TECHNITROL INC
Form 10-K
February 24, 2010

UNITED STATES
SECURITIES & EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

T Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 25, 2009
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 Charter)

PENNSYLVANIA	23-1292472
(State of Incorporation)	(IRS Employer Identification Number)

1210 Northbrook Drive, Suite 470, Trevose, Pennsylvania	19053
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	215-355-2900

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each Exchange on which registered
Common Stock par value $0.125 per share	New York Stock Exchange
Common Stock Purchase Rights	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes T No £

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes £ No T

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 T No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes £ No £

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.T

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act). Large accelerated filer £ Accelerated filer T Non-accelerated filer £ Smaller reporting company £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes £ No T

The aggregate market value of voting stock held by non-affiliates as of June 26, 2009 is $266,535,000 computed by reference to the closing price on the New York Stock Exchange on such date.

Title of each class	Number of shares outstanding February 24, 2010
Common stock par value $0.125 per share	41,242,286

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement to be used in connection with the registrant's 2009 Annual Shareholders Meeting are incorporated by reference into Part III of this Form 10-K where indicated.

1

TABLE OF CONTENTS

Table of Contents

Part I

Item 1 Business

General

Technitrol, Inc. is a global producer of precision-engineered electronic components and modules. We sometimes refer to Technitrol, Inc. as "Technitrol", "we" or "our." We believe we are a leading global producer of electronic components and modules in the primary markets we serve, based on our estimates of the annual revenues in our primary markets and our share of those markets relative to our competitors. Our electronic components and modules are used in virtually all types of electronic products to manage and regulate electronic signals and power, making them critical to the functioning of our customer's end product.

During 2009, we announced our intention to explore monetization alternatives with respect to our Electrical Contract Products Group or Electrical, as we refer to it, or AMI Doduco, as it is known in its markets, which is now held for sale and classified as a discontinued operations in our Consolidated Financial Statements. As a result, we currently operate our business in a single segment, our Electronic Components Group, which we refer to as Electronics and is known as Pulse in its markets.

We incorporated in Pennsylvania on April 10, 1947 and we are headquartered in Trevose, Pennsylvania. Our mailing address is 1210 Northbrook Drive, Suite 470, Trevose, PA 19053-8406, and our telephone number is 215-355-2900. Our website is www.technitrol.com.

Products

We design and manufacture a wide variety of highly-customized electronic components and modules. Many of these components and modules capture wireless communication signals, filter and share signals on wireline communication systems, convert communication signals into sound and video, filter out radio frequency interference, adjust and ensure proper current and voltage and activate certain automotive functions. These products are often referred to as antennas, speakers, receivers, splitters, chokes, inductors, filters, transformers and coils. Our primary customers are multinational original equipment manufacturers, original design manufacturers, contract manufacturers and distributors.

We have three primary product groups. Our network group includes our integrated connector modules, transformers, filters, splitters, chokes and other magnetic components. Our wireless group produces our handset antenna products, our non-cellular wireless and antenna products and our mobile speakers and receivers. Our power group includes our power and signal transformers and inductors, automotive coils, military and aerospace products and other power magnetics products.

Net sales of our primary product groups for the years ended December 25, 2009, December 26, 2008 and December 27, 2007 were as follows (in millions):

	2009	2008	2007
Network	$ 152.7	$ 216.0	$ 226.4
Wireless	151.0	263.3	277.9
Power	95.1	147.0	167.3
Net sales	$ 398.8	$ 626.3	$ 671.6

Our products are generally characterized by relatively short life cycles and rapid technological change, allowing us to utilize our design, engineering and production expertise to meet our customers' evolving needs. We believe that the industries we serve have been, and will continue to be, characterized by ongoing product design and manufacturing innovation that will drive growth in the electronic components industry.

Table of Contents

The following table contains a list of some of our key products:

Primary Products	Function	Application
Internal handset antenna and handset antenna modules	Capture communication signals in mobile handsets, personal digital assistants and notebook computers	Cell phones, other mobile terminal and information devices
Speakers and receivers	Convert electronic signals into sound	Cell phones, laptops, smart phones and other mobile terminal devices
Mobile and portable antennas	Capture and transmit non-cellular signals	Global positioning systems, automotive antennas and machine-to-machine communication
Discrete filter or choke	Separate high and low frequency signals. Shares incoming and outgoing signals to match industry templates.	Network switches, routers, hubs and personal computers Phone, fax and alarm systems used with digital subscriber lines, or DSL
Filtered connectors, which combines a filter with a connector and stand alone connector products	Remove interference, or noise, from circuitry and connects electronic applications	Local area networks, or LANs, and wide area networks, or WANs, equipment for personal computers and video game consoles
Inductor/chip inductor	Regulate electrical current under conditions of varying load	AC/DC & DC/DC power supplies Mobile phones and portable devices
Power transformer	Modify circuit voltage	AC/DC & DC/DC power supplies
Signal transformer	Limit distortion of signal as it passes from one medium to another	Analog circuitry, military/aerospace navigation and weapons guidance systems
Automotive ignition coils	Provide power for automotive ignition	Ignition systems for automotive gasoline engines
Other automotive coils	Provide power for a variety of automotive electronic functions	Automotive management systems such as safety, communication, navigation, fuel efficiency and emissions control

Sales, Customers and Distribution

We sell products predominantly through worldwide direct sales forces. Given the highly technical nature of our customers' needs, our direct salespeople typically team up with members of our engineering staff to discuss a sale with a customer's purchasing and engineering personnel. During the sales process, there is close interaction between our engineers and those in our customers' organizations. This interaction extends throughout a product's life cycle, engendering strong customer relationships. Also, we believe that our coordinated sales effort provides a high level of market penetration and efficient coverage of our customers on a cost-effective basis. As of December 25, 2009, we had more than 60 salespeople in 11 sales offices worldwide.

We sell our products and services to original equipment manufacturers, original design manufacturers and contract equipment manufacturers, which design, build and market end-user products. We refer to original equipment manufacturers as "OEMs", original design manufacturers as "ODMs" and contract equipment manufacturers as "CEMs." ODMs typically contract with OEMs to design products, where as CEMs contract with OEMs to manufacture products. Many OEMs use CEMs primarily or exclusively to build their products. Independent distributors sell components and materials to both OEMs and CEMs. While OEMs are often our design partners, most sales are to CEMs, as OEMs have generally outsourced procurement and manufacturing responsibilities to CEMs. In order to maximize our sales opportunities, our engineering and sales teams maintain close relationships with OEMs, ODMs, CEMs and other independent distributors. We provide support for our multinational customer base with local customer service and design centers in North America, Europe and Asia.

For the year ended December 25, 2009, a major cell phone manufacturer and a CEM for that cell phone manufacturer each individually accounted for more than 10% of our continuing operations net sales. In addition, a group of CEMs of a major network infrastructure company also accounted for more than 10% of our 2009 continuing operations net sales. Sales to our ten largest customers accounted for 61.9% of net sales for the year ended December 25, 2009, 64.4% of net sales for the year ended December 26, 2008 and 60.7% of net sales for the year ended December 28, 2007.

A large percentage of our sales in recent years has been outside of the United States. For the years ended December 25, 2009, December 26, 2008 and December 28, 2007, 89.9%, 91.3% and 89.4% of our net sales were outside of the United States, respectively.

Table of Contents

Manufacturing

We have developed our manufacturing processes in ways intended to maximize our profitability without sacrificing quality. The manufacturing of our magnetic components, connectors, chokes and filters tend to be labor intensive and highly variable. This model enables us to decrease production rapidly to contain costs during slower periods, reflecting the often unpredictable nature of these product lines. However, this model may prevent us from rapidly increasing our production capacity in periods of intense demand in tight labor markets. Conversely, the manufacturing of our antennas, speakers, receivers, automotive and military/aerospace products is highly mechanized or, in some cases, automated, which causes costs and profitability related to these products to be sensitive to the volume of production.

Generally, once our engineers design products to meet the end users' product needs and a contract is awarded by, or orders are received from, the customer we begin to mass-produce the products. To a much lesser extent, we also service customers that design their own components and outsource production of these components to us. In such case, we build the components to the customer's design. We also maintain a portfolio of catalog parts which our customers can easily design into their own products.

We cannot accurately estimate or forecast the utilization of our overall production capacity at a given time. In any facility, maximum capacity and utilization vary periodically depending on our manufacturing strategies, the product being manufactured, current market conditions, customer demand and other non-specific variables.

Research, Development and Engineering

Our research, development and engineering efforts are focused on the design and development of innovative products in collaboration with our customers or their ODM partners. We work closely with OEMs and ODMs to identify their design and engineering requirements. We maintain strategically located design centers throughout the world where proximity to customers enables us to better understand and more readily satisfy their design and engineering needs. Our design process is disciplined and orderly, using a product lifecycle management system to track the level of design activity enabling us to manage and improve how our engineers design products. We typically own the customized designs used to make our products.

Research, development and engineering expenditures from continuing operations were $28.2 million for the year ended December 25, 2009, $42.6 million for the year ended December 26, 2008, and $35.1 million for the year ended December 28, 2007. The decrease over the past year is primarily due to tightened spending controls initiated at the end of 2008 in response to the general recession. In limited circumstances, we generate revenue as a result of providing research, development and engineering services to our customers. This revenue is not material to our Consolidated Financial Statements.

Competition

We do not believe that any one company competes with all of our product lines on a global basis. However, we have strong competition within individual product lines, both domestically and internationally. In addition, several OEMs internally, or through CEMs, manufacture some of our product offerings. We believe that this may represent an opportunity to capture additional market share as OEMs continue to outsource their component manufacturing. Therefore, we pursue opportunities to convince these OEMs that our economies of scale, purchasing power and core competencies in manufacturing enable us to produce these products more efficiently. Increasingly, we compete against manufacturers located in inexpensive countries, many of which sometimes aggressively seek market share at the detriment of profits.

Competitive factors in the markets for our products include:

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

Table of Contents

We believe we are adequately competitive with respect to each of these factors. Product quality and reliability, as well as design and manufacturing capabilities, are enhanced through our continuing commitment to invest in and improve our manufacturing and designing resources and our close relationships with our customers' engineers. Also, the breadth of our product offering provides customers with the ability to satisfy multiple needs through one supplier. Our global presence enables us to deepen our relationship with our customers and to better understand and more easily satisfy the needs of local markets. In addition, our ability to purchase raw materials in large quantities and our focus on continually reducing production expenses and maximizing capacity lowers our manufacturing costs and enables us to price our products competitively.

Employees

As of December 25, 2009, we had approximately 19,400 full-time employees as compared to 21,400 as of December 26, 2008. Employees related to our continuing operations increased from approximately 17,100 at December 26, 2008 to 17,700 at December 25, 2009 due to a concentrated effort to increase capacity in our operations in the People's Republic of China ("PRC" or "China") to address the surging demand of our network group experienced during the second half of 2009. The number of employees at year-end includes employees of certain subcontractors that are integral to our operations in the PRC. Such employees numbered approximately 6,400 and 8,200 as of December 25, 2009 and December 26, 2008, respectively. In addition to these employees, we began utilizing temporary staff to supplement our labor capacity during 2009. Excluded from our total employment figures for December 25, 2009 were approximately 3,000 temporary staff. None of our employees were covered by collective-bargaining agreements during the year ended December 25, 2009. Approximately 500 of our total 19,400 full-time employees were located in the United States. We did not experience any major work stoppages during 2009 and consider our relations with our employees to be good.

Raw Materials

The primary raw materials necessary to manufacture our products include:

- base metals such as copper;
- ferrite cores; and
- plastics and plastic resins.

Currently, we do not have significant difficulty obtaining any of our raw materials and do not anticipate that we will face any significant difficulty in the near future. However, some of these materials are produced by a limited number of suppliers. 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 due to increased market demand or a shortage of supply, 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 lower prices causing a reduction in our profit margins.

Our discontinued operations at Electrical use silver and other precious metals in manufacturing most of its electrical contacts, contact materials and contact subassemblies. Historically, Electrical has leased or held these materials through consignment-type arrangements with its suppliers, except in China where leasing of such precious metals is prohibited. Leasing and consignment costs have typically been lower than 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 Electrical to minimize its inventories. Electrical's terms of sale generally allow it to charge customers for precious metal content based on the market value of precious metal on the day after shipment to the customer. Suppliers invoice Electrical based on the market value of the precious metal on the day after shipment to the customer as well. Thus far, Electrical has been successful in managing the costs associated with its precious metals. While limited amounts are purchased for use in production, the majority of precious metal inventory continues to be leased or held on consignment. If leasing or consignment costs increase significantly in a short period of time, and Electrical is unable to recover these increased costs through higher sales prices, a negative impact on Electrical's results of operations and liquidity may result. Leasing and consignment fee increases are caused primarily by increases in interest rates or volatility in the price of the consigned material. Similarly, if Electrical is unable to maintain the necessary bank commitments and credit limits for its precious metal leasing and consignment facilities, or obtain alternative facilities on a timely basis, Electrical may be required to finance the direct purchase of precious metals, reduce its production volume or take other actions that could negatively impact its financial condition and results of operations.

Table of Contents

Backlog

Our backlog of orders at December 25, 2009 was $76.3 million compared to $49.3 million at December 26, 2008. The significant increase in backlog from 2008 to 2009 is the result of a substantial increase in demand in our network group, which has recently been impacted by capacity constraints. We expect to ship the majority of the backlog over the next six months. We do not believe that our backlog is an accurate indicator of near-term business activity because variability in lead times, capacity, demand uncertainty on the part of our customers and increased use of vendor managed inventory and similar consignment type arrangements tend to limit the significance of backlog.

Intellectual Property

We utilize proprietary technology, often developed and protected by us or, to a much lesser extent, licensed from others. Also, we require every employee with access to proprietary technology to enter into confidentiality agreements with us and we restrict access to our proprietary information.

Existing legal protections afford only limited advantage to us. For example, others may independently develop similar or competing products or attempt to copy or use aspects of our products that we regard as proprietary. Furthermore, intellectual property law in certain areas of the world may not fully protect our products or technology from such actions.

While our intellectual property is important to us in the aggregate, we do not believe any individual patent, trademark, or license is material to our business or operations.

Environmental

Our manufacturing operations are subject to a variety of local, state, federal and international environmental laws and regulations governing air emissions, wastewater discharges, the storage, use, handling, disposal and remediation of hazardous substances and wastes and employee health and safety. It is our policy to meet or exceed the environmental standards set by these laws. We also strive through planning and continual process improvements to protect and preserve the environment through prevention of pollution and reduced consumption of natural resources and materials. However, in the normal course of business, environmental issues may arise. We may incur increased costs associated with environmental compliance and cleanup projects necessitated by the identification of new environmental issues or new environmental laws and regulations.

Available Information

We make available free of charge on our website, www.technitrol.com, all materials that we file electronically with the Securities and Exchange Commission ("SEC"), including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports and all Board and Committee charters, as soon as reasonably practicable after we electronically file or furnish such materials to the SEC.

Item 1a Risk Factors

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 curr
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.

Table of Contents

The following factors represent what we believe are the major risks and uncertainties in our business, including risks inherent in operations which we are in the process of divesting. They are listed in no particular order.

Cyclical changes in the markets we serve could result in a significant decrease in demand for our products, which may reduce our profitability and/or our cash flow.

Our components are used in various products sold in the electronics market. Markets are cyclical. Generally, the demand for our components reflects the demand for products in the electronics market. A contraction in demand would result in a decrease in sales of our products, as our customers:

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

A decrease in demand for our products could have a significant adverse effect on our operating results, profitability and cash flows which may adversely affect our liquidity, our ability to retire debt or our ability to comply with debt covenants. Accordingly, we may experience volatility in our revenues, profits and cash flows.

Reduced prices for our products may adversely affect our profit margins if we are unable to reduce our cost structure.

The average selling prices for our products tend to decrease over their life cycle. In addition, foreign currency movements and the desire 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 concurrently reducing costs through efficient raw material procurement, process and product improvements and focusing our operating expense levels. Our profit margins and cash flows may suffer if we are unable to reduce our overall cost structure relative to decreases in sales prices.

Rising raw material and production costs may decrease our gross margin.

We use commodities such as copper and plastic resins in manufacturing our products. Prices of these and other raw materials have experienced significant volatility in the past. Other manufacturing costs, such as direct and indirect labor, energy, freight and packaging costs, also directly impact the costs of our products. If we are unable to pass increased costs through to our customers or recover the increased costs through production efficiencies, our gross margins may suffer.

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

We operate in an industry characterized by rapid change caused by the frequent emergence of new technologies and standards. Generally, we expect life cycles for 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. Improving performance and reducing costs for our customers requires continual development of new products and/or to the components of our products. Our inability to react quickly and efficiently to changes in technology, standards or customers' needs may decrease our sales or margins.

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. 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.

Table of Contents

An inability to capitalize on our prior or future acquisitions or our decisions to strategically divest our current businesses may adversely affect our business.

We have completed numerous acquisitions in the past and we continually seek acquisitions to grow our businesses. We may fail to derive significant benefits from our acquisitions. In addition, if we fail to achieve sufficient financial performance from an acquisition, long-lived assets, such as property, plant and equipment, goodwill and other intangibles, could become impaired and result in the recognition of an impairment loss similar to the losses recorded in 2009 and 2008.

The success of any of our acquisitions depends on our ability to:

- successfully execute the integration or consolidation of the 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 internal control procedures;
- 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 lower than anticipated business growth or higher than anticipated costs. In addition, acquisitions may:

- cause a disruption in our ongoing business;
- distract our managers;
- increase our debt and leverage;
- 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.

Alternatively, we may also consider making strategic divestitures, which 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.

We may record impairment losses in the future. We assess the impairment of long-lived assets whenever events or changes in circumstances indicate the carrying value may not be recoverable. Factors we consider important that could trigger an impairment review include significant changes in the use of any asset, changes in historical trends in operating performance, a significant decline in the price of our common stock, changes in projected operating performance and significant negative economic trends.

Integration of acquisitions 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 rapidly integrate acquisitions into our existing business and to report financial performance on a company-wide level. As a result of this practice, we do not separately track the standalone performance of acquisitions after the date of the transaction. Consequently, investors cannot quantify the financial performance and success of any individual acquisition or our consolidated financial performance and success excluding the impact of acquisitions. In addition, our practice of rapidly integrating acquisitions into our financial results may limit the ability of investors to analyze any trends in our operating results over time.

An inability to identify, consummate or integrate acquisitions may slow our future growth.

We plan to continue to identify and consummate additional acquisitions to further diversify our businesses and to penetrate or expand 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 or integrate attractive acquisitions may reduce our growth rate and our ability to penetrate new markets.

Table of Contents

If any of our major customers terminates a substantial amount of existing agreements, chooses not to enter into new agreements or elects not to submit additional purchase orders for our products, our business may suffer.

Most of our sales are made on a purchase order basis. We have a concentration of several primary customers that we rely on for a material amount of these purchase orders. To the extent we have agreements in place with these customers, most of these agreements are either short-term in nature or provide these customers with the ability to terminate the arrangement. Such agreements 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 may decrease if one of these major customers:

- does not submit additional purchase orders;
- does not enter into new agreements with us;
- elects to reduce or prolong their purchase orders; or
- elects 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 both organically and as a result of acquisitions. We have also contracted as a result of declines in global demand and divestitures. We may significantly reduce or expand our workforce and facilities in response to rapid 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 business 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' future 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 or cash flows.

A decrease in availability 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:

- base metals such as copper;
- ferrite cores; and
- plastics and plastic resins.

Some of these materials are produced by a limited number of suppliers. 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 due to increased market demand or shortage of supply, 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 lower prices causing a reduction in our profit margins.

Table of Contents

Costs associated with precious metals and base metals may not be recoverable.

Some of Electrical's raw materials, such as precious metals and certain base metals, are considered commodities and are subject to price volatility. Electrical attempts to limit its exposure to fluctuations in the cost of precious materials, including silver, by obtaining the majority of the precious metal in its facilities through leasing or consignment arrangements with suppliers. Electrical then typically purchases the precious metal from its supplier at the current market price on the day after shipment to the customer and passes this cost on to the customer. Electrical attempts to limit its exposure to base metal price fluctuations by attempting to pass through the cost of base metals to customers, typically by indexing the cost of the base metal, so that the cost of the base metal closely relates to the price charged to customers, but Electrical may not always be successful in indexing these costs or fully passing through costs to its customers.

Leasing/consignment fee increases are primarily caused by increases in interest rates or volatility in the price of the consigned material. 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 its supply and demand. Consignment fees may increase if interest rates or the price of the consigned material increase.

Electrical's results of operations and liquidity may be negatively impacted if it is unable to:

- enter into new leasing or consignment arrangements with similarly favorable terms after its existing agreements terminate;
- recover increased leasing or consignment costs through an increase in prices;
- pass through higher base metals' costs to its customers; or
- comply with existing leasing or consignment obligations.

Competition may result in reduced demand for our products and reduced sales.

We 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;
- price;
- customer service; and
- delivery time.

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

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 which, 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 become more costly than our competitors. Although we engage in limited hedging transactions, including foreign currency exchange contracts which may 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, such as China, and a majority of our revenues are 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 locations and markets.

Table of Contents

Risks inherent in doing business internationally may include:

- the inability to repatriate or transfer cash on a timely or efficient basis;
- economic and political instability;
- expropriation and nationalization;
- trade restrictions;
- capital and exchange control programs;
- transportation delays;
- uncertain rules of law;
- 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.

The majority of our manufacturing occurs in the PRC. Although the PRC has a large and growing economy, political, legal and labor developments entail uncertainties and risks. For example, during the second half of 2009, we began to encounter difficulties in attracting and retaining the level of labor required to meet our customer's demand. Also, wages have been increasing rapidly over the last several years in southern China. While China has been receptive to foreign investment, its investment policies may not continue indefinitely into the future and future policy changes may adversely affect our ability to conduct our operations in these countries or the costs of such operations.

We have benefited in prior years from favorable tax incentives and we operate in countries where we realize favorable income tax treatment relative to the U.S. statutory rate. We have been granted special tax incentives, including tax holidays, in jurisdictions such as the PRC. This favorable situation could change if these countries were to increase rates or discontinue 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 similar tax incentives or policies. Accordingly, in the event of changes in laws and regulations affecting our international operations, we may not be able to continue to recognize or take advantage of similar benefits in the future.

Shifting our operations between regions may entail considerable expense, capital and opportunity costs.

Within countries in which we operate, particularly China, we sometimes shift 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 earnings charges and cash payments to account for severance, asset impairments, write-offs, write-downs, moving expenses, start-up costs and inefficiencies, as well as certain adverse tax consequences including the loss of specialized tax incentives, non-deductible expenses or value-added tax consequences.

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 international subsidiaries and may be denominated in currencies other than the U.S. dollar. While we intend to use a significant amount of the cash held overseas to fund our international operations and growth, if we encounter a significant need for liquidity domestically or at a particular location that we cannot fulfill through borrowings, equity offerings, or other internal or external sources, we may experience unfavorable tax and earnings consequences due to cash transfers. These adverse consequences would occur, for example, 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 a country such as the PRC. 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 transfers from time to time. We have not experienced any significant liquidity restrictions in any country in which we operate and none are presently foreseen.

All of our retained earnings are free from legal or contractual restrictions, with the exception of approximately $30.2 million of retained earnings as of December 25, 2009, primarily in the PRC that are restricted in accordance with the PRC Foreign Investment Enterprises Law. This 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. The $30.2 million includes approximately $5.7 million of retained earnings of a majority owned subsidiary and approximately $1.9 million of a discontinued operation.

Table of Contents

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

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

On February 22, 2010 we announced that our board of directors has named Daniel M. Moloney our next chief executive officer, replacing James M. Papada, III, who is retiring, pursuant to a plan announced to the board in 2008. Mr. Moloney comes to Technitrol from Motorola, Inc., where he served most recently as Executive Vice President and President of its Home and Network Mobility business, a leading provider of integrated and customized end-to-end media solutions for cable, wireline, and wireless service providers. He played a leading role in expanding the breadth and global presence of this business. Mr. Moloney served nearly 10 years in senior-level capacities at Motorola and, previously, 16 years in managerial positions of increasing responsibility at General Instrument Corporation before its acquisition by Motorola early in 2000. He holds a bachelor's degree in electrical engineering from the University of Michigan and a master of business administration from the University of Chicago. Mr. Moloney is expected to join Technitrol at the end of March 2010.

Public health epidemics (such as flu strains or severe acute respiratory syndrome) or natural disasters (such as earthquakes or fires) may disrupt operations in affected regions and affect operating results.

We maintain extensive manufacturing operations in the PRC as do many of our customers and suppliers. A sustained interruption of our manufacturing operations, or those of our customers or suppliers, resulting from complications caused by a public health epidemic or natural disasters could have a material adverse effect on our business and results of operations.

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

As part of our comprehensive risk management program, we purchase insurance coverage against certain business and product liability risks. However, not all risks are insured, and those that are insured differ in covered amounts by type of risk, end market and customer location. If any of our insurance carriers discontinues an insurance policy, significantly reduces available coverage or increases our deductibles and we cannot find another insurance carrier to write comparable coverage at similar costs, or if we are not fully insured for a particular risk in a particular place, then we may be subject to increased costs of uninsured or under-insured losses which may adversely affect our operating results.

Also, our components, modules and other products are used in a broad array of representative end products. If our insurance program does not adequately cover liabilities arising from the direct use of our products or as a result of our products being used in our customers’ products, we may be subject to increased costs of uninsured losses which may adversely affect our operating results.

Environmental liability and compliance obligations may adversely affect our operations and 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 for contamination discovered at our present or former facilities. Our operations and results could be adversely affected by any material obligations arising from existing laws or 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.

Table of Contents

Our debt levels could adversely affect our financial position, liquidity and perception of our financial condition in the financial markets.

We were in compliance with the covenants of our amended and restated credit agreement as of December 25, 2009. Outstanding borrowings against this agreement, which allows for a maximum facility of $100.0 million, were $81.0 million at December 25, 2009. In addition to the debt outstanding under our credit agreement, we issued $50.0 million of convertible senior notes during the fourth quarter of 2009. We believe the severe economic and credit crisis that began in late 2008 and continued into 2009 has resulted in these borrowings having a significant adverse affect on our share price. Our share price may continue to be depressed until our leverage improves.

Covenants with our lenders require compliance with specific financial ratios that may make it difficult for us to obtain additional financing on acceptable terms for future acquisitions or other corporate needs. Although we anticipate meeting our covenants in the normal course of operations, our ability to remain in compliance with the covenants may be adversely affected by future events beyond our control. Violating any of these covenants could result in being declared in default, which may result in our lenders electing to declare our outstanding borrowings immediately due and payable and terminate all commitments to extend further credit. If the lenders accelerate the repayment of borrowings, we cannot provide assurance that we will have sufficient liquid assets to repay our credit facilities and other indebtedness. In addition, certain domestic and international subsidiaries have pledged the shares of certain subsidiaries, as well as selected accounts receivable, inventory, machinery and equipment and other assets as collateral. If we default on our obligations, our lenders may take possession of the collateral and may license, sell or otherwise dispose of those related assets in order to satisfy our obligations.

Our results may be negatively affected by changing interest rates.

We are subject to market risk from exposure to changes in interest rates. To mitigate the risk of changing interest rates, we may utilize derivatives or other financial instruments. We do not expect changes in interest rates to have a material effect on our income or cash flows for the foreseeable future, although there can be no assurances that interest rates will not significantly change or that our results would not be negatively affected by such changes.

Our intellectual property rights may not be adequately protected.

We may not be successful in protecting our intellectual property through patent laws, other regulations or by contract. As a result, other companies may be able to develop and market similar products which could materially and adversely affect our business. We may be sued by third parties for alleged infringement of their proprietary rights and we may incur defense costs and possibly royalty obligations or lose the right to use technology important to our business.

From time to time, we receive claims by third parties asserting that our products violate their intellectual property rights. Any intellectual property claims, with or without merit, could be time consuming and expensive to litigate or settle and could divert management attention from administering our business. A third party asserting infringement claims against us or our customers with respect to our current or future products may materially and adversely affect us by, for example, causing us to enter into costly royalty arrangements or forcing us to incur settlement or litigation costs.

Our stock price, like that of many technology companies, has been and may continue to be volatile.

The market price of our common stock may fluctuate as a result of variations in our quarterly operating results and other factors, some of which may be beyond our control. These fluctuations may be exaggerated if the trading volume of our common stock is low.

In addition, the market price of our common stock may rise and fall in response to the following factors, or the perception or anticipation of the following factors:

- announcements of technological or competitive developments;
- acquisitions or strategic alliances by us or our competitors;
- divestitures of core and non-core businesses;
- the gain or loss of a significant customer or order;
- the existence of debt levels which significantly exceed our cash levels;
- changes in our liquidity, capital resources or financial position;
- changes in estimates or forecasts of our financial performance or changes in recommendations by securities analysts regarding us or our industry;
- general market or economic conditions; or
- future business prospects.

Table of Contents

Worldwide recession and disruption of financial markets.

The slowdown in economic activity in 2008 and 2009 caused by the ongoing global recession and the reduced availability of liquidity and credit has adversely affected our business. Difficult financial and economic conditions may adversely affect our customers' ability to meet the terms of sale or our suppliers' ability to fully perform according to their commitments to us.

Item 1b Unresolved Staff Comments

None

Item 2 Properties

We are headquartered in Trevose, Pennsylvania where we lease approximately 8,000 square feet of office space. We operated 22 manufacturing plants in 5 countries as of December 25, 2009, of which 7 manufacturing plants in 3 of those countries only manufacture products of Electrical. We sold 3 of Electrical's plants located in North America on January 4, 2010. We seek to maintain facilities in those regions where we market our products in order to maintain a local presence with our customers.

The following is a list of the principal manufacturing locations of our continuing operations as of December 25, 2009:

Location (1)	Approx. Square Ft. (2)	Owned/Leased	Approx. Percentage Used For Manufacturing	
Zhuhai, PRC	374,000	Leased	90	%
Ningbo, PRC	363,000	Owned	80	%
Mianyang, PRC	318,000	Leased	80	%
Dongguan, PRC	231,000	Leased	100	%
Suzhou, PRC	171,000	Leased	100	%
Shenzhen, PRC	68,000	Leased	100	%
Vancouver, Washington	25,000	Leased	60	%
Bristol, Pennsylvania	20,000	Leased	60	%
Total	1,570,000			

(1) In addition to these manufacturing locations, we have 371,000 square feet of space which is used for engineering, sales and administrative support functions at various locations, including Electronics' headquart