

PREFORMED LINE PRODUCTS CO

Form 10-Q

August 08, 2014

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**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, 2014**

**Commission file number: 0-31164**

**Preformed Line Products Company**

**(Exact Name of Registrant as Specified in Its Charter)**

**Ohio**  
**(State or Other Jurisdiction of**  
**Incorporation or Organization)**

**34-0676895**  
**(I.R.S. Employer**  
**Identification No.)**

**660 Beta Drive**

**Mayfield Village, Ohio**  
**(Address of Principal Executive Office)**

**44143**  
**(Zip Code)**

**(440) 461-5200**

**(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 1, 2014: 5,390,092.

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	June 30 2014	December 31 2013
<i>Thousands of dollars, except share and per share data</i>		
	(Unaudited)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 24,585	\$ 24,291
Accounts receivable, less allowances of \$2,341 (\$2,136 in 2013)	75,864	67,587
Inventories - net	78,986	73,835
Deferred income taxes	6,231	7,022
Prepays	5,717	6,112
Prepaid taxes	4,173	3,733
Other current assets	8,540	3,154
<b>TOTAL CURRENT ASSETS</b>	<b>204,096</b>	<b>185,734</b>
Property, plant and equipment - net	108,202	100,461
Patents and other intangibles - net	16,494	11,787
Goodwill	19,384	13,873
Deferred income taxes	4,060	3,416
Other assets	15,697	17,135
<b>TOTAL ASSETS</b>	<b>\$ 367,933</b>	<b>\$ 332,406</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Notes payable to banks	\$ 597	\$ 1,105
Current portion of long-term debt	138	195
Trade accounts payable	23,781	21,750
Accrued compensation and amounts withheld from employees	12,640	10,787
Accrued expenses and other liabilities	9,707	11,118
Accrued profit-sharing and other benefits	3,818	5,086
Dividends payable	1,107	1,098
Income taxes payable and deferred income taxes	1,544	1,076
<b>TOTAL CURRENT LIABILITIES</b>	<b>53,332</b>	<b>52,215</b>
Long-term debt, less current portion	34,149	13,054
Unfunded pension obligation	4,521	5,027
Income taxes payable, noncurrent	1,541	1,556
Deferred income taxes	5,656	3,621

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Other noncurrent liabilities	6,000	4,603
<b>SHAREHOLDERS EQUITY</b>		
PLPC Shareholders equity:		
Common shares - \$2 par value per share, 15,000,000 shares authorized, 5,389,992 and 5,391,074 issued and outstanding, net of 783,418 and 779,279 treasury shares at par, respectively, at June 30, 2014 and December 31, 2013	10,778	10,782
Common shares issued to rabbi trust, 249,557 and 253,156 shares at June 30, 2014 and December 31, 2013	(9,176)	(9,306)
Deferred compensation liability	9,176	9,306
Paid in capital	22,007	21,082
Retained earnings	243,521	238,168
Accumulated other comprehensive loss	(13,572)	(17,702)
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>262,734</b>	<b>252,330</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 367,933</b>	<b>\$ 332,406</b>

*See notes to consolidated financial statements (unaudited).*

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**PREFORMED LINE PRODUCTS COMPANY**  
**STATEMENTS OF CONSOLIDATED INCOME**  
**(UNAUDITED)**

	Three month periods ended June 30		Six month periods ended June 30	
	2014	2013	2014	2013
	<i>(Thousands, except per share data)</i>			
Net sales	\$ 99,981	\$ 111,716	\$ 189,906	\$ 210,405
Cost of products sold	68,784	74,167	131,261	141,557
<b>GROSS PROFIT</b>	<b>31,197</b>	<b>37,549</b>	<b>58,645</b>	<b>68,848</b>
Costs and expenses				
Selling	9,061	9,291	17,566	18,352
General and administrative	10,836	12,127	21,994	23,607
Research and engineering	4,183	3,571	7,958	7,341
Other operating (income) expense	(495)	2,071	(698)	2,192
	23,585	27,060	46,820	51,492
<b>OPERATING INCOME</b>	<b>7,612</b>	<b>10,489</b>	<b>11,825</b>	<b>17,356</b>
Other income (expense)				
Interest income	98	134	207	250
Interest expense	(202)	(105)	(363)	(208)
Other income (expense)	98	162	74	199
	(6)	191	(82)	241
<b>INCOME BEFORE INCOME TAXES</b>	<b>7,606</b>	<b>10,680</b>	<b>11,743</b>	<b>17,597</b>
Income taxes	2,526	4,294	3,925	6,246
<b>NET INCOME</b>	<b>\$ 5,080</b>	<b>\$ 6,386</b>	<b>\$ 7,818</b>	<b>\$ 11,351</b>
<b>BASIC EARNINGS PER SHARE</b>				
Net income	\$ 0.94	\$ 1.19	\$ 1.45	\$ 2.11
<b>DILUTED EARNINGS PER SHARE</b>				
Net income	\$ 0.94	\$ 1.17	\$ 1.44	\$ 2.08
Cash dividends declared per share	\$ 0.20	\$ 0.20	\$ 0.40	\$ 0.20
Weighted-average number of shares outstanding - basic	5,389	5,368	5,390	5,372

Weighted-average number of shares outstanding - diluted	5,393	5,450	5,430	5,450
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*See notes to consolidated financial statements (unaudited).*

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**PREFORMED LINE PRODUCTS COMPANY**  
**STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME**  
**(UNAUDITED)**

	Three month periods ended June 30		Six month periods ended June 30	
	2014	2013	2014	2013
	<i>(Thousands of dollars)</i>			
Net income	\$ 5,080	\$ 6,386	\$ 7,818	\$ 11,351
Other comprehensive income, net of tax				
Foreign currency translation adjustment	2,295	(8,560)	4,125	(8,140)
Recognized net actuarial loss (net of tax provision \$2 and \$46 for the three months ended June 30, 2014 and 2013, and net of tax provision \$3 and \$93 for the six months ended June 30, 2014 and 2013)	3	76	5	153
Other comprehensive income, net of tax	2,298	(8,484)	4,130	(7,987)
Comprehensive income	\$ 7,378	\$ (2,098)	\$ 11,948	\$ 3,364

*See notes to consolidated financial statements (unaudited).*



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

	Six month periods ended June 30	
	2014	2013
	<i>(Thousands of dollars)</i>	
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 7,818	\$ 11,351
Adjustments to reconcile net income to net cash provided by (used in) operations:		
Depreciation and amortization	6,296	6,084
Provision for accounts receivable allowances	486	380
Provision for inventory reserves	781	482
Deferred income taxes	443	(480)
Share-based compensation expense	645	1,310
Excess tax benefits from share-based awards	(160)	(155)
Loss on sale of property and equipment	80	18
Other - net	1	(7)
Changes in operating assets and liabilities:		
Accounts receivable	(5,685)	(9,477)
Inventories	658	4,945
Trade accounts payables and accrued liabilities	(302)	4,577
Income taxes payable	(532)	(4,510)
Other - net	(46)	(2,112)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>10,483</b>	<b>12,406</b>
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(11,471)	(10,789)
Business acquisitions, net of cash acquired	(14,740)	0
Proceeds from the sale of property and equipment	98	47
Fixed term deposits	(823)	0
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(26,936)</b>	<b>(10,742)</b>
<b>FINANCING ACTIVITIES</b>		
Decrease in notes payable to banks	(554)	(218)
Proceeds from the issuance of long-term debt	45,484	33,643
Payments of long-term debt	(24,482)	(30,417)
Earn-out consideration payments	0	(538)
Dividends paid	(2,205)	(98)
Excess tax benefits from share-based awards	160	155
Proceeds from issuance of common shares	125	895
Purchase of common shares for treasury	0	(1,719)
Purchase of common shares for treasury from related parties	(261)	(1,173)

<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	18,267	530
Effects of exchange rate changes on cash and cash equivalents	(1,520)	884
Net increase in cash and cash equivalents	294	3,078
Cash and cash equivalents at beginning of year	24,291	28,120
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 24,585</b>	<b>\$ 31,198</b>

*See notes to consolidated financial statements (unaudited).*

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**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, 2014 are not necessarily indicative of the results to be expected for the full year ending December 31, 2014.

The Consolidated Balance Sheet at December 31, 2013 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 2013 Annual Report on Form 10-K filed on March 14, 2014 with the Securities and Exchange Commission.

**NOTE B OTHER FINANCIAL STATEMENT INFORMATION**

*Inventories net*