PREFORMED LINE PRODUCTS CO
Form 10-Q
May 10, 2007

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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 March 31, 2007
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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange act.
Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

The number of common shares outstanding as of May 7, 2007: 5,365,477.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our independent registered public accounting firm has not completed its review of our interim financial statements included in this Form 10-Q, as required by Rule 10-01(d) of Regulation S-X. The Company is cooperating fully to ensure that the review of the Company s quarterly financial statements by the Company s independent registered public accounting firm is completed as quickly as possible.

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PREFORMED LINE PRODUCTS COMPANY
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

Thousands of dollars, except share data	March 31, 2007	December 31, 2006
ASSETS		
Cash and cash equivalents	$ 21,392	$ 29,949
Accounts receivable, less allowances of $1,088 ($1,209 in 2006)	38,336	30,029
Inventories net	44,183	40,415
Deferred income taxes	3,380	2,528
Prepaids and other	4,760	2,504
TOTAL CURRENT ASSETS	112,051	105,425
Property and equipment net	54,016	52,810
Deferred income taxes	3,914	5,145
Goodwill net	4,793	2,166
Patents and other intangibles net	2,465	2,546
Other assets	2,653	2,760
TOTAL ASSETS	$ 179,892	$ 170,852
LIABILITIES AND SHAREHOLDERS EQUITY		
Notes payable to banks	$ 4,816	$ 3,738
Current portion of long-term debt	2,168	2,157
Trade accounts payable	14,865	11,606
Accrued compensation and amounts withheld from employees	6,218	5,556
Accrued expenses and other liabilities	4,865	4,225
Accrued profit-sharing and other benefits	2,332	3,596
Dividends payable	1,072	1,072
Income taxes	1,041	1,129
TOTAL CURRENT LIABILITIES	37,377	33,079
Long-term debt, less current portion	1,740	2,204
Deferred income taxes	639	439
Unfunded pension liabilities	4,185	3,982
Unrecognized tax benefits	1,875	
Other non-current liabilities	375	
SHAREHOLDERS EQUITY		
Common shares $2 par value, 15,000,000 shares authorized, 5,358,437 and 5,360,259 issues and outstanding, net of 367,333 and 365,311 treasury shares at par, respectively	10,717	10,721

Paid in capital	1,629	1,562
Retained earnings	133,686	131,949
Accumulated other comprehensive loss	(12,331)	(13,084)
TOTAL SHAREHOLDERS EQUITY	133,701	131,148
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 179,892	$ 170,852

See notes to consolidated financial statements.

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PREFORMED LINE PRODUCTS COMPANY
STATEMENTS OF CONSOLIDATED INCOME
(UNAUDITED)

	Three month periods ended March 31,	
In thousands, except per share data	2007	2006
Net sales	$ 56,531	$ 52,635
Cost of products sold	37,623	36,164
GROSS PROFIT	18,908	16,471
Costs and expenses		
Selling	5,963	5,767
General and administrative	5,816	5,796
Research and engineering	1,946	1,873
Other operating expenses net	186	61
	13,911	13,497
Royalty income net	381	346
OPERATING INCOME	5,378	3,320
Other income (expense)		
Interest income	305	402
Interest expense	(165)	(102)
Other expense net	(6)	(19)
	134	281
INCOME BEFORE INCOME TAXES	5,512	3,601
Income taxes	1,794	1,102
NET INCOME	$ 3,718	$ 2,499
Net income per share basic	$ 0.69	$ 0.44
Net income per share diluted	$ 0.69	$ 0.43
Cash dividends declared per share	$ 0.20	$ 0.20

Weighted average number of shares outstanding	basic	5,360	5,731
Weighted average number of shares outstanding	diluted	5,406	5,792

See notes to consolidated financial statements.

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

	Three Month Periods Ended March 31,	
Thousands of dollars	2007	2006
OPERATING ACTIVITIES		
Net income	$ 3,718	$ 2,499
Adjustments to reconcile net income to net cash used in operations:		
Depreciation and amortization	1,816	1,669
Deferred income taxes	558	(132)
Stock based compensation expense	64	74
Net investment in life insurance	124	
Other net	32	(3)
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	(8,681)	(7,300)
Inventories	(2,335)	(43)
Trade accounts payables and accrued liabilities	2,371	636
Income taxes	269	331
Other net	(709)	(841)
NET CASH USED IN OPERATING ACTIVITIES	(2,773)	(3,110)
INVESTING ACTIVITIES		
Capital expenditures	(2,054)	(2,899)
Business acquisitions, net of cash received	(2,550)	
Proceeds from the sale of property and equipment	22	15
NET CASH USED IN INVESTING ACTIVITIES	(4,582)	(2,884)
FINANCING ACTIVITIES		
Increase in notes payable to banks	460	
Proceeds from the issuance of long-term debt		2,534
Payments of long-term debt	(550)	(2,160)
Dividends paid	(1,072)	(1,147)
Issuance of common shares	3	10
Purchase of common shares for treasury	(68)	(641)
NET CASH USED IN FINANCING ACTIVITIES	(1,227)	(1,404)
Effects of exchange rate changes on cash and cash equivalents	25	249
Decrease in cash and cash equivalents	(8,557)	(7,149)
Cash and cash equivalents at beginning of year	29,949	39,592

CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 21,392	$ 32,443

See notes to consolidated financial statements.

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PREFORMED LINE PRODUCTS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Tables in thousands, except per share data

NOTE A BASIS OF PRESENTATION

The accompanying unaudited 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. However, the Company s independent registered public accounting firm has not completed its timely review of our interim financial statements included in this Form 10-Q, as required by Rule 10-01(d) of Regulation S-X. These consolidated financial statements do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. Certain amounts in the prior year financial statements have been adjusted for the retrospective application of Financial Accounting Standards Board (FASB) Staff Position AUG AIR 1, Accounting for Planned Major Maintenance Activities, and the beginning of the year retained earnings has been reduced for the cumulative effect of adopting FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes (see Note H). 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 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, 2007 are not necessarily indicative of the results to be expected for the year ending December 31, 2007.

The consolidated balance sheet at December 31, 2006 has been derived from the audited consolidated financial statements, but does not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. For further information, refer to the consolidated financial statements and notes to consolidated financial statements included in the Company s Form 10-K for 2006 filed with the Securities and Exchange Commission.

NOTE B OTHER FINANCIAL STATEMENT INFORMATION

Inventories

	March 31, 2007	December 31, 2006
Finished goods	$ 18,104	$ 17,044
Work-in-process	2,506	1,844
Raw material	27,382	25,431
	47,992	44,319
Excess of current cost over LIFO cost	(3,809)	(3,904)
	$ 44,183	$ 40,415

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Property and equipment

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

	March 31, 2007	December 31, 2006
Land and improvements	$ 8,577	$ 8,422
Buildings and improvements	42,306	41,941
Machinery and equipment	101,339	101,339
Construction in progress	4,159	2,629
	156,381	154,331
Less accumulated depreciation	102,365	101,521
	$ 54,016	$ 52,810

Comprehensive Income

The components of comprehensive income are as follows:

	Three month periods ended March 31,	
	2007	2006
Net income	$ 3,718	$ 2,499
Other comprehensive income:		
Foreign currency adjustments	753	527
Comprehensive income	$ 4,471	$ 3,026

Guarantees

Product warranty balance at January 1, 2007	$ 82
Additions charged to Cost of products sold	2
Deductions	(20)
Product warranty balance at March 31, 2007	$ 64

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

Net periodic benefit cost for the Company s domestic plan included the following components:

	Three month periods ended March 31,	
	2007	2006
Service cost	$ 177	$ 181
Interest cost	235	214
Expected return on plan assets	(235)	(205)

Recognized net actuarial loss	26	55
Net periodic benefit cost	$ 203	$ 245

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The first quarterly contribution was made on April 13, 2007 in the amount of $.1 million. The Company presently anticipates contributing an additional $.2 million to fund its pension plan in 2007 for a total of $.3 million.

NOTE D COMPUTATION OF EARNINGS PER SHARE

	Three month periods ended March 31,	
	2007	2006
Numerator		
Net income	$ 3,718	$ 2,499
Denominator		
Determination of shares		
Weighted average common shares outstanding	5,360	5,731
Dilutive effect employee stock options	46	61
Diluted weighted average common shares outstanding	5,406	5,792
Earnings per common share		
Basic	$ 0.69	$ 0.44
Diluted	$ 0.69	$ 0.43

NOTE E GOODWILL AND OTHER INTANGIBLES

The Company performed its annual impairment test for goodwill pursuant to SFAS No. 142, Goodwill and Intangible Assets , as of January 2007 and had determined that no adjustment to the carrying value of goodwill was required. The Company s only intangible asset with an indefinite life is goodwill. The aggregate amortization expense for other intangibles with finite lives for each of the three-months ended March 31, 2007 and 2006 was $.1 million. Amortization expense is estimated to be $.3 million annually for 2007 through 2011.

The following table sets forth the carrying value and accumulated amortization of intangibles, including the effect of foreign currency translation, by segment at March 31, 2007:

	Domestic	Foreign	Total
Amortized intangible assets			
Gross carrying amount patents and other intangibles	$ 4,947	$ 79	$ 5,026
Accumulated amortization patents and other intangibles	(2,502)	(59)	(2,561)
Total	$ 2,445	$ 20	$ 2,465

The changes in the carrying amount of goodwill for the three-month period ended March 31, 2007, is as follows:

Balance at January 1, 2007	$ 2,166
Additions	2,565
Currency translation	62
Balance at March 31, 2007	$ 4,793

NOTE F STOCK OPTIONS

The 1999 Stock Option Plan (the Plan) permits 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 March 31, 2007 there were

27,000 shares remaining available for issuance 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.

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There were 15,000 options granted during the three months ended March 31, 2007. There were no options granted during the three months ended March 31, 2006. The fair value for the stock options granted in 2007 was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2007
Risk-free interest rate	4.3%
Dividend yield	3.1%
Expected life	6
Expected volatility	40.7%

Activity in the Company s stock option plan for the three months ended March 31, 2007 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, 2007	130,811	$ 23.43		
Granted	15,000	$ 35.50		
Exercised	(200)	$ 15.13		
Forfeited				
Outstanding (vested and expected to vest) at March 31, 2007	145,611	$ 21.02	6.4	$1,747
Exercisable at March 31, 2007	102,611	$ 20.73	5.4	$1,620

The weighted average grant-date fair value of options granted during 2007 was $11.76. The total intrinsic value of stock options exercised during the three months ended March 31, 2007 and 2006 was $4 thousand and $17 thousand, respectively. There were no stock options that vested during the three months ended March 31, 2007 and 2006.

For the three months ended March 31, 2007 and 2006, the Company recorded compensation expense related to the stock options recognized over the requisite service period, reducing income before taxes and net income by $.1 million. For the three months ended March 31, 2007 and 2006, the impact on earnings per share was a reduction of $.01 per share, basic and diluted. The total compensation cost related to nonvested awards not yet recognized at March 31, 2007 is expected to be a combined total of $.3 million over a weighted-average period of 2 years.

Activity for nonvested stock options for the three months ended March 31, 2007 was as follows:

	Number of Shares	Weighted-average grant-date fair value per share
Nonvested at January 1, 2007	28,000	$ 10.61
Granted	15,000	$ 11.76
Vested		
Forfeited		

Nonvested at March 31, 2007	43,000	$ 11.01

NOTE G RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued Statement of Financial Account Standards (SFAS) No. 157, Fair Value Measurements. This standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This standard does not require new fair value measurements; however the application of this standard may change current practice for an entity. This standard is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal periods. The Company is evaluating the impact this standard will have on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment to FASB No. 115. This standard permits entities to measure certain financial assets and liabilities at fair value. The fair value option established by this standard permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair values option has been elected at each subsequent reporting period. The fair value option election is irrevocable, unless a new election date occurs. SFAS No. 159 establishes presentation and disclosure requirements to help financial statement users understand the effect of the entity s election on earnings, but does not eliminate disclosure requirements of other accounting standards. Assets and liabilities that are measured at fair value must be displayed on the face of the balance sheet. This standard is effective as of the beginning of the first fiscal year that begins after November 15, 2007. The Company is evaluating the impact this standard will have on its consolidated financial statements.

NOTE H NEWLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income taxes an interpretation of FASB Statement No. 109, Accounting for Income Taxes (FIN 48). This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain tax position will not be recognized if it has less than a 50% likelihood of being sustained. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This interpretation is effective for the Company starting January 1, 2007.

The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a $.8 million increase in the liability for unrecognized tax benefits which was accounted for as a reduction in retained earnings. The total amount of unrecognized tax benefits, including the accrual for interest and penalties, as of the date of adoption was $1.8 million, all of which would affect the effective tax rate if recognized.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income taxes. The Company had $.1 million accrued for the payment of interest and penalties at December 31, 2006. Upon adoption of FIN 48 on January 1, 2007, the Company increased its accrual for interest and penalties to $.2 million.

The Company is subject to taxation in the U.S. and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state, local, or foreign examinations by tax authorities for years before 2003.

The Company does not expect that the unrecognized tax benefit will change significantly within the next twelve months.

In September 2006, the FASB issued FASB Staff Position AUG AIR-1, Accounting for Planned Major Maintenance Activities. This staff position amends certain provisions in the AICPA Industry Audit Guide, Audits of Airlines (Airline Guide), and APB No. 28, Interim Financial Reporting. This staff position prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods. The Company adopted the direct expense method effective January 1, 2007, and has retrospectively applied this new accounting principle to prior periods.

The cumulative effect of the retrospective application of the new accounting principle to the carrying value of assets and liabilities and the offsetting adjustment to opening January 1, 2006 retained earnings was a decrease in deferred tax assets of $.1 million, a decrease in accrued liabilities of $.3 million and an increase in beginning retained earnings of $.2 million. The effect on the results of operations for the quarter ended March 31, 2006 was an increase to net income of $15 thousand in our domestic segment.

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NOTE I BUSINESS SEGMENTS

	Three month periods ended March 31,	
	2007	2006
Net sales		
Domestic	$ 32,041	$ 27,961
Foreign	24,490	24,674
Total net sales	$ 56,531	$ 52,635
Intersegment sales		
Domestic	$ 1,698	$ 1,494
Foreign	1,667	808
Total intersegment sales	$ 3,365	$ 2,302
Operating income		
Domestic	$ 2,369	$ 916
Foreign	3,009	2,404
	5,378	3,320
Interest income		