

PREFORMED LINE PRODUCTS CO

Form 10-Q

May 08, 2009

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 March 31, 2009
Commission file number: 0-31164
Preformed Line Products Company
(Exact Name of Registrant as Specified in Its Charter)**

Ohio

34-0676895

(State or Other Jurisdiction of Incorporation or Organization)

(I.R.S. Employer Identification No.)

660 Beta Drive
Mayfield Village, Ohio

44143

(Address of Principal Executive Office)

(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 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 definition 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 May 1, 2009: 5,228,630.

Table of Contents

	Page
<u>Part I Financial Information</u>	
<u>Item 1. Financial Statements and Supplementary Data</u>	3
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	21
<u>Item 4. Controls and Procedures</u>	22
<u>Part II Other Information</u>	
<u>Item 1. Legal Proceedings</u>	22
<u>Item 1A. Risk Factors</u>	22
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	22
<u>Item 3. Defaults Upon Senior Securities</u>	23
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	23
<u>Item 5. Other Information</u>	23
<u>Item 6. Exhibits</u>	23
<u>SIGNATURES</u>	25
<u>EX-18.1</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

Table of Contents

PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
PREFORMED LINE PRODUCTS COMPANY
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

<i>Thousands of dollars, except share and per share data</i>	March 31 2009	December 31 2008
ASSETS		
Cash and cash equivalents	\$ 20,795	\$ 19,869
Accounts receivable, less allowances of \$949 (\$972 in 2008)	41,006	36,899
Inventories net	45,910	48,412
Deferred income taxes	2,612	2,786
Prepays and other	4,031	4,704
TOTAL CURRENT ASSETS	114,354	112,670
Property and equipment net	55,009	55,940
Patents and other intangibles net	3,575	3,858
Goodwill	5,296	5,520
Deferred income taxes	6,771	6,943
Other assets	6,267	5,944
TOTAL ASSETS	\$ 191,272	\$ 190,875
LIABILITIES AND SHAREHOLDERS EQUITY		
Notes payable to banks	\$ 3,375	\$ 3,101
Current portion of long-term debt	428	494
Trade accounts payable	14,520	14,632
Accrued compensation and amounts withheld from employees	7,438	6,606
Accrued expenses and other liabilities	5,224	4,574
Accrued profit-sharing and other benefits	4,001	3,687
Dividends payable	1,071	1,054
Income taxes payable	954	1,100
TOTAL CURRENT LIABILITIES	37,011	35,248
Long-term debt, less current portion	2,491	2,653
Unfunded pension obligation	11,327	11,303
Income taxes payable, noncurrent	1,474	1,405
Deferred income taxes	771	725
Other noncurrent liabilities	2,437	2,540
SHAREHOLDERS EQUITY		
PLPC shareholders equity:		
Common stock \$2 par value per share, 15,000,000 shares authorized, 5,225,630 and 5,223,830 issued and outstanding, net of 551,059 treasury	10,451	10,448

shares at par, respectively		
Paid in capital	4,095	3,704
Retained earnings	148,261	146,624
Accumulated other comprehensive loss	(27,765)	(24,511)
TOTAL PLPC SHAREHOLDERS EQUITY	135,042	136,265
Noncontrolling interest	719	736
TOTAL SHAREHOLDERS EQUITY	135,761	137,001
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 191,272	\$ 190,875

See notes to consolidated financial statements (unaudited).

Table of Contents

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

<i>Thousands, except per share data</i>	Three month periods ended March 31	
	2009	2008
Net sales	\$ 58,694	\$ 59,865
Cost of products sold	40,116	40,860
GROSS PROFIT	18,578	19,005
Costs and expenses		
Selling	5,364	5,574
General and administrative	7,052	7,356
Research and engineering	2,061	1,989
Other operating expense (income)	289	(90)
	14,766	14,829
OPERATING INCOME	3,812	4,176
Other income (expense)		
Interest income	125	214
Interest expense	(109)	(139)
Other income (expense)	479	(2)
	495	73
INCOME BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	4,307	4,249
Income taxes	1,590	1,415
INCOME FROM CONTINUING OPERATIONS, NET OF TAX	2,717	2,834
Income from discontinued operations, net of tax		149
NET INCOME	2,717	2,983
Net income (loss) attributable to noncontrolling interest, net of tax	(5)	33
NET INCOME ATTRIBUTABLE TO PLPC	\$ 2,722	\$ 2,950

BASIC EARNINGS PER SHARE

Income per share from continuing operations attributable to PLPC shareholders	\$	0.52	\$	0.52
Discontinued operations attributable to PLPC common shareholders	\$		\$	0.03
Net income attributable to PLPC common shareholders	\$	0.52	\$	0.55

DILUTED EARNINGS PER SHARE

Income per share from continuing operations attributable to PLPC shareholders	\$	0.51	\$	0.52
Discontinued operations attributable to PLPC common shareholders	\$		\$	0.02
Net income attributable to PLPC common shareholders	\$	0.51	\$	0.54

Cash dividends declared per share	\$	0.20	\$	0.20
-----------------------------------	----	------	----	------

Weighted-average number of shares outstanding basic		5,225		5,382
---	--	-------	--	-------

Weighted-average number of shares outstanding diluted		5,305		5,431
---	--	-------	--	-------

Amount attributable to PLPC common shareholders				
Income from continuing operations, net of tax	\$	2,722	\$	2,801
Discontinued operations, net of tax				149
Net Income	\$	2,722	\$	2,950

See notes to consolidated financial statements (unaudited).

Table of Contents

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

<i>Thousands of dollars</i>	Three month periods ended March 31	
	2009	2008
OPERATING ACTIVITIES		
Net income	\$ 2,717	\$ 2,983
Less: income from discontinued operations		149
Income from continuing operations	2,717	2,834
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	1,704	1,994
Provision for accounts receivable allowances	106	177
Provision for inventory reserves	703	321
Deferred income taxes	392	(67)
Share-based compensation expense	362	43
Net investment in life insurance	320	(150)
Other net	(83)	(3)
Changes in operating assets and liabilities:		
Accounts receivable	(5,899)	(2,149)
Inventories	717	(2,775)
Trade accounts payables and accrued liabilities	2,632	2,552
Income taxes payable	256	774
Other net	(306)	(337)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,621	3,214
INVESTING ACTIVITIES		
Capital expenditures	(2,200)	(3,671)
Proceeds from the sale of discontinued operations	750	
Proceeds from the sale of property and equipment	25	70
NET CASH USED IN INVESTING ACTIVITIES	(1,425)	(3,601)
FINANCING ACTIVITIES		
Increase (decrease) in notes payable to banks	366	(251)
Payments of long-term debt	(135)	(583)
Dividends paid	(1,054)	(1,076)
Proceeds from issuance of common shares	33	64
Purchase of common shares for treasury	(24)	(151)
NET CASH USED IN FINANCING ACTIVITIES	(814)	(1,997)
Effects of exchange rate changes on cash and cash equivalents	(456)	(54)

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

Net increase (decrease) in cash and cash equivalents	926	(2,438)
NET CASH PROVIDED BY DISCONTINUED OPERATIONS		
Operating cash flows		914
Investing cash flows		(37)
NET CASH PROVIDED BY DISCONTINUED OPERATIONS		
		877
Cash and cash equivalents at beginning of period	19,869	23,392
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 20,795	\$ 21,831

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 (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America 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 month period ended March 31, 2009 are not necessarily indicative of the results to be expected for the year ending December 31, 2009.

The consolidated balance sheet at December 31, 2008 has been derived from the audited consolidated financial statements, but does not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and notes to consolidated financial statements included in the Company's 2008 Annual Report on Form 10-K filed on March 13, 2009 with the Securities and Exchange Commission.

Reclassifications

Certain prior period amounts have been reclassified to conform to current year presentation.

NOTE B OTHER FINANCIAL STATEMENT INFORMATION*Inventories net*

	March 31 2009	December 31 2008
Finished products	\$ 19,907	\$ 21,829
Work-in-process	2,520	2,382
Raw materials	31,719	32,231
	54,146	56,442
Excess of current cost over LIFO cost	(4,655)	(5,122)
Noncurrent portion of inventory	(3,581)	(2,908)
	\$ 45,910	\$ 48,412

Noncurrent inventory is included in other assets on the consolidated balance sheets and is principally comprised of raw materials.

Table of Contents*Property and equipment net*

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

	March 31 2009	December 31 2008
Land and improvements	\$ 5,362	\$ 5,490
Buildings and improvements	46,453	47,048
Machinery and equipment	90,702	91,097
Construction in progress	3,264	2,133
	145,781	145,768
Less accumulated depreciation	90,772	89,828
	\$ 55,009	\$ 55,940

Property and equipment are recorded at cost. Depreciation for the Company's PLP-USA assets prior to January 1, 2009 were computed using accelerated methods over the estimated useful lives, with the exception of personal computers, which were depreciated over three years using the straight-line method. Effective January 1, 2009, the Company changed its method of computing depreciation from accelerated methods to the straight-line method for the Company's PLP-USA assets. Based on Statement of Financial Accounting Standards (SFAS) No. 154, Accounting Changes and Error Corrections (FAS 154), the Company determined that the change in depreciation method from an accelerated method to a straight-line method is a change in accounting estimate affected by a change in accounting principle. Per FAS 154, a change in accounting estimate affected by a change in accounting principle is to be applied prospectively. The change is considered preferable because the straight-line method will more accurately reflect the pattern of usage and the expected benefits of such assets and provide greater consistency with the depreciation methods used by other companies in the Company's industry. The net book value of assets acquired prior to January 1, 2009 with useful lives remaining will be depreciated using the straight-line method prospectively. As a result of the change to the straight-line method of depreciating PLP-USA's assets, depreciation expense decreased \$.1 million for the three month period ended March 31, 2009 and the decrease is expected to approximate such amount in each of the remaining quarters in 2009.

Depreciation for the remaining assets is computed using the straight-line method over the estimated useful lives. The estimated useful lives used, when purchased new, are: land improvements, ten years; buildings, forty years; building improvements, five to forty years; and machinery and equipment, three to ten years. Appropriate reductions in estimated useful lives are made for property, plant and equipment purchased in connection with an acquisition of a business or in a used condition when purchased.

Comprehensive income

The components of comprehensive income (loss) are as follows:

	PLPC		Noncontrolling interest		Total	
	Three month period ended March 31		Three month period ended March 31		Three month period ended March 31	
	2009	2008	2009	2008	2009	2008
Net income (loss)	\$ 2,722	\$ 2,950	\$ (5)	\$ 33	\$ 2,717	\$ 2,983
Other comprehensive income (loss), net of tax:						
Change in unrealized losses on available-for-sale securities, net of tax		(88)			(88)	

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

Foreign currency translation adjustments	(3,249)	1,904	(3)		(3,252)	1,904
Recognized net actuarial loss	83	4			83	4
Total other comprehensive income (loss), net of tax	(3,254)	1,908	(3)		(3,257)	1,908
Comprehensive income (loss)	\$ (532)	\$ 4,858	\$ (8)	\$ 33	\$ (540)	\$ 4,891

Table of Contents*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 the Company's PLP-USA plan included the following components:

	Three month period ended March 31	
	2009	2008
Service cost	\$ 216	\$ 167
Interest cost	292	256
Expected return on plan assets	(183)	(261)
Recognized net actuarial loss	132	6
Net periodic benefit cost	\$ 457	\$ 168

During the three month period ended March 31, 2009, \$.3 million of contributions have been made to the plan. The Company presently anticipates contributing an additional \$1 million to fund its pension plan in 2009.

NOTE D COMPUTATION OF EARNINGS PER SHARE

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

Table of Contents

The calculation of basic and diluted earnings per share for the three month periods ended March 31, 2009 and 2008 were as follows:

	For the three month period ended March 31	
	2009	2008
Numerator		
Amount attributable to PLPC shareholders		
Income from continuing operations	\$ 2,722	\$ 2,801
Income from discontinued operations		149
Net income	\$ 2,722	\$ 2,950
Denominator (in thousands)		
Determination of shares		
Weighted-average common shares outstanding	5,225	5,382
Dilutive effect share-based awards	80	49
Diluted weighted-average common shares outstanding	5,305	5,431
Earnings per common share attributable to PLPC shareholders		
Basic		
Income from continuing operations	\$ 0.52	\$ 0.52
Income from discontinued operations	\$	\$ 0.03
Net income	\$ 0.52	\$ 0.55
Diluted		
Income from continuing operations	\$ 0.51	\$ 0.52
Income from discontinued operations	\$	\$ 0.02
Net income	\$ 0.51	\$