

PREFORMED LINE PRODUCTS CO

Form 10-Q

August 09, 2012

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

Commission file number: 0-31164

Preformed Line Products Company

(Exact Name of Registrant as Specified in Its Charter)

Ohio
(State or Other Jurisdiction of

34-0676895
(I.R.S. Employer

Edgar Filing: PREFORMED LINE PRODUCTS CO - Form 10-Q

Incorporation or Organization)

Identification No.)

660 Beta Drive

Mayfield Village, Ohio
(Address of Principal Executive Office)

(440) 461-5200

44143
(Zip Code)

(Registrant's telephone number, including area code)

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 such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

The number of common shares outstanding as of August 6, 2012: 5,330,018

Table of Contents

Table of Contents

	Page
<u>Part I - Financial Information</u>	
Item 1. <u>Financial Statements</u>	3
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
Item 4. <u>Controls and Procedures</u>	28
<u>Part II - Other Information</u>	
Item 1. <u>Legal Proceedings</u>	28
Item 1A. <u>Risk Factors</u>	28
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
Item 3. <u>Defaults Upon Senior Securities</u>	28
Item 4. <u>Mine Safety Disclosures</u>	28
Item 5. <u>Other Information</u>	28
Item 6. <u>Exhibits</u>	29
<u>SIGNATURES</u>	30

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****PREFORMED LINE PRODUCTS COMPANY****CONSOLIDATED BALANCE SHEETS****(UNAUDITED)**

<i>Thousands of dollars, except share and per share data</i>	June 30 2012	December 31 2011
ASSETS		
Cash and cash equivalents	\$ 30,398	\$ 32,126
Accounts receivable, less allowances of \$1,887 (\$1,627 in 2011)	73,343	68,949
Inventories - net	88,685	88,613
Deferred income taxes	6,111	5,263
Prepays	5,822	6,321
Prepaid taxes	2,402	1,933
Other current assets	2,824	2,285
TOTAL CURRENT ASSETS	209,585	205,490
Property, plant and equipment - net	88,360	82,860
Patents and other intangibles - net	14,309	11,352
Goodwill	15,116	12,199
Deferred income taxes	5,975	5,585
Other assets	9,613	9,862
TOTAL ASSETS	\$ 342,958	\$ 327,348
LIABILITIES AND SHAREHOLDERS EQUITY		
Notes payable to banks	\$ 281	\$ 2,030
Current portion of long-term debt	453	601
Trade accounts payable	26,342	25,630
Accrued compensation and amounts withheld from employees	15,416	11,472
Accrued expenses and other liabilities	14,674	12,510
Accrued profit-sharing and other benefits	4,231	4,686
Dividends payable	1,104	1,095
Income taxes payable and deferred income taxes	4,024	3,809
TOTAL CURRENT LIABILITIES	66,525	61,833
Long-term debt, less current portion	25,464	27,991
Unfunded pension obligation	15,877	15,786
Income taxes payable, noncurrent	1,939	1,835
Deferred income taxes	4,290	3,255
Other noncurrent liabilities	3,855	3,790
SHAREHOLDERS EQUITY		
PLPC Shareholders' equity:		
Common shares - \$2 par value per share, 15,000,000 shares authorized, 5,333,018 and 5,333,630 issued and outstanding, net of 642,388 and 639,138 treasury shares at par, respectively, at June 30, 2012 and December 31, 2011	10,666	10,667

Edgar Filing: PREFORMED LINE PRODUCTS CO - Form 10-Q

Common shares issued to rabbi trust	(3,847)	(3,812)
Deferred compensation liability	3,847	3,812
Paid in capital	14,190	12,718
Retained earnings	218,844	206,512
Accumulated other comprehensive loss	(18,692)	(17,039)
TOTAL SHAREHOLDERS EQUITY	225,008	212,858
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 342,958	\$ 327,348

See notes to consolidated financial statements (unaudited).

Table of Contents

PREFORMED LINE PRODUCTS COMPANY
STATEMENTS OF CONSOLIDATED INCOME
(UNAUDITED)

	Three month periods ended June 30		Six month periods ended June 30	
	2012	2011	2012	2011
	<i>(Thousands, except per share data)</i>			
Net sales	\$ 111,940	\$ 114,530	\$ 220,786	\$ 209,618
Cost of products sold	74,974	77,824	147,808	140,521
GROSS PROFIT	36,966	36,706	72,978	69,097
Costs and expenses				
Selling	9,506	9,272	18,402	17,308
General and administrative	12,149	11,780	24,156	22,742
Research and engineering	3,747	3,215	7,402	6,577
Other operating (income) expense	1,890	(694)	1,239	(788)
	27,292	23,573	51,199	45,839
OPERATING INCOME	9,674	13,133	21,779	23,258
Other income (expense)				
Interest income	179	140	316	291
Interest expense	(149)	(266)	(345)	(477)
Other income	209	43	354	227
	239	(83)	325	41
INCOME BEFORE INCOME TAXES	9,913	13,050	22,104	23,299
Income taxes	3,317	4,520	7,375	7,915
NET INCOME	6,596	8,530	14,729	15,384
Net loss attributable to noncontrolling interest, net of tax	0	144	0	0
NET INCOME ATTRIBUTABLE TO PLPC	\$ 6,596	\$ 8,386	\$ 14,729	\$ 15,384
BASIC EARNINGS PER SHARE				
Net income attributable to PLPC common shareholders	\$ 1.24	\$ 1.59	\$ 2.76	\$ 2.92
DILUTED EARNINGS PER SHARE				
Net income attributable to PLPC common shareholders	\$ 1.21	\$ 1.55	\$ 2.71	\$ 2.85
Cash dividends declared per share	\$ 0.20	\$ 0.20	\$ 0.40	\$ 0.40
Weighted-average number of shares outstanding - basic	5,332	5,263	5,333	5,268
Weighted-average number of shares outstanding - diluted	5,441	5,393	5,440	5,390

See notes to consolidated financial statements (unaudited).

Table of Contents**PREFORMED LINE PRODUCTS COMPANY****STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)****(UNAUDITED)**

	Three month periods ended June 30		Six month periods ended June 30	
	2012	2011	2012	2011
	<i>(Thousands of dollars)</i>			
Net income	\$ 6,596	\$ 8,530	\$ 14,729	\$ 15,384
Other comprehensive income (loss), net of tax				
Currency translation adjustment	(7,159)	3,127	(1,886)	5,638
Recognized net actuarial loss (net of tax provision \$75 and \$31 for the three months ended June 30, 2012 and 2011, and net of tax provision \$142 and \$78 for the six months ended June 30, 2012 and 2011)	124	76	233	128
Other comprehensive income (loss), net of tax	(7,035)	3,203	(1,653)	5,766
Comprehensive income (loss)	(439)	11,733	13,076	21,150
Less: comprehensive income attributable to noncontrolling interest	0	(37)	0	(50)
Comprehensive income (loss) attributable to PLPC	\$ (439)	\$ 11,696	\$ 13,076	\$ 21,100

See notes to consolidated financial statements (unaudited).

Table of Contents

PREFORMED LINE PRODUCTS COMPANY
STATEMENTS OF CONSOLIDATED CASH FLOWS
(UNAUDITED)

	Six month periods ended June 30	
	2012	2011
	<i>(Thousands of dollars)</i>	
OPERATING ACTIVITIES		
Net income	\$ 14,729	\$ 15,384
Adjustments to reconcile net income to net cash provided by (used in) operations:		
Depreciation and amortization	5,423	5,076
Provision for accounts receivable allowances	652	631
Provision for inventory reserves	1,155	814
Deferred income taxes	(642)	(690)
Share-based compensation expense	1,334	1,458
Excess tax benefits from share-based awards	0	(190)
Loss (gain) on sale of property and equipment	(135)	58
Other - net	(14)	(19)
Changes in operating assets and liabilities:		
Accounts receivable	(4,998)	(17,475)
Inventories	(2,037)	(9,689)
Trade accounts payables and accrued liabilities	8,604	7,518
Income taxes payable	(535)	2,755
Other - net	(1,089)	(3,497)
NET CASH PROVIDED BY OPERATING ACTIVITIES	22,447	2,134
INVESTING ACTIVITIES		
Capital expenditures	(12,893)	(6,504)
Business acquisitions, net of cash acquired	(5,173)	0
Proceeds from the sale of property and equipment	1,902	168
Restricted cash	0	(330)
NET CASH USED IN INVESTING ACTIVITIES	(16,164)	(6,666)
FINANCING ACTIVITIES		
Increase (decrease) in notes payable to banks	(4,102)	9,990
Payments of long-term debt	(306)	(924)
Dividends paid	(2,200)	(2,189)
Excess tax benefits from share-based awards	0	190
Earn-out consideration payment	(1,148)	0
Proceeds from issuance of common shares	145	958
Purchase of common shares for treasury	(195)	(2,518)
NET CASH PROVIDED BY FINANCING ACTIVITIES	(7,806)	5,507
Effects of exchange rate changes on cash and cash equivalents	(205)	(13)
Net increase (decrease) in cash and cash equivalents	(1,728)	962
Cash and cash equivalents at beginning of year	32,126	22,655
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 30,398	\$ 23,617

See notes to consolidated financial statements (unaudited).

Table of Contents**PREFORMED LINE PRODUCTS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)***In thousands, except share and per share data, unless specifically noted***NOTE A BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements of Preformed Line Products Company and subsidiaries (the Company or PLPC) have been prepared in accordance with United States of America (U.S.) generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X.

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from these estimates. However, in the opinion of management, these consolidated financial statements contain all estimates and adjustments, consisting of normal recurring accruals, required to fairly present the financial position, results of operations, and cash flows for the interim periods. Operating results for the three and six month periods ended June 30, 2012 are not necessarily indicative of the results to be expected for the full year ending December 31, 2012.

The consolidated balance sheet at December 31, 2011 has been derived from the audited consolidated financial statements, but does not include all of the information and notes required by U.S. GAAP for complete financial statements. For further information, refer to the consolidated financial statements and notes to consolidated financial statements included in the Company's 2011 Annual Report on Form 10-K filed on March 14, 2012 with the Securities and Exchange Commission.

NOTE B OTHER FINANCIAL STATEMENT INFORMATION*Inventories net*

	June 30 2012	December 31 2011
Finished products	\$ 42,812	\$ 42,382
Work-in-process	9,349	9,196
Raw materials	45,686	46,700
	97,847	98,278
Excess of current cost over LIFO cost	(5,613)	(5,611)
Noncurrent portion of inventory	(3,549)	(4,054)
	\$ 88,685	\$ 88,613

Cost of inventories for certain materials are determined using the last-in-first-out (LIFO) method and totaled approximately \$28.5 million at June 30, 2012 and \$28.3 million at December 31, 2011. An actual valuation of inventories under the LIFO method can be made only at the end of the year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must be based on management's estimates of expected year-end inventory levels and costs. Because these estimates are subject to change and may be different than the actual inventory levels and costs at the end of the year, interim results are subject to the final year-end LIFO inventory valuation. During the three and six month periods ended June 30, 2012, the net change in LIFO inventories resulted in \$.2 million benefit to income before income taxes and a less than \$.1 million charge to income before income taxes, respectively. During the three and six month periods ended June 30, 2011, the net increase in LIFO inventories resulted in a \$.6 million and \$.5 million charge to income before income taxes, respectively.

Noncurrent inventory is included in other assets on the consolidated balance sheets.

Table of Contents*Property, plant and equipment - net*

Major classes of property, plant and equipment are stated at cost and were as follows:

	June 30 2012	December 31 2011
Land and improvements	\$ 12,920	\$ 10,283
Buildings and improvements	57,942	56,303
Machinery and equipment	128,664	125,668
Construction in progress	8,281	6,447
	207,807	198,701
Less accumulated depreciation	119,447	115,841
	\$ 88,360	\$ 82,860

Legal proceedings

From time to time, the Company may be subject to litigation incidental to its business. The Company is not a party to any pending legal proceedings that the Company believes would, individually or in the aggregate, have a material adverse effect on its financial condition, results of operations, or cash flows.

NOTE C PENSION PLANS

PLP-USA hourly employees of the Company who meet specific requirements as to age and service are covered by a defined benefit pension plan. The Company uses a December 31 measurement date for this plan. Net periodic benefit cost for this plan included the following components:

	Three month period ended June 30		Six month period ended June 30	
	2012	2011	2012	2011
Service cost	\$ 351	\$ 272	\$ 650	\$ 502
Interest cost	361	359	705	686
Expected return on plan assets	(295)	(272)	(593)	(544)
Recognized net actuarial loss	199	123	375	206
Net periodic benefit cost	\$ 616	\$ 482	\$ 1,137	\$ 850

During the six month period ended June 30, 2012, \$.7 million of contributions were made to the plan. The Company presently anticipates contributing an additional \$1.5 million to fund the plan in 2012.

NOTE D COMPUTATION OF EARNINGS PER SHARE

Basic earnings per share were computed by dividing net income attributable to PLPC common shareholders by the weighted-average number of common stock outstanding for each respective period. Diluted earnings per share were calculated by dividing net income attributable to PLPC common shareholders by the weighted-average of all potentially dilutive common stock that were outstanding during the periods presented.

Table of Contents

The calculation of basic and diluted earnings per share for the three and six month periods ended June 30, 2012 and 2011 were as follows:

	For the three month period ended June 30		For the six month period ended June 30	
	2012	2011	2012	2011
Numerator				
Amount attributable to PLPC shareholders				
Net income attributable to PLPC	\$ 6,596	\$ 8,386	\$ 14,729	\$ 15,384
Denominator				
Determination of shares				
Weighted-average common shares outstanding	5,332	5,263	5,333	5,268
Dilutive effect - share-based awards	109	130	107	122
Diluted weighted-average common shares outstanding	5,441	5,393	5,440	5,390
Earnings per common share attributable to PLPC shareholders				
Basic	\$ 1.24	\$ 1.59	\$ 2.76	\$ 2.92
Diluted	\$ 1.21	\$ 1.55	\$ 2.71	\$ 2.85

For the three and six month period ended June 30, 2012, 25,750 and 22,750, stock options, respectively, were excluded from the calculation of diluted earnings per share due to the average market price being lower than the exercise price plus any unearned compensation on unvested options, and as such they are anti-dilutive. For the three and six month period ended June 30, 2011, 0 and 9,500, stock options, respectively, were excluded from the calculation of diluted earnings per share due to the average market price being lower than the exercise price plus any unearned compensation on unvested options, and as such they are anti-dilutive.

For the three and six month periods ended June 30, 2012, 4,588 and 0 restricted shares, respectively, were excluded from the calculation of diluted earnings per share due to the average market price being lower than the exercise price plus any unearned compensation on unvested options, and as such they are anti-dilutive. For the three and six month periods ended June 30, 2011, no restricted shares were excluded from the calculation of diluted earnings per shares for both periods.

NOTE E GOODWILL AND OTHER INTANGIBLES

The Company's finite and indefinite-lived intangible assets consist of the following:

	June 30, 2012		December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Finite-lived intangible assets				
Patents	\$ 4,819	\$ (3,986)	\$ 4,819	\$ (3,836)
Land use rights	1,257	(109)	1,259	(97)
Trademark	1,622	(432)	965	(364)
Customer backlog	547	(546)	504	(504)
Technology	2,822	(237)	1,784	(77)
Customer relationships	10,466	(1,914)	8,450	(1,551)
	\$ 21,533	\$ (7,224)	\$ 17,781	\$ (6,429)
Indefinite-lived intangible assets				
Goodwill	\$ 15,116		\$ 12,199	

Edgar Filing: PREFORMED LINE PRODUCTS CO - Form 10-Q

The aggregate amortization expense for other intangibles with finite lives for the three and six month periods ended June 30, 2012 was \$.4 million and \$.8 million, respectively. The aggregate amortization expense for other intangibles with finite lives for the three and six month periods ended June 30, 2011 was \$.3 million and \$.7 million, respectively. Amortization expense is estimated to be \$.7 million for the remainder of 2012, \$1.4 million for 2013, \$1.3 million for 2014, \$1.1 million for 2015 and \$.9 million for 2016. The weighted-average remaining amortization period by intangible asset class is as follows: patents, 3.0 years; land use rights, 64.1 years; trademark, 13.4 years; technology, 18.7 years and customer relationships, 15.6 years.

The Company's measurement date for its annual impairment test for goodwill is October 1st of each year. There were no indicators of impairment during the six month period ended June 30, 2012. The Company performs its annual impairment test for goodwill utilizing a discounted cash flow methodology, market comparables, and an overall market capitalization

Table of Contents

reasonableness test in computing fair value by reporting unit. The Company then compares the fair value of the reporting unit with its carrying value to assess if goodwill has been impaired. Based on the assumptions as to growth, discount rates and the weighting used for each respective valuation methodology, results of the valuations could be significantly different. However, the Company believes that the methodologies and weightings used are reasonable and result in appropriate fair values of the reporting units.

The Company's only intangible asset with an indefinite life is goodwill. The change to goodwill is related to foreign currency translation and two immaterial acquisitions the Company made for a total purchase price of \$6.3 million. The changes in the carrying amount of goodwill, by segment, for the six month period ended June 30, 2012, are as follows:

	The Americas	EMEA	Asia-Pacific	Total
Balance at January 1, 2012	\$ 3,078	\$ 1,029	\$ 8,092	\$ 12,199
Additions	0	853	2,111	2,964
Currency translation	0	(104)	57	(47)
Balance at June 30, 2012	\$ 3,078	\$ 1,778	\$ 10,260	\$ 15,116

NOTE F SHARE-BASED COMPENSATION

The 1999 Stock Option Plan

The 1999 Stock Option Plan (the "Plan") permitted the grant of 300,000 options to buy common shares of the Company to certain employees at not less than fair market value of the shares on the date of grant. At June 30, 2012 there were no shares remaining to be issued under the plan. Options issued to date under the Plan vest 50% after one year following the date of the grant, 75% after two years, and 100% after three years and expire from five to ten years from the date of grant. Shares issued as a result of stock option exercises will be funded with the issuance of new shares.

The Company has elected to use the simplified method of calculating the expected term of the stock options and historical volatility to compute fair value under the Black-Scholes option-pricing model. The risk-free rate for periods within the contractual life of the option is based on the U.S. zero coupon Treasury yield in effect at the time of grant. Forfeitures have been estimated to be zero.

There were no shares granted for the six month periods ended June 30, 2012 and 2011.

Activity in the Plan for the six month period ended June 30, 2012 was as follows:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2012	49,907	\$ 34.39		
Granted	0	0		
Exercised	(400)	39.10		
Forfeited	0	0		
Outstanding (vested and expected to vest) at June 30, 2012	49,507	\$ 34.35	4.0	\$ 1,166
Exercisable at June 30, 2012	47,382	\$ 34.14	3.9	\$ 1,126

Table of Contents

There were 400 and 19,725 stock options exercised during the six month periods ended June 30, 2012 and 2011, respectively. The total intrinsic value of stock options exercised during the six month periods ended June 30, 2012 and 2011 was less than \$.1 million for both periods. Cash received for the exercise of stock options during the six month periods ended June 30, 2012 and 2011 was less than \$.1 million and \$.8 million, respectively. Excess tax benefits from share-based awards for the six month period ended June 30, 2012 and 2011 was less than \$.1 million and \$.1 million, respectively.

For the three and six month periods ended June 30, 2012, the Company recorded compensation expense related to the stock options currently vesting, reducing income before taxes and net income by less than \$.1 million for both periods. For the three and six month periods ended June 30, 2011, the Company recorded compensation expense related to the stock options currently vesting, reducing income before taxes and net income by less than \$.1 million for both periods. The total compensation cost related to nonvested awards not yet recognized at June 30, 2012 is expected to be less than \$.1 million over a weighted-average period of .3 years.

Long Term Incentive Plan of 2008

Under the Preformed Line Products Company Long Term Incentive Plan of 2008 (the LTIP), certain employees, officers, and directors are eligible to receive awards of options and restricted shares. The purpose of this LTIP is to give the Company and its subsidiaries a competitive advantage in attracting, retaining, and motivating officers, employees, and directors and to provide an incentive to those individuals to increase shareholder value through long-term incentives directly linked to the Company's performance. As of June 30, 2012, the total number of common shares reserved for awards under the LTIP is 900,000. Of the 900,000 common shares, 800,000 common shares have been reserved for restricted share awards and 100,000 common shares have been reserved for share options. The LTIP expires on April 17, 2018.

Restricted Share Awards

For all of the participants except the CEO, a portion of the restricted share award is subject to time-based cliff vesting and a portion is subject to vesting based upon the Company's performance over a three year period. All of the CEO's restricted shares are subject to vesting based upon the Company's performance over a three year period.

The restricted shares are offered at no cost to the employees; however, the participant must remain employed with the Company until the restrictions on the restricted shares lapse. The fair value of restricted share awards is based on the market price of a common share on the grant date. The Company currently estimates that no awards will be forfeited. Dividends declared are accrued in cash dividends.

A summary of the restricted share awards under the LTIP for the six month period ended June 30, 2012 is as follows:

	Performance Required	Service Required	Restricted Share Awards Total Restricted Awards	Weighted-Average Grant-Date Fair Value
Nonvested as of January 1, 2012	128,567	14,078	142,645	\$ 37.75
Granted	41,627	4,588	46,215	60.77
Vested	0	0	0	0
Forfeited	0	0	0	0
Nonvested as of June 30, 2012	170,194	18,666	188,860	\$ 43.38

For time-based restricted shares, the Company recognizes stock-based compensation expense on a straight-line basis over the requisite service period of the award in General and administrative expense in the accompanying statement of consolidated income. Compensation expense related to the time-based restricted shares for the three and six month periods ended June 30, 2012 was \$.1 million for both periods. Compensation expense related to the time-based restricted shares for the three and six month periods ended June 30, 2011 was \$.1 million for both periods. As of June 30, 2012, there was \$.4 million of total unrecognized compensation cost related to time-based restricted share awards that is expected to be recognized over the weighted-average remaining period of approximately 2 years.

Table of Contents

For the performance-based awards, the number of restricted shares that will vest depends on the Company's level of performance measured by growth in pretax income and sales growth over a requisite performance period. Depending on the extent to which the performance criteria are satisfied under the LTIP, the participants are eligible to earn common shares over the vesting period. Performance-based compensation expense for the three and six month periods ended June 30, 2012 was \$.7 million and \$1.2 million, respectively. Performance-based compensation expense for the three and six month periods ended June 30, 2011 was \$.6 million and \$1.1 million, respectively. As of June 30, 2012, the remaining performance-based restricted share awards compensation expense of \$4 million is expected to be recognized over a period of approximately 2 years.

The excess tax benefits from restricted share awards for the six month periods ended June 30, 2012 and 2011 was \$0 and less than \$.1 million, as reported on the consolidated statements of cash flows in financing activities, and represent the reduction in income taxes otherwise payable during the period, attributable to the actual gross tax benefits in excess of the expected tax benefits for restricted shares vested in the current period.

In the event of a Change in Control, vesting of the restricted shares will be accelerated and all restrictions will lapse. Unvested performance-based awards are based on a maximum potential payout. Actual shares awarded at the end of the performance period may be less than the maximum potential payout level depending on achievement of performance-based award objectives.

To satisfy the vesting of its restricted share awards, the Company has reserved new shares from its authorized but unissued shares. Any additional awards granted will also be issued from the Company's authorized but unissued shares. As of June 30, 2012, under the LTIP there were 483,319 common shares available for additional restricted share grants.

Deferred Compensation Plan

The Company maintains a trust, commonly referred to as a rabbi trust, in connection with the Company's deferred compensation plan. This plan allows for two deferrals. First, Directors make elective deferrals of Director fees payable and held in the rabbi trust. The deferred compensation plan allows the Directors to elect to receive Director fees in shares of common stock of the Company at a later date instead of fees paid each quarter in cash. Second, this plan allows certain Company employees to defer LTIP restricted shares for future distribution in the form of common shares. Assets of the rabbi trust are consolidated, and the value of the Company's stock held in the rabbi trust is classified in Shareholders' equity and generally accounted for in a manner similar to treasury stock. The Company recognizes the original amount of the deferred compensation (fair value of the deferred stock award at the date of grant) as the basis for recognition in common shares issued to the rabbi trust. Changes in the fair value of amounts owed to certain employees or Directors are not recognized as the Company's deferred compensation plan does not permit diversification and must be settled by the delivery of a fixed number of the Company's common shares. As of June 30, 2012, 109,390 LTIP shares have been deferred and are being held by the rabbi trust.

Share Option Awards

The LTIP permits the grant of 100,000 options to buy common shares of the Company to certain employees at not less than fair market value of the shares on the date of grant. At June 30, 2012 there were 57,000 shares remaining available for issuance under the LTIP. Options issued to date under the LTIP vest 50% after one year following the date of the grant, 75% after two years, and 100% after three years and expire from five to ten years from the date of grant. Shares issued as a result of stock option exercises will be funded with the issuance of new shares.

The Company has elected to use the simplified method of calculating the expected term of the stock options and historical volatility to compute fair value under the Black-Scholes option-pricing model. The risk-free rate for periods within the contractual life of the option is based on the U.S. zero coupon Treasury yield in effect at the time of grant. Forfeitures have been estimated to be zero.

Table of Contents

There were 8,000 and 0 options granted for the six month periods ended June 30, 2012 and 2011. The fair values for the stock options granted in 2012 were estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

Risk-free interest rate	1.3%
Dividend yield	1.9%
Expected life (years)	6
Expected volatility	47.0%

Activity in the Company's LTIP for the six month period ended June 30, 2012 was as follows:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2012	27,000	\$ 48.21		
Granted	8,000	57.28		
Exercised	(1,250)	52.10		
Forfeited	0	0.00		
Outstanding (vested and expected to vest) at June 30, 2012	33,750	\$ 50.21	9.1	\$ 260
Exercisable at June 30, 2012	6,250	\$ 40.89	7.9	\$ 106

There were 1,250 and 3,000 stock options exercised under the LTIP Plan during the six month periods ended June 30, 2012 and 2011, respectively. The total intrinsic value of stock options exercised during the six month periods ended June 30, 2012 and 2011 was less than \$.1 million for both periods. Cash received for the exercise of stock options during the six month periods ended June 30, 2012 and 2011 was \$.1 million for both periods. Excess tax benefits from share-based options for the six month periods ended June 30, 2012 and 2011 were less than \$.1 million for both periods.

For the three and six month periods ended June 30, 2012, the Company recorded compensation expense related to the stock options currently vesting, reducing income before taxes and net income by \$.1 million and \$.2 million, respectively. For the three and six month periods ended June 30, 2011, the Company recorded compensation expense related to the stock options currently vesting, reducing income before taxes and net income by less than \$.1 million and \$.1 million, respectively. The total compensation cost related to nonvested awards not yet recognized at June 30, 2012 is expected to be a combined total of \$.4 million over a weighted-average period of approximately 2.5 years.

NOTE G FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The carrying value of the Company's current financial instruments, which include cash and cash equivalents, accounts receivable, accounts payable, notes payable, and short-term debt, approximates its fair value because of the short-term maturity of these instruments. On May 24, 2012, the Company amended its credit facility to increase the amount to \$90 million, and extend the term to January 2015, all other terms, including the carrying interest at LIBOR plus 1.125%, remain the same. At June 30, 2012, the fair value of the Company's long-term debt was estimated using discounted cash flows analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements which are considered to be level two inputs. There have been no transfers in or out of level two for the six month period ended June 30, 2012. Based on the analysis performed, the fair value and the carrying value of the Company's long-term debt are as follows:

	June 30, 2012		December 31, 2011	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt and related current maturities	\$ 25,982	\$ 25,917	\$ 28,659	\$ 28,592

Edgar Filing: PREFORMED LINE PRODUCTS CO - Form 10-Q

As a result of being a global company, the Company's earnings, cash flows and financial position are exposed to foreign currency risk. The Company's primary objective for holding derivative financial instruments is to manage foreign currency risks. The Company accounts for derivative instruments and hedging activities as either assets or liabilities in the consolidated balance sheet and carries these instruments at fair value. The Company does not enter into any trading or speculative positions with regard to derivative instruments. At June 30, 2012, the Company had one immaterial derivative outstanding.

Table of Contents

Foreign currency derivative instruments outstanding are not designated as hedges for accounting purposes. The gains and losses related to mark-to-market adjustments are recognized as other operating (income) expense on the statement of consolidated income during the period in which the derivative instruments were outstanding.

As part of the January 31, 2012 Purchase Agreement to acquire Australian Electricity Systems PTY Ltd (AES), the Company may be required to make an additional earn-out consideration payment of AUD \$1.1 million or \$1.2 million US dollar. This amount represents the fair value of the earn-out consideration based on AES achieving a financial performance target over twelve months ending June 30, 2012. The calculation of the fair value of the earn-out consideration is based upon twelve months (June 1, 2011 through June 30, 2012) of actual Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) and will be paid based on actual EBITDA for the twelve month period. The fair value of the contingent consideration arrangement is determined by estimating the expected (probability-weighted) earn-out payment which is discounted to present value and is considered a level three input. The discounted cash flow utilized weighted average inputs, including a risk-based discount rate of 11.5%. Based upon the initial evaluation of the range of outcomes for this contingent consideration, the Company accrued \$1.2 million for the additional earn-out consideration payment as of the acquisition date in the Accrued expenses and other liabilities line on the consolidated balance sheet, as part of the purchase price. The amount accrued in the consolidated balance sheet of \$.9 million has decreased \$.3 million due to an adjustment for current estimated results and was recorded in Costs and expenses in the consolidated statements of income.

NOTE H RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In September 2011, the Financial Accounting Standards Board (FASB) issued accounting standards updates (ASU) 2011-08 which provides an entity the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test for goodwill impairment. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. The revised standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company's measurement date for its annual impairment test is October 1 of each year. The adoption of this ASU is not expected to impact the Company's consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and International Financial Reporting Standards (IFRSs) to provide a consistent definition of fair value and ensure that fair value measurements and disclosure requirements are similar between GAAP and IFRS. This guidance changes certain fair value measurement principles and enhances the disclosure requirements for fair value measurements. The amendments in this ASU are effective for interim and annual periods beginning after December 15, 2011 and are applied prospectively. The adoption of ASU 2011-04 did not have a material impact on the Company's financial position, results of operations, cash flows or disclosures.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Presentation of Comprehensive Income (ASU 2011-05). The amendments in ASU 2011-05 allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both instances, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in ASU 2011-05 do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. In December 2011, the FASB issued ASU 2011-12, Comprehensive Income, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05, to defer the effective date of the specific requirement to present items that are reclassified out of accumulated other comprehensive income to net income alongside their respective components of net income and other comprehensive income. The Company adopted this guidance on January 1, 2012, presenting other comprehensive income in a separate statement following the Statement of Consolidated Income. The adoption of this guidance concerns disclosure only and did not have an impact on the Company's consolidated financial position or results of operations.

Table of Contents**NOTE I RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

Changes to GAAP are established by the FASB in the form of ASU s to the FASB s Accounting Standards Codification (ASC).

The Company considers the applicability and impact of all ASU s. We assessed the ASU s and determined each to be either not applicable or have minimal impact on the Company s consolidated financial position and results of operations.

In July 2012, the FASB issued ASU 2012-02, Intangibles – Goodwill and Other (ASU 2012-02). ASU 2012-02 amends current guidance to allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative indefinite-lived intangible asset impairment test. Under this amendment an entity would not be required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. ASU 2012-02 applies to all companies that have indefinite-lived intangible assets reported in their financial statements. The provisions of ASU 2012-02 are effective for reporting periods beginning after September 15, 2012. The Company does not believe the adoption of ASU 2012-02 will have a material impact on the Company s consolidated financial statements.

NOTE J SEGMENT INFORMATION

The following tables present a summary of the Company s reportable segments for the three and six month periods ended June 30, 2012 and 2011. Financial results for the PLP-USA segment include the elimination of all segments intercompany profit in inventory.

	Three month period ended June 30		Six month period ended June 30	
	2012	2011	2012	2011
Net sales				
PLP-USA	\$ 43,197	\$ 38,475	\$ 84,359	\$ 70,412
The Americas	22,151	29,308	46,053	49,847
EMEA	17,779	15,040	31,657	30,319
Asia-Pacific	28,813	31,707	58,717	59,040
Total net sales	\$ 111,940	\$ 114,530	\$ 220,786	\$ 209,618
Intersegment sales				
PLP-USA	\$ 2,355	\$ 2,634	\$ 5,246	\$ 4,925
The Americas	2,029	1,714	4,237	3,795
EMEA	930	429	1,862	846
Asia-Pacific	4,760	2,945	7,687	6,163
Total intersegment sales	\$ 10,074	\$ 7,722	\$ 19,032	\$ 15,729
Income taxes				
PLP-USA	\$ 1,947	\$ 2,117	\$ 4,583	\$ 3,457
The Americas	612	1,594	1,513	2,234
EMEA	820	(40)	1,247	501
Asia-Pacific	(62)	849	32	1,723
Total income taxes	\$ 3,317	\$ 4,520	\$ 7,375	\$ 7,915
Net income				
PLP-USA	\$ 3,328	\$ 3,060	\$ 7,561	\$ 5,048
The Americas	1,352	3,106	3,446	4,440
EMEA	1,932	569	3,552	2,060
Asia-Pacific	(16)	1,795	170	3,836
Total net income	6,596	8,530	14,729	15,384

Edgar Filing: PREFORMED LINE PRODUCTS CO - Form 10-Q

Income attributable to noncontrolling interest, net of tax	0	144	0	0
Net income attributable to PLPC	\$ 6,596	\$ 8,386	\$ 14,729	\$ 15,384

Table of Contents

	June 30 2012	December 31 2011
Assets		
PLP-USA	\$ 86,549	\$ 82,478
The Americas	70,447	72,908
EMEA	52,267	47,098
Asia-Pacific	133,370	124,541
	342,633	327,025
Corporate assets	325	323
Total assets	\$ 342,958	\$ 327,348

NOTE K INCOME TAXES

The Company's effective tax rate was 33% and 34% for the three month periods ended June 30, 2012 and 2011, respectively, and 33% and 34% for the six month periods ended June 30, 2012 and 2011, respectively. The lower effective tax rate for the period ended June 30, 2012 compared to the U.S. federal statutory tax rate of 35% is primarily due to earnings in jurisdictions with lower tax rates than the U.S. federal statutory rate in jurisdictions where such earnings are permanently reinvested.

The Company provides valuation allowances against deferred tax assets when it is more likely than not that some portion, or all of its deferred tax assets will not be realized. No significant changes to the valuation allowance were reflected for the period ended June 30, 2012.

As of June 30, 2012, the Company had gross unrecognized tax benefits of approximately \$1 million and there were no significant changes during the period ended June 30, 2012. Under the Provisions of ASC 740 Income Taxes, the Company may decrease its unrecognized tax benefits by \$.2 million within the next twelve months due to expiration of statutes of limitations.

NOTE L PRODUCT WARRANTY RESERVE

The Company records an accrual for estimated warranty costs to cost of products sold in the consolidated statements of income. These amounts are recorded in accrued expenses and other liabilities in the consolidated balance sheets. The Company records and accounts for its warranty reserve based on specific claim incidents. Should the Company become aware of a specific potential warranty claim for which liability is probable and reasonably estimable, a specific charge is recorded and accounted for accordingly. Adjustments are made quarterly to the accruals as claim information changes.

The following is a rollforward of the product warranty reserve:

	June 30, 2012	December 31, 2011
Balance at the beginning of period	\$ 824	\$ 536
Additions charged to income	769	1,968
Warranty usage	(401)	(1,467)
Currency translation	(3)	(213)
End of period balance	\$ 1,189	\$ 824

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help investors better understand our results of operations, financial condition and present business environment. The MD&A is provided as a supplement to, and should be read in conjunction with, our unaudited condensed consolidated financial statements and related notes included elsewhere in this report. The MD&A is organized as follows:

Overview

Preface

Results of Operations

Application of Critical Accounting Policies and Estimates

Working Capital, Liquidity and Capital Resources

Recently Adopted Accounting Pronouncements

Recently Issued Accounting Pronouncements

OVERVIEW

Preformed Line Products Company (the Company, PLPC, we, us, or our) was incorporated in Ohio in 1947. We are an international designer and manufacturer of products and systems employed in the construction and maintenance of overhead and underground networks for the energy, telecommunication, cable operators, information (data communication), and other similar industries. Our primary products support, protect, connect, terminate, and secure cables and wires. We also provide solar hardware systems and mounting hardware for a variety of solar power applications. Our goal is to continue to achieve profitable growth as a leader in the innovation, development, manufacture, and marketing of technically advanced products and services related to energy, communications, and cable systems and to take advantage of this leadership position to sell additional quality products in familiar markets. We have 17 sales and manufacturing operations in 14 different countries.

Our business operations are aligned into four operating segments to better capitalize on business development opportunities, improve ongoing services, enhance the utilization of our worldwide resources and global sourcing initiatives and manage the Company better. We report our segments in four geographic regions: PLP-USA, The Americas (includes operations in North and South America without PLP-USA), EMEA (Europe, Middle East & Africa) and Asia-Pacific in accordance with accounting standards codified in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 280, Segment Reporting. Each segment distributes a full range of our primary products. Our PLP-USA segment is comprised of our U.S. operations manufacturing our traditional products primarily supporting our domestic energy and telecommunications products. Our other three segments, The Americas, EMEA and Asia-Pacific, support our energy, telecommunications, data communication and solar products in each respective geographical region.

The segment managers responsible for each region report directly to the Company's Chief Executive Officer, who is the chief operating decision maker, and are accountable for the financial results and performance of their entire segment for which they are responsible. The business components within each segment are managed to maximize the results of the entire Company rather than the results of any individual business component of the segment.

We evaluate segment performance and allocate resources based on several factors primarily based on sales and net income.

Edgar Filing: PREFORMED LINE PRODUCTS CO - Form 10-Q

PREFACE

Our consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP). Our discussions of the financial results include non-GAAP measures (e.g., foreign currency impact) to provide additional information concerning our financial results and provide information that is useful to the assessment of our performance and operating trends.

Our financial statements are subject to fluctuations in the exchange rates of foreign currencies in relation to the U.S. dollar. As foreign currencies weaken against the U.S. dollar, our revenues and costs decrease as the foreign currency-denominated financial statements translate into less dollars. On average, foreign currencies weakened against the U.S. Dollar in 2012. The most significant currencies that contributed to this movement were the South African Rand, the Brazilian Real and the Australian dollar. On a reportable segment basis, the foreign currency effects on net sales and net income for the three and six month periods ended June 30, 2012, were as follows:

	Net Sales		Net Income	
	Three months	Six Months	Three months	Six Months
The Americas	\$ (3.4)	\$ (4.5)	\$ (0.3)	\$ (0.4)
EMEA	(2.1)	(3.0)	(0.2)	(0.2)
Asia-Pacific	(0.8)	0.3		(0.1)
Total	\$ (6.3)	\$ (7.2)	\$ (0.5)	\$ (0.7)

Table of Contents

Additionally, we had currency exchange losses in 2012 compared to exchange gains in 2011 on intercompany receivables and loans. The change in these currency exchange losses had a negative impact on pre-tax earnings of \$2.2 million for the three month period ended June 30, 2012 and \$1.7 million for the six month period ended June 30, 2012.

For the three month period ended June 30, 2012, net sales of \$111.9 million decreased \$2.6 million, or 2%, compared to 2011. The fluctuations of foreign currencies during the three month period ended June 30, 2012 had an unfavorable impact on net sales of \$6.3 million as compared to 2011. Excluding the impact on currency translation, sales increased 3%. As a percentage of net sales, gross profit was 33% and 32% of net sales for the three month periods ended June 30, 2012 and 2011, respectively. Excluding the effect of currency translation of \$1.9 million, gross profit increased \$2.2 million, or 6%, compared to 2011. Excluding the effect of currency translation of \$1 million, costs and expenses of \$27.3 million increased \$4.8 million, or 20%, compared to 2011. Excluding the effect of currency translation and as a result of the preceding factors, operating income for the three month period ended June 30, 2012 of \$9.7 million decreased \$2.8 million compared to 2011. Net income for the three month period ended June 30, 2012 of \$6.6 million decreased \$1.9 million compared to 2011. Excluding the effect of currency translation, net income decreased \$1.4 million, or 17%, compared to 2011.

For the six month period ended June 30, 2012, net sales of \$220.8 million increased \$11.2 million, or 5%, compared to 2011. The fluctuations of foreign currencies during the six month period ended June 30, 2012 had an unfavorable impact on net sales of \$7.2 million as compared to 2011. Excluding the impact of currency translation of \$7.3 million, sales increased nearly 9%. As a percentage of net sales, gross profit was 33% of net sales for each of the six month periods ended June 30, 2012 and 2011. Excluding the effect of currency translation of \$2.3 million, gross profit increased \$6.2 million, or 9%, compared to 2011. Excluding the effect of currency translation, costs and expenses of \$51.2 million increased \$6.5 million, or 14%, compared to 2011. Excluding the effect of currency translation and as a result of the preceding factors, operating income for the six month period ended June 30, 2012 of \$21.8 million decreased \$.5 million compared to 2011. Net income for the six month period ended June 30, 2012 of \$14.7 million decreased \$.7 million compared to 2011. Excluding the effect of currency translation, net income remained unchanged compared to 2011.

The global financial and economic conditions continue to be somewhat volatile but our financial condition continues to remain strong. Our results for the three and six month periods ended June 30, 2012 reflect good performance despite the continued uncertainties caused by the Eurozone crisis and reduced growth in areas of the Asia-Pacific segment. We have continued to invest in the business to improve efficiency, develop new products, increase our capacity and become an even stronger supplier to our customers. We currently have a bank debt to equity ratio of 12% and can borrow needed funds at an attractive interest rate under our credit facility.

The financial results in the Asia-Pacific segment were impacted by an immaterial business combination entered into on January 31, 2012.

THREE MONTH PERIOD ENDED JUNE 30, 2012 COMPARED TO THREE MONTH PERIOD ENDED JUNE 30, 2011

The following table sets forth a summary of the Company's consolidated income statements and the percentage of net sales for the three month periods ended June 30, 2012 and 2011. The Company's past operating results are not necessarily indicative of future operating results.

Table of Contents

<i>Thousands of dollars</i>	Three month period ended June 30				
	2012		2011		Change
Net sales	\$ 111,940	100%	\$ 114,530	100%	\$ (2,590)
Cost of products sold	74,974	67%	77,824	68%	(2,850)
GROSS PROFIT	36,966	33%	36,706	32%	260
Costs and expenses	27,292	24%	23,573	21%	3,719
OPERATING INCOME	9,674	9%	13,133	11%	(3,459)
Other income (expense)	239	0%	(83)	0%	322
INCOME BEFORE INCOME TAXES	9,913	9%	13,050	11%	(3,137)
Income taxes	3,317	3%	4,520	4%	(1,203)
NET INCOME	\$ 6,596	6%	\$ 8,530	7%	\$ (1,934)

Net sales. For the three month period ended June 30, 2012, net sales were \$111.9 million, a decrease of \$2.6 million, or 2%, from the three month period ended June 30, 2011. Excluding the effect of currency translation, net sales increased 3% as summarized in the following table:

<i>thousands of dollars</i>	Three month period ended June 30					
	2012	2011	Change	Change due to currency translation	Change excluding currency translation	% change
Net sales						
PLP-USA	\$ 43,197	\$ 38,475	\$ 4,722	\$	\$ 4,722	12%
The Americas	22,151	29,308	(7,157)	(3,428)	(3,729)	(13)
EMEA	17,779	15,040	2,739	(2,118)	4,857	32
Asia-Pacific	28,813	31,707	(2,894)	(787)	(2,107)	(7)
Consolidated	\$ 111,940	\$ 114,530	\$ (2,590)	\$ (6,333)	\$ 3,743	3%

The increase in PLP-USA net sales of \$4.7 million, or 12%, was primarily due to an increase in sales volume of \$3.1 million coupled with price/mix increases of \$1.6 million. International net sales for the three month period ended June 30, 2012 were unfavorably affected by \$6.3 million when local currencies were converted to U.S. dollars. The following discussions of changes in net sales exclude the effect of currency translation. The Americas net sales decrease of \$3.7 million, or 13%, primarily related to a \$3.3 million decrease in solar sales coupled with a decrease in energy sales volume in the region. EMEA net sales of \$17.8 million increased \$4.9 million, or 32%, primarily due to stronger overall market demand in the region. In Asia-Pacific, net sales of \$28.8 million decreased \$2.1 million, or 7%, compared to 2011. The decrease in net sales was primarily due to lower organic sales volume in the region partially offset by a \$4.3 million sales increase related to an acquisition entered into on January 31, 2012.

Table of Contents

Gross profit. Gross profit of \$37 million for the three month period ended June 30, 2012 increased \$.3 million, or less than 1%, compared to the three month period ended June 30, 2011. Excluding the effect of currency translation, gross profit increased 6% as summarized in the following table:

<i>thousands of dollars</i>	Three month period ended June 30					
	2012	2011	Change	Change due to currency translation	Change excluding currency translation	% change
Gross profit						
PLP-USA	\$ 15,995	\$ 14,142	\$ 1,853	\$	\$ 1,853	13%
The Americas	6,394	9,356	(2,962)	(1,024)	(1,938)	(21)
EMEA	6,119	3,327	2,792	(648)	3,440	103
Asia-Pacific	8,458	9,881	(1,423)	(261)	(1,162)	(12)
Consolidated	\$ 36,966	\$ 36,706	\$ 260	\$ (1,933)	\$ 2,193	6%

PLP-USA gross profit of \$16 million increased \$1.9 million compared to 2011. PLP-USA gross profit increased \$1.9 million due to higher net sales coupled with an improvement in production margins partially offset by higher material costs, a \$.3 increase in warranty expense and an increase in employee related costs of \$.2 million of which \$.1 million related to higher pension costs for the three month period ended June 30, 2012. International gross profit for the three month period ended June 30, 2012 was unfavorably impacted \$1.9 million when local currencies were translated to U.S. dollars. The following discussion of gross profit changes excludes the effect of currency translation. The Americas gross profit decrease of \$1.9 million was primarily the result of \$.8 million from lower net sales coupled with lower production margins of \$1.1 million. The EMEA gross profit increased \$3.4 million as a result of \$1.5 million from higher net sales coupled with \$1.9 million related to better product margins in the region. Asia-Pacific gross profit of \$8.5 million decreased \$1.2 million compared to 2011. Asia-Pacific's gross profit decreased due to lower organic net sales in the region partially offset by \$.7 million of gross profit related to an acquisition entered into on January 31, 2012.

Costs and expenses. Costs and expenses of \$27.3 million for the three month period ended June 30, 2012 increased \$3.7 million, or 16%, compared to 2011. Excluding the effect of currency translation, costs and expenses increased 20% as summarized in the following table:

<i>thousands of dollars</i>	Three month period ended June 30					
	2012	2011	Change	Change due to currency translation	Change excluding currency translation	% change
Costs and expenses						
PLP-USA	\$ 10,633	\$ 8,972	\$ 1,661	\$	\$ 1,661	19%
The Americas	4,581	4,538	43	(657)	700	15
EMEA	3,466	2,826	640	(392)	1,032	37
Asia-Pacific	8,612	7,237	1,375	(187)	1,562	22
Consolidated	\$ 27,292	\$ 23,573	\$ 3,719	\$ (1,236)	\$ 4,955	21%

PLP-USA costs and expenses increased \$1.7 million primarily due to changes in net currency exchange of \$1.5 million coupled with an increase in commissions of \$.3 million, personnel related costs of \$.3 million, advertising costs of \$.1 million and higher travel expenses of \$.1 million partially offset by a decrease in consulting expenses of \$.7 million and an increase in intercompany interest income. The changes in net currency exchange were related to intercompany receivables and loans. International costs and expenses for the three month period ended June 30, 2012 were favorably impacted by \$1.2 million when local currencies were translated to U.S. dollar. The following discussions of costs and expenses exclude the effect of currency translation. The Americas costs and expenses increased \$.7 million primarily due to an increase in personnel related costs in the region, coupled with higher intercompany related expenses of \$.1 million partially offset by \$.2 million related to lower sales commissions coupled with \$.3 million related to net foreign currency exchange gains in 2011. EMEA costs and expenses increased \$.1 million primarily due to \$.7 million related to net foreign currency exchange gains in 2011 coupled with an increase in personnel related costs and higher intercompany related expenses in the region. Asia-Pacific costs and expenses increased \$1.6 million compared to 2011. An acquisition on January 31, 2012 added \$.9 million to cost and expenses (including \$.2 million related to intangible assets amortization expense) compared to 2011. The remaining increase in Asia-Pacific costs and expenses was due to personnel related costs in the region coupled with a net foreign

currency exchange gain of \$.2 million in 2011 partially offset by lower commissions of \$.1 million.

Table of Contents

Other income (expense). Other income (expense) for the three month period ended June 30, 2012 of \$.2 million increased \$.3 million compared to 2011 primarily due to higher net interest income.

Income taxes. Income taxes for the three month period ended June 30, 2012 of \$3.3 million was \$1.2 million lower than 2011. The effective tax rate for the three month period ended June 30, 2012 was 33% compared to 34% in 2011. The effective tax rate for the three month periods ended June 30, 2012 and June 30, 2011 is lower than the U.S. federal statutory rate of 35% primarily due to earnings in jurisdictions with lower tax rates than the U.S. federal statutory rate in jurisdictions where such earnings are permanently reinvested.

Net income. As a result of the preceding items, net income for the three month period ended June 30, 2012 was \$6.6 million, compared to \$8.5 million for the three month period ended June 30, 2011. Excluding the effect of currency translation, net income decreased \$1.4 million as summarized in the following table:

<i>thousands of dollars</i>	Three month period ended June 30					
	2012	2011	Change	Change due to currency translation	Change excluding currency translation	% change
Net income						
PLP-USA	\$ 3,328	\$ 3,060	\$ 268	\$	\$ 268	9%
The Americas	1,352	3,106	(1,754)	(260)	(1,494)	(48)
EMEA	1,932	569	1,363	(191)	1,554	273
Asia-Pacific	(16)	1,795	(1,811)	(51)	(1,760)	(98)
Consolidated	\$ 6,596	\$ 8,530	\$ (1,934)	\$ (502)	\$ (1,432)	(17)%

PLP-USA net income increased \$.3 million due to a \$.2 million increase in operating income coupled with a decrease in income taxes of \$.2 million partially offset by a decrease in other income. International net income for the three month period ended June 30, 2012 was unfavorably affected by \$.5 million when local currencies were converted to U.S. dollars. The following discussion of net income excludes the effect of currency translation. The Americas net income decreased \$1.5 million as a result of a decrease in operating income of \$2.6 million partially offset by a decrease in income taxes of \$.9 million and a decrease in other income of \$.3 million. EMEA net income increased \$1.6 million primarily as a result of an increase in operating income of \$2.4 million coupled with an increase in other income of \$.1 million partially offset by an increase in income taxes of \$.9 million. Asia-Pacific net income decreased \$1.8 million primarily as a result of a decrease in operating income of \$2.7 million partially offset by a decrease in income taxes of \$.9 million and an increase in other income of \$.1 million.

SIX MONTH PERIOD ENDED JUNE 30, 2012 COMPARED TO SIX MONTH PERIOD ENDED JUNE 30, 2011

The following table sets forth a summary of the Company's consolidated income statements and the percentage of net sales for the six month periods ended June 30, 2012 and 2011. The Company's past operating results are not necessarily indicative of future operating results.

Table of Contents

<i>Thousands of dollars</i>	Six month period ended June 30				
	2012		2011		Change
Net sales	\$ 220,786	100%	\$ 209,618	100%	\$ 11,168
Cost of products sold	147,808	67%	140,521	67%	7,287
GROSS PROFIT	72,978	33%	69,097	33%	3,881
Costs and expenses	51,199	23%	45,839	22%	5,360
OPERATING INCOME	21,779	10%	23,258	11%	(1,479)
Other income (expense)	325	0%	41	0%	284
INCOME BEFORE INCOME TAXES	22,104	10%	23,299	11%	(1,195)
Income taxes	7,375	3%	7,915	4%	(540)
NET INCOME	\$ 14,729	7%	\$ 15,384	7%	\$ (655)

Net sales. For the six month period ended June 30, 2012, net sales were \$220.8 million, an increase of \$11.2 million, or 5%, from the six month period ended June 30, 2011. Excluding the effect of currency translation, net sales increased 9% as summarized in the following table:

<i>thousands of dollars</i>	Six month period ended June 30					
	2011	2010	Change	Change due to currency translation	Change excluding currency translation	% change
Net sales						
PLP-USA	\$ 84,359	\$ 70,412	\$ 13,947	\$	\$ 13,947	20 %
The Americas	46,053	49,847	(3,794)	(4,540)	746	1
EMEA	31,657	30,319	1,338	(3,033)	4,371	14
Asia-Pacific	58,717	59,040	(323)	313	(636)	(1)
Consolidated	\$ 220,786	\$ 209,618	\$ 11,168	\$ (7,260)	\$ 18,428	9 %

The increase in PLP-USA net sales of \$13.9 million, or 20%, was primarily due to \$8.4 million related to sales volume and \$5.5 million due to price/mix. International net sales for the six month period ended June 30, 2012 were unfavorably affected by \$7.3 million when local currencies were converted to U.S. dollars. The following discussions of changes in net sales exclude the effect of currency translation. The Americas net sales increase of \$.7 million, or 1%, increased primarily due to an increase in energy sales volume in the region of \$4.7 million partially offset by lower solar sales of \$4 million. EMEA net sales of \$31.7 million increased \$4.4 million, or 14%, primarily due to an overall increase in sales volume in the region. In Asia-Pacific, net sales of \$58.7 million decreased \$.6 million, or 1%, compared to 2011. The decrease in net sales was primarily due to lower organic sales volume in the region partially offset by a \$6.2 million related to an acquisition entered into on January 31, 2012.

Table of Contents

Gross profit. Gross profit of \$73 million for the six month period ended June 30, 2012 increased \$3.9 million, or 6%, compared to the six month period ended June 30, 2011. Excluding the effect of currency translation, gross profit increased 9% as summarized in the following table:

<i>thousands of dollars</i>	Six month period ended June 30					
	2012	2011	Change	Change due to currency translation	Change excluding currency translation	% change
Gross profit						
PLP-USA	\$ 31,392	\$ 25,450	\$ 5,942	\$	\$ 5,942	23%
The Americas	13,845	15,555	(1,710)	(1,404)	(306)	(2)
EMEA	10,978	8,456	2,522	(937)	3,459	41
Asia-Pacific	16,763	19,636	(2,873)	30	(2,903)	(15)
Consolidated	\$ 72,978	\$ 69,097	\$ 3,881	\$ (2,311)	\$ 6,192	9%

PLP-USA gross profit of \$31.4 million increased \$5.9 million compared to 2011. PLP-USA gross profit increased \$5.9 million due to higher net sales coupled with an improvement in production margins partially offset by higher material costs and an increase in employee related costs of \$.5 million, of which \$.3 million related to higher pension costs, higher warranty expenses of \$.6 million, and higher repairs and maintenance of \$.4 million for the six month period ended June 30, 2012. International gross profit for the six month period ended June 30, 2012 was unfavorably impacted by \$2.3 million when local currencies were translated to U.S. dollars. The following discussion of gross profit changes excludes the effect of currency translation. The Americas gross profit decrease of \$.3 million was primarily the result of lower production margins of \$1.5 million partially offset by an increase in net sales. The EMEA gross profit increase of \$3.5 million was primarily a result of \$1.4 million from higher net sales coupled with better product margins of \$2.1 million in the region. Asia-Pacific gross profit of \$16.8 million decreased \$2.9 million compared to 2011. Asia-Pacific's gross profit decreased due to lower organic net sales in the region partially offset by \$.8 million of gross profit related to the acquisition entered into on January 31, 2012. The \$3.7 million decrease in the region excluding the acquisition entered into on January 31, 2012 was primarily due to \$1.8 million as a result of lower net sales coupled with \$1.9 million due to lower product margins.

Costs and expenses. Costs and expenses of \$51.2 million for the six month period ended June 30, 2012 increased \$5.4 million, or 12%, compared to 2011. Excluding the effect of currency translation, costs and expenses increased 14% as summarized in the following table:

<i>thousands of dollars</i>	Six month period ended June 30					
	2012	2011	Change	Change due to currency translation	Change excluding currency translation	% change
Costs and expenses						
PLP-USA	\$ 19,101	\$ 17,031	\$ 2,070	\$	\$ 2,070	12%
The Americas	9,083	8,769	314	(867)	1,181	13
EMEA	6,349	5,968	381	(610)	991	17
Asia-Pacific	16,666	14,071	2,595	134	2,461	17
Consolidated	\$ 51,199	\$ 45,839	\$ 5,360	\$ (1,343)	\$ 6,703	15%

PLP-USA costs and expenses increased \$2.1 million primarily due to an increase in commissions of \$.7 million, \$1 million related to net foreign currency exchange gains in 2011, an increase in personnel related costs of \$.6 million, an increase in travel of \$.3 million, and repairs and maintenance of \$.2 million partially offset by lower consulting expenses of \$.9 million related to an information system implementation in the prior year and an increase in intercompany interest income. The net foreign currency exchange gains in 2011 were related to intercompany receivables and loans. International costs and expenses for the six month period ended June 30, 2012 were favorably impacted by \$1.3 million when local currencies were translated to U.S. dollar. The following discussions of costs and expenses exclude the effect of currency translation. The Americas costs and expenses increased \$1.2 million primarily due to an increase in personnel related costs in the region coupled with higher intercompany related expenses of \$3 million partially offset by \$.2 million related to lower sales commissions coupled with \$.3 million related to

Edgar Filing: PREFORMED LINE PRODUCTS CO - Form 10-Q

net foreign currency exchange gains in 2011. EMEA costs and expenses increased \$1 million primarily due to \$.7 million related to net foreign currency exchange gains in 2011 coupled with an increase in personnel related costs and higher intercompany related expenses in the region. Overall,

Table of Contents

Asia-Pacific costs and expenses increased \$2.5 million compared to 2011. An acquisition on January 31, 2012 added \$.9 million to cost and expenses compared to 2011. The remaining \$1.6 million increase in Asia-Pacific costs and expenses were due to personnel related costs in the region coupled with a net foreign currency exchange gain of \$.2 million in 2011 partially offset by a \$.2 million reduction in the fair value of the acquisition earn-out consideration payment, and lower commissions of \$.1 million.

Other income (expense). Other income (expense) for the six month period ended June 30, 2012 of \$.3 million increased \$.3 million compared to 2011 primarily due to higher net interest income.

Income taxes. Income taxes for the six month period ended June 30, 2012 of \$7.4 million was \$.5 million lower than 2011. The effective tax rate for the six month period ended June 30, 2012 was 33% compared to 34% in 2011. The effective tax rate for six month period ended June 30, 2011 and June 30, 2011 is lower than the U.S. federal statutory rate of 35% primarily due to earnings in jurisdictions with lower tax rates than the U.S. federal statutory rate in jurisdictions where such earnings are permanently reinvested.

Net income. As a result of the preceding items, net income for the six month period ended June 30, 2012 was \$14.7 million, compared to \$15.4 million for the six month period ended June 30, 2011. Excluding the effect of currency translation, net income remained relatively unchanged as summarized in the following table:

<i>thousands of dollars</i>	Six month period ended June 30					
	2011	2010	Change	Change due to currency translation	Change excluding currency translation	% change
Net income						
PLP-USA	\$ 7,561	\$ 5,048	\$ 2,513	\$	\$ 2,513	50%
The Americas	3,446	4,440	(994)	(373)	(621)	(14)
EMEA	3,552	2,060	1,492	(248)	1,740	84
Asia-Pacific	170	3,836	(3,666)	(72)	(3,594)	(94)
Consolidated	\$ 14,729	\$ 15,384	\$ (655)	\$ (693)	\$ 38	%

PLP-USA net income increased \$2.5 million due to a \$3.9 million increase in operating income partially offset by a decrease in other income of \$.2 million coupled with an increase in income taxes of \$1.1 million. International net income for the six month period ended June 30, 2012 was unfavorably affected by \$.7 million when local currencies were converted to U.S. dollars. The following discussion of net income excludes the effect of currency translation. The Americas net income decreased \$.6 million as a result of a decrease in operating income of \$1.5 million partially offset by an increase in other income of \$.3 million and lower income taxes of \$.5 million. EMEA net income increased \$1.7 million primarily due to a \$2.5 million increase in operating income coupled with a \$.1 million increase in other income partially offset by an increase in income taxes of \$.8 million. Asia-Pacific net income decreased \$3.6 million primarily due to a decrease in operating income of \$5.4 million partially offset by lower income taxes of \$1.7 million coupled with a decrease in other income of \$.1 million.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our critical accounting policies are consistent with the information set forth in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, included in our Form 10-K for the year ended December 31, 2011 and are, therefore, not presented herein.

WORKING CAPITAL, LIQUIDITY AND CAPITAL RESOURCES

Cash decreased \$1.7 million for the six month period ended June 30, 2012. Net cash provided by operating activities was \$22.4 million. The major investing and financing uses of cash were capital expenditures of \$12.9 million, dividends of \$2.2 million, acquisitions, net of cash, of \$5.2 million, an acquisition earn-out payment of \$1.1 million and net debt payments of \$4.4 million.

Table of Contents

Net cash provided by operating activities for the six month period ended June 30, 2012 increased \$20.3 million compared to the six month period ended June 30, 2011 primarily as a result of lower increases in working capital of \$20.3 million (primarily due to receivables of \$12.5 million and inventory of \$7.7 million), increase in non-cash items of \$.6 million partially offset by a decrease in net income of \$.6 million.

Net cash used in investing activities for the six month period ended June 30, 2012 of \$16.2 million represents an increase of \$9.5 million when compared to cash used in investing activities in the six month period ended June 30, 2011. The increase was primarily related to business acquisition payments of \$5.2 million and capital expenditure increases of \$6.4 million in the six month period ended June 30, 2012 when compared to the same period in 2011. In January 2012, we purchased Australian Electricity Systems PTY Ltd in Australia for \$4.3 million, net of cash received and working capital adjustments. In March 2012, we purchased all of the assets of Forma Line Industries CC in South Africa for \$.9 million, net of cash received and working capital adjustments. Capital expenditures increased due mostly to purchase of land and building and an information technology system implementation at our Asia-Pacific segment, purchase of building and land at our EMEA segment and building and land and machinery and equipment at our PLP-USA segment.

Cash used by financing activities for the six month period ended June 30, 2012 was \$7.8 million compared to \$5.5 million of cash provided by financing activities for the six month period ended June 30, 2011. The decrease of \$13.3 million was primarily a result of net debt payments in 2012 when compared to debt borrowings in 2011 and a \$1.1 million earn-out payment related to the acquisition of Electropar in 2010 partially offset by lower repurchases of common shares outstanding in 2012 when compared to 2011.

Our financial position remains strong and our current ratio was 3.2 to 1 at June 30, 2012 and 3.3 to 1 at December 31, 2011. At June 30, 2012, our unused availability under our main credit facility was \$64.7 million and our bank debt to equity ratio was 12%. On May 24, 2012, we amended our credit facility to increase the amount to \$90 million, and extend the term to January 2015, all other terms, including the carrying interest at LIBOR plus 1.125%, remain the same. The revolving credit agreement contains, among other provisions, requirements for maintaining levels of working capital, net worth and profitability. At June 30, 2012, we were in compliance with these covenants.

We expect that our major sources of funding for 2012 and beyond will be our operating cash flows and our existing cash and cash equivalents. We believe our future operating cash flows will be more than sufficient to cover debt repayments, other contractual obligations, capital expenditures and dividends. In addition, we believe our borrowing capacity provides substantial financial resources. We do not believe we would increase our debt to a level that would have a material adverse impact upon results of operations or financial condition.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In September 2011, the FASB issued accounting standards updates (ASU) 2011-08 which provides an entity the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test for goodwill impairment. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. The revised standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Our measurement date for our annual impairment test is October 1 of each year. The adoption of this ASU is not expected to impact our consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and International Financial Reporting Standards (IFRSs) to provide a consistent definition of fair value and ensure that fair value measurements and disclosure requirements are similar between GAAP and IFRS. This guidance changes certain fair value measurement principles and enhances the disclosure requirements for fair value measurements. The amendments in this ASU are effective for interim and annual periods beginning after December 15, 2011 and are applied prospectively. The adoption of ASU 2011-04 did not have a material impact on our financial position, results of operations, cash flows or disclosures.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Presentation of Comprehensive Income (ASU 2011-05). The amendments in ASU 2011-05 allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single

Table of Contents

continuous statement of comprehensive income or in two separate but consecutive statements. In both instances, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in ASU 2011-05 do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. In December 2011, the FASB issued ASU 2011-12, Comprehensive Income, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05, to defer the effective date of the specific requirement to present items that are reclassified out of accumulated other comprehensive income to net income alongside their respective components of net income and other comprehensive income. We adopted this guidance on January 1, 2012, presenting other comprehensive income in a separate statement following the Statement of Consolidated Income. The adoption of this guidance concerns disclosure only and did not have an impact on our consolidated financial position or results of operations.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Changes to GAAP are established by the FASB in the form of ASUs to the FASB's Accounting Standards Codification (ASC).

We consider the applicability and impact of all ASUs. We assessed the ASUs and determined each to be either not applicable or have minimal impact on our consolidated financial position and results of operations.

In July 2012, the FASB issued ASU 2012-02, Intangibles—Goodwill and Other (ASU 2012-02). ASU 2012-02 amends current guidance to allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative indefinite-lived intangible asset impairment test. Under this amendment an entity would not be required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. ASU 2012-02 applies to all companies that have indefinite-lived intangible assets reported in their financial statements. The provisions of ASU 2012-02 are effective for reporting periods beginning after September 15, 2012. We do not believe the adoption of ASU 2012-02 will have a material impact on our consolidated financial statements.

FORWARD LOOKING STATEMENTS

Cautionary Statement for Safe Harbor Purposes Under The Private Securities Litigation Reform Act of 1995

This Form 10-Q and other documents we file with the Securities and Exchange Commission (SEC) contain forward-looking statements regarding the Company's and management's beliefs and expectations. As a general matter, forward-looking statements are those focused upon future plans, objectives or performance (as opposed to historical items) and include statements of anticipated events or trends and expectations and beliefs relating to matters not historical in nature. Such forward-looking statements are subject to uncertainties and factors relating to the Company's operations and business environment, all of which are difficult to predict and many of which are beyond the Company's control. Such uncertainties and factors could cause the Company's actual results to differ materially from those matters expressed in or implied by such forward-looking statements.

The following factors, among others, could affect the Company's future performance and cause the Company's actual results to differ materially from those expressed or implied by forward-looking statements made in this report:

The overall demand for cable anchoring and control hardware for electrical transmission and distribution lines on a worldwide basis, which has a slow growth rate in mature markets such as the United States (U.S.), Canada, and Western Europe and may not grow as expected in developing regions;

The ability of our customers to raise funds needed to build the facilities their customers require;

Technological developments that affect longer-term trends for communication lines such as wireless communication;

Edgar Filing: PREFORMED LINE PRODUCTS CO - Form 10-Q

The decreasing demands for product supporting copper-based infrastructure due to the introduction of products using new technologies or adoption of new industry standards;

The Company's success at continuing to develop proprietary technology and maintaining high quality products and customer service to meet or exceed existing or new industry performance standards and individual customer expectations;

The Company's success in strengthening and retaining relationships with the Company's customers, growing sales at targeted accounts and expanding geographically;

Table of Contents

The extent to which the Company is successful in expanding the Company's product line or production facilities into new areas;

The Company's ability to identify, complete and integrate acquisitions for profitable growth;

The potential impact of consolidation, deregulation and bankruptcy among the Company's suppliers, competitors and customers;

The relative degree of competitive and customer price pressure on the Company's products;

The cost, availability and quality of raw materials required for the manufacture of products;

The effects of fluctuation in currency exchange rates upon the Company's reported results from international operations, together with non-currency risks of investing in and conducting significant operations in foreign countries, including those relating to political, social, economic and regulatory factors;

Changes in significant government regulations affecting environmental compliances;

The telecommunication market's continued deployment of Fiber-to-the-Premises;

The Company's ability to obtain funding for future acquisitions;

The potential impact of the global economic condition and the depressed U.S. housing market on the Company's ongoing profitability and future growth opportunities in our core markets in the U.S. and other foreign countries where the financial situation is expected to be similar going forward;

The continued support by Federal, State, Local and Foreign Governments in incentive programs for upgrading electric transmission lines and promoting renewable energy deployment;

Those factors described under the heading "Risk Factors" on page 13 of the Company's Annual Report on Form 10-K for the year ended December 31, 2011 filed on March 14, 2012.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company operates manufacturing facilities and offices around the world and uses fixed and floating rate debt to finance the Company's global operations. As a result, the Company is subject to business risks inherent in non-U.S. activities, including political and economic uncertainty, import and export limitations and market risk related to changes in interest rates and foreign currency exchange rates. The Company believes the political and economic risks related to the Company's international operations are mitigated due to the stability of the countries in which the Company's largest international operations are located.

As of June 30, 2012, the Company had one immaterial foreign currency forward exchange contract outstanding. The Company does not hold derivatives for trading purposes.

Edgar Filing: PREFORMED LINE PRODUCTS CO - Form 10-Q

The Company is exposed to market risk, including changes in interest rates. The Company is subject to interest rate risk on its variable rate revolving credit facilities and term notes, which consisted of borrowings of \$26.2 million at June 30, 2012. A 100 basis point increase in the interest rate would have resulted in an increase in interest expense of approximately \$.3 million for the six month period ended June 30, 2012.

The Company's primary currency rate exposures are related to foreign denominated debt, intercompany debt, forward exchange contracts, foreign denominated receivables and cash and short-term investments. A hypothetical 10% change in currency rates would have a favorable/unfavorable impact on fair values on such instruments of \$6.3 million and on income before tax of \$.1 million.

Table of Contents**ITEM 4. CONTROLS AND PROCEDURES****Evaluation of Disclosure Controls and Procedures**

The Company's Principal Executive Officer and Principal Financial Officer have concluded that the Company's disclosure controls and procedures as defined in Rule 13a-15(e) or Rule 15d-15(e) of the Securities Exchange Act of 1934, as amended, were effective as of June 30, 2012.

Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f)) during the quarter ended June 30, 2012 that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of any ultimate liability with respect to these actions will not materially affect our financial condition, results of operations or cash flows.

ITEM 1A. RISK FACTORS

There were no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission on March 14, 2012.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On August 4, 2010, the Company announced that the Board of Directors authorized a plan to repurchase up to 250,000 of Preformed Line Products common shares. The repurchase plan does not have an expiration date. The following table includes repurchases for the three month period ended June 30, 2012.

Period (2012)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may yet be Purchased under the Plans or Programs
April	1,750	\$ 58.05	77,077	172,923
May	0	0	77,077	172,923
June	0	0	77,077	172,923
Total	1,750			

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

Table of Contents

ITEM 6. EXHIBITS

31.1	Certifications of the Principal Executive Officer, Robert G. Ruhlman, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2	Certifications of the Principal Executive Officer, Eric R. Graef, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.1	Certifications of the Principal Executive Officer, Robert G. Ruhlman, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished.
32.2	Certifications of the Principal Executive Officer, Eric R. Graef, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished.
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*

* In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference in such filing.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

August 9, 2012

/s/ Robert G. Ruhlman
Robert G. Ruhlman
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

August 9, 2012

/s/ Eric R. Graef
Eric R. Graef
Chief Financial Officer and Vice President - Finance
(Principal Accounting Officer)

Table of Contents

EXHIBIT INDEX

31.1	Certifications of the Principal Executive Officer, Robert G. Ruhlman, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2	Certifications of the Principal Executive Officer, Eric R. Graef, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.1	Certifications of the Principal Executive Officer, Robert G. Ruhlman, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished.
32.2	Certifications of the Principal Executive Officer, Eric R. Graef, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished.
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*

* In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference in such filing.