary markets we serve based on our estimates of the size of our primary markets in annual revenues and our share of those markets relative to our competitors.

We operate our business in two distinct segments:

Edgar Filing: TECHNITROL INC - Form 10-Q

- the electronic components segment, which operates under the name Pulse, and
- the electrical contact products segment, which operates under the name AMI Doduco.

General. We define net sales as gross sales less returns and allowances. We sometimes refer to net sales as revenue.

Prior to 2001, the growth in our consolidated net sales was due in large part to the growth of electronic component markets served by Pulse. However, beginning in late 2000, the electronics markets served by Pulse experienced a severe global contraction. In late 2002, many of these markets began to stabilize or increase in terms of unit sales. However, because of excess capacity, relocation by customers from North America and Europe to Asia, and emergence of strong competitors in Asia, the pricing environment for Pulse's products has been and remains challenging, preventing total revenue from

15

growing proportionately with unit growth. Pulse has undertaken a series of cost-reduction actions to optimize its capacity with market conditions.

Since late 2000 and continuing through late 2003, the markets in both North America and Europe for AMI Doduco's products were weak. The markets in both North America and Europe strengthened significantly during 2004. Demand at AMI Doduco typically mirrors the prevailing economic conditions in North America and Europe. This is true for electrical contacts, and for component subassemblies for automotive applications such as multi-function switches, motor control sensors and ignition security systems, and for non-automotive uses such as appliance and industrial controls. AMI Doduco continues its cost reduction actions including work force adjustments and plant consolidations in line with demand around the world in order to optimize efficiency.

Historically, the gross margin at Pulse has been significantly higher than at AMI Doduco. As a result, the mix of net sales generated by Pulse and AMI Doduco during a period affects our consolidated gross margin. Our gross margin is also significantly affected by capacity utilization, particularly at AMI Doduco and the Pulse Consumer Division. Pulse's markets are characterized by relatively short product life cycles compared to AMI Doduco. As a result, significant product turnover occurs each year. Therefore, Pulse's changes in average selling prices do not necessarily provide a meaningful and quantifiable measure of Pulse's operations. AMI Doduco has relatively long-term and mature product lines, with less turnover, and with less frequent variation in the prices of product sold, relative to Pulse. Many of AMI Doduco's products are sold under annual (or longer) purchase contracts. Therefore, AMI Doduco's revenues historically have not been subject to significant price fluctuations. In addition, sales growth and contraction at AMI Doduco and Pulse's consumer division are generally attributable to changes in unit volume and changes in unit pricing, as well as foreign exchange rates, especially the U.S. dollar to the euro.

Acquisitions. Historically, acquisitions have been an important part of our growth strategy. In many cases, our move into new product lines and extensions of our existing product lines or markets has been facilitated by acquisition. Our acquisitions continually change the mix of our net sales. Pulse made numerous acquisitions in recent years which have increased our penetration into our primary markets and expanded our presence in new markets. Excelsus was acquired in August 2001 and was a leading producer of customer-premises digital subscriber line filters and other broadband accessories, and it is now a core

Edgar Filing: TECHNITROL INC - Form 10-Q

part of Pulse's telecommunications product division. Pulse acquired Eldor's consumer electronics business in January 2003 and this became the Pulse Consumer Division headquartered in Italy with production operations in Turkey and in the Peoples Republic of China ("PRC"). The Consumer Division is a leading supplier of flyback transformers to the European television industry. We acquired a controlling interest in Full Rise Electronic Co., Ltd. ("FRE") in 2004. FRE is based in the Republic of China (Taiwan) and manufactures connector products, including single and multiple-port jacks, and supplies such products to Pulse under a cooperation agreement. AMI Doduco has also made acquisitions over the years. Generally, AMI Doduco's acquisitions have been driven by our strategy of expanding our product and geographical market presence for electrical contact products. Due to our integration of acquisitions and the interchangeable sources of net sales between existing and acquired operations, historically we have not separately tracked the net sales of an acquisition after the date of the transaction.

Technology. Our business is continually affected by changes in technology, design, and preferences of consumers and other end users of our products, as well as changes in regulatory requirements. We address these changes by continuing to invest in new product development and by maintaining a diverse product portfolio which contains both mature and emerging technologies in order to meet customer demands.

Management Focus. Our executives focus on a number of important factors in evaluating our financial condition and operational performance. One of these factors is economic profit, which we define as operating profit after tax, less our cost of capital. Revenue growth, gross profit as a percentage of revenue, and operating profit as a percent of revenue are also among these factors. Operating leverage or

16

incremental operating profit as a percentage of incremental sales is a factor that is discussed frequently with analysts and investors, as this is believed to reflect the benefit of absorbing fixed overhead and operating expenses. In evaluating working capital management, liquidity and cash flow, our executives also use performance measures such as days sales outstanding, days payable outstanding and inventory turnover. The continued success of our business is largely dependent on meeting and exceeding our customers' expectations. Therefore, non-financial performance measures relating to on-time delivery and quality assist our management in monitoring customer satisfaction on an on-going basis.

Cost Reduction Programs. Our manufacturing business model for Pulse's non-consumer markets has a very high variable cost component due to the labor-intensity of many processes, which allows us to quickly change our capacity based on market demand. The Pulse Consumer Division, however, is capital intensive and therefore more sensitive to volume changes. AMI Doduco has a higher fixed cost component of manufacturing activity than Pulse, as it is more capital intensive. Therefore, AMI Doduco is unable to expand or contract its capacity as quickly as Pulse in response to market demand, although significant actions have been taken to align AMI Doduco's capacity with current market demand.

As a result of our continuing focus on both economic and operating profit, we will continue to aggressively size both Pulse and AMI Doduco so that costs are optimally matched to current and anticipated future revenue and unit demand. Therefore, we may restructure our business in the future and the amounts of additional charges will depend on specific actions taken. The actions taken over the past several years such as plant closures, plant relocations, asset

Edgar Filing: TECHNITROL INC - Form 10-Q

impairments and reduction in personnel worldwide have resulted in the elimination of a variety of costs. The majority of these costs represent the annual salaries and benefits of terminated employees, both those directly related to manufacturing and those providing selling, general and administrative services, as well as lower overhead costs resulting from factory relocations to lower-cost locations. The eliminated costs also include depreciation savings from disposed equipment. We have implemented a succession of cost reduction initiatives and programs, summarized as follows:

During 2004, we accrued for the termination of personnel at AMI Doduco's facility in Germany; for Pulse's shutdown of a facility in Carlsbad, California; to reduce capacity at a Pulse facility in the PRC; to shutdown AMI Doduco's facility in France; and for other severance in various locations.

During 2005, we accrued for the termination of personnel at Pulse's facilities in Italy and Turkey and AMI Doduco's facility in Italy; the termination of a lease in the PRC; and for other severance in various locations. An additional provision was recorded related to asset write-downs of Pulse's consumer business in Italy and Turkey.

International Operations. As of December 31, 2004, we had manufacturing operations in 10 countries and had no significant net sales in currencies other than the U.S. dollar and the euro. A large percentage of our sales in recent years has been outside of the United States. In the year ended December 31, 2004, 78% of our net sales was outside of the U.S. Fluctuating exchange rates often impact our financial results and our period-over-period comparisons. This is particularly true of movements in the exchange rate between the U.S. dollar and the euro. AMI Doduco's European and Pulse's Consumer Division sales are denominated primarily in euros, and euro-denominated sales and earnings may result in higher or lower dollar sales and net earnings upon translation for our U.S. consolidated financial statements. We may also experience a positive or negative translation adjustment to equity because our investment in Pulse's Consumer Division and AMI Doduco's European operations may be worth more or less in U.S. dollars after translation for our U. S. consolidated financial statements. The Pulse non-consumer operations may incur foreign currency gains or losses as euro-denominated transactions are remeasured to U.S. dollars for financial reporting purposes. If a higher percentage of our sales is denominated in non-U.S. currencies, increased exposure to currency fluctuations may result. In order to reduce our exposure resulting from currency fluctuations, we may purchase currency exchange forward contracts and/or currency options. These contracts guarantee a predetermined range of exchange rates at the time the contract is purchased. This allows us to shift the majority of the risk of currency fluctuations

17

from the date of the contract to a third party for a fee. In determining the use of forward exchange contracts and currency options, we consider the amount of sales, purchases and net assets or liabilities denominated in local currencies, the type of currency, and the costs associated with the contracts.

Income Taxes. Our effective income tax rate is affected by the proportion of our income earned in high-tax jurisdictions such as those in Europe and the income earned in low-tax jurisdictions, particularly Izmir, Turkey and the PRC. This mix of income can vary significantly from one period to another. We have benefited in recent years from favorable tax incentives, inside and outside of the U.S. However, there is no guarantee as to how long these benefits will continue to exist. Except in limited circumstances, we have not provided for U.S. federal income and foreign withholding taxes on our non-U.S. subsidiaries' undistributed earnings as per Accounting Principles Board Opinion No. 23,

Edgar Filing: TECHNITROL INC - Form 10-Q

Accounting for Income Taxes - Special Areas ("APB 23"). Such earnings include pre-acquisition earnings of foreign entities acquired through stock purchases, and are intended to be reinvested outside of the U.S. indefinitely. We have not provided for U.S. federal income and foreign withholding taxes on approximately \$333.0 million of our non-U.S. subsidiaries' undistributed earnings (as calculated for income tax purposes) as of December 31, 2004, as per APB 23. Unrecognized deferred taxes on these undistributed earnings are estimated to be approximately \$96.0 million. Where excess cash has accumulated in our non-U.S. subsidiaries and it is advantageous for tax reasons, subsidiary earnings may be repatriated.

Results of Operations

Three months ended July 1, 2005 compared to the three months ended June 25, 2004

Net Sales. Net sales for the three months ended July 1, 2005 increased \$2.0 million, or 1.4%, to \$143.3 million from \$141.3 million in the three months ended June 25, 2004. Our sales increase from the comparable period last year was primarily attributable to improvement in the market conditions for AMI Doduco. AMI Doduco's increase in net sales was due to higher prices for precious metals and favorable translation effect of a stronger euro. Pulse's sales decreased due to lower demand in primarily the telecommunications and consumer division markets, relative to the comparable period in 2004, which represented a period of overly optimistic markets, particularly for telecommunications and consumer division products.

Pulse's net sales decreased \$3.1 million, or 3.8%, to \$78.4 million for the three months ended July 1, 2005 from \$81.5 million in the three months ended June 25, 2004. This decrease was a result of decreases in demand experienced across Pulse's networking, telecommunications, military/aerospace, power conversion and consumer division products. Offsetting this decrease in demand is the inclusion of FRE sales during the three months ended July 1, 2005. Additionally, the sales decrease at the consumer division was favorably impacted by a stronger euro in the 2005 period.

AMI Doduco's net sales increased \$5.1 million, or 8.5 %, to \$65.0 million for the three months ended July 1, 2005 from \$59.8 million in the three months ended June 25, 2004. Sales in the 2005 period reflect improving demand in North America, particularly in the commercial and industrial markets, whereas European markets were marginally stronger. The sales comparison benefited from an increase in the average U.S. dollar-to-euro exchange rate and higher prices for precious metals which were passed on to customers. The higher average U.S. dollar-to-euro exchange rate during 2005 versus the comparable 2004 quarter increased sales by approximately \$1.9 million in the three months ended July 1, 2005.

Cost of Sales. As a result of higher sales, our cost of sales increased \$8.7 million, or 8.5%, to \$110.8 million for the three months ended July 1, 2005 from \$102.1 million for the three months ended June 25, 2004. Our consolidated gross margin for the three months ended July 1, 2005 was 22.7% compared to 27.8% for the three months ended June 25, 2004. Our consolidated gross margin in 2005 was negatively affected by a decline in labor productivity and minimum wage increases at Pulse in 2005 compared to 2004. The local government in the PRC increased wages in Southern coastal provinces of the PRC by 17% in May 2005. We expect to offset this unfavorable impact on our costs by various actions

including increasing customer prices and improving throughput and efficiency in

Edgar Filing: TECHNITROL INC - Form 10-Q

our manufacturing operations.

Selling, General and Administrative Expenses. Total selling, general and administrative expenses for the three months ended July 1, 2005 decreased \$1.6 million, or 5.7%, to \$26.5 million, or 18.5 % of net sales, from \$28.1 million, or 19.9% net of sales for the three months ended June 25, 2004. Decreased spending was a result of lower variable costs such as incentives and stock compensation expense and the favorable impact of restructuring actions that we took over the last year to reduce costs and tighten spending controls. Incentive expense, in particular, was \$2.0 million lower in 2005 versus the comparable period in 2004. Partially offsetting the lower spending was the fact that European expenses are denominated in euros, which translated to a higher level of U.S. dollars at the higher average dollar-to-euro exchange rate in 2005 compared to 2004.

Research, development and engineering expenses are included in selling, general and administrative expenses. We refer to research, development and engineering expenses as RD&E. For the three months ended July 1, 2005 and June 25, 2004 respectively, RD&E by segment was as follows (dollars in thousands):

	2005 -----	2004 -----
Pulse	\$ 4,728	\$ 4,682
Percentage of segment sales	6.0%	5.8%
 AMI Doduco	 \$ 1,023	 \$ 976
Percentage of segment sales	1.6%	1.6%

We believe that future sales in the electronic components markets will be driven by next-generation products. Design and development activities with our OEM customers continue at an aggressive pace.

Severance and Asset Impairment Expense. Severance and asset impairment expense for the three months ended July 1, 2005 was \$48.3 million compared to \$1.5 million in the three months ended June 25, 2004. The increase in the 2005 period was primarily due to the \$46.0 million asset impairment charge in Pulse's Consumer Division, consisting of \$25.6 million of goodwill, \$11.5 of identified intangibles and \$8.9 million of property, plant and equipment. These impairments resulted from updated cash flow projections which reflect the shift of production by Pulse to China-based locations, decreasing average selling prices for television transformers, and the overall decline in the European television market.

Interest. Net interest income was \$0.5 million for the three months ended July 1, 2005 compared to net interest expense of \$0.2 million for the three months ended June 25, 2004. The higher average balance of invested cash in 2005 over the comparable period in 2004, combined with a higher interest income yield, resulting in higher net interest income. Recurring components of interest expense (silver leasing fees, interest on bank debt and bank commitment fees) approximated those of 2004, except for the inclusion of interest expense on FRE debt during the three months ended July 1, 2005.

Other Income. Other income (expense) was \$0.5 million of expense for the three months ended July 1, 2005 versus \$1.3 million of income for the three months ended June 25, 2004. The decrease from 2004 is primarily attributable to \$1.1 million gain recorded in the 2004 period related to the sale of equity rights arising from the 2001 acquisition of the Engelhard-CLAL electrical contacts business.

Income Taxes. The effective income tax rate for the three months ended July 1, 2005 was (2.1%) compared to 16.1% for the three months ended June 25, 2004. The lower tax rate in 2005 was primarily a result of the non-deductibility

Edgar Filing: TECHNITROL INC - Form 10-Q

of the Consumer Division impairment charge of approximately \$46.0 million. The effective rate without the impairment charge was 29.2%.

19

Six months ended July 1, 2005 compared to the six months ended June 25, 2004

Net Sales. Net sales for the six months ended July 1, 2005 increased \$8.1 million, or 2.9%, to \$284.7 million from \$276.6 million in the six months ended June 25, 2004. Our sales increase from the comparable period last year was attributable to improvement in the markets for AMI Doduco. AMI Doduco's increase in net sales was due to higher prices for precious metals and favorable translation effect of a stronger euro. Pulse's sales decreased due to lower demand in primarily the telecommunications and consumer division markets, relative to the comparable period in 2004, which represented a period of overly optimistic markets, particularly for telecommunications and consumer division products

Pulse's net sales decreased \$ 5.1 million, or 3.2%, to \$153.9 million for the six months ended July 1, 2005 from \$159.0 million in the six months ended June 25, 2004. This decrease was attributable to weak demand in Pulse's telecommunications and consumer division markets on a worldwide basis, offset partially by stronger demand in networking and power conversion products. Partially offsetting this decrease in demand is the inclusion of FRE sales during the six months ended July 1, 2005.

AMI Doduco's net sales increased \$13.2 million, or 11.2%, to \$130.8 million for the six months ended July 1, 2005 from \$117.6 million in the six months ended June 25, 2004. Sales in the 2005 period reflect improving demand in North America, particularly in the commercial and industrial markets, whereas European markets were flat to down, particularly in the automotive sector. The sales benefited from an increase in the average U.S. dollar-to-euro exchange rate and higher prices for precious metals which were passed on to customers. The higher average U.S. dollar-to-euro exchange rate during 2005 versus the comparable 2004 six months increased sales by approximately \$4.1 million in the six months ended July 1, 2005.

Cost of Sales. As a result of higher net sales, our cost of sales increased \$18.6 million, or 9.3 %, to \$218.2 million for the six months ended July 1, 2005 from \$199.6 million for the six months ended June 25, 2004. Our consolidated gross margin for the six months ended July 1, 2005 was 23.4% compared to 27.8% for the six months ended June 25, 2004. Our consolidated gross margin was negatively affected by a decline in labor productivity and minimum wage increases at Pulse in 2005 compared to 2004. The local government in the PRC increased wages in Southern coastal provinces of the PRC by 17% in May 2005. We expect to offset this unfavorable impact on our costs by various actions including increasing customer prices and improving throughput and efficiency in our manufacturing operations.

Selling, General and Administrative Expenses. Total selling, general and administrative expenses for the six months ended July 1, 2005 decreased \$3.4 million, or 6.1 %, to \$52.1 million, or 18.3% of net sales, from \$55.5 million, or 20.1% net of sales for the six months ended June 25, 2004. Decreased spending was primarily a result of decreased incentive expense, which was \$3.4 million lower in 2005 versus the comparable period in 2004.

Research, development and engineering expenses are included in selling, general and administrative expenses. We refer to research, development and engineering expenses as RD&E. For the six months ended July 1, 2005 and June 25,

Edgar Filing: TECHNITROL INC - Form 10-Q

2004 respectively, RD&E by segment was as follows (dollars in thousands):

	2005	2004
	-----	-----
Pulse	\$ 9,508	\$ 9,289
Percentage of segment sales	6.2%	5.8%
AMI Doduco	\$ 2,177	\$ 2,045
Percentage of segment sales	1.7%	1.6%

20

We believe that future sales in the electronic components markets will be driven by next-generation products. Design and development activities with our OEM customers continue at an aggressive pace.

Severance and Asset Impairment Expense. Severance and asset impairment expense for the six months ended July 1, 2005 was \$49.2 million compared to \$4.3 million in the six months ended June 25, 2004. The increase in the 2005 period was primarily due to the \$46.0 million asset impairment in Pulse's Consumer Division, consisting of \$25.6 million of goodwill, \$11.5 of identified intangibles and \$8.9 million of property, plant and equipment. These impairments resulted from updated cash flow projections which reflect the shift of production by Pulse to China-based locations, decreasing average selling prices for television transformers, and the overall decline in the European television market.

Interest. Net interest income was \$0.8 million for the six months ended July 1, 2005 compared to net interest expense of \$0.3 million for the six months ended June 25, 2004. The higher average balance of invested cash in 2005 over the comparable period in 2004, combined with a higher interest income yield, resulting in higher net interest income. Recurring components of interest expense (silver leasing fees, interest on bank debt and bank commitment fees) approximated those of 2004, except for the inclusion of interest expense on FRE debt during the six months ended July 1, 2005.

Other Income. Other income (expense) was \$0.9 million of expense for the six months ended July 1, 2005 versus \$0.6 million of income for the six months ended June 25, 2004. The decrease from 2004 is primarily attributable to \$1.1 million gain related to the sale of equity rights arising for the 2001 acquisition of the Engelhard-CLAL electrical contacts business.

Income Taxes. The effective income tax rate for the six months ended July 1, 2005 was (7.1%) compared to 15.9% for the six months ended June 25, 2004. The lower tax rate in 2005 was primarily a result of the non-deductibility of the Consumer Division impairment charge of approximately \$46.0 million. The effective rate without the impairment charge was 24.3%

Liquidity and Capital Resources

Working capital as of July 1, 2005 was \$249.1 million compared to \$238.9 million as of December 31, 2004. This increase was primarily due to the increase in cash and cash equivalents, offset by decreases in trade receivables and inventories. Cash and cash equivalents, which is included in working capital, increased from \$156.0 million as of December 31, 2004 to \$182.1 million as of July 1, 2005.

Net cash provided by operating activities was \$25.9 million for the six months ended July 1, 2005 and \$18.2 million in the comparable period of 2004, an increase of \$7.7 million. This increase is primarily attributable to a net

Edgar Filing: TECHNITROL INC - Form 10-Q

working capital increase of \$10.2 million during the six months ended July 1, 2005, compared to a net working capital increase of \$18.6 million in the six months ended June 25, 2004.

We present our statement of cash flows using the indirect method as permitted under Financial Accounting Standards Board Statement No. 95, Statement of Cash Flows. Our management has found that investors and analysts typically refer to changes in accounts receivable, inventory, and other components of working capital when analyzing operating cash flows. Also, changes in working capital are more directly related to the way we manage our business for cash flow than are items such as cash receipts from the sale of goods, as would appear using the direct method.

Capital expenditures were \$8.2 million during the six months ended July 1, 2005 and \$3.9 million in the comparable period of 2004. During the six months ended July 1, 2005, we included \$5.6 million of capital spending of FRE in conjunction with our consolidation of FRE's financial statements. We make capital expenditures to expand production capacity, improve our operating efficiency, and enhance workplace safety. We plan to continue making such expenditures in the future as and when necessary.

21

On February 2, 2005 we announced a quarterly cash dividend of \$0.0875 per common share, payable on April 22, 2005 to shareholders of record on April 8, 2005. This quarterly dividend resulted in a cash payment to shareholders of approximately \$3.5 million in the second quarter of 2005. We did not declare or pay cash dividends on our common stock in fiscal 2004. On May 18, 2005 we announced a quarterly cash dividend of \$0.0875 per common share, payable on July 22, 2005 to shareholders of record on July 8, 2005. This quarterly dividend will result in a cash payment to shareholders of approximately \$3.5 million in the third quarter of 2005.

We used \$1.2 million for acquisitions during the six months ended July 1, 2005. This expenditure related to the acquisition by Pulse of additional shares of FRE, bringing our total ownership to 54%. We used \$4.0 million, net of cash acquired, for acquisitions during the six months ended June 25, 2004. This expenditure was related to the acquisition by Pulse of a plastics fabrication operation in the PRC. We may acquire other businesses or product lines to expand our breadth and scope of operations.

We expect to close on our transaction to acquire the common stock outstanding of LK Products OY and subsidiaries (see Note 11 in Notes to Unaudited Financial Statements) on August 31, 2005, which would result in a 67.0 million euro use of cash. The sources of such funding will be our available cash reserves, borrowing under our existing credit agreement and/or borrowing under any new credit agreement we may initiate in the future.

We entered into a credit agreement on June 17, 2004 providing for \$125.0 million of credit capacity. The facility consists of an aggregate U.S. dollar-equivalent revolving line of credit in the principal amount of up to \$125.0 million, which provides for borrowings in multiple currencies including but not limited to U.S. dollars and euros, including individual sub-limits of:

- a U.S. dollar-based swing-line loan not to exceed \$10.0 million; and
- a multicurrency facility providing for the issuance of letters of credit in an aggregate amount not to exceed the U.S. dollar equivalent of \$15.0 million.

Edgar Filing: TECHNITROL INC - Form 10-Q

The credit agreement permits us to request one or more increases in the total commitment not to exceed \$75.0 million, provided the minimum increase is \$25.0 million, subject to bank approval.

The total amount outstanding under the credit facility may not exceed \$125.0 million, provided we do not request an increase in total commitment as noted above. In any event, outstanding borrowings are limited to a maximum of three times our earnings before interest, taxes, depreciation and amortization (EBITDA), as defined by the credit agreement, on a rolling twelve-month basis as of the most recent quarter-end.

The credit facility contains covenants specifying a maximum debt-to-EBITDA ratio, minimum interest expense coverage, capital expenditure limitations, and other customary and normal provisions. We are in compliance with all such covenants. As of July 1, 2005, we have no outstanding borrowings under our existing three-year revolving credit agreement.

We pay a commitment fee on the unborrowed portion of the commitment, which ranges from 0.175% to 0.300% of the total commitment, depending on our debt-to-EBITDA ratio, as defined above. The interest rate for each currency's borrowing will be a combination of the base rate for that currency plus a credit margin spread. The base rate is different for each currency. The credit margin spread is the same for each currency and is 0.750% to 1.500%, depending on our debt-to-EBITDA ratio, as defined above. Each of our domestic subsidiaries with net worth equal to or greater than \$5 million guarantees all obligations incurred under the credit facility.

We announced on August 8, 2005 that we entered into a commitment letter with Bank of America, N.A. and Banc of America Securities, LLC to arrange and syndicate a \$200 million five-year revolving credit facility. Under the facility, we may request an increase in the principal amount to \$300 million. The credit facility will be made available for working capital, capital expenditures, acquisitions, and other purposes, and to refinance our existing \$125 million credit facility which expires in 2007. The credit agreement will contain affirmative and negative covenants, customary in facilities of this type and is expected to be executed on or before September 30, 2005, subject to customary closing conditions.

22

We also have an obligation outstanding due in August 2009 under an unsecured term loan agreement with Sparkasse Pforzheim, for the borrowing of approximately 5.1 million euros.

At July 1, 2005, our balance sheet includes \$4.7 million of outstanding debt of Full Rise Electronic Co., Ltd. in connection with our consolidation of FRE's financial statements. FRE has a total credit limit of approximately \$6.9 million in U.S. dollar equivalents as of July 1, 2005. Neither Technitrol, nor any of its subsidiaries, has guaranteed or otherwise participated in the credit facilities of FRE.

We had three standby letters of credit outstanding at July 1, 2005 in the aggregate amount of \$1.1 million securing transactions entered into in the ordinary course of business.

We had commercial commitments outstanding at July 1, 2005 of approximately \$80.1 million due under precious metal consignment-type leases. This represents a decrease of \$3.3 million from the \$83.4 million outstanding as of December 31, 2004 and is primarily attributable to lower average silver prices during 2005.

We believe that the combination of cash on hand, cash generated by

Edgar Filing: TECHNITROL INC - Form 10-Q

operations and, if necessary, borrowings under our credit agreement will be sufficient to satisfy our operating cash requirements in the foreseeable future. In addition, we may use internally generated funds or obtain borrowings or additional equity offerings for acquisitions of suitable businesses or assets.

All retained earnings are free from legal or contractual restrictions as of July 1, 2005, with the exception of approximately \$14.0 million of retained earnings primarily in the PRC, that are restricted in accordance with Section 58 of the PRC Foreign Investment Enterprises Law. Included in the \$14.0 million is \$1.8 million of retained earnings of FRE of which we own 54%. The amount restricted in accordance with the PRC Foreign Investment Enterprise Law is applicable to all foreign investment enterprises doing business in the PRC. The restriction applies to 10% of our net earnings in the PRC, limited to 50% of the total capital invested in the PRC. We have not experienced any significant liquidity restrictions in any country in which we operate and none are foreseen. However, foreign exchange ceilings imposed by local governments and the sometimes-lengthy approval processes which foreign governments require for international cash transfers may delay our internal cash movements from time to time. The retained earnings in other countries represent a material portion of our assets. We expect to reinvest these earnings outside of the United States because we anticipate that a significant portion of our opportunities for growth in the coming years will be abroad. If these earnings were brought back to the United States, significant tax liabilities could be incurred in the United States as several countries in which we operate have tax rates significantly lower than the U.S. statutory rate. Additionally, we have not accrued U.S. income and foreign withholding taxes on foreign earnings that have been indefinitely invested abroad.

On October 22, 2004, the American Jobs Creation Act ("AJCA") was signed into law. The AJCA introduced a limited-time 85% dividends-received deduction on the repatriation of certain foreign earnings. Effectively, this deduction would result in a federal tax rate of approximately 5.25% on the repatriated earnings. To qualify for the deduction, the earnings must be reinvested in the United States pursuant to a domestic reinvestment plan established by a company's chief executive officer and approved by the company's board of directors. Additionally, certain other criteria, as outlined in the AJCA, must also be met. We may elect to apply this provision to qualifying earnings repatriations in fiscal 2005. We have begun an evaluation of the possible effects of the repatriation provision, however, we do not expect to be able to complete this evaluation until after our planned sources and uses of cash for the remainder of 2005 are finalized in terms of location (U.S. or foreign), amounts, and timing. The amount that we are considering for repatriation under this provision ranges from zero to approximately \$125.0 million. While we estimate that the related potential range of additional income tax is between zero and \$10.1 million. The amount of additional income tax expense would be reduced by the part of the eligible dividend that is attributable to foreign earnings on which a deferred tax liability had been previously accrued.

New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment, ("SFAS No. 123(R)"), which amends SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123(R) requires compensation expense to be recognized for all share-based payments made to employees based on the fair value of the award at the date of grant, eliminating the intrinsic value alternative allowed by SFAS No. 123. Generally, the approach to determining fair value under the original pronouncement has not changed, however, there are

Edgar Filing: TECHNITROL INC - Form 10-Q

revisions to the accounting guidelines established, such as accounting for forfeitures. SFAS No. 123(R) is effective for the beginning of our fiscal 2006. Adoption of this standard is not expected to have a material impact on our revenue, operating results, financial position or liquidity.

In December 2004, the FASB issued FASB Staff Position No. FAS 109-2 ("FAS 109-2"), Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creations Act of 2004. As noted above, the AJCA introduces a limited time 85% dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer (repatriation provision), provided certain criteria are met. FAS 109-2 provides accounting and disclosure guidance for the repatriation provision. Although FAS 109-2 is effective immediately, we do not expect to be able to complete our evaluation of the repatriation provision until after Congress or the Treasury Department provides additional clarifying language on key elements of the provision.

In November 2004, the FASB issued Statement No. 151, Inventory Costs or Amendment of ARB No.43, Chapter 4 ("SFAS 151"). SFAS 151 provides for certain fixed production overhead cost to be reflected as a period cost and not capitalized as inventory. SFAS 151 is effective for the beginning of our fiscal 2006. Adoption of this standard is not expected to have a material impact on our revenue, operating results, financial position or liquidity.

24

Factors That May Affect Our Future Results (Cautionary Statements for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995)

Our disclosures and analysis in this report contain forward-looking statements. Forward-looking statements reflect our current expectations of future events or future financial performance. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They often use words such as "anticipate", "estimate", "expect", "project", "intend", "plan", "believe", and similar terms. These forward-looking statements are based on our current plans and expectations.

Any or all of our forward-looking statements in this report may prove to be incorrect. They may be affected by inaccurate assumptions we might make or by risks and uncertainties which are either unknown or not fully known or understood. Accordingly, actual outcomes and results may differ materially from what is expressed or forecasted in this report.

We sometimes provide forecasts of future financial performance. The risks and uncertainties described under "Risk Factors" as well as other risks identified from time to time in other Securities and Exchange Commission reports, registration statements and public announcements, among others, should be considered in evaluating our prospects for the future. We undertake no obligation to release updates or revisions to any forward-looking statement, whether as a result of new information, future events or otherwise.

Risk Factors

Cyclical changes in the markets we serve could result in a significant decrease in demand for our products and reduce our profitability.

Our components are used in various products for the electronic and electrical equipment markets. These markets are highly cyclical. The demand for our components reflects the demand for products in the electronic and electrical equipment markets generally. A contraction in demand would result in a decrease

Edgar Filing: TECHNITROL INC - Form 10-Q

in sales of our products, as our customers:

- may cancel many existing orders;
- may introduce fewer new products; and
- may decrease their inventory levels.

A decrease in demand for our products would have a significant adverse effect on our operating results and profitability. Accordingly, we may experience volatility in both our revenues and profits.

Reduced prices for our products may adversely affect our profit margins if we are unable to reduce our costs of production.

The average selling prices for our products tend to decrease over their life cycle. In addition, foreign currency movements and the need to retain market share increase the pressure on our customers to seek lower prices from their suppliers. As a result, our customers are likely to continue to demand lower prices from us. To maintain our margins and remain profitable, we must continue to meet our customers' design needs while reducing costs through efficient raw material procurement and process and product improvements. Our profit margins will suffer if we are unable to reduce our costs of production as sales prices decline.

25

An inability to adequately respond to changes in technology or customer needs may decrease our sales.

Pulse operates in an industry characterized by rapid change caused by the frequent emergence of new technologies. Generally, we expect life cycles for our products in the electronic components industry to be relatively short. This requires us to anticipate and respond rapidly to changes in industry standards and customer needs and to develop and introduce new and enhanced products on a timely and cost effective basis. Our engineering and development teams place a priority on working closely with our customers to design innovative products and improve our manufacturing processes. Our inability to react to changes in technology or customer needs quickly and efficiently may decrease our sales, thus reducing profitability.

If our inventories become obsolete, our future performance and operating results will be adversely affected.

The life cycles of our products depend heavily upon the life cycles of the end products into which our products are designed. Many of Pulse's products have very short life cycles which are measured in quarters. Products with short life cycles require us to closely manage our production and inventory levels. Inventory may become obsolete because of adverse changes in end market demand. During market slowdowns, this may result in significant charges for inventory write-offs. Our future operating results may be adversely affected by material levels of obsolete or excess inventories.

An inability to capitalize on our recent or future acquisitions may adversely affect our business.

We have completed several acquisitions in recent years. We continually seek acquisitions to grow our business. We may fail to derive significant benefits from our acquisitions. In addition, if we fail to achieve sufficient financial performance from an acquisition, goodwill and other intangibles could

Edgar Filing: TECHNITROL INC - Form 10-Q

become impaired, resulting in our recognition of a loss. In 2004, we recorded an aggregate intangible impairment charge of \$18.5 million related to Pulse. In 2005 we recorded a \$46.0 million impairment charge related to Pulse's Consumer Division. The success of any of our acquisitions depends on our ability to:

- successfully integrate or consolidate acquired operations into our existing businesses;
- develop or modify the financial reporting and information systems of the acquired entity to ensure overall financial integrity and adequacy of control procedures; and
- identify and take advantage of cost reduction opportunities; and
- further penetrate the markets for the product capabilities acquired.

Integration of acquisitions may take longer than we expect and may never be achieved to the extent originally anticipated. This could result in slower than anticipated business growth or higher than anticipated costs. In addition, acquisitions may:

- cause a disruption in our ongoing business;
- distract our managers;
- unduly burden our other resources; and
- result in an inability to maintain our historical standards, procedures and controls, which may result in non-compliance with external laws and regulations.

Integration of acquisitions into the acquiring segment may limit the ability of investors to track the performance of individual acquisitions and to analyze trends in our operating results.

Our historical practice has been to quickly integrate acquisitions into the existing business of the acquiring segment and to report financial performance on the segment level. As a result of this practice, we do not separately track the stand-alone performance of acquisitions after the date of the transaction. Consequently, investors cannot quantify the financial performance and success of any individual

26

acquisition or the financial performance and success of a particular segment excluding the impact of acquisitions. In addition, our practice of quickly integrating acquisitions into the financial performance of each segment may limit the ability of investors to analyze any trends in our operating results over time.

An inability to identify additional acquisition opportunities may slow our future growth.

We intend to continue to identify and consummate additional acquisitions to further diversify our business and to penetrate important markets. We may not be able to identify suitable acquisition candidates at reasonable prices. Even if we identify promising acquisition candidates, the timing, price, structure and success of future acquisitions are uncertain. An inability to consummate attractive acquisitions may reduce our growth rate and our ability to penetrate new markets.

Edgar Filing: TECHNITROL INC - Form 10-Q

If our customers terminate their existing agreements, or do not enter into new agreements or submit additional purchase orders for our products, our business will suffer.

Most of our sales are made on a purchase order basis as needed by our customers. In addition, to the extent we have agreements in place with our customers, most of these agreements are either short term in nature or provide our customers with the ability to terminate the arrangement with little or no prior notice. Our contracts typically do not provide us with any material recourse in the event of non-renewal or early termination. We will lose business and our revenues will decrease if a significant number of customers:

- do not submit additional purchase orders;
- do not enter into new agreements with us; or
- elect to terminate their relationship with us.

If we do not effectively manage our business in the face of fluctuations in the size of our organization, our business may be disrupted.

We have grown rapidly over the last ten years, both organically and as a result of acquisitions. However, we significantly reduce or expand our workforce and facilities in response to changes in demand for our products due to prevailing global market conditions. These rapid fluctuations place strains on our resources and systems. If we do not effectively manage our resources and systems, our businesses may be adversely affected.

Uncertainty in demand for our products may result in increased costs of production, an inability to service our customers, or higher inventory levels which may adversely affect our results of operations and financial condition.

We have very little visibility into our customers' purchasing patterns and are highly dependent on our customers' forecasts. These forecasts are non-binding and often highly unreliable. Given the fluctuation in growth rates and cyclical demand for our products, as well as our reliance on often-imprecise customer forecasts, it is difficult to accurately manage our production schedule, equipment and personnel needs and our raw material and working capital requirements. Our failure to effectively manage these issues may result in:

- production delays;
- increased costs of production;
- excessive inventory levels and reduced financial liquidity;
- an inability to make timely deliveries; and
- a decrease in profits.

27

A decrease in availability or increase in cost of our key raw materials could adversely affect our profit margins.

We use several types of raw materials in the manufacturing of our products, including:

- precious metals such as silver;

Edgar Filing: TECHNITROL INC - Form 10-Q

- other base metals such as copper and brass; and
- ferrite cores.

Some of these materials are produced by a limited number of suppliers. From time to time, we may be unable to obtain these raw materials in sufficient quantities or in a timely manner to meet the demand for our products. The lack of availability or a delay in obtaining any of the raw materials used in our products could adversely affect our manufacturing costs and profit margins. In addition, if the price of our raw materials increases significantly over a short period of time, customers may be unwilling to bear the increased price for our products and we may be forced to sell our products containing these materials at prices that reduce our profit margins.

Some of our raw materials, such as precious metals, are considered commodities and are subject to price volatility. We attempt to limit our exposure to fluctuations in the cost of precious materials, including silver, by holding the majority of our precious metal inventory through leasing or consignment arrangements with our suppliers. We then typically purchase the precious metal from our supplier at the current market price on the day after delivery to our customer and pass this cost on to our customer. In addition, leasing and consignment costs have historically been substantially below the costs to borrow funds to purchase the precious metals. We currently have four consignment or leasing agreements related to precious metals, all of which generally have one year terms with varying maturity dates, but can be terminated by either party with 30 days' prior notice. Our results of operations and liquidity will be negatively impacted if:

- we are unable to enter into new leasing or consignment arrangements with similarly favorable terms after our existing agreements terminate, or
- our leasing or consignment fees increase significantly in a short period of time and we are unable to recover these increased costs through higher sale prices.

Fees charged by the consignor are driven by interest rates and the market price of the consigned material. The market price of the consigned material is determined by the supply of and the demand for the material. Consignment fees may increase if interest rates or the price of the consigned material increase.

Competition may result in lower prices for our products and reduced sales.

Both Pulse and AMI Doduco frequently encounter strong competition within individual product lines from various competitors throughout the world. We compete principally on the basis of:

- product quality and reliability;
- global design and manufacturing capabilities;
- breadth of product line;
- customer service;
- price; and
- on-time delivery.

Our inability to successfully compete on any or all of the above factors may result in reduced sales.

Our backlog is not an accurate measure of future revenues and is subject to customer cancellation.

While our backlog consists of firm accepted orders with an express release date generally scheduled within six months of the order, many of the orders that comprise our backlog may be canceled by customers without penalty. It is widely known that customers in the electronics industry have on occasion double and triple-ordered components from multiple sources to ensure timely delivery when quoted lead time is particularly long. In addition, customers often cancel orders when business is weak and inventories are excessive. Although backlog should not be relied on as an indicator of our future revenues, our results of operations could be adversely impacted if customers cancel a material portion of orders in our backlog.

Fluctuations in foreign currency exchange rates may adversely affect our operating results.

We manufacture and sell our products in various regions of the world and export and import these products to and from a large number of countries. Fluctuations in exchange rates could negatively impact our cost of production and sales that, in turn, could decrease our operating results and cash flow. In addition, if the functional currency of our manufacturing costs strengthened compared to the functional currency of our competitors manufacturing costs, our products may get more costly than our competitors. Although we engage in limited hedging transactions, including foreign currency contracts, to reduce our transaction and economic exposure to foreign currency fluctuations, these measures may not eliminate or substantially reduce our risk in the future.

Our international operations subject us to the risks of unfavorable political, regulatory, labor and tax conditions in other countries.

We manufacture and assemble most of our products in locations outside the United States, including the Peoples' Republic of China, or PRC, and Turkey. In addition, approximately 78% of our revenues for the year ended December 31, 2004 were derived from sales to customers outside the United States. Our future operations and earnings may be adversely affected by the risks related to, or any other problems arising from, operating in international markets.

Risks inherent in doing business internationally may include:

- economic and political instability;
- expropriation and nationalization;
- trade restrictions;
- capital and exchange control programs;
- transportation delays;
- foreign currency fluctuations; and
- unexpected changes in the laws and policies of the United States or of the countries in which we manufacture and sell our products.

Pulse has substantially all of its non-consumer manufacturing operations in the PRC. Our presence in the PRC has enabled Pulse to maintain lower manufacturing costs and to adjust our work force to demand levels for our

Edgar Filing: TECHNITROL INC - Form 10-Q

products. Although the PRC has a large and growing economy, the potential economic, political, legal and labor developments entail uncertainties and risks. For example, in May 2005 the local government in the PRC increased wages in the southern coastal provinces of the PRC by 17%. While the PRC has been receptive to foreign investment, we cannot be certain that its current policies will continue indefinitely into the future. In the event of any changes that adversely affect our ability to conduct our operations within the PRC, our businesses may suffer. We also have manufacturing operations in Turkey subject to unique risks, including earthquakes and those associated with Middle East geo-political events.

29

We have benefited over recent years from favorable tax treatment as a result of our international operations. We operate in countries where we realize favorable income tax treatment relative to the U.S. statutory rate. We have also been granted special tax incentives commonly known as tax holidays in countries such as the PRC and Turkey. This favorable situation could change if these countries were to increase rates or revoke the special tax incentives, or if we discontinue our manufacturing operations in any of these countries and do not replace the operations with operations in other locations with favorable tax incentives. Accordingly, in the event of changes in laws and regulations affecting our international operations, we may not be able to continue to take advantage of similar benefits in the future.

Shifting our operations between regions may entail considerable expense.

In the past we have shifted our operations from one region to another in order to maximize manufacturing and operational efficiency. We may close one or more additional factories in the future. This could entail significant one-time earnings charges to account for severance, equipment write-offs or write-downs and moving expenses as well as certain adverse tax consequences including the loss of specialized tax incentives. In addition, as we implement transfers of our operations we may experience disruptions, including strikes or other types of labor unrest resulting from layoffs or termination of employees.

Liquidity requirements could necessitate movements of existing cash balances which may be subject to restrictions or cause unfavorable tax and earnings consequences.

A significant portion of our cash is held offshore by our international subsidiaries and is predominantly denominated in U.S. dollars. While we intend to use cash held overseas to fund our international operations and growth, if we encounter a significant domestic need for liquidity, such as paying dividends, that we cannot fulfill through borrowings, equity offerings, or other internal or external sources, we may experience unfavorable tax and earnings consequences if this cash is transferred to the United States. These adverse consequences would occur if the transfer of cash into the United States is taxed and no offsetting foreign tax credit is available to offset the U.S. tax liability, resulting in lower earnings. In addition, we may be prohibited from transferring cash from the PRC. With the exception of approximately \$14.0 million of non-cash retained earnings as of December 31, 2004 in primarily the PRC that are restricted in accordance with the PRC Foreign Investment Enterprises Law, substantially all retained earnings are free from legal or contractual restrictions. The PRC Foreign Investment Enterprise Law restricts 10% of our net earnings in the PRC, up to a maximum amount equal to 50% of the total capital we have invested in the PRC. We have not experienced any significant liquidity restrictions in any country in which we operate and none are presently foreseen. However, foreign exchange ceilings imposed by local governments and the sometimes-lengthy approval processes which some foreign governments require for

Edgar Filing: TECHNITROL INC - Form 10-Q

international cash transfers may delay our internal cash movements from time to time.

Losing the services of our executive officers or our other highly qualified and experienced employees could adversely affect our business.

Our success depends upon the continued contributions of our executive officers and management, many of whom have many years of experience and would be extremely difficult to replace. We must also attract and maintain experienced and highly skilled engineering, sales and marketing and managerial personnel. Competition for qualified personnel is intense in our industries, and we may not be successful in hiring and retaining these people. If we lose the services of our executive officers or cannot attract and retain other qualified personnel, our businesses could be adversely affected.

30

Public health epidemics (such as Severe Acute Respiratory Syndrome) or other natural disasters (such as earthquakes or fires) may disrupt operations in affected regions and affect operating results.

Pulse maintains extensive manufacturing operations in the PRC and Turkey, as do many of our customers and suppliers. A sustained interruption of our manufacturing operations, or those of our customers or suppliers, as a result of complications from severe acute respiratory syndrome or another public health epidemic or other natural disasters, could have a material adverse effect on our business and results of operations.

Costs associated with precious metals may not be recoverable.

AMI Doduco uses silver, as well as other precious metals, in manufacturing some of its electrical contacts, contact materials and contact subassemblies. Historically, we have leased or held these materials through consignment arrangements with our suppliers. Leasing and consignment costs have typically been below the costs to borrow funds to purchase the metals, and more importantly, these arrangements eliminate the effects of fluctuations in the market price of owned precious metal and enable us to minimize our inventories. AMI Doduco's terms of sale generally allow us to charge customers for precious metal content based on market value of precious metal on the day after shipment to the customer. Thus far we have been successful in managing the costs associated with our precious metals. While limited amounts are purchased for use in production, the majority of our precious metal inventory continues to be leased or held on consignment. If our leasing/consignment fees increase significantly in a short period of time, and we are unable to recover these increased costs through higher sale prices, a negative impact on our results of operations and liquidity may result. Leasing/consignment fee increases are caused by increases in interest rates or volatility in the price of the consigned material.

The unavailability of insurance against certain business risks may adversely affect our future operating results.

As part of our comprehensive risk management program, we purchase insurance coverage against certain business risks. If any of our insurance carriers discontinues an insurance policy or significantly reduces available coverage or increases in the deductibles and we cannot find another insurance carrier to write comparable coverage, we may be subject to uninsured losses which may adversely affect our operating results.

Environmental liability and compliance obligations may affect our operations and

Edgar Filing: TECHNITROL INC - Form 10-Q

results.

Our manufacturing operations are subject to a variety of environmental laws and regulations as well as internal programs and policies governing:

- air emissions;
- wastewater discharges;
- the storage, use, handling, disposal and remediation of hazardous substances, wastes and chemicals; and
- employee health and safety.

If violations of environmental laws should occur, we could be held liable for damages, penalties, fines and remedial actions. Our operations and results could be adversely affected by any material obligations arising from existing laws, as well as any required material modifications arising from new regulations that may be enacted in the future. We may also be held liable for past disposal of hazardous substances generated by our business or businesses we acquire. In addition, it is possible that we may be held liable for contamination discovered at our present or former facilities.

31

We are aware of contamination at two locations. In Sinsheim, Germany, there is a shallow groundwater and soil contamination that is naturally decreasing over time. The German environmental authorities have not required corrective action to date. In addition, property in Leesburg, Indiana, which was acquired with our acquisition of GTI in 1998, is the subject of a 1994 Corrective Action Order to GTI by the Indiana Department of Environmental Management (IDEM). Although we sold the property in early 2005, we retained the responsibility for existing environmental issues at the site. The order requires us to investigate and take corrective actions. Substantially all of the corrective actions relating to impacted soil have been taken and IDEM has issued us no further action letters for the remediated areas. Studies and analysis are ongoing with respect to a ground water issue. We anticipate making additional environmental expenditures in the future to continue our environmental studies, analysis and remediation activities with respect to the ground water. Based on current knowledge, we do not believe that any future expenses or liabilities associated with environmental remediation will have a material impact on our operations or our consolidated financial position, liquidity or operating results; however, we may be subject to additional costs and liabilities if the scope of the contamination or the cost of remediation exceeds our current expectations.

Item 3: Quantitative and Qualitative Disclosures about Market Risk

There were no material changes in market risk exposures that affect the quantitative and qualitative disclosures presented in our Form 10-K for the year ended December 31, 2004.

Item 4: Controls and Procedures

An evaluation was performed under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act of 1934 as of July 1, 2005. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures are

Edgar Filing: TECHNITROL INC - Form 10-Q

effective to ensure that information required to be disclosed by us in the reports that we file or submit is recorded, processed, summarized and reported, as specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in these controls or procedures that occurred during the three months ended July 1, 2005 that has materially affected, or is reasonably likely to materially affect, these controls or procedures.

On September 13, 2004, we acquired additional shares of common stock in Full Rise Electronic Co., Ltd. (FRE) bringing our cumulative ownership to 51%. Management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, FRE's internal control over financial reporting. FRE's total assets and total revenues represent 6% and 2% respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2004.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are

32

being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

33

PART II. OTHER INFORMATION

Item 1	Legal Proceedings	None
Item 2	Changes in Securities and Use of Proceeds	None
Item 3	Defaults Upon Senior Securities	None
Item 4	Submission of Matters to a Vote of Security Holders	

Edgar Filing: TECHNITROL INC - Form 10-Q

The Annual Meeting of Shareholders was held on May 18, 2005 at which the following matters were submitted to a vote of the shareholders.

- (a) Messrs. Dennis J. Horowitz, and Mark Melliar-Smith were elected to a three-year term as directors of the Company. The results of the votes were as follows:

	For	Withhold Authority
Dennis J. Horowitz	34,754,338	346,179
Mark Melliar-Smith	34,549,975	450,542

In addition, each of the following directors continued in office after the meeting: Alan E. Barton, John E. Burrows, Jr., David H. Hofmann, Edward M. Mazze, and James M. Papada, III.

- (b) The shareholders approved the amendment to the Technitrol, Inc. Board of Directors Stock Plan to increase the number of shares authorized for issuance under the plan.

The result of the vote was as follows:

	For	Against	Withhold Authority	Non-Vote
Item 5 Other Information	28,313,104	2,176,222	58,757	4,452,434
Item 6 Exhibits				None

- (a) Exhibits

The Exhibit Index is on page 35.

Exhibit Index

- 2.1 Share Purchase Agreement, dated as of January 9, 2003, by Pulse Electronics (Singapore) Pte. Ltd. and Forfin Holdings B.V. that are signatories thereto (incorporated by reference to Exhibit 2 to our Form 8-K dated January 10, 2003).
- 3.1 Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to our Form 10-K for the year ended December 26, 2003)
- 3.3 By-laws (incorporated by reference to Exhibit 3.3 to our Form 10-K for the year ended December 27, 2002).
- 4.1 Rights Agreement, dated as of August 30, 1996, between Technitrol, Inc. and Registrar and Transfer Company, as Rights Agent (incorporated by reference to Exhibit 3 to our Registration

Edgar Filing: TECHNITROL INC - Form 10-Q

Statement on Form 8-A dated October 24, 1996).

- 4.2 Amendment No. 1 to the Rights Agreement, dated March 25, 1998, between Technitrol, Inc. and Registrar and Transfer Company, as Rights Agent (incorporated by reference to Exhibit 4 to our Registration Statement on Form 8-A/A dated April 10, 1998).
- 4.3 Amendment No. 2 to the Rights Agreement, dated June 15, 2000, between Technitrol, Inc. and Registrar and Transfer Company, as Rights Agent (incorporated by reference to Exhibit 5 to our Registration Statement on Form 8-A/A dated July 5, 2000).
- 10.1 Technitrol, Inc. 2001 Employee Stock Purchase Plan (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form S-8 dated June 28, 2001, File Number 333-64060).
- 10.1(1) Form of Stock Option Agreement (incorporated by reference to Exhibit 10.1(1) to our Form 10-Q for the three months ended October 1, 2004).
- 10.2 Technitrol, Inc. Restricted Stock Plan II, as amended and restated as of January 1, 2001 (incorporated by reference to Exhibit C, to our Definitive Proxy on Schedule 14A dated March 28, 2001).
- 10.3 Technitrol, Inc. 2001 Stock Option Plan (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form S-8 dated June 28, 2001, File Number 333-64068).
- 10.4 Technitrol, Inc. Board of Directors Stock Plan, as amended (incorporated by reference to Exhibit 10 to our Form 8-K dated May 18, 2005).
- 10.5 Revolving Credit Agreement, by and among Technitrol, Inc. and certain of its subsidiaries, JPMorgan Chase Bank. as Agent and Lender, and certain other Lenders that are signatories thereto, dated as of June 17, 2004.
- 10.6 Lease Agreement, dated October 15, 1991, between Ridilla-Delmont and AMI Doduco, Inc. (formerly known as Advanced Metallurgy Incorporated), as amended September 21, 2001 (incorporated by reference to Exhibit 10.6 to the Company's Amendment No. 1 to Registration Statement on Form S-3 dated February 28, 2002, File Number 333-81286).
- 10.7 Incentive Compensation Plan of Technitrol, Inc. (incorporated by reference to Exhibit 10.7 to Amendment No. 1 to our Registration Statement on Form S-3 filed on February 28, 2002, File Number 333-81286).

35

Exhibit Index, continued

- 10.8 Technitrol, Inc. Supplemental Retirement Plan, amended and restated January 1, 2002 (incorporated by reference to Exhibit 10.8 to Amendment No. 1 to our Registration Statement on Form S-3 filed on February 28, 2002, File Number 333-81286).
- 10.9 Agreement between Technitrol, Inc. and James M. Papada, III, dated July 1, 1999, as amended April 23, 2001, relating to the Technitrol,

Edgar Filing: TECHNITROL INC - Form 10-Q

Inc. Supplemental Retirement Plan (incorporated by reference to Exhibit 10.9 to Amendment No. 1 to our Registration Statement on Form S-3 filed on February 28, 2002, File Number 333-81286).

- 10.10 Letter Agreement between Technitrol, Inc. and James M. Papada, III, dated April 16, 1999, as amended October 18, 2000 (incorporated by reference to Exhibit 10.10 to Amendment No. 1 to our Registration Statement on Form S-3 filed on February 28, 2002, File Number 333-81286).
- 10.10(1) Letter Agreement between Technitrol, Inc. and James M. Papada, III dated July 1, 2004 (incorporated by reference to Exhibit 10.10(1) to our Form 10-Q for the three months ended October 1, 2004).
- 10.11 Form of Indemnity Agreement (incorporated by reference to Exhibit 10.11 to our Form 10-K for the year ended December 27, 2002).
- 10.12 Technitrol Inc. Supplemental Savings Plan (incorporated by reference to Exhibit 10.15 to our Form 10-Q for the three months ended September 26, 2003)
- 10.13 Technitrol, Inc. 401(K) Retirement Savings Plan, as amended (incorporated by reference to post-effective Amendment No. 1, to our Registration Statement on Form S-8 filed on October 31, 2003, File Number 033-35334) (incorporated by reference to Exhibit 10.16 to our Form 10-Q for the three months ended March 26, 2003).
- 10.14 Pulse Engineering, Inc. 401(K) Plan as amended (incorporated by reference to post-effective Amendment No. 1, to our Registration Statement on Form S-8 filed on October 31, 2003, File Number 033-94073) (incorporated by reference to Exhibit 10.16 to our Form 10-Q for the three months ended March 26, 2003).
- 10.15 Amended and Restated Short-Term Incentive Plan (incorporated by reference to Exhibit 10.15 to our Form 10-K for the year ended December 31, 2004).
- 10.16 Amended and Restated Consignment Agreement, Dated May 27, 1997, by and among Rhode Island Hospital Trust National Bank, Doduco GmbH, Doduco Espana, S.A. and Technitrol, Inc. (incorporated by reference to Exhibit 10.16 to our Form 10-Q for the three months ended October 1, 2004).
- 10.16(1) First Amendment to Amended and Restated Consignment Agreement, Dated May 27, 1997, by and among Rhode Island Hospital Trust National Bank, Doduco GmbH, Doduco Espana, S.A. and Technitrol, Inc. (incorporated by reference to Exhibit 10.16 to our Form 10-Q for the three months ended October 1, 2004).

Exhibit Index, continued

- 10.16(2) Second Amendment to Amended and Restated Consignment Agreement, Dated May 27, 1997, by and among Rhode Island Hospital Trust National Bank, Doduco GmbH, Doduco Espana, S.A. and Technitrol, Inc. (incorporated by reference to Exhibit 10.16(2) to our Form 10-Q for the three months ended October 1, 2004).
- 10.16(3) Third Amendment to Amended and Restated Consignment Agreement, Dated

Edgar Filing: TECHNITROL INC - Form 10-Q

May 27, 1997, by and among Rhode Island Hospital Trust National Bank, Doduco GmbH, Doduco Espana, S.A. and Technitrol, Inc. (incorporated by reference to Exhibit 10.16(3) to our Form 10-Q for the three months ended October 1, 2004).

- 10.17 Amended and Restated Consignment Agreement dated July 29, 2005, among Fleet Precious Metals Inc. d/b/a Bank of America Precious Metals, Technitrol, Inc. and AMI Doduco, Inc. (incorporated by reference to Exhibit 10.1 to our Form 8-K dated August 2, 2005).
- 10.18 Silver Lease Agreement dated April 9, 1996 between Standard Chartered Bank Mocatta Bullion - New York and Advanced Metallurgy, Inc. and Guarantee dated April 29, 1996 by Technitrol, Inc. (incorporated by reference to Exhibit 10.18 to our Form 10-Q for the three months ended October 1, 2004).
- 10.18(1) Letter Agreement dated April 9, 1996 between Standard Chartered Bank Mocatta Bullion - New York and Advanced Metallurgy, Inc. (incorporated by reference to Exhibit 10.18(1) to our Form 10-Q for the three months ended October 1, 2004).
- 10.18(2) Amendment to Silver Lease Agreement dated February 14, 1997 between Standard Chartered Bank Mocatta Bullion - New York and Advanced Metallurgy Inc. (incorporated by reference to Exhibit 10.18(2) to our Form 10-Q for the three months ended October 1, 2004).
- 10.18(3) Amendment to Silver Lease Agreement dated November 3, 1997 between Standard Chartered Bank Mocatta Bullion - New York and Advanced Metallurgy Inc. (incorporated by reference to Exhibit 10.18(3) to our Form 10-Q for the three months ended October 1, 2004).
- 10.18(4) Amendment to Silver Lease Agreement dated May 21, 2003 between Standard Chartered Bank Mocatta Bullion - New York and AMI Doduco, Inc. (incorporated by reference to Exhibit 10.18(4) to our Form 10-Q for the three months ended October 1, 2004).
- 10.19 Consignment Agreement dated September 24, 2004 between Mitsui & Co. Precious Metals Inc., and AMI Doduco, Inc. (incorporated by reference to Exhibit 10.19 to our Form 10-Q for the three months ended October 1, 2004).
- 10.20 Unlimited Guaranty dated December 16, 1996 by Technitrol, Inc. in favor of Rhode Island Hospital Trust National Bank (incorporated by reference to Exhibit 10.20 to our Form 10-Q for the three months ended October 1, 2004).

37

Exhibit Index, continued

- 10.21 Corporate Guaranty dated November 1, 2004 by Technitrol, Inc. in favor of Mitsui & Co. Precious Metals, Inc. (incorporated by reference to Exhibit 10.21 to our Form 10-Q for the three months ended October 1, 2004).
- 10.22 Separation Agreement between Technitrol, Inc. and Albert Thorp, III dated June 29, 2005.
- 10.30 Schedule of Board of Director and Committee Fees (incorporated by reference to Exhibit 10.30 to our Form 10-K for the year ended

Edgar Filing: TECHNITROL INC - Form 10-Q

December 31, 2004).

- 31.1 Certification of Principal Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Principal Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

38

Signatures

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

Technitrol, Inc.

(Registrant)

August 9, 2005

(Date)

/s/Drew A. Moyer

Drew A. Moyer
Senior Vice President and Chief Financial
Officer
(duly authorized officer, principal financial
and accounting officer)

39