PREFORMED LINE PRODUCTS CO
Form 10-Q
November 06, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2008
Commission file number: 0-31164
Preformed Line Products Company
(Exact Name of Registrant as Specified in Its Charter)

Ohio	34-0676895
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
660 Beta Drive Mayfield Village, Ohio	44143
(Address of Principal Executive Office)	(Zip Code)

(440) 461-5200
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting Company o

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

The number of common shares outstanding as of November 3, 2008: 5,223,180.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

PREFORMED LINE PRODUCTS COMPANY

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

Thousands of dollars, except share data	September 30, 2008	December 31, 2007 (restated)
ASSETS		
Cash and cash equivalents	$ 24,775	$ 23,392
Accounts receivable, less allowances of $1,177 ($1,199 in 2007)	46,752	37,002
Inventories net	47,020	43,788
Deferred income taxes	3,218	2,982
Prepaids and other	5,811	4,098
Current assets of discontinued operations		12,188
TOTAL CURRENT ASSETS	127,576	123,450
Property and equipment net	60,934	58,506
Patents and other intangibles net	4,287	5,637
Goodwill	6,140	3,928
Deferred income taxes	4,213	3,744
Other assets	8,193	8,601
TOTAL ASSETS	$ 211,343	$ 203,866
LIABILITIES AND SHAREHOLDERS EQUITY		
Notes payable to banks	$ 2,858	$ 4,076
Current portion of long-term debt	948	1,949
Trade accounts payable	19,041	15,178
Accrued compensation and amounts withheld from employees	9,742	6,995
Accrued expenses and other liabilities	9,223	6,829
Accrued profit-sharing and other benefits	3,330	3,577
Dividends payable	1,053	1,076
Income taxes payable	2,089	772
Current liabilities of discontinued operations		1,897
TOTAL CURRENT LIABILITIES	48,284	42,349
Long-term debt, less current portion	2,854	3,010
Unfunded pension obligation	3,122	2,787
Income taxes payable, noncurrent	1,270	1,837
Deferred income taxes	1,147	1,486
Other noncurrent liabilities	1,962	1,772
Minority interests	1,381	904
SHAREHOLDERS EQUITY		

Common stock $2 par value, 15,000,000 shares authorized, 5,223,180 and 5,380,956 issued and outstanding, net of 551,059 and 378,333 treasury shares at par, respectively		10,446		10,762
Paid in capital		3,402		2,720
Retained earnings		144,917		140,339
Accumulated other comprehensive loss		(7,442)		(4,100)
TOTAL SHAREHOLDERS EQUITY		151,323		149,721
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	211,343	$	203,866

See notes to consolidated financial statements.

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PREFORMED LINE PRODUCTS COMPANY
STATEMENTS OF CONSOLIDATED INCOME
(UNAUDITED)

In thousands, except per share data	Three month periods ended September 30, 2008	Three month periods ended September 30, 2007 (restated)	Nine month periods ended September 30, 2008	Nine month periods ended September 30, 2007 (restated)
Net sales	$ 73,952	$ 60,413	$ 209,179	$ 170,464
Cost of products sold	48,489	38,974	141,034	111,743
GROSS PROFIT	25,463	21,439	68,145	58,721
Costs and expenses				
Selling	6,119	5,462	17,879	16,516
General and administrative	7,506	6,347	22,553	17,999
Research and engineering	2,218	1,731	6,545	5,185
Other operating expenses (income) net	462	(169)	605	141
Goodwill impairment				199
	16,305	13,371	47,582	40,040
OPERATING INCOME	9,158	8,068	20,563	18,681
Other income (expense)				
Interest income	225	264	655	805
Interest expense	(138)	(140)	(415)	(437)
Other income (expense)	176	(9)	196	(22)
	263	115	436	346
INCOME BEFORE INCOME TAXES, MINORITY INTERESTS AND DISCONTINUED OPERATIONS	9,421	8,183	20,999	19,027
Income taxes	2,807	2,663	6,604	6,838
INCOME BEFORE MINORITY INTERESTS AND DISCONTINUED OPERATIONS	6,614	5,520	14,395	12,189
Minority interests, net of tax	(157)	(24)	(268)	(24)
INCOME FROM CONTINUING OPERATIONS	6,457	5,496	14,127	12,165

Income (loss) from discontinued operations, net of tax	(34)	96	735	143
NET INCOME	$ 6,423	$ 5,592	$ 14,862	$ 12,308
Income per share from continuing operations basic	$ 1.24	$ 1.02	$ 2.67	$ 2.27
Income (loss) per share from discontinued operations basic	$ (0.01)	$ 0.02	$ 0.14	$ 0.03
Total net income per share basic	$ 1.23	$ 1.04	$ 2.81	$ 2.30
Income per share from continuing operations diluted	$ 1.23	$ 1.01	$ 2.64	$ 2.25
Income (loss) per share from discontinued operations diluted	$ (0.01)	$ 0.02	$ 0.14	$ 0.02
Total net income per share diluted	$ 1.22	$ 1.03	$ 2.78	$ 2.27
Cash dividends declared per share	$ 0.20	$ 0.20	$ 0.60	$ 0.60
Weighted-average number of shares outstanding basic	5,218	5,379	5,298	5,369
Weighted-average number of shares outstanding diluted	5,269	5,437	5,345	5,418

See notes to consolidated financial statements.

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

Thousands of dollars	Nine Month Periods Ended September 30, 2008	2007 (restated)
OPERATING ACTIVITIES		
Net income	$ 14,862	$ 12,308
Less: income from discontinued operations	735	143
Income from continuing operations	14,127	12,165
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,054	5,164
Provision for accounts receivable allowances	395	626
Provision for inventory reserves	1,236	743
Deferred income taxes	(1,044)	45
Stock-based compensation expense	196	188
Excess tax benefits from stock-based awards	(74)	(193)
Goodwill impairment		199
Net investment in life insurance	(281)	71
Minority interest	268	24
Other net	51	50
Changes in operating assets and liabilities:		
Accounts receivable	(11,663)	(9,120)
Inventories	(6,447)	(6,876)
Trade accounts payables and accrued liabilities	9,269	4,015
Income taxes payable	2,060	1,259
Other net	(60)	(622)
NET CASH PROVIDED BY OPERATING ACTIVITIES	14,087	7,738
INVESTING ACTIVITIES		
Capital expenditures	(9,002)	(6,593)
Business acquisitions net of cash acquired	(644)	(8,443)
Proceeds from the sale of discontinued operations	10,486	
Proceeds from the sale of property and equipment	201	152
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	1,041	(14,884)
FINANCING ACTIVITIES		
Decrease in notes payable to banks	(800)	(111)
Proceeds from the issuance of long-term debt	6,500	1,311

Payments of long-term debt	(7,810)	(1,309)
Dividends paid net	(3,195)	(2,469)
Excess tax benefits from stock-based awards	74	193
Proceeds from issuance of common shares	442	487
Purchase of common shares for treasury	(7,458)	(328)
NET CASH USED IN FINANCING ACTIVITIES	(12,247)	(2,226)
Effects of exchange rate changes on cash and cash equivalents	(860)	777
Net increase (decrease) in cash and cash equivalents	2,021	(8,595)
NET CASH USED IN DISCONTINUED OPERATIONS		
Operating cash flows	958	333
Investing cash flows	(1,596)	(365)
Financing cash flows		(750)
Effects of exchange rate changes on cash and cash equivalents		2
NET CASH USED IN DISCONTINUED OPERATIONS	(638)	(780)
Cash and cash equivalents at beginning of year	23,392	29,949
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 24,775	$ 20,574

See notes to consolidated financial statements.

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

In thousands, except share and per share data

NOTE A BASIS OF PRESENTATION

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

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from these estimates. However, in the opinion of management, these consolidated financial statements contain all estimates and adjustments, consisting of normal recurring accruals, required to fairly present the financial position, results of operations, and cash flows for the interim periods. Operating results for the three and nine month periods ended September 30, 2008 are not necessarily indicative of the results to be expected for the year ending December 31, 2008.

The consolidated balance sheet at December 31, 2007 has been derived from the audited consolidated financial statements, but does not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and notes to consolidated financial statements included in the Company s 2007 Annual Report on Form 10-K filed on April 7, 2008 with the Securities and Exchange Commission.

Reclassifications

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

Restatement

Subsequent to the issuance of the consolidated financial statements for the three and nine month periods ended September 30, 2007, the Company determined that (a) the write-off of goodwill related to its Thailand operations of $.2 million should have been recorded during the first quarter of 2007, (b) the $.2 million charge related to the step-up in inventory valuation in the purchase price allocation for the acquisition of Direct Power and Water Corporation (DPW) on March 22, 2007 should have been recorded during the second quarter of 2007, and (c) intercompany profit of $.9 million in inventory at September 30, 2007 should not have been recognized in earnings until the inventory was sold to a third party. The $.9 million adjustment consisted of $.6 million of profit in inventory remaining at the end of the first quarter, $.2 million of profit in inventory remaining at the end of the second quarter and $.1 million of profit in inventory remaining at the end of the third quarter. As a result, the Company has restated the accompanying consolidated financial statements for the three and nine month periods ended September 30, 2007.

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The effect of the restatement is as follows:

	As previously reported	
	Three month periods ended September 30, 2007	Nine month periods ended September 30, 2007
Cost of products sold	$ 43,316	$ 123,631
Gross profit	22,783	62,752
Goodwill impairment		
Operating income	8,327	20,199
Income before income tax and minority interest	8,457	20,593
Income tax	2,769	7,371
Income before minority interest	5,688	13,222
Minority interest	(24)	(24)
Net income	5,664	13,198
Net income per share basic	$ 1.05	$ 2.46
Net income per share diluted	$ 1.04	$ 2.44
Operating Cash Flows:		
Net income		$ 13,198
Goodwill impairment		
Inventories		(7,275)
Income Taxes		1,412

	As restated	
	Three month periods ended September 30, 2007	Nine month periods ended September 30, 2007
Cost of products sold	$ 43,431	$ 124,724
Gross profit	22,668	61,659
Goodwill impairment		199
Operating income	8,213	18,907
Income before income tax and minority interest	8,343	19,301
Income tax	2,727	6,969
Income before minority interest	5,616	12,332
Minority interest	(24)	(24)
Net income	5,592	12,308
Net income per share basic	$ 1.04	$ 2.30

Net income per share diluted	$	1.03	$	2.27
Operating Cash Flows:				
Net income			$	12,308
Goodwill impairment				199
Inventories				(6,182)
Income Taxes				1,010

Certain of the restated amounts above do not agree with the statements of consolidated income due to the sale of discontinued operations in May 2008, as discussed in Note L Discontinued Operations.

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NOTE B OTHER FINANCIAL STATEMENT INFORMATION

Inventories net

	September 30, 2008	December 31, 2007
Finished products	$ 21,673	$ 20,417
Work-in-process	2,618	2,363
Raw materials	32,541	29,860
	56,832	52,640
Excess of current cost over LIFO cost	(5,038)	(3,733)
Noncurrent portion of inventory	(4,774)	(5,119)
	$ 47,020	$ 43,788

During the first quarter of 2008, management determined that $.5 million of its current inventory balance should have been classified as noncurrent at December 31, 2007. In addition to this reclassification from current to noncurrent, management also identified and corrected the classification of certain inventory balances between the categories of inventory at December 31, 2007. Although management determined that these adjustments were not material, quantitatively or qualitatively, to the consolidated balance sheet at December 31, 2007, the reclassifications are included in the December 31, 2007 column in the above table. Noncurrent inventory is included in other assets on the consolidated balance sheets.

Property and equipment net

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

	September 30, 2008	December 31, 2007
Land and improvements	$ 5,875	$ 6,223
Buildings and improvements	47,589	44,537
Machinery and equipment	95,435	91,376
Construction in progress	4,981	6,053
	153,880	148,189
Less accumulated depreciation	92,946	89,683
	$ 60,934	$ 58,506

Property and equipment includes $.4 million of purchases in trade accounts payable at September 30, 2008 and $.8 million at December 31, 2007.

Comprehensive income

The components of comprehensive income are as follows:

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2008	2007	2008	2007
Net income	$ 6,423	$ 5,592	$ 14,862	$ 12,308

Other comprehensive income (loss):				
Foreign currency translation adjustments	(8,458)	2,521	(3,354)	5,596
Recognized net actuarial loss (gain)	4	(78)	12	(78)
Comprehensive income (loss)	$ (2,031)	$ 8,035	$ 11,520	$ 17,826

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Legal proceedings

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

NOTE C PENSION PLANS

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

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2008	2007	2008	2007
Service cost	$ 167	$ 177	$ 502	$ 531
Interest cost	256	235	768	704
Expected return on plan assets	(261)	(235)	(783)	(704)
Recognized net actuarial loss (gain)	6	(26)	18	(78)
Net periodic benefit cost	$ 168	$ 151	$ 505	$ 453

During the nine month period ended September 30, 2008, $.2 million of contributions have been made to the plan. The Company does not anticipate contributing any additional money to fund its pension plan in 2008.

NOTE D COMPUTATION OF EARNINGS PER SHARE

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

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The calculation of basic and diluted earnings per share for the three and nine month periods ended September 30, 2008 and 2007 were as follows:

	Three month periods ended September 30, 2008	Three month periods ended September 30, 2007	Nine month periods ended September 30, 2008	Nine month periods ended September 30, 2007
Numerator				
Income from continuing operations	$ 6,457	$ 5,496	$ 14,127	$ 12,165
Income (loss) from discontinued operations	(34)	96	735	143
Net income	$ 6,423	$ 5,592	$ 14,862	$ 12,308
Denominator				
Determination of shares				
Weighted-average common shares outstanding	5,218	5,379	5,298	5,369
Dilutive effect stock-based awards	51	58	47	49
Diluted weighted-average common shares outstanding	5,269	5,437	5,345	5,418
Earnings per common share				
Basic				
Income from continuing operations	$ 1.24	$ 1.02	$ 2.67	$ 2.27
Income (loss) from discontinued operations	$ (0.01)	$ 0.02	$ 0.14	$ 0.03
Total net income	$ 1.23	$ 1.04	$ 2.81	$ 2.30
Diluted				
Income from continuing operations	$ 1.23	$ 1.01	$ 2.64	$ 2.25
Income (loss) from discontinued operations	$ (0.01)	$ 0.02	$ 0.14	$ 0.02
Total net income	$ 1.22	$ 1.03	$ 2.78	$ 2.27

For the three and nine month periods ended September 30, 2008, 13,000 stock options were excluded from the calculation of diluted earnings per share due to the average market price being lower than the exercise price, and as such they are anti-dilutive. For the nine month period ended September 30, 2007, 5,000 stock options were excluded from the calculation of diluted earnings per share due to the average market price being lower than the exercise price, and as such they are anti-dilutive.

NOTE E GOODWILL AND OTHER INTANGIBLES

The Company performed its annual impairment test for goodwill pursuant to SFAS No. 142, Goodwill and Intangible Assets as of January 1, 2008, and determined that no adjustment to the carrying value of goodwill was required. The aggregate amortization expense for other intangibles with finite lives for each of the three and nine month periods ended September 30, 2008 was $.1 million and $.4 million, and for the three and nine month periods ended September 30, 2007 was $.1 million and $.2 million. Amortization expense is estimated to be $.5 million annually for 2008 through 2011 and $.4 million for 2012.

The Company s addition of $2.3 million to goodwill is related to the acquisition of DPW in the amount of $.5 million, the joint venture formed between the Company s Australian subsidiary and BlueSky Energy Pty Ltd in the amount of $.5 million and $1.4 million related to the acquisition of Belos SA (Belos) (see Note K Business Combinations for further details). The changes in the carrying amount of goodwill, by segment, for the nine month period ended September 30, 2008, are as follows:

	Australia	South Africa	Belos	All Other	Total
Balance at January 1, 2008	$ 1,782	$ 57	$	$ 2,089	$ 3,928
Additions	462		1,370	489	2,321
Currency translation	(181)	(10)	57	25	(109)
Balance at September 30, 2008	$ 2,063	$ 47	$ 1,427	$ 2,603	$ 6,140

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The Company s patents and other intangibles consist of:

	September 30, 2008		December 31, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Finite-lived intangible assets				
Patents	$ 4,810	$ (2,822)	$ 4,812	$ (2,585)
Land use rights	1,653	(30)	1,259	(8)
Customer relationships	1,003	(327)	985	(154)
	$ 7,466	$ (3,179)	$ 7,056	$ (2,747)
Indefinite-lived intangible assets				
Trademarks	$		$ 1,328	
Goodwill	6,140		3,928	
	$ 6,140		$ 5,256	

NOTE F STOCK BASED COMPENSATION

The 1999 Stock Option Plan

The 1999 Stock Option Plan (the Plan) permits the grant of 300,000 options to buy common shares of the Company to certain employees at not less than fair market value of the shares on the date of grant. At September 30, 2008 there were 9,000 options remaining available for issuance under the Plan. Options issued to date under the Plan vest 50% after one year following the date of the grant, 75% after two years, and 100% after three years, and expire 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.

There were 13,000 options granted during the nine month period ended September 30, 2008 and 20,000 options granted during the nine month period ended September 30, 2007 under the Plan. The fair value for the stock options granted in 2008 and 2007 were estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2008	2007
Risk-free interest rate	4.2%	4.3%
Dividend yield	2.8%	2.9%
Expected life (years)	6	6
Expected volatility	34.4%	37.9%

Activity in the Company s stock option plan for the nine month period ended September 30, 2008 was as follows:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2008	110,942	$ 25.25		
Granted	13,000	$ 51.62		
Exercised	(14,950)	$ 29.56		

Forfeited	(1,250)	$	32.24				
Outstanding (vested and expected to vest) at September 30, 2008	107,742	$	27.75	5.4	$	3,296
Exercisable at September 30, 2008	83,742	$	22.91	4.4	$	2,967

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The weighted average grant-date fair value of options granted during 2008 and 2007 was $15.52 and $11.93, respectively. The total intrinsic value of stock options exercised during the nine month periods ended September 30, 2008 and 2007 was $.3 million and $.7 million, respectively. Cash received for the exercise of stock options during 2008 was $.4 million. The total fair value of stock options vested during the nine month periods ended September 30, 2008 and 2007 was $.2 million and $.1 million, respectively.

For the nine month periods ended September 30, 2008 and 2007, the Company recorded compensation expense related to the stock options of $.1 million and $.2 million, respectively. The total compensation cost related to nonvested awards not yet recognized at September 30, 2008 is expected to be $.2 million over principally one year.

The excess tax benefits from stock-based awards for the nine month period ended September 30, 2008 was less than $.1 million and represents the reduction in income taxes otherwise payable during the period, attributable to actual gross tax benefits in excess of the expected tax benefits for options exercised in the current period.

Long Term Incentive Plan of 2008

The Company s Shareholders approved the Preformed Line Products Company Long Term Incentive Plan of 2008 at the 2008 Annual Meeting of Shareholders on April 28, 2008. Under the Preformed Line Products Company Long Term Incentive Plan of 2008 (the LTIP Plan), certain employees, officers, and directors will be eligible to receive awards of options and restricted shares. The purpose of this LTIP Plan is to give the Company and its subsidiaries a competitive advantage in attracting, retaining, and motivating officers, employees, and directors and to provide an incentive to those individuals to increase shareholder value through long-term incentives directly linked to the Company s performance. The total number of Company common shares reserved for awards under the LTIP Plan is 400,000. Of the 400,000 common shares, 300,000 common shares have been reserved for full-value awards and 100,000 common shares have been reserved for share options. The LTIP Plan expires on April 17, 2018.

On August 21, 2008, there were 43,639 restricted stock awards granted under the LTIP Plan to the Company s CEO and six other executives. Of the 43,639 restricted shares granted, 4,273 were time-based awards and 39,366 were performance-based awards. All 43,639 shares were restricted and entitles the participant to one share of common stock. For all of the participants except the CEO, a portion of the restricted stock is subject to time-based cliff vesting and a portion will be subject to vesting based upon the Company s performance over a three year period. All of the CEO s restricted stock is subject to vesting based upon the Company s performance over a three year period.

The restricted shares are offered at no cost to the employees; however, the participant must remain employed with the Company until the restrictions on the restricted stock lapse. The fair value of restricted stock awards is based on the market price of an unrestricted share on the grant date, which was $54.24. The Company currently estimates that no awards will be forfeited. The Company recognizes stock-based compensation expense on a straight-line basis over the requisite service period of the award in General and administrative expense in the accompanying statement of consolidated income. Compensation expense related to the time-based restricted stock for the three and nine months ended September 30, 2008 was deminimus. Dividends will be reinvested in additional restricted stock, and held subject to the same vesting requirements as the underlying restricted stock.

Time-based awards will be expensed over a three-year period commencing September 1, 2008 and ending August 31, 2011. As of September 30, 2008, there was $.2 of total unrecognized compensation cost related to time-based restricted stock awards that is expected to be recognized over a period of 2.92 years.

For the performance-based awards, the number of shares of restricted stock in which the participants will vest depends on the Company s level of performance measured by growth in pretax income and sales growth over a three-year performance period from January 1, 2008 and ending December 31, 2010. Depending on the extent to which the performance criterion are satisfied under the LTIP Plan, the participants are eligible to earn shares of common stock over the vesting period. The maximum potential payout for performance-based compensation costs is $2.1 million at the end of the performance period. Under the LTIP Plan, the performance-based awards measurement period begins on January 1, 2008, with the vesting period beginning September 1, 2008 and ending December 31, 2010. As of September 30, 2008, performance-based compensation cost for the three and nine month periods ended was less than $.1 million. As of September 30, 2008, performance-based restricted stock awards are expected to be recognized over a period of 2.25 years. In the event of a Change in Control, vesting of the restricted stock will be accelerated and all restrictions will lapse. Unvested performance-based awards are based on a maximum potential payout. Actual shares awarded at the end of the performance period may be less than the maximum potential payout level depending on achievement of performance-based award objectives.

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To satisfy the vesting of its restricted stock awards, the Company has reserved new shares from its authorized but unissued shares. Any additional granted awards will also be issued from the Company s authorized but unissued shares. Under the LTIP Plan there are 356,361 common shares currently available for additional grants.

NOTE G FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). This standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This standard does not require new fair value measurements; however, the application of this standard may change current practice for an entity. This standard was effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal periods. This standard enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The standard requires that assets and liabilities carried at fair value to be classified and disclosed in one of the following three categories: Level 1: Quoted market prices in active markets for identical assets or liabilities; Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data; or Level 3: Unobservable inputs that are not corroborated by market data.

In February 2008, the FASB issued FAS No. 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements that Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 (FSP 157-1). This FSP 157-1 amends SFAS No. 157, Fair Value Measurements, to exclude FASB Statement No. 13, Accounting for Leases, and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under Statement 13. This FSP was effective upon the initial adoption of SFAS No. 157.

In February 2008, the FASB issued FASB Staff Position No. 157-2 , Effective Date of FASB Statement No. 157 (FSP 157-2), which delays the effective date of SFAS 157 for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. FSP 157-2 states that a measurement is recurring if it happens at least annually and defines nonfinancial assets and nonfinancial liabilities as all assets and liabilities other than those meeting the definition of a financial asset or financial liability in SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment to FAS No. 115 (SFAS 159). The Company adopted FSP 157-2 as of January 1, 2008 as it relates to financial assets and financial liabilities and its adoption did not have an impact on its consolidated financial statements. The Company is currently evaluating the impact that the adoption of SFAS 157, as it relates to nonfinancial assets and liabilities, will have on its consolidated financial results.

In February 2007, the FASB issued SFAS 159. This standard permits entities to measure certain financial instruments and certain other items at fair value. The fair value option established by this standard permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair values option has been elected at each subsequent reporting period. The fair value option election is irrevocable, unless a new election date occurs. SFAS 159 establishes presentation and disclosure requirements to help financial statement users understand the effect of the entity s election on earnings, but does not eliminate disclosure requirements of other accounting standards. This standard is effective as of the beginning of the first fiscal year that begins after November 15, 2007. The Company adopted this standard on January 1, 2008 and did not elect to measure any additional financial instruments or other items at fair value.

NOTE H RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In October 2008, the FASB issued FSP 157-3 Determining Fair Value of a Financial Asset in a Market That Is Not Active (FSP 157-3). FSP 157-3 clarified the application of SFAS No. 157 in an inactive market. It demonstrated how the fair value of a financial asset is determined when the market for that financial asset is inactive. FSP 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. The implementation of this standard did not have an impact on the Company s consolidated financial position and results of operations.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. SFAS 162 will be effective 60 days following the Securities and Exchange Commission s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The Company does not expect the adoption of this standard to have an impact on its financial position, results of operations, or cash flows.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 requires companies with derivative instruments to disclose information on how derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and how derivative instruments and related hedged items affect a Company s financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS 161 on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). This standard amends ARB No. 51 to establish accounting and reporting for the noncontrolling interest in a subsidiary and for deconsolidation of a subsidiary. It also amends certain of ARB No. 51 s consolidation procedures for consistency with the requirements of FASB Statement No. 141 (revised 2007), Business Combinations. This standard is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations (SFAS 141R). SFAS 141R revises the principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree, and the goodwill acquired in a business combination or gain from a bargain purchase. SFAS 141R also revises the principles and requirements for how the acquirer determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This pronouncement is effective for the Company as of January 1, 2009.

Both standards, SFAS 160 and 141R, will be applied prospectively to future business combinations entered into beginning in 2009. Certain provisions of SFAS 160 relating to presentation of noncontrolling interests in consolidated balance sheets and statements of consolidated income are required to be adopted retrospectively.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142). The intent of FSP 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R and other U.S. generally accepted accounting principles. FSP 142-3 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning December 15, 2008.

NOTE I SEGMENT INFORMATION

The following table presents a summary of the Company s reportable segments for the three and nine month periods ended September 30, 2008 and 2007. During the second quarter of 2008, the Company sold its Superior Modular Products (SMP) segment. Therefore the Company has reevaluated its reportable segments. Accordingly, the Company has added Poland, as a reportable segment, which is comprised of the Company s Belos SA (Belos) operation in Poland. Current year and prior year amounts have been restated to reflect the seven reportable segments. Financial results for the PLP-USA segment include the elimination of all segments intercompany profit in inventory.

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	Three month periods ended September 30, 2008	Three month periods ended September 30, 2007	Nine month periods ended September 30, 2008	Nine month periods ended September 30, 2007
Net sales				
PLP-USA	$ 30,021	$ 24,995	$ 85,725	$ 79,001
Australia	7,754	7,956	22,442	21,721
Brazil	8,244	7,396	24,183	18,738
South Africa	3,416	2,562	7,553	5,832
Canada	2,613	2,781	7,685	7,721
Poland	6,984	1,595	16,358	1,595
All Other	14,920	13,128	45,233	35,856
Total net sales	$ 73,952	$ 60,413	$ 209,179	$ 170,464
Intersegment sales				
PLP-USA	$ 1,774	$ 1,470	$ 6,005	$ 4,511
Australia	454	15	1,083	98
Brazil	517	335	801	1,262
South Africa	80	205	139	637
Canada	492	21	1,716	54
Poland	(3)	12	212	12
All Other	1,720	2,408	5,193	7,043
Total intersegment sales	$ 5,034	$ 4,466	$ 15,149	$ 13,617
Income from continuing operations				
PLP-USA	$ 2,935	$ 2,200	$ 5,284	$ 5,085
Australia	245	491	478	1,089
Brazil	327	762	903	1,607
South Africa	706	369	1,620	992
Canada	435	448	1,276	1,128
Poland	764	117	1,369	117
All Other	1,045	1,109	3,197	2,147
Total income from continuing operations	$ 6,457	$ 5,496	$ 14,127	$ 12,165
Income (loss) from discontinued operations, net of tax	(34)	96	735	143
Net income	$ 6,423	$ 5,592	$ 14,862	$ 12,308

	September 30, 2008	December 31, 2007
Identifiable assets		

PLP-USA	$	76,818	$	70,535
Australia		23,947		25,122
Brazil		19,745		18,022
South Africa		6,801		4,901
Canada		9,493		8,672
Poland		17,880		13,238
All Other		56,659		51,188
Discontinued operations				12,188
Total identifiable assets	$	211,343	$	203,866

NOTE J INCOME TAXES

The Company s effective tax rate was 30% and 33% for the three month periods ended September 30, 2008 and 2007, respectively, and 31% and 36% for nine month periods ended September 30, 2008 and 2007, respectively. The lowered effective tax rate for both periods ending September 30, 2008 is primarily due to increased earnings in foreign jurisdictions with lower tax rates and a decrease in unrecognized tax benefits for uncertain tax positions.

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.

As of September 30, 2008, the Company has gross unrecognized tax positions including the accrual of interest and penalties of approximately $1.3 million. Under the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes the Company may decrease its unrecognized tax benefits by $.4 million within the next twelve months due to the potential expiration of statutes of limitations. The Company recognized $.7 million of tax benefits as a result in the lapse of statutes of limitations for three month period ended September 30, 2008.

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NOTE K BUSINESS COMBINATIONS

On March 22, 2007, the Company acquired all of the issued and outstanding shares of Direct Power and Water Corporation (DPW) for $3 million, subject to a holdback of $.4 million. DPW is a New Mexico company that designs and installs solar systems and manufactures, mounting hardware, battery, and equipment enclosures. The holdback of $.4 million is held as security for the sellers indemnity obligations. Depending on the post-closing performance of DPW, earn outs may be paid to the sellers for each of the three years following the closing date of acquisition. The Company has recorded an earn out payment of $.4 million as a liability in the purchase price allocation.

The Company s consolidated balance sheets reflect the acquisition of DPW under the purchase method of accounting. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The purchase price allocation has been finalized.

Current assets	$	1,474
Property and equipment		289
Goodwill		1,756
Other intangibles		944
Total assets acquired		4,463
Current liabilities		(1,045)
Deferred income taxes		(418)
Total liabilities assumed		(1,463)
Net assets acquired	$	3,000

On September 6, 2007, the Company acquired approximately 83.74% of the issued and outstanding shares of Belos for $6 million plus contingent consideration depending on the post-closing performance of Belos in the year following the closing. The Company recorded a current liability of $2.7 million related to contingent consideration. Belos is a Polish company that manufactures and supplies fittings for low, medium, and high voltage power networks in its domestic and export markets.

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The Company s consolidated balance sheets reflect the acquisition of Belos under the purchase method of accounting. Since the cost of the acquired business including the contingent consideration exceeded the fair value assigned to assets acquired and liabilities assumed, the Company recorded goodwill of $1.2 million as part of the final purchase price allocation. The following table summarizes the assigned fair values of the assets acquired and liabilities assumed at the date of acquisition. The purchase price allocation has been finalized.

Current assets	$	6,088
Property and equipment		5,341
Goodwill		1,196
Other intangibles		1,041
Other assets		437
Total assets acquired		14,103
Current liabilities		(2,744)
Long term debt, less current portion		(112)
Other non-current liabilities and deferred taxes		(1,585)
Minority interest		(850)
Total liabilities assumed		(5,291)
Net assets acquired	$	8,812

Of the acquired intangibles, $1 million consists of land use rights with a useful life of 82.25 years and less than $.1 million for certain customer contracts with a useful life of one year.

On May 21, 2008, the Company entered into a Joint Venture Agreement for $.3 million to form a joint venture between the Company s Australian subsidiary, Preformed Line Products Australia Pty Ltd (PLP-AU) and BlueSky Energy Pty Ltd, a solar systems integration and installation business based in Sydney, Australia. PLP-AU holds a 50% ownership interest in the new joint venture company, which will operate under the name BlueSky Energy Australia (BlueSky), with the option to acquire the remaining 50% ownership interest from BlueSky Energy Pty Ltd over the next five years. BlueSky Energy Pty Ltd has transferred technology and assets to the joint venture. The Company s consolidated balance sheet as of September 30, 2008 reflects the acquisition of the joint venture under the purchase method of accounting. The allocation of the purchase price has not yet been finalized as the valuation of intangibles has not been completed.

NOTE L DISCONTINUED OPERATIONS

On May 30, 2008, the Company sold its SMP subsidiary for $11.7 million and recognized a $.5 million gain, net of tax, which includes expenses incurred related to the divestiture of SMP, subject to the finalization of working capital adjustments and a holdback of $1.5 million to be held in escrow for a period of one year. The Company does not provide any significant continuing involvement in the operations of SMP.

The sale of SMP has been accounted for in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long- Lived Assets. Accordingly, operating results of SMP are presented in the Company s consolidated statements of operations as discontinued operations, net of tax, and all periods presented have been reclassified. The operation had been reported within the SMP reporting segment, which is comprised of the U.S. operations supporting the Company s data communication products. The