

PREFORMED LINE PRODUCTS CO

Form 10-Q

August 03, 2018

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, 2018

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	(I.R.S. Employer
Incorporation or Organization)	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)

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

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, a smaller reporting company or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer”, “smaller reporting company” and “emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2018: 5,036,748.

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>	19
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	28
Item 4. <u>Controls and Procedures</u>	29
<u>Part II - Other Information</u>	
Item 1. <u>Legal Proceedings</u>	30
Item 1A. <u>Risk Factors</u>	30
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
Item 3. <u>Defaults Upon Senior Securities</u>	30
Item 4. <u>Mine Safety Disclosures</u>	31
Item 5. <u>Other Information</u>	31
Item 6. <u>Exhibits</u>	31
<u>SIGNATURES</u>	32

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PREFORMED LINE PRODUCTS COMPANY

CONSOLIDATED BALANCE SHEETS

	June 30, 2018	December 31, 2017
(Thousands of dollars, except share and per share data)		
	(Unaudited)	
ASSETS		
Cash and cash equivalents	\$ 41,395	\$ 44,358
Accounts receivable, less allowances of \$3,144 (\$3,325 in 2017)	78,107	73,972
Inventories - net	83,212	77,886
Prepays	5,369	3,434
Prepaid taxes	2,223	5,266
Other current assets	4,113	2,214
TOTAL CURRENT ASSETS	214,419	207,130
Property, plant and equipment - net	105,172	108,598
Intangibles - net	9,093	10,020
Goodwill	15,867	16,544
Deferred income taxes	8,023	7,774
Other assets	11,506	9,719
TOTAL ASSETS	\$ 364,080	\$ 359,785
LIABILITIES AND SHAREHOLDERS' EQUITY		
Trade accounts payable	\$ 28,240	\$ 25,141
Notes payable to banks	2,722	864
Current portion of long-term debt	1,448	1,448
Accrued compensation and amounts withheld from employees	13,431	11,461
Accrued expenses and other liabilities	12,532	14,686
Accrued profit-sharing and other benefits	4,195	6,284
Dividends payable	1,055	1,046
Income taxes payable	1,199	1,903
TOTAL CURRENT LIABILITIES	64,822	62,833
Long-term debt, less current portion	37,308	34,598
Unfunded pension obligation	10,006	10,664
Deferred income taxes	1,833	2,090
Other noncurrent liabilities	10,582	11,063
SHAREHOLDERS' EQUITY		
Shareholders' equity:		
Common shares - \$2 par value per share, 15,000,000 shares authorized, 5,036,978 and		
5,038,207 issued and outstanding, at June 30, 2018 and December 31, 2017,		
respectively	12,639	12,593
Common shares issued to rabbi trust, 269,358 and 289,026 shares at June 30, 2018	(10,988)	(11,834)

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

and December 31, 2017, respectively		
Deferred compensation liability	10,988	11,834
Paid-in capital	31,657	29,734
Retained earnings	321,954	311,765
Treasury shares, at cost, 1,282,476 and 1,258,069 shares at June 30, 2018 and		
December 31, 2017, respectively	(69,929)	(68,115)
Accumulated other comprehensive loss	(56,792)	(47,440)
TOTAL SHAREHOLDERS' EQUITY	239,529	238,537
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 364,080	\$ 359,785

See notes to consolidated financial statements (unaudited).

PREFORMED LINE PRODUCTS COMPANY

STATEMENTS OF CONSOLIDATED INCOME

(UNAUDITED)

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
(Thousands of dollars, except per share data)				
Net sales	\$108,915	\$97,512	\$207,054	\$182,081
Cost of products sold	73,712	67,839	140,333	127,743
GROSS PROFIT	35,203	29,673	66,721	54,338
Costs and expenses				
Selling	9,471	8,626	18,332	16,910
General and administrative	11,288	10,772	22,203	21,101
Research and engineering	3,646	3,612	7,307	7,301
Other operating expense - net	1,465	369	1,800	474
	25,870	23,379	49,642	45,786
OPERATING INCOME	9,333	6,294	17,079	8,552
Other income (expense)				
Interest income	134	160	229	264
Interest expense	(348)	(277)	(628)	(577)
Other income - net	105	81	173	137
	(109)	(36)	(226)	(176)
INCOME BEFORE INCOME TAXES	9,224	6,258	16,853	8,376
Income taxes	2,489	2,102	4,590	2,702
NET INCOME	\$6,735	\$4,156	\$12,263	\$5,674
BASIC EARNINGS PER SHARE				
Net income	\$1.34	\$0.81	\$2.43	\$1.11
DILUTED EARNINGS PER SHARE				
Net income	\$1.33	\$0.81	\$2.42	\$1.11
Cash dividends declared per share	\$0.20	\$0.20	\$0.40	\$0.40
Weighted-average number of shares outstanding - basic	5,044	5,116	5,045	5,117
Weighted-average number of shares outstanding - diluted	5,064	5,127	5,064	5,132

See notes to consolidated financial statements (unaudited).

PREFORMED LINE PRODUCTS COMPANY

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
(Thousands of dollars)				
Net income	\$6,735	\$4,156	\$12,263	\$5,674
Other comprehensive income, net of tax				
Foreign currency translation adjustment	(13,367)	2,810	(9,535)	8,282
Recognized net actuarial gain (net of tax provision of \$29 and \$49 for the three months ended June 30, 2018 and 2017, respectively, and net of tax provision of \$59 and \$93 for the six months ended June 30, 2018 and 2017, respectively.)	92	83	183	155
Other comprehensive income (loss), net of tax	(13,275)	2,893	(9,352)	8,437
Comprehensive income (loss)	\$(6,540)	\$7,049	\$2,911	\$14,111

See notes to consolidated financial statements (unaudited).

PREFORMED LINE PRODUCTS COMPANY

STATEMENTS OF CONSOLIDATED CASH FLOWS

(UNAUDITED)

	Six Months Ended June 30	
	2018	2017
(Thousands of dollars)		
OPERATING ACTIVITIES		
Net income	\$ 12,263	\$ 5,674
Adjustments to reconcile net income to net cash provided by (used in) operations:		
Depreciation and amortization	6,524	5,873
Provision for accounts receivable allowances	575	777
Provision for inventory reserves	1,455	722
Deferred income taxes	(462)	(790)
Share-based compensation expense	1,717	1,140
Gain on sale of property and equipment	(99)	(13)
Other - net	54	276
Changes in operating assets and liabilities		
Accounts receivable	(7,595)	(15,284)
Inventories	(10,280)	539
Trade accounts payable and accrued liabilities	3,732	2,035
Income taxes - net	2,305	2,714
Other - net	(2,510)	(1,644)
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,679	2,019
INVESTING ACTIVITIES		
Capital expenditures	(5,573)	(4,554)
Proceeds from the sale of property and equipment	3	1
Purchase of marketable securities	(4,690)	0
Proceeds from marketable securities	2,953	0
Purchase of company owned life insurance policy	(2,953)	0
Fixed-term deposits	0	6,923
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(10,260)	2,370
FINANCING ACTIVITIES		
Increase in notes payable to banks	2,055	2
Proceeds from the issuance of long-term debt	35,272	25,038
Payments of long-term debt	(32,430)	(31,471)
Dividends paid	(2,065)	(2,092)
Proceeds from issuance of common shares	252	0
Purchase of common shares for treasury	(110)	(238)
Purchase of common shares for treasury from related parties	(1,705)	(2)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,269	(8,763)
Effects of exchange rate changes on cash and cash equivalents	(2,570)	1,642
Net decrease in cash, cash equivalents and restricted cash	(3,882)	(2,732)
Cash, cash equivalents and restricted cash at beginning of year	45,579	32,540

CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF

PERIOD⁽¹⁾

\$41,697 \$29,808

(1) Includes restricted cash of \$.3 million at June 30, 2018 and \$1.2 million at December 31, 2017. For further information regarding restricted cash, refer to Note O, "Debt Arrangements."

See notes to consolidated financial statements (unaudited).

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 consolidated financial statements and the accompanying notes. Actual results could differ from these estimates. 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 months ended June 30, 2018 are not necessarily indicative of the results to be expected for the full-year ending December 31, 2018.

The Consolidated Balance Sheet at December 31, 2017 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 2017 Annual Report on Form 10-K filed on March 9, 2018 with the Securities and Exchange Commission.

NOTE B – REVENUE

Revenue recognition

Net sales include products and shipping and handling charges, net of estimates for product returns. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products. All revenue is recognized when the Company satisfies the performance obligations under the contract and control of the product is transferred to the customer, primarily based on shipping terms. Revenue for shipping and handling charges are recognized at the time the products are shipped to, delivered to or picked up by the customer. The Company estimates product returns based on historical return rates.

Disaggregated revenue

The Company’s revenues by segment and product type are as follows:

Three Months Ended June 30, 2018

Product Type	The								
	PLP-USA	Americas	EMEA	Asia-Pacific	Consolidated				
Energy	57	% 77	% 75	% 70	% 68				
Communications	36	19	6	4	19				
Special Industries	7	4	19	26	13				
Total	100%	100	% 100	% 100	% 100				

Six Months Ended June 30, 2018

Product Type	The								
	PLP-USA	Americas	EMEA	Asia-Pacific	Consolidated				
Energy	58	% 77	% 78	% 74	% 69				
Communications	36	19	6	5	20				
Special Industries	6	4	16	21	11				
Total	100%	100	% 100	% 100	% 100				

NOTE C – OTHER FINANCIAL STATEMENT INFORMATION

Inventories – net

	June 30,	
	2018	December 31, 2017
Raw materials	\$42,830	\$ 42,712
Work-in-process	10,469	9,609
Finished Goods	38,060	33,780
	91,359	86,101
Excess of current cost over LIFO cost	(3,399)	(2,991)
Noncurrent portion of inventory	(4,748)	(5,224)
	\$83,212	\$ 77,886

Cost of inventories for certain material is determined using the last-in-first-out (LIFO) method and totaled approximately \$26.7 million at June 30, 2018 and \$25.1 million at December 31, 2017. 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 are 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 month and six-month periods ended June 30, 2018, the net change in LIFO inventories resulted in \$.2 million and \$.4 million of expense, respectively, to Income before income taxes. During the three month and six-month periods ended June 30, 2017, the net change in LIFO inventories resulted in a less than \$.1 million benefit and a less than \$.1 million of expense, respectively, to Income before income taxes.

Noncurrent inventory is included in Other assets on the Consolidated Balance Sheets.

Property, plant and equipment—net

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

	June 30,	
	2018	December 31, 2017
Land and improvements	\$12,582	\$ 13,141
Buildings and improvements	74,917	75,941
Machinery, equipment and aircraft	168,522	166,999
Construction in progress	3,781	5,124
	259,802	261,205
Less accumulated depreciation	(154,630)	(152,607)
	\$105,172	\$ 108,598

Legal proceedings

In the course of business, the Company is subject to a variety of claims and lawsuits, including, but not limited to, litigation relating to employment, workers' compensation, products liability, environmental and intellectual property. The ultimate outcomes of these matters are not predictable with certainty. The Company has liability insurance to cover many of these claims.

The Company and its subsidiaries Helix Uniformed Ltd. ("Helix") and Preformed Line Products (Canada) Limited ("PLPC Canada"), were each named, jointly and severally, with each of SNC-Lavalin ATP, Inc. ("SNC ATP"), HD Supply Canada Inc., by its trade names HD Supply Power Solutions and HD Supply Utilities ("HD Supply"), and Anixter Power Solutions Canada Inc. (the corporate successor to HD Supply, "Anixter" and, together with the Company, PLPC Canada, Helix, SNC ATP and HD Supply, the "Defendants") in a complaint filed by Altalink, L.P. (the "Plaintiff") in the Court of Queen's Bench of Alberta in Alberta, Canada in November 2016 (the "Complaint").

The Complaint states that Plaintiff engaged SNC ATP to design, engineer, procure and construct numerous power distribution and transmission facilities in Alberta (the “Projects”) and that through SNC ATP and HD Supply (now Anixter), spacer dampers manufactured by Helix were procured and installed in the Projects. The Complaint alleges that the spacer dampers have and may continue to become loose, open and detach from the conductors, resulting in damage and potential injury and a failure to perform the intended function of providing spacing and damping to the Project. The Plaintiffs were initially seeking an estimated \$56.0 million in damages jointly and severally from the Defendants, representing the costs of monitoring and replacing the spacer dampers and remediating property damage, due to alleged defects in the design and construction of, and supply of materials for, the Projects by SNC ATP and HD Supply/Anixter and in the design of the spacer dampers by Helix. The Plaintiffs reduced their demand for damages to \$29.4 million on June 1, 2018.

The Company believes the claims against it are without merit and intends to vigorously defend against such claims. However, the Company is unable to predict the outcome of this case and, if determined adversely to the Company, it could have a material effect on the Company’s financial results.

The Company is not a party to any other 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 D – PENSION PLANS

The Company uses a December 31 measurement date for the Preformed Line Products Company Employees’ Retirement Plan (the “Plan”). Net periodic pension cost for this plan included the following components:

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Service cost	\$84	\$72	\$166	\$127
Interest cost	333	363	666	729
Expected return on plan assets	(496)	(476)	(991)	(951)
Recognized net actuarial loss	121	131	242	248
Net periodic pension cost	\$42	\$90	\$83	\$153

A \$.5 million contribution was made to the Plan during the six months ended June 30, 2018. The Company will contribute \$.1 million of additional funding to the Plan during the second half of 2018 and is continuing to evaluate the benefits of contributing additional funds to the Plan during the remainder of the current fiscal year.

NOTE E – ACCUMULATED OTHER COMPREHENSIVE INCOME (“AOCI”)

The following tables set forth the total changes in AOCI by component, net of tax:

Three Months Ended June 30, 2018		Three Months Ended June 30, 2017	
Defined benefit	Total	Defined benefit	Total

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

	pension plan translation			pension plan translation		
	activity	Adjustment		activity	Adjustment	
Balance at April 1	\$(5,923)	\$(37,594)	\$(43,517)	\$(5,802)	\$(46,023)	\$(51,825)
Other comprehensive income before						
reclassifications:						
(Loss) gain on foreign currency translation						
adjustment	0	(13,367)	(13,367)	0	2,810	2,810
Amounts reclassified from AOCI:						
Amortization of defined benefit pension						
actuarial						
gain (a)	92	0	92	83	0	83
Net current period other comprehensive income						
(loss)	92	(13,367)	(13,275)	83	2,810	2,893
Balance at June 30	\$(5,831)	\$(50,961)	\$(56,792)	\$(5,719)	\$(43,213)	\$(48,932)

9

	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017		
	Defined benefit pension plan activity	Currency translation Adjustment	Total	Defined benefit pension plan activity	Currency translation Adjustment	Total
Balance at January 1	\$(6,014)	\$(41,426)	\$(47,440)	\$(5,874)	\$(51,495)	\$(57,369)
Other comprehensive income before reclassifications:						
(Loss) gain on foreign currency translation adjustment	0	(9,535)	(9,535)	0	8,282	8,282
Amounts reclassified from AOCI:						
Amortization of defined benefit pension actuarial loss (a)	183	0	183	155	0	155
Net current period other comprehensive income (loss)	183	(9,535)	(9,352)	155	8,282	8,437
Balance at June 30	\$(5,831)	\$(50,961)	\$(56,792)	\$(5,719)	\$(43,213)	\$(48,932)

(a) This AOCI component is included in the computation of net periodic pension costs.

NOTE F – COMPUTATION OF EARNINGS PER SHARE

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

The calculation of basic and diluted earnings per share for the three and six months ended June 30, 2018 and 2017 was as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Numerator				
Net income	\$6,735	\$4,156	\$12,263	\$5,674
Denominator				
Determination of shares				
Weighted-average common shares outstanding	5,044	5,116	5,045	5,117
Dilutive effect - share-based awards	20	11	19	15
Diluted weighted-average common shares	5,064	5,127	5,064	5,132

outstanding				
Earnings per common share				
Basic	\$1.34	\$0.81	\$2.43	\$1.11
Diluted	\$1.33	\$0.81	\$2.42	\$1.11

For both the three and six-month periods ended June 30, 2018, no stock options were excluded from the calculation of diluted earnings per share as there was no anti-dilutive effect. For the three and six-month periods ended June 30, 2017, 48,498 and 47,679 stock options, respectively, were excluded from the calculation of diluted earnings per share as the effect would have been anti-dilutive.

NOTE G – GOODWILL AND OTHER INTANGIBLES

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

	June 30, 2018		December 31, 2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	Amount	Amortization	Amount	Amortization
Finite-lived intangible assets				
Patents	\$4,806	\$ (4,802)	\$4,806	\$ (4,791)
Land use rights	1,151	(203)	1,199	(201)
Trademarks	1,716	(1,190)	1,770	(1,166)
Technology	3,027	(1,263)	3,149	(1,215)
Customer relationships	11,984	(6,133)	12,350	(5,881)
	\$22,684	\$ (13,591)	\$23,274	\$ (13,254)
Indefinite-lived intangible assets				
Goodwill	\$15,867		\$16,544	

The aggregate amortization expense for other intangibles with finite lives for the three and six months ended June 30, 2018 was \$.3 million and \$.5 million, respectively. The aggregate amortization expense for other intangibles with finite lives for the three and six months ended June 30, 2017 was also \$.3 million and \$.5 million, respectively. Amortization expense is estimated to be \$.5 million for the remaining period of 2018, \$.9 million for both 2019 and 2020 and \$.8 million for both 2021 and 2022. The weighted-average remaining amortization period is approximately 16.4 years. The weighted-average remaining amortization period by intangible asset class is as follows: patents, 7.5 years; land use rights, 57.4 years; trademarks, 8.9 years; technology, 13.4 years; and customer relationships, 11.9 years.

The Company's measurement date for its annual impairment test for goodwill is October 1st of each year. The Company performs its annual impairment test for goodwill utilizing a discounted cash flow methodology, market comparables, and an overall market capitalization 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 valuation method uses Level 3 inputs under the fair value hierarchy.

The Company's only intangible asset with an indefinite life is goodwill. The changes in the carrying amount of goodwill, by segment, for the six months ended June 30, 2018 are as follows:

	USA	The Americas	EMEA	Asia-Pacific	Total
Balance at January 1, 2018	\$3,078	\$ 4,292	\$1,495	\$ 7,679	\$16,544
Currency translation	0	(205)	(117)	(355)	(677)
Balance at June 30, 2018	\$3,078	\$ 4,087	\$1,378	\$ 7,324	\$15,867

NOTE H – SHARE-BASED COMPENSATION

The 1999 Stock Option Plan

Activity in the Company’s 1999 Stock Option Plan for the six months ended June 30, 2018 was as follows:

	Number of Shares	Exercise Price per Share	Weighted Average Contractual Term (Years)	Weighted Average Remaining Aggregate Intrinsic Value (000's)
Outstanding at January 1, 2018	750	\$ 39.10		
Granted	0	\$ 0.00		
Exercised	0	\$ 0.00		
Forfeited	0	\$ 0.00		
Outstanding (exercisable and vested) at June 30, 2018	750	\$ 39.10	1.3	\$ 37

There were no stock options exercised under this Plan during either of the six months ended June 30, 2018 or 2017.

As all stock options from the 1999 Stock Option Plan are fully vested, the Company recorded no compensation expense related to stock options for the six months ended June 30, 2018 and 2017.

Long Term Incentive Plan of 2008 and 2016 Incentive Plan

The Company maintains an equity award program to give the Company 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. Under the Preformed Line Products Company Long Term Incentive Plan of 2008 (the "LTIP"), certain employees, officers, and directors were eligible to receive awards of options, restricted shares and restricted share units (RSUs). The total number of Company common shares reserved for awards under the LTIP was 900,000, of which 800,000 common shares were reserved for RSUs and 100,000 common shares have been reserved for share options. The LTIP was terminated and replaced with the Preformed Line Products Company 2016 Incentive Plan (the "Incentive Plan") in May 2016 upon approval by the Company's Shareholders at the 2016 Annual Meeting of Shareholders on May 10, 2016. No further awards will be made under the LTIP and previously granted awards remain outstanding in accordance with their terms. Under the Incentive Plan, certain employees, officers, and directors will be eligible to receive awards of options, restricted shares and RSUs. The total number of Company common shares reserved for awards under the Incentive Plan is 1,000,000 of which 900,000 common shares have been reserved for restricted share awards and 100,000 common shares have been reserved for share options. The Incentive Plan expires on May 10, 2026.

Restricted Share Units

For the regular annual grants, a portion of the RSUs is subject to time-based cliff vesting and a portion is subject to vesting based upon the Company's performance over a set period for all participants except the CEO. All of the CEO's regular annual RSUs are subject to vesting based upon the Company's performance over a set-year period.

The RSUs are offered at no cost to the employees. The fair value of RSUs is based on the market price of a common share on the grant date and the shares are restricted until they vest. Dividends declared are accrued in cash.

A summary of the RSUs outstanding under the LTIP for the six months ended June 30, 2018 is as follows:

	Restricted Share Units			
	Performance	Service	Total	Weighted-Average
	and	Service	Share	Grant-Date
	Service	Required	Units	Fair Value
	Required	(1)		
Nonvested as of January 1, 2018	200,572	18,214	218,786	\$ 52.68
Granted	63,122	8,155	71,277	73.86
Vested	(19,277)	0	(19,277)	45.85
Forfeited	(30,793)	0	(30,793)	45.85
Nonvested as of June 30, 2018	213,624	26,369	239,993	\$ 53.89

(1) Nonvested performance-based RSUs are reflected above at the maximum performance achievement level.

For time-based RSUs, 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 Statements of Consolidated Income. Compensation expense related to the time-based RSUs for the three and six-month periods ended June 30, 2018 was \$.1 million and \$.2 million, respectively. Compensation expense related to the time-based RSUs for the three and six-month periods ended June 30, 2017 was \$.1 million and \$.2 million, respectively. As of June 30, 2018, there was \$.8 million of total unrecognized compensation cost related to time-based RSUs that is expected to be recognized over the weighted-average remaining period of approximately 2.1 years.

For the performance-based RSUs, the number of RSUs in which the participants will vest depends on the Company's level of performance measured by growth in either operating or pre-tax income and sales growth over a requisite performance period. Depending on the extent to which the performance criteria are satisfied under the LTIP and the Incentive Plan, the participants are eligible to earn common shares over the vesting period. RSUs forfeited in 2018 are those from the 2015 grants for which pre-tax income and sales growth performance were not achieved. Performance-based compensation expense for the three and six-month periods ended June 30, 2018 was \$.7 million and \$1.4 million, respectively. Performance-based compensation expense for the three and six-month periods ended June 30, 2017 was \$.4 million and \$.9 million, respectively. As of June 30, 2018, the remaining compensation expense of \$4.5 million for outstanding performance-based RSU's is expected to be recognized over a period of approximately 1.9 years.

In the event of a Change in Control (as defined in the LTIP and the Incentive Plan), vesting of the RSUs will be accelerated and all restrictions will lapse. Unvested performance-based awards will vest on a target potential payout.

To satisfy the vesting of its RSU 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.

Share Option Awards

The LTIP permitted and now the Incentive Plan 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. Options issued to date under the LTIP and the Incentive 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 utilizes the Black-Scholes option pricing model for estimating fair values of options. The Black-Scholes model requires assumptions regarding the volatility of the Company's stock, the expected life of the stock award and the Company's dividend yield. The Company utilizes historical data in determining these assumptions. 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.

There were no options granted for the six-month period ended June 30, 2018 and 5,000 options were granted for the six-month period ended June 30, 2017.

Stock option activity under the Company's LTIP for six months ended June 30, 2018 was as follows:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Contractual Term (Years)	Weighted Average Remaining Intrinsic Value (000's)
Outstanding at January 1, 2018	29,250	\$ 56.84		
Granted	0	\$ 0.00		
Exercised	(1,500)	\$ 52.81		
Forfeited	0	\$ 0.00		
Outstanding (vested and expected to vest) at June 30, 2018	27,750	\$ 57.05	6.7	\$ 880
Exercisable at June 30, 2018	23,125	\$ 59.44	6.1	\$ 678

There were 1,500 stock options exercised during the six-month period ended June 30, 2018. There were no shares exercised during the six-month period ended June 30, 2017.

For both three and six-month periods ended June 30, 2018, the Company recorded compensation expense related to the stock options currently vested of less than \$.1 million. For the same periods ended June 30, 2017, the Company recorded compensation expense related to the stock options currently vested of less than \$.1 million. The total compensation cost related to nonvested awards not yet recognized at June 30, 2018 is expected to be less than \$.1 million over a weighted-average period of approximately 1.6 years.

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 common shares of the Company at a later date instead of fees paid each quarter in cash. Second, this plan allows certain Company employees to defer restricted shares or RSUs for future distribution in the form of common shares. Assets of the rabbi trust are consolidated, and the value of the Company's common shares 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, 2018, 269,358 shares have been deferred and are being held in the rabbi trust.

NOTE I – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Company measures and records certain assets and liabilities at fair value. A fair value hierarchy is used for those assets and liabilities measured at fair value that distinguishes between assumptions based on market data, (observable inputs), and the Company’s assumptions (unobservable inputs). The hierarchy consists of the following three levels:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs other than Level 1 inputs that are either directly or indirectly observable, which may include:

- o Quoted prices for similar assets in active markets;
- o Quoted prices for identical or similar assets or liabilities in inactive markets;
- o Inputs other than quoted prices that are observable for the asset or liability; and
- o Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs to the valuation methodology are unobservable and developed using estimates and assumptions developed by the Company which reflect those that a market participant would use.

The following table summarizes the Company’s assets and liabilities, recorded and measured at fair value, in the consolidated balance sheets as of June 30, 2018 (there were no financial instruments measured at fair value at December 31, 2017):

Description	Balance as of June 30, 2018	Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs
		for Identical Assets or Liabilities (Level 1)	(Level 2)	(Level 3)
Assets:				
Marketable securities	\$ 1,737	\$ 1,737	\$ 0	\$ 0
Total Assets	\$ 1,737	\$ 1,737	\$ 0	\$ 0
Liabilities:				
Supplemental profit sharing plan	4,632	0	4,632	0
Total Liabilities	\$ 4,632	\$ 0	\$ 4,632	\$ 0

During the six months ended June 30, 2018, the Company invested \$4.7 million in marketable securities, principally equity-based mutual funds, to mitigate the risk associated with the investment returns on the Company’s Supplemental Profit Sharing Plan discussed below. These marketable securities are comprised of available-for-sale securities. During the quarter ended June 30, 2018, the Company sold \$3.0 million from the available-for-sale securities to fund a Corporate Owned Life Insurance Policy (“COLI”), resulting in the \$1.7 million of available-for-sale securities reported. The balances are reported at fair value within Other assets on the Company’s consolidated balance sheet as of June 30, 2018. Changes in the fair value of the securities of less than \$.1 million were recognized within Other income, net within the consolidated statements of income for the six-month period ended June 30, 2018. At June 30, 2018, the cash surrender value of the COLI was \$3.0 million and is recorded in Other assets on the Company’s consolidated balance sheet.

The Company has a non-qualified Supplemental Profit Sharing Plan for its executives. The liability for this unfunded Supplemental Profit Sharing Plan was \$4.6 million and \$4.8 million at June 30, 2018 and December 31, 2017, respectively, and is recorded within Other noncurrent liabilities on the Company's consolidated balance sheets. During January 2018, the Company amended the Supplemental Profit Sharing Plan to allow the participants the ability to hypothetically invest their proportionate award into various investment options, which primarily includes mutual funds. The company then credits earnings, gains and losses to the participants' deferred compensation account balances based on the investments selected by the participants. The Company measures the fair value of the Supplemental Profit Sharing Plan liability using the market values of the participants' underlying investment accounts.

NOTE J – RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In March 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-05, “Income Taxes (Topic 740), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118.” The ASU adds various Securities and Exchange Commission (“SEC”) paragraphs pursuant to the issuance of the December 2017 SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB 118”), which was effective immediately. The SEC issued SAB 118 to address concerns about reporting entities’ ability to timely comply with the accounting requirements to recognize all of the effects of the Tax Cuts and Jobs Act (“the Tax Act”) in the period of enactment. SAB 118 allows disclosure that timely determination of some or all of the income tax effects from the Tax Act are incomplete by the due date of the financial statements and, if possible, to provide a reasonable estimate. The Company has accounted for the tax effects of the Tax Act under the guidance of SAB 118 on a provisional basis. The Company’s accounting for certain income tax effects is incomplete, but reasonable estimates for those effects have been determined and provisional amounts were recorded in the Company’s consolidated financial statements. For additional details regarding SAB 118, refer to Note M “Income Taxes.”

In March 2017, the FASB issued ASU 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,” which requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The Company adopted ASU 2017-07 as of January 1, 2018. The adoption did not have a material impact on the Company’s consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash.” The amendments in this Update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Company adopted ASU 2016-18 as of January 1, 2018 using a retrospective transition method to each period presented. The cash, cash equivalents and restricted cash balance on the Company’s consolidated cash flow includes \$.3 million and \$1.2 million of restricted cash as of June 30, 2018 and December 31, 2017, respectively. Restricted cash is included in Other assets on the Company’s consolidated balance sheet in each period presented. The adoption of ASU 2016-18 did not have a material impact on the Company’s consolidated financial statements. Refer to Note O “Debt Arrangements” for additional details regarding the Company’s restricted cash.

In October 2016, the FASB issued ASU 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory.” ASU 2016-16 modifies the recognition of income tax expense resulting from intra-entity transfers of assets other than inventory. Pursuant to this amendment, entities should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This amendment eliminates the exception for an intra-entity transfer of assets other than inventory. The Company adopted ASU 2016-16 as of January 1, 2018 with no material impact on the Company’s consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities”, which changes how companies recognize, measure, present and make disclosures about certain financial assets and financial liabilities. Under this guidance, entities have to measure certain equity investments, including available-for-sale securities, at fair value and recognize any changes in fair value in net income. ASU 2016-01 is effective for financial statements issued for fiscal years beginning after 15 December 2017, and interim periods therein. The Company adopted ASU 2016-01 effective January 1, 2018. As discussed in Note I, the Company purchased \$4.3 million of available-for-sale marketable securities during the three months ended March 31, 2018 and in April of 2018, sold \$2.9 million of the available-for-sale marketable securities to fund a Corporate Owned Life Insurance Policy (“COLI”). The Company recognized less than \$0.1 million of gains related to the change in the fair

value of the marketable securities within Other income, net on the Company's consolidated statements of income. Refer to Note I "Fair Value of Financial Assets and Liabilities" for additional details regarding the Company's marketable securities.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," or ASU 2014-09. ASU 2014-09 requires an entity to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, the amendment provides five steps that an entity should apply when recognizing revenue. The amendment also specifies the accounting of some costs to obtain or fulfill a contract with a customer and expands the disclosure requirements around contracts with customers. In August 2015, the FASB issued ASU No. 2015-14 deferring the effective date of the amendment to annual reporting periods beginning after December 15, 2017, including interim periods therein.

The Company implemented changes to processes and controls to meet the standard's reporting and disclosure requirements and adopted ASU 2014-09 as of January 1, 2018 using the modified retrospective transition method applied to contracts that were not yet completed at that date. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be presented based on the Company's historic accounting policy. The cumulative impact of adopting ASU 2014-09 as of January 1, 2018 did not have a material impact on the Company's consolidated financial statements. Further, the Company does not expect the impact of the adoption of ASU 2014-09 to be material to its consolidated financial statements on an ongoing basis. Refer to Note B "Revenue" for additional details regarding the Company's revenue recognition policy.

NOTE K – NEW ACCOUNTING STANDARDS TO BE ADOPTED

In February 2018, the FASB issued ASU 2018-02, “Income Statement (Topic 220), Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” The FASB issued the update to provide amended guidance to allow a reclassification from Accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act. Additionally, under the new guidance an entity will be required to provide certain disclosures regarding stranded tax effects. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those years, and the guidance may be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal income tax rate in the Tax Act is recognized. Early adoption is permitted. The Company is currently assessing the impact, if any, that the ASU will have on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” The amendments in this Update require the recognition of assets and liabilities arising from lease transactions on the balance sheet and the disclosure of key information about leasing arrangements. Accordingly, a lessee will recognize a lease asset for its right to use the underlying asset and a lease liability for the corresponding lease obligation. Both the asset and liability will initially be measured at the present value of the future minimum lease payments over the lease term. Subsequent measurement, including the presentation of expenses and cash flows, will depend on the classification of the lease as either a finance or an operating lease. Initial costs directly attributable to negotiating and arranging the lease will be included in the asset. For leases with a term of 12 months or less, a lessee can make an accounting policy election by class of underlying asset to not recognize an asset and corresponding liability. Lessees will also be required to provide additional qualitative and quantitative disclosures regarding the amount, timing and uncertainty of cash flows arising from leases. These disclosures are intended to supplement the amounts recorded in the financial statements and provide additional information about the nature of an organization’s leasing activities. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating its population of leases and evaluating what impact its adoption will have to the presentation of the Company’s consolidated financial statements.

NOTE L – SEGMENT INFORMATION

The following tables present a summary of the Company’s reportable segments for the three and six months ended June 30, 2018 and 2017. Financial results for the PLP-USA segment include the elimination of all segments’ intercompany profit in inventory.

	Three Months		Six Months Ended	
	Ended June 30		June 30	
	2018	2017	2018	2017
Net sales				
PLP-USA	\$42,665	\$38,087	\$82,107	\$72,949
The Americas	18,008	16,827	37,555	33,396
EMEA	21,402	17,578	36,483	31,430
Asia-Pacific	26,840	25,020	50,909	44,306
Total net sales	\$108,915	\$97,512	\$207,054	\$182,081
Intersegment sales				
PLP-USA	\$2,252	\$3,012	\$4,434	\$6,019
The Americas	2,614	1,467	4,582	2,708
EMEA	506	285	840	600

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

Asia-Pacific	3,562	2,485	5,272	4,536
Total intersegment sales	\$8,934	\$7,249	\$15,128	\$13,863
Income taxes				
PLP-USA	\$854	\$463	\$1,228	\$41
The Americas	979	804	2,368	1,515
EMEA	421	375	659	578
Asia-Pacific	235	460	335	568
Total income taxes	\$2,489	\$2,102	\$4,590	\$2,702
Net income (loss)				
PLP-USA	\$1,843	\$949	\$3,556	\$317
The Americas	2,657	1,789	5,800	3,574
EMEA	1,561	669	1,925	1,288
Asia-Pacific	674	749	982	495
Total net income	\$6,735	\$4,156	\$12,263	\$5,674

	June 30, 2018	December 31, 2017
Assets		
PLP-USA	\$124,025	\$ 116,484
The Americas	67,729	70,720
EMEA	60,892	62,524
Asia-Pacific	111,434	110,057
Total identifiable assets	\$364,080	\$ 359,785

NOTE M – INCOME TAXES

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act makes broad and complex changes to the U.S. tax code including but not limited to (1) requiring a one-time transition tax (“Transition Tax”) on certain unrepatriated earnings at December 31, 2017 of foreign subsidiaries that is payable over eight years; (2) reduction of the U.S. federal statutory rate from 35% to 21% effective January 1, 2018; (3) the creation of the base erosion anti-abuse tax (BEAT), a new minimum tax; (4) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries; (5) a new provision, Global Intangible Low-Taxed Income (“GILTI”), which ends deferral of taxation on a significant portion of foreign earnings; (6) a new limitation on deductible interest expense; (7) the repeal of the domestic production activity deduction; (8) more restrictive limitations on the deductibility of certain executive compensation; (9) a deduction for Foreign Derived Intangible Income (“FDII”), an incentive for the development of intangibles in the U.S.; and (10) additional limitations on the use of foreign tax credits to reduce the U.S. income tax liability.

ASC 740, Income taxes, requires a company to record the effects of a tax law change in the period of enactment. The SEC staff issued Standard Accounting Bulletin 118 (“SAB 118”), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company’s accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate to be included in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

As a result of the application of SAB 118, the Company recorded provisional amounts related to the reduction of its deferred tax assets and liabilities resulting from the tax rate reduction from 35% to 21% and for the Transition Tax at December 31, 2017. The Company has not made any material changes to these provisional amounts during the six-month period ending June 30, 2018. As the Company completes its analysis of the Tax Act, collects and prepares necessary data, and interprets any additional guidance issued by the U.S. Treasury Department, the IRS, and other standard-setting bodies, it will make additional adjustments to the provisional amounts. The Company does not expect such adjustments to have a material impact on the Company’s provision for income taxes.

The Company’s effective tax rate was 27% and 34% for the three months ended June 30, 2018 and 2017, respectively. The Company’s effective tax rate was 27% and 32% for the six months ended June 30, 2018 and 2017, respectively. The higher effective tax rate for the three and six months ended June 30, 2018 compared to the U.S. federal statutory rate of 21% was primarily due to increased earnings in jurisdictions with higher tax rates than the

U.S. federal statutory rate, an increase in U.S. permanent items primarily related to the Tax Act including GILTI, the repeal of the domestic production activity deduction, limitations on the deductibility of certain executive compensation, limitations on the use of foreign tax credits to reduce the U.S. income tax liability, partially offset by the FDII deduction. The lower effective tax rate for the three and six months ended June 30, 2018 compared to the U.S. federal statutory rate for the same period in 2017 of 35% was primarily due to the decrease in the federal statutory rate due to the Tax Act and an increase in earnings in jurisdictions with lower tax rates than the U.S. federal statutory rate 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 allowances were reflected for the period ended June 30, 2018.

During the period ended June 30, 2018, the Company did not record any unrecognized tax benefits and as of June 30, 2018, the Company had no unrecognized tax benefits. The Company does not anticipate any significant changes to its gross unrecognized tax benefits within the next twelve months.

Prior to the Tax Act, the Company considered the majority of the earnings in its non-U.S. subsidiaries to be permanently reinvested and, accordingly, did not record any associated deferred income taxes on such earnings. Since the Tax Act includes the Transition Tax, these previously unremitted earnings for which no U.S. deferred tax liability had been accrued have now been subject to U.S. tax. Notwithstanding the U.S. taxation of these amounts, we intend to continue to invest most or all of these earnings, as well as our capital in these subsidiaries, indefinitely, outside of the U.S. and do not expect to incur any significant, additional taxes related to such amounts.

NOTE N – PRODUCT WARRANTY RESERVE

The Company records an accrual for estimated warranty costs to Costs of products sold in the Statements of Consolidated 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:

	Six Months Ended June 30	
	2018	2017
Beginning of period balance	\$ 1,076	\$ 1,058
Additions charged to income	14	198
Warranty usage	(143)	(118)
Currency translation	(68)	63
End of period balance	\$ 879	\$ 1,201

NOTE O – DEBT ARRANGEMENTS

On March 13, 2018, the Company extended the term on its \$65 million credit facility from June 30, 2019 to June 30, 2021. All other terms remain the same, including the interest rate at LIBOR plus 1.125% unless its funded debt to Earnings before Interest, Taxes and Depreciation ratio exceeds 2.25 to 1, then the LIBOR spread becomes 1.500%. In the first six months of 2018, the Company's Polish subsidiary borrowed \$.9 million U.S. dollars at a rate of 1.125% plus the Warsaw Interbank Offer Rate with a term expiring June 30, 2021. At June 30, 2018, the interest rates on the U.S. and Polish line of credit agreement were 3.215% and 2.765%, respectively. Under the credit facility, at June 30, 2018, the Company had utilized \$26.8 million with \$38.2 million available under the line of credit, net of long-term outstanding letters of credit. The line of credit agreement contains, among other provisions, requirements for maintaining levels of net worth and profitability. At June 30, 2018, the Company was in compliance with these covenants.

On June 30, 2018 and December 31, 2017, the Company's Asia Pacific segment had \$.3 million and \$1.2 million, respectively, in restricted cash used to secure bank debt. The restricted cash is shown on the balance sheet in Other assets.

NOTE P – RELATED PARTY TRANSACTIONS

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

On February 6, 2018, the Company purchased 7,877 shares of the Company from current Officers and a retired Officer at a price per share of \$80.20, which was calculated from a 30-day average of market price in connection with the vesting of equity awards. The Audit Committee of the Board of Directors approved this transaction.

On March 15, 2018, the Company purchased 1,430 shares of the Company from a current Officer at a price per share of \$63.63, which was calculated from a 30-day average of market price in connection with the vesting of equity awards. The Audit Committee of the Board of Directors approved this transaction.

On May 10, 2018, the Company purchased 3,200 shares of the Company from a current Officer at a price per share of \$68.10, which was calculated from a 30-day average of market price in connection with the vesting of equity awards. The Audit Committee of the Board of Directors approved this transaction.

On June 1, 2018, the Company purchased 8,800 shares of the Company from a retired Officer at a price per share of \$73.53, which was calculated from a 30-day average of market price in connection with the vesting of equity awards. The Audit Committee of the Board of Directors approved this transaction.

On June 15, 2018, the Company purchased 1,500 shares of the Company from current Officers at a price per share of \$77.06, which was calculated from a 30-day average of market price in connection with the vesting of equity awards. The Audit Committee of the Board of Directors approved this transaction.

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 the readers of our consolidated financial statements 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 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
- ◆ New Accounting Standards to be Adopted

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, mounting hardware for a variety of solar power applications, and fiber optic and copper splice closures. PLPC is respected around the world for quality, dependability and market-leading customer service. Our goal is to continue to achieve profitable growth as a leader in the research, 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 27 sales and manufacturing operations in 18 different countries.

We report our segments in four geographic regions: PLP-USA (including corporate), 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, telecommunications and solar 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 operating segment and 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.

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 we believe is useful to the readers of our consolidated financial statements in the assessment of our performance and operating trends.

Our consolidated financial statements are subject to fluctuations in the exchange rates of foreign currencies in relation to the U.S. dollar. As foreign currencies strengthen against the U.S. dollar, our sales and costs increase as the foreign currency-denominated financial statements translate into more U.S. dollars, and, conversely, when foreign currencies weaken, our sales and costs decrease upon translation into U.S. dollars. The fluctuations of foreign currencies during the three and six months ended June 30, 2018 had a \$.4 million and \$3.1 million favorable effect, respectively, on sales compared to the same periods in 2017. The negligible effect on net income was less than \$.1 million for both the three and six-month periods ended June 30, 2018. On a reportable segment basis, the impact of foreign currency on net sales and net income for the three and six months ended June 30, 2018 was as follows:

(Thousands of dollars)	Foreign Currency Translation Impact			
	Net Sales		Net Income	
	Three Months	Six Months	Three Months	Six Months
The Americas	\$(1,928)	\$(2,232)	\$(186)	\$(102)
EMEA	1,469	3,396	131	151
Asia-Pacific	824	1,907	(16)	27
Total	\$365	\$3,071	\$(71)	\$76

The operating results for the three months ended June 30, 2018 are compared to the same period in 2017. Net sales for the three months ended June 30, 2018 of \$108.9 million increased \$11.4 million, or 11.7%, compared to 2017. As a percentage of net sales, gross profit increased to 32.3% in 2018 from 30.4% in 2017. Gross profit for the three months ended June 30, 2018 of \$35.2 million increased \$5.5 million, or 18.6%, compared to 2017. Gross profit increased \$5.8 million, or 19.4%, compared to 2017, excluding the unfavorable impact from currency translation. Costs and expenses of \$25.9 million increased \$2.5 million compared to 2017, including a favorable impact from currency translation of \$.3 million. Operating income for the three months ended June 30, 2018 was \$9.3 million, an increase of \$3.0 million compared to 2017. Net income for the three months ended June 30, 2018 of \$6.7 million increased \$2.6 million compared to the three months ended June 30, 2017. The effect of currency translation had immaterial impacts on both operating income and net income of less than \$.1 million.

The operating results for the six months ended June 30, 2018 are compared to the same period in 2017. Net sales for the six months ended June 30, 2018 of \$207.1 million increased \$25.0 million, or 13.7%, compared to the same period in 2017. As a percentage of net sales, gross profit increased to 32.2% in 2018 from 29.8% in 2017. Gross profit for the six months ended June 30, 2018 of \$66.7 million increased \$12.4 million, or 22.8%, compared to 2017. Gross profit increased \$12.0 million, or 22.1%, compared to 2017, excluding the unfavorable impact from currency translation. Costs and expenses of \$49.6 million increased \$3.9 million compared to 2017 and included an unfavorable impact from currency translation of \$.4 million. Operating income for the six months ended June 30, 2018 was \$17.1 million, an increase of \$8.5 million compared to 2017. Net income for the six months ended June 30, 2018 of \$12.3 million increased \$6.6 million compared to the same period in 2017. The effect of currency translation had immaterial impacts on both operating income and net income of less than \$.1 million.

The following table reflects the impact of foreign currency fluctuations on operating income for the three and six months ended June 30, 2018 and 2017:

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

(Thousands of dollars)	Foreign Currency Translation Impact			
	Three Months		Six Months	
	Ended June 30		Ended June 30	
	2018	2017	2018	2017
Operating income	\$9,333	\$6,294	\$17,079	\$8,552
Translation loss	1	0	48	0
Transaction loss (gain)	1,263	(3)	1,199	(186)
Operating income excluding currency impact	\$10,597	\$6,291	\$18,326	\$8,366

Despite the constant changes in the current global economy, we believe our business fundamentals and our financial position are sound and that we are strategically well-positioned. We remain focused on assessing our business structure, global facilities and overall capacity in conjunction with the requirements of local manufacturing in the markets that we serve. If necessary, we will modify redundant processes and utilize our global manufacturing network to manage costs, increase sales volumes and deliver value to our customers. 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 17.3% and can borrow needed funds at a competitive interest rate under our credit facility.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2018 COMPARED TO THREE MONTHS ENDED JUNE 30, 2017

The following table sets forth a summary of the Company's Statements of Consolidated Income and the percentage of net sales for the three months ended June 30, 2018 and 2017. The Company's past operating results are not necessarily indicative of future operating results.

(Thousands of dollars)	Three Months Ended June 30					
	2018		2017		Change	
Net sales	\$108,915	100.0%	\$97,512	100.0%	\$11,403	
Cost of products sold	73,712	67.7	67,839	69.6	5,873	
GROSS PROFIT	35,203	32.3	29,673	30.4	5,530	
Costs and expenses	25,870	23.8	23,379	24.0	2,491	
OPERATING INCOME	9,333	8.6	6,294	6.5	3,039	
Other expense - net	(109)	(0.1)	(36)	(0.0)	(73)	
INCOME BEFORE INCOME TAXES	9,224	8.5	6,258	6.4	2,966	
Income taxes	2,489	2.3	2,102	2.2	387	
NET INCOME	\$6,735	6.2 %	\$4,156	4.3 %	\$2,579	

Net sales. Net sales were \$108.9 million for the three months ended June 30, 2018, an increase of \$11.4 million, or 12%, from the three months ended June 30, 2017. Excluding the favorable effect of currency translation, net sales for the three months ended June 30, 2018 increased \$11.0 million compared to the same period in 2017, or 11%, as summarized in the following table:

(Thousands of dollars)	Three Months Ended June 30					
	2018	2017	Change	Change	Change	% change
				Due to	Excluding	
Net sales				Currency	Currency	
PLP-USA	\$42,665	\$38,087	\$4,578	\$ 0	\$ 4,578	12 %
The Americas	18,008	16,827	1,181	(1,928)	3,109	18
EMEA	21,402	17,578	3,824	1,469	2,355	13
Asia-Pacific	26,840	25,020	1,820	824	996	4
Consolidated	\$108,915	\$97,512	\$11,403	\$ 365	\$ 11,038	11 %

The year over year increase in PLP-USA net sales of \$4.6 million, or 12%, was primarily due to a volume increase in energy product sales. International net sales for the three months ended June 30, 2018 experienced a favorable impact of \$.4 million when local currencies were converted to U.S. dollars. The following discussion of net sales excludes the

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

effect of currency translation. The Americas net sales of \$18.0 million increased \$3.1 million, or 18%, primarily due to a volume increase in energy and communication product sales. EMEA net sales of \$21.4 million increased \$2.4 million, or 13%, primarily due to a volume increase in energy product sales in the region. In Asia-Pacific, net sales of \$26.8 million increased \$1.0 million, or 4%, compared to 2017 primarily due to a sales volume increase in the energy, communication and special industries products.

Gross profit. Gross profit of \$35.2 million for the three months ended June 30, 2018 increased \$5.5 million, or 19%, compared to the three months ended June 30, 2017. Excluding the minor unfavorable effect of currency translation, gross profit increased \$5.8 million, or 19%, as summarized in the following table:

Three Months Ended June 30						
			Change	Change		
			Due to	Excluding		
			Currency	Currency		%
(Thousands of dollars)	2018	2017	Change	Translation	Translation	change
Gross profit						
PLP-USA	\$15,188	\$12,533	\$2,655	\$ 0	\$ 2,655	21 %
The Americas	7,336	5,676	1,660	(887)	2,547	45
EMEA	6,044	4,752	1,292	423	869	18
Asia-Pacific	6,635	6,712	(77)	206	(283)	(4)
Consolidated	\$35,203	\$29,673	\$5,530	\$ (258)	\$ 5,788	20 %

PLP-USA gross profit of \$15.2 million increased \$2.7 million compared to the same period in 2017 as a result of higher sales volume combined with a product sales mix shift to higher margin products. International gross profit for the three months ended June 30, 2018 was unfavorably impacted by \$.3 million when local currencies were translated to U.S. dollars. The following discussion of gross profit excludes the effects of currency translation. The Americas gross profit increase of \$2.5 million was primarily the result of the sales increase of \$3.1 million combined with product margin improvement in the region due to sales mix. EMEA gross profit increased \$.9 million primarily as a result of a \$2.4 million increase in sales. Despite favorable year-over-year sales in the region, Asia-Pacific gross profit decreased \$.3 million primarily as a result of a sales mix shift to lower margin products.

Costs and expenses. Costs and expenses of \$25.9 million for the three months ended June 30, 2018 increased \$2.5 million, or 11%. Excluding the favorable effect of currency translation, costs and expenses increased \$2.8 million, or 12%, as summarized in the following table:

	Three Months Ended June 30			Change	Change	
	2018	2017	Change	Due to	Excluding	%
				Currency	Currency	%
(Thousands of dollars)				Translation	Translation	change
Costs and expenses						
PLP-USA	\$12,207	\$10,877	\$1,330	\$ 0	\$ 1,330	12 %
The Americas	3,823	3,262	561	(697)	1,258	39
EMEA	4,102	3,745	357	245	112	3
Asia-Pacific	5,738	5,495	243	174	69	1
Consolidated	\$25,870	\$23,379	\$2,491	\$ (278)	\$ 2,769	12 %

PLP-USA costs and expenses of \$12.2 million for the three months ended June 30, 2018 increased \$1.3 million, or 12%, compared to 2017 mainly due to \$.2 million of higher personnel related expenses, which includes benefits, combined with \$.3 million of higher commissions as a result of increased sales and a net year over year loss on foreign currency exchange of \$.8 million. Foreign currency exchange gains and losses are primarily related to translating into U.S. dollars its foreign denominated loans, trade and royalty receivables from its foreign subsidiaries at the June 30, 2018 exchange rates. On a consolidated basis, costs and expenses for the three months ended June 30, 2018 were favorably impacted by \$.3 million when local currencies were translated to U.S. dollars. The following discussion of costs and expenses excludes the effect of currency translation. The Americas costs and expenses of \$3.8 million increased \$1.3 million for the three months ended June 30, 2018 compared to the same period in 2017 primarily due to higher salary related expense of \$.5 million combined with higher loss on translation of \$.7 million and other net expense increases of approximately \$.1 million. EMEA costs and expenses of \$4.1 million increased \$.1 million mainly due to an increase in personnel related expenses. Asia-Pacific costs and expenses of \$5.7 million increased \$.1 million. This increase was primarily due to increased net loss on foreign currency exchange of \$.1 million.

Other income (expense). Other expense for both three-month periods ended June 30, 2018 and 2017 was less than \$.1 million.

Income taxes. Income taxes for the three months ending June 30, 2018 and 2017 were \$2.5 million and \$2.1 million, respectively, based on pre-tax income of \$9.2 million and \$6.3 million, respectively. The effective tax rate for the three months ended June 30, 2018 and 2017 was 27% and 34%, respectively, compared to the U.S. federal statutory rate for the same periods of 21% and 35%, respectively. The effective tax rate for the period ending June 30, 2018 was determined by applying the tax rules resulting from the Tax Act. See Note M of the financial statements for a further discussion of the impact of the Tax Act on the effective tax rate.

Our tax rate is affected by recurring items such as tax rates in foreign jurisdictions and the relative amount of income we earn in those jurisdictions. It is also affected by discrete items that may occur in any given year which are not consistent from year to year. In addition to state and local income taxes, the following items had the most significant impact on the difference between our statutory U.S. federal income tax rates of 21% and 35% for 2018 and 2017, respectively, and our effective tax rate:

2018

1. A \$.3 million, or 3%, net increase resulting from higher U.S. permanent items primarily related to provisions of the Tax Act.
2. A \$.3 million, or 3%, increase resulting from earnings in jurisdictions with higher tax rates than the U.S. federal statutory rate.

22

2017

1. A \$.1 million, or 2%, increase resulting from losses in certain jurisdictions where no tax benefit is recognized.
 2. A \$.3 million, or 4%, decrease resulting from earnings in jurisdictions with lower tax rates than the U.S. federal statutory rate where such earnings are permanently reinvested.
 3. A \$.1 million, or 1%, increase resulting from a mix of U.S. permanent items and discrete items.
- Net income. As a result of the preceding items, net income for the three months ended June 30, 2018 was \$6.7 million, compared to \$4.2 million for the three months ended June 30, 2017, an increase of \$2.6 million as summarized in the following table:

	Three Months Ended June 30					
	2018	2017	Change	Change Due to Currency	Change Excluding Currency	% change
(Thousands of dollars)						
Net income (loss)				Translation	Translation	
PLP-USA	\$1,843	\$949	\$894	\$ 0	\$ 894	94 %
The Americas	2,657	1,789	868	(186)	1,054	59
EMEA	1,561	669	892	131	761	114
Asia-Pacific	674	749	(75)	(16)	(59)	(8)
Consolidated	\$6,735	\$4,156	\$2,579	\$ (71)	\$ 2,650	64 %

PLP-USA's net income for the three months ended June 30, 2018 increased \$.9 million compared to the same period in 2017 due to a \$1.3 million increase in operating income that was partially offset by an increase in income taxes of \$.4 million. The following discussion of net income excludes the effect of currency translation. The Americas net income increased \$1.1 million as a result of a \$1.3 million increase in operating income, partially offset by higher income taxes of \$.2 million. EMEA net income increased \$.7 million as a result of a \$.8 million increase in operating income combined with a \$.1 million year-over-year increase in income tax expense. Asia-Pacific net income decreased \$.1 million as a result of a \$.4 million decrease in operating income, partially offset by a decrease in income tax expense of \$.3 million.

SIX MONTHS ENDED JUNE 30, 2018 COMPARED TO SIX MONTHS ENDED JUNE 30, 2017

The following table sets forth a summary of the Company's Statements of Consolidated Income and the percentage of net sales for the six months ended June 30, 2018 and 2017. The Company's past operating results are not necessarily indicative of future operating results.

	Six Months Ended June 30					
	2018		2017		Change	
(Thousands of dollars)						
Net sales	\$207,054	100.0%	\$182,081	100.0%	\$24,973	
Cost of products sold	140,333	67.8	127,743	70.2	12,590	
GROSS PROFIT	66,721	32.2	54,338	29.8	12,383	
Costs and expenses	49,642	24.0	45,786	25.1	3,856	

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

OPERATING INCOME	17,079	8.2	8,552	4.7	8,527
Other expense—net	(226)	(0.1)	(176)	(0.1)	(50)
INCOME BEFORE INCOME TAXES	16,853	8.1	8,376	4.6	8,477
Income taxes	4,590	2.2	2,702	1.5	1,888
NET INCOME	\$12,263	5.9 %	\$5,674	3.1 %	\$6,589

23

Net sales. Net sales were \$207.1 million for the six months ended June 30, 2018, an increase of \$25.0 million, or 14%, from the six months ended June 30, 2017. Excluding the favorable effect of currency translation, net sales for the six months ended June 30, 2018 increased \$21.9 million compared to the same period in 2017, or 12%, as summarized in the following table:

Six Months Ended June 30						
			Change	Change		
			Due to	Excluding		
			Currency	Currency	%	
(Thousands of dollars)	2018	2017	Change	Translation	Translation	change
Net sales						
PLP-USA	\$82,107	\$72,949	\$9,158	\$ 0	\$ 9,158	13 %
The Americas	37,555	33,396	4,159	(2,232)	6,391	19
EMEA	36,483	31,430	5,053	3,396	1,657	5
Asia-Pacific	50,909	44,306	6,603	1,907	4,696	11
Consolidated	\$207,054	\$182,081	\$24,973	\$ 3,071	\$ 21,902	12 %

The year over year increase in PLP-USA net sales of \$9.2 million, or 13%, was primarily due to a volume increase in energy product sales. International net sales for the six months ended June 30, 2018 experienced a favorable impact of \$3.1 million when local currencies were converted to U.S. dollars. The following discussion of net sales excludes the effect of currency translation. The Americas net sales of \$37.6 million increased \$6.4 million, or 19%, primarily due to a volume increase in energy and communication product sales. EMEA net sales of \$36.5 million increased \$1.7 million, or 5%, primarily due to a volume increase in energy product sales in the region. In Asia-Pacific, net sales of \$50.9 million increased \$4.7 million, or 11%, compared to 2017 primarily due to a sales volume increase in energy, communication and special industries products.

Gross profit. Gross profit of \$66.7 million for the six months ended June 30, 2018 increased \$12.4 million, or 23%, compared to the six months ended June 30, 2017. Excluding the \$.4 million favorable effect of currency translation, gross profit increased \$12.0 million, or 22%, as summarized in the following table:

Six Months Ended June 30						
			Change	Change		
			Due to	Excluding		
			Currency	Currency	%	
(Thousands of dollars)	2018	2017	Change	Translation	Translation	change
Gross profit						
PLP-USA	\$28,674	\$22,471	\$6,203	\$ 0	\$ 6,203	28 %
The Americas	15,279	11,438	3,841	(1,048)	4,889	43

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

EMEA	10,458	9,018	1,440	958	482	5	
Asia-Pacific	12,310	11,411	899	461	438	4	
Consolidated	\$66,721	\$54,338	\$12,383	\$ 371	\$ 12,012	22	%

PLP-USA gross profit of \$28.7 million increased \$6.2 million compared to the same period in 2017 as a result of higher sales volume combined with a product sales mix shift to higher margin products, primarily in energy products. International gross profit for the six months ended June 30, 2018 was favorably impacted by \$.4 million when local currencies were translated to U.S. dollars. The following discussion of gross profit excludes the effects of currency translation. The Americas gross profit increase of \$4.9 million was primarily the result of the sales increase of \$6.4 million combined with product margin improvement in the region due to sales mix. EMEA gross profit increased \$.5 million year over year mainly as a result of the \$1.7 million increase in sales. Asia-Pacific gross profit increased \$.4 million mainly as a result of a sales mix shift within the region.

Costs and expenses. Costs and expenses of \$49.6 million for the six months ended June 30, 2018 increased \$3.9 million, or 8%. Excluding the favorable effect of currency translation, costs and expenses increased \$3.4 million, or 8%, as summarized in the following table:

Six Months Ended June 30						
			Change	Change		
			Due to	Excluding		
			Currency	Currency	%	
(Thousands of dollars)	2018	2017	Change	Translation	Translation	change
Costs and expenses						
PLP-USA	\$23,372	\$21,600	\$1,772	\$ 0	\$ 1,772	8 %
The Americas	7,296	6,620	676	(782)	1,458	22
EMEA	7,951	7,228	723	766	(43)	(1)
Asia-Pacific	11,023	10,338	685	436	249	2
Consolidated	\$49,642	\$45,786	\$3,856	\$ 420	\$ 3,436	8 %

PLP-USA costs and expenses of \$23.4 million for the six months ended June 30, 2018 increased \$1.8 million, or 8%, compared to 2017 mainly due to \$.8 million of higher personnel related expenses, which includes benefits, combined with \$.5 million of higher commissions as a result of increased sales and a net year over year loss on foreign currency exchange of \$.9 million. The increased expenses were partially offset by a combined decrease in professional fees and consulting expense of \$.4 million. Foreign currency exchange gains and losses are primarily related to translating into U.S. dollars its foreign denominated loans, trade and royalty receivables from its foreign subsidiaries at the June 30, 2018 exchange rates. On a consolidated basis, costs and expenses for the three months ended June 30, 2018 were unfavorably impacted by \$.4 million when local currencies were translated to U.S. dollars. The following discussion of costs and expenses excludes the effect of currency translation. The Americas costs and expenses of \$7.3 million increased \$1.5 million for the six months ended June 30, 2018 compared to the same period in 2017 primarily due to higher salary related expense of \$.3 million, increased loss on translation of \$.7 million, higher commission expense of \$.1 million, and other net expense increases of approximately \$.4 million. EMEA costs and expenses of \$8.0 million decreased less than \$.1 million mainly due to a decrease in personnel related expenses. Asia-Pacific costs and expenses of \$11.0 million increased \$.2 million. This increase was primarily due to higher personnel costs of \$.2 million and increased net loss on foreign currency exchange of \$.1 million, partially offset by lower bad debt expense of \$.1 million.

Other income (expense). Other expense for both six-month periods ended June 30, 2018 and 2017 was \$.2 million.

Income taxes. Income taxes for the six months ended June 30, 2018 and 2017 were \$4.6 million and \$2.7 million, respectively, based on pre-tax income of \$16.9 million and \$8.4 million, respectively. The effective tax rate for the six months ended June 30, 2018 and 2017 was 27% and 32%, respectively, compared to the U.S. federal statutory rate for the same periods of 21% and 35%, respectively. The effective tax rate for the six-month period ended June 30, 2018 was determined by applying the tax rules resulting from the Tax Act. See Note M of the financial statements for a further discussion of the impact of the Tax Act on the effective tax rate.

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

Our tax rate is affected by recurring items such as tax rates in foreign jurisdictions and the relative amount of income we earn in those jurisdictions. It is also affected by discrete items that may occur in any given year which are not consistent from year to year. In addition to state and local income taxes, the following items had the most significant impact on the difference between our statutory U.S. federal income tax rates of 21% and 35% for 2018 and 2017, respectively, and our effective tax rate:

2018

1. A \$.2 million, or 1%, net increase resulting from higher U.S. permanent items primarily related to provisions of the Tax Act.
2. A \$.1 million, or 1%, increase resulting from losses in certain jurisdictions where no tax benefit is recognized.
3. A \$.8 million, or 4%, increase resulting from earnings in jurisdictions with higher tax rates than the U.S. federal statutory rate.

2017

1. A \$.2 million, or 2%, increase resulting from losses in certain jurisdictions where no tax benefit is recognized.
2. A \$.4 million, or 5%, decrease resulting from earnings in jurisdictions with lower tax rates than the U.S. federal statutory rate where such earnings are permanently reinvested.

25

Net income. As a result of the preceding items, net income for the six months ended June 30, 2018 was \$12.3 million, compared to \$5.7 million for the six months ended June 30, 2017, an increase of \$6.6 million as summarized in the following table:

Six Months Ended June 30			Change	Change		
			Due to	Excluding		
			Currency	Currency	%	
(Thousands of dollars)	2018	2017	Change	Translation	Translation	change
Net income						
PLP-USA	\$3,556	\$317	\$3,239	\$ 0	\$ 3,239	NM
The Americas	5,800	3,574	2,226	(102)	2,328	65
EMEA	1,925	1,288	637	151	486	38
Asia-Pacific	982	495	487	27	460	93
Consolidated	\$12,263	\$5,674	\$6,589	\$ 76	\$ 6,513	115 %

NM – Not Meaningful

PLP-USA’s net income for the six months ended June 30, 2018 increased \$3.2 million compared to the same period in 2017 due to a \$4.4 million increase in operating income that was partially offset by an increase in income taxes of \$1.2 million. The following discussion of net income excludes the effect of currency translation. The Americas net income increased \$2.3 million as a result of a \$3.4 million increase in operating income, partially offset by higher income taxes of \$1.1 million. EMEA net income increased \$.5 million primarily as a result of a \$.5 million increase in operating income. Asia-Pacific net income increased \$.5 million as a result of a \$.2 million increase in operating income, combined with a decrease in income tax expense of \$.2 million and a reduction in other expense of less than \$.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, 2017 filed on March 9, 2018 with the Securities and Exchange Commission and are, therefore, not presented herein. For more detail regarding the January 1, 2018 adoption of ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606),” refer to Note B “Revenue” and Note J “Recently Adopted Accounting Pronouncements.”

WORKING CAPITAL, LIQUIDITY AND CAPITAL RESOURCES

Management Assessment of Liquidity

We measure liquidity on the basis of our ability to meet short-term and long-term operating needs, repay debt, fund additional investments, including acquisitions, and make dividend payments to shareholders. Significant factors affecting the management of liquidity are cash flows from operating activities, capital expenditures, cash dividends, business acquisitions and access to bank lines of credit.

Our investments include expenditures required for equipment and facilities as well as expenditures in support of our strategic initiatives. During the first six months of 2018, we used cash of \$5.6 million for capital expenditures. We ended the first six months of 2018 with \$41.4 million of cash and cash equivalents. Our cash and cash equivalents are held in various locations throughout the world. At June 30, 2018, the majority of our cash and cash equivalents were held outside the U.S. We expect most accumulated non-U.S. cash balances will remain outside of the U.S. and that we will meet U.S. liquidity needs through future cash flows, use of U.S. cash balances, external borrowings, or some combination of these sources. We complete comprehensive reviews of our significant customers and their creditworthiness by analyzing financial statements for customers where we have identified a measure of increased risk. We closely monitor payments and developments which may signal possible customer credit issues. We currently have not identified any potential material impact on our liquidity from customer credit issues.

Total debt at June 30, 2018 was \$41.5 million. At June 30, 2018, our unused availability under our line of credit was \$38.2 million and our bank debt to equity percentage was 17.3%. On March 13, 2018, we extended the term on our \$65 million credit facility from June 30, 2019 to June 30, 2021. All other terms remain the same, including the interest rate at LIBOR plus 1.125% unless our funded debt to Earnings before Interest, Taxes and Depreciation ratio exceeds 2.25 to 1, then the LIBOR spread becomes 1.500%. The line of credit agreement contains, among other provisions, requirements for maintaining levels of net worth and funded debt-to-earnings before interest, taxes, depreciation and amortization along with an interest coverage ratio. The net worth and profitability requirements are calculated based on the line of credit agreement. At June 30, 2018 and December 31, 2017, we were in compliance with these covenants.

We expect that our major source of funding for 2018 and beyond will be our operating cash flows, our existing cash and cash equivalents as well as our line of credit agreement. We earn a significant amount of our operating income outside the United States, which, except for current earnings in certain jurisdictions, is deemed to be indefinitely reinvested in foreign jurisdictions. We believe our future operating cash flows will be more than sufficient to cover debt repayments, other contractual obligations, capital expenditures and dividends for the next 12 months and thereafter for the foreseeable future. In addition, we believe our borrowing capacity provides substantial financial resources, if needed, to supplement funding of capital expenditures and/or acquisitions. We also believe that we can expand our borrowing capacity, if necessary; however, 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.

Sources and Uses of Cash

Cash increased \$13.4 million for the six months ended June 30, 2018 compared to the same period in 2017. Net cash provided by operating activities was \$7.7 million. The most significant net investing and financing uses of cash were payments of long-term debt of \$32.4 million, capital expenditures of \$5.6 million, a combined net purchase of marketable securities and a company owned life insurance policy of \$4.7 million, share repurchases of \$1.8 million and dividends paid of \$2.1 million, partially offset by net debt proceeds of \$37.3 million. Currency had a negative \$2.6 million impact on cash and cash equivalents when translating foreign denominated financial statements to U.S. dollars.

Net cash provided by operating activities for the six months ended June 30, 2018 and 2017 was \$7.7 million and \$2.0 million, respectively. The \$5.7 million increase was primarily a result of an increase in net income of \$6.6 million combined with an increase in cash provided by in non-cash activities of \$1.8 million, partially offset by increased used of cash for operating assets (net of operating liabilities) of \$2.7 million.

Net cash used in investing activities for the six months ended June 30, 2018 of \$10.3 million represents an increase of \$12.6 million when compared to cash provided by investing activities in the six months ended June 30, 2017. The change was primarily related to a reduction in cash provided from fixed-term deposits of \$6.9 million along with a net increase in capital expenditures of \$1.0 million and net cash used of \$4.7 million related to the purchase of marketable securities.

Cash provided by financing activities for the six months ended June 30, 2018 was \$1.3 million compared to a use of \$8.8 million for the six months ended June 30, 2017. The \$10.1 million improvement in cash position was primarily the result of a net increase in debt borrowings in 2018 compared to 2017 of \$11.3 million, partially offset by cash used for net stock issuances and repurchases of \$1.3 million.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

See Note J of the Notes to the Consolidated Financial Statements

NEW ACCOUNTING STANDARDS TO BE ADOPTED

See Note K of the Notes to the Consolidated Financial Statements

FORWARD LOOKING STATEMENTS

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

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

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.

27

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 U.S., Canada, Australia and Western Europe and may grow slowly or experience prolonged delay in developing regions despite expanding power needs;
- The potential impact of the global economic condition on the Company's ongoing profitability and future growth opportunities in the Company's core markets in the U.S. and other foreign countries where the financial situation is expected to be similar going forward;
- The ability of the Company's 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;
- The decreasing demand 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 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;
- The extent to which the Company is successful at expanding the Company's product line or production facilities into new areas or implementing efficiency measures at existing facilities;
- The effects of fluctuation in currency exchange rates upon the Company's foreign subsidiaries' operations and 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;
- The Company's ability to identify, complete, obtain funding for and integrate acquisitions for profitable growth;
- The potential impact of consolidation, deregulation and bankruptcy among the Company's suppliers, competitors and customers and of any legal or regulatory claims;
- 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 and any tariffs that may be associated with the purchase of these products;
- Strikes and other labor disruptions;
- Changes in significant government regulations affecting environmental compliances or other litigation matters;
- The telecommunication market's continued deployment of Fiber-to-the-Premises; and
- Those factors described under the heading "Risk Factors" on page 12 of the Company's Annual Report on Form 10-K for the year ended December 31, 2017 filed on March 9, 2018.

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 that the political and economic risks related to the Company's international operations are mitigated due to the geographic diversity in which the Company's international operations are located.

As of June 30, 2018, the Company had no foreign currency forward exchange contracts outstanding. The Company does not hold derivatives for trading or speculative purposes.

The Company's primary currency rate exposures are related to foreign denominated debt, intercompany debt, foreign denominated receivables and payables 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 taxes of \$1.9 million.

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 \$41.5 million at June 30, 2018. A 100 basis point increase in the interest rate would have resulted in an increase in interest expense of approximately \$1.2 million for the six months ended June 30, 2018.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's Principal Executive Officer and Principal Accounting 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, 2018.

Changes in Internal Control over Financial Reporting

On January 1, 2018, the Company adopted ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." For the adoption, the Company implemented changes to its revenue recognition process and control activities, including the development of new entity-wide policies, processes, controls, training and ongoing contract reviews to accommodate presentation and disclosure requirements. For more detail regarding the January 1, 2018 adoption of ASU No. 2014-09, refer to Note B "Revenue" and Note J "Recently Adopted Accounting Pronouncements."

There were no other changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f)) during the six-month period ended June 30, 2018 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

In the course of business, the Company is subject to a variety of claims and lawsuits, including, but not limited to, litigation relating to employment, workers’ compensation, products liability, environmental and intellectual property. The ultimate outcomes of these matters are not predictable with certainty. The Company has liability insurance to cover many of these claims.

The Company and its subsidiaries, Helix Uniformed Ltd. (“Helix”) and Preformed Line Products (Canada) Limited (“PLPC Canada”), were each named, jointly and severally, with each of SNC-Lavalin ATP, Inc. (“SNC ATP”), HD Supply Canada Inc., by its trade names HD Supply Power Solutions and HD Supply Utilities (“HD Supply”), and Anixter Power Solutions Canada Inc. (the corporate successor to HD Supply, “Anixter” and, together with the Company, PLPC Canada, Helix, SNC ATP and HD Supply, the “Defendants”) in a complaint filed by Altalink, L.P. (the “Plaintiff”) in the Court of Queen’s Bench of Alberta in Alberta, Canada in November 2016 (the “Complaint”).

The Complaint states that Plaintiff engaged SNC ATP to design, engineer, procure and construct numerous power distribution and transmission facilities in Alberta (the “Projects”) and that through SNC ATP and HD Supply (now Anixter), spacer dampers manufactured by Helix were procured and installed in the Projects. The Complaint alleges that the spacer dampers have and may continue to become loose, open and detach from the conductors, resulting in damage and potential injury and a failure to perform the intended function of providing spacing and damping to the Project. The Plaintiffs were initially seeking an estimated \$56.0 million in damages jointly and severally from the Defendants, representing the costs of monitoring and replacing the spacer dampers and remediating property damage, due to alleged defects in the design and construction of, and supply of materials for, the Projects by SNC ATP and HD Supply/Anixter and in the design of the spacer dampers by Helix. The Plaintiffs reduced their demand for damages to \$29.4 million on June 1, 2018.

The Company believes the claims against it are without merit and intends to vigorously defend against such claims. However, we are unable to predict the outcome of this case and, if determined adversely to the Company, it could have a material effect on the Company’s financial results.

The Company is not a party to any other 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 flow.

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, 2017 filed with the Securities and Exchange Commission on March 9, 2018.

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

On December 13, 2017, the Board of Directors authorized a plan to repurchase up to an additional 228,138 of Preformed Line Products Company common shares, resulting in a total of 250,000 shares available for repurchase with no expiration date. The following table reflects repurchases for the three months ended June 30, 2018:

Period (2018) Total	Average	Total Number of	Maximum Number
---------------------	---------	-----------------	----------------

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

	Number of Shares Purchased	Price Paid per Share	Shares Purchased as Part of Publicly Announced Plans or Programs	of Shares that may yet be Purchased under the Plans or Programs
April	0	\$ 0.00	10,907	239,093
May	3,200	68.10	14,107	235,893
June	10,300	74.04	24,407	225,593
Total	13,500			

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

30

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 10.1 Preformed Line Products Company Amended Supplemental Profit Sharing Plan, filed herewith.
- 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 Accounting Officer, Michael A. Weisbarth, 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 Accounting Officer, Michael A. Weisbarth, 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.

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 3, 2018 /s/ Robert G. Ruhlman
Robert G. Ruhlman
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

August 3, 2018 /s/ Michael A. Weisbarth
Michael A. Weisbarth
Vice President – Finance and Treasurer
(Principal Accounting Officer)