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TECHNITROL INC  
Form 10-K  
March 01, 2004

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, 2003

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-5375

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

PENNSYLVANIA  
(State of Incorporation)

23-1292472  
(IRS Employer Identification Number)

1210 Northbrook Drive, Suite 385, Trevose, Pennsylvania 19053  
(Address of principal executive offices) (Zip Code)

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

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

Title of each class -----	Name of each Exchange on which registered -----
Common Stock par value \$.125 per share	New York Stock Exchange
Common Stock Purchase Rights	New York Stock Exchange

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 an accelerated filer (as defined in Rule 12b-2 of the Act).

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YES

NO

The aggregate market value of voting stock held by non-affiliates as of June 27, 2003 is \$605,244,000 computed by reference to the closing price on the New York Stock Exchange on such date.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of February 20, 2004.

Title of each class -----	Number of shares outstanding February 20, 2004 -----
Common stock par value \$.125 per share	40,279,331

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement to be used in connection with the registrant's 2004 Annual Meeting of Shareholders 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 passive magnetics-based electronic components and electrical contact products and materials. We sometimes refer to Technitrol as "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 size of our primary markets in annual revenues and our share of those markets relative to our competitors. Passive magnetics-based electronic components are used in virtually all types of electronic products to manage and regulate electronic signals and power. 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, provides 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 operate our business in two distinct segments: the electronic components segment, which operates under the name Pulse, and the electrical contact products segment, which operates globally under the name AMI Doduco. We refer to these segments as ECS or Pulse, and ECPS or AMI Doduco, respectively. Note 1 to the Consolidated Financial Statements contains additional acquisitions information.

We incorporated in Pennsylvania on April 10, 1947 and we are headquartered in Trevose, PA. Our mailing address is 1210 Northbrook Drive, Suite 385, Trevose, PA 19053-8406, and our telephone number is 215-355-2900. Our website is [www.technitrol.com](http://www.technitrol.com).

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### Pulse

Pulse designs and manufactures a wide variety of highly-customized passive magnetics-based electronic components. These components manage and regulate electronic signals and power for use in a variety of devices by filtering out radio frequency interference and adjusting and ensuring proper current and voltage. These products are often referred to as chokes, inductors, filters and transformers. Pulse sells its products to primarily multinational original equipment manufacturers, contract manufacturers and distributors.

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

- o consumer electronics;
- o enterprise networking;
- o military/aerospace;
- o power conversion; and
- o telecommunications.

Representative end products that use Pulse's components include:

- o broadband access equipment including cable modems and digital subscriber line, or DSL, devices for telephone central office and home use;
- o Ethernet switches;
- o military/aerospace navigation and weapon guidance systems;
- o power supplies;
- o routers;
- o televisions and DVD players;
- o laptop computers;
- o video game consoles; and
- o voice over Internet equipment.

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Pulse's products are generally characterized by relatively short life cycles and rapid technological change. This allows us to utilize our design and engineering expertise to meet our customers' ever evolving needs. We believe that the industries served by Pulse have been, and will continue to be, characterized by ongoing product innovation that will drive the growth in the passive magnetics-based electronic components industry. We sometimes refer to the Pulse business, excluding products made by factories which we acquired in the Eldor acquisition in 2003, as the legacy business of Pulse, or "Pulse legacy".

Pulse generated \$294.1 million, or 57.8% of our revenues, for the year ended December 26, 2003, and \$204.6 million, or 50.3% of our revenues, for the year ended December 27, 2002. Note 14 to the Consolidated Financial Statements contains additional segment information.

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### AMI Doduco

AMI Doduco 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. AMI Doduco provides its customers with a broad array of highly engineered products and tools designed to meet unique customer needs. AMI Doduco sells products primarily to multinational original equipment manufacturers.

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

- o appliance;
- o automotive;
- o residential and non-residential construction circuitry;
- o commercial and industrial controls;
- o electric power distribution;
- o telephone equipment; and
- o consumer products (fine jewelry).

Representative end products that use AMI Doduco's products include:

- o electrical circuit breakers;
- o motor and temperature controls;
- o power substations;
- o sensors;
- o switches and relays;
- o telephone equipment; and
- o wiring devices.

AMI Doduco's products are generally characterized by longer life cycles and slower technological change than those of Pulse. We believe that technological developments in some of the industries served by AMI Doduco, particularly in the electric power, appliance and automotive industries, along with opportunities arising from customer outsourcing and consolidation of the electrical contact industry, may present attractive growth opportunities for AMI Doduco.

AMI Doduco generated \$215.2 million, or 42.2% of our revenues, for the year ended December 26, 2003, and \$201.8 million, or 49.7% of our revenues, for the year December 27, 2002. Note 14 to the Consolidated Financial Statements contains additional segment information.

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

Primary Products	Function	Appl
Discrete Filter or Choke	Separates high and low frequency signals	Network switches, routers, computers Phone, fax and alarm digital subscriber li
Filtered Connector, which combines a filter with a connector	Removes interference, or noise, from circuitry and connects electronic applications	Local area networks, networks, or WANs, eq computers and video g
Inductor/chip inductor	Regulates electrical current under conditions of varying load	AC/DC & DC/DC power s  Mobile phones and por
Power Transformer	Modifies circuit voltage	AC/DC & DC/DC power s
Signal Transformer	Limits distortion of signal as it passes from one medium to another	Analog circuitry  Military/aerospace na guidance systems
Flyback Transformer	Generates high voltages to illuminate cathode ray picture tubes	Televisions

Within each segment, our primary products are similar in design, material content, production process, application and customer base. We continually introduce new or improved products in response to customers' needs and changes within the markets served.

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

Within each segment, our primary products are similar in design, material content, production process, application and customer base. We continually

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introduce new or improved products in response to customers' needs and changes within the markets served.

### Sales, Marketing and Distribution

Pulse and AMI Doduco 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, 2003, Pulse had approximately 42 salespeople and 9 sales offices worldwide and AMI Doduco had approximately 34 salespeople and 10 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.

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### Customers and End Markets

We sell our products and services to original equipment manufacturers ("OEMs"), which design, build and market end-user products. Pulse also sells its products to contract equipment manufacturers ("CEMs"), which contract with OEMs to manufacture the OEM's products, as well as to independent distributors, which sell components and materials to both OEMs and CEMs. In recent years, the trend in the electronics industry has been for many OEMs to use CEMs primarily or exclusively to build their products. 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 purchase our products through CEMs or independent distributors. In order to maximize our sales opportunities, Pulse's engineering and sales teams also maintain close relationships with CEMs and distributors.

No customer of either Pulse or AMI Doduco accounted for more than 10% of our consolidated net sales for the year ended December 26, 2003 or the year ended December 27, 2002. Sales to our ten largest customers accounted for 30.6% of net sales for the year ended December 26, 2003 and 29.7% of net sales for the year ended December 27, 2002.

An increasing percentage of our sales in recent years has been outside of the United States. We now have manufacturing operations in 10 countries. For the year ended December 26, 2003, 76% of our net sales were outside of the United States. During the year ended December 27, 2002, 69% of our net sales were to customers outside of the United States. Sales made by Pulse to its customers outside the United States accounted for 77% of its net sales for the year ended December 26, 2003 and 70.1% of its net sales for the year ended December 27, 2002. Sales made by AMI Doduco to its customers outside the United States accounted for 75% of its net sales for the year ended December 26, 2003 and 67.4% of its net sales for the year ended December 27, 2002.

### Development and Engineering

Our development and engineering efforts are focused on the design and development of innovative products in collaboration with our customers. We work closely with OEMs to identify their design and engineering requirements. We

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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. Pulse's design process is a disciplined, orderly process that uses a product data management system to track the level of design activity enabling us to manage and improve how our engineers design products. Pulse typically owns the customized designs that it uses to make its products.

Pulse's development and engineering expenditures were \$14.5 million for the year ended December 26, 2003, \$13.9 million for the year ended December 27, 2002 and \$16.0 million for the year ended December 28, 2001. AMI Doduco's development and engineering expenditures were \$4.0 million for the year ended December 26, 2003, \$3.9 million for the year ended December 27, 2002 and \$4.2 million for the year ended December 28, 2001. We intend to continue to invest in personnel and new technologies to improve product performance.

### Competition

We believe we are a market leader in the primary markets we serve based on our estimates of the size of our primary markets in annual revenues and our share of those markets relative to our competitors. We do not believe that any one company competes with all of the product lines of either Pulse or AMI Doduco on a global basis. However, both Pulse and AMI Doduco frequently encounter strong competition within individual product lines, both domestically and internationally. In addition, several OEMs internally manufacture many of the products offered by Pulse or AMI Doduco. We believe that this represents an opportunity to capture additional market share as OEMs decide to outsource component operations. Therefore, we constantly work to identify these opportunities and to convince these OEMs that our economies of scale, purchasing power and manufacturing core competencies enable us to produce these products better and more efficiently. Increasingly, Pulse's competitors are situated in the Far East and enjoy very low cost structures and little or no cost of capital. Many of these new competitors aggressively seek market share at the expense of profits.

Competitive factors in the markets for our products include:

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

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- o customer service; and
- o delivery time.

We believe we compete favorably on the basis of each of these factors. Product quality and reliability, as well as design and manufacturing capabilities, are enhanced through our commitment to continually 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 their entire magnetic component and contact needs through one supplier. Our global presence enables us to deepen our relationship with our customers and to better understand and more easily satisfy the needs of local markets. In addition, our ability to purchase raw materials

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in large quantities reduces our manufacturing costs, enabling us to price our products competitively.

### Employees

As of December 26, 2003, we had approximately 18,600 full-time employees as compared to 19,000 as of December 27, 2002. Of the 18,600 full-time employees, approximately 700 were located in the United States and approximately 100 employees in the United States were covered by collective-bargaining arrangements. In addition, some foreign employees are members of trade and government-affiliated unions. 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. Such employees numbered approximately 9,800 and 8,600 as of December 26, 2003 and December 27, 2002, respectively. 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:

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

We do not currently have difficulty obtaining any of our raw materials and do not currently anticipate that we will face any significant difficulties in the near future. However, many of the raw materials we use are considered commodities and are subject to price volatility. Although we are not dependent on any one particular source of supply, several of our raw materials are only sold by a limited number of suppliers, which may have an adverse effect on the price of these materials. Should prices rise or a shortage occur in any necessary raw material, our manufacturing costs will likely increase, which may result in lower margins or decreased sales if we were unable to pass along the price increase to our customers.

AMI Doduco uses precious metals, primarily silver, in manufacturing a vast majority of its electrical contacts, contact materials and contact subassemblies. Historically, we have leased or held these materials through consignment arrangements with our suppliers. Leasing and consignment costs have generally been substantially below the costs to borrow funds to purchase the metals and these arrangements eliminate the fluctuations in the market price of owned precious metal. AMI Doduco's terms of sale allow us to charge customers for the fabricated market value of silver on the day after we deliver the silver bearing product to the customer. See additional discussion of precious metals beginning on page 20.

### Backlog

Our backlog of orders at December 26, 2003 was \$65.6 million compared to \$51.4 million at December 27, 2002. We expect to ship the majority of the backlog over the next six months. Customers can cancel orders at any time, sometimes requiring a payment of cancellation charges. We do not believe that backlog is an accurate indicator of near-term business activity as customers may make multiple orders of the same component from multiple sources when lead times are long and may cancel orders when business is weak and inventories are excessive. Moreover, in the last two years, many customers have negotiated vendor managed inventory and other similar consignment type arrangements with us. Orders from these arrangements typically are not reflected in backlog. Similarly, many of AMI Doduco's products are repeat products which are



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continuously ordered by customers by phone for delivery within several days and such orders generally are not included in backlog.

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### Intellectual Property

We own a number of patents and have acquired the use of patents of others under license agreements, which impose restrictions on our ability to utilize the intellectual property. We seek to limit disclosure of our intellectual property by generally requiring employees and consultants with access to our proprietary information to execute confidentiality agreements with us and by restricting access to our proprietary information.

Existing legal protections afford only limited protection for our products. 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 may not fully protect products or technology that we consider to be our own, and claims of intellectual property infringement may be asserted against us or against our customers in connection with their use of our products.

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

### Environmental

Our manufacturing operations are subject to a variety of local, state, federal, and international environmental laws and regulations governing air emissions, wastewater discharges, the storage, use, handling, disposal and remediation of hazardous substances and wastes and employee health and safety. It is our policy to meet or exceed the environmental standards set by these laws.

We are involved in several legal actions relating to non-owned waste disposal sites. Our involvement in these matters has generally arisen from the legal disposal of small amounts of waste material many years ago. In addition, we are aware of contamination at two locations. In Sinsheim, Germany, there is shallow groundwater and soil contamination that is naturally decreasing over time. The German environmental authorities have not required corrective action to date. A property in Leesburg, Indiana, which was acquired with our acquisition of GTI Corporation in 1998, is the subject of a 1994 Corrective Action Order to GTI by the Indiana Department of Environmental Management. The order requires us to investigate and take corrective actions. Monitoring data is being collected to confirm and implement the corrective measures. We anticipate making additional environmental expenditures in future years to continue our environmental studies, analysis and remediation activities.

While we cannot predict the future costs of environmental studies, cleanup activities, capital expenditures, or operating costs for environmental compliance at our present or former facilities or any third party disposal sites, we do not believe such costs, individually or in the aggregate, will have a material impact on our operations or our consolidated financial position, liquidity or operating results.

### Available Information

We make available free of charge on our website, [www.technitrol.com](http://www.technitrol.com), all materials that we file electronically with the Securities and Exchange

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Commission, 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, as soon as reasonably practicable after we electronically file or furnish such materials to the SEC.

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

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

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

### Risk Factors

Cyclical changes in the markets we serve, including the recent contraction, could result in a significant decrease in demand for our products and reduce our profitability.

Our components are used in various products for the electronic and electrical equipment markets. These markets are highly cyclical. The demand for our components reflects the demand for products in the electronic and electrical equipment markets generally. Beginning in late 2000 and continuing into 2002, these markets, particularly the electronics market, experienced a severe worldwide contraction. This contraction resulted in a decrease in demand for our products, as our customers:

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

The decrease in demand for our products had a significant adverse effect on our operating results and profitability. While these markets have shown signs of recovery in varying degrees for the last twelve months, we cannot predict the duration or strength of any recovery. Accordingly, we may continue to experience volatility in both our revenues and profits.

Reduced prices for our products may adversely affect our profit margins if we

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are unable to reduce our costs of production.

The average selling prices for our products tend to decrease over their life cycle. In addition, the recent economic contraction has significantly increased the pressure on our customers to seek lower prices from their suppliers. As a result, our customers are likely to continue to demand lower prices from us. To maintain our margins and remain profitable, we must continue to meet our customers' design needs while reducing costs through efficient raw material procurement and process and product improvements. Our profit margins will suffer if we are unable to reduce our costs of production as sales prices decline.

An inability to adequately respond to changes in technology may decrease our sales.

Pulse operates in an industry characterized by rapid change caused by the frequent emergence of new technologies. Generally, we expect life cycles for our products in the electronic components industry to be relatively short. This requires us to anticipate and respond rapidly to changes in industry standards and customer needs and to develop and introduce new and enhanced products on a 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. Our inability to react to changes in technology quickly and efficiently may decrease our sales and profitability.

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

The life cycles of our products depend heavily upon the life cycles of the end products into which our products are designed. Many of Pulse's products have very short life cycles which are measured in quarters. Products with short life cycles require us to closely manage our production and inventory levels. Inventory may become obsolete because of adverse changes in end market demand. During market slowdowns, this may result in significant charges for inventory write-offs, as was the case during 2001. Our future operating results may be adversely affected by material levels of obsolete or excess inventories.

An inability to capitalize on our recent or future acquisitions may adversely affect our business.

In recent years we have completed several acquisitions. We continually seek acquisitions to grow our business. We may fail to derive significant benefits from our acquisitions. In addition, if we fail to achieve sufficient financial performance from an acquisition, goodwill and other intangibles could become impaired, resulting in our

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recognition of a loss. In 2002, we recorded a goodwill impairment charge of \$15.7 million related to AMI Doduco and a trade name impairment charge of \$32.1 million related to Pulse. In 2003, we recorded an equity method investment loss of \$8.7 million related to our investment in FRE. The degree of success of any of our acquisitions depends on our ability to:

- o successfully integrate or consolidate acquired operations into our existing businesses;
- o identify and take advantage of cost reduction opportunities; and
- o further penetrate the markets for the product capabilities acquired.

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

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

Integration of acquisitions into the acquiring segment may limit the ability of investors to track the performance of individual acquisitions and to analyze trends in our operating results.

Our historical practice has been to quickly integrate acquisitions into the existing business of the acquiring segment and to report financial performance on the segment level. As a result of this practice, we do not separately track the stand-alone performance of acquisitions after the date of the transaction. Consequently, investors cannot quantify the financial performance and success of any individual acquisition or the financial performance and success of a particular segment excluding the impact of acquisitions. In addition, our practice of quickly integrating acquisitions into the financial performance of each segment may limit the ability of investors to analyze any trends in our operating results over time.

An inability to identify additional acquisition opportunities may slow our future growth.

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

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

Most of our sales are made on a purchase order basis as needed by our customers. In addition, to the extent we have agreements in place with our customers, most of these agreements are either short term in nature or provide our customers with the ability to terminate the arrangement with little or no prior notice. Our contracts typically do not provide us with any material recourse in the event of non-renewal or early termination. We will lose business and our revenues will decrease if a significant number of customers:

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

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

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We have grown rapidly over the last ten years, both organically and as a result of acquisitions. However, in 2001 and 2002 we significantly reduced our workforce and facilities in response to a dramatic decrease in demand for our products due to prevailing global market conditions. These rapid fluctuations place strains on our resources and systems. If we do not effectively manage our resources and systems, our business may suffer.

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

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

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

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

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

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

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

Some of our raw materials, such as precious metals, are considered commodities and are subject to price volatility. We attempt to limit our exposure to fluctuations in the cost of precious materials, including silver, by holding the majority of our precious metal inventory through leasing or consignment arrangements with our suppliers. We then typically purchase the precious metal from our supplier at the current market price on the day after delivery to our customer and pass this cost on to our customer. In addition, leasing and consignment costs have historically been substantially below the costs to borrow funds to purchase the precious metals. We currently have four consignment or leasing agreements related to precious metals, all of which

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generally have one year terms with varying maturity dates, but can be terminated by either party with 30 days' prior notice. Our results of operations and liquidity will be negatively impacted if:

- o we are unable to enter into new leasing or consignment arrangements with similarly favorable terms after our existing agreements terminate, or
- o our leasing or consignment fees increase significantly in a short period of time and we are unable to recover these increased costs through higher sale prices.

Fees charged by the consignor are driven by interest rates and the market price of the consigned material. The market price of the consigned material is determined by the supply of and the demand for the material. Consignment fees will increase if interest rates or the price of the consigned material increase.

Competition may result in lower prices for our products and reduced sales.

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

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

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- o on-time delivery.

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

Our backlog is not an accurate measure of future revenues and is subject to customer cancellation.

While our backlog consists of firm accepted orders with an express release date generally scheduled within six months of the order, many of the orders that comprise our backlog may be canceled by customers without penalty. It is widely known that customers in the electronics industry have on occasion double and triple-ordered components from multiple sources to ensure timely delivery when quoted lead time is particularly long. In addition, customers often cancel orders when business is weak and inventories are excessive, a process that we experienced in the recent contraction. Although backlog should not be relied on as an indicator of our future revenues, our results of operations could be adversely impacted if customers cancel a material portion of orders in our backlog.

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

We manufacture and sell our products in various regions of the world and export and import these products to and from a large number of countries.

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Fluctuations in exchange rates could negatively impact our cost of production and sales that, in turn, could decrease our operating results and cash flow. Although we engage in limited hedging transactions, including foreign currency contracts, to reduce our transaction and economic exposure to foreign currency fluctuations, these measures may not eliminate or substantially reduce our risk in the future.

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

We manufacture and assemble some of our products in foreign locations, including the Peoples' Republic of China, or PRC, and Turkey. In addition, approximately 76% of our revenues for the year ended December 26, 2003 were derived from sales to customers outside the United States. Our future operations and earnings may be adversely affected by the risks related to, or any other problems arising from, operating in international markets.

Risks inherent in doing business internationally may include:

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

In particular, Pulse has substantially all of its non-consumer manufacturing operations in the PRC. Our presence in the PRC has enabled Pulse to maintain lower manufacturing costs and to flexibly adjust our work force to demand levels for our products. Although the PRC has a large and growing economy, the potential economic, political, legal and labor developments entail uncertainties and risks. While the PRC has been receptive to foreign investment, we cannot be certain that its current policies will continue indefinitely into the future. In the event of any changes that adversely affect our ability to conduct our operations within the PRC, our business will suffer. In early 2003, we acquired the consumer business of Eldor Corporation. While this business is headquartered in Italy, substantially all of its manufacturing operations are in Turkey. These operations in Turkey are subject to unique risks, including those associated with continuing Middle East geo-political events.

We have benefited over recent years from favorable tax treatment as a result of our international operations. We operate in foreign countries where we realize favorable income tax treatment relative to the U.S. statutory rate. We have also been granted special tax incentives commonly known as tax holidays in other countries such as the PRC and Turkey. This favorable situation could change if these countries were to increase rates or revoke the special tax incentives, or if we discontinue our manufacturing operations in any of these countries and do not replace the operations with operations in other locations with favorable tax incentives. Accordingly, in the event of changes in laws and regulations affecting our international operations, we may not be able to continue to take advantage of similar benefits in the future.

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Shifting our operations between regions may entail considerable expense.

In the past we have shifted our operations from one region to another in order to maximize manufacturing and operational efficiency. We may close one or more additional factories in the future. This could entail significant one-time earnings charges to account for severance, equipment write-offs or write-downs and moving expenses. In addition, as we implement transfers of our operations we may experience disruptions, including strikes or other types of labor unrest resulting from layoffs or termination of employees.

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

A significant portion of our cash is held offshore by our international subsidiaries and is predominantly denominated in U.S. dollars. While we intend to use cash held overseas to fund our international operation and growth, if we encounter a significant domestic need for liquidity that we cannot fulfill through borrowings, equity offerings, or other internal or external sources, we may experience unfavorable tax and earnings consequences if this cash is transferred to the United States. These adverse consequences would occur if the transfer of cash into the United States is taxed and no offsetting foreign tax credit is available to offset the U.S. tax liability, resulting in lower earnings. In addition, we may be prohibited from transferring cash from the PRC. With the exception of approximately \$13.0 million of non-cash retained earnings as of December 26, 2003 in primarily the PRC that are restricted in accordance with the PRC Foreign Investment Enterprises Law, substantially all retained earnings are free from legal or contractual restrictions. The PRC Foreign Investment Enterprise Law restricts 10% of our net earnings in the PRC, up to a maximum amount equal to 50% of the total capital we have invested in the PRC. We have not experienced any significant liquidity restrictions in any country in which we operate and none are presently foreseen. However, foreign exchange ceilings imposed by local governments and the sometimes lengthy approval processes which some foreign governments require for international cash transfers may delay our internal cash movements from time to time.

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

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

Public Health Epidemics (such as Severe Acute Respiratory Syndrome) or Other Natural Disasters (such as Earthquakes or Fires) May Disrupt Operations in Affected Regions and Affect Operating Results.

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

Environmental liability and compliance obligations may affect our operations and



results.

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

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

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

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we acquire. In addition, it is possible that we may be held liable for contamination discovered at our present or former facilities.

We are aware of contamination at two locations. In Sinsheim, Germany, there is a shallow groundwater and soil contamination that is naturally decreasing over time. The German environmental authorities have not required corrective action to date. In addition, property in Leesburg, Indiana, which was acquired with our acquisition of GTI in 1998, is the subject of a 1994 Corrective Action Order to GTI by the Indiana Department of Environmental Management. The order requires us to investigate and take corrective actions. Monitoring data is being collected to confirm and implement the corrective measures. We anticipate making additional environmental expenditures in future years to continue our environmental studies, analysis and remediation activities. Based on current knowledge, we do not believe that any future expenses or liabilities associated with environmental remediation will have a material impact on our operations or our consolidated financial position, liquidity or operating results, however, we may be subject to additional costs and liabilities if the scope of the contamination or the cost of remediation exceeds our current expectations.

## Item 2 Properties

We are headquartered in Trevoze, Pennsylvania where we lease 11,000 square feet of office space. Through Pulse and AMI Doduco, we operated 18 manufacturing plants in 10 countries as of December 26, 2003. We continually seek to size our operations correctly 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 lower labor 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 in proximity to our customers.

The following is a list of the locations of our principal manufacturing facilities at December 26, 2003:

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Pulse Location (1) -----	Approx. Square Ft. (2) -----	Owned/ Leased -----	Percentage Used For Manufacturing -----
Dongguan, People's Republic of China, or PRC	290,000	Leased	100%
Izmir, Turkey	251,000	Owned	80%
Zhuhai, PRC	208,000	Leased	100%
Zhongshan, PRC	111,000	Leased	100%
Istanbul, Turkey	31,000	Leased	90%
Greensboro, Maryland	20,000	Owned	95%
	-----		
Total	911,000		

(1) In addition to these manufacturing locations, Pulse has 254,000 square feet of space which is used for engineering, sales and administrative support functions at various locations, including Pulse's headquarters in San Diego, California. In addition, Pulse leases approximately 1,613,000 square feet of space for dormitories, canteen 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.

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AMI Doduco Location (1) -----	Approx. Square Ft. -----	Owned/ Leased -----	Percentage Used For Manufacturing -----
Pforzheim, Germany	490,000	Owned	65%
Sinsheim, Germany	222,000	Owned	55%
Reidsville, North Carolina	260,000	Owned	60%
Export, Pennsylvania	115,000	Leased	80%
Tianjin, PRC	62,000	Leased	85%
Bussy, France	25,000	Leased	100%
Luquillo, Puerto Rico	32,000	Owned	80%
Madrid, Spain	32,000	Owned	95%
Mexico City, Mexico	25,000	Leased	85%
Lentate S/Seveso, Italy	23,000	Leased	90%
Dorog, Hungary	11,000	Leased	80%
	-----		
Total	1,297,000		

(1) Engineering, sales and administrative support functions for AMI Doduco are generally contained in these locations.

We have developed our manufacturing processes in ways intended to maximize our economic profitability. Accordingly, the manufacturing processes at Pulse facilities maintain a cost structure that is labor intensive and highly variable, except for the Consumer Division manufacturing locations in Izmir, Turkey which are highly automated. The labor intensity at legacy Pulse facilities enables us to increase and decrease production rapidly and to contain costs during slower periods, whereas Pulse's manufacturing plants in Izmir, Turkey are highly automated and therefore very sensitive to the volume of production. On the other hand, AMI Doduco's products tend to have longer business cycles, longer time to market and are more capital intensive than legacy Pulse products. As a result, we have automated or mechanized many functions at AMI Doduco facilities and vertically integrated our products in an

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attempt to utilize all of our manufacturing capabilities to create higher value added products.

Traditionally, 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. We also service customers that design their own components and outsource production of these components to us. We then build the components to the customer's design.

The productive capacity and extent of utilization of our facilities are difficult to quantify. In any one facility, maximum capacity and utilization vary periodically depending on the segment's manufacturing strategies, the product being manufactured and the current market conditions and demand. We estimate that our average utilization of overall production capacity in 2003 was between 75% to 85% for Pulse and 65% to 70% for AMI Doduco.

### Item 3 Legal Proceedings

We are a party to various legal proceedings and administrative actions. See Discussion in Note 7 to the Audited Financial Statements. We expect lawsuits 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

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## 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. The dividends paid are also shown. All amounts reflect stock splits through December 26, 2003.

	First Quarter -----	Second Quarter -----	Third Quarter -----	Fourth Quarter -----
2003 High	\$17.65	\$18.34	\$21.00	\$24.43
2003 Low	\$13.50	\$14.31	\$14.95	\$19.20
2003 Dividends Paid	--	--	--	--
2002 High	\$31.40	\$27.24	\$23.30	\$18.25
2002 Low	\$20.12	\$21.26	\$14.55	\$12.66
2002 Dividends Paid	\$.03375	--	--	--

On December 26, 2003, there were approximately 1,290 registered holders of our common stock, which has a par value of \$.125 per share and is the only class of stock that we have outstanding. See additional discussion on restricted earnings in Item 7, Liquidity and Capital Resources, and in Note 8 of Notes to

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### Consolidated Financial Statements.

On April 11, 2002 we completed a follow-on offering of 6,348,000 shares of our common stock. The proceeds of the offering, net of expenses, were approximately \$134.7 million. These proceeds resulted in a common stock increase of \$0.8 million and an additional paid-in capital increase of \$133.9 million.

After paying a dividend of \$0.03375 per share on January 25, 2002 to shareholders of record on January 4, 2002, we discontinued regular quarterly cash dividends on our common stock. We currently intend to retain future earnings to finance the growth of our business.

Information as of December 26, 2003 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 or grant of restricted shares or other incentive shares	Weighted average exercise price of outstanding options	Number of securi remaining avail for future issu
Equity compensation plans			
Approved by security holders	5,960,000	\$19.91	3,118,576
Equity compensation plans not			
Approved by security holders	0	0	0
Total	5,960,000	\$19.91	3,118,576

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 Executive 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

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were adopted under the ICP. In addition to the ICP, plans approved by us include a 60,000 share Board of Director Stock Plan and an Employee Stock Purchase Plan. The maximum number of shares which may be issued under our Employee Stock Purchase Plan is 1,000,000 shares, provided, however, that such amount will be automatically increased annually beginning on August 1, 2002 in an amount equal to the least of (a) 200,000 shares, (b) two percent (2%) of the outstanding common stock as of the last day of the prior fiscal year or (c) such an amount as may be determined by our Board of Directors (but failing such determination the lesser of (a) or (b)). In 2003, our Board of Directors determined that no increase for 2003 should be made. Of the 3,118,576 shares remaining available for future issuance, 376,391 shares are attributable to our Restricted Stock Plan, 857,000 shares are attributable to our Employee Stock Purchase Plan, and 15,129 shares are attributable to our Board of Director Stock Plan. Note 11 to the Consolidated Financial Statements contains additional information regarding our stock based compensation plans

Item 6 Selected Financial Data (In Thousands, Except Per Share Data)

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	2003 (f)	2002 (d)	2001 (e)	2000
	-----	-----	-----	----
Net sales	\$ 509,247	\$ 406,354	\$ 474,199	\$ 664,378
Net earnings (loss)	\$ 11,988	\$ (43,537)	\$ 2,784	\$ 99,308
Earnings (loss) per share:				
Basic (a)	\$ .30	\$ (1.17)	\$ .08	\$ 3.05
Diluted (a)	\$ .30	\$ (1.17)	\$ .08	\$ 3.02
Total assets	\$ 588,894	\$ 547,706	\$ 525,020	\$ 520,771
Total long-term debt	\$ 6,837	\$ 16,348	\$ 89,129	\$ 48,588
Shareholders' equity	\$ 448,749	\$ 422,059	\$ 329,231	\$ 324,430
Net worth per share (a)	\$ 11.14	\$ 10.52	\$ 9.77	\$ 9.76
Working capital (b)	\$ 199,770	\$ 235,579	\$ 189,257	\$ 230,397
Current ratio	2.7 to 1	3.2 to 1	2.9 to 1	2.7 to 1
Number of shares				
outstanding: (a)				
Weighted average,				
including common stock				
equivalents	40,171	37,581	33,566	32,859
Year end (a)	40,279	40,130	33,683	33,237
Dividends declared per share				
(a) (c)	--	--	\$ .1350	\$ .1350
Price range per share:				
High (a)	\$ 24.43	\$ 31.40	\$ 57.00	\$ 76.13
Low (a)	\$ 13.50	\$ 12.66	\$ 19.60	\$ 19.38

- (a) Share amounts and per share amounts for all periods reflect a two-for-one stock split on November 27, 2000.
- (b) Includes cash and cash equivalents and current installments of long-term debt.
- (c) After January 25, 2002, we discontinued paying regular quarterly cash dividends on our common stock. Our last dividend declared was in 2001.
- (d) During 2002, we recorded a cumulative effective of accounting change of \$15.7 million net of income tax benefit, and a \$32.1 million intangible asset impairment, less a \$12.8 million tax benefit.
- (e) During 2002, our ownership interest in a cost basis method investment increased from approximately 19% to 28%. The initial investment was made in 2001. We have adjusted 2001 to reflect the impact of a change in accounting for this investment from the cost basis method to the equity accounting method, as if this investment were accounted for as an equity method investment since the initial investment.
- (f) On January 9, 2003 we purchased Eldor High Tech Wire Wound Components S.r.L. for \$83.9 million in cash.

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This discussion and analysis of our financial condition and results of operations as well as other sections of this report, contain certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and involve a number of risks and uncertainties. Actual results may differ materially from those anticipated in these forward-looking statements for many reasons, including the risks faced by us described in "Risk Factors" section of this report on page 7 through 13.

### Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires us to make judgments, assumptions and estimates that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Note 1 to the Consolidated Financial Statements on page 38 through 39 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 valuation, impairment of goodwill and other intangibles, severance and asset impairment expense, income taxes, and contingency accruals. Actual results could differ from these estimates. The following critical accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the Consolidated Financial Statements.

**Inventory Valuation.** Inventory purchases and commitments are based upon future demand forecasts estimated by taking into account actual purchases of our products over the recent past and customer forecasts. If there is a sudden and significant decrease in demand for our products or there is a higher risk of inventory obsolescence because of rapidly changing technology and or customer requirements, we may be required to write down our inventory and our gross margin could be negatively affected. If we were to sell or use a significant portion of inventory already written down, our gross margin could be positively affected.

**Impairment of Goodwill and Other Intangibles.** We assess the carrying cost of goodwill and intangible assets with indefinite lives on an annual basis and between annual tests in certain circumstances. In addition, in response to changes in industry and market conditions, we may strategically realign our resources and consider restructuring, disposing of, or otherwise exiting businesses, which could result in an impairment of goodwill or other intangibles.

**Severance and Asset Impairment Expense.** Our recent restructuring activities are designed to reduce both our fixed and variable costs, particularly in response to the dramatically reduced demand for our products in the electronics components industry in the 2001 to 2002 period and on-going price competition in both segments. These costs included the closing of facilities and the termination of employees. Acquisition-related costs are included in the allocation of the cost of the acquired business. Other restructuring costs are expensed during the period in which we 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 such as estimated residual values. Our actual expenditures for the restructuring activities may differ from the initially recorded costs. If this occurs, we adjust our initial estimates in future periods. In the case of acquisition-related restructuring costs, depending on whether the assets impacted came from the acquired entity and the timing of the restructuring charge, such adjustment would generally require a change in value of the goodwill appearing on our balance sheet, which may not affect our earnings. In the case of other restructuring costs, we could be required either to record additional expenses in future periods if our initial estimates were too low, or reverse part of the charges that we recorded

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initially if our initial estimates were too high.

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

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**Contingency Accruals.** During the normal course of business, a variety of issues may arise, which may result in litigation, environmental compliance and other contingent obligations. In developing our contingency accruals we consider both the likelihood of a loss or incurrence of a liability as well as our ability to reasonably estimate the amount of exposure. We record contingency accruals when a liability is probable and the amount can be reasonably estimated. We periodically evaluate available information to assess whether contingency accruals should be adjusted. We could be required to record additional expenses in future periods if our initial estimates were too low, or reverse part of the charges that we recorded initially if our estimates were too high.

### Overview

We are a global producer of precision-engineered passive magnetics-based electronic components and electrical contact products and materials. We believe we are a leading global producer of these products and materials in the primary markets we serve based on our estimates of the size of our primary markets in annual revenues and our share of those markets relative to our competitors.

We operate our business in two distinct segments:

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

**General.** We define net sales as gross sales less returns and allowances. We sometimes refer to net sales as revenue. From 1997 through 2000, the growth in our consolidated net sales was due in large part to the growth of Pulse. However, beginning in late 2000, the electronics markets served by Pulse experienced a severe global contraction. In late 2002, many of these markets began to stabilize or increase in terms of unit sales. However, because of excess capacity, relocation by customers from North America and Europe to the Far East, and emergence of strong competitors in the Far East, the pricing environment for Pulse's products has been and remains challenging. We believe that a broad-based market rebound in terms of pricing power will be erratic and gradual, probably requiring several years. In markets where unit demand has begun to recover, downward pressure on selling prices has kept total revenue from growing proportionately with unit growth.

Demand at AMI Doduco typically mirrors the prevailing economic conditions

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in North America and Europe. This is true for electrical contacts, and for component subassemblies for automotive applications such as multi-function switches, motor control sensors and ignition security systems, and for non-automotive uses such as appliance and industrial controls. AMI Doduco continues its cost reduction actions including work force adjustments and plant consolidations in line with demand around the world.

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

Historically, the gross margin at Pulse has been significantly higher than at AMI Doduco. As a result, the mix of net sales generated by Pulse and AMI Doduco during a period affects our consolidated gross margin. Over the past two years, our gross margin has been positively impacted by the savings from our various restructuring activities and ongoing cost and expense controls. Our gross margin is also significantly affected by capacity utilization, particularly at AMI Doduco. Pulse's markets are characterized by a relatively short-term product life cycle compared to AMI Doduco. As a result, significant product turnover occurs each year. Therefore, Pulse's changes in average selling prices do not necessarily provide a meaningful and quantifiable measure of Pulse's operations. AMI Doduco has a relatively long-term and mature product line, without significant turnover, and with less frequent variation in the prices of product sold, unlike Pulse, where fixed-term price contracts are rare. Most of AMI Doduco's products are sold under annual (or longer) purchase contracts. Therefore, AMI Doduco's revenues historically have not been subject to significant price fluctuations. Sales growth and contraction at AMI Doduco is generally attributable to changes in unit volume, as well as foreign exchange rates, especially the U.S. dollar to the euro, since the functional currency is the euro for a majority of AMI Doduco's business, but results of the business are reported in U.S. dollars.

Acquisitions. Historically, acquisitions have been an important part of our growth strategy. In many cases, our move into new and high-growth extensions of our existing product lines or markets has been facilitated by an acquisition. Our acquisitions continually change the mix of our net sales. Pulse made numerous acquisitions in recent years which have increased our penetration into our primary markets and expanded our presence in new markets. Recent examples of these acquisitions include Excelsus and the consumer electronics business of Eldor Corporation.

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Excelsus was acquired in August 2001 for approximately \$85.9 million, net of cash acquired. Excelsus was based in Carlsbad, California and was a leading producer of customer-premises digital subscriber line filters and other broadband accessories. Pulse acquired Eldor's consumer electronics business in January 2003 for approximately \$83.9 million. Eldor is headquartered in Senna Comasco, Italy with production operations in Istanbul and Izmir, Turkey. Eldor's consumer business is a leading supplier of flyback transformers to the European television industry.

Similarly, AMI Doduco has made a number of acquisitions over the years. In January 2001, AMI Doduco acquired the electrical contact and materials business of Engelhard-CLAL, a manufacturer of electrical contacts, wire and strip contact materials and related products. Generally, AMI Doduco's acquisitions have been driven by our strategy of expanding our product and geographical market presence for electrical contact products.



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Due to our integration of acquisitions and the interchangeable sources of net sales between existing and acquired operations, historically, we have not separately tracked the net sales of an acquisition after the date of the transaction.

**Technology.** Our business is continually affected by changes in technology, design, and preferences of consumers and other end users of our products, as well as changes in regulatory requirements. We address these changes by continuing to invest in new product development and by maintaining a diverse product portfolio which contains both mature and emerging technologies in order to meet to customer demands.

**Management Focus.** Our executives focus on a number of important factors in evaluating our financial condition and operation performance. We use economic profit which we define as operating profit after tax, less our cost of capital. Revenue growth, gross margin as a percentage of revenue, and operating profit as a percent of revenue are also among these factors. Operating leverage or incremental operating profit as a percentage of incremental sales is a factor that is discussed frequently with analysts and investors, as this is believed to represent the benefit of absorbing fixed overhead and operating expenses, and increased profitability on higher sales. In evaluating working capital management, liquidity and cash flow, our executives also use performance measures such as days sales outstanding, days payable outstanding and inventory turnover.

The continued success of our business is largely dependent of meeting and exceeding our customer's expectations. Non-financial performance measures such as safety statistics, on-time delivery and quality statistics assist our management in monitoring this activity on an on-going basis.

**Recent Cost Reduction Programs.** During 1999 and 2000, the electronic components industries served by Pulse were characterized by unprecedented growth. Beginning in late 2000 and continuing all during 2001 and a significant part of 2002, however, the opposite trend was experienced as these industries experienced a severe worldwide contraction and many of our customers canceled orders and decreased their level of business activity as a result of lower demand for their end products. Our manufacturing business model at Pulse legacy has a very high variable cost component due to the labor-intensity of many processes, which allows us to quickly change our capacity based on market demand. Just as we expanded capacity during 1999 and 2000, we reduced capacity during 2001 and 2002. The Pulse Consumer Division, acquired from Eldor in 2003 however, is capital intensive and therefore more sensitive to volume changes. Generally speaking, during the twelve months ended December 26, 2003, Pulse's end markets experienced increased unit demand, but the increasing presence of Far Eastern competition also increased pricing pressure, which in turn put pressure on Pulse to reduce selling prices. Unit sales and pricing pressures were, however, not uniform across all product lines, making product mix an important factor in revenue generation. While the electrical contact industry served by AMI Doduco is generally less dependent on volatile technology markets, it too was negatively impacted by general economic trends as reflected in slower overall construction spending and reduced capital spending in 2001 and 2002. AMI Doduco has a higher fixed cost component of manufacturing activity than Pulse, as it is more capital intensive. Therefore, AMI Doduco is unable to expand or contract its capacity as quickly as Pulse in response to market demand, although significant actions have been taken to align AMI Doduco's capacity with current market demand.

In response to the decline in demand for our products, we implemented a succession of cost reduction initiatives and programs, summarized as follows:

During 2003, we accrued \$9.0 million in the aggregate for severance and related payments and asset impairments. At Pulse, we accrued \$1.5 million for

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the elimination of certain manufacturing and support positions located in France, the United Kingdom, Mexico and China and \$0.7 million for other facility exit costs. We

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additionally accrued \$1.9 million for shutdown of Pulse's manufacturing facility in Mexico and \$0.5 million to write down carrying cost of Pulse's facility in the Philippines which is held for sale. At AMI Doduco, we accrued \$2.9 million for the elimination of certain manufacturing positions principally located in North America and Germany and \$1.5 million to complete the shutdown of a redundant facility in Spain that we acquired from Engelhard-CLAL in 2001. The majority of these accruals are expected to be utilized by the end of 2004.

During 2002, we announced the closure of our production facility in the Philippines. The production at this facility was transferred to other Pulse facilities in Asia. We recorded charges of \$3.8 million for this plant closing, comprising \$1.4 million for severance and related payments and \$2.4 million for asset writedowns. The majority of this accrual was utilized by the end of 2002. We also adopted other restructuring plans during 2002. In this regard, we recorded provisions of \$6.0 million for personnel reductions, and substantially all of the employee severance and related payments in connection with these actions were completed as of December 26, 2003. An additional provision of \$7.0 million was recorded in 2002 related to asset writedowns. These assets were primarily Asian-based production equipment that became idle in 2002.

During 2001, we announced the closure of our production facilities in Thailand and Malaysia. The production at these two facilities was transferred to other Pulse facilities in Asia. We recorded charges of \$3.6 million for these plant closings, comprised of \$2.5 million for severance and related payments and \$1.1 million for other exit costs. The majority of this accrual was utilized by the end of 2002. We also adopted other restructuring plans during 2001. In this regard, provisions of \$6.4 million were recorded during 2001. Termination costs for employees at our Thailand and Malaysian facilities have been included in the separate provisions for exiting those facilities. In addition to these terminations, headcount was reduced by approximately 12,300, net of new hires, during fiscal 2001 through voluntary employee attrition and involuntary workforce reductions primarily at manufacturing facilities in the PRC where severance payments are not necessary. In addition, a charge of \$3.5 million was recorded during 2001 to writedown the value of certain Pulse fixed assets to their disposal value.

As a result of our continuing focus on both economic and operating profit, we will continue to aggressively size both Pulse and AMI Doduco so that costs are optimally matched to current and anticipated future revenue and unit demand, and as we pursue additional growth opportunities. The amounts of additional charges will depend on specific actions taken. The actions taken over the past three years such as plant closures, plant relocations, asset impairments and reduction in personnel worldwide have resulted in the elimination of a variety of costs. The majority of these costs represent the annual salaries and benefits of terminated employees, both those directly related to manufacturing and those providing selling, general and administrative services, as well as lower overhead costs related to factory relocations. The eliminated costs also include depreciation savings from disposed equipment.

International Operations. An increasing percentage of our sales in recent years has been outside of the United States. As of December 26, 2003, we had manufacturing operations in 10 countries and we have significant net sales in currencies other than the U.S. dollar. For the year ended December 26, 2003, 76% of our net sales were outside of the U.S. For the year ended December 27, 2002,

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68.7% of our net sales were to customers outside of the U.S. Changing exchange rates often impact our financial results and the analysis of our period-over-period results. This is particularly true of movements in the exchange rate between the U.S. dollar and the euro. AMI Doduco's European sales are denominated primarily in euro. A portion of Pulse's European sales are also denominated in euros. However, the proportion at Pulse is less than it is at AMI Doduco, although Pulse's portion increased with the acquisition of its new Consumer Division, which sells to its customers primarily in euros. Prior to the acquisition of the Consumer Division, Pulse used the U.S. dollar as its functional currency in Europe while AMI Doduco uses the euro. For the acquired Consumer Division from Eldor, Pulse uses the euro as its functional currency. The use of different functional currencies creates different financial effects. AMI Doduco's and Pulse's Consumer Division euro-denominated sales and earnings may result in higher or lower dollar sales upon translation for our U.S. consolidated financial statements. We may also experience a positive or negative translation adjustment to equity because our investment in Pulse's Consumer Division and AMI Doduco's European operations may be worth more or less in U.S. dollars after translation for our U. S. consolidated financial statements. The Pulse legacy operations may incur foreign currency gains or losses as euro-denominated transactions are remeasured to U.S. dollars for financial reporting purposes. If an increasing percentage of our sales is denominated in non-U.S. currencies, increased exposure to currency fluctuations may result.

In order to reduce our exposure resulting from 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. As of December 26, 2003, we had two foreign currency forward contracts outstanding to sell forward approximately 70.6 million of euro in order to hedge intercompany loans. In determining

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the use of forward exchange contracts and currency options, we consider the amount of sales, purchases and net assets or liabilities denominated in local currencies, the type of currency, and the costs associated with the contracts.

Precious Metals. AMI Doduco uses silver, as well as other precious metals, in manufacturing some of its electrical contacts, contact materials and contact subassemblies. Historically, we have leased or held these materials through consignment arrangements with our suppliers. Leasing and consignment costs have been typically below the costs to borrow funds to purchase the metals, and more importantly, these arrangements eliminate the fluctuations in the market price of owned precious metal and enable us to minimize our inventories. AMI Doduco's terms of sale generally allow us to charge customers for precious metal content based on market value of precious metal on the day after shipment to the customer. Thus far we have been successful in managing the costs associated with our precious metals. While limited amounts are purchased for use in production, the majority of our precious metal inventory continues to be leased or held on consignment. If our leasing/consignment fees increase significantly in a short period of time, and we are unable to recover these increased costs through higher sale prices, a negative impact on our results of operations and liquidity may result. Leasing/consignment fee increases are caused by increases in interest rates or increases in the price of the consigned material. See additional discussion in note 1 of the Notes to Consolidated Financial Statements.

Income Taxes. Our effective income tax rate is affected by the proportion of our income earned in high-tax jurisdictions such as Germany and the income

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earned in low-tax jurisdictions, particularly Izmir, Turkey and the PRC. This mix of income can vary significantly from one period to another. We have benefited over recent years from favorable tax treatments outside of the U.S. However, there is no guarantee as to how long these benefits will continue to exist.

Except in limited circumstances, we have not provided for U.S. federal income and foreign withholding taxes on our non-U.S. subsidiaries' undistributed earnings (as calculated for income tax purposes) as per Accounting Principles Board Opinion No. 23, Accounting for Income Taxes - Special Areas. Such earnings include pre-acquisition earnings of foreign entities acquired through stock purchases, and are intended to be reinvested outside of the U.S. indefinitely. We have not provided for U.S. federal income and foreign withholding taxes on approximately \$299.4 million of our non-U.S. subsidiaries' undistributed earnings (as calculated for income tax purposes) as of December 26, 2003, as per APB 23. Unrecognized deferred taxes on these undistributed earnings are estimated to be approximately \$94.2 million. Where excess cash has accumulated in our non-U.S. subsidiaries and it is advantageous for tax reasons, subsidiary earnings may be repatriated.

### Results of Operations

Year ended December 26, 2003 compared to the year ended December 27, 2002

**Net Sales.** Net sales for the year ended December 26, 2003 increased \$102.8 million, or 25.3%, to \$509.2 million from \$406.4 million in the year ended December 27, 2002. Our sales increase from the comparable period last year was primarily attributable to the increases from the Eldor acquisition and stronger sales of Pulse's legacy products, tempered by ongoing pressure on selling prices at Pulse, and to a lesser extent, weaker demand at AMI Doduco, which resulted in lower sales of electrical contacts and contact materials on a constant-euro basis.

Pulse's net sales increased \$89.5 million, or 43.7%, to \$294.1 million for the year ended December 26, 2003 from \$204.6 million in the year ended December 27, 2002. Most of the increase is attributable to sales of Eldor since the date of acquisition in January 2003. Increased unit revenues in many Pulse legacy product lines were somewhat offset by our average selling price pressures.

AMI Doduco's net sales increased \$13.4 million, or 6.6%, to \$215.2 million for the year ended December 26, 2003 from \$201.8 million in the year ended December 27, 2002. Sales in the 2003 period reflect weak North American and European markets, which were more than offset by the positive translation effect of an increase in the average euro-to-U.S. dollar exchange rate during the period. Lower net sales in local currencies, primarily euros, resulted from lower manufacturing activity by customers in the commercial and industrial machinery and non-residential construction end markets.

**Cost of Sales.** Our cost of sales increased \$66.1 million, or 21.3%, to \$375.9 million for the year ended December 26, 2003 from \$309.9 million for the year ended December 27, 2002, which did not include Pulse's Consumer Division. Our consolidated gross margin for the year ended December 26, 2003 was 26.2% compared to 23.8% for the year ended December 27, 2002. Our consolidated gross margin in 2003 was positively affected by:

- o a mix of net sales weighted more toward Pulse, whose products typically have a higher gross margin than those of AMI Doduco,

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- o the addition of the Pulse Consumer Division products, which typically have a higher gross margin than AMI Doduco products and some Pulse legacy products, and
- o better capacity utilization and lower per-unit overhead costs at Pulse in 2003 than in 2002.

These positive impacts on gross margin in 2003 were partially offset by manufacturing inefficiencies at AMI Doduco due to under-utilization of capacity and continued consolidation activities in European, Asian and North American manufacturing facilities.

**Selling, General and Administrative Expenses.** Total selling, general and administrative expenses for the year ended December 26, 2003 increased \$9.9 million, or 11.1%, to \$99.2 million or 19.5% of net sales, from \$89.3 million or 22.0% of net sales, for the year ended December 27, 2002. The increase in the 2003 period compared to the 2002 period is primarily attributable to an increase of \$4.2 million in incentive and stock compensation expense reflecting higher levels of profitability, and \$2.4 million of intangible asset amortization related to the Eldor acquisition. The addition of Eldor expenses and the higher translated U.S. dollar cost of euro-denominated expenses were offset in part by savings from restructuring actions that we took over the last year to reduce costs and tighten spending.

Research, development and engineering expenses are included in selling, general and administrative expenses. We refer to research, development and engineering expenses as RD&E. For the year ended December 26, 2003 and December 27, 2002 respectively, RD&E by segment was as follows (dollars in thousands):

	2003 ----	2002 ----
Pulse	\$14,439	\$13,892
Percentage of segment sales	4.9%	6.8%
 AMI Doduco	 \$ 4,030	 \$ 3,903
Percentage of segment sales	1.9%	1.9%

Although some consolidation of RD&E, particularly design activity, has occurred through restructuring and relocation activities at Pulse, we have minimized spending cuts in the RD&E area as we believe that future sales in the electronic components markets will be driven by next-generation products. Design and development activities with our OEM customers continued at an aggressive pace during 2003. The change in RD&E as a percentage of sales at Pulse relates to the effect of the acquisition of Eldor, as Eldor incurs lower RD&E costs relative to its sales as compared to Pulse legacy products.

**Interest.** Net interest expense was \$0.8 million for the year ended December 26, 2003 compared to net interest expense of \$0.1 million for the year ended December 27, 2002. The increase in net interest expense in the current period is due to lower yields on a lower average cash invested balance, which more than offset higher average outstanding bank debt and related interest expense in the prior year period. Bank debt in 2002 consisted of euro-denominated term loans which were paid off in July 2002, and credit facility debt from the Excelsus acquisition which was paid off in April 2002. Net interest expense also includes interest on our precious metal leases and commitment fees on our unused credit facility.

**Income Taxes.** The effective income tax rate for the year ended December 26, 2003 was 20.0% compared to 30.8% in the form of a benefit for the year ended December 27, 2002. While the prior year's rate reflects a tax benefit recorded in connection with the trade name impairment write-off, the tax rate in 2003 resulted from a higher portion of income being attributable to low-tax

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jurisdictions, combined with restructuring expenses of AMI Doduco which yielded tax benefits in high-tax jurisdictions.

Equity method investment loss. We acquired 19.5% of Full Rise Electronics Co. Ltd. ("FRE") in 2001, and an additional 10% in 2002. Shares of FRE began trading on the Taiwan Stock Exchange in January of 2003, and they have experienced considerable price volatility. We recorded a net loss on equity method investments of \$8.7 million for the year ended December 26, 2003 compared to equity method investments earnings of \$0.3 million for the year ended December 27, 2002. The net loss in 2003 resulted from a \$9.3 million charge to the original cost basis of our investment, offset by \$0.6 million of equity method investment earnings in 2003. We maintain an option to acquire a controlling interest in FRE at its market value at the time of exercise.

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Year ended December 27, 2002 compared to the year ended December 28, 2001

Net Sales. Net sales for the year ended December 27, 2002 decreased \$67.9 million, or 14.3%, to \$406.4 million from \$474.2 million for the year ended December 28, 2001. Our sales decline from the comparable period last year was attributable primarily to declining average selling prices, especially in Pulse's power conversion and telecom markets, and the precipitous global downturn in markets served by Pulse that began late in 2000, as a large portion of the strong sales in the first quarter of 2001 were for products ordered in 2000. Factors contributing to the downturn included declining capital expenditures by end-users and subsequent excess inventory levels. This downturn was experienced primarily in Pulse's networking and telecommunications markets on a worldwide basis, particularly in North America and Europe. Offsetting the sales declines in 2002 were the full year results of acquisitions completed in 2001.

Pulse's net sales decreased \$48.7 million, or 19.2%, to \$204.6 million for the year ended December 27, 2002 from \$253.3 million for the year ended December 28, 2001. Although Pulse's sales were fairly consistent in the last nine months of 2002 and 2001, Pulse's sales were significantly lower in the first quarter of 2002 compared to the first quarter of 2001. The majority of Pulse sales during the quarter ended March 30, 2001 were for products ordered in 2000, before the dramatic market slowdown began. During the first quarter of 2001, new order rates declined and significant customer order cancellations occurred. Average selling prices also declined throughout 2002 compared to 2001, especially in Pulse's power conversion and telecom markets. Net sales in 2002 also include full year results of Grupo ECM and Excelsus sales, whereas 2001 included only sales derived from Grupo ECM and Excelsus since the date of their acquisition in March and August 2001, respectively.

AMI Doduco's net sales decreased \$19.1 million, or 8.7%, to \$201.8 million for the year ended December 27, 2002 from \$220.9 million for the year ended December 28, 2001. Although AMI Doduco's sales were fairly consistent in the last nine months of 2002 and 2001 respectively, AMI Doduco's sales were significantly lower in the first quarter of 2002 compared to the first quarter of 2001. Sales in the 2002 period reflect very weak European markets, offset somewhat by a stronger average euro to U.S. dollar exchange rate on a year-over-year basis. Demand in North American markets was also lower throughout 2002 versus 2001, although the decline was not as severe as in Europe. The lower worldwide manufacturing activity in 2002 resulted in lower net sales primarily from customers in the commercial and industrial machinery, non-residential construction, and appliance industries in 2002.

Cost of Sales. Our cost of sales decreased \$49.8 million, or 13.9%, to

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\$309.9 million for the year ended December 27, 2002 from \$359.7 million for the year ended December 28, 2001. This decrease was due to a decrease in net sales in 2002 and a reduction in inventory write-offs of \$18.1 million, from \$20.3 million in 2001 versus \$2.2 million in 2002. Our consolidated gross margin for the year ended December 27, 2002 was 23.8% compared to 24.2% for the year ended December 28, 2001. Since the Pulse gross profit as a percentage of sales is typically higher than that of AMI Doduco, our consolidated gross margin in 2002 was negatively affected by:

- o a mix of net sales weighted more heavily by AMI Doduco on a relative basis,
- o a trend towards higher priced products with even higher costs for certain Pulse products, such as filtered connectors replacing discrete components, and
- o average per unit selling price declines for other Pulse products.

There were also manufacturing inefficiencies at both Pulse and AMI Doduco due to under-utilization of capacity as a result of the market downturn. These factors more than offset the positive impact of our restructuring initiatives.

**Selling, General and Administrative Expenses.** Total selling, general and administrative expenses for the year ended December 27, 2002 decreased \$9.6 million, or 9.7%, to \$89.3 million, or 22.0% of net sales, from \$98.8 million, or 20.8% net of sales for the year ended December 28, 2001. The decrease in selling, general and administrative expenses in 2002 was due primarily to actions that we took to reduce costs and tighten spending controls. In addition, selling expenses, which are largely variable with net sales, decreased \$2.0 million from 2001 to 2002. Administrative expenses decreased by \$5.8 million, due largely to lower headcount in the U.S. and lower incentive awards, offset somewhat by higher expenses related to our restricted stock plan in 2002. Research, development and engineering expense decreased by \$2.4 million, due largely to consolidation of research facilities.

Research, development and engineering expenses are included in selling, general and administrative expenses. We refer to research, development and engineering expenses as RD&E. For the years ended December 27, 2002 and December 28, 2001, RD&E by segment was as follows (dollars in thousands):

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	2002 ----	2001 ----
Pulse	\$13,892	\$16,026
Percentage of segment sales	6.8%	6.3%
 AMI Doduco	 \$ 3,903	 \$ 4,155
Percentage of segment sales	1.9%	1.9%

Although 2002 had been characterized by cost reduction activities and lower sales levels, particularly at Pulse, we largely avoided spending cuts in the RD&E area, as we believe that future demand in the electronic components markets will be driven by next-generation products. Design and development activities with our OEM customers continued at an aggressive pace during 2002. The reduced expense in RD&E in 2002 was primarily attributable to facility consolidation.

Interest. Net interest expense was \$0.1 million for the year ended

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December 27, 2002 compared to \$1.4 million of net interest income for the year ended December 28, 2001. This decrease was due to significantly lower yields on invested cash, somewhat offset by lower borrowing costs attributable to lower average outstanding debt in 2002. We incurred debt of approximately \$74.0 million in connection with the acquisition of Excelsus in August 2001. Some of this debt remained outstanding until April 2002, when the balance was retired with proceeds from our follow-on offering. Invested cash balances increased by \$62.8 million from year end 2001, due primarily to 2002 follow-on offering proceeds of \$134.7 million less debt repayments of \$75.3 million, coupled with an intense focus on cash and working capital management throughout 2002.

**Income Taxes.** The effective income tax rate in the form of a benefit for the year ended December 27, 2002 was 30.8% compared to 51.0% for the year ended December 28, 2001. The lower tax rate in 2002 was the result of a higher weighting of Pulse taxable income versus AMI Doduco, as Pulse generally operates in lower tax jurisdictions than AMI Doduco. There was also a higher level of non-deductible restructuring charges incurred in 2001 versus 2002. Specifically, plant shut-down costs and severance expenses were incurred in certain low-tax jurisdictions or countries where we had current losses or discontinued operations. In such countries, we expect to have no future income to offset such charges, resulting in little or no income tax benefit.

**Severance and Asset Impairment Expense.** During 2002, we recorded a charge of \$32.1 million, less a related \$12.8 million income tax benefit, attributable to a write down of the Excelsus trade name acquired by Pulse. The trade name impairment charge was triggered by the combined effect of reorganizing Pulse into product line based organization and updated forecast for digital subscriber line microfilters to which the trade name applies. A total of \$1.9 million was also recognized as unusual and infrequent income in 2002, attributable to the favorable outcome of certain legal matters.

**Cumulative Effect of Accounting Change.** During 2002, we recorded a cumulative effective of accounting change of \$15.7 million, net of income tax benefit, upon adoption of SFAS 142. This charge was attributable to impairment of AMI Doduco goodwill.

### Liquidity and Capital Resources

Working capital as of December 26, 2003 was \$199.8 million compared to \$235.6 million as of December 27, 2002. This decrease was primarily due to the cash purchase of the Eldor business in January 2003, which reduced invested cash by \$83.9 million at the time of the acquisition. Cash and cash equivalents, which is included in working capital, decreased from \$205.1 million as of December 27, 2002 to \$143.4 million as of December 26, 2003.

Net cash provided by operating activities was \$55.2 million for the year ended December 26, 2003 and \$20.8 million in the comparable period of 2002, an increase of \$34.4 million. This increase was primarily attributable to the higher net earnings during the year ended December 26, 2003, higher depreciation and amortization expense with the addition of the Eldor business, and working capital reductions.

We present our statement of cash flows using the indirect method as permitted under Financial Accounting Standards Board Statement No. 95, Statement of Cash Flows. Our management has found that investors and analysts typically refer to changes in accounts receivable, inventory, and other components of working capital when analyzing operating cash flows. Also, changes in working capital are more directly related to the way we manage our business for cash flow, than are items such as cash receipts from the sale of goods, as would appear using the direct method.



Capital expenditures were \$7.8 million during the year ended December 26, 2003 and \$5.8 million in the comparable period of 2002. We make capital expenditures to expand production capacity and to improve our operating efficiency. We plan to continue making such expenditures in the future as and when necessary.

We used \$83.9 million in cash for acquisitions during the year ended December 26, 2003 and \$6.7 million in the comparable period in 2002. The 2003 spending was for the acquisition of Eldor and the 2002 payments related to our investment in FRE. We may acquire other businesses or product lines to expand our breadth and scope of operations. We may exercise our option to expand our investment in FRE in the future.

We paid off two euro-denominated term loans during the year ended December 26, 2003 with \$11.7 million of cash on hand. We have an obligation due in August 2009 under an unsecured term loan agreement with Sparkasse Pforzheim for the borrowing of approximately 5.1 million euros,.

As of December 26, 2003, we have no outstanding borrowings under our existing three-year revolving credit agreement. We entered into this credit agreement on June 20, 2001 providing for \$225.0 million of credit capacity. Following the conclusion of our follow-on equity offering in April 2002, we voluntarily reduced the size of this credit facility to a maximum of \$175.0 million, and then in March 2003, to a current maximum of \$125.0 million. These reductions were made in order to reduce commitment fees and to size the facility to estimated future needs given cash on hand. We also amended the minimum net worth threshold from \$275.0 million to \$259.3 million as a result of a cumulative effect of an accounting change, recorded in the quarter ended March 29, 2002. As of December 26, 2003 the amended facility consisted of an aggregate U.S. dollar-based revolving line of credit in the principal amount of up to \$125.0 million, including individual sub-limits of:

- a British pounds sterling-based or euro-based revolving line of credit in the principal amount of up to the U.S. dollar equivalent of \$75.0 million; and
- a multicurrency facility providing for the issuance of letters of credit in an aggregate amount not to exceed the U.S. dollar equivalent of \$10.0 million.

The amounts outstanding under the credit facility in total may not exceed \$125.0 million. Outstanding borrowings are limited to a maximum of three times our earnings before interest, taxes, depreciation and amortization (EBITDA) on a rolling twelve-month basis as of the most recent quarter-end.

The credit facility also contains covenants requiring maintenance of minimum net worth, maximum debt to EBITDA ratio, as defined above, minimum interest expense coverage, capital expenditure limitations, and other customary and normal provisions. We are in compliance with all such covenants.

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

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guarantee all obligations incurred under the credit facility.

We had four standby letters of credit outstanding at December 26, 2003 in the aggregate amount of \$1.7 million securing transactions entered into in the ordinary course of business. We had commercial commitments outstanding at December 26, 2003 of approximately \$60.6 million due under precious metal consignment-type leases. We had no other off-balance-sheet financing arrangements.

Our credit facility expires in June 2004. We expect to enter in to a new multi-year credit facility of similar size, terms and conditions before the expiration of the current credit facility.

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As of December 26, 2003, future payments related to contractual obligations were as follows (in thousands):

	Total	Amounts due by period		
	-----	Less than 1 year	1 to 3 years	3 to 5 years
	-----	-----	-----	-----
Long-term debt	\$ 6,837	\$ 127	\$ 259	\$ 84
Operating leases	25,293	6,845	7,007	3,533
	-----	-----	-----	-----
	\$32,130	\$ 6,972	\$ 7,266	\$ 3,617

We believe that the combination of cash on hand, cash generated by operations and, if necessary, borrowings under our credit agreement will be sufficient to satisfy our operating cash requirements in the foreseeable future. In addition, we may use internally generated funds or borrowings or additional equity offerings for acquisitions of suitable businesses or assets.

All retained earnings are free from legal or contractual restrictions as of December 26, 2003, with the exception of approximately \$13.0 million of retained earnings primarily in the PRC, that are restricted in accordance with Section 58 of the PRC Foreign Investment Enterprises Law. The amount restricted in accordance with the PRC Foreign Investment Enterprise Law is applicable to all foreign investment enterprises doing business in the PRC. The restriction applies to 10% of our net earnings in the PRC, limited to 50% of the total capital invested in the PRC. We have not experienced any significant liquidity restrictions in any country in which we operate and none are foreseen. However, foreign exchange ceilings imposed by local governments and the sometimes lengthy approval processes which foreign governments require for international cash transfers may delay our internal cash movements from time to time. The retained earnings in other countries represent a material portion of our assets. We expect to reinvest these earnings outside of the United States because we anticipate that a significant portion of our opportunities for growth in the coming years will be abroad. If these earnings were brought back to the United States, significant tax liabilities could be incurred in the United States as several countries in which we operate have tax rates significantly lower than the U.S. statutory rate. Additionally, we have not accrued U.S. income and foreign withholding taxes on foreign earnings that have been indefinitely invested abroad.

New Accounting Pronouncements

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In May 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity ("SFAS 150"), which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires that an issuer classify a financial instrument that falls within its scope as a liability (or an asset in some circumstances). Prior to issuance of FASB Staff Position FAS 150-3, Effective Date, Disclosures and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under SFAS 150 ("FAS 150-3"), SFAS 150 was effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, which for us was the quarter ended September 26, 2003. FAS 150-3 defers indefinitely the effective date of SFAS 150 for certain mandatorily redeemable noncontrolling interests. The adoption of this standard did not have and is not expected to have, as related to the deferred provisions, a material impact on our revenue, operating results, financial position or liquidity.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities ("SFAS 149"), which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133, Accounting for Derivative Instruments and Hedging Activities. SFAS 149 requires that contracts with comparable characteristics be accounted for similarly and clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative and when a derivative contains a financing component. SFAS 149 also amends the definition of an underlying to conform it to language used in FIN No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, with certain exceptions. We adopted SFAS. 149 as of June 1, 2003, and the adoption of this standard did not have a material impact on our revenue, operating results, financial position or liquidity.

In December 2003, FASB issued Interpretation No. 46 (revised December 2003) Consolidation of Variable Interest Entities ("FIN 46R"). FIN 46R clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a

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controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46R replaces FASB Interpretation No. 46, Consolidation of Variable Interest Entities which was issued in January 2003. We will be required to apply FIN 46R to variable interest in variable interest entities created after December 31, 2003. For variable interests in variable interest entities created before January 1, 2004, the interpretation will be applied no later than the end of the first reporting period that ends after March 15, 2004. Adoption of this interpretation is not expected to effect on our revenue, operating results, financial position, or liquidity. We do not have any variable interest entities.

Recently Adopted Pronouncements.

In December 2002, the FASB issued Statement No. 148, Accounting for Stock-Based Compensation, Transition and Disclosure, an amendment to Statement

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No. 123 ("SFAS 148"). SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of Statement No. 123, Accounting for Stock-Based Compensation ("SFAS 123"), by requiring prominent disclosures in both annual and interim financial statements, about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002. We adopted the provisions of SFAS 123, as amended by SFAS 148, as of the beginning of our fiscal year in 2003. We used the prospective method of adoption, which recognizes expense for all employee awards granted, modified or settled after the beginning of the fiscal year in which the recognition provisions are first applied. Adoption of this standard did not have a material effect on our revenue, operating results or liquidity. Net expense after related tax benefits lowered diluted earnings per share by approximately \$0.01 per share in fiscal 2003.

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

In June 2002, the FASB issued Statement No. 146 Accounting for Costs Associated with Exit or Disposal Activities ("SFAS 146"). SFAS 146 superceded the Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Termination Benefits and Other Costs to Exit an Activity, ("EITF 94-3") The principal difference between SFAS 146 and EITF 94-3 is that SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. As such, under SFAS 146, an entity's commitment to a plan by itself, does not create a present obligation meeting the definition of a liability. SFAS 146 also established fair value as the objective for initial measurement of the liability. We adopted the provisions of SFAS 146 for all exit or disposal activities initiated after December 15, 2002. The adoption of this standard did not have a material effect on our revenue operating results, financial position or liquidity, since our recent restructuring activities have generally been initiated and completed within a short period of time.

In August 2001, the FASB issued Statement No. 143, Accounting for Asset Retirement Obligations ("SFAS 143") which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 applies to legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and (or) normal use of the assets. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. The liability is accreted at the end of each period through charges to operating expense. If the obligation is settled for other than the carrying amount of the liability, a gain or loss on settlement will be recognized. We adopted the provisions of SFAS

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143 during the three months ending March 28, 2003. Adoption of this standard did not have a material effect on our net sales, operating results, financial position, or liquidity.

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### Item 7a Quantitative and Qualitative Disclosures about Market Risk

#### Interest Rate Risk

Our financial instruments, including cash and cash equivalents and long-term debt, are exposed to changes in interest rates in both the U.S. and abroad. We invest our excess cash in short-term, investment-grade interest-bearing securities. We generally limit our exposure to any one financial institution to the extent practical. Our board has adopted policies relating to these risks, and continually monitors compliance with these policies.

Our existing credit facility has variable interest rates. Accordingly, interest expense may increase if we borrow and if the rates associated with our borrowings move higher. In addition, we may pursue additional or alternative financing for growth opportunities in one or both segments. We may use interest rate swaps or other financial derivatives in order to manage the risk associated with changes in market interest rates. However, we have not used any of these instruments to date.

The table below presents principal amounts in U.S. dollars (or equivalent U.S. dollars with respect to non-U.S. denominated debt) and related weighted average interest rates by year of maturity for our foreign debt obligations. The column captioned "Approximate Fair Value" sets forth the carrying value of our long-term debt as of December 26, 2003, which approximates our fair value at such date after taking into consideration current rates offered to us for similar debt instruments of comparable maturities. We do not hold or issue financial instruments or derivative financial instruments for trading purposes (dollars in thousands):

	2004	2005	2006	2007	2008	There- after
	----	----	----	----	----	-----
Liabilities						
Long-term debt						
Fixed rate:						
Euro (1)	\$127	\$127	\$132	\$84	--	\$6,367
Weighted average interest rate	9.02%	9.02%	9.02%	9.02%	--	5.65%

(1) U.S. dollar equivalent

#### Foreign Currency Risk

As of December 26, 2003, substantially all of our cash was denominated in U.S. dollars. However, we conduct business in various foreign currencies, including those of emerging market countries in Asia and well-developed European countries. We utilize derivative financial instruments, primarily forward

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exchange contracts in connection with fair value hedges, to manage foreign currency risks. In accordance with SFAS 133, gains and losses related to fair value hedges are recognized in income along with adjustments of carrying amounts of the hedged items. Therefore, all of our forward exchange contracts are marked-to-market, and unrealized gains and losses are included in current period net income. These contracts guarantee a predetermined rate of exchange 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. We believe there are two potential risks of holding these instruments. The first is that the foreign currency being hedged could move in a direction which could create a better economic outcome than if hedging had not taken place. The second risk is that the counterparty to a currency hedge defaults on our obligations. We reduce the risk of counterparty default by entering into relatively short-term hedges with well capitalized and highly rated banks. In determining the use of forward exchange contracts, we consider the amount of sales and purchases made in local currencies, the type of currency and the costs associated with the contracts. As of December 26, 2003, we had two foreign currency forward contracts outstanding to sell forward 70.6 million euro in order to hedge intercompany loans. The term of these contracts was approximately 30 days.

The table below provides information about our other non-derivative, non-U.S. dollar denominated financial instruments and presents the information in equivalent U.S. dollars. Amounts set forth under "Liabilities" represent principal amounts and related weighted average interest rates by year of maturity for our foreign currency debt obligations. The column captioned "Approximate Fair Value" sets forth the carrying value of our foreign currency long-term debt as of December 26, 2003, which approximates our fair value at such date after taking into consideration current rates offered to us for similar debt instruments of comparable maturities (dollars in thousands):

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	2004	2005	2006	2007	2008	There- after	T
	----	----	----	----	----	-----	---
Assets							
Cash and equivalents							
Variable rate:							
Euro (1)	\$6,544						\$
Other currencies (1)	\$4,035						\$
Liabilities							
Long-term debt							
Fixed rate:							
Euro (1)	\$127	\$127	\$132	\$84	--	\$6,367	\$
Weighted average interest rate	9.02%	9.02%	9.02%	9.02%	--	5.65%	

(1) U.S. dollar equivalent

Item 8 Financial Statements and Supplementary Data

Information required by this item is incorporated by reference from the

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Independent Auditors' Report found on page 33 and from the consolidated financial statements and supplementary schedule on pages 34 through 57.

### Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

### Item 9a Controls and Procedures

As of the end of the period covered by this report (Evaluation Date), we evaluated the effectiveness of the design and operation of our "disclosure controls and procedures" for purposes of filing reports under the Securities Exchange Act of 1934 (Exchange Act). This evaluation was done under the supervision and with the participation of our management, including our Principal Executive Officer ("PEO") and Principal Financial Officer ("PFO"). Disclosure controls and procedures are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Exchange Act, such as this annual report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the PEO and the PFO, as appropriate to allow timely decisions regarding required disclosure.

Our management, including the PEO and PFO, does not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple human or systems error. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected timely, in the ordinary course of business.

We plan to evaluate our disclosure controls and procedures on a quarterly basis in accordance with the Exchange Act so that the conclusions concerning the effectiveness of controls can be reported in our quarterly reports on Form 10-Q and our annual reports on Form 10-K. Our disclosure controls and procedures are also

evaluated on an ongoing basis by personnel in our finance organization and our internal audit group in connection with their audit and review activities. The overall goals of these various evaluation activities are to monitor our disclosure controls and procedures over financial reporting and to make modifications as necessary. Our intent in this regard is that these controls and

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procedures will be maintained as dynamic systems that change to include improvements and corrections as conditions warrant.

Among other matters, we sought in our evaluation to determine whether there were any "significant deficiencies" or "material weaknesses" in our internal controls and procedures, and whether we had identified any acts of fraud involving personnel who have a significant role in our internal controls and procedures. This information was important both for the controls evaluation generally and because the PEO and PFO certification requirement under items 5 and 6 of Section 302 of the Sarbanes-Oxley Act of 2002 mandates that they disclose that information to our audit committee and to our independent auditors and to report on related matters in this section of the annual report on Form 10-K. In the professional auditing literature, "significant deficiencies" are referred to as "reportable conditions"; that is, those control issues that could have a significant adverse effect on our ability to record, process, summarize and report financial data in the financial statements. A "material weakness" is defined in the auditing literature as a particularly serious reportable condition where the internal control does not reduce to a relatively low level the risk that misstatements caused by error or fraud may occur in amounts that would be material in relation to the financial statements and not be detected within a timely period by employees in the normal course of performing their assigned functions. We also sought to deal with other controls matters in the controls evaluation and where appropriate to consider what revision, improvement and/or correction to make in accord with our ongoing procedures.

Based upon an evaluation on the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15, our PEO and PFO have concluded that, subject to the inherent limitations noted above, as of the Evaluation Date our disclosure controls and procedures are effective to ensure that material information relating to the company and our consolidated subsidiaries is made known to management, including the PEO and PFO, particularly during the period when our periodic reports are being prepared. There have been no significant changes in internal controls and procedures or in other factors that could significantly affect internal controls and procedures, including any corrective actions with regard to significant deficiencies and material weaknesses.

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### Part III

#### Item 10 Directors and Executive Officers of the Registrant

The disclosure required by this item is incorporated by reference to the sections entitled, "Directors and Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive proxy statement to be used in connection with our 2004 Annual Meeting of Shareholders.

We make available free of charge within the Investor Information section of our Internet website, at [www.technitrol.com](http://www.technitrol.com), and in print to any shareholder who requests, our Statement of Principles Policy. Requests for copies may be directed to Investor Relations, Technitrol, Inc., 1210 Northbrook Drive, Suite 385, Trevose, PA 19053-8406, or telephone 215-355-2900. We intend to disclose any amendments to our Statement of Principles Policy, and any waiver from a provision of our Statement of Principles Policy, on our Internet website within five business days following such amendment or waiver. The information contained on or connected to our Internet website is not incorporated by reference into this Form 10-K and should not be considered part of this or any other report that we file with or furnish to the SEC.



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### Item 11 Executive Compensation

The disclosure required by this item is incorporated by reference to the sections entitled, "Executive Compensation," "Retirement Plan," "Executive Employment Arrangements," "Compensation of Non-Employee Directors," "Board Stock Ownership," "Report of Executive Compensation Committee on Compensation Policies," "Compensation Committee Interlocks and Insider Participation," and "Comparison of Five-Year Cumulative Total Return" in our definitive proxy statement to be used in connection with our 2004 Annual Meeting of Shareholders.

### Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The disclosure required by this item is (i) included under Part II, Item 5, and (ii) incorporated by reference to the sections entitled, "Persons Owning More Than Five Percent of Our Stock" and "Stock Owned by Directors and Officers" in our definitive proxy statement to be used in connection with our 2004 Annual Meeting of Shareholders.

Information as of December 26, 2003 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 or grant of restricted shares or other incentive shares	Weighted average exercise price of outstanding options	Number of remainin for futu
Equity compensation plans Approved by security holders	5,960,000	\$19.91	3
Equity compensation plans not Approved by security holders	0	0	
Total	5,960,000	\$19.91	3

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 Executive 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 60,000 share Board of Director Stock Plan and an Employee Stock Purchase Plan. The maximum number of shares which may be issued under our Employee Stock Purchase Plan is 1,000,000 shares, provided, however, that such amount will be automatically increased annually beginning on August 1, 2002 in an amount equal to the least of (a) 200,000 shares, (b) two percent (2%) of the outstanding common stock as of the last day of the prior fiscal year or (c) such an amount as may be

determined by our Board of Directors (but failing such determination the lesser of (a) or (b)). In 2003, our Board of Directors determined that no increase for

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2003 should be made. Of the 3,118,576 shares remaining available for future issuance, 376,391 shares are attributable to our Restricted Stock Plan, 857,000 shares are attributable to our Employee Stock Purchase Plan, and 15,129 shares are attributable to our Board of Director Stock Plan. Note 11 to the Consolidated Financial Statements contains additional information regarding our stock based compensation plans.

### Item 13 Certain Relationships and Related Transactions

None

### Item 14 Principal Accountant Fees and Services

The disclosure required by this item is incorporated by reference to the section entitled "Audit and Other Fees Paid to Independent Accountants" in our definitive proxy statement to be used in connection with our 2004 Annual Meeting of Shareholders.

### Item 15 Exhibits, Financial Statement Schedules and Reports on Form 8-K

#### (a) Documents filed as part of this report

##### Financial Statements

##### Independent Auditors' Report

Consolidated Balance Sheets - December 26, 2003 and December 27, 2002

Consolidated Statements of Operations - Years ended December 26, 2003, December 27, 2002 and December 28, 2001

Consolidated Statements of Cash Flows - Years ended December 26, 2003, December 27, 2002 and December 28, 2001

Consolidated Statements of Changes in Shareholders' Equity - Years ended December 26, 2003, December 27, 2002 and December 28, 2001

##### Notes to Consolidated Financial Statements

##### Financial Statement Schedules

##### Schedule II, Valuation and Qualifying Accounts

#### (b) Reports on Form 8-K

We filed a current report on Form 8-K dated October 20, 2003. This report pertains to our press release issued to announce our third quarter 2003 results.

We filed a current report on Form 8-K dated January 19, 2004. This report pertains to our press release issued to announce our fourth quarter 2004 results.

#### (c) Exhibits

Information required by this item is contained in the "Exhibit Index" found on page 58 through 59 of this report.

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## Independent Auditors' Report

The Board of Directors and Shareholders  
Technitrol, Inc.:

We have audited the consolidated financial statements of Technitrol, Inc. and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Technitrol, Inc. and subsidiaries as of December 26, 2003 and December 27, 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 26, 2003, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 11 to the consolidated financial statements, in 2003, the Company changed its method of accounting for equity compensation in accordance with Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation, Transition and Disclosure. As discussed in Note 17 to the consolidated financial statements, in 2002, the Company changed its method of accounting for goodwill and other intangible assets in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

/s/ KPMG LLP

Philadelphia, Pennsylvania  
January 19, 2004

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Technitrol, Inc. and Subsidiaries

Consolidated Balance Sheets

December 26, 2003 and December 27, 2002  
In thousands, except per share data

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Assets	2003 ----	2002 ----
Current assets:		
Cash and cash equivalents	\$ 143,448	\$ 205,070
Trade receivables, net	96,353	65,180
Inventories	63,086	60,580
Prepaid expenses and other current assets	17,435	13,870
	-----	-----
Total current assets	320,322	344,720
Property, plant and equipment	205,885	163,140
Less accumulated depreciation	117,836	98,280
	-----	-----
Net property, plant and equipment	88,049	64,860
Deferred income taxes	12,457	11,740
Goodwill and other intangibles, net	153,083	100,760
Other assets	14,983	25,600
	-----	-----
	\$ 588,894	\$ 547,700
	=====	=====
Liabilities and Shareholders' Equity		
Current liabilities:		
Current installments of long-term debt	\$ 127	\$ 10,660
Accounts payable	46,677	28,790
Accrued expenses	73,748	69,680
	-----	-----
Total current liabilities	120,552	109,140
Long-term liabilities:		
Long-term debt, excluding current installments	6,710	5,680
Other long-term liabilities	12,882	10,500
Commitments and contingencies		
Shareholders' equity:		
Common stock: 175,000,000 shares authorized; 40,279,331 and 40,129,595 outstanding in 2003 and 2002, respectively; \$.125 par value per share and additional paid-in capital	209,768	207,030
Retained earnings	232,824	220,830
Deferred compensation	(1,342)	(1,170)
Other comprehensive income (loss)	7,500	(4,310)
	-----	-----
Total shareholders' equity	448,750	422,370
	-----	-----
	\$ 588,894	\$ 547,700
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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In thousands, except per share data

	2003 ----	2002 ----	2001 ----
Net sales	\$509,247	\$406,354	\$474,199
Cost of sales	375,929	309,848	359,681
	-----	-----	-----
Gross profit	133,318	96,506	114,518
Selling, general and administrative expenses	99,216	89,286	98,837
Severance and asset impairment expense	9,051	46,982	13,594
	-----	-----	-----
Operating profit (loss)	25,051	(39,762)	2,087
Other (expense) income:			
Interest income	1,134	2,903	6,401
Interest expense	(1,958)	(3,005)	(4,998)
Other, net	(571)	(580)	1,879
Equity method investment earnings (loss)	(8,660)	300	318
	-----	-----	-----
Earnings (loss) before taxes and cumulative effect of accounting change	14,996	(40,144)	5,687
Income taxes (benefit)	3,008	(12,345)	2,903
	-----	-----	-----
Net earnings (loss) before cumulative effect of accounting change	11,988	(27,799)	2,784
Cumulative effect of accounting change, net of income taxes	--	(15,738)	--
	-----	-----	-----
Net earnings (loss)	\$ 11,988	\$ (43,537)	\$ 2,784
	=====	=====	=====
Basic earnings (loss) per share before cumulative effect of accounting change	.30	(.75)	.08
Cumulative effect of accounting change, net of income taxes	--	(.42)	--
	-----	-----	-----
Basic earnings per share	\$ .30	\$ (1.17)	\$ .08
	=====	=====	=====
Diluted earnings (loss) per share before cumulative effect of accounting change	.30	(.75)	.08
Cumulative effect of accounting change, net of income taxes	--	(.42)	--
	-----	-----	-----
Diluted earnings (loss) per share	\$ .30	\$ (1.17)	\$ .08
	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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Technitrol, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Years ended December 26, 2003, December 27, 2002 and December 28, 2001

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In thousands

2003

Cash flows from operating activities:	
Net earnings (loss)	\$ 11,988
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:	
Depreciation and amortization	23,615
Tax effect of stock compensation	(123)
Amortization of stock incentive plan expense	1,601
Loss on disposal or sale of assets	1,882
Cumulative effect of accounting change, net of taxes	--
Trade name write-off, net of taxes	--
Deferred taxes	(1,950)
Severance and asset impairment expense, net of cash payments (excluding loss on disposal of assets and trade name write-off, net of taxes)	1,841
Equity method investment earnings (loss)	8,660
Inventory write downs	5,936
Changes in assets and liabilities, net of effect of acquisitions and divestitures:	
Trade receivables	617
Inventories	4,211
Prepaid expenses and other current assets	2,139
Accounts payable	391
Accrued expenses	(5,493)
Other, net	(156)
	-----
Net cash provided by operating activities	55,159
Cash flows from investing activities:	
Acquisitions, net of cash acquired	(83,860)
Capital expenditures, exclusive of acquisitions	(7,751)
Proceeds from sale of property, plant and equipment	482
Foreign currency impact on intercompany lending	(12,235)
	-----
Net cash used in investing activities	(103,364)
Cash flows from financing activities:	
Principal payments on long-term debt	(11,688)
Long-term borrowings	--
Payment of debt assumed in acquisition	--
Dividends paid	--
Exercise of stock options	88
Sale of stock through employee stock purchase plan	951
Net proceeds from follow-on offering	--
	-----
Net cash provided by (used in) financing activities	(10,649)
	-----
Net effect of exchange rate changes on cash	(2,773)
	-----
Net increase (decrease) in cash and cash equivalents	(61,627)
Cash and cash equivalents at beginning of year	205,075
	-----
Cash and cash equivalents at end of year	\$ 143,448

See accompanying Notes to Consolidated Financial Statements.

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Technitrol, Inc. and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity

Years ended December 26, 2003, December 27, 2002 and December 28, 2001  
In thousands, except per share data

	Common stock and paid-in capital		Retained earnings	Deferred compen- sation
	Shares	Amount		
Balance at December 29, 2000	33,237	\$ 63,909	\$ 266,132	\$ (3,871)
Stock options, awards and related compensation	48	(504)	--	1,441
Tax effect of stock compensation	--	231	--	--
Stock issued under employee stock purchase plan	398	6,548	--	--
Currency translation adjustments	--	--	--	--
Net earnings	--	--	2,784	--
Comprehensive income				
Dividends declared (\$.135 per share)	--	--	(4,543)	--
Balance at December 28, 2001	33,683	\$ 70,184	\$ 264,373	\$ (2,430)
Stock options, awards and related compensation	26	392	--	1,253
Tax effect of stock compensation	--	406	--	--
Stock issued under employee stock purchase plan	73	1,351	--	--
Follow-on offering	6,348	134,700	--	--
Currency translation adjustments	--	--	--	--
Net loss	--	--	(43,537)	--
Comprehensive loss				
Balance at December 27, 2002	40,130	\$ 207,033	\$ 220,836	\$ (1,177)
Stock options, awards and related compensation	79	1,906	--	(165)
Tax effect of stock compensation	--	(123)	--	--
Stock issued under employee stock purchase plan	70	952	--	--
Currency translation adjustments	--	--	--	--
Net earnings	--	--	11,988	--
Comprehensive income				
Balance at December 26, 2003	40,279	\$ 209,768	\$ 232,824	\$ (1,342)

=====

See accompanying Notes to Consolidated Financial Statements.

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Technitrol, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Technitrol, Inc. and all of our subsidiaries. We sometimes refer to Technitrol as "we" or "our". All material intercompany accounts and transactions are eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include funds invested in a variety of liquid short-term investments with a maturity of three months or less.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method. We establish inventory provisions to write down excess and obsolete inventory to market value. Inventory that is written down to market in the ordinary course of business is not written back up after a write-down. Inventory provisions are utilized when the actual inventory is physically disposed. The provisions are determined by comparing quantities on-hand to historical usage and forecasted demand. Inventory provisions at December 26, 2003 and December 27, 2002 were \$10.4 million and \$15.6 million, respectively.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is based upon the estimated useful life of the assets on both the accelerated and the straight-line methods. Estimated useful lives of assets range from 5 to 30 years for buildings and improvements and from 3 to 10 years for machinery and equipment. Expenditures for maintenance and repairs are charged to operations as incurred, and major renewals and betterments are capitalized. Upon sale or retirement, the cost of the asset and related accumulated depreciation are removed from our balance sheet, and any resulting gains or losses are included in earnings.

Goodwill and Other Intangibles

SFAS 142 requires that goodwill and intangible assets with indefinite useful lives be tested for impairment at least annually. SFAS 142 also requires that other intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS 144. We amortize other intangibles, except those with indefinite lives, on a straight-line basis over 2 to 20 years. We had approximately \$112.9 million of goodwill and \$40.2 million of other intangibles on our balance sheet as of December 26, 2003. We had approximately \$86.7 million of goodwill and \$14.1 million of other intangibles,



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as of December 27, 2002. See Note 2 and Note 17 for additional information regarding implementation of SFAS 142.

### Revenue Recognition

Revenue is recognized upon shipment of product and passage of title without right of return, after all performance factors have been met. We are not subject to any significant customer acceptance provisions. All product returns are deducted from net sales and are accrued for based on historical experience and Financial Accounting Standard No. 48, "Revenue Recognition When Right of Return Exists." Warranties are limited to rework or replacement of products. We record an allowance for doubtful receivables. Accounts receivable allowances at December 26, 2003 and December 27, 2002 were \$2.9 million and \$3.3 million, respectively.

### Stock-based Compensation

In 2001 and 2002, we accounted for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). In 2003, we adopted SFAS 123 as amended by SFAS 148. Note 11 presents proforma results of operations as if FASB's Statement No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), had been used to account for stock-based compensation plans for 2001 and 2002.

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## Technitrol, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

- (1) Summary of Significant Accounting Policies, continued

### Foreign Currency Translation

Certain of our foreign subsidiaries use the U.S. dollar as a functional currency and others use a local currency. For subsidiaries using the U.S. dollar as the functional currency, non-U.S. dollar monetary assets and liabilities are remeasured at year-end exchange rates while non-monetary items are remeasured at historical rates. Income and expense accounts are remeasured at the average rates in effect during the year, except for depreciation that is remeasured at historical rates. Gains or losses from changes in exchange rates are recognized in earnings in the year of occurrence. For subsidiaries using a local currency as the functional currency, net assets are translated at year-end rates while income and expense accounts are translated at average exchange rates. Adjustments resulting from these translations are reflected directly in shareholders' equity.

### Financial Instruments and Derivative Financial Instruments

The carrying value of our cash and cash equivalents, accounts receivable, short-term borrowings and accounts payable are a reasonable estimate of their fair value due to the short-term nature of these instruments. The carrying value of our long-term debt approximates our fair value after taking into consideration current rates offered for similar debt instruments of comparable maturities. The fair values of financial instruments have been determined through information obtained from quoted market sources and management estimates. We do not hold or issue financial instruments or derivative financial instruments for trading purposes.

We are exposed to market risk from changes in interest rates, foreign

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currency exchange rates and precious metal prices. To mitigate the risk from these changes, we periodically enter into hedging transactions which have been authorized pursuant to our policies and procedures. In accordance with SFAS 133, gains and losses related to fair value hedges are recognized in income along with adjustments of carrying amounts of the hedged item. Therefore, all of our forward exchange contracts are marked-to-market, and unrealized gains and losses are included in current-period net income. At December 26, 2003 we had two foreign currency forward contracts outstanding to sell forward 70.6 million of euro in order to hedge intercompany loans. At December 27, 2002, we had one foreign exchange contract in place to sell forward approximately 46.5 million of euro in connection with hedging intercompany loans. At December 28, 2001, we had five foreign exchange contracts in place to sell forward \$44.2 million of U.S. dollars, in connection with hedging intercompany loans.

### Precious Metal Consignment-type Leases

We had custody of inventories under consignment-type leases from suppliers of \$60.6 million at December 26, 2003 and \$43.5 million at December 27, 2002. We have four consignment-type leases in place for sourcing all precious metals. The leases are operating leases and the related inventory and liability are not recorded on our balance sheet. The leases are generally one-year in duration and can be extended with annual renewals. Either party can terminate the lease agreements with 30 days written notice. The primary covenant in each of the agreements is a prohibition against us creating security interests in the consigned metals. Included in interest expense for the year ended December 26, 2003 were consignment fees of \$0.8 million. These consignment fees were \$1.4 million and \$1.1 million in the years ended December 27, 2002 and December 28, 2001, respectively.

### Estimates

Our preparation of financial statements is in conformity with what generally accepted accounting principles require and we make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

### Reclassifications

Certain amounts in the prior-year financial statements have been reclassified to conform with the current-year presentation. Also refer to Note 15 "Equity Method Investment".

#### (2) Acquisitions

Eldor High Tech Wire Wound Components S.r.L.: In January 2003, we acquired all of the capital stock of Eldor High Tech Wire Wound Components S.r.L. (Eldor), headquartered in Orsenigo, Italy with production operations in Izmir and Istanbul, Turkey. Eldor produces flyback transformers and switch mode transformers for the

#### (2) Acquisitions, continued

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European television market. The purchase price was approximately \$83.9 million, net of cash acquired, plus related acquisition costs and expenses. The fair value of net tangible assets acquired approximated \$8.3 million. In addition to the fair value of assets acquired, purchase price allocations included \$18.6 million for manufacturing know-how, \$6.1 million for customer relationships, \$1.5 million for tradenames and \$21.8 million allocated to goodwill. All of the separately identifiable intangible assets will be amortized, with estimated useful lives of 20 years for manufacturing know-how, 8 years for customer relationships and 2 years for tradenames. The purchase price was funded with cash on hand. Eldor has formed the nucleus of a new consumer division at Pulse and is treated as a separate reporting unit for purposes of SFAS 142.

Had the acquisition of Eldor occurred as of January 1, 2002, unaudited pro forma results would have been (in millions, except per share amounts):

	Year Ended December 27, 2002 -----
Pro forma unaudited	
Net sales	\$485.1
Net earnings	\$(40.8)
Net earnings per common share:	
Primary	\$(1.10)
Fully diluted	\$(1.10)

The pro forma results reflect adjustments primarily for the increased amortization and interest expense attributable to the acquisition. Potential cost savings, however, from combining Eldor with our operations are not reflected. Therefore, the pro forma results are not indicative of the results that would have occurred had the acquisition actually been consummated on January 1, 2002, and are not intended to be a projection of future results or trends.

Excelsus Technologies, Inc.: In August 2001, we acquired all of the capital stock of Excelsus Technologies, Inc. based in Carlsbad, California. Excelsus produced customer-premises digital subscriber line filters and other broadband accessories. The acquisition was accounted for by the purchase method of accounting. The purchase price was approximately \$85.9 million, net of \$4.8 million of cash acquired and a subsequent purchase price adjustment of \$2.6 million. The fair value of net assets acquired approximated \$18.2 million. Based on the fair value of the assets acquired, the allocation of the purchase price included \$40.0 million for trade names, \$8.0 million for technology and \$27.0 million for goodwill. The technology intangible is subject to amortization and is estimated to have a 5-year life. Included in the assets acquired was a \$6.3 million tax receivable, generated by the acceleration and settlement of Excelsus stock options at the time of closing. We filed income tax returns for the period ending on the closing date, and received the full amount of the tax receivable during the fourth quarter of 2001. In order to fund the purchase price, we used approximately \$19.0 million of cash on-hand and borrowed approximately \$74.0 million under our existing credit facility with a syndicate of commercial banks.

During the quarter ended June 28, 2002 we recorded an impairment charge of \$32.1 million of the value assigned to the Excelsus trade names, before any tax benefit. The charge was included in the line "Severance and asset impairment expense" on the consolidated statement of operations. This charge was triggered by the combined effect of reorganizing Pulse into a product-line based organization and updated financial forecasts for DSL microfilters. In addition, a purchase price allocation adjustment to record a deferred tax liability of \$16.0 million associated with the trade name was recorded and goodwill in an equal amount was recognized. Approximately \$12.8 million of the additional deferred tax liability was recognized as a tax benefit in the consolidated statement of earnings for the three months ended June 28, 2002, concurrent with

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the trade name impairment.

Full Rise Electronics Co. Ltd. ("FRE"): FRE is based in the Republic of China (Taiwan) and manufactures connector products including single and multiple-port jacks and supplies these products to us under a cooperation agreement. In April 2001, we made a minority investment in the common stock of FRE, which was accounted for by the cost-basis method of accounting. On July 27, 2002 we made an additional investment in FRE of \$6.7 million which increased our total investment to \$20.9 million. As a result of the increased ownership percentage to

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

(2) Acquisitions, continued

approximately 29%, we began to account for the investment under the equity method accounting beginning in the three months ended September 27, 2002. In 2003 we recorded an \$8.7 million net loss to adjust our original cost basis of the investment to market value. Shares of FRE began trading on the Taiwan Stock Exchange in January of 2003, and they have experienced considerable price volatility. We maintain an option to acquire a controlling interest in FRE at its market value at the time of exercise. Also refer to Note 15, Equity Method Investment.

(3) Financial Statement Details

The following provides details for certain financial statement captions at December 26, 2003 and December 27, 2002 (in thousands):

	2003	2002
Inventories:		
Finished goods	\$ 25,326	\$ 21,446
Work in progress	13,867	12,390
Raw materials and supplies	23,893	26,752
	-----	-----
	\$ 63,086	\$ 60,588
	=====	=====
Property, plant and equipment, at cost:		
Land	\$ 3,576	\$ 3,300
Buildings and improvements	38,825	27,277
Machinery and equipment	163,484	132,570
	-----	-----
	\$205,885	\$163,147
	=====	=====
Accrued expenses:		
Income taxes payable	\$ 30,063	\$ 24,264
Accrued compensation	17,613	12,535
Other accrued expenses	26,072	32,890
	-----	-----
	\$ 73,748	\$ 69,689
	=====	=====

(4) Long-term Debt

At December 26, 2003 and December 27, 2002, long-term debt was as follows (in thousands):

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Bank Loans	2003 ----
Fixed-rate, (5.57% and 4.85%) unsecured debt in Germany (denominated in euros) matured June 26, 2003	\$ --
Fixed-rate, (5.65%) unsecured debt in Germany (denominated in euros) due August 2, 2009	6,367 -----
Total bank loans	6,367
Mortgage Notes, secured by mortgages on land, buildings, and certain equipment:	
8.20% - 10.32% mortgage notes, due in monthly installments until 2007	470 -----
Total long-term debt	6,837
Less current installments	127 -----
Long-term debt excluding current installments	\$ 6,710 =====

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Technitrol, Inc. and Subsidiaries

Notes to Consolidated Financial Statements, continued

(4) Long-term Debt, continued

As of December 26, 2003, we had no outstanding borrowings under our existing three-year revolving credit agreement. We entered into this credit agreement on June 20, 2001 providing for \$225.0 million of credit capacity. Following the conclusion of our follow-on equity offering in April 2002, we voluntarily reduced the size of this credit facility to a maximum of \$175.0 million, and then in March 2003, to a current maximum of \$125.0 million. These reductions were made in order to reduce commitment fees and to size the facility to estimated future needs given cash on hand. We also amended the minimum net worth threshold from \$275.0 million to \$259.3 million as a result of a cumulative effect of an accounting change, recorded in the three months ended March 29, 2002. As of December 26, 2003 the amended facility consisted of an aggregate U.S. dollar-based revolving line of credit in the principal amount of up to \$125.0 million including individual sub-limits of:

- a British pounds sterling-based or euro-based revolving line of credit in the principal amount of up to the U.S. dollar equivalent of \$75.0 million; and
- a multicurrency facility providing for the issuance of letters of credit in an aggregate amount not to exceed the U.S. dollar equivalent of \$10.0 million.

The amounts outstanding under the credit facility in total may not exceed \$125.0 million. Outstanding borrowings are limited to a maximum of three times our earnings before interest, taxes, depreciation and amortization (EBITDA) on a

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rolling twelve-month basis as of the most recent quarter-end.

The credit facility contains covenants requiring maintenance of minimum net worth, maximum debt-to-EBITDA ratio as defined above, minimum interest expense coverage, capital expenditure limits and other customary and normal provisions. We are in compliance with all such covenants.

Our credit facility expires in June 2004. We expect to enter into a new multi-year credit facility of a similar size, terms and conditions before the expiration of the current credit facility.

We pay a facility fee irrespective of whether there are outstanding borrowings or not, which ranges from 0.275% to 0.450% of the total commitment, depending on our EBITDA. The interest rate for each currency's borrowing will be a combination of the base rate for that currency plus a credit margin spread. The base rate is different for each currency. It is LIBOR or prime rate for U.S. dollars, euro-LIBOR for euros, and a rate approximating sterling LIBOR for British pounds. The credit margin spread is the same for each currency and is 0.850% to 1.425% depending on debt-to-EBITDA ratio. Each of our domestic subsidiaries with net worth equal to or greater than \$5.0 million has agreed to guarantee all obligations incurred under the credit facility.

Our German subsidiary, AMI Doduco GmbH, has an obligation outstanding under a term loan agreement. It is with Sparkasse Pforzheim for the borrowing of approximately 5.1 million euro and the obligation is due in August 2009. We, including several of our subsidiaries, have guaranteed the obligations arising under this term loan agreement.

Principal payments due within the next five years, based on terms of our debt arrangements, are as follows (in thousands):

2004	\$ 127
2005	127
2006	132
2007	84
2008	--
Thereafter	6,367
	-----
	\$6,837
	=====

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### Technitrol, Inc. and Subsidiaries

#### Notes to Consolidated Financial Statements, continued

##### (5) Research, Development and Engineering Expenses

Research, development and engineering expenses are included in selling, general and administrative expenses and were \$18.5 million, \$17.8 million and \$20.2 million in 2003, 2002 and 2001, respectively, for continuing operations. RD&E includes costs associated with new product development, product and process improvement, engineering follow-through during early stages of production, design of tools and dies, and the adaptation of existing technology to specific situations and customer requirements. The research and development component of RD&E, which generally includes only those costs associated with new technology, new products or significant changes to current products or processes, was \$13.2 million, \$12.1 million and \$14.1 million in 2003, 2002 and 2001, respectively.

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(6) Income Taxes

Earnings (loss) before cumulative effect of accounting change and income taxes were as follows (in thousands):

	2003	2002	2001
	----	----	----
Domestic	\$ (7,451)	\$ (40,044)	\$ (5,235)
Non-U.S.	22,447	(100)	10,922
	-----	-----	-----
Total	\$ 14,996	\$ (40,144)	\$ 5,687
	=====	=====	=====

Income tax (benefit) expense was as follows (in thousands):

Current:	2003	2002	2001
	----	----	----
Federal	\$ (3,377)	\$ 608	\$ (1,174)
State and local	(196)	(775)	1,781
Non-U.S.	8,531	2,387	2,614
	-----	-----	-----
Deferred tax (benefit) expense	4,958	2,220	3,221
	(1,950)	(14,565)	(318)
	-----	-----	-----
Net tax (benefit) expense	\$ 3,008	\$ (12,345)	\$ 2,903
	=====	=====	=====

A reconciliation of the statutory federal income tax rate with the effective income tax rate was as follows:

	2003	2002	2001
	----	----	----
Statutory federal income tax rate	35%	35%	35%
Increase (decrease) resulting from:			
Tax-exempt earnings of subsidiary in Puerto Rico	(5)	1	(3)
State and local income taxes, net of federal tax effect	(2)	5	20
Non-deductible expenses and other foreign income subject to U.S. income tax	17	(5)	34
Foreign Research and development tax credit	(13)	(8)	(15)
	(12)	1	(9)
Other tax credits	--	2	(11)
	---	---	---
Effective tax rate	20%	31%	51%
	===	===	===

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Deferred tax assets and liabilities included the following (in thousands):

	2003	2002
	----	----
<b>Assets:</b>		
Inventories	\$ 871	\$ 772
Plant and equipment	2,418	1,646
Vacation pay and other compensation	320	1,292
Pension expense	2,133	1,029
Stock awards	647	1,462
Accrued liabilities	3,554	5,098
Net operating losses and tax credits	30,184	12,218
Other	1,563	1,014
	-----	-----
Total deferred tax assets	41,690	24,531
Valuation allowance	(6,976)	(2,804)
	-----	-----
Net deferred tax assets	34,714	21,727
<b>Liabilities:</b>		
Foreign earnings not permanently invested	11,485	--
Acquired intangibles	6,349	5,170
	-----	-----
Total deferred tax liabilities	17,834	5,170
	-----	-----
Net deferred tax assets	16,880	16,557
Less current deferred tax assets	4,423	4,814
	-----	-----
Long-term deferred income taxes	\$ 12,457	\$ 11,743
	=====	=====

Based on our history of taxable income and our projection of future earnings, we believe that it is more likely than not that sufficient taxable income will be generated in the foreseeable future to realize the net deferred tax assets.

We have not provided for U.S. federal income and foreign withholding taxes on approximately \$299.4 million of non-U.S. subsidiaries' undistributed earnings (as calculated for income tax purposes) as of December 26, 2003. Such earnings include pre-acquisition earnings of foreign entities acquired through stock purchases and are intended to be reinvested outside of the U.S. indefinitely. Unrecognized deferred taxes on these undistributed earnings were estimated to be approximately \$94.2 million. Where excess cash has accumulated in our non-U.S. subsidiaries and it is advantageous for tax reasons, subsidiary earnings may be remitted.

### (7) Commitments and Contingencies

We conduct a portion of our operations from leased premises and also lease certain equipment under operating leases. Total rental expense amounts for the years ended December 26, 2003, December 27, 2002 and December 28, 2001 were \$6.6 million, \$8.2 million and \$7.4 million, respectively. The aggregate minimum rental commitments under non-cancelable leases in effect at December 26, 2003 were as follows (in thousands):

Year	
Ending	
2004	\$ 6,845
2005	4,498
2006	2,509
2007	1,938



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2008	1,595
Thereafter	7,908
	-----
	\$25,293
	=====

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Technitrol, Inc. and Subsidiaries

Notes to Consolidated Financial Statements, continued

(7) Commitments and Contingencies, continued

The aggregate minimum rental commitments schedule does not include \$60.6 million due under precious metal consignment-type leases. We expect to make payments under such leases as the precious metal is purchased upon sale of the precious metal to customers.

We are involved in several legal actions relating to waste disposal sites. Our involvement in these matters has generally arisen from the alleged disposal by licensed waste haulers of small amounts of waste material many years ago. In addition, in Sinsheim, Germany, there is shallow groundwater and soil contamination that is naturally decreasing over time. The German environmental authorities have not required corrective action to date. As a result of the acquisition of GTI Corporation in 1998, we are involved in studying and undertaking certain remedial actions with respect to groundwater pollution and soil contamination conditions at a facility in Leesburg, Indiana. We anticipate making additional environmental expenditures in future years to continue our environmental studies, analysis and remediation activities.

We are also subject to various lawsuits, claims and proceedings which arise in the ordinary course of our business. These actions include routine tax audits and assessments occurring throughout numerous jurisdictions on a worldwide basis. During 2003, Regal Electronics, Inc. sued Pulse and several other filtered connector manufacturers, alleging that the manufacture and sale of certain filtered connectors in the United States infringe one of its patents. Pulse has received an opinion of noninfringement from its legal counsel and believes that none of the products offered by Pulse infringe the Regal patent. Pulse intends to vigorously defend itself in this action. We do not believe that the outcome of any of these actions will have a material adverse effect on our financial results.

We accrue costs associated with environmental and legal matters when they become probable and reasonably estimable. Accruals are established based on the estimated undiscounted cash flows to settle the obligations and are not reduced by any potential recoveries from insurance or other indemnification claims. We believe that any ultimate liability with respect to these actions in excess of amounts provided will not materially affect our operations or consolidated financial position, liquidity or operating results.

We had four standby letters of credit outstanding at December 26, 2003 in the aggregate amount of \$1.7 million securing transactions entered into in the ordinary course of business. We had commercial commitments outstanding at December 26, 2003 of approximately \$60.6 million due under precious metal consignment-type leases. We had no other off-balance-sheet financing arrangements.

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Technitrol, Inc. and Subsidiaries

Notes to Consolidated Financial Statements, continued

## (8) Shareholders' Equity

All retained earnings are free from legal or contractual restrictions as of December 26, 2003, with the exception of approximately \$13.0 million of retained earnings, primarily in the PRC that are restricted in accordance with Section 58 of the PRC Foreign Investment Enterprises Law, which applies to all foreign investment enterprises doing business in the PRC. The restriction applies to 10% of our net earnings in the PRC, limited to 50% of the total capital invested in the PRC. We have not experienced any significant liquidity restrictions in any country in which we operate and none are foreseen. However, foreign exchange ceilings imposed by local governments and the sometimes lengthy approval processes which foreign governments require for international cash transfers may delay our internal cash movements from time to time. The retained earnings in other countries represent a material portion of our assets. We expect to reinvest these earnings outside of the United States because we anticipate that a significant portion of our opportunities for growth in the coming years will be abroad. If these earnings were brought back to the United States, significant tax liabilities could be incurred in the United States as several countries in which we operate have tax rates significantly lower than the U.S. statutory rate. Additionally, we have not accrued U.S. income and foreign withholding taxes on foreign earnings that have been indefinitely invested abroad. We have also been granted special tax incentives in other countries such as the PRC. This favorable situation could change if these countries were to increase rates or revoke the special tax incentives, or if we were to discontinue manufacturing operations in these countries. This could have a material unfavorable impact on our net income and cash position.

We completed a follow-on offering of 6,348,000 shares of our common stock on April 11, 2002. The proceeds of the offering, net of expenses, were approximately \$134.7 million. These proceeds resulted in a common stock increase of \$0.8 million and an additional paid-in capital increase of \$133.9 million.

Effective August 1, 2001 we adopted a new qualified, non-compensatory employee stock purchase plan that provides substantially all employees an opportunity to purchase common stock. The purchase price is equal to 85% of the fair value of the common stock on either the first day of the offering period or the last day of the purchase period, whichever is lower. The offering periods and purchase periods are defined by the plan, but are each currently six months in duration. In connection with this plan, 1,000,000 shares of common stock are reserved for issuance under the plan. In 2003 and 2002, employees purchased approximately 70,000 and 73,000 shares, respectively, under the plan. In 2001, employees purchased approximately 398,000 under a predecessor plan.

We have a Shareholder Rights Plan. The Rights are currently not exercisable, and automatically trade with our common shares. However, after a person or group has acquired 15% or more of our common shares, the Rights will become exercisable, and separate certificates representing the Rights will be distributed. In the event that any person or group acquires 15% of our common shares, each holder of two Rights (other than the Rights of the acquiring person) will have the right to receive, for \$135, that number of common shares having a market value equal to two times the exercise price of the Rights. Alternatively, in the event that, at any time following the date in which a person or group acquires ownership of 15% or more of our common shares, and we are acquired in a merger or other business combination transaction, or 50% or more of our consolidated assets or earning power is sold, each holder of two Rights (other than the Rights of such acquiring person or group) will thereafter

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have the right to receive, upon exercise, that number of shares of common stock of the acquiring entity having a then market value equal to two times the exercise price of the Rights. The Rights may be redeemed by us at a price of \$.005 per Right at any time prior to becoming exercisable. Rights that are not redeemed or exercised will expire on September 9, 2006.

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### Technitrol, Inc. and Subsidiaries

#### Notes to Consolidated Financial Statements, continued

(9) Earnings (Loss) Per Share

Basic earnings (loss) per share were calculated by dividing earnings (loss) by the weighted average number of common shares outstanding during the year (excluding restricted shares which are considered to be contingently issuable). We had restricted shares outstanding of approximately 199,000, 315,000, and 361,000 as of December 26, 2003, December 27, 2002 and December 28, 2001 respectively, which generally vest over a three-year term. For calculating diluted earnings per share, common share equivalents and restricted stock outstanding were added to the weighted average number of common shares outstanding. Common share equivalents result from outstanding options to purchase common stock as calculated using the treasury stock method. As the substantial majority of exercise prices of the stock options was greater than the actual stock price as of December 26, 2003, the stock equivalents were anti-dilutive and therefore excluded from the diluted earnings per share calculation as of December 26, 2003. Such amounts were approximately 5,000 in 2002 and 24,000 in 2001. Earnings per share calculations were as follows (in thousands, except per share amounts):

	2003 ----	2002 ----	2001 ----
Net earnings (loss)	\$11,988	\$(43,537)	\$ 2,784
Basic earnings (loss) per share:			
Shares	40,032	37,281	33,202
Per share amount, before change in accounting principle	\$ 0.30	\$ (0.75)	\$ 0.08
Change in accounting principle	-- -----	(0.42) -----	-- -----
Per share amount	\$ 0.30 =====	\$ (1.17) =====	\$ 0.08 =====
Diluted earnings (loss) per share:			
Shares	40,171	37,581	33,566
Per share amount before change in accounting principle	\$ 0.30	\$ (0.75)	\$ 0.08
Change in accounting principle	-- -----	(0.42) -----	-- -----
Per share amount	\$ 0.30 =====	\$ (1.17) =====	\$ 0.08 =====

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(10) Employee Benefit Plans

We maintain defined benefit pension plans for certain of our U.S. employees. Certain of our non-U.S. subsidiaries have varying types of retirement plans providing benefits for substantially all of their employees. Benefits are based on years of service and average final compensation. For U.S. plans, we fund, annually, at least the minimum amount required by the Employee Retirement Income Security Act of 1974. Depending on the investment performance of plan assets and other factors, the funding amount may be zero.

Pension (benefit) expense was as follows (in thousands):

	2003 ----	2002 ----	2001 ----
Principal defined benefit plans	\$1,910	\$ 960	\$ (395)
Other employee benefit plans	638	140	221
	-----	-----	-----
	\$2,548	\$1,100	\$ (174)
	=====	=====	=====

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Technitrol, Inc. and Subsidiaries

Notes to Consolidated Financial Statements, continued

(10) Employee Benefit Plans, continued

The expense for the principal defined benefit pension plans included the following components (in thousands):

	2003 ----	2002 ----	2001 ----
Service cost	\$ 1,471	\$ 1,578	\$ 1,192
Interest cost	1,976	1,954	1,667
Expected return on plan assets	(1,880)	(2,546)	(2,818)
Amortization of transition obligation	18	18	--
Amortization of prior service cost	269	272	--
Recognized actuarial (gain) loss	56	(316)	(436)
	-----	-----	-----
Net periodic pension (benefit) cost	\$ 1,910	\$ 960	\$ (395)
	=====	=====	=====

The financial status of the principal defined benefit plans at December 26, 2003 and December 27, 2002, was as follows (in thousands):

	2003 ----	2002 ----
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$ 31,176	\$ 26,733
Service cost	1,471	1,578
Interest cost	1,976	1,954
Plan amendments	--	3,188
Actuarial (gain)/loss	1,020	(1,138)
Benefits paid	(1,130)	(1,139)
	-----	-----
Projected benefit obligation at end of year	34,514	31,176

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Change in plan assets:		
Fair value of plan assets at beginning of year	24,180	28,734
Actual return on plan assets	5,309	(3,415)
Employer contributions	59	--
Benefits paid	(1,130)	(1,139)
Fair value of plan assets at end of year	28,418	24,180
Funded status	(6,096)	(6,370)
Unrecognized actuarial gains	(2,406)	(566)
Unrecognized prior service cost	3,124	3,393
Unrecognized transition obligation	2	20
Intangible asset	(2,701)	(2,808)
Accrued pension costs at the end of the year	\$ (8,077)	\$ (6,331)
Accumulated benefit obligation	\$ 28,215	\$ 21,686

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Technitrol, Inc. and Subsidiaries

Notes to Consolidated Financial Statements, continued

(10) Employee Benefit Plans, continued

The principal defined benefit plan weighted-average asset allocations at December 26, 2003 and December 27, 2002 were as follows:

Asset Category	2003	2002
Equity securities	75%	70%
Debt securities	24%	27%
Other	1%	3%
Total	100%	100%

Our asset allocation policy is for a target investment of 65% to 75% equity securities and 25% to 35% fixed income securities. The goal of our asset investment policy is to achieve a return in excess of the rate of inflation with acceptable levels of volatility. We utilize professionally run mutual funds to invest our assets. Our pension assets are invested in a variety of small and large capitalization domestic and international mutual stock funds and a bond fund.

To develop the expected long-term rate-of-return on assets assumption, we considered historical returns and the future expectations for returns for each asset class, weighted by the target asset allocations. This resulted in the selection of the 8.0% long-term rate of return on assets assumption.

Assumptions used to develop data were as follows:

2003	2002
------	------

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	-----	-----
Discount rate	6.25%	6.75%
Annual compensation increases	4.25%	4.25%
Expected long-term rates of return on plan assets	8.00%	9.00%

Our measurement date is the last day of the year.

We maintain defined contribution 401(k) plans covering substantially all U.S. employees not affected by certain collective bargaining agreements. Under our 401(k) plans, we contributed a matching amount equal to \$1.00 for each \$1.00 of the participant's contribution not in excess of a maximum of 4% to 6% of the participant's annual wages, depending on the plan. The total contribution expense under the 401(k) plans for employees of continuing operations was \$1,563,000, \$1,188,000, and \$1,469,000 in 2003, 2002 and 2001 respectively.

We do not provide any significant post-retirement benefits except as may be required by certain jurisdictions outside of the U.S.

(11) Stock-Based Compensation

We have an incentive compensation plan for our employees. One component of this plan is restricted stock, which grants the recipient the right of ownership of our common stock, conditional on the achievement of performance objectives and/or continued employment. Stock options are also granted under this plan. A summary of the shares under the incentive compensation plan is as follows:

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Technitrol, Inc. and Subsidiaries

Notes to Consolidated Financial Statements, continued

(11) Stock-Based Compensation, continued

	2003	2002	2001
	-----	-----	-----
Shares available to be granted	2,431,583	2,612,406	384,126
New authorized shares	--	--	2,500,000
Restricted stock and options awarded, net of cancellations	(185,136)	(180,823)	(271,720)
	-----	-----	-----
Balance available at the end of the year	2,246,447	2,431,583	2,612,406
	=====	=====	=====

During the years ended December 26, 2003, December 27, 2002 and December 28, 2001 we issued to employees, net of cancellations, restricted stock having an approximate fair value at date of issue of \$1,091,087, \$292,981, and \$1,055,268, respectively. The fair value of the restricted stock is based on fair market price of the stock at the award date and is recorded as deferred compensation. Compensation is recognized over the vesting period which is generally three years. Shares are held by us until the continued employment requirement and/or performance criteria have been attained. For shares subject to continued employment requirements, the market value of the shares at the date of grant is charged to expense during the vesting period on a straight-line

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basis. For shares subject to performance criteria, the expense varies with the market value of the shares until the performance criteria are met or are deemed to be unachievable. Cash awards, which accompany shares released under the incentive compensation plan and are intended to assist recipients with their resulting personal tax liability, are based on the market value of the shares when restrictions lapse. Cash awards are accrued over the restriction period, and the related expense is variable based on the market value of the shares. Amounts charged to expense as a result of the restricted stock plan and related expenses were \$1,601,000 in 2003, \$1,404,000 in 2002, and \$1,219,000 in 2001. A substantial portion of the shares granted prior to 2002 were subject to variable accounting, whereby the related compensation expense was adjusted to reflect the impact of market price of the underlying shares awarded. The shares and expense associated with variable accounting were 35,400 and \$206,000 in 2001.

We also have a stock award plan for non-employee directors. The Board of Directors plan was approved in 1998 to assist us in attracting and retaining highly qualified persons to serve on our Board of Directors. Under the terms of the plan, 60,000 shares of our common stock are available for grant. On an annual basis, shares amounting to a dollar value predetermined by the plan are issued to non-employee directors and are recorded as an expense at issuance. In 2003, 2002, and 2001, 10,206, 6,895, and 3,448 shares, respectively, (including those deferred at the directors' election) were issued under the plan. A total of 15,129 shares remain available for issuance under the plan.

In February of 2001, our Board of Directors Compensation Committee adopted a stock option plan. All U.S. employees and designated employees of subsidiaries are eligible to participate in the stock option plan. Except as limited by the terms of the option plan, the committee has discretion to select the persons to receive options and to determine the terms and conditions of the option, including the number of shares underlying the option, the exercise price, the vesting schedule and term. The options are granted at no cost to the employee and cannot be granted with an exercise price less than the fair market value at the date of grant. The options granted in 2003, 2002 and 2001 vest equally over four years and expire in seven years from the date of grant. During 2003, 2002, and 2001 a total of 159,100, 159,600 and 232,700 options, net of cancellations, were awarded to employees at a weighted average strike price of \$18.41, \$19.24 and \$21.86 per share, respectively. None of the shares granted in 2003 were vested as of December 26, 2003, whereas 25% of the shares granted in 2002 and 50% of the shares granted in 2001 were vested as of December 26, 2003.

We adopted SFAS 123, as amended by SFAS 148, at the beginning of the 2003 fiscal year. We implemented SFAS 123 under the prospective method approach per SFAS 148, whereby compensation expense was recorded for all awards subsequent to adoption. As permitted by the provisions of SFAS 123, we applied Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for our stock option and purchase plans prior to adoption of SFAS 123 in fiscal 2003. Accordingly, no compensation cost was recognized for our stock option and employee purchase plans prior to fiscal 2003.

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Technitrol, Inc. and Subsidiaries

Notes to Consolidated Financial Statements, continued

(11) Stock-Based Compensation, continued

If compensation cost for issuances under our stock option plan and stock purchase plan had been determined based on the fair value as required by

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SFAS 123 for all awards, our pro forma net income (loss) and earnings (loss) per basic and diluted share would have been as follows, (amounts are in thousands, except per share amounts):

	2003 ----	2002 ----	
Net income (loss), as reported	\$11,988	\$ (43,537)	\$
Add: Stock-based compensation expense included in reported net income (loss), net of taxes	1,269	870	
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of taxes	(2,124)	(1,533)	(
Net income (loss) adjusted	\$11,133	\$ (44,200)	\$ (
Basic net income (loss) per share - as reported	\$ 0.30	\$ (1.17)	\$
Basic net income (loss) per share - adjusted	\$ 0.28	\$ (1.19)	\$
Diluted net income (loss) per share - as reported	\$ 0.30	\$ 1.17)	\$
Diluted net income (loss) per share - adjusted	\$ 0.28	\$ (1.19)	\$

At December 26, 2003, we had approximately 484,000 options outstanding, representing approximately 1% of our outstanding shares of common stock. The value of restricted stock has always been and continues to be recorded as compensation expense over the restricted period, and such expense is included in the results of operations for all years presented.

### (12) Severance and Asset Impairment Expense

We implemented numerous restructuring initiatives during 2003, 2002 and 2001 in order to reduce our cost structure and capacity in response to a global recession in the electronics industry in 2002 and 2001 and an increasingly competitive environment in both the electronics and electrical markets which followed.

In the twelve months ended December 26, 2003, we accrued \$9.0 million for severance, severance related payments and asset impairments. At Pulse, we accrued \$1.5 million for the elimination of certain manufacturing and support positions located in France, the United Kingdom, Mexico and China and \$0.7 million for other facility exit costs. We additionally accrued \$1.9 million for shutdown of Pulse's manufacturing facility in Mexico and \$.05 million to write down the carrying cost of Pulse's facility in the Philippines which is held for sale. At AMI Doduco, we accrued \$2.9 million for the elimination of certain manufacturing positions principally located in North America and Germany and \$1.5 million to complete the shutdown of a redundant facility in Spain that we acquired from Engelhard-CLAL in 2001. The majority of these accruals are expected to be utilized by the end of 2004.

In 2002, we announced the closure of our production facility in the Philippines. The production at this facility was transferred to other Pulse facilities in Asia. We provided for reserves of \$3.8 million for this plant closing, comprising \$1.4 million for severance and related payments and \$2.4 million for asset writedowns. The majority of this accrual was utilized by the end of 2002. We also adopted other restructuring plans during 2002. In this regard, provisions of \$5.9 million were recorded during 2002. Approximately 800 personnel were terminated in 2002 and substantially all of the employee severance and related payments in connection with these actions were completed as of December 26, 2003. An additional provision of \$7.0 million was recorded in 2002 related to asset write-downs. These assets were primarily Asian-based production equipment that became idle in 2002. The remaining cost basis of the



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assets has been reclassified from fixed assets to assets held for sale in the balance sheet as of December 26, 2003. An additional \$32.1 million of Excelsus trade name impairment was recorded in 2002. The impairment charge was triggered by the combined effect of reorganizing Pulse into product line based organization and updated forecasts for digital subscriber line microfilters to which the trade name applies. A total of \$1.9 million was also recognized as an offset to severance and asset impairment expense income in 2002, attributable to positive adjustments primarily resulting from the favorable outcome of certain legal matters of long vintage. The majority of these accruals were utilized by the end of 2003.

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### Technitrol, Inc. and Subsidiaries

#### Notes to Consolidated Financial Statements, continued

##### (12) Severance and Asset Impairment Expense, continued

During the 2001, we announced the closure of our production facilities in Thailand and Malaysia. The production at these two facilities was transferred to other Pulse facilities in Asia. We provided reserves of \$3.6 million for these plant closings, comprising \$2.5 million for severance and related payments and \$1.1 million for other exit costs. The majority of this accrual was utilized by the end of the first quarter of 2002. We also adopted other restructuring plans during 2001. In this regard, provisions of \$6.4 million were recorded during 2001. Termination costs for employees at our Thailand and Malaysian facilities have been included in the provisions for exiting those facilities. In addition to these terminations, headcount was reduced by approximately 12,300 additional personnel, net of new hires, during fiscal 2001 through voluntary employee attrition and involuntary workforce reductions primarily at manufacturing facilities in the PRC where severance payments are not necessary. In addition, a charge of \$3.5 million was recorded during the third quarter of 2001 to writedown the value of certain Pulse fixed assets to their disposal value.

As a result of our continuing focus on both economic and operating profit, we will continue to aggressively size both Pulse and AMI Doduco so that costs are optimally matched to current and anticipated future revenue and unit demand, and as we pursue additional growth opportunities. The amounts of additional charges will depend on specific actions taken. The actions taken over the past three years such as plant closures, plant relocations, asset impairments and reduction in personnel worldwide have resulted in the elimination of a variety of costs. The majority of these costs represent the annual salaries and benefits of terminated employees, both those directly related to manufacturing and those providing selling, general and administrative services. The eliminated costs also include depreciation savings from disposed equipment.

Our restructuring charges are summarized for 2003 as follows:

	AMI Doduco	Pulse	Total
	-----	-----	-----
Restructuring provision (in millions):			
Balance accrued at December 27, 2002	\$ 2.0	\$ 2.2	\$ 4.2
Accrued for the twelve months ended December 26, 2003	4.4	4.6	9.0
Severance and other cash payments	(3.9)	(3.3)	(7.2)

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Non-cash asset disposals	(0.4)	(1.8)	(2.2)
	-----	-----	-----
Balance accrued at December 26, 2003	\$ 2.1	\$ 1.7	\$ 3.8
	=====	=====	=====

(13) Supplementary Information

The following amounts were charged directly to costs and expenses (in thousands):

	2003	2002	2001
	----	----	----
Depreciation	\$19,580	\$18,137	\$21,177
Amortization of intangible assets	4,035	1,633	5,376
Advertising	202	248	552
Repairs and maintenance	8,179	7,524	6,668
Bad debt expense	427	899	697
Cash payments made:			
Income taxes	\$ 3,816	\$ 9,027	\$11,736
Interest	1,868	3,318	5,470

Accumulated other comprehensive income as disclosed in the Consolidated Statements of Changes in Shareholders' Equity consists principally of foreign currency translation items.

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Technitrol, Inc. and Subsidiaries

Notes to Consolidated Financial Statements, continued

(14) Segment and Geographical Information

We operate our business in two segments: the Electronic Components Segment, which operates under the name Pulse, and the Electrical Contact Products Segment, which operates under the name AMI Doduco. We refer to these segments as ECS or Pulse, and ECPS or AMI Doduco, respectively. Each segment is managed by a President who reports to our Chief Executive Officer.

Pulse designs and manufactures a wide variety of highly-customized passive magnetics-based electronic components. These components manage and regulate electronic signals and power for use in a variety of devices by filtering out radio frequency interference and adjusting and ensuring proper current and voltage. These products are often referred to as chokes, inductors, filters and transformers. Pulse sells its products to multinational original equipment manufacturers, contract manufacturers and distributors.

AMI Doduco is a global manufacturer of a full range of electrical contact products, from contact materials to completed contact subassemblies. Contact products complete or interrupt electrical circuits in virtually every electrical device. AMI Doduco provides its customers with a broad array of highly engineered products and tools designed to meet unique customer needs.

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Amounts are in thousands:

	2003 ----	2002 ----	2001 ----
Net sales from continuing operations			
Pulse	\$ 294,092	\$ 204,570	\$ 253,200
AMI Doduco	215,155	201,784	220,900
	-----	-----	-----
Total	\$ 509,247	\$ 406,354	\$ 474,100
	=====	=====	=====
Operating profit(loss) before income taxes			
Pulse	\$ 27,197	\$ (38,520)	\$ (3,600)
AMI Doduco	(2,146)	(1,242)	5,700
	-----	-----	-----
Total operating profit	25,051	(39,762)	2,100
Items not included in segment profit (1)	(10,055)	(382)	3,200
	-----	-----	-----
Earnings (loss) before income taxes and cumulative effect of accounting change	\$ 14,996	\$ (40,144)	\$ 5,600
	=====	=====	=====
Assets at end of year			
Pulse	\$ 302,261	\$ 195,407	\$ 237,200
AMI Doduco	109,390	104,665	114,400
	-----	-----	-----
Segment assets	411,651	300,072	351,700
Assets not included in Segment assets (2)	177,243	247,316	173,300
	-----	-----	-----
Total	\$ 588,894	\$ 547,388	\$ 525,000
	=====	=====	=====
Capital expenditures (3)			
Pulse	\$ 29,078	\$ 681	\$ 10,300
AMI Doduco	4,547	5,074	10,200
	-----	-----	-----
Total	\$ 33,625	\$ 5,755	\$ 20,500
	=====	=====	=====
Depreciation and amortization			
Pulse	\$ 16,048	\$ 12,501	\$ 17,100
AMI Doduco	7,567	7,269	9,300
	-----	-----	-----
Total	\$ 23,615	\$ 19,770	\$ 26,500
	=====	=====	=====

- (1) Includes interest income, interest expense and other non-operating items disclosed in our Consolidated Statements of Operations. We exclude these items when measuring segment operating profit.
- (2) Cash and cash equivalents are the primary corporate assets. We exclude net deferred tax assets when measuring segment assets.
- (3) During the past three years, we have acquired several companies. We have included acquired property, plant and equipment in these capital expenditure amounts.

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### Notes to Consolidated Financial Statements, continued

#### (14) Segment and Geographical Information, continued

We have no significant intercompany revenue between our segments. We do not use income taxes when measuring segment results; however, we allocate income taxes to our segments to determine certain performance measures. These performance measures include economic profit. The following pro forma disclosure of segment income tax expense is based on simplified assumptions and includes allocations of corporate tax items. These allocations are based on the proportionate share of total tax expense for each segment, obtained by multiplying our respective segment's operating profit by the relevant estimated effective tax rate for the year. The allocated tax expense amounts for Pulse were, in thousands, \$4,437, \$(13,395), and \$2,123, in 2003, 2002 and 2001, respectively. For AMI Doduco, they were, in thousands, \$(1,429), \$1,050, and \$780 in 2003, 2002 and 2001, respectively.

We sell our products to customers throughout the world. The following table summarizes our sales to customers in the United States and Germany, where sales are significant. Other countries in which our sales are not significant are grouped into regions. We attribute customer sales to the country addressed in the sales invoice. The product is usually shipped to the same country. Amounts are in thousands:

	2003	2002	2001
	----	----	----
Sales to customers in:			
Europe, other than Germany	\$179,598	\$106,277	\$127,516
United States	124,007	127,256	166,237
Asia	108,590	86,441	79,911
Germany	72,374	54,871	70,792
Other	24,678	31,509	29,743
	-----	-----	-----
Total	\$509,247	\$406,354	\$474,199
	=====	=====	=====

The following table includes net property, plant and equipment located in Turkey, Germany, the United States, and China, where assets are significant. Other countries in which such assets are not significant are grouped into regions. Property, plant and equipment represents all of the relevant assets that have long useful lives. Amounts are in thousands:

	2003	2002	2001
	----	----	----
Net property, plant and equipment located in:			
Turkey	\$ 31,091	\$ --	\$ --
Germany	18,026	15,796	12,456
Europe, other than Turkey and Germany	11,338	10,576	12,793
United States	12,831	16,308	22,180
China	12,545	17,703	23,057
Asia, other than Turkey and China	1,114	2,020	9,191
Other	1,104	2,458	3,375
	-----	-----	-----
Total	\$ 88,049	\$ 64,861	\$ 83,052
	=====	=====	=====

## Technitrol, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements, continued

## (15) Equity Method Investment

In April 2001, we made a minority investment in the common stock of FRE, which was accounted for by the cost-basis method of accounting. On July 27, 2002 we made an additional investment in FRE of \$6.7 million which increased our total investment to \$20.9 million. As a result of the increased ownership percentage to approximately 29%, we began to account for the investment under the equity method beginning in the three months ended September 27, 2002. In 2003 we recorded a \$8.7 million charge to adjust the original cost basis of the investment to market value. The net loss in 2003 resulted from a \$9.3 million charge to the original cost basis of our investment, offset by \$0.6 million of equity method investment earnings in 2003. Shares of FRE began trading on the Taiwan Stock Exchange in January of 2003, and they have experienced considerable price volatility. We maintain an option to acquire a controlling interest in FRE at its market value at the time of exercise. This investment is reflected in the Other Assets caption on the Consolidated Balance Sheets.

## (16) Quarterly Financial Data (Unaudited)

Quarterly results of operations (unaudited) for 2003 and 2002 are summarized as follows (in thousands, except per share data):

	Quarter Ended			
	Mar. 28 -----	June 27 -----	Sept. 26 -----	Dec. 26 -----
2003:				
Net sales	\$ 122,544	\$ 125,706	\$ 126,260	\$ 134,737
Gross profit	30,421	32,818	33,941	36,138
Earnings (loss) before taxes	2,739	7,286	7,881	(2,910)
Net earnings (loss)	2,634	6,020	6,412	(3,078)
Basic	\$ 0.07	\$ 0.15	\$ 0.16	\$ (0.08)
Diluted	\$ 0.07	\$ 0.15	\$ 0.16	\$ (0.08)
	Mar. 29 -----	June 28 -----	Sept. 27 -----	Dec. 27 -----
2002:				
Net sales	\$ 93,420	\$ 106,185	\$ 103,626	\$ 103,123
Gross profit	19,252	24,666	25,901	26,687
Earnings (loss) before cumulative effect of accounting change	(7,542)	(41,479)	3,228	5,649
Net earnings (loss)	(20,899)	(29,045)	2,123	4,284
Net earnings (loss) per share:				
Basic	\$ (.63)	\$ (.75)	\$ .05	\$ .11
Diluted	\$ (.63)	\$ (.75)	\$ .05	\$ .11

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In the first quarter of 2002, we recorded a goodwill impairment charge of \$15.7 million, net of income tax benefit, related to AMI Doduco as a cumulative effect of accounting change. In the second quarter of 2002, we recorded a tradename impairment charge of \$32.1 million, less a \$12.8 million income tax benefit, related to Pulse. In the fourth quarter of 2003 we recorded a \$9.3 million charge related to our investment in FRE.

We also restated prior period amounts to reflect equity earnings in FRE investment.

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### Technitrol, Inc. and Subsidiaries

#### Notes to Consolidated Financial Statements, continued

(17) Adoption of SFAS 142

In July 2001, the FASB issued Statement No. 142, Goodwill and Other Intangible Assets ("SFAS 142"). SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 also requires that other intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. (Amounts are in thousands except per share amounts):

	2002	2001
	----	----
Net earnings (loss) - as reported	\$ (43,537)	\$ 2,784
Adjustments:		
Amortization of goodwill	--	4,638
Cumulative effect of accounting change	15,763	--
Income tax effect	(25)	(93)
	-----	-----
Net adjustments	15,738	4,545
	-----	-----
Net earnings (loss) - adjusted	\$ (27,799)	\$ 7,329
	=====	=====
Basic net income (loss) per share - as reported	\$ (1.17)	\$ 0.08
Basic net income (loss) per share - adjusted	\$ (0.75)	\$ 0.22
Diluted net income (loss) per share - as reported	\$ (1.17)	\$ 0.08
Diluted net income (loss) per share - adjusted	\$ (0.75)	\$ 0.22

In the first quarter of 2002, upon our transitional assessment, we recorded a goodwill impairment charge of \$15.7 million, net of income tax benefit, related to AMI Doduco, as a cumulative effect of accounting change. During the quarter ended June 28, 2002, we recorded an impairment charge of \$32.1 million of the value assigned to the Excelsus trade names, less a \$12.8 million income tax benefit. The charge was included in the line "Severance and asset impairment expense" on the consolidated statement of operations. This charge was triggered by the combined effect of reorganizing Pulse into a product-line based organization and updated financial forecasts for DSL microfilters, to which the trade name applies.

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Technitrol, Inc. and Subsidiaries

Financial Statement Schedule II

Valuation and Qualifying Accounts

(In thousands of dollars)

Description -----	Opening Balance -----	Additions (Deductions) -----	
		Charged to costs and expenses -----	Write-offs and payments -----
Year ended December 26, 2003:			
Provisions for obsolete and slow-moving inventory	\$ 15,564 =====	\$ 5,936 =====	\$ (11,090) =====
Allowances for doubtful accounts	\$ 3,255 =====	\$ 427 =====	\$ (801) =====
Year ended December 27, 2002:			
Provisions for obsolete and slow-moving inventory	\$ 23,517 =====	\$ 2,214 =====	\$ (10,167) =====
Allowances for doubtful accounts	\$ 2,560 =====	\$ 899 =====	\$ (204) =====
Year ended December 28, 2001:			
Provisions for obsolete and slow-moving inventory	\$ 9,226 -----	\$ 20,295 -----	\$ (6,004) -----
Allowances for doubtful accounts	\$ 1,908 =====	\$ 697 =====	\$ (45) =====

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Exhibit Index

- 2.1 Agreement and Plan of Merger, dated as of May 23, 2001, as amended as of July 6, 2001, by and among Pulse Engineering, Inc., Pulse Acquisition Corporation, Excelsus Technologies, Inc., and certain principal shareholders of Excelsus Technologies, Inc. that are signatories thereto (incorporated by reference to Exhibit 2 to our Form 8-K dated August 21, 2001).
- 2.2 Share Purchase Agreement, dated as of January 9, 2003, by Pulse Electronics (Singapore) Pte. Ltd. and Forfin Holdings B.V. that are signatories thereto (incorporated by reference to Exhibit 2 to our Form 8-K dated January 10, 2003).
- 3.1 Amended and Restated Articles of Incorporation

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- 3.3 By-laws (incorporated by reference to Exhibit 3.3 to our Form 10-K for the year ended December 27, 2002).
- 4.1 Rights Agreement, dated as of August 30, 1996, between Technitrol, Inc. and Registrar and Transfer Company, as Rights Agent (incorporated by reference to Exhibit 3 to our Registration Statement on Form 8-A dated October 24, 1996).
- 4.2 Amendment No. 1 to the Rights Agreement, dated March 25, 1998, between Technitrol, Inc. and Registrar and Transfer Company, as Rights Agent (incorporated by reference to Exhibit 4 to our Registration Statement on Form 8-A/A dated April 10, 1998).
- 4.3 Amendment No. 2 to the Rights Agreement, dated June 15, 2000, between Technitrol, Inc. and Registrar and Transfer Company, as Rights Agent (incorporated by reference to Exhibit 5 to our Registration Statement on Form 8-A/A dated July 5, 2000).
- 10.1 Technitrol, Inc. 2001 Employee Stock Purchase Plan (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form S-8 dated June 28, 2001, File Number 333-64060).
- 10.2 Technitrol, Inc. Restricted Stock Plan II, as amended and restated as of January 1, 2001 (incorporated by reference to Exhibit C, to our Definitive Proxy on Schedule 14A dated March 28, 2001).
- 10.3 Technitrol, Inc. 2001 Stock Option Plan (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form S-8 dated June 28, 2001, File Number 333-64068).
- 10.4 Technitrol, Inc. Board of Directors Stock Plan (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form S-8 dated June 1, 1998, File Number 333-55751).
- 10.5 Revolving Credit Agreement, by and among Technitrol, Inc. and certain of its subsidiaries, Bank of America, N.A. as Agent and Lender, and certain other Lenders that are signatories thereto, dated as of June 20, 2001 (incorporated by reference to Exhibit 10.(a) to the Company's Form 10-Q for the quarter ended June 29, 2001).
- 10.6 Lease Agreement, dated October 15, 1991, between Ridilla-Delmont and AMI Doduco, Inc. (formerly known as Advanced Metallurgy Incorporated), as amended September 21, 2001 (incorporated by reference to Exhibit 10.6 to the Company's Amendment No. 1 to Registration Statement on Form S-3 dated February 28, 2002, File Number 333-81286).
- 10.7 Incentive Compensation Plan of Technitrol, Inc. (incorporated by reference to Exhibit 10.7 to Amendment No. 1 to our Registration Statement on Form S-3 filed on February 28, 2002, File Number 333-81286).

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Exhibit Index, continued

- 10.8 Technitrol, Inc. Supplemental Retirement Plan, amended and restated January 1, 2002 (incorporated by reference to Exhibit 10.8 to Amendment No. 1 to our Registration Statement on Form S-3 filed on February 28, 2002, File Number 333-81286).



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- 10.9 Agreement between Technitrol, Inc. and James M. Papada, III, dated July 1, 1999, as amended April 23, 2001, relating to the Technitrol, Inc. Supplemental Retirement Plan (incorporated by reference to Exhibit 10.9 to Amendment No. 1 to our Registration Statement on Form S-3 filed on February 28, 2002, File Number 333-81286).
- 10.10 Letter Agreement between Technitrol, Inc. and James M. Papada, III, dated April 16, 1999, as amended October 18, 2000 (incorporated by reference to Exhibit 10.10 to Amendment No. 1 to our Registration Statement on Form S-3 filed on February 28, 2002, File Number 333-81286).
- 10.11 Form of Indemnity Agreement (incorporated by reference to Exhibit 10.11 to our Form 10-K for the year ended December 27, 2002).
- 10.12 Amendment 1 to Revolving Credit Agreement, by and among Technitrol, Inc. and certain of its subsidiaries, Bank of America, N.A. as Agent and Lender, and certain other Lenders that are signatories thereto, dated as of May 15, 2002 (incorporated by reference to Exhibit 10.12 to our Form 10-K for the year ended December 27, 2002).
- 10.13 Amendment 2 to Revolving Credit Agreement, by and among Technitrol, Inc. and certain of its subsidiaries, Bank of America, N.A. as Agent and Lender, and certain other Lenders that are signatories thereto, dated as of December 20, 2002 (incorporated by reference to Exhibit 10.13 to our Form 10-K for the year ended December 27, 2002).
- 10.14 Letter modification to Revolving Credit Agreement, by and among Technitrol, Inc. and certain of its subsidiaries, Bank of America, N.A. as Agent and Lender, and certain other Lenders that are signatories thereto, dated as of March 6, 2003 (incorporated by reference to Exhibit 10.14 to our Form 10-Q for the quarter ended March 28, 2003).
- 10.15 Technitrol Inc. Supplemental Savings Plan (incorporated by reference to Exhibit 10.15 to our Form 10-Q for the quarter ended September 26, 2003)
- 10.16 Technitrol, Inc. 401(K) Retirement Savings Plan, as amended (incorporated by reference to post-effective Amendment No. 1, to our Registration Statement on Form S-8 filed on October 31, 2003, File Number 033-35334)
- 10.17 Pulse Engineering, Inc. 401(K) Plan as amended (incorporated by reference to post-effective Amendment No. 1, to our Registration Statement on Form S-8 filed on October 31, 2003, File Number 033-94073)
- 21. Subsidiaries of Registrant
- 23. Consent of Certified Public Accountants
- 31.1 Certification of Principal Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Principal Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Principal Financial Officer pursuant to 18 U.S.C.

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Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TECHNITROL, INC.

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

Date February 27, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/ Alan E. Barton ----- Alan E. Barton Director	By /s/ Edward M. Mazze ----- Edward M. Mazze Director
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Date February 27, 2004

Date February 27, 2004

By /s/ Stanley E. Basara ----- Stanley E. Basara Director	By /s/ C. Mark Melliar-Smith ----- C. Mark Melliar-Smith Director
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Date February 27, 2004

Date February 27, 2004

By /s/ John E. Burrows, Jr. ----- John E. Burrows, Jr. Director	By /s/ James M. Papada, III ----- James M. Papada, III Chairman, President and CEO (Principal Executive Officer)
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Date February 27, 2004

Date February 27, 2004

By /s/ David H. Hofmann ----- David H. Hofmann Director	By /s/ Drew A. Moyer ----- Drew A. Moyer Vice President, Corporate Controller and Secretary (Principal Financial and Accounting Officer)
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Date February 27, 2004

By /s/ Graham Humes ----- Graham Humes Director	Date February 27, 2004
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Date February 27, 2004

