

TECHNITROL INC
Form 10-K
February 24, 2009

UNITED STATES
SECURITIES & EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 26, 2008

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File No. 1-5375

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

PENNSYLVANIA
(State of Incorporation)

23-1292472
(IRS Employer Identification Number)

1210 Northbrook Drive, Suite 470, Trevose, Pennsylvania
(Address of principal executive offices)
Registrant's telephone number, including area code:

19053
(Zip Code)
215-355-2900

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

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

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

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

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

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

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

The aggregate market value of voting stock held by non-affiliates as of June 27, 2008 is \$692,238,000 computed by reference to the closing price on the New York Stock Exchange on such date.

<u>Title of each class</u>	<u>Number of shares outstanding February 23, 2009</u>
Common stock par value \$0.125 per share	40,998,413

DOCUMENTS INCORPORATED BY REFERENCE

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

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Part I

Item 1 Business
General

Technitrol, Inc. is a global producer of precision-engineered electronic components and electrical contact products and materials. We sometimes refer to Technitrol, Inc. as “Technitrol”, “we” or “our.” 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 annual revenues in our primary markets and our share of those markets relative to our competitors. Our electronic components are used in virtually all types of electronic products to manage and regulate electronic signals and power. Our electrical contact products and materials are used in any device in which the continuation or interruption of electrical currents is necessary. In each case, our products are critical to the functioning of the end product.

Our world-class design and manufacturing capabilities, together with the breadth of our product offerings, provide us with a competitive advantage that enables us to anticipate and deliver highly-customized solutions for our customers’ product needs. In addition, our global presence enables us to participate in many relevant product and geographic markets and provides us with proximity to our global customer base. This allows us to better understand and more easily satisfy our customers’ unique design and product requirements.

We currently operate our business in two segments:

- our Electronic Components Group, which we refer to as Electronics and is known as Pulse in its markets, and
- our Electrical Contact Products Group, which we refer to as Electrical and is known as AMI Doduco in its markets.

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

Electronics

Electronics designs and manufactures a wide variety of highly-customized electronic components and modules. Many of these components and modules capture wireless communication signals, convert sound into communication signals and communication signals into sound, filter out radio frequency interference, adjust and ensure proper current and voltage and activate certain automotive functions. These products are often referred to as antennas, speakers, receivers, microphones, switches, chokes, inductors, filters, transformers and coils. Electronics sells its products to multinational original equipment manufacturers, original design manufacturers, contract manufacturers and distributors.

Our Electronics business consists of four primary groups. The wireless group includes primarily the antenna products of the LK Products Oy (“LK”) acquisition in 2005, the non-cellular wireless and automotive antenna products of the Larsen Group (“Larsen”) acquisition in 2006 and the speakers and receivers of the Sonion A/S (“Sonion”) acquisition in 2008. The medical technology group includes the electromechanical components and transducers of the Sonion acquisition. The power group includes the power and automotive products of the ERA (“ERA”) acquisition in 2006, our military and aerospace products and other power magnetics products. The network division includes our connectors, filters, chokes and other magnetic components.

Electronics’ products are used in a broad array of industries, including:

- wireless terminals, such as handsets and personal digital assistants (“PDAs”);
- hearing instruments and other medical devices;
- consumer electronics;
- enterprise networking;

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- professional and consumer audio;
- military/aerospace;
- power conversion;
- telecommunications; and
- automotive.

Representative end products that use Electronics' components and modules include:

- antenna systems for non-cellular wireless and automotive systems;
- terminal devices, primarily handsets and PDAs;
- audio receivers and amplifiers, primarily hearing aids and headsets;
- broadband access equipment including cable modems and digital subscriber line, or DSL, devices for telephone central office and home use;
- ethernet switches;
- military/aerospace navigation and weapon guidance systems;
- power supplies;
- routers;
- televisions and DVD players;
- laptop computers;
- video game consoles;
- voice over internet equipment; and
- automotive drivetrains.

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

Electronics generated \$723.3 million, or 65.9% our revenues, for the year ended December 26, 2008, and \$671.6 million, or 65.4% of our revenues, for the year ended December 28, 2007. Note 20 to the Consolidated Financial Statements contains additional segment information.

Electrical

Electrical is the only global manufacturer which produces a full array of precious metal electrical contact products that range from materials used in the fabrication of electrical contacts to completed contact subassemblies. Contact products complete or interrupt electrical circuits in virtually every electrical device. Electrical provides its customers with a broad array of highly engineered products, such as precision stamped contact parts and precious metal coatings, and tools designed to meet unique customer needs. Electrical sells its products primarily to multinational original equipment and design manufacturers.

Electrical's products are used in a broad array of industries, including:

- household appliances;
- automotive;
- residential and non-residential construction circuitry;

- commercial and industrial controls;
- electric power distribution;
- telecommunications; and
- consumer electronics.

Representative end products that use Electrical's products include:

- electrical circuit breakers;
- motor and temperature control devices;
- power substations;
- sensors;
- switches and relays;
- telephone and computer equipment;
- wiring devices; and
- products with functional and decorative coatings.

Electrical's products generally have long life cycles and significant technological changes are generally infrequent. We believe that technological developments in some of the industries served by Electrical, particularly in the electric power, appliance and automotive industries, along with opportunities arising from customer outsourcing and consolidation of the electrical contact industry, present growth opportunities for Electrical.

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Electrical generated \$373.9 million, or 34.1% of our revenues, for the year ended December 26, 2008, and \$355.0 million, or 34.6% of our revenues, for the year December 28, 2007. Note 20 to the Consolidated Financial Statements contains additional segment information.

On February 23, 2009, we announced our intentions to explore monetization alternatives with respect to our Electrical segment. A disposition, if consummated, may be in whole or in part. This process is in an early exploratory phase as there is no requirement or immediate need to commence or complete any transaction or series of transactions. While this process is pending, Electrical will operate normally in all aspects.

Products

Electronics designs and manufactures a wide array of electronic components and modules. These products are highly-customized to address our customers' needs. The following table contains a list of some of Electronics' key products:

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

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emissions control

Electrical designs and manufactures a wide array of contact materials, parts and completed contact subassemblies. The following table contains a list of some of Electrical's key products:

Primary Products	Function	Application
Contact prematerial such as wire and metal tapes	Raw materials	Integrated into our customers' electrical contact parts
Electrical contact parts, either discrete or affixed to precision stamped parts	Complete or interrupt an electrical circuit	Electrical switches, relays, circuit breakers and motor controls
Component subassemblies	Integrate contact with precision stampings and plastic housings	Sensors and control devices

Sales, Marketing and Distribution

Electronics and Electrical sell products predominantly through separate worldwide direct sales forces. Given the highly technical nature of our customers' needs, our direct salespeople typically team up with members of our engineering staff to discuss a sale with a customer's purchasing and engineering personnel. During the sales process, there is close interaction between our engineers and those in our customers' organizations. This interaction extends throughout a product's life cycle, engendering strong customer relationships. As of December 26, 2008, Electronics had approximately 76 salespeople and 13 sales offices worldwide and Electrical had approximately 36 salespeople and 7 sales offices worldwide.

We provide technical and sales support for our direct and indirect sales force. We believe that our coordinated sales effort provides a high level of market penetration and efficient coverage of our customers on a cost-effective basis.

Customers and End Markets

We sell our products and services to original equipment manufacturers and original design manufacturers, which design, build and market end-user products. Electronics also sells its products to contract equipment manufacturers. We sometimes refer to original equipment manufacturers as "OEMs", original design manufacturers as "ODMs" and contract equipment manufacturers as "CEMs." ODMs contract with OEMs to design the OEM's products. CEMs contract with OEMs to manufacture the OEM's products. Many OEMs use CEMs primarily or exclusively to build their products. Independent distributors sell components and materials to both OEMs and CEMs. Nonetheless, OEMs generally control the decision as to which component designs best meet their needs. Accordingly, we consider OEMs to be customers for our products even if they design products through ODMs or purchase our products through CEMs or independent distributors. In order to maximize our sales opportunities, our engineering and sales teams maintain close relationships with OEMs, ODMs, CEMs and distributors.

For the years ended December 26, 2008, December 28, 2007 and December 29, 2006, a group of affiliated customers, when aggregated, accounted for more than 10% of our consolidated net sales in each year. These customers were a major cell phone manufacturer and a CEM for the cell phone manufacturer. For the years ended December 26, 2008 and December 28, 2007, the major cell phone manufacturer solely accounted for more than 10% of our consolidated net sales. Sales to our ten largest customers accounted for 46.2% of net sales for the year ended December 26, 2008, 47.5% of net sales for the year ended December 28, 2007 and 38.0% of net sales for the year ended December 29, 2006.

An increasing percentage of our sales in recent years has been outside of the United States. For the years ended December 26, 2008, December 28, 2007 and December 29, 2006, 88.2%, 88.1% and 86.9% of our net sales were outside of the United States, respectively. Sales made by Electronics to its customers outside of the United States accounted for 89.6% of its net sales for the year ended December 26, 2008, 89.4% of its net sales for the year ended December 28, 2007 and 89.6% for the year ended December 29, 2006. Sales made by Electrical to its customers outside the United States accounted for 85.6% of its net sales for the year ended December 26, 2008, 85.8% of its net sales for the year ended December 28, 2007 and 81.8% of its net sales for the year ended December 29, 2006.

Manufacturing

We have developed our manufacturing processes in ways intended to maximize our profitability without sacrificing quality. The manufacturing of Electronics' magnetic components, connectors, chokes and filters tends to be labor intensive and highly variable. This model enables us to increase and decrease production rapidly to contain costs during slower periods, reflecting the relatively greater degree of cyclicity in these product lines. Conversely, the manufacturing of Electronics' antennas, speakers, receivers, power, automotive and military/aerospace products are highly mechanized or, in some cases, automated, which causes costs and profitability related to these products to be sensitive to the volume of production. Electrical's products tend to have longer life cycles that require extended development periods. As a result, we have automated or mechanized many functions at Electrical's facilities and vertically integrated our products in an attempt to utilize all of our manufacturing capabilities to create products that are higher value added and at a lower cost.

Generally, our engineers design products to meet our customers' product needs and then we mass-produce the products once a contract is awarded by, or orders are received from, our customer. To a much lesser extent, we also service customers that design their own components and outsource production of these components to us. In such case, we build the components to the customer's design.

The absolute productive capacity of our facilities is difficult to quantify. In any facility, maximum capacity and utilization vary periodically depending on the segment's manufacturing strategies, the product being manufactured, current market conditions and customer demand. Therefore, we cannot accurately estimate or forecast our utilization of overall production capacity at a given time.

Research, Development and Engineering

Our research, development and engineering efforts are focused on the design and development of innovative products in collaboration with our customers. We work closely with OEMs and ODMs to identify their design and engineering requirements. We maintain strategically located design centers throughout the world where proximity to customers enables us to better understand and more readily satisfy their design and engineering needs. Our design process is a disciplined and orderly process that uses a product lifecycle management system to track the level of design activity enabling us to manage and improve how our engineers design products. We typically own the customized designs used to make products. In limited circumstances, we generate revenue as a result of providing research, development and engineering services to our customers. This revenue is not material to our financial statements.

Electronics' research, development and engineering expenditures were \$46.5 million for the year ended December 26, 2008, \$35.1 million for the year ended December 28, 2007 and \$35.0 million for the year ended December 29, 2006. The increase at Electronics over the past three years is primarily due to the inclusion of research, development and engineering expenditures of acquired companies since the date of acquisition. Excluding Sonion, research, development and engineering expenditures for the year ended December 26, 2008 approximated those in the 2007 period. Electrical's research, development and engineering expenditures were \$5.9 million for the year ended December 26, 2008, \$5.3 million for the year ended December 28, 2007 and \$4.6 million for the year ended December 29, 2006. Over the past three years, Electrical has invested in research, development and engineering in order to improve our technological expertise and focus on product development. We intend to continue investing in personnel and new technologies so that our consolidated net sales will be positively impacted by factors such as improved product performance, higher quality and a broader product portfolio.

Competition

We believe we are a market leader in the primary markets we serve based on our estimates of the size of those markets in annual revenues and our share of those markets relative to our competitors. We do not believe that any one company competes with all of the product lines of either Electronics or Electrical on a global basis. However, both Electronics and Electrical frequently encounter strong competition within individual product lines, both domestically and internationally. In addition, several OEMs internally, or through CEMs, manufacture some of the products offered by Electronics and Electrical. We believe that this represents an opportunity to capture additional market share as OEMs continue to outsource component manufacturing. Therefore, we pursue opportunities to convince these OEMs that our economies of scale, purchasing power and manufacturing core competencies enable us to produce these products efficiently. Increasingly, Electronics' competitors are located in Asia and enjoy very low cost structures and very low cost of capital. Many of these competitors aggressively seek market share at the detriment of profits. However, as a result, a number of our competitors located in Asia may not be able to sustain their operations during periods of economic turmoil, such as the one currently underway.

Competitive factors in the markets for our products include:

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

We believe we are adequately competitive with respect to each of these factors. Product quality and reliability, as well as design and manufacturing capabilities, are enhanced through our continuing commitment to invest in and improve our manufacturing and designing resources and our close relationships with our customers' engineers. The breadth of our product offering provides customers with the ability to satisfy multiple electronic component or electrical contact needs through one supplier. Our global presence enables us to deepen our relationship

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with our customers and to better understand and more easily satisfy the needs of local markets. In addition, our ability to purchase raw materials in large quantities and our focus on continually reducing our production expenses reduces our manufacturing costs and enables us to price our products competitively.

Employees

As of December 26, 2008, we had approximately 21,400 full-time employees as compared to 26,100 as of December 28, 2007. The number of employees at year-end includes employees of certain subcontractors that are integral to our operations in the People's Republic of China ("PRC" or "China"). Such employees numbered approximately 8,200 and 14,100 as of December 26, 2008 and December 28, 2007, respectively. The net decrease in employees from 2007 to 2008 was primarily the result of voluntary and involuntary reductions in our global workforce necessary to match our estimated capacity requirements with our anticipated future demand. The decrease in 2008 was net of approximately 4,900 employees acquired with Sonion. Headcount reductions have been made throughout the former Sonion operations since their acquisition. Of the 21,400 full-time employees, approximately 650 were located in the United States. There are no employees in the United States covered by collective-bargaining agreements. We have not experienced any major work stoppages and consider our relations with our employees to be good.

Raw Materials

Raw materials necessary for the manufacture of our products include:

- precious metals such as silver;
- plastics and plastic resin;
- base metals such as copper and brass; and
- ferrite cores.

Currently, we do not have significant difficulty obtaining any of our raw materials and do not anticipate that we will face any significant difficulty in the near future. However, some of these materials are produced by a limited number of suppliers. We may be unable to obtain these raw materials in sufficient quantities or in a timely manner to meet the demand for our products. The lack of availability or a delay in obtaining any of the raw materials used in our products could adversely affect our manufacturing costs and profit margins. In addition, if the price of our raw materials increases significantly over a short period of time due to increased market demand or shortage of supply, customers may be unwilling to bear the increased price for our products and we may be forced to sell our products containing these materials at lower prices causing a reduction in our profit margins.

Electrical uses precious metals, primarily silver, in manufacturing many of its electrical contacts, contact materials and contact subassemblies. Historically, we have leased or held these precious metals through consignment arrangements with our suppliers. Leasing and consignment costs have historically been substantially below the costs to borrow funds to purchase the metals and these arrangements eliminate the effect of fluctuations in the market price associated with owned precious metal. Electrical's terms of sale generally allow us to charge customers for the fabricated market value of silver on the day after we ship the silver bearing product to the customer. See additional discussions of precious metals on page 23.

Backlog

Our backlog of orders at December 26, 2008 was \$92.3 million compared to \$94.8 million at December 28, 2007. We expect to ship the majority of the backlog over the next three months. We do not believe that our backlog is an accurate indicator of near-term business activity because short lead times, current demand uncertainty on the part of our customers, increased use of vendor managed inventory and similar consignment type arrangements tend to limit the significance of backlog. Orders from these arrangements typically are not reflected in backlog.

Intellectual Property

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

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

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

Environmental

Our manufacturing operations are subject to a variety of local, state, federal and international environmental laws and regulations governing air emissions, wastewater discharges, the storage, use, handling, disposal and remediation of hazardous substances and wastes and employee health and safety. It is our policy to meet or exceed the environmental standards set by these laws. However, in the normal course of business, environmental issues may arise. We may incur increased costs associated with environmental compliance and cleanup projects necessitated by the identification of new environmental issues or new environmental laws and regulations.

Available Information

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

Item 1a Risk Factors

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

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

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

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

The following factors represent what we believe are the major risks and uncertainties in our business. They are listed in no particular order.

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

Our components are used in various products for the electronic and electrical markets. These markets are cyclical. Generally, the demand for our components reflects the demand for products in the electronic and electrical equipment markets. A contraction in demand would result in a decrease in sales of our products, as our customers:

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

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

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

The average selling prices for our products tend to decrease over their life cycle. In addition, foreign currency movements and the desire to retain market share increase the pressure on our customers to seek lower prices from their suppliers. As a result, our customers are likely to continue to demand lower prices from us. To maintain our margins and remain profitable, we must continue to meet our customers' design needs while concurrently reducing costs through efficient raw material procurement, process and product improvements and focusing operating expense levels. Our profit margins and cash flows may suffer if we are unable to reduce our overall cost structure relative to decreases in sales prices.

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

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

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

Electronics operates in an industry characterized by rapid change caused by the frequent emergence of new technologies and standards. Generally, we expect life cycles for our products in the electronic components industry to be relatively short. This requires us to anticipate and respond rapidly to changes in industry standards and customer needs and to develop and introduce new and enhanced products on a timely and cost effective basis. Our engineering and development teams place a priority on working closely with our customers to design innovative products and improve our manufacturing processes. Similarly, at Electrical, the performance and cost of electrical contacts are closely linked to alloys used in their production. Improving performance and reducing costs for our customers requires continuing development of new alloys and products. Our inability to react to changes in technology, standards or customer needs quickly and efficiently may decrease our sales or margins.

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

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

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

We have completed several acquisitions in recent years. We continually seek acquisitions to grow our businesses. We may fail to derive significant benefits from our acquisitions. In addition, if we fail to achieve sufficient financial performance from an acquisition, long-lived assets, such as property, plant and equipment, goodwill and other intangibles, could become impaired, resulting in our recognition of an impairment loss similar to the loss recorded in the year ended December 26, 2008.

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

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

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

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

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

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

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

Integration of acquisitions 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 rapidly integrate acquisitions into the existing business of the acquiring segment and to report financial performance on the segment level. As a result of this practice, we do not separately track the standalone 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 rapidly 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, consummate or integrate acquisitions may slow our future growth.

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

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

Most of our sales are made on a purchase order basis. 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. Such agreements typically do not provide us with any material recourse in the event of non-renewal or early termination. We will lose business and our revenues may decrease if a significant number of customers:

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

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

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

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

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

Our failure to effectively manage these issues may result in:

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

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

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

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

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

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

Some of our raw materials, such as precious metals and certain base 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 obtaining the majority of the precious metal in our facilities 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 shipment to our customer and pass this cost on to our customer. We try to limit our exposure to base metal price fluctuations by attempting to pass through the cost of base metals to our customers, typically by indexing the cost of the base metal, so that our cost of the base metal closely relates to the price we charge our customers, but we may not always be successful in indexing these costs or fully passing through costs to our customers.

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Leasing/consignment fee increases are primarily caused by increases in interest rates or volatility in the price of the consigned material. Fees charged by the consignor are driven by interest rates and the market price of the consigned material. The market price of the consigned material is determined by its supply and demand. Consignment fees may increase if interest rates or the price of the consigned material increase.

Our results of operations and liquidity may be negatively impacted if:

- we are unable to enter into new leasing or consignment arrangements with similarly favorable terms after our existing agreements terminate;
- 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; and
- we are unable to pass through higher base metals' costs to our customers.

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

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

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

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

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

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

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

We manufacture and assemble most of our products in locations outside the United States, including China, Mexico, Poland and Vietnam and a majority of our revenues are derived from sales to customers outside the United States. Our future operations and earnings may be adversely affected by the risks related to, or any other problems arising from, operating in international locations and markets.

Risks inherent in doing business internationally may include:

- the inability to repatriate cash on a timely basis;
- economic and political instability;
- expropriation and nationalization;

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

The majority of Electronics' manufacturing occurs in the PRC and Vietnam. Although these countries have large and growing economies, economic, political, legal and labor developments entail uncertainties and risks. For example, wages have been increasing rapidly over the last several years in southern China. While China and Vietnam have been receptive to foreign investment, these policies may not continue indefinitely into the future and future policy changes may adversely affect our ability to conduct our operations in these countries.

We have benefited in prior years from favorable tax incentives and we operate in countries where we realize favorable income tax treatment relative to the U.S. statutory rate. We have been granted special tax incentives, including

tax holidays, in jurisdictions such as the PRC, Puerto Rico and Vietnam. This favorable situation could change if these countries were to increase rates or discontinue the special tax incentives, or if we discontinue our manufacturing operations in any of these countries and do not replace the operations with operations in other locations with similar tax incentives or policies. Accordingly, in the event of changes in laws and regulations affecting our international operations, we may not be able to continue to recognize or take advantage of similar benefits in the future.

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

Within countries in which we operate, particularly China, we sometimes shift our operations from one region to another in order to maximize manufacturing and operational efficiency. We may close one or more additional factories in the future. This could entail significant earnings charges and cash payments to account for severance, asset impairments, write-offs, write-downs, moving expenses, start-up costs and inefficiencies, as well as certain adverse tax consequences including the loss of specialized tax incentives or non-deductible expenses.

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

A significant portion of our cash is held offshore by international subsidiaries and may be denominated in currencies other than the U.S. dollar. While we intend to use a significant amount of the cash held overseas to fund our international operations and growth, if we encounter a significant need for liquidity domestically or at a particular location that we cannot fulfill through borrowings, equity offerings, or other internal or external sources, we may experience unfavorable tax and earnings consequences due to cash transfers. These adverse consequences would occur, for example, if the transfer of cash into the United States is taxed and no offsetting foreign tax credit is available to offset the U.S. tax liability, resulting in lower earnings. In addition, we may be prohibited from transferring cash from the PRC. Foreign exchange ceilings imposed by local governments, such as the PRC, and the sometimes lengthy approval processes which foreign governments require for international cash transfers may delay our internal cash transfers from time to time. We have not experienced any significant liquidity restrictions in any country in which we operate and none are presently foreseen.

With the exception of approximately \$29.9 million of retained earnings as of December 26, 2008 primarily 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. This law restricts 10% of our net earnings in the PRC, up to a maximum amount equal to 50% of the total capital we have invested in the PRC. The \$29.9 million includes \$5.2 million of retained earnings of a majority owned subsidiary and includes approximately \$2.3 million of retained earnings of the former Sonion operations.

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

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

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

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

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

As part of our comprehensive risk management program, we purchase insurance coverage against certain business and product liability risks. However, not all risks are insured, and those that are insured differ in covered amounts by type of risk, end market and customer location. If any of our insurance carriers discontinues an insurance policy, significantly reduces available coverage or increases our deductibles and we cannot find another insurance carrier

to write comparable coverage at similar costs, or if we are not fully insured for a particular risk in a particular place, then we may be subject to increased costs of uninsured losses which may adversely affect our operating results.

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

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

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

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

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

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

We were in compliance with all covenants in our credit agreement as of December 26, 2008. However, we amended our credit agreement on February 20, 2009. The \$200.0 million senior loan facility is unchanged, however, the senior revolving credit facility is now \$175.0 million. Our credit agreement dated February 28, 2008 was in place at December 26, 2008. Borrowing against this agreement was \$336.0 million at December 26, 2008. We believe the severe economic crisis that began in late 2008 and continues into 2009 has resulted in the mere existence of this debt having a significant adverse affect on our share price. Our share price may continue to be depressed until our debt is significantly reduced.

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

Our results may be negatively affected by changing interest rates.

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

Our intellectual property rights may not be adequately protected.

We may not be successful in protecting our intellectual property through patent laws, other regulations or by contract. As a result, other companies may be able to develop and market similar products which could materially and adversely affect our business. We may be sued by

third parties for alleged infringement of their proprietary rights and we may incur defense costs and possibly royalty obligations or lose the right to use technology important to our business.

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

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

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

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

Worldwide Recession and Disruption of Financial Markets.

The current slowdown in economic activity caused by the ongoing global recession and the reduced availability of liquidity and credit could adversely affect our business. A continuation or worsening of the current difficult financial and economic conditions could adversely affect our customers' ability to meet the terms of sale or our suppliers' ability to fully perform their commitments to us.

Item 1b Unresolved Staff Comments

None

Item 2 Properties

We are headquartered in Treviso, Pennsylvania where we lease approximately 8,000 square feet of office space. Through Electronics and Electrical, we operated 22 manufacturing plants in seven countries as of December 26, 2008. We continually seek to size our operations in order to maximize cost efficiencies. Accordingly, in the future, we may take further actions to increase or decrease our manufacturing capacity. To maximize production efficiencies, we seek, whenever practical, to establish manufacturing facilities in countries where we can take advantage of low labor and production costs and, if available, various government incentives and tax benefits. We also seek to maintain facilities in those regions where we market our products in order to maintain a local presence with our customers.

The following is a list of the locations of our principal manufacturing facilities at December 26, 2008:

Electronics

Location (1)	Approx. Square Ft. (2)	Owned/Leased	Approx. Percentage Used For Manufacturing
Zhuhai, PRC	374,000	Leased	100%
Ningbo, PRC	363,000	Owned	80%
Mianyang, PRC	295,000	Leased	75%
Suzhou, PRC	239,000	Leased	100%
Dongguan, PRC	231,000	Leased	100%
Ho Chi Minh City, Vietnam	119,000	Owned	60%
Mierzyn, Poland	72,000	Leased	35%
Shenzhen, PRC	68,000	Leased	100%
Herrenberg, Germany	52,000	Leased	80%
Vancouver, Washington	25,000	Leased	60%
Bristol, Pennsylvania	20,000	Leased	60%
Meinerzagen, Germany	16,000	Leased	80%
Total	1,874,000		

- (1) In addition to these manufacturing locations, Electronics has 349,000 square feet of space which is used for engineering, sales and administrative support functions at various locations, including Electronics' headquarters in San Diego, California. In addition, Electronics leases approximately 1,376,000 square feet of space for dormitories, canteens and other employee-related facilities in the PRC.
- (2) Consists of aggregate square footage in each locality where manufacturing facilities are located. More than one manufacturing facility may be located within each locality.

Electrical

Location (1)	Approx. Square Ft.	Owned/Leased	Approx. Percentage Used For Manufacturing
Pforzheim, Germany	490,000	Owned	65%
Sinsheim, Germany	222,000	Owned	60%
Export, Pennsylvania	115,000	Leased	80%
Tianjin, PRC	62,000	Leased	90%
Mexico City, Mexico	38,000	Leased	90%
Luquillo, Puerto Rico	32,000	Owned	80%

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Madrid, Spain	31,000	Owned	90%
Total	<hr/> 990,000		

(1) Engineering, sales and administrative support functions for Electrical are generally contained in each of these locations.

Item 3 Legal Proceedings

We are a party to various legal proceedings and other actions. See discussion in Note 11 to the Consolidated Financial Statements. We expect litigation to arise in the normal course of business. Although it is difficult to predict the outcome of any legal proceeding, we do not believe these proceedings and actions will, individually or in the aggregate, have a material adverse effect on our consolidated financial condition or results of operations.

Item 4 Submission of Matters to a Vote of Security Holders

None

Part II

Item 5 Market for Registrant's Common Equity and Related Stockholder Matters

Our common stock is traded on the New York Stock Exchange under the ticker symbol "TNL". The following table reflects the highest and lowest sales prices in each quarter of the last two years.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2008 High	\$ 28.99	\$ 25.28	\$ 17.37	\$ 15.35
2008 Low	\$ 19.51	\$ 17.05	\$ 12.16	\$ 2.47
2007 High	\$ 26.77	\$ 29.23	\$ 29.10	\$ 30.50
2007 Low	\$ 21.06	\$ 25.18	\$ 22.00	\$ 24.87

On December 26, 2008, there were approximately 961 registered holders of our common stock, which has a par value of \$0.125 per share and is the only class of stock that we have outstanding. See additional discussion on restricted retained earnings of subsidiaries in Item 7, Liquidity and Capital Resources, and in Note 12 of our Consolidated Financial Statements.

We paid \$14.3 million for dividend payments during the year ended December 26, 2008. On October 24, 2008, we announced a quarterly cash dividend of \$0.0875 per common share, payable on January 16, 2009 to shareholders of record on January 2, 2009. This quarterly dividend will result in a cash payment to shareholders of approximately \$3.6 million in the first quarter of 2009. We expect to continue making quarterly dividend payments for the foreseeable future, however, we announced on January 22, 2009 that the quarterly dividend payable on April 17, 2009 will be reduced to \$0.025 per common share. We used \$14.3 million and \$14.2 million for dividend payments during the years ended December 28, 2007 and December 29, 2006.

Information as of December 26, 2008 concerning plans under which our equity securities are authorized for issuance are as follows:

Plan Category	Number of shares to be issued upon exercise of options, grant of restricted shares or other incentive shares	Weighted average exercise price of outstanding options	Number of securities remaining available for future issuance
Equity compensation plans approved by security holders	6,005,000	\$ 17.99	3,013,064
Equity compensation plans not approved by security holders	—	—	—
Total	6,005,000	\$ 17.99	3,013,064

On May 15, 1981, our shareholders approved an incentive compensation plan ("ICP") intended to enable us to obtain and retain the services of employees by providing them with incentives that may be created by the Board of Directors Compensation Committee under the ICP. Subsequent amendments to the plan were approved by our shareholders including an amendment on May 23, 2001 which increased the total number of shares of our common stock which may be granted under the plan to 4,900,000 shares. Our 2001 Stock Option Plan and the Restricted Stock Plan II were adopted under the ICP. In addition to the ICP, plans approved by us include a 105,000 share Board of Director Stock Plan and a 1,000,000 share Employee Stock Purchase Plan ("ESPP"). During 2004, the operation of the ESPP was suspended following an evaluation of its affiliated expense and perceived value by employees. Of the 3,013,064 shares remaining available for future issuance, 2,175,949 shares are attributable to our Incentive Compensation Plan, 812,099 shares are attributable to our ESPP and 25,016 shares are attributable to our Board of Director Stock Plan. Note 13 to the consolidated financial statements contains additional information regarding our stock-based compensation plans.

Comparison of Five-Year Cumulative Total Return

The following graph compares the growth in value on a total-return basis of \$100 investments in **Technitrol**, the **Russell 2000® Index** and the **Dow Jones U.S. Electrical Components and Equipment Industry Group Index** between December 26, 2003 and December 26, 2008. Total-return data reflect closing share prices on the final day of each Technitrol fiscal year. Cash dividends paid are considered as if reinvested. The graph does not reflect intra-year price fluctuations.

The **Russell 2000® Index** consists of approximately the 2,000 smallest companies and about 10% of the total market capitalization of the Russell 3000® Index. The Russell 3000 represents about 98% of the investable U.S. equity market.

At December 26, 2008, the **Dow Jones U.S. Electrical Components and Equipment Industry Group Index** included the common stock of Amphenol Corp., Anixter International, Inc., Arrow Electronics, Inc., ATMI, Inc., Avnet, Inc., AVX Corp., Baldor Electric Co., Belden CDT, Inc., Benchmark Electronics, Inc., Commscope, Inc., Cooper Industries Ltd. Class A, CTS Corp., Emerson Electric Co., Energy Conversion Devices, Inc., EnerSys, Flextronics International, Ltd., General Cable Corp., GrafTech International Ltd., Hubbell Inc. Class B, Itron, Inc., Jabil Circuit, Inc., Littelfuse, Inc., Methode Electronics, Inc., Molex, Inc. and Molex, Inc. Class A, Park Electrochemical Corp., Plexus Corp., Regal-Beloit Corp., Sanmina-SCI Corp., SPX Corp., Technitrol, Inc., Thomas & Betts Corp., Tyco Electronics Ltd., Wesco International, Inc. and Vishay Intertechnology, Inc.

	2003	2004	2005	2006	2007	2008
Technitrol	\$ 100.00	\$ 87.99	\$ 84.18	\$ 119.37	\$ 147.04	\$ 17.35
Russell 2000® Index	\$ 100.00	\$ 118.82	\$ 124.23	\$ 147.05	\$ 145.83	\$ 91.41
Dow Jones U.S. Electrical Components & Equipment Industry Group Index	\$ 100.00	\$ 94.30	\$ 96.79	\$ 109.15	\$ 132.20	\$ 62.81

Item 6 Selected Financial Data (in thousands, except per share amounts)

	2008(9)(8)	2007	2006(7)(6)	2005(6)(5)	2004(4)(3)
Net sales	\$ 1,097,163	\$ 1,026,555	\$ 954,096	\$ 616,378	\$ 561,298
(Loss) earnings from continuing operations before cumulative effect of accounting changes	\$ (274,505)	\$ 61,657	\$ 56,895	\$ (25,828)	\$ 7,107
Cumulative effect of accounting changes, net of income taxes	—	—	75	(564)	—
Net (loss) earnings from discontinued operations	(1,253)	—	233	(472)	(179)
Net (loss) earnings	\$ (275,758)	\$ 61,657	\$ 57,203	\$ (26,864)	\$ 6,928
Basic (loss) earnings per share:					
(Loss) earnings from continuing operations before cumulative effect of accounting changes	\$ (6.74)	\$ 1.52	\$ 1.41	\$ (0.65)	\$ 0.18
Cumulative effect of accounting changes, net of income taxes	—	—	0.00	(0.01)	—
Net (loss) earnings from discontinued operations	(0.03)	—	0.01	(0.01)	(0.01)
Net (loss) earnings	\$ (6.77)	\$ 1.52	\$ 1.42	\$ (0.67)	\$ 0.17
Diluted (loss) earnings per share:					
(Loss) earnings from continuing operations before cumulative effect of accounting changes	\$ (6.74)	\$ 1.51	\$ 1.40	\$ (0.65)	\$ 0.18
Cumulative effect of accounting changes, net of income taxes	—	—	0.00	(0.01)	—
Net (loss) earnings from discontinued operations	(0.03)	—	0.01	(0.01)	(0.01)
Net (loss) earnings	\$ (6.77)	\$ 1.51	\$ 1.41	\$ (0.67)	\$ 0.17
Total assets	\$ 769,911	\$ 821,353	\$ 769,480	\$ 684,902	\$ 636,528
Total long-term debt	\$ 343,189	\$ 10,467	\$ 57,391	\$ 83,492	\$ 7,255
Shareholders' equity	\$ 197,446	\$ 561,079	\$ 479,029	\$ 417,264	\$ 464,862
Net worth per share	\$ 4.82	\$ 13.72	\$ 11.76	\$ 10.30	\$ 11.49
Working capital (1)	\$ 175,876	\$ 231,817	\$ 189,004	\$ 209,841	\$ 238,898
Current ratio	2.0 to 1	2.2 to 1	2.0 to 1	2.1 to 1	2.9 to 1
Number of shares outstanding:					
Weighted average, including common stock equivalents	40,744	40,794	40,594	40,297	40,411
Year end	40,998	40,901	40,751	40,529	40,448
Dividends declared per share (2)	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.35	\$ —
Price range per share:					

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High	\$	28.99	\$	30.50	\$	32.28	\$	19.03	\$	23.28
Low	\$	2.47	\$	21.06	\$	16.78	\$	12.20	\$	16.10

- (1) Includes cash and cash equivalents and current installments of long-term debt.
- (2) On February 2, 2005 we resumed the practice of paying a quarterly dividend.
- (3) During 2004, we recorded \$18.5 million in intangible asset impairments, less a \$2.2 million tax benefit.
- (4) On September 13, 2004 we acquired a majority interest in Full Rise Electronic Co. Ltd. ("FRE"), and began consolidating FRE's results, less a minority interest. Our investment in FRE was previously accounted for under the equity method.
- (5) On September 8, 2005, we purchased LK Products Oy for \$111.1 million in cash.
- (6) During 2005, we recorded a charge for a cumulative effect of accounting change of \$0.6 million net of an income tax benefit which is included in net (loss) earnings from continuing operations. Additionally, we recorded a \$38.5 million intangible asset impairment and an \$8.9 million fixed asset impairment, less a \$0.2 million tax benefit.
- (7) On January 4, 2006, we acquired the ERA Group for \$53.4 million in cash.
- (8) On February 28, 2008, we acquired Sonion A/S for \$426.4 million in cash, which was financed primarily through borrowings from our multi-currency credit facility. Additionally, a plan for the divestiture of the MEMS division of Sonion A/S was approved during the third quarter of 2008, and is reflected as a discontinued operations.
- (9) During the fourth quarter of 2008, we recorded a \$310.4 million intangible asset impairment, less a \$17.6 million tax benefit. See Note 5 to the Consolidated Financial Statements for a description of the impairment.

Item 7 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 the "Risk Factors" section of this report on pages 9 through 16.

Overview

We are a global producer of precision-engineered 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 annual revenues of our primary markets and our share of those markets relative to our competitors.

We currently operate our business in two segments:

- our Electronic Components Group, which we refer to as Electronics and is known as Pulse in its markets, and
- our Electrical Contact Products Group, which we refer to as Electrical and is known as AMI Doduco in its markets.

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

Historically, the gross margin at Electronics has been significantly higher than at Electrical. As a result, the mix of net sales generated by Electronics and Electrical during a period affects our consolidated gross margin. Our gross margin is also affected by acquisitions, product mix within each segment and capacity utilization. Electrical's gross margin is also affected by prices of precious and non-precious metals, which are passed through to customers at varying margins. Electronics' markets are characterized by relatively short product life cycles compared to those of our Electrical segment. As a result, significant product turnover occurs each year in Electronics. Electrical has a relatively long-lived and mature product line that has less turnover and less frequent variation in the prices of products sold relative to Electronics. Many of Electrical's products are sold under annual (or longer) purchase contracts. Therefore, Electrical's revenues historically have not been subject to significant price fluctuations. However, changes in unit volume and unit prices will affect our net sales and gross margin from period to period. Additionally, due to the constantly changing quantity of part numbers we offer and frequent changes in our average selling prices, we cannot isolate the impact of changes in unit volume and unit prices on our net sales and gross margin in any given period. Also, changes in foreign exchange rates, especially the U.S. dollar to the euro, the U.S. dollar to the Chinese renminbi and the U.S. dollar to the Danish krone affect U.S. dollar reported sales.

We believe our focus on acquisitions, technology and cost reduction programs provide us opportunities for future growth in net sales and operating profit. However, unfavorable economic and market conditions may result in a reduction in demand for our products, thus negatively impacting our financial performance.

Acquisitions. Acquisitions have been an important part of our growth strategy. In many cases, our moves into new product lines and extensions of our existing product lines or markets have been facilitated by acquisitions. Our acquisitions continually change the mix of our net sales. We have made numerous acquisitions in recent years which have broadened our product offerings in new or existing markets. For example, Sonion was acquired in February 2008. Sonion was headquartered in Roskilde, Denmark and produces microacoustic transducers and electromechanical components used in hearing instruments and medical devices and speakers and receivers used in mobile communication devices. Also, we purchased the assets of Larsen in December 2006. Larsen was headquartered in Vancouver, Washington and manufactures advanced antenna systems for non-cellular wireless and automotive applications. In addition, ERA was acquired in January 2006. ERA was based in Herrenberg, Germany and was a leading producer of electronic coils and transformers primarily for the European automotive, heating/ventilation/air conditioning and appliance markets. We may pursue additional acquisition opportunities in the future.

Divestitures. On February 23, 2009, we announced our intentions to explore monetization alternatives with respect to our Electrical segment. A disposition, if consummated, may be in whole or in part. This process is in an early exploratory phase as there is no requirement or immediate need to commence or complete any transaction or series of transactions. While this process is pending, Electrical will operate normally in all aspects. In 2008, we announced a plan to sell of Electronics' non-core microelectromechanical systems ("MEMS") microphone business which was purchased ancillary to the Sonion acquisition. We have reflected the results of the MEMS operation as a discontinued operation in our 2008 consolidated financial statements. Also, in 2006, the remaining fixed assets of Electrical's previously divested bimetal and metal cladding operations were sold, resulting in a \$0.6 million gain.

Technology. Our products must change along with changes in technology, availability and price of raw materials, design and preferences of the end users of our products. Regulatory requirements also impact the design and functionality of our products. We address these conditions by continuing to invest in product development and by maintaining a diverse product portfolio which contains both mature and emerging technologies in order to meet customer demands.

Management Focus. Our executives focus on a number of important factors in evaluating our financial condition and operating performance. For example, we use revenue growth, gross profit as a percentage of revenue, operating profit as a percent of revenue and economic profit as performance measures. We define economic profit as after-tax operating profit less our cost of capital. Operating leverage or incremental operating profit as a percentage of incremental sales is also reviewed, as this is believed to reflect the benefit of absorbing fixed overhead and operating expenses. In evaluating working capital management, liquidity and cash flow, our executives also use performance measures such as days sales outstanding, days payable outstanding, inventory turnover, cash conversion efficiency and free cash flow. Additionally, as the continued success of our business is largely dependent on meeting and exceeding our customers' expectations, non-financial performance measures relating to product development, on-time delivery and quality assist our management in monitoring customer satisfaction on an on-going basis.

Cost Reduction Programs. As a result of our focus on both economic and operating profit, we continue to aggressively size both segments so that costs are optimally matched to current and anticipated future revenues and unit demand. The amounts of future expenses associated with these actions will depend on specific actions taken. Actions taken over the past several years such as plant closures, plant relocations, asset impairments and reduction in personnel at certain locations have resulted in the elimination of a variety of costs. The majority of these eliminated costs represent the annual salaries and benefits of terminated employees, including both those related to manufacturing and those providing selling, general and administrative services. The eliminated costs also include depreciation savings from disposed equipment, rental payments from the termination of lease agreements and amortization savings from the impairment of identifiable intangible assets. We have also reduced overhead costs as a result of relocating factories to lower-cost locations. Savings from these actions will impact cost of sales and selling, general and administrative expenses, however, the timing of such savings may not be apparent due to many factors such as unanticipated changes in demand, changes in unit selling prices, operational inefficiencies or other changes in operating strategies.

During the year ended December 26, 2008, we incurred a charge of \$15.0 million for a number of cost reduction actions. These accruals include severance and related payments and other associated costs of \$5.5 million resulting from the termination of manufacturing and support personnel at Electronics' operations primarily in Asia, Europe and North America, \$1.3 million of severance and related payments resulting from the termination of manufacturing and support personnel at Electrical and \$4.1 million of other costs primarily resulting from the transfer of manufacturing operations from Europe and North Africa to Asia. Additionally, we recorded fixed asset impairments of \$3.6 million and \$0.5 million at Electronics and Electrical, respectively.

During the year ended December 28, 2007, we incurred a charge of \$18.0 million for a number of cost reduction actions. These accruals include severance and related payments of \$10.6 million resulting from the termination of manufacturing and support personnel at Electronics' operations in Asia, Europe and North America, \$0.4 million related to the termination of manufacturing and support personnel at Electrical's operations in Europe and \$5.5 million for the write down of certain Electronics' fixed assets to their disposal values. Additionally, we incurred approximately \$1.5 million of other plant closure, relocation and similar costs associated with these actions.

During the year ended December 29, 2006, we incurred a charge of \$8.8 million for a number of actions to streamline operations at Electronics and Electrical. These include severance and related payments to manufacturing and support personnel at Electronics of \$5.2 million, \$1.6 million for severance and related payments to manufacturing and support personnel at Electrical, \$1.6 million for the write down of certain Electronics' fixed assets to their disposal values and \$0.4 million of other plant closure, relocation and similar costs associated with these activities.

International Operations. As of December 26, 2008, we had manufacturing operations in seven countries and had significant net sales in U.S. dollar, euro and Chinese renminbi. A majority of our sales in recent years has been outside of the United States. Changing exchange rates often impact our financial results and our period-over-period comparisons. This is particularly true of movements in the exchange rate between the U.S. dollar and the renminbi, the U.S. dollar and the euro, the U.S. dollar and the Danish krone and each of these and other foreign currencies relative to each other, especially the euro and renminbi. Sales and net earnings denominated in currencies other than the U.S. dollar may result in higher or lower dollar sales and net earnings upon translation for our U.S. consolidated financial statements. Electrical's European operations are denominated primarily in euro. Certain divisions of Electronics' wireless, medical technology and power groups' sales are denominated primarily in euro and renminbi. Net earnings may also be affected by the mix of sales and expenses by currency within each division. We may also experience a positive or negative translation adjustment to equity because our investments in our non-U.S. dollar-functional subsidiaries may translate to more or less in U.S. dollars for our U.S. consolidated financial statements. For example, during the year ended December 26, 2008, we experienced a negative translation adjustment of approximately \$69.0 million. Foreign currency gains or losses may also be incurred when non-functional currency-denominated transactions are remeasured to an operation's functional currency for financial reporting purposes. If a higher percentage of our transactions are denominated in non-U.S. currencies, increased exposure to currency fluctuations may result.

In order to reduce our exposure to currency fluctuations, we may purchase currency exchange forward contracts and/or currency options. These contracts guarantee a predetermined range of exchange rates at the time the contract is purchased. This allows us to shift the majority of the risk of currency fluctuations from the date of the contract to a third party for a fee. In determining the use of forward exchange contracts and currency options, we consider the amount of sales, purchases and net assets or liabilities denominated in local currencies, the type of currency, and the costs associated with the contracts. During 2008, we utilized two forward contracts in order to hedge our purchase price and the related debt of Sonion. Both of these forward contracts were settled on the Sonion acquisition date, resulting in a \$6.0 million net foreign exchange gain. At December 26, 2008, we had twelve foreign exchange forward contracts outstanding to sell forward approximately \$12.0 million U.S. dollars to receive Danish krone, and eight foreign exchange forward contracts outstanding to sell forward approximately 8.0 million euro, or approximately \$11.3 million, to receive Chinese renminbi. The fair value of these forward contracts was \$0.1 million as determined through use of Level 2 inputs as defined by the Financial Accounting Standards Board ("FASB") Statement No. 157, *Fair Value Measurements* ("SFAS 157"). These contracts are used to mitigate the risk of currency fluctuations at our Polish, Danish and Chinese operations.

Precious Metals. Our Electrical segment uses silver and 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-type arrangements with our suppliers. Leasing and consignment costs have typically been lower than the costs to borrow funds to purchase the metals and, more importantly, these arrangements eliminate the effects of fluctuations in the market price of owned precious metal and enable us to minimize our inventories. Electrical's terms of sale generally allow us to charge customers for precious metal content based on the market value of precious metal on the day after shipment to the customer. Our suppliers invoice us based on the market value of the precious metal on the day after shipment to the customer as well. 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 or consignment costs increase significantly in a short period of time, and we are unable to recover these increased costs through higher sales prices, a negative impact on our results of operations and liquidity may result. Leasing and consignment fee increases are primarily caused by increases in interest rates or volatility 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 those among many countries in Europe and the U.S. and income earned in low-tax jurisdictions, such as Hong Kong, Vietnam and the PRC. This mix of income can vary significantly from one period to another. Additionally, our effective income tax rate will be impacted from period to period by significant transactions and the deductibility of severance, impairment, financing and other associated costs. We have benefited over the years from favorable tax incentives and other tax policies, however, there is no guarantee as to how long these benefits will continue to exist. Also, changes in operations, tax legislation, estimates, judgments and forecasts may affect our tax rate from period to period.

Except in limited circumstances, we have not provided for U.S. income and foreign withholding taxes on our non-U.S. subsidiaries' undistributed earnings as per Accounting Principles Board ("APB") Opinion No. 23, *Accounting for Income Taxes – Special Areas* ("APB 23"). Such earnings may include pre-acquisition earnings of foreign entities acquired through stock purchases, and, with the exception of approximately \$40.0 million, are intended to be reinvested outside of the U.S. indefinitely.

Business Outlook

Recent adverse developments in the financial markets and the dramatic contractions in the global economy have increased our exposure to possible liquidity impairment and credit risks. We are exposed to market risk resulting from changes in prices of commodities, such as precious and non-precious metals, fuel and plastic resins. To the extent we cannot transfer these costs to our customers, fluctuations in commodity prices will impact our gross margin and available cash. We are also exposed to financial risk resulting from changes in interest and foreign currency rates.

Considering the issues mentioned above, as well as other risks inherent in our business, we believe we have ample liquidity to fund our business requirements. This belief is based on our current balances of cash and cash equivalents, our history of positive cash flows from operations, including \$71.5 million for the year ended December 26, 2008, and access to our multi-currency credit facility. We did not experience any limitations in our ability to access funds during 2008. However, given the rapid deterioration of customer demand during the final four months of 2008 and the uncertainty of business conditions improving in 2009, we took proactive measures to renegotiate certain covenants in our credit agreement to avoid breaching our covenants in the future. On February 20, 2009, we amended our credit agreement to reset certain covenants to provide us with more flexibility in light of very uncertain operating activity.

Beginning in mid-2008, we implemented a series of actions aimed at increasing future liquidity, improving our operating results and managing a slowdown of demand evident in many end markets. Such actions include:

- price increases across both segments;
- reductions of selling, general and administrative expenses by approximately \$20.0 million per year through a combination of furloughs, short work weeks, tightened overall spending controls and reduction in personnel;
- comprehensively re-sized our indirect labor force and production overhead in both segments resulting in approximately \$8.0 million of savings per year;
- limiting capital expenditures to an annual rate of approximately 50% of fiscal 2008 levels, focusing spending on projects important to high-growth portions of our product offerings; and
- monetizing assets, including the Electrical segment and MEMS.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires us to make judgments, assumptions and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Note 1 to the Consolidated Financial Statements on pages 48 through 52 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, purchase accounting, goodwill and identifiable intangibles, income taxes, defined benefit plans, contingency accruals and severance and asset impairment. Actual results could differ from these estimates. The following critical accounting policies that are reviewed by our Audit Committee of our Board of Directors are impacted significantly by judgments, assumptions and estimates used in the preparation of the consolidated financial statements.

Inventory Valuation. We carry our inventories at lower of cost or market. We establish inventory provisions to write down excess and obsolete inventory to market value. We utilize historical trends and customer forecasts to estimate expected usage of on-hand inventory. The establishment of inventory provisions requires judgments and estimates which may change over time and may cause final amounts to differ materially from original estimates. However, we do not believe that a reasonable change in these assumptions would result in a material impact to our financial statements. In addition, inventory purchases are based upon future demand forecasts estimated by taking into account actual sales of our products over recent historical periods and customer forecasts. If there is a sudden and significant decrease in demand for our products or there is a higher risk of inventory obsolescence because of rapidly changing technology or customer requirements, we may be required to write down our inventory and our gross margin could be negatively affected. However, if we were to sell or use a significant portion of inventory already written down, our gross margin could be positively affected. Inventory provisions at December 26, 2008 and December 28, 2007 were \$15.3 million and \$12.9 million, respectively.

Purchase Accounting. The purchase price of an acquired business is allocated to the underlying tangible and intangible assets acquired and liabilities assumed based upon their respective fair market values, with the excess recorded as goodwill. Such fair market value assessments require judgments and estimates which may change over time and may cause final amounts to differ materially from original estimates.

Adjustments to fair value assessments are recorded to goodwill over the purchase price allocation period which typically does not exceed twelve months.

Goodwill and Identifiable Intangibles. We perform an annual review of goodwill in accordance with the provisions of FASB Statement No. 142, *Goodwill and Other Intangibles* (“SFAS 142”), in our fourth fiscal quarter of each year, or more frequently if indicators of a potential impairment exist, to determine if the carrying amount of our recorded goodwill is impaired. For each reporting unit, the impairment review process compares the fair value of each reporting unit where goodwill resides with its carrying value. If the net book value of the reporting unit exceeds the fair value, we would perform the second step of the impairment test which requires the allocation of the reporting unit’s fair value to all of its assets and liabilities in a manner similar to a purchase price allocation, with any residual fair value being allocated to goodwill. An impairment charge will be recognized only when the implied fair value of a reporting unit’s goodwill is less than its carrying amount. We have identified five reporting units, which are our Electrical segment, Electronics’ legacy group, including our power and network divisions and excluding FRE, Electronics’ wireless group, Electronics’ medical technology group and FRE.

Our 2008 review incorporated both an income and a comparable-companies market approach to estimate any potential impairment. The income approach is based on estimating future cash flows using various growth assumptions and discounting based on a present value factor. We develop the future net cash flows during our annual budget process, which is generally completed in our fourth fiscal quarter each year. The growth rates we use are an estimate of the future growth in the industries in which we participate. Our discount rate assumption is based on an estimated cost of capital, which we determine annually based on our estimated costs of debt and equity relative to our capital structure.

The comparable-companies market approach considers the trading multiples of peer companies to compute our estimated fair value. We believe the use of multiple valuation techniques results in a more accurate indicator of the fair value of each reporting unit, rather than only using the income approach as we had done in prior years. We, as well as substantially all of the comparable companies utilized in our evaluation, are included in the Dow Jones U.S. Electrical Components and Equipment Industry Group Index.

As a result of our 2008 review, we recorded a pre-tax goodwill and other indefinite-lived intangible asset impairment of \$254.7 million. Refer to Note 5 of the Consolidated Financial Statements for additional details.

The determination of the fair value of the reporting units and the allocation of that value to the individual assets and liabilities within those reporting units requires us to make significant estimates and assumptions. These estimates and assumptions include, but are not limited to, the selection of the appropriate discount rate, terminal growth rates, forecasted net cash flows, appropriate peer group companies and control premiums appropriate for acquisitions in the industries in which we compete. Due to the inherent uncertainty involved in making these estimates, actual findings could differ from those estimates. Changes in assumptions concerning projected financial results or any of the other underlying assumptions would have a significant impact on either the fair value of the reporting unit or the amount of the goodwill impairment charge. Additionally, significant changes in any of these estimates or assumptions in the future may result in a future impairment. Changes in key assumptions would affect the recognized goodwill impairment as follows (*in millions, except assumption percentages*):

Assumption	Increase 100 Basis points	Decrease 100 Basis points
Discount rate	21.5%	\$ 8.1
Terminal growth rate	3.0%	\$ (4.9)
Control premium	25.0%	\$ 0.8

In accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (“SFAS 144”), we assess the impairment of long-lived assets whenever events or changes in circumstances indicate the carrying value may not be recoverable. Factors we consider important that could trigger an impairment review, include significant changes in the use of any asset, a significant decline in the price of our common stock, changes in projected operating performance and significant negative economic trends.

During the fourth quarter of 2008, we recorded a pre-tax finite-lived intangible impairment of \$55.7 million. Refer to Note 5 of the Consolidated Financial Statements for additional details.

Assigning useful lives and periodically reassessing the remaining useful lives of intangible assets is predicated on various assumptions. Also, the fair values of our intangible assets are impacted by factors such as changing technology, declines in demand that lead to excess capacity and other factors. In addition to the various assumptions, judgments and estimates mentioned above, we may strategically realign our resources and consider restructuring,

disposing of, or otherwise exiting businesses in response to changes in industry or market conditions, which may result in an impairment of goodwill or other intangibles. While we believe the estimates and assumptions used in determining the fair value of goodwill and identifiable assets are reasonable, a change in those assumptions could affect their valuation.

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

In accordance with the recognition standards established by FASB Interpretation No. 48, *Accounting for Income Taxes- an interpretation of FASB Statement No. 109* ("FIN 48"), we perform a comprehensive review of our portfolio of uncertain tax positions regularly. In this regard, an uncertain tax position represents our expected treatment of a tax position taken in a filed tax return, or planned to be taken in a future tax return or claim, that has not been reflected in measuring income tax expense for financial reporting purposes. Until these positions are sustained by the taxing authorities, or the statutes of limitations otherwise expire, we have benefits resulting from such positions and report the tax effects as a liability for uncertain tax positions in our Consolidated Balance Sheets.

Defined Benefit Plans. The costs and obligations of our defined benefit plans are dependent on actuarial assumptions. The three most critical assumptions used, which impact the net periodic pension expense (income) and the benefit obligation, are the discount rate, expected return on plan assets and rate of compensation increase. The discount rate is determined based on high-quality fixed income investments that match the duration of expected benefit payments. For our pension obligations in the United States, a yield curve constructed from a portfolio of high quality corporate debt securities with varying maturities is used to discount each future year's expected benefit payments to their present value. This generates our discount rate assumption for our domestic pension plans. For our foreign plans, we use the market rates for high quality corporate bonds to derive our discount rate assumption. The expected return on plan assets represents a forward projection of the average rate of earnings expected on the pension assets. We have estimated this rate based on historical returns of similarly diversified portfolios. The rate of compensation increase represents the long-term assumption for expected increases to salaries for pay-related plans. These key assumptions are evaluated annually. Changes in these assumptions can result in different expense and liability amounts, as well as a change in future contributions to the plans. However, we do not believe that a reasonable change in these assumptions would result in a material impact to our financial statements. Refer to Note 9 to the Consolidated Financial Statements for further details of the primary assumptions used in determining the cost and obligations of our defined benefit plans.

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

Severance, Impairment and Other Associated Costs. We record severance, tangible asset impairments and other restructuring charges such as lease terminations, in response to declines in demand that lead to excess capacity, changing technology and other factors. These costs, which we refer to as restructuring costs, are expensed during the period in which we determine that we will incur those costs, and all of the requirements for accrual are met in accordance with the applicable accounting guidance. Restructuring costs are recorded based upon our best estimates at the time the action is initiated. Our actual expenditures for the restructuring activities may differ from the initially recorded costs. If this occurs, we could be required either to record additional expenses in future periods if our initial estimates were too low, or reverse part of the initial charges if our initial estimates were too high. In the case of acquisition-related restructuring

costs, depending on whether certain requirements are met in accordance with the applicable accounting guidance, such costs would generally require a change in value of the goodwill recorded on our balance sheet, which may not affect our earnings. Additionally, the cash flow impact of the activity may not be recognized in the same period the expense is incurred.

New Accounting Pronouncements

In December 2008, FASB issued Staff Position (“FSP”) No. FAS 132(R)-1, *Employers’ Disclosures about Postretirement Benefit Plan Assets* (“FSP 132(R)-1”). FSP 132(R)-1 amends FASB Statement No. 132 (revised 2003), *Employers’ Disclosures about Pensions and Other Postretirement Benefits* (“SFAS 132”), to provide guidance on an employer’s disclosures about plan assets of a defined benefit pension plan or other postretirement plans. Specifically, FSP132(R)-1 illustrates guidance on concentrations of risk in pension and postretirement plans, and is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2009. We are currently evaluating the effect that FSP 132(R)-1 will have on our disclosures.

In November 2008, FASB issued Emerging Issues Task Force (“EITF”) No. 08-6, *Equity Method Investment Accounting Considerations* (“EITF 08-6”). EITF 08-6 clarifies the accounting for certain transactions and impairment considerations involving equity method investments. EITF 08-6 is effective for fiscal years and interim periods beginning after December 15, 2008. Early adoption of this statement is prohibited. We are currently evaluating the effect that EITF 08-6 will have on our consolidated financial statements.

In April 2008, FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets* (“FSP 142-3”). FSP 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under FASB Statement No. 142, *Goodwill and Other Intangible Assets* (“SFAS 142”). FSP 142-3 applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions, and is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Early adoption of this statement is prohibited. We are currently evaluating the effect that FSP 142-3 will have on our consolidated financial statements.

In March 2008, FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (“SFAS 161”). SFAS 161 applies to the disclosure requirements for all derivative instruments and hedged items accounted for under Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (“SFAS 133”) and its related interpretations. This statement amends and expands the disclosure requirements of SFAS 133, requiring qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts and gains and losses on derivative instruments, and disclosures about the credit risk related contingent features in derivative agreements. We are required to adopt this statement starting in 2009. We are currently evaluating the effect that this statement will have on the disclosures in our consolidated financial statements.

In December 2007, FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51* (“SFAS 160”). This statement will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. This statement is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the effect that SFAS 160 will have on our consolidated financial statements.

In December 2007, FASB issued Statement No. 141 (revised 2007), *Business Combinations* (“SFAS 141R”). This statement will change the accounting for business combinations in a number of areas including the treatment of contingent consideration, contingencies, acquisition costs, in-process research and development costs and restructuring costs. In addition, SFAS 141R changes the measurement period for deferred tax asset valuation allowances and acquired income tax uncertainties in a business combination. This statement is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the effect that SFAS 141R will have on our consolidated financial statements.

Recently Adopted Accounting Pronouncements

In October 2008, FASB issued FSP 157-3, *Determining Fair Value of a Financial Asset in a Market That Is Not Active* (“FSP 157-3”). FSP 157-3 clarifies the application of SFAS 157 by demonstrating how the fair value of a financial asset is determined when the market for that financial asset is inactive. FSP 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. We adopted this statement during the fourth fiscal quarter of 2008, and this adoption had no impact on our financial statements.

In February 2007, FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS 159”). This statement provides the option to report certain financial assets and lia