

Edgar Filing: TECHNITROL INC - Form 10-Q

TECHNITROL INC  
Form 10-Q  
May 01, 2003

UNITED STATES  
SECURITIES & EXCHANGE COMMISSION

Washington, D.C. 20549

-----  
FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934

For the quarterly period ended March 28, 2003, 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 385  
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 filter (as defined in Rule 12b-2 of the Exchange Act.)

YES  NO

Common Stock - Shares Outstanding as of April 25, 2003: 40,177,392

Page 1 of 33

PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

Technitrol, Inc. and Subsidiaries

# Edgar Filing: TECHNITROL INC - Form 10-Q

## Consolidated Balance Sheets

In thousands

Assets	March 28, 2003 ---- (unaudited)	December 27, 2002 ----
<b>Current assets:</b>		
Cash and cash equivalents	\$ 131,207	\$ 205,075
Trade receivables, net	86,261	65,185
Inventories	66,834	60,588
Prepaid expenses and other current assets	21,972	13,878
	-----	-----
Total current assets	306,272	344,726
Property, plant and equipment	192,676	163,147
Less accumulated depreciation	103,792	98,286
	-----	-----
Net property, plant and equipment	88,884	64,861
Deferred income taxes	11,281	11,743
Goodwill and other intangibles, net	146,853	100,768
Other assets	26,555	25,608
	-----	-----
	\$ 579,846	\$ 547,706
	=====	=====
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Current installments of long-term debt	\$ 11,126	\$ 10,667
Accounts payable	41,754	28,791
Accrued expenses	80,781	69,689
	-----	-----
Total current liabilities	133,661	109,147
<b>Long-term liabilities:</b>		
Long-term debt, excluding current installments	5,921	5,681
Other long-term liabilities	11,783	10,501
<b>Shareholders' equity:</b>		
Common stock and additional paid-in capital	207,564	207,033
Retained earnings	223,470	220,836
Other	(2,553)	(5,492)
	-----	-----
Total shareholders' equity	428,481	422,377
	-----	-----
	\$ 579,846	\$ 547,706
	=====	=====

See accompanying Notes to Unaudited Consolidated Financial Statements.

# Edgar Filing: TECHNITROL INC - Form 10-Q

## Consolidated Statements of Earnings

(Unaudited)

In thousands, except per share data

	Quarter March 28, 2003 ----	End Mar ----
Net sales	\$ 122,544	\$
Costs and expenses:		
Cost of sales	92,123	
Selling, general and administrative expenses	23,734	
Restructuring and unusual and infrequent items	3,893	
	-----	-----
Total costs and expenses applicable to sales	119,750	1
	-----	-----
Operating profit (loss)	2,794	
Other (expense) income:		
Interest income (expense), net	(287)	
Equity method investment earnings	272	
Other	(40)	
	-----	-----
Total other income (expense)	(55)	-----
	-----	-----
Earnings (loss) before taxes and cumulative effect of accounting change	2,739	
Income taxes (benefit)	105	
	-----	-----
Net earnings (loss) before cumulative effect of accounting change	2,634	
Cumulative effect of accounting change, net of income taxes	--	(
	-----	-----
Net earnings (loss)	\$ 2,634	\$ (
	=====	=====
Basic earnings (loss) per share before cumulative effect of accounting change	\$ 0.07	\$
Cumulative effect of accounting change, net of income taxes	--	\$
	-----	-----
Basic earnings (loss) per share	\$ 0.07	\$
	=====	=====
Diluted earnings (loss) per share before cumulative effect of accounting change	\$ 0.07	\$
Cumulative effect of accounting change, net of income taxes	--	\$
	-----	-----
Diluted earnings (loss) per share	\$ 0.07	\$
	=====	=====

See accompanying Notes to Unaudited Consolidated Financial Statements.

# Edgar Filing: TECHNITROL INC - Form 10-Q

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

	Quarter Ended	March 28, 2003	March 29, 2002
	March 28,	2003	-----
Cash flows from operating activities:			
Net earnings (loss)	\$	2,634	\$
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization		5,628	
Tax benefit from employee stock compensation		(122)	
Amortization of stock incentive plan expense		466	
Restructuring and unusual and infrequent items, net of cash payments		3,100	
Cumulative effect of accounting change		--	
Changes in assets and liabilities, net of effect of acquisitions:			
Trade receivables		460	
Inventories		3,658	
Prepaid expenses and other current assets		(3,757)	
Accounts payable and accrued expenses		1,947	
Other, net		(2,325)	
		-----	-----
Net cash provided by operating activities		11,689	-----
Cash flows from investing activities:			
Acquisitions, net of cash acquired		(81,926)	
Capital expenditures		(1,716)	
Proceeds from sale of property, plant and equipment		324	
		-----	-----
Net cash used in investing activities		(83,318)	-----
Cash flows from financing activities:			
Dividends paid		--	
Principal payments of long-term debt, net		(137)	
Sale of stock through employee stock purchase plan		481	
		-----	-----
Net cash provided by (used in) financing activities		344	-----
Net effect of exchange rate changes on cash		(2,583)	-----
Net decrease in cash and cash equivalents		(73,868)	-----
Cash and cash equivalents at beginning of year		205,075	-----
Cash and cash equivalents at March 28, 2003 and March 29, 2002	\$	131,207	\$
		=====	=====

See accompanying Notes to Unaudited Consolidated Financial Statements.

Edgar Filing: TECHNITROL INC - Form 10-Q

Page 4 of 33

Technitrol, Inc. and Subsidiaries  
 Consolidated Statement of Changes in Shareholders' Equity

Quarter Ended March 28, 2003

(Unaudited)  
 In thousands

	Common stock and paid-in capital		Retained earnings	Deferred compen- sation
	Shares	Amount		
Balance at December 27, 2002	40,130	\$ 207,033	\$220,836	\$ (1,177)
Stock options, awards and related compensation	11	163	--	178
Tax benefit of stock compensation	--	(122)	--	--
Stock issued under employee stock purchase plan	36	490	--	--
Currency translation adjustments	--	--	--	--
Net earnings	--	--	2,634	--
Comprehensive income				
Balance at March 28, 2003	40,177	\$ 207,564	\$223,470	\$ (999)

See accompanying Notes to Unaudited Consolidated Financial Statements.

Page 5 of 33

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 27, 2002. We sometimes refer to Technitrol as "we" or "our".

The results for the quarter ended March 28, 2003 and March 29, 2002, 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. All such adjustments are of a normal recurring nature. Operating

## Edgar Filing: TECHNITROL INC - Form 10-Q

results for the quarter ended March 28, 2003 are not necessarily indicative of annual results.

New Accounting Pronouncements In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46 Consolidation of Variable Interest Entities ("FIN 46"). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest, or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. We were required to adopt the provisions of FIN 46 for variable interest entities created after January 31, 2003, whereas it is otherwise effective June 15, 2003 for variable interest entities acquired before February 1, 2003. Adoption of this interpretation is not expected to have a material effect on our revenue, operating results, financial position, or liquidity.

In December 2002, the FASB issued Statement No. 148, Accounting for Stock-Based Compensation, Transition and Disclosure, an amendment to Statement No. 123 ("SFAS 148"). SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of Statement No. 123, Accounting for Stock-Based Compensation ("SFAS 123"), by requiring prominent disclosures in both annual and interim financial statements, about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002. We adopted the provisions of SFAS 123, as amended by SFAS 148, as of the beginning of our fiscal year in 2003. We used the prospective method of adoption, which recognizes expense for all employee awards granted, modified or settled after the beginning of the fiscal year in which the recognition provisions are first applied. Adoption of this standard did not have a material effect on our revenue, operating results, financial position or liquidity.

In November 2002, the FASB issued FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others ("FIN 45"). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. FIN 45 also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. We were required to adopt the provisions of FIN 45 on a prospective basis to guarantees issued or modified after December 31, 2002. We have not issued any guarantees for performance of third parties since December 31, 2002. Accordingly, adoption of this interpretation did not have a material effect on our revenue, operating results, financial position or liquidity.

In June 2002, the FASB issued Statement No. 146 Accounting for Costs Associated with Exit or Disposal Activities ("SFAS 146"). SFAS 146 superceded the Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Termination Benefits and Other Costs to Exit an Activity, ("EITF 94-3") The principal difference between SFAS 146 and EITF 94-3 is that SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. As such, under SFAS 146, an entity's

# Edgar Filing: TECHNITROL INC - Form 10-Q

## Technitrol, Inc. and Subsidiaries

### Notes to Unaudited Consolidated Financial Statements, continued

#### (1) Accounting Policies, continued

commitment to a plan by itself, does not create a present obligation meeting the definition of a liability. SFAS 146 also established fair value as the objective for initial measurement of the liability. We were required to adopt the provisions of SFAS 146 for all exit or disposal activities initiated after December 15, 2002.

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

#### (2) Acquisitions

Eldor High Tech Wire Wound Components S.r.L.: In January 2003, we acquired all of the capital stock of Eldor High Tech Wire Wound Components S.r.L. (Eldor), headquartered in Orsenigo, Italy with production operations in Izmir and Istanbul, Turkey. Eldor produces flyback transformers and switch mode transformers for the European television market. The acquisition was accounted for by the purchase method of accounting. The preliminary purchase price was approximately \$81.9 million net of cash acquired, plus related acquisition costs and expenses. The fair value of net tangible assets acquired approximated \$12.3 million. Based on the fair value of assets acquired, the preliminary allocation of the unadjusted purchase price included \$18.6 million for manufacturing know-how, \$6.1 million for customer relationships, \$1.5 million for tradename and \$15.8 million allocated to goodwill. These fair value allocations are subject to adjustment. All of the separately identifiable intangible assets will be amortized, with estimated useful lives of 20 years for manufacturing know-how, 8 years for customer relationships and 2 years for tradename. The purchase price was funded with cash on hand. At closing, Eldor has no funded debt. At the present time, we intend that the Eldor business will form the nucleus of a new consumer division in the Pulse segment and will be treated as a separate reporting unit for purposes of SFAS 142.

Excelsus Technologies, Inc.: In August 2001, we acquired all of the capital stock of Excelsus Technologies, Inc. ("Excelsus") based in Carlsbad, California. Excelsus produced customer-premises digital subscriber line filters and other broadband accessories. The acquisition was accounted for by the purchase method of accounting. The purchase price was approximately \$83.3 million, net of \$4.8 million of cash acquired. The fair value of net assets acquired approximated \$18.2 million. Based on the fair value of the assets acquired, the allocation of the purchase price included \$40.0 million for trade names, \$27.0 million for goodwill and \$8.0 million for technology. The technology intangible is subject to amortization and is estimated to have a 5-year life. Included in the assets acquired was a \$6.3 million tax receivable, generated by the acceleration and settlement of Excelsus stock options at the time of closing. We filed income tax returns for the period ending on the closing date, and received the full amount of the tax receivable during the fourth quarter of 2001. In order to fund the purchase price, we used approximately \$19.0 million of cash on-hand and borrowed approximately \$74.0 million under its existing credit facility with a syndicate of commercial banks.

During the quarter ended June 28, 2002, we recorded an impairment charge of \$32.1 million of the value assigned to the Excelsus trade names before any tax benefit. The charge was included in the line "restructuring and unusual and infrequent items" on the consolidated statement of earnings. This charge was triggered by the combined effect of reorganizing Pulse into product-line based organization and updated financial forecasts for DSL microfilters. In addition, a purchase price allocation adjustment to record a deferred tax liability of

## Edgar Filing: TECHNITROL INC - Form 10-Q

\$16.0 million associated with the trade name was recorded and goodwill in an equal amount was recognized. As required by FASB Statement No. 109, Accounting for Income Taxes, approximately \$12.8 million of the additional deferred tax liability was recognized as a tax benefit in the consolidated statement of earnings for the three months ended June 28, 2002, concurrent with the trade name impairment.

Full Rise Electronics Co. Ltd. (FRE): FRE is based in the Republic of China (Taiwan) and manufactures connector products including single and multiple-port jacks and supplies such products for us under a

Page 7 of 33

### Technitrol, Inc. and Subsidiaries

#### Notes to Unaudited Consolidated Financial Statements, continued

(2) Acquisitions, continued

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. We also have an option to purchase additional shares of common stock in FRE in the future. Also refer to Note 8 "Equity Method Investment".

(3) Restructuring

In the first quarter of 2003, we accrued \$3.9 million for severance and related payments comprising \$1.6 million for the termination of approximately 30 manufacturing and support personnel at AMI Doduco's facility in Germany, \$1.6 million to finalize the shutdown of a redundant facility in Spain acquired from Engelhard-ECAL by a subsidiary of AMI Doduco and \$0.6 million for severance and related payments for 19 manufacturing and 4 support personnel at Pulse, primarily in France and Mexico. The majority of these accruals is expected to be utilized by the end of the second quarter of 2003.

In the first quarter of 2002, we accrued \$1.8 million for severance and related payments, related to the termination of approximately 400 manufacturing personnel and approximately 75 support personnel. An additional accrual of \$0.8 million was provided for asset disposals. These accruals were primarily related to Pulse. The vast majority of these accruals were utilized by the end of the first quarter in 2002.

Our restructuring charges are summarized on a year-to-date basis for 2003 as follows:

	AMI	Pulse	Total
Restructuring provision (in millions):	Doduco	Pulse	Total
-----	-----	-----	-----
Balance accrued at December 27, 2002	\$2.0	\$2.2	\$4.2
Accrued during the three months ended March 28, 2003	3.3	0.6	3.9
Severance and other cash payments	(0.5)	(0.2)	(0.7)
Non-cash asset disposals	(0.1)	(0.0)	(0.1)



Edgar Filing: TECHNITROL INC - Form 10-Q

	----	----	----
Balance accrued at March 28, 2003	\$4.7	\$2.6	\$7.3
	====	====	====

(4) Inventories

Inventories consisted of the following (in thousands):

	March 28, 2003	December 27, 2002
	----	----
Finished goods	\$22,627	\$21,446
Work in process	14,343	12,390
Raw materials and supplies	29,864	26,752
	-----	-----
	\$66,834	\$60,588
	=====	=====

The increase in inventory was primarily related to the Eldor acquisition.

Page 8 of 33

Technitrol, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements, continued

(5) Derivatives and Other Financial Instruments

We utilize derivative financial instruments, primarily forward exchange contracts and currency options, 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 March 28, 2003, we had two foreign exchange forward contracts outstanding to sell forward approximately 76.4 million euros in the aggregate, in order to hedge intercompany loans. The terms of these contracts were approximately 30 days. We had no other financial derivative instruments at March 28, 2003. In addition, management believes that there is no material risk of loss from changes in market rates or prices which are inherent in other financial instruments.

(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 restricted shares outstanding of approximately 163,000 and 319,000 as of March 28, 2003 and March 29, 2002, respectively. For calculating diluted earnings per share, common share equivalents and restricted stock outstanding are added to the weighted average number of common shares outstanding. Common share equivalents result from outstanding options to purchase common stock as calculated using the treasury stock method. Such common share equivalent amounts were approximately 136,000 for the three months ended March 28, 2003. There were 340,000 stock options outstanding for the three months ended March 29, 2002. As the three month period ended March 29, 2002 resulted in a net loss, common share equivalents are anti-dilutive, and therefore excluded from the earnings per share calculation. Earnings per share calculations are as follows (in thousands, except per share amounts):

Edgar Filing: TECHNITROL INC - Form 10-Q

	Quarter Ended	
	March 28, 2003 ----	March 29, 2002 ----
Net earnings (loss)	\$ 2,634	\$ (20,899)
Basic earnings (loss) per share:		
Shares	39,991	33,361
Per share amount, before change in accounting principle	\$ 0.07	\$ (0.15)
Change in accounting principle	--	(0.47)
Per share amount	----- \$ 0.07 =====	----- \$ (0.63) =====
Diluted earnings (loss) per share:		
Shares	40,134	33,680
Per share amount, before change in accounting principle	\$ 0.07	\$ (0.15)
Change in accounting principle	--	(0.47)
Per share amount	----- \$ 0.07 =====	----- \$ (0.63) =====

Page 9 of 33

Technitrol, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements, continued

(7) Business Segment Information

For the quarters ended March 28, 2003 and March 29, 2002 there were immaterial amounts of intersegment revenues eliminated in consolidation. There has been no material change in segment assets from December 27, 2002 to March 28, 2003, except for those related to the acquisition of Eldor by Pulse. In addition, the basis for determining segment financial information has not changed from 2002. Specific segment data are as follows:

	Quarter Ended	
	March 28, 2003 ----	March 29, 2002 ----
Net sales:		
Pulse	\$ 67,880	\$ 45,111
AMI Doduco	54,664	48,309
Total	----- \$ 122,544 =====	----- \$ 93,420 =====
Earnings (loss) before income taxes:		
Pulse	5,556	\$ (6,369)
AMI Doduco	(2,762)	(516)
Operating profit	----- 2,794	----- (6,885)
Other income expense, net	(55)	(657)

Edgar Filing: TECHNITROL INC - Form 10-Q

Earnings (loss) before income taxes and cumulative effect of accounting change	----- \$ 2,739 =====	----- \$ (7,542) =====
--	----------------------------	------------------------------

(8) Equity Method Investment

During the quarter ended September 27, 2002, our minority ownership in FRE increased from approximately 19% to 29%. In accordance with generally accepted accounting principles, we have adjusted presentations in all relevant prior periods to reflect the impact of a change in accounting for our ownership in this investment from the cost basis method to the equity method of accounting as if the 19% investment was accounted for as an equity method investment since the initial investment. All prior period amounts have been adjusted to reflect this recognition of equity earnings as if it occurred at the time of the original investment in April 2001. This investment is reflected in the Other assets caption on the Consolidated Balance Sheets.

(9) 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 subsequent to adoption.

As permitted by the provisions of SFAS 123, we applied Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for our stock option and purchase plans prior to adoption of SFAS in fiscal 2003. Accordingly, no compensation cost was recognized for our stock option and employee purchase plans prior to fiscal 2003.

Page 10 of 33

Technitrol, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements, continued

(9) Accounting for Stock Based Compensation, continued

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, our pro forma net income (loss) and earnings (loss) per basic and diluted share would have been as follows, (amounts are in thousands, except per share amounts):

	Quarter Ended	
	March 28, 2003 ----	March 29, 2002 ----
Net income (loss), as reported	\$ 2,634	\$ (20,899)
Add: Stock-based compensation expense included in reported net income (loss), net of taxes	466	204
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of taxes	(466)	(368)
	-----	-----

## Edgar Filing: TECHNITROL INC - Form 10-Q

Net income (loss) adjusted	\$ 2,634	\$ (21,063)
Basic net income (loss) per share - as reported	\$ 0.07	\$ (0.63)
Basic net income (loss) per share - adjusted	\$ 0.07	\$ (0.63)
Diluted net income (loss) per share - as reported	\$ 0.07	\$ (0.63)
Diluted net income (loss) per share - adjusted	\$ 0.07	\$ (0.63)

At March 28, 2003, we had approximately 340,000 options outstanding, representing less than 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 restricted period, and such expense is included in the results of operations for the period ended March 28, 2003 and March 29, 2002, respectively.

Page 11 of 33

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

#### 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 21 through 26.

#### Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States 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 27, 2002 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 provisions, impairment of goodwill and other intangibles, restructuring expense and acquisition related restructuring costs, 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 Provisions.** Inventory purchases and commitments are based upon future demand forecasts estimated by taking into account actual purchases of our products over the recent past 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. 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 will assess goodwill impairment on an annual basis and between annual tests in certain circumstances. In addition, in response to changes in industry and market conditions, we may strategically realign our resources and consider restructuring, disposing of, or

## Edgar Filing: TECHNITROL INC - Form 10-Q

otherwise exiting businesses, which could result in an impairment of goodwill.

**Restructuring Expense and Acquisition Related Restructuring Costs.** Our recent restructuring activities, which related to our existing and recently acquired businesses, were designed to reduce both our fixed and variable costs, particularly in response to the dramatically reduced demand for our products in the electronics components industry. These costs included the closing of facilities and the termination of employees. Acquisition-related costs are included in the allocation of the cost of the acquired business. Other restructuring costs are expensed during the period in which we incur those costs, and all of the requirements for accrual are met in accordance with the applicable guidance. Restructuring costs are recorded based upon our best estimates at the time of accrual, such as estimated residual asset values. Our actual expenditures for the restructuring activities may differ from the initially recorded costs. If this occurs, we would adjust our initial estimates in future periods. 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. In the case of other restructuring costs, we 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 if our initial estimates were too high.

**Income Taxes.** We have not provided for U.S. federal income and foreign withholding taxes on non-U.S. subsidiaries' undistributed earnings as calculated for income tax purposes, because, in accordance with the provisions of Accounting Principles Board Opinion No. 23, Accounting for Income Taxes - Special Areas ("APB 23") we intend to reinvest these earnings outside the U.S. indefinitely. If we encounter a significant domestic need for liquidity that we cannot fulfill through borrowings, equity offerings, or other internal or external sources, we may experience unfavorable tax consequences as cash invested outside the U.S. is transferred to the U.S. This adverse consequence would occur if the transfer of cash into the U.S. were subject to income tax without sufficient foreign tax credits available to offset the U.S. tax liability.

Page 12 of 33

**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. 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

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

General. We experienced consistent growth in net sales from fiscal 1991 through fiscal 2000. We define net sales as gross sales less returns and allowances. We sometimes refer to net sales as revenue. During this time period, the growth in our consolidated net sales has been due in large part to the growth of Pulse. However, beginning in late 2000, the electronics markets served by Pulse have experienced a severe global contraction. We believe that in 2002, many of the markets Pulse serves began to stabilize in terms of unit sales. However, because of excess capacity, relocation by customers from North America and Europe to the Far East, and emergence of strong competitors in the Far East, the pricing environment has been and remains deflationary for Pulse's products. We believe that a broad-based market rebound in terms of pricing power will be erratic and gradual probably lasting several years. In markets where unit demand has begun to recover, downward pressure on selling prices has kept total revenue from growing proportionately with unit growth.

Demand slowed at AMI Doduco as we entered 2002, mirroring the prevailing economic conditions in North America and Europe. However, during 2002 AMI Doduco experienced increases in design and quoting activities for component subassemblies in Europe. This included 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 and medical equipment. AMI Doduco continued cost reduction actions including work force adjustments and plant consolidations in line with demand around the world

In 2002, we recorded a goodwill impairment charge of \$15.7 million, net of income tax benefit, related to AMI Doduco as a cumulative effect of accounting change. We also recorded a trade name impairment charge of \$32.1 million, less a \$12.8 million income tax benefit, related to Pulse.

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. Over the past 18 months, our gross margin has been positively impacted by the savings from our various restructuring activities and ongoing cost and expense controls. Our gross margin is also significantly affected by capacity utilization, particularly at AMI Doduco. Pulse's markets are characterized by a relatively short-term product life cycle 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 a relatively long-term and mature product line, without significant turnover, compared to Pulse, with less variation in the prices of product sold. Therefore, changes in prices have not historically had a material impact on AMI Doduco revenue. Accordingly, a significant portion of the sales growth and contraction at AMI Doduco is attributable to changes in unit volume.

Acquisitions. Historically, acquisitions have been an important part of our growth strategy. In many cases, our move into new and high-growth extensions of our existing product lines or markets has been facilitated by an

## Edgar Filing: TECHNITROL INC - Form 10-Q

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. Recent examples of these acquisitions include Excelsus, and the consumer electronics business of Eldor Corporation. Excelsus was acquired in August 2001 for approximately \$83.3 million, net of cash acquired. Excelsus was based in Carlsbad, California and was a leading producer of customer-premises digital subscriber line filters and other broadband accessories. Pulse acquired Eldor's consumer electronics business in January 2003 for approximately \$84.5 million. Eldor is headquartered in Orsenigo, Italy with production operations in Istanbul and Izmir, Turkey. Eldor's consumer business is a leading supplier of flyback transformers to the European television industry.

Similarly, AMI Doduco has made a number of acquisitions over the years. In January 2001, AMI Doduco acquired the electrical contact and materials business of Engelhard-CLAL, a manufacturer of electrical contacts, wire and strip contact materials and related products. 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.

Recent Cost Reduction Programs. During 1999 and 2000, the electronic components industries served by Pulse were characterized by unprecedented growth. Beginning in late 2000 and continuing all during 2001, however, the opposite trend was experienced as these industries experienced a severe worldwide contraction and many of our customers canceled orders and decreased their level of business activity as a result of lower demand for their end products. Our manufacturing business model at Pulse has a very high variable cost component due to the labor-intensity of many processes. This allows us to quickly change our capacity based on market demand. Just as we expanded capacity during 1999 and 2000, we reduced capacity during 2001 and 2002. While the electrical contact industry served by AMI Doduco is generally less dependent on volatile technology markets, it too was negatively impacted by general economic trends as reflected in slower non-residential construction spending, and reduced capital spending. 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 reduce its capacity as quickly as Pulse in response to declining market demand, although continuing actions are being taken to align AMI Doduco's capacity with current market demand. In response to the decline in demand and deflationary environment for our products, we implemented a series of cost reduction initiatives and programs, summarized as follows:

In the first quarter of 2003, we accrued \$3.9 million for severance and related payments comprised of \$1.6 million for the termination of approximately 30 manufacturing and support personnel at AMI Doduco's facility in Germany, \$1.6 million to finalize the shutdown of a redundant facility in Spain acquired by a subsidiary of AMI Doduco from Engelhard-ECLAL and \$0.6 million for severance and related payments for 19 manufacturing and 4 support personnel at Pulse, primarily in France and Mexico. The majority of these accruals is expected to be utilized by the end of the second quarter of 2003.

In 2002, we announced the closure of our production facility in the Philippines. The production at this facility was transferred to other Pulse facilities in Asia. We recorded charges of \$3.8 million for this plant closing, comprised of \$1.4 million for severance and related payments and \$2.4 million for asset writedowns. The majority of this accrual was utilized by the end of 2002. We also adopted other restructuring plans during 2002. In this regard, we recorded provisions of \$6.0 million for personnel reductions. Approximately 800

## Edgar Filing: TECHNITROL INC - Form 10-Q

personnel were terminated in 2002 and substantially all of the employee severance and related payments in connection with these actions were completed as of December 27, 2002. An additional provision of \$7.0 million was recorded in 2002 related to asset writedowns. These assets were primarily Asian-based production equipment that became idle in 2002.

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 matched to revenue and unit demand and as we pursue additional growth opportunities. The amounts of additional charges will depend on specific actions taken. The actions taken over the past two years such as plant closures, asset 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

Page 14 of 33

terminated employees, both those directly related to manufacturing and those providing selling, general and administrative services. The eliminated costs also include depreciation savings from disposed equipment and the relocation of capacity to factories in lower cost countries, primarily the PRC. If incoming orders increase substantially, additional hiring may be necessary to expand capacity. However, we do not anticipate requiring additional capacity in the foreseeable future.

International Operations. An increasing percentage of our sales in recent years has been outside of the United States. At December 27, 2002, we had operations in 9 countries and we have significant net sales in currencies other than the U.S. dollar. For the year ended December 27, 2002, 68.7% of our net sales were outside of the U.S. For the year ended December 28, 2001, 64.9% of our net sales were to customers outside of the U.S. Changing exchange rates often impact our financial results and the analysis of our period-over-period results. This is particularly true of movements in the exchange rate between the U.S. dollar and the euro. AMI Doduco's European sales are denominated primarily in euros. A portion of Pulse's European sales are also denominated in euros. However, the proportion at Pulse is less than it is at AMI Doduco, although this is expected to change as Eldor sells to its customers primarily in euros. As a result of this and other factors, prior to the acquisition of Eldor, Pulse used the U.S. dollar as its functional currency in Europe while AMI Doduco uses the euro. For the acquired Eldor operations, Pulse uses the euro as its functional currency. The use of different functional currencies creates different financial effects. AMI Doduco's euro-denominated sales and earnings may result in higher or lower dollar sales 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 Eldor 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. At Pulse, we may incur foreign currency gains or losses as euro-denominated transactions are remeasured to U.S. dollars for financial reporting purposes. If an increasing percentage of our sales are denominated in non-U.S. currencies, it could increase our exposure to currency fluctuations. The impact of exchange rate differences on AMI Doduco's European sales will be partially offset by the impact on our expenses and bank borrowings in Europe, all of which are also denominated in euros. Despite Pulse's significant presence in Asia, the vast majority of our revenues from customers in Asia are denominated in U.S. dollars. As a consequence, Pulse has less exposure to financial results in U.S. consolidation than AMI Doduco's sales and profit fluctuations caused by currency fluctuations.

In order to reduce our exposure resulting from currency fluctuations, we may purchase currency exchange forward contracts and/or currency options. These



## Edgar Filing: TECHNITROL INC - Form 10-Q

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 from the date of the contract to a third party for a fee. As of March 28, 2003, we had two foreign currency forward contracts outstanding to sell forward approximately 76.4 million of euros in order to hedge intercompany loans. 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.

Precious Metals. 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 been typically below the costs to borrow funds to purchase the metals and these arrangements eliminate the fluctuations in the market price of owned precious metal. AMI Doduco's terms of sale generally allow us to charge customers for the market value of silver on the day after we deliver the silver bearing product 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 increases in the price of the consigned material.

Income Taxes. Our effective income tax rate is affected by the proportion of our income earned in high-tax jurisdictions such as Germany and the income earned in low-tax jurisdictions, particularly in Turkey and Asia. This mix of income can vary significantly from one period to another. We have benefited over recent years from favorable offshore tax treatments. However, we may not be able to realize similar benefits in the future. Developing countries and, in particular, the People's Republic of China, may change their tax policies at any time.

Page 15 of 33

We have not provided for U.S. federal income and foreign withholding taxes on approximately \$307.6 million of our non-U.S. subsidiaries' undistributed earnings (as calculated for income tax purposes) as of December 27, 2002, as per Accounting Principles Board Opinion No. 23, Accounting for Income Taxes - Special Areas. 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. Unrecognized deferred taxes on these undistributed earnings are estimated to be approximately \$93.7 million. Where excess cash has accumulated in our non-U.S. subsidiaries and it is advantageous for tax reasons, subsidiary earnings may be remitted.

Page 16 of 33

### Results of Operations

Three months ended March 28, 2003 compared to the three months ended March 29, 2002

Net Sales. Net sales for the three months ended March 28, 2003 increased \$29.1 million, or 31.2%, to \$122.5 million from \$93.4 million in the three

## Edgar Filing: TECHNITROL INC - Form 10-Q

months ended March 29, 2002. Our sales increase from the comparable period last year was attributable primarily to the increases from the Eldor acquisition, offset by continuing effects of the global downturn in markets served by Pulse, and to a lesser extent, AMI Doduco, that began late in 2000. Factors contributing to the reduction in revenues included declining capital expenditures by end-users, shortened lead times and consignment-type arrangements making large inventory positions unnecessary and deflationary pricing pressures, particularly in the electronics supply chain.

Pulse's net sales increased \$22.8 million, or 50.5%, to \$67.9 million for the three months ended March 28, 2003 from \$45.1 million in the three months ended March 29, 2002. Some increase was experienced in Pulse's networking, consumer telecommunications and power conversion markets on a worldwide basis. However, most of the increase is attributable to sales derived from our acquisition of Eldor since the date of acquisition in January 2003.

AMI Doduco's net sales increased \$6.4 million, or 13.2%, to \$54.7 million for the three months ended March 28, 2003 from \$48.3 million in the three months ended March 29, 2002. Sales in the 2003 period reflect weak North American and European markets more than offset by an increase in the average euro-to-U.S. dollar exchange rate. Weak net sales resulted from lower manufacturing activity primarily related to weak demand in the commercial and industrial machinery, telecommunications and appliance end markets. On the other hand, demand for automotive and high voltage components, particularly in Europe, remained strong.

Cost of Sales. Our cost of sales increased \$18.0 million, or 24.2%, to \$92.1 million for the three months ended March 28, 2003 from \$74.2 million for the three months ended March 29, 2002. Our consolidated gross margin for the three months ended March 28, 2003 was 24.8% compared to 20.6% for the three months ended March 29, 2002. Our consolidated gross margin in 2003 was positively affected by:

- o the gross margin on Eldor sales, which is higher than the average gross margin on AMI Doduco sales and sales of some of Pulse's legacy products,
- o a mix of net sales weighted more heavily by Pulse on a relative basis, as Pulse's gross profit as a percentage of sales is typically higher than that of AMI Doduco, and
- o better capacity utilization at Pulse in 2003 than in 2002.

Selling, General and Administrative Expenses. Total selling, general and administrative expenses for the three months ended March 28, 2003 increased \$0.2 million, or 1%, to \$23.7 million, or 19.4% of net sales, from \$23.5 million, or 25.1% net of sales for the three months ended March 29, 2002. Increased spending as a result of the Eldor acquisition was more than offset by restructuring actions that we took over the last year to reduce costs and tighten spending controls.

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 March 28, 2003 and March 29, 2002 respectively, RD&E by segment was as follows (dollars in thousands):

	2003 ----	2002 ----
Pulse	\$3,357	\$3,837
Percentage of segment sales	4.9%	8.5%

## Edgar Filing: TECHNITROL INC - Form 10-Q

AMI Doduco	1,049	\$ 989
Percentage of segment sales	1.9%	2.0%

Although some consolidation of RD&E, particularly design action, has occurred through restructuring activities at Pulse, we have minimized spending cuts in the RD&E area as we believe that future sales in the

Page 17 of 33

electronic components markets will be driven by next-generation products. Design and development activities with our OEM customers continued at an aggressive pace during 2002 and into 2003. The change in RD&E as a percentage of sales at Pulse relates to the effect of the acquisition of Eldor.

Interest. Net interest expense was \$0.3 million for the three months ended March 28, 2003 compared to net interest expense of \$0.2 million for the three months ended March 29, 2002. Although the balance of invested cash increased in 2003 over the comparable period in 2002 by \$21.2 million, a lower interest income yield resulted in higher net interest expense. Recurring components of interest expense (silver leasing fees, interest on bank debt and bank commitment fees) approximated those of 2002.

Our credit facility, which we entered into on June 20, 2001, has variable interest rates. Accordingly, interest expense may increase if the rates associated with, or the amounts borrowed under, our credit facilities move higher during subsequent quarters. At March 28, 2003, we had no borrowings under this facility. We may use interest rate swaps or other financial derivatives in order to manage the risk associated with changes in market interest rates; however, we have not used any such instruments to date.

Income Taxes. The effective income tax rate for the three months ended March 28, 2003 was 3.8% compared to 31.6%, before a change in accounting principle, in the form of a benefit for the three months ended March 29, 2002. The lower tax rate in 2003 resulted from a higher proportion of income being attributable to low-tax jurisdictions, particularly China and Izmir, Turkey, combined with significant expenses of AMI Doduco in high-tax jurisdictions.

### Liquidity and Capital Resources

Working capital as of March 28, 2003 was \$172.6 million compared to \$235.6 million as of December 27, 2002. This decrease was primarily due to the cash purchase of the Eldor business in January 2003, which reduced invested cash as of March 28, 2003. Cash and cash equivalents, which is included in working capital, decreased from \$205.1 million as of December 27, 2002 to \$131.2 million as of March 28, 2003.

Net cash provided by operating activities was \$11.7 million for the three months ended March 28, 2003 and \$8.3 million in the comparable period of 2002, an increase of \$3.4 million. This increase is primarily attributable to the higher net earnings increase during the three months ended March 28, 2003, partially offset by increased working capital requirements related to increased unit volumes.

Capital expenditures were \$1.7 million during the three months ended March 28, 2003 and \$1.4 million in the comparable period of 2002. We make capital expenditures to expand production capacity and to improve our operating efficiency. We plan to continue making such expenditures in the future as and when necessary.

We used \$81.9 million cash for acquisitions in the three months ended

## Edgar Filing: TECHNITROL INC - Form 10-Q

March 28, 2003 and none for the comparable period in 2002. The 2003 spending was comprised of the acquisition of Eldor. We may acquire other businesses or product lines to expand our breadth and scope of operations. We may also exercise our option to expand our investment in FRE during 2003.

We paid dividends of \$1.1 million in the three months ended March 29, 2002. After paying a dividend on January 25, 2002 to shareholders of record on January 4, 2002, we no longer intend to pay cash dividends on our common stock. We currently intend to retain future earnings to finance the growth of our business.

As of March 28, 2003, we have no outstanding borrowings under our existing three-year revolving credit agreement. We entered into this credit agreement on June 20, 2001 providing for \$225.0 million of credit capacity. Following the conclusion of our follow-on equity offering in April 2002, we voluntarily reduced the size of this credit facility to a maximum of \$175.0 million in order to reduce commitment fees and to size the facility to estimated future needs given cash on hand, and again in March 2003 to a maximum of \$125.0 million. We also amended the minimum net worth threshold from \$275.0 million to \$259.3 million as a result of a cumulative effect of an accounting change, recorded in the three months ended March 29, 2002. As of March 28, 2003 the amended facility consists of:

Page 18 of 33

- o an aggregate U.S. dollar-based revolving line of credit in the principal amount of up to \$125.0 million, including individual sub-limits of:
  - a British pounds sterling-based or euro-based revolving line of credit in the principal amount of up to the U.S. dollar equivalent of \$75.0 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 \$10.0 million.

The amounts outstanding under the credit facility in total may not exceed \$125.0 million. Outstanding borrowings are limited to a maximum of three times our earnings before interest, taxes, depreciation and amortization, (EBITDA) on a rolling twelve-month basis as of the most recent quarter-end. We have no amounts outstanding under the facility as of March 28, 2003.

The credit facility also contains covenants requiring maintenance of minimum net worth, 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.

We pay a facility fee, irrespective of whether there are outstanding borrowings or not, which ranges from 0.275% to 0.450% of the total commitment, depending on our EBITDA. 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. It is LIBOR or prime rate for U.S. dollars, Euro-LIBOR for euros, and a rate approximating sterling LIBOR for British pounds. The credit margin spread is the same for each currency and is 0.850% to 1.425% depending on our debt to EBITDA ratio. Each of our domestic subsidiaries with net worth equal to or greater than \$5 million has agreed to guarantee all obligations incurred under the credit facility.

We also have obligations outstanding under two unsecured term loan

## Edgar Filing: TECHNITROL INC - Form 10-Q

agreements. The first is with Baden-Württembergische Bank for borrowing under two loans, each in the amount of approximately 5.1 million euros, both due in June 2003. The second is with Sparkasse Pforzheim, for the borrowing of approximately 5.1 million euros, and is due in August 2009.

We had three standby letters of credit outstanding at March 28, 2003 in the aggregate amount of \$0.8 million securing transactions entered into in the ordinary course of business.

We had commercial commitments outstanding at March 28, 2003 of approximately \$41.1 million due under precious metal consignment-type leases.

We believe that the combination of cash on hand, cash generated by operations and, if necessary, additional 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 borrowings, or additional equity offerings for acquisitions of suitable businesses or assets.

With the exception of approximately \$10.0 million of retained earnings as of December 27, 2002 in the PRC that are restricted in accordance with Section 58 of the PRC Foreign Investment Enterprises Law, substantially all retained earnings are free from legal or contractual restrictions. The amount restricted in accordance with the PRC Foreign Investment Enterprise Law is for employee welfare programs and 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 some 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 rates significantly lower than the U.S. statutory rate. Additionally, we have not accrued U.S. income taxes on foreign earnings indefinitely invested abroad. We have also been granted special tax incentives in other countries such as the PRC. This favorable situation could change if these countries

Page 19 of 33

were to increase rates or revoke the special tax incentives, or if we were to discontinue manufacturing operations in these countries. This could have a material unfavorable impact on our net income and cash position.

### New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46 Consolidation of Variable Interest Entities ("FIN 46"). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. We were required to adopt the provisions of FIN 46 for variable interest entities created after January 31, 2003 whereas it is otherwise effective June 15, 2003 for variable interest entities acquired before February 1, 2003. Adoption of this interpretation is not expected to have

## Edgar Filing: TECHNITROL INC - Form 10-Q

a material effect on our revenue, operating results, financial position, or liquidity.

In December 2002, the FASB issued Statement No. 148, Accounting for Stock-Based Compensation, Transition and Disclosure, an amendment to Statement No. 123 ("SFAS 148"). SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of Statement No. 123, Accounting for Stock-Based Compensation ("SFAS 123"), by requiring prominent disclosures in both annual and interim financial statements, about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002. We adopted the provisions of SFAS 123, as amended by SFAS 148, as of the beginning of our fiscal year in 2003. We used the prospective method of adoption, which recognizes expense for all employee awards granted, modified or settled after the beginning of the fiscal year in which the recognition provisions are first applied. Adoption of this standard did not have a material effect on our revenue, operating results financial position or liquidity.

In November 2002, the FASB issued FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others ("FIN 45"). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. FIN 45 also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. We were required to adopt the provisions of FIN 45 on a prospective basis to guarantees issued or modified after December 31, 2002. We have not issued any guarantees for performance of third parties since December 31, 2002. Accordingly, adoption of this interpretation did not have a material effect on our revenue, operating results, financial position or liquidity.

In June 2002, the FASB issued Statement No. 146 Accounting for Costs Associated with Exit or Disposal Activities ("SFAS 146"). SFAS 146 superceded the Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Termination Benefits and Other Costs to Exit an Activity, ("EITF 94-3") The principal difference between SFAS 146 and EITF 94-3 is that SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. As such, under SFAS 146, an entity's commitment to a plan by itself, does not create a present obligation meeting the definition of a liability. SFAS 146 also established fair value as the objective for initial measurement of the liability. We were required to adopt the provisions of SFAS for all exit or disposal activities initiated after December 15, 2002.

Page 20 of 33

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

## Edgar Filing: TECHNITROL INC - Form 10-Q

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, including the recent contraction, 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. Beginning in late 2000 and continuing into 2002, these markets, particularly the electronics market, have experienced a severe worldwide contraction. This contraction has resulted in a decrease in demand for our products, as our customers have:

- o canceled many existing orders;
- o introduced fewer new products; and
- o worked to decrease their inventory levels.

The decrease in demand for our products has had a significant adverse effect on our operating results and profitability. We cannot predict how long a contraction will last nor the strength of any recovery. Accordingly, we may continue to 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, the recent economic contraction has significantly increased 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.

An inability to adequately respond to changes in technology 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

## Edgar Filing: TECHNITROL INC - Form 10-Q

timely and cost effective basis. Our engineering and development teams place a priority on working closely with our customers to design innovative products and

Page 21 of 33

improve our manufacturing processes. Our inability to react to changes in technology quickly and efficiently may decrease our sales and 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, as was the case during 2001. 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.

In recent years we have completed several acquisitions. 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 become impaired, resulting in our recognition of a loss. In 2002, we recorded a goodwill impairment charge of \$15.7 million related to AMI Doduco and a trade name impairment charge of \$32.1 million related to Pulse. The degree of success of any of our acquisitions depends on our ability to:

- o successfully integrate or consolidate acquired operations into our existing businesses;
- o identify and take advantage of cost reduction opportunities; and
- o 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:

- o cause a disruption in our ongoing business;
- o distract our managers;
- o unduly burden our other resources; and
- o result in an inability to maintain our historical standards, procedures and controls.

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



## Edgar Filing: TECHNITROL INC - Form 10-Q

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 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.

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.

Page 22 of 33

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:

- o do not submit additional purchase orders;
- o do not enter into new agreements with us; or
- o 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, in the past two years we have significantly reduced our workforce and facilities in response to a dramatic decrease 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 suffer.

Uncertainty in demand for our products may result in increased costs of production and an inability to service our customers.

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:

## Edgar Filing: TECHNITROL INC - Form 10-Q

- o production delays;
- o increased costs of production;
- o an inability to make timely deliveries; and
- o a decrease in profits.

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:

- o precious metals such as silver;
- o base metals such as copper and brass; and
- o 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

Page 23 of 33

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:

- o we are unable to enter into new leasing or consignment arrangements with similarly favorable terms after our existing agreements terminate, or
- o 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 will increase if interest rates or the price of the consigned material increase.

## Edgar Filing: TECHNITROL INC - Form 10-Q

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:

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

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, a process that we have experienced in the recent contraction. 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. 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 some of our products in foreign locations, including France, Germany, Hungary, Italy, Mexico, the Peoples' Republic of China, or PRC, Spain and Turkey. In addition, approximately 68.7% of our revenues for the year ended December 27, 2002 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:

- o economic and political instability;

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

In particular, Pulse has substantially all of its manufacturing operations in the PRC. Our presence in the PRC has enabled Pulse to maintain lower manufacturing costs and to flexibly adjust our work force to demand levels for our products. Although the PRC has a large and growing economy, the potential economic, political, legal and labor developments entail uncertainties and risks. 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 business will suffer. In early 2003, we acquired the consumer business of Eldor Corporation. While this business is headquartered in Italy, all of its manufacturing operations are in Turkey. These operations in Turkey are subject to unique risks, including those associated with continuing Middle East geo-political conflicts.

We have benefited over recent years from favorable tax treatment as a result of our international operations. We operate in foreign 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 other countries such as the PRC. 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. 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. If we encounter a significant domestic need for liquidity that we cannot fulfill through borrowings, equity offerings, or other internal or external sources, we may experience unfavorable tax and earnings consequences as this cash is transferred

## Edgar Filing: TECHNITROL INC - Form 10-Q

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 \$10.0 million of retained earnings as of December 27, 2002 in 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 international cash transfers may delay our internal cash movements from time to time.

Page 25 of 33

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 business could be adversely affected.

Environmental liability and compliance obligations may affect our operations and results.

Our manufacturing operations are subject to a variety of environmental laws and regulations governing:

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

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

## Edgar Filing: TECHNITROL INC - Form 10-Q

Management. The order requires us to investigate and take corrective actions. Monitoring data is being collected to confirm and implement the corrective measures. We anticipate making additional environmental expenditures in future years to continue our environmental studies, analysis and remediation activities. 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.

Public Health Epidemics such as Severe Acute Respiratory Syndrome May Disrupt Operations in Affected Regions and Affect Operating Results.

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

### 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 27, 2002.

### Item 4: Controls and Procedures

Within the 90 day period prior to the filing date of this report, we carried out an evaluation, under the supervision and with the participation of management, including the Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant

Page 26 of 33

to Exchange Act Rule 13a-14. Based upon that evaluation, and subject to the limitations of the immediately following paragraph, the Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures are effective in alerting them, on a timely basis, to material information required to be included in our periodic SEC filings.

Our review of our internal controls was made within the context of the relevant professional auditing standards defining "internal controls," "reportable conditions," and "material weaknesses." "Internal controls" are processes designed to provide reasonable assurance that our transactions are properly authorized, our assets are safeguarded against unauthorized or improper use, and our transactions are properly recorded and reported, all to permit the preparation of our condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States. "Significant deficiencies" are referred to as "reportable conditions," or control issues that could have a significant adverse effect on our ability to properly authorize transactions, safeguard our assets, or record, process, summarize or report financial data in the condensed consolidated financial statements. A "material weakness" is a particularly serious reportable condition where the internal control does not reduce to a relatively low level the risk that misstatements caused by error or fraud may occur in amounts that would be material in relation to the condensed consolidated financial statements and not be detected within a timely period by employees in the normal course of performing their assigned functions. As part of our internal controls procedures, we also address other,

## Edgar Filing: TECHNITROL INC - Form 10-Q

less significant control matters that we identify, and we determine what revision or improvement to make, if any, in accordance with our on-going procedures. However, the design of any system of controls is based in part upon certain assumptions about the likelihood of future events and there is no certainty that any design will succeed in achieving its stated goal under all potential future considerations, regardless of how remote. In addition, our evaluation of the impact on our controls and procedures of our recent acquisition of the Eldor consumer business is still in process.

There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date we carried out this evaluation, nor were there any significant deficiencies or material weaknesses in our internal controls. As a result, no corrective actions were required or undertaken.

Page 27 of 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	None
Item 5	Other Information	None
Item 6	Exhibits and Reports on Form 8-K	

(a) Exhibits

The Exhibit Index is on page 29

(b) Reports On Form 8-K None

We filed a current report on Form 8-K dated January 10, 2003. This report pertains to our acquisition of Eldor High Tech Wire Wound Components S.r.L., pursuant to the Share Purchase Agreement entered into on January 9, 2003.

Page 28 of 33

### Exhibit Index

- 2.1 Agreement and Plan of Merger, dated as of May 23, 2001, as amended as of July 6, 2001, by and among Pulse Engineering, Inc., Pulse Acquisition Corporation, Excelsus Technologies, Inc., and certain principal shareholders of Excelsus Technologies, Inc. that are signatories thereto (incorporated by reference to Exhibit 2 to our Form 8-K dated August 21, 2001).
- 2.2 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).

## Edgar Filing: TECHNITROL INC - Form 10-Q

- 3.1 Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 1 to our Registration Statement on Form 8-A/A dated April 10, 1998).
- 3.2 Amendment to Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3(i)(a) to our Form 10-Q for the quarter ended June 29, 2001).
- 3.3 By-laws (incorporated by reference to Exhibit 3.3 to our Form 10-K for the year ended December 28, 2001).
- 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 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).
- 10.2 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 (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form S-8 dated June 1, 1998, File Number 333-55751).
- 10.5 Revolving Credit Agreement, by and among Technitrol, Inc. and certain of its subsidiaries, Bank of America, N.A. as Agent and Lender, and certain other Lenders that are signatories thereto, dated as of June 20, 2001 (incorporated by reference to Exhibit 10.(a) to the Company's Form 10-Q for the quarter ended June 29, 2001).
- 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).



Edgar Filing: TECHNITROL INC - Form 10-Q

- 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, 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).
- 10.11 Form of Indemnity Agreement (incorporated by reference to Exhibit 10.11 to our Form 10-K for the year ended December 28, 2001).
- 10.12 Amendment 1 to Revolving Credit Agreement, by and among Technitrol, Inc. and certain of its subsidiaries, Bank of America, N.A. as Agent and Lender, and certain other Lenders that are signatories thereto, dated as of May 15, 2002 (incorporated by reference to Exhibit 10.12 to our Form 10-K for the year ended December 27, 2002).
- 10.13 Amendment 2 to Revolving Credit Agreement, by and among Technitrol, Inc. and certain of its subsidiaries, Bank of America, N.A. as Agent and Lender, and certain other Lenders that are signatories thereto, dated as of December 20, 2002 (incorporated by reference to Exhibit 10.13 to our Form 10-K for the year ended December 27, 2002).
- 10.14 Letter modification to Revolving Credit Agreement, by and among Technitrol, Inc. and certain of its subsidiaries, Bank of America, N.A. as Agent and Lender, and certain other Lenders that are signatories thereto, dated as of March 6, 2003
- 99.1 Certification of Principal Executive Officer
- 99.2 Certification of Principal Financial Officer

Page 30 of 33

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)

May 1, 2003

-----  
(Date)

/s/ Drew A. Moyer

-----  
Drew A. Moyer  
Vice President, Corporate Controller and Secretary  
(duly authorized officer, principal financial and

## Edgar Filing: TECHNITROL INC - Form 10-Q

accounting officer)

Page 31 of 33

### CERTIFICATION

I, James M. Papada, III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Technitrol;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of Technitrol as of, and for the periods presented in this quarterly report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Edgar Filing: TECHNITROL INC - Form 10-Q

Date: May 1, 2003  
-----

/s/ James M. Papada, III  
-----  
James M. Papada, III  
Chairman, President and CEO

Page 32 of 33

CERTIFICATION

I, Drew A. Moyer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Technitrol;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of Technitrol as of, and for the periods presented in this quarterly report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in

Edgar Filing: TECHNITROL INC - Form 10-Q

other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 1, 2003  
-----

/s/ Drew A. Moyer  
-----

Drew A. Moyer  
Vice President, Corporate Controller and Secretary

Page 33 of 33