TECHNITROL, INC.
Form 10-Q
May 04, 2010

UNITED STATES
SECURITIES & EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x The Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the three months ended March 26, 2010, or

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

Commission File No. 1-5375

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

PENNSYLVANIA (State or other jurisdiction of incorporation or organization)	23-1292472 (IRS Employer Identification Number)
1210 Northbrook Drive, Suite 470 Trevose, Pennsylvania (Address of principal executive offices)	19053 (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for at least the past 90 days.
Yes x No o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of May 4, 2010: 41,242,286

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PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

Technitrol, Inc. and Subsidiaries
Consolidated Balance Sheets

In thousands

Assets	March 26, 2010 (unaudited)	December 25, 2009
Current assets:		
Cash and cash equivalents	$28,978	$ 39,707
Accounts receivable, net	62,194	70,237
Inventory	39,031	39,677
Prepaid expenses and other current assets	25,851	19,832
Assets of discontinued operations held for sale	62,702	84,672
Total current assets	218,756	254,125
Long-term assets:		
Property, plant and equipment	114,614	134,660
Less accumulated depreciation	78,759	94,256
Net property, plant and equipment	35,855	40,404
Deferred income taxes	34,413	34,700
Goodwill, net	--	15,857
Other intangibles, net	10,136	23,308
Other assets	11,489	11,517
	$310,649	$ 379,911
Liabilities and Equity		
Current liabilities:		
Accounts payable	$44,722	$ 49,614
Accrued expenses and other current liabilities	55,852	58,333
Liabilities held of discontinued operations held for sale	25,960	24,905
Total current liabilities	126,534	132,852
Long-term liabilities:		
Long-term debt	76,650	81,000
Convertible senior notes	50,000	50,000
Deferred income taxes	9,783	12,288
Other long-term liabilities	33,477	36,524
Equity:		
Technitrol, Inc. shareholders' equity:		
Common stock and additional paid-in capital	221,416	222,139
Retained loss	(248,184)	(194,257)
Accumulated other comprehensive earnings	29,605	28,304
Total Technitrol, Inc. shareholders' equity	2,837	56,186

Non-controlling interest	11,368	11,061
Total equity	14,205	67,247
	$310,649	$ 379,911

See accompanying Notes to Unaudited Consolidated Financial Statements.

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Technitrol, Inc. and Subsidiaries
Consolidated Statements of Operations

(Unaudited)
In thousands, except per share data

	Three Months Ended	
	March 26, 2010	March 27, 2009
Net sales	$92,860	$99,973
Cost of sales	73,268	77,504
Gross profit	19,592	22,469
Selling, general and administrative expenses	22,698	22,210
Severance, impairment and other associated costs	27,327	77,055
Operating loss	(30,433)	(76,796)
Other (expense) income:		
Interest expense, net	(1,349)	(679)
Other (expense) income, net	(5,904)	3,924
Total other (expense) income	(7,253)	3,245
Loss from continuing operations before income taxes	(37,686)	(73,551)
Income tax benefit	(2,142)	(56)
Net loss from continuing operations	(35,544)	(73,495)
Net loss from discontinued operations	(18,076)	(1,065)
Net loss	(53,620)	(74,560)
Less: Net earnings (loss) attributable to non-controlling interest	307	(12)
Net loss attributable to Technitrol, Inc.	$(53,927)	$(74,548)
Amounts attributable to Technitrol, Inc. common shareholders:		
Net loss from continuing operations	$(35,851)	$(73,483)
Net loss from discontinued operations	(18,076)	(1,065)
Net loss attributable to Technitrol, Inc.	$(53,927)	$(74,548)
Per share data:		
Basic loss per share:		
Net loss from continuing operations	$(0.88)	$(1.80)
Net loss from discontinued operations	(0.44)	(0.03)
Net loss attributable to Technitrol, Inc.	$(1.32)	$(1.83)
Diluted loss per share:		
Net loss from continuing operations	$(0.88)	$(1.80)
Net loss from discontinued operations	(0.44)	(0.03)
Net loss attributable to Technitrol, Inc.	$(1.32)	$(1.83)

See accompanying Notes to Unaudited Consolidated Financial Statements.

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Technitrol, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

(Unaudited)
In thousands

	Three Months Ended	
	March 26, 2010	March 27, 2009
Cash flows from operating activities - continuing operations:		
Net loss	$(53,620)	$(74,560)
Loss from discontinued operations	18,076	1,065
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	5,313	5,406
Goodwill and intangible asset impairment, net of income taxes	24,401	68,867
Changes in assets and liabilities, net of the effect of divestitures:		
Accounts receivable	7,519	(2,425)
Inventory	174	12,629
Prepaid expenses and other current assets	581	1,356
Accounts payable and accrued expenses	1,412	(10,280)
Severance, impairment and other associated costs, net of cash payments (excluding goodwill and intangible asset impairments)	385	3,286
Other, net	353	1,334
Net cash provided by operating activities	4,594	6,678
Cash flows from investing activities – continuing operations:		
Cash received from dispositions, net	1,245	--
Capital expenditures	(365)	(391)
Purchases of grantor trust investments available for sale	--	(2,370)
Proceeds from sale of property, plant and equipment	--	24
Foreign currency impact on intercompany lending	(5,732)	(3,321)
Net cash used in investing activities	(4,852)	(6,058)
Cash flows from financing activities – continuing operations:		
Principal payments on long-term debt	(4,350)	(2,500)
Dividends paid	(1,031)	(3,586)
Net cash used in financing activities	(5,381)	(6,086)
Net effect of exchange rate changes on cash from continuing operations:	(84)	(2,577)
Cash flows of discontinued operations:		
Net cash used in operating activities	(4,318)	(1,648)
Net cash used in investing activities	(412)	(2,768)
Net effect of exchange rate changes on cash	(276)	3,928
Net decrease in cash and cash equivalents from discontinued operations	(5,006)	(488)
Net decrease in cash and cash equivalents	(10,729)	(8,531)

Cash and cash equivalents at beginning of period	39,707	41,401
Cash and cash equivalents at end of period	$28,978	$32,870

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

Three Months Ended March 26, 2010

(Unaudited)
In thousands, except per share data

	Common stock and paid-in capital		Retained loss	Accumulated other comprehensive income	Non-controlling interest	Total equity	Comprehensive loss
	Shares	Amount					
Balance at December 25, 2009	41,242	$222,139	$(194,257)	$ 28,304	$ 11,061	$67,247	
Stock options, awards and related compensation	--	308	--	--	--	308	
Dividends declared ($0.025 per share)	--	(1,031)	--	--	--	(1,031)	
Net loss	--	--	(53,927)	--	307	(53,620)	$ (53,620)
Currency translation adjustments	--	--	--	1,004	--	1,004	1,004
Unrealized holding gains on securities	--	--	--	297	--	297	297
Comprehensive loss							$ (52,319)
Balance at March 26, 2010	41,242	$221,416	$(248,184)	$ 29,605	$ 11,368	$14,205	

See accompanying Notes to Unaudited Consolidated Financial Statements.

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Technitrol, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements

(1) Accounting policies

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

During 2009, we announced our intention to explore monetization alternatives with respect to our former Electrical Contract Products segment or Electrical, as we refer to it, or AMI Doduco, as it is known in its markets. This former segment is now a discontinued operation and is classified as held for sale in our Consolidated Financial Statements. Also, the results from our discontinued operations are presented in a single line on our Consolidated Statements of Operations for all periods presented. As a result, we currently operate our business in a single segment, our Electronic Components Group, which we refer to as Electronics and is known as Pulse in its markets.

Our Consolidated Financial Statements include the accounts of Technitrol, Inc. and all of our subsidiaries. All material intercompany accounts, transactions and profits are eliminated in consolidation. For a complete description of the accounting policies of Technitrol, Inc. and its consolidated subsidiaries, refer to Note 1 of Notes to Consolidated Financial Statements included in Technitrol, Inc.’s Form 10-K filed for the year ended December 25, 2009.

The results for the three months ended March 26, 2010 and March 27, 2009 have been prepared by our management without audit by our independent auditors. In the opinion of management, the consolidated financial statements fairly present in all material respects, the financial position, results of operations and cash flows for the periods presented. To the best of our knowledge and belief, all adjustments have been made to properly reflect income and expenses attributable to the periods presented. Except for severance, impairment and other associated costs, all such adjustments are of a normal recurring nature. Operating results for the three months ended March 26, 2010 are not necessarily indicative of annual results.

We have evaluated from March 26, 2010, the date of these financial statements, to the date the financial statements herein were issued for subsequent events requiring recognition or disclosure, and have recognized no material events.

Recently Adopted Accounting Pronouncements

In January 2010, FASB issued an Accounting Standards Update (“ASU”) which requires additional disclosures related to transfers between levels in the hierarchy of fair value measurement. This ASU is effective for interim and annual reporting periods beginning after December 15, 2009. Adoption of these provisions did not have a material impact on our financial statements.

In January, 2010, FASB issued an ASU to clarify the change in ownership guidance and to expand the required disclosures for the deconsolidation of a subsidiary. The update was effective beginning in the period that an entity adopted these provisions. Adoption of these provisions did not have a material impact on our financial statements.

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Technitrol, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements, continued

(1) Accounting policies, continued

In May 2009, FASB issued an ASC which establishes general standards of accounting for, and disclosures of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This ASC was effective for interim or fiscal periods ending after June 15, 2009. In December 2009, FASB amended this ASC to not require disclosure of the dates at which subsequent events were evaluated unless the filing is for restated financial statements. In February 2010, FASB again amended this ASC to not require disclosure of the dates at which subsequent events were evaluated for all SEC filers, including financial restatements. We have adopted these provisions.

New Accounting Pronouncements

In October 2009, FASB issued an ASU to address the accounting for multiple-deliverable sales arrangements. The update provides guidance to enable vendors to account for products or services (deliverables) separately, rather than as a combined unit. This ASU also expands the required disclosures related to a vendor's multiple-deliverable revenue arrangements. This guidance will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We are currently evaluating the effect that this ASU may have on our financial statements.

Reclassifications

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

(2) Divestitures

Electrical: In 2009, our board of directors approved a plan to divest our Electrical Contact Products Group ("Electrical"). Electrical 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. On January 4, 2010, we divested the North American operations of Electrical for an amount immaterial to our Consolidated Financial Statements. Electrical's remaining assets and liabilities are classified as held for sale at March 26, 2010. We have reflected the results of Electrical as a discontinued operation on the Consolidated Statements of Operations for all periods presented.

Electrical's net sales and loss before income taxes for the three months ended March 26, 2010 and March 27, 2009, respectively, were as follows (in thousands):

	March 26, 2010	March 27, 2009
Net sales	$ 70,849	$ 58,624
Loss before income taxes	(18,475)	(3,102)

Electrical's loss before income taxes includes interest expense allocated pro-rata based upon the debt expected to be retired from the Electrical disposition and a write down of Electrical's European and Asian net assets to the expected net proceeds we anticipate receiving on the completion of the sale. These charges were approximately $20.8 million and $0.8 million for the three months ended March 26, 2010 and March 27, 2009, respectively.

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Technitrol, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements, continued

(2) Divestitures, continued

The following table summarizes Electrical's assets and liabilities that are held for sale as of March 26, 2010 (in millions):

		March 26, 2010
Accounts receivable	$	44.8
Inventory		5.1
Prepaid expenses and other current assets		5.1
Total current assets		55.0
Net property, plant and equipment		1.7
Other long-term assets		6.0
Total assets	$	62.7
Accounts payable	$	10.2
Accrued expenses and other current liabilities		15.6
Total current liabilities		25.8
Other long-term liabilities		0.2
Total liabilities	$	26.0

The assets are available for immediate sale in their present condition subject only to terms that are usual and customary. Although we continue to manufacture Electrical products, we expect that open customer orders will be transferred to the buyer upon divestiture.

Medtech: On June 25, 2009, we completed the disposition of our Medtech components business ("Medtech") to Altor Fund III ("Altor"). Medtech was headquartered in Roskilde, Denmark with manufacturing facilities in Denmark, Poland and Vietnam producing components for the hearing aid, high-end audio headset and medical device markets. Our net cash proceeds were approximately $198.3 million in cash, which reflects the initial proceeds received in June 2009 net of the final working capital and financial indebtedness adjustments agreed to in January 2010. The net proceeds were used primarily to repay outstanding debt. We have reflected the results of Medtech as a discontinued operation on the Consolidated Statement of Operations for all periods presented.

Medtech's net sales and (loss) earnings before income taxes for the three months ended March 26, 2010 and March 27, 2009, respectively, were as follows (in thousands):

		March 26, 2010			March 27, 2009
Net sales	$	--		$	23,610
(Loss) earnings before income taxes		(230	)		5,835

Medtech's loss before income taxes for the three months ended March 27, 2009 includes interest expense of $2.2 million allocated pro-rata based upon the debt retired from the proceeds of the Medtech disposition. No interest expense was allocated to Medtech during the three months ended March 26, 2010.

All open customer orders were transferred to Altor upon disposition. We have had no material continuing involvement with Medtech.

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Technitrol, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements, continued

(2) Divestitures, continued

MEMS: During 2008, we divested our microelectromechanical systems (“MEMS”) microphone business located in Denmark and Vietnam. In the second quarter of 2009, we received an amount immaterial to our Consolidated Financial Statements for the net assets of MEMS. To reflect MEMS’ net assets at their net sales proceeds, we recorded a $2.7 million charge during 2009. We have reflected the results of MEMS as a discontinued operation on the Consolidated Statements of Operations for all periods presented.

MEMS net sales and loss before income taxes for the three months ended March 26, 2010 and March 27, 2009, respectively, were as follows (in thousands):

	March 26, 2010	March 27, 2009
Net sales	$ 14	$ 227
Loss before income taxes	(249)	(5,161)

During 2010, MEMS is contractually obligated to fulfill an immaterial amount of customer orders and incurred administrative expenses associated with the closure of the business. There are currently no third party assets or liabilities that remain on our Consolidated Balance Sheet as of March 26, 2010.

(3) Inventory

Inventory consisted of the following (in thousands):

	March 26, 2010	December 25, 2009
Finished goods	$ 16,080	$ 17,772
Work in process	7,121	6,101
Raw materials and supplies	15,830	15,804
	$ 39,031	$ 39,677

(4) Goodwill and Other Intangible Assets

We assess the impairment of long-lived assets, including identifiable intangible assets subject to amortization and property, plant and equipment, 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, changes in projected operating performance, stock price and other significant negative economic trends.

We also perform an annual review of goodwill 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 the recorded goodwill is impaired. 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 its fair value, we would perform the second step of the impairment test that requires 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 three reporting units, which are our legacy Electronics unit, including our power and network groups but excluding a component of our connector product line known as FRE, our wireless group and FRE.

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Technitrol, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements, continued

(4) Goodwill and Other Intangible Assets, continued

Our impairment review incorporates both an income and comparable-companies market approach to estimate potential impairment. 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 an income approach.

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 completed in our fourth fiscal quarter each year. However, estimated future cash flows are updated in conjunction with any goodwill recoverability analysis that is performed separately from our annual review. The growth rates we use are an estimate of the future growth in the industries in which we participate, and are adjusted, if necessary, for issues specific to our business and our position in our industry. 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 our peer companies to compute our estimated fair value. The majority 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 an unexpected decline in our actual and forecasted sales and a decrease in the operating profit of our wireless group, we performed step one of the goodwill impairment test as of March 26, 2010. This unexpected business decline became known to us at the end of the first quarter of 2010 in conjunction with the preparation of our Consolidated Financial Statements. Our wireless group did not pass the first step of the impairment test. The second step of the goodwill impairment test resulted in a $14.6 million impairment to the wireless group's goodwill. The assumptions used in the impairment test performed at March 26, 2010 were consistent with those used in our 2009 annual impairment review, except for the impact of the forecasted decline in our wireless group's operating results.

Changes in the carrying amount of goodwill for the three months ended March 26, 2010 were as follows (in thousands):

Balance at December 25, 2009:		
Goodwill	$	86,839
Accumulated impairment losses		(70,982)
Goodwill, net	$	15,857
Changes in the carrying amount of goodwill:		
Goodwill impairment	$	(14,620)
Currency translation adjustment		(1,237)
Net changes in the carrying amount of goodwill	$	(15,857)
Balance at March 26, 2010:		
Goodwill	$	85,602
Accumulated impairment losses		(85,602)
Goodwill, net	$	--

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Technitrol, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements, continued

(4) Goodwill and Other Intangible Assets, continued

Other intangible assets as of March 26, 2010 were as follows (in thousands):

	March 26, 2010	December 25, 20