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.

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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.

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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.

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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.

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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.

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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.

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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