

PREFORMED LINE PRODUCTS CO

Form 10-K

March 14, 2014

[Table of Contents](#)

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C.20549**

**FORM 10-K**

**Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the fiscal year ended December 31, 2013**

**Commission file number 0-31164**

**Preformed Line Products Company**

**(Exact name of registrant as specified in its charter)**

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

**660 Beta Drive**

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

**44143**

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

**(Zip Code)**

**(440) 461-5200**

**(Registrant's telephone number, including area code)**  
**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
<b>Common Shares, \$2 par value per share</b>	<b>NASDAQ</b>
<b>Securities registered pursuant to Section 12(g) of the Act: (None)</b>	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller Reporting Company <input type="checkbox"/>

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

The aggregate market value of voting and non-voting common shares held by non-affiliates of the registrant as of June 30, 2013 was \$164,466,770 based on the closing price of such common shares, as reported on the NASDAQ National Market System. As of March 7, 2014, there were 5,392,597 common shares of the Company (\$2 par value)

outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Definitive Proxy Statement for the Annual Meeting of Shareholders to be held May 6, 2014 are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14.

**Table of Contents****Table of Contents**

	<b>Page</b>
<b><u>Part I.</u></b>	
Item 1. <u>Business</u>	4
Item 1A. <u>Risk Factors</u>	12
Item 1B. <u>Unresolved Staff Comments</u>	14
Item 2. <u>Properties</u>	15
Item 3. <u>Legal Proceedings</u>	16
Item 4. <u>Mine Safety Disclosures</u>	16
Item 4A. <u>Executive Officers of the Registrant</u>	16
<b><u>Part II.</u></b>	
Item 5. <u>Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities</u>	17
Item 6. <u>Selected Financial Data</u>	20
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	35
Item 8. <u>Financial Statements and Supplementary Data</u>	36
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	67
Item 9A. <u>Controls and Procedures</u>	68
Item 9B. <u>Other Information</u>	69
<b><u>Part III.</u></b>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	69
Item 11. <u>Executive Compensation</u>	69
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	70
Item 13. <u>Certain Relationships, Related Transactions, and Director Independence</u>	70
Item 14. <u>Principal Accounting Fees and Services</u>	70
<b><u>Part IV.</u></b>	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	70
<b><u>SIGNATURES</u></b>	73
<b><u>Schedule II - Valuation and Qualifying Accounts</u></b>	74



**Table of Contents**

Forward-Looking Statements

This Form 10-K and other documents we file with the Securities and Exchange Commission ( SEC ) contain forward-looking statements regarding Preformed Line Products Company s (the Company ) 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.

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 United States (U.S.), Canada, Australia and Western Europe and may not grow as expected in developing regions;

The ability of our 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 demands 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;

The Company s ability to identify, obtain funding for, complete and integrate acquisitions for profitable growth;

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

The potential impact of consolidation, deregulation and bankruptcy among the Company's suppliers, competitors and customers;

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;

The effects of fluctuation in currency exchange rates upon the Company's 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;

Changes in significant government regulations affecting environmental compliances;

**Table of Contents**

The telecommunication market's continued deployment of Fiber-to-the-Premises;

The potential impact of the global economic condition on the Company's ongoing profitability and future growth opportunities in our core markets in the U.S. and other foreign countries where the financial situation is expected to be similar going forward;

The continued support by federal, state, local and foreign governments in incentive programs for upgrading electric transmission lines and promoting renewable energy deployment; and

Those factors described under the heading "Risk Factors" on page 12.

**Part I**

**Item 1. Business**

**Background**

Preformed Line Products Company and its subsidiaries (the "Company") is 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. The Company's primary products support, protect, connect, terminate and secure cables and wires. The Company also provides solar hardware systems and mounting hardware for a variety of solar power applications. The Company's goal is to continue to achieve profitable growth as a leader in the 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.

The Company serves a worldwide market through strategically located domestic and international manufacturing facilities. Each of the Company's domestic and international manufacturing facilities have obtained an International Organization of Standardization (ISO) 9001:2008 Certified Management System, with the exception of Direct Power and Water Corporation (DPW), which was acquired during 2007. The ISO 9001:2008 certified management system is a globally recognized quality standard for manufacturing and assists the Company in marketing its products throughout the world. The Company's customers include public and private energy utilities and communication companies, cable operators, financial institutions, governmental agencies, contractors and subcontractors, distributors and value-added resellers. The Company is not dependent on a single customer or a few customers. No single customer accounts for more than ten percent of the Company's consolidated revenues.

The Company's products include:

Formed Wire and Related Hardware Products

Protective Closures

Data Communication Cabinets

Plastic Products

Other Products

*Formed Wire Products and Related Hardware Products* are used in the energy, communications, cable and special industries (i.e., metal building, tower and antenna industries, the agriculture and arborist industries, and marine systems industry) to support, protect, terminate and secure both power conductor and communication cables and to control cable dynamics (e.g., vibration). Formed wire products are based on the principle of forming a variety of stiff wire materials into a helical (spiral) shape. Advantages of using the Company's helical formed wire products are that they are economical, dependable and easy to use. The Company introduced formed wire products to the power industry over 60 years ago and such products enjoy an almost universal acceptance in the Company's markets. Related hardware products include hardware for supporting and protecting transmission conductors, spacers, spacer-dampers, stockbridge dampers, corona suppression devices and various compression fittings for dead-end applications. Formed wire and related hardware products are approximately 68% of the Company's revenues in 2013, 69% in 2012 and 67% in 2011.

## **Table of Contents**

*Protective Closures*, including splice cases, are used to protect fixed line communication networks, such as copper cable or fiber optic cable, from moisture, environmental hazards and other potential contaminants. Protective closures are approximately 16% of the Company's revenues in 2013, 2012 and 2011.

*Data Communication Cabinets* are products used in high-speed data systems to hold and protect electronic equipment. Data communication cabinets are approximately 2% of the Company's revenues in 2013 and 3% in 2012 and 2011.

*Plastic Products*, including guy markers, tree guards, fiber optic cable markers and pedestal markers, are used in energy, communications, cable television and special industries to identify power conductors, communication cables and guy wires. Plastic products are approximately 4% of the Company's revenues in 2013 and 2012 and 3% in 2011.

*Other Products* include hardware assemblies, pole line hardware, resale products, underground connectors, solar hardware systems and urethane products. They are used by energy, renewable energy, communications, cable and special industries for various applications and are defined as products that complement the Company's core line offerings. Other products are approximately 10% of the Company's revenues in 2013, 8% of the Company's revenue in 2012 and 11% of the Company's revenues in 2011.

## **Corporate History**

The Company was incorporated in Ohio in 1947 to manufacture and sell helically shaped armor rods which are sets of stiff helically shaped wires applied on an electrical conductor at the point where they are suspended or held. Thomas F. Peterson, the Company's founder, developed and patented a unique method to manufacture and apply these armor rods to protect electrical conductors on overhead power lines. Over a period of years, Mr. Peterson and the Company developed, tested, patented, manufactured and marketed a variety of helically shaped products for use by the electrical and telephone industries. Although all of Mr. Peterson's patents have now expired, those patents served as the nucleus for licensing the Company's formed wire products abroad.

The success of the Company's formed wire products in the U.S. led to expansion abroad. The first international license agreement was established in the mid-1950s in Canada. In the late 1950s the Company's products were being sold through joint ventures and licensees in Canada, England, Germany, Spain and Australia. Additionally, the Company began export operations and promoted products into other selected offshore markets. The Company continued its expansion program, bought out most of the original licensees, and, by the mid-1990s, had complete ownership of operations in Australia, Brazil, Canada, Great Britain, South Africa and Spain and by 2002 we had complete ownership of operations in Mexico and China. The Company's international subsidiaries have the necessary infrastructure (i.e. manufacturing, engineering, marketing and general management) to support local business activities. Each is staffed with local personnel to ensure that the Company is well versed in local business practices, cultural constraints, technical requirements and the intricacies of local client relationships.

In 1968, the Company expanded into the underground telecommunications field by its acquisition of the Smith Company located in California. The Smith Company had a patented line of buried closures and pressurized splice cases. These closures and splice cases protect copper cable openings from environmental damage and degradation. The Company continued to build on expertise acquired through the acquisition of the Smith Company and in 1995 introduced the highly successful COYOTE® Closure line of products. Since 1995 fourteen domestic and three international patents have been granted to the Company on the COYOTE Closure. None of the COYOTE Closure patents have expired. The earliest COYOTE Closure patent was filed April 1995 and will not expire until April 2015.

In 2007, the Company acquired the shares of DPW, located in New Mexico, U.S. This acquisition broadened the Company's product lines and manufactures mounting hardware for a variety of solar power applications and provides

designs and installations of solar power systems.

## **Table of Contents**

In 2007, the Company acquired 83.74% of Belos SA (Belos), located in Bielsko-Biala, Poland. Belos is a manufacturer and supplier of fittings for various voltage power networks. This acquisition complements the Company's existing line of energy products. From 2008 to 2010, the Company acquired the remaining outstanding shares of Belos.

In 2008, the Company divested its data communication business, Superior Modular Products.

In 2008, the Company formed 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 held a 50% ownership interest in the joint venture company, which operates 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. In 2011, the Company acquired the additional 50% ownership interest from BlueSky Energy Pty Ltd.

In 2009, the Company acquired a 33.3% investment in Proxisafe Ltd. Proxisafe is a Canadian developmental company formed to design and commercialize new industrial safety equipment located in Calgary, Alberta. As of December 31, 2013, the Company owned 25.93% in Proxisafe.

In 2009, the Company acquired the Dulmison business from Tyco Electronics Group S.A. (Tyco Electronics), which included both the acquisition of equity of certain Tyco Electronics entities and the acquisition of assets from other Tyco Electronics entities. Dulmison was a leader in the supply and manufacturer of electrical transmission and distribution products. Dulmison designed, manufactured and marketed pole line hardware and vibration control products for the global electrical utility industry. Dulmison had operations in Australia, Thailand, Indonesia, Malaysia, Mexico and the United States. The Dulmison business has been fully integrated into the Company's core businesses.

In 2010, the Company acquired Electropar Limited (Electropar), a New Zealand corporation. Electropar designs, manufactures and markets pole line and substation hardware for the global electrical utility industry. Electropar is based in New Zealand with a subsidiary operation in Australia. The acquisition has strengthened and is expected to continue to strengthen the Company's position in the power distribution, transmission and substation hardware markets and expands the Company's presence in the Asia-Pacific region.

In January 2012, the Company acquired Australian Electricity Systems Pty Ltd. (AES), an Australian company. AES designs, manufactures and markets hardware for the electrical utility industry. The acquisition has strengthened and is expected to continue to strengthen the Company's position in the power distribution, transmission and substation hardware markets and will expand the Company's presence in the Asia-Pacific region. For accounting purposes, the acquisition was an immaterial business combination.

The Company's World headquarters is located at 660 Beta Drive, Mayfield Village, Ohio 44143.

## **Business**

The demand for the Company's products comes primarily from new, maintenance and repair construction for the energy (including solar), telecommunication, data communication and special industries. The Company's customers use many of the Company's products, including formed wire products, to revitalize the aging outside plant infrastructure. Many of the Company's products are used on a proactive basis by the Company's customers to reduce and prevent lost revenue. A single malfunctioning line could cause the loss of thousands of dollars per hour for a power or communication customer. A malfunctioning fiber cable could also result in substantial revenue loss. Repair construction by the Company's customers generally occurs in the case of emergencies or natural disasters, such as

hurricanes, tornados, earthquakes, floods or ice storms. Under these circumstances, the Company provides the repair products to customers as quickly as possible.

The Company has adapted the formed wire products helical technology for use in a wide variety of fiber optic cable applications that have special requirements. The Company's formed wire products are uniquely qualified for these applications due to the gentle gripping over a greater length of the fiber cable. This is an advantage over traditional pole line hardware clamps that compress the cable to the point of possible fatigue and optical signal deterioration.

## **Table of Contents**

The Company's protective closures and splice cases are used to protect cable from moisture, environmental hazards and other potential contaminants. The Company's splice cases are easily re-enterable closures that allow utility maintenance workers access to the cables located inside the closure to repair or add communications services. Over the years, the Company has made many significant improvements in the splice case that have greatly increased its versatility and application in the market place. The Company also designs and markets custom splice cases to satisfy specific customer requirements. This has allowed the Company to remain a strong partner with several primary customers and has earned the Company the reputation as a responsive and reliable supplier.

Fiber optic cable was first deployed in the outside plant environment in the early 1980s. Through fiber optic technologies, a much greater amount of both voice and data communication can be transmitted reliably. In addition, this technology solved the cable congestion problem that the large count copper cable was causing in underground, buried and aerial applications. The Company developed and adapted copper closures for use in the emerging fiber optic world. In the late 1980s, the Company developed a series of splice cases designed specifically for fiber application. In the mid-1990s, the Company developed its plastic COYOTE® Closure, and has since expanded the product line to address Fiber-to-the-Premise (FTTP) applications. The COYOTE Closure is an example of the Company developing a new line of proprietary products to meet the changing needs of its customers.

The Company also designs and manufactures data communication cabinets and enclosures for data communication networks, offering a comprehensive line of copper and fiber optic cross-connect systems. The product line enables reliable, high-speed transmission of data over customers' local area networks.

With the acquisition of DPW in 2007, the Company expanded into the renewable energy sector. DPW provides a comprehensive line of mounting hardware for a variety of solar power applications including residential roof mounting, commercial roofing systems, top of pole mounting and customized solutions. DPW also provides design and installation services for residential and commercial solar power systems primarily in the western U.S.

## **Markets**

The Company markets its products to the energy, telecommunication, cable, data communication and special industries. While rapid changes in technology have blurred the distinctions between telephone, cable, and data communication, the energy industry is clearly distinct. The Company's role in the energy industry is to supply formed wire products and related hardware used with the electrical conductors, cables and wires that transfer power from the generating facility to the ultimate user of that power. Formed wire products are used to support, protect, terminate and secure both power conductor and communication cables and to control cable dynamics.

*Electric Utilities - Transmission.* The electric transmission grid is the interconnected network of high voltage aluminum conductors used to transport large blocks of electric power from generating facilities to distribution networks. Currently, there are three major power grids in the U.S.: the Eastern Interconnect, the Western Interconnect and the Texas Interconnect. Virtually all electrical energy utilities are connected with at least one other utility by one of these major grids. The Company believes that the transmission grid has been neglected throughout much of the U.S. for more than two decades. Additionally, because of deregulation, some electric utilities have turned this responsibility over to Independent System Operators (ISOs), who have also been slow to add transmission lines. With demand for power now exceeding supply in some areas, the need for the movement of bulk power from the energy-rich areas to the energy-deficient areas means that new transmission lines will likely be built and many existing lines will likely be refurbished. Connecting renewable energy sources to the grid should also attract new investment to fund transmission infrastructure projects in the future. The Company believes that this will generate growth for the Company's products in this market over at least the next several years. In addition, increased construction of international transmission grids is occurring in many regions of the world. However, consolidations in

the markets that the Company services with increased global competition may also have an adverse impact on the Company's revenues.

## **Table of Contents**

*Electric Utilities - Distribution.* The distribution market includes those utilities that distribute power from a substation where voltage is reduced to levels appropriate for the consumer. Unlike the transmission market, distribution is still handled primarily by local electric utilities. These utilities are motivated to reduce cost in order to maintain and enhance their profitability. The Company believes that its growth in the distribution market will be achieved primarily as a result of incremental gains in market share driven by emphasizing the Company's quality products and service over price. Internationally, particularly in the developing regions, there is increasing political pressure to extend the availability of electricity to additional populations. Through its global network of factories and sales offices, the Company is prepared to take advantage of this new growth in construction.

*Renewable Energy.* The renewable energy market includes residential consumers, commercial businesses, off-grid operators, and utility companies that have an interest in alternative energy sources. Environmental concerns along with federal, state and local utility incentives have fueled demand for renewable energy systems including solar, wind and biofuel. The industry continues to grow as advancements in technology lead to greater efficiencies which drive down overall system costs. The Company currently provides hardware solutions, system design and installation services for solar power applications. The Company markets and sells these products and services to end-users, distributors, installers and integrators.

*Communication and Cable.* Major developments, including growing competition between the cable and communications industries and increasing overall demand for high-speed communication services, have led to a changing regulatory and competitive environment in many markets throughout the world. The deployment of new access networks and improvements to existing networks for advanced applications continues to gain momentum.

Cable operators, local communication operators and power utilities are building, rebuilding or upgrading signal delivery networks in developed countries. These networks are designed to deliver video and voice transmissions and provide Internet connectivity to individual residences and businesses. Operators deploy a variety of network technologies and architectures to carry broadband and narrowband signals. These architectures are constructed of electronic hardware connected via coaxial cables, copper wires or optical fibers. The Company manufactures closures that these industries use to securely connect and protect these vital networks.

As critical components of the outdoor infrastructure, closures provide protection against weather and vandalism, and permit technicians who maintain and manage the system ready access to the devices. Cable operators and local telephone network operators place great reliance on manufacturers of protective closures because any material damage to the signal delivery networks is likely to disrupt communication services. In addition to closures, the Company supplies the communication and cable industry with its formed wire products to hold, support, protect and terminate the copper wires and cables and the fiber optic cables used by that industry to transfer voice, video or data signals.

The industry has developed technological methods to increase the usage of copper-based plant through high-speed digital subscriber lines (DSLs). The popularity of these services, the regulatory environment and the increasingly fierce competition between communications and cable operators has driven the move toward building out the last mile in fiber networks. FTTP technology supports the next wave in broadband innovation by carrying fiber optic technology into homes and businesses. The Company has been actively developing products that address this market.

*Data Communication.* The data communication market is being driven by the continual demand for increased bandwidth. Growing Internet Service Providers (ISPs), construction in Wide Area Networks (WANs) and demand for products in the workplace are all key elements to the increased demand for the racking and cabinet products made by the Company. The Company's products are sold to a number of categories of customers including, (i) ISPs, (ii) large companies and organizations which have their own local area network for data communication, and (iii) distributors of structured cabling systems and components for use in the above markets.

*Special Industries.* The Company's formed wire products are also used in other industries which require a method of securing or terminating cables, including the metal building, tower and antenna industries, the agriculture and arborist industries, and various applications within the marine systems industry. Products other than formed wire products are also marketed to other industries. For example, the Company's urethane capabilities allow it to market products to the light rail industry. The Company continues to explore new and innovative uses of its manufacturing capabilities; however, these markets remain a small portion of overall consolidated sales.

## **Table of Contents**

### **International Operations**

The international operations of the Company are essentially the same as its domestic (PLP-USA) business. The Company manufactures similar types of products in its international plants as are sold domestically, sells to similar types of customers and faces similar types of competition (and in some cases, the same competitors). Sources of supply of raw materials are not significantly different internationally. See Note L in the Notes To Consolidated Financial Statements for information and financial data relating to the Company's international operations that represent reportable segments.

While a number of the Company's international plants are in developed countries, the Company believes it has strong market opportunities in developing countries where the need for the transmission and distribution of electrical power is significant. In addition, as the need arises, the Company is prepared to establish new manufacturing facilities abroad.

### **Sales and Marketing**

Domestically and internationally, the Company markets its products through a direct sales force and manufacturing representatives. The direct sales force is employed by the Company and works with the manufacturer's representatives, as well as key direct accounts and distributors who also buy and resell the Company's products. The manufacturer's representatives are independent organizations that represent the Company as well as other complimentary product lines. These organizations are paid a commission based on the sales amount.

### **Research and Development**

The Company is committed to providing technical leadership through scientific research and product development in order to continue to expand the Company's position as a supplier to the communications and power industries. Research is conducted on a continuous basis using internal experience in conjunction with outside professional expertise to develop state-of-the-art materials for several of the Company's products. These products capitalize on cost-efficiency while offering exacting mechanical performance that meets or exceeds industry standards. The Company's research and development activities have resulted in numerous patents being issued to the Company (see Patents and Trademarks below).

Early in its history, the Company recognized the need to understand the performance of its products and the needs of its customers. To that end, the Company developed a 29,000 square foot Research and Engineering Center located at its corporate headquarters in Mayfield Village, Ohio. In 2013, the Company expanded its Research and Engineering Center by an additional 8,000 square feet. Using the Research and Engineering Center, engineers and technicians simulate a wide range of external conditions encountered by the Company's products to ensure quality, durability and performance. The work performed in the Research and Engineering Center includes advanced studies and experimentation with various forms of vibration. This work has contributed significantly to the collective knowledge base of the industries the Company serves and is the subject matter of many papers and seminars presented to these industries.

The Company believes that its Research and Engineering Center is one of the most sophisticated in the world in its specialized field. The Research and Engineering Center also has an advanced prototyping technology machine on-site to develop models of new designs where intricate part details are studied prior to the construction of expensive production tooling. Today, the Company's reputation for vibration testing, tensile testing, fiber optic cable testing, environmental testing, field vibration monitoring and third-party contract testing is a competitive advantage. In addition to testing, the work done at the Company's Research and Development Center continues to fuel product

development efforts. For example, the Company estimates that approximately 18% of 2013 revenues were attributed to products developed by the Company in the past five years. In addition, the Company's position in the industry is further reinforced by its long-standing leadership role in many key international technical organizations which are charged with the responsibility of establishing industry wide specifications and performance criteria, including IEEE (Institute of Electrical and Electronics Engineers), CIGRE (Counsil Internationale des Grands Reseaux Electriques a Haute Tension), and IEC (International Electromechanical Commission). Research and development costs are expensed as incurred. Research and development costs for new products were \$2.3 million in 2013, \$2.1 million in 2012 and \$2.4 million in 2011.

## **Table of Contents**

### **Patents and Trademarks**

The Company applies for patents in the U.S. and other countries, as appropriate, to protect its significant patentable developments. As of December 31, 2013, the Company had in force 35 U.S. patents and 85 international patents in 23 countries and had pending 15 U.S. patent applications and 51 international applications. While such domestic and international patents expire from time to time, the Company continues to apply for and obtain patent protection on a regular basis. Patents held by the Company in the aggregate are of material importance in the operation of the Company's business. The Company, however, does not believe that any single patent, or group of related patents, is essential to the Company's business as a whole or to any of its businesses. Additionally, the Company owns and uses a substantial body of proprietary information and numerous trademarks. The Company relies on nondisclosure agreements to protect trade secrets and other proprietary data and technology. As of December 31, 2013, the Company had obtained U.S. registration on 31 trademarks and three trademark applications remained pending. International registrations amounted to 251 registrations in 38 countries, with nine pending international registrations.

Since June 8, 1995, U.S. patents have been issued for terms of 20 years beginning with the date of filing of the patent application. Prior to that time, a U.S. patent had a term of 17 years from the date of its issuance. Patents issued by international countries generally expire 20 years after filing. U.S. and international patents are not renewable after expiration of their initial term. U.S. and international trademarks are generally perpetual, renewable in 10-year increments upon a showing of continued use. To the knowledge of management, the Company is not subject to any significant allegation or charges of infringement of intellectual property rights by any organization.

In the normal course of business, the Company occasionally makes and receives inquiries with regard to possible patent and trademark infringement. The extent of such inquiries from third parties has been limited generally to verbal remarks to Company representatives. The Company believes that it is unlikely that the outcome of these inquiries will have a material adverse effect on the Company's financial position.

### **Competition**

All of the markets that the Company serves are highly competitive. In each market, the principal methods of competition are price, performance, and service. The Company believes, however, that several factors (described below) provide the Company with a competitive advantage.

The Company has a strong and stable workforce. This consistent and continuous knowledge base has afforded the Company the ability to provide superior service to the Company's customers and representatives.

The Company's Research and Engineering Center in Mayfield Village, Ohio and Research and Engineering department's subsidiary worldwide locations maintain a strong technical support function to develop unique solutions to customer problems.

The Company is vertically integrated both in manufacturing and distribution and is continually upgrading equipment and processes.

The Company is sensitive to the marketplace and provides an extra measure of service in cases of emergency, storm damage and other rush situations. This high level of customer service and customer responsiveness is a hallmark of the Company.

The Company's 17 manufacturing locations ensure close support and proximity to customers worldwide.

## **Table of Contents**

Domestically, there are several competitors for formed wire products. Although it has other competitors in many of the countries where it has plants, the Company has leveraged its expertise and is very strong in the global market. The Company believes that it is the world's largest manufacturer of formed wire products for energy and communications markets. However, the Company's formed wire products compete against other pole line hardware products manufactured by other companies.

The Company's primary domestic competitor for pressurized copper closures is the 3M Company. Based on its experience in the industry, the Company believes it maintains a strong market share position.

The fiber optic closure market is one of the most competitive product areas for the Company, with the Company competing against, among others, Tyco Electronics, 3M and Corning Cable Systems. There are a number of primary competitors and several smaller niche competitors that compete at all levels in the marketplace. The Company believes that it is one of four leading suppliers of fiber optic closures.

## **Sources and Availability of Raw Materials**

The principal raw materials used by the Company are galvanized wire, stainless steel, aluminum covered steel wire, aluminum rod, plastic resins, glass-filled plastic compounds, neoprene rubbers and aluminum castings. The Company also uses certain other materials such as fasteners, packaging materials and communications cable. The Company believes that it has adequate sources of supply for the raw materials used in its manufacturing processes and it regularly attempts to develop and maintain sources of supply in order to extend availability and encourage competitive pricing of these products.

Most plastic resins are purchased under contracts to stabilize costs and improve delivery performance and are available from a number of reliable suppliers. Wire and aluminum rod are purchased in standard stock diameters and coils under contracts from a number of reliable suppliers. Contracts have firm prices except for fluctuations of base metals and petroleum prices, which result in surcharges when global demand is greater than the available supply.

The Company also relies on certain other manufacturers to supply products that complement the Company's product lines, such as aluminum and ferrous castings, fiber optic cable and connectors and various metal racks and cabinets. The Company believes there are multiple sources of supply for these products.

The Company relies on sole source manufacturers for certain raw materials used in production. The current state of economic uncertainty presents a risk that existing suppliers could go out of business. However, there are other potential sources for these materials available, and the Company could relocate the tooling and processes to other manufacturers if necessary.

Raw material costs were, in general, flat during 2013. The Company expects price levels to continue to be stable during 2014.

## **Backlog Orders**

The Company's backlog was approximately \$47.7 million at the end of 2013 and \$58.4 million at the end of 2012. All customer orders entered are firm at the time of entry. Substantially all orders are shipped within a two to four week period unless the customer requests an alternative date.

## **Seasonality**

The Company markets products that are used by utility maintenance and construction crews worldwide. The products are marketed through distributors and directly to end users, who maintain stock to ensure adequate supply for their customers or construction crews. As a result, the Company does not have a wide variation in sales from quarter to quarter.

## **Table of Contents**

### **Environmental**

The Company is subject to extensive and changing federal, state, and local environmental laws, including laws and regulations that (i) relate to air and water quality, (ii) impose limitations on the discharge of pollutants into the environment, (iii) establish standards for the treatment, storage and disposal of toxic and hazardous waste, and (iv) require proper storage, handling, packaging, labeling, and transporting of products and components classified as hazardous materials. Stringent fines and penalties may be imposed for noncompliance with these environmental laws. In addition, environmental laws could impose liability for costs associated with investigating and remediating contamination at the Company's facilities or at third-party facilities at which the Company has arranged for the disposal treatment of hazardous materials.

The Company believes it is in compliance in all material respects, with all applicable environmental laws and the Company is not aware of any noncompliance or obligation to investigate or remediate contamination that could reasonably be expected to result in a material liability. The Company does not expect to make any material capital expenditure during 2014 for environmental control facilities. The environmental laws continue to be amended and revised to impose stricter obligations, and compliance with future additional environmental requirements could necessitate capital outlays. However, the Company does not believe that these expenditures should ultimately result in a material adverse effect on its financial position or results of operations. The Company cannot predict the precise effect such future requirements, if enacted, would have on the Company. The Company believes that such regulations would be enacted over time and would affect the industry as a whole.

### **Employees**

At December 31, 2013, the Company had 2,794 employees. Approximately 27% of the Company's employees are located in the U.S.

### **Available Information**

The Company maintains an Internet site at <http://www.preformed.com>, on which the Company makes available, free of charge, the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. The Company's SEC reports can be accessed through the investor relations section of its Internet site. The information found on the Company's Internet site is not part of this or any other report that is filed or furnished to the SEC.

The public may read and copy any materials the Company files with or furnishes to the SEC at the SEC's Public Reference Room at 100 F. Street, NE., Washington, DC 20549. Information on the operation of the Public Reference Room is available by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site that contains reports, proxy and information statements, and other information filed with the SEC by electronic filers. The SEC's Internet site is <http://www.sec.gov>. The Company also has a link from its Internet site to the SEC's Internet site, this link can be found on the investor relations page of the Company's Internet site.

### **Item 1A. Risk Factors**

*Due to the Company's dependency on the energy and telecommunication industries, the Company is susceptible to negative trends relating to those industries that could adversely affect the Company's operating results.*

The Company's sales to the energy and telecommunication industries represent a substantial portion of the Company's historical sales. The concentration of revenue in such industries is expected to continue into the foreseeable future. Demand for products to these industries depends primarily on capital spending by customers for constructing, rebuilding, maintaining or upgrading their systems. The amount of capital spending and, therefore, the Company's sales and profitability are affected by a variety of factors, including general economic conditions, access by customers to financing, government regulation, demand for energy and cable services, and technological factors. As a result, some customers may significantly reduce their spending or may not continue as going concerns, which could have a material adverse effect on the Company's business, operating results and financial condition. Consolidation and deregulation present the additional risk to the Company in that combined or deregulated customers will rely on relationships with a source other than the Company. Consolidation and deregulation may also increase the pressure on suppliers, such as the Company, to sell product at lower prices.

**Table of Contents**

***The Company's business will suffer if the Company fails to develop and successfully introduce new and enhanced products that meet the changing needs of the Company's customers.***

The Company's ability to anticipate changes in technology and industry standards and to successfully develop and introduce new products on a timely basis will be a significant factor in the Company's ability to grow and remain competitive. New product development often requires long-term forecasting of market trends, development and implementation of new designs and processes and a substantial capital commitment. The trend toward consolidation of the energy, telecommunication and data communication industries may require the Company to quickly adapt to rapidly changing market conditions and customer requirements. Any failure by the Company to anticipate or respond in a cost-effective and timely manner to technological developments or changes in industry standards or customer requirements, or any significant delays in product development or introduction or any failure of new products to be widely accepted by the Company's customers, could have a material adverse effect on the Company's business, operating results and financial condition as a result of reduced net sales.

***The intense competition in the Company's markets, particularly telecommunication, may lead to a reduction in sales and profits.***

The markets in which the Company operates are highly competitive. The level of intensity of competition may increase in the foreseeable future due to anticipated growth in the telecommunication and data communication industries. The Company's competitors in the telecommunication and data communication markets are larger companies with significant influence over the distribution network. The Company may not be able to compete successfully against its competitors, many of which may have access to greater financial resources than the Company. In addition, the pace of technological development in the telecommunication and data communication markets is rapid and these advances (i.e., wireless, fiber optic network infrastructure, etc.) may adversely affect the Company's ability to compete in this market.

***Competitors introduction of products embodying new technologies or the emergence of new industry standards can render existing products or products under development obsolete or unmarketable and result in lost sales.***

The energy, telecommunication and data communication industries are characterized by rapid technological change. Satellite, wireless and other communication technologies currently being deployed may represent a threat to copper, coaxial and fiber optic-based systems by reducing the need for wire-line networks. Future advances or further development of these or other new technologies may have a material adverse effect on the Company's business, operating results and financial condition as a result of lost sales.

***Price increases of raw materials could result in lower earnings.***

The Company's cost of sales may be materially adversely affected by increases in the market prices of the raw materials used in the Company's manufacturing processes. The Company may not be able to pass on price increases in raw materials to the Company's customers through increases in product prices. As a result, the Company's operating results could be adversely affected. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Securities and Exchange Commission established disclosure requirements regarding the supply of certain minerals, known as conflict minerals, originating from the Democratic Republic of Congo and adjoining countries ( Conflict Mineral Rules ). These requirements could adversely affect the availability and pricing of conflict minerals used in the Company's products.

***The Company's international operations subject the Company to additional business risks that may have a material adverse effect on the Company's business, operating results and financial condition.***

International sales account for a substantial portion of the Company's net sales (60%, 59% and 60% in 2013, 2012 and 2011, respectively) and the Company expects these sales will increase as a percentage of net sales in the future. Due to its international sales, the Company is subject to the risks of conducting business internationally, including unexpected changes in, or impositions of, legislative or regulatory requirements, which could materially

## **Table of Contents**

adversely affect U.S. dollar revenues or operating expenses, tariffs and other barriers and restrictions, potentially longer payment cycles, greater difficulty in accounts receivable collection, reduced or limited protection of intellectual property rights, potentially adverse taxes and the burdens of complying with a variety of international laws and communications standards. The Company is subject to foreign currency volatility which could materially impact the Company's results. The Company is also subject to general geopolitical risks, such as political and economic instability and changes in diplomatic and trade relationships, in connection with its international operations. These risks of conducting business internationally may have a material adverse effect on the Company's business, operating results and financial condition.

***The Company may not be able to successfully integrate businesses that it may acquire in the future or complete acquisitions on satisfactory terms, which could have a material adverse effect on the Company's business, operating results and financial condition.***

A portion of the Company's growth in sales and earnings has been generated from acquisitions. The Company expects to continue a strategy of identifying and acquiring businesses with complementary products. In connection with this strategy, the Company faces certain risks and uncertainties relating to acquisitions. The factors affecting this exposure are in addition to the risks faced in the Company's day-to-day operations. Acquisitions involve a number of special risks, including the risks pertaining to integrating acquired businesses. In addition, the Company may incur debt to finance future acquisitions, and the Company may issue securities in connection with future acquisitions that may dilute the holdings of current and future shareholders. Covenant restrictions relating to additional indebtedness could restrict the Company's ability to pay dividends, fund capital expenditures, consummate additional acquisitions and significantly increase the Company's interest expense. Any failure to successfully complete acquisitions or to successfully integrate such strategic acquisitions could have a material adverse effect on the Company's business, operating results and financial condition.

***The Company may have interruptions in or lose business due to the uncertainty of the global economy, specifically the potential impact of bankruptcy among the Company's suppliers and lack of available funding for the Company's customers.***

The Company relies on sole source manufacturers for certain materials that complement the Company's product lines. The current state of economic uncertainty presents a risk that existing suppliers could go out of business or significantly raise their prices. If, due to any of these risk factors, the Company had to relocate the tooling and processes to other manufacturers, there could be an adverse effect on the supply and the Company's ability to make products on a timely basis. In addition, the demand for the Company's products is significantly affected by the amount of discretionary business and consumer spending, each of which is impacted by the uncertainty of the global economy. The liquidity and financial position of the Company's customers could also impact their ability to pay in full and/or on a timely basis. This lack of funding could have a negative impact on the Company's results of operations.

***The Company may be adversely impacted by laws, regulation, and litigation.***

The Company is subject to various laws and regulation. For example, extensive environmental regulations related to air and water quality, the discharge of pollutants, the handling of toxic waste and the handling and transport of products and components classified as hazardous impact our daily operations. Recently, the Conflict Mineral Rules mandated extensive due diligence to determine the source of conflict minerals for all of the Company's locations, and may also result in potential changes to the products and sources of raw materials. The introduction of new laws or regulations, or changes in existing laws or regulations, could increase the costs of doing business.

## **Item 1B. Unresolved Staff Comments**

The Company does not have any unresolved staff comments.

**Table of Contents****Item 2. Properties**

The Company currently owns or leases 18 facilities, which together contain approximately 2.1 million square feet of manufacturing, warehouse, research and development, sales and office space worldwide. Most of the Company's international facilities contain space for offices, research and engineering (R&E), warehousing and manufacturing with manufacturing using a majority of the space. The following table provides information regarding the Company's principal facilities:

<b>Location</b>	<b>Use</b>	<b>Owned/Leased</b>	<b>Square Feet</b>	<b>Reportable Segment</b>
1. Mayfield Village, Ohio	Corporate Headquarters	Owned	99,000	PLP-USA
	R&E			
2. Rogers, Arkansas	Manufacturing	Owned	310,000	PLP-USA
	Warehouse			
	Office			
3. Albemarle, North Carolina	Manufacturing	Owned	261,000	PLP-USA
	Warehouse			
	Office			
4. Sydney, Australia	Manufacturing	Building Owned;	216,900	Asia-Pacific
	R&E			
	Warehouse	Warehouse Leased		
	Office			
5. São Paulo, Brazil	Manufacturing	Owned	215,500	The Americas
	R&E			
	Warehouse			
	Office			
6. Cambridge, Ontario, Canada	Manufacturing	Owned	73,300	The Americas
	Warehouse			
	Office			
7. Andover, Hampshire, England	Manufacturing	Building Owned; Land Leased	89,400	EMEA
	R&E			

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

	Warehouse			
	Office			
8. Queretaro, Mexico	Manufacturing	Owned	84,000	The Americas
	Warehouse			
	Office			
9. Beijing, China	Manufacturing	Building Owned; Land Leased	132,100	Asia-Pacific
	Warehouse			
	Office			
10. Pietermaritzburg, South Africa	Manufacturing	Owned	68,800	EMEA
	R&E			
	Warehouse			
	Office			

**Table of Contents**

11. Sevilla, Spain	Manufacturing R&E Warehouse Office	Building Owned; Warehouse Leased	74,000	EMEA
12. Albuquerque, New Mexico	Manufacturing Warehouse Office	Leased	27,700	The Americas
13. Bielsko-Biala, Poland	Manufacturing Warehouse Office	Buildings Owned; Land Leased	174,400	EMEA
14. Bekasi, Indonesia	Manufacturing Office	Owned	60,100	Asia-Pacific
15. Selangor, Malaysia	Manufacturing Warehouse Office	Leased	18,600	Asia-Pacific
16. Bangkok, Thailand	Manufacturing Warehouse Office	Owned	135,700	Asia-Pacific
17. Auckland, New Zealand	Manufacturing Warehouse Office	Leased	57,500	Asia-Pacific
18. Buenos Aires, Argentina	Manufacturing Warehouse Office	Leased	26,372	The Americas

**Item 3. 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.

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 4A. Executive Officers of the Registrant**

Each executive officer is elected by the Board of Directors, serves at its pleasure and holds office until a successor is appointed, or until the earliest of death, resignation or removal.

**Table of Contents**

Name	Age	Position
Robert G. Ruhlman	57	Chairman, President and Chief Executive Officer
Eric R. Graef	61	Chief Financial Officer, Vice President - Finance and Treasurer
William H. Haag	50	Vice President - International Operations
J. Cecil Curlee Jr.	57	Vice President - Human Resources
Dennis F. McKenna	47	Vice President - Marketing and Global Business Development
David C. Sunkle	55	Vice President - Research and Engineering and Manufacturing
Caroline S. Vaccariello	47	General Counsel and Corporate Secretary
John M. Hofstetter	49	Vice President - Sales and Global Communications Markets

The following sets forth the name and recent business experience for each person who is an executive officer of the Company at March 1, 2014.

Robert G. Ruhlman was elected Chairman in July 2004. Mr. Ruhlman has served as Chief Executive Officer since July 2000 and as President since 1995 (positions he continues to hold). Mr. Ruhlman is the brother of Randall M. Ruhlman and son of Barbara P. Ruhlman, both Directors of the Company.

Eric R. Graef was elected Vice President Finance and Treasurer in December 1999 and Chief Financial Officer in December 2007.

William H. Haag was elected Vice President International Operations in April 1999.

J. Cecil Curlee Jr. was elected Vice President Human Resources in January 2003.

Dennis F. McKenna was elected Vice President Marketing and Global Business Development in April 2004.

David C. Sunkle was elected Vice President-Research and Engineering in January 2007. In addition, Mr. Sunkle has taken on the role of the Vice President Manufacturing since July 2008.

Caroline S. Vaccariello was elected General Counsel and Corporate Secretary in January 2007.

John M. Hofstetter was elected Vice President Sales and Global Communications Markets and Business Development in April of 2012. Effective January 1, 2013, his role expanded to include domestic sales responsibility for the Energy Markets and Special Industries. He has served a variety of positions in Marketing and Sales since 1988, including General Manager of Sales Communications Markets and Special Industries, Director Marketing and Sales Communications Markets, and Director Global Communications Markets.

**Part II****Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities**

The Company's common shares are traded on NASDAQ under the trading symbol PLPC. As of March 7, 2014, the Company had approximately 2,030 shareholders of record. The following table sets forth for the periods indicated (i) the high and low closing sale prices per share of the Company's common shares as reported by the NASDAQ and (ii) the amount per share of cash dividends paid by the Company.



**Table of Contents**

Quarter	Year ended December 31					
	2013			2012		
	High	Low	Dividend	High	Low	Dividend
First	\$ 70.96	\$ 62.48	\$ 0.00	\$ 70.34	\$ 57.05	\$ 0.20
Second	82.10	66.31	0.00	65.34	52.05	0.20
Third	74.97	65.52	0.20	59.57	52.15	0.20
Fourth	92.46	66.35	0.20	61.99	52.00	0.60

The Company on December 12, 2012 declared accelerated dividends (for dividends that otherwise would have been paid in January and April 2013) of \$.40 per share on the Company's common shares, paid December 28, 2012, to shareholders of record at the close of business on December 24, 2012.

While the Company expects to continue to pay dividends of a comparable amount in the near term, the declaration and payment of future dividends will be made at the discretion of the Company's Board of Directors in light of the current needs of the Company. Therefore, there can be no assurance that the Company will continue to make such dividend payments in the future.

**Equity Compensation Plan Information**

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (1)
Equity compensation plans approved by security holders	116,661	\$ 64.16	486,873
Equity compensation plans not approved by security holders	13,000	\$ 39.95	0
<b>Total</b>	<b>129,661</b>		<b>486,873</b>

(1) Up to 429,873 shares may be issued in the form of restricted shares or units under the Company's Long-Term Incentive Plan of 2008.

---

**Table of Contents****Performance Graph**

Set forth below is a line graph comparing the cumulative total return of a hypothetical investment in the Company's common shares with the cumulative total return of hypothetical investments in the NASDAQ Composite Index and the Peer Group Index based on the respective market price of each investment at December 31, 2008, December 31, 2009, December 31, 2010, December 31, 2011, December 31, 2012, and December 31, 2013, assuming in each case an initial investment of \$100 on December 31, 2008, and reinvestment of dividends.

	2008	2009	2010	2011	2012	2013
PREFORMED LINE PRODUCTS CO	100.00	96.99	132.41	136.80	138.54	172.01
NASDAQ MARKET INDEX	100.00	144.88	170.58	171.30	199.99	283.39
PEER GROUP INDEX	100.00	176.27	214.67	181.14	175.86	260.03

**Table of Contents****Purchases of Equity Securities**

On August 4, 2010, the Company announced that the Board of Directors authorized a plan to repurchase up to 250,000 of Preformed Line Products common shares. The repurchase plan does not have an expiration date. The following table includes repurchases for the three month period ended December 31, 2013.

Period (2013)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may yet be Purchased under the Plans or Programs
October	2,500	\$ 70.20	169,768	80,232
November	44,200	\$ 78.89	213,968	36,032
December	0	0	213,968	36,032
Total	46,700			

**Item 6. Selected Financial Data**

	2013	2012	2011	2010	2009*
<i>(Thousands of dollars, except per share data)</i>					
<b>Net Sales and Income</b>					
Net sales	\$ 409,776	\$ 439,192	\$ 424,404	\$ 338,305	\$ 257,206
Operating income	31,148	44,122	45,354	28,480	19,460
Income before income taxes	31,794	44,827	45,994	30,183	29,593
Income from continuing operations, net of tax	20,587	29,286	30,984	23,008	22,833
Net income	20,587	29,286	30,984	23,008	22,833
Net loss attributable to noncontrolling interest, net of tax	0	0	0	(105)	(524)
Net income attributable to PLPC	20,587	29,286	30,984	23,113	23,357
<b>Per Share Amounts</b>					
Net income attributable to PLPC common shareholders - basic	\$ 3.84	\$ 5.50	\$ 5.89	\$ 4.41	\$ 4.46
Net income attributable to PLPC common shareholders - diluted	3.77	5.45	5.78	4.33	4.35
Dividends declared	0.60	1.00	0.80	0.80	0.80
PLPC Shareholders equity	46.81	44.83	39.91	37.44	32.58
<b>Other Financial Information</b>					
Current assets	\$ 185,734	\$ 194,101	\$ 205,490	\$ 167,342	\$ 138,440
Total assets	332,406	333,064	327,348	280,979	235,372
Current liabilities	52,215	58,243	61,833	56,558	46,340
Long-term debt (including current portion)	13,249	9,573	28,592	10,650	4,429
Capital leases	310	504	484	590	239

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

PLPC Shareholders equity	252,330	241,069	212,858	197,340	170,966
--------------------------	---------	---------	---------	---------	---------

- \* On December 18, 2009, the Company completed a business combination acquiring certain subsidiaries and other assets from Tyco Electronics. The 2009 results were impacted by a \$9.1 million gain, after taxes, on the acquisition, or \$1.74 per basic share and \$1.69 per diluted share.

**Table of Contents**

**Item 7. 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 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 audited consolidated financial statements and related notes included elsewhere in this report.

The MD&A is organized as follows:

Overview

Recent Developments

Market Overview

Preface

Results of Operations

Working Capital, Liquidity and Capital Resources

Critical Accounting Policies and Estimates

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 and mounting hardware for a variety of solar power applications. Our goal is to continue to achieve profitable growth as a leader in the 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 17 sales and manufacturing operations in 15 different countries.

We report our segments in four geographic regions: PLP-USA, 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 and telecommunications 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 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.

#### RECENT DEVELOPMENTS

On January 31, 2014, we acquired Helix Uniformed Limited (Helix), located in Montreal, Quebec, Canada. From an accounting perspective, the acquisition is not considered material. The acquisition of Helix will diversify our business in Canada, expand our manufacturing footprint and enhance our engineering capabilities locally.

## Table of Contents

In January and March 2012, we had two acquisitions. From an accounting perspective, both acquisitions were immaterial to the Company. On January 31, 2012, we acquired Australian Electricity Systems PTY Ltd (AES) in Australia. In March 2012, we purchased all of the assets of Forma Line Industries CC in South Africa. Both acquisitions expanded our product line offerings, manufacturing capacity and provided locations in close proximity to our customers in our EMEA and Asia-Pacific segments.

## MARKET OVERVIEW

Our business continues to be concentrated in the energy and communications markets. During the past several years, industry consolidation continued as distributors and service provider consolidations took place in our major markets. This trend is expected to continue in 2014. The sluggish global economy coupled with a depressed U.S. housing market have affected, and could continue to affect construction projects and negatively impact growth opportunities in our core markets in the U.S. and countries such as Spain, Poland and Great Britain where the financial situation is expected to be similar going forward.

In 2013, sales in the energy market declined due to a slowdown in the number and scale of transmission projects. Energy Distribution business was up in 2013 mainly due to increases in our core helical business around the world. We expect the energy market to be relatively flat in 2014 given continued uncertainty in global markets.

We believe that the acquisitions of Dulmison from Tyco Electronics in December 2009 and Electropar in July 2010 further contributed to our leadership position and have enabled us to enhance the scope of our product lines and the technology we provide to the Energy market. The spacer, spacer-damper and stockbridge damper product lines fit well and complement our product offerings and enable us to offer the most comprehensive line of products in the industry. We further strengthened our overall presence in the Asia-Pacific region with the acquisition of Electropar in Auckland, New Zealand. With demand for electrical power continuing to increase, especially in many fast growing areas of the world, we believe that our leadership position in the market will enable us to take advantage of prospects for continued growth as the transmission grid is enhanced and extended.

Our international business is more concentrated in the energy markets. Historically, our international sales were primarily related to the distribution portion of the energy market but have grown through acquisition and new product development to include a significant contribution from the transmission market. We believe that we are well positioned to supply the needs of the world's diverse energy market requirements as a result of our strategically located operations and array of product designs and technologies.

Our communication business in 2013 continued to face challenges throughout the world. Many communications customers continued with lower levels of capital and operational spending as the global economic uncertainty continued to negatively impact consumer spending on communication services. We continue to intensely focus on our customers and put resources towards new product development efforts. These efforts were directed at customer premise and demarcation applications which are the final connections between the network and the end consumer.

As economic conditions improve we believe our efforts in these areas will lead to growth in our communications business. Opportunities for growth also look promising internationally where deployment of fixed line telecommunications services and broadband penetration rates remain low as a percentage of the total population.

## 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 financial statements in the assessment of our performance and operating trends.

**Table of Contents**

Our financial statements are subject to fluctuations in the exchange rates of foreign currencies in relation to the U.S. dollar. As foreign currencies weakened against the U.S. dollar, our revenues and costs decrease as the foreign currency-denominated financial statements translate into less dollars. On average, foreign currencies weakened against the U.S. dollar in 2013. The fluctuations of foreign currencies during the year ended December 31, 2013 had an unfavorable impact on net sales of \$10.5 million as compared to 2012. The most significant currencies that contributed to this movement were the South African rand, the Brazilian real and the Australian dollar. On a reportable segment basis, the unfavorable impact of foreign currency on net sales and net income for the twelve month period ended December 31, 2013, was as follows:

<i>Thousands of dollars</i>	Foreign Currency Impact Year ended December 31	
	Net Sales	Net Income
The Americas	\$ (4,861)	\$ (210)
EMEA	(2,106)	(440)
Asia-Pacific	(3,531)	206
Total	\$ (10,498)	\$ (444)

Despite the current global economy, we believe our business fundamentals are sound and strategically well-positioned as we remain focused on managing costs, increasing sales volumes and delivering 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 5.7% and can borrow needed funds at an attractive interest rate under our credit facility.

The following table sets forth a summary of the Company's consolidated income statements and the percentage of net sales for the years ended December 31, 2013 and 2012. The Company's past operating results are not necessarily indicative of future operating results.

<i>Thousands of dollars</i>	Year Ended December 31				Change	%
	2013		2012			
Net sales	\$ 409,776	100.0%	\$ 439,192	100.0%	\$ (29,416)	(7)%
Cost of products sold	278,875	68.1%	294,754	67.1%	(15,879)	(5)
<b>GROSS PROFIT</b>	130,901	31.9%	144,438	32.9%	(13,537)	(9)
Costs and expenses	99,753	24.3%	100,316	22.8%	(563)	(1)
<b>OPERATING INCOME</b>	31,148	7.6%	44,122	10.0%	(12,974)	(29)
Other income (expense)	646	0.2%	705	0.2%	(59)	(8)
<b>INCOME BEFORE INCOME TAXES</b>	31,794	7.8%	44,827	10.2%	(13,033)	(29)
Income taxes	11,207	2.7%	15,541	3.5%	(4,334)	(28)
<b>NET INCOME</b>	\$ 20,587	5.0%	\$ 29,286	6.7%	\$ (8,699)	(30)%



**Table of Contents****2013 RESULTS OF OPERATIONS COMPARED TO 2012**

*Net Sales.* In 2013, net sales were \$409.8 million, a decrease of \$29.4 million, or 7%, compared to 2012. Excluding the effect of currency translation, net sales decreased \$18.9 million as summarized in the following table:

<i>thousands of dollars</i>	Year Ended December 31					
	2013	2012	Change	Change due to currency translation	Change excluding currency translation	% Change
Net sales						
PLP-USA	\$ 144,054	\$ 162,027	\$ (17,973)	\$ 0	\$ (17,973)	(11)%
The Americas	91,497	92,584	(1,087)	(4,861)	3,774	4
EMEA	61,543	66,272	(4,729)	(2,106)	(2,623)	(4)
Asia-Pacific	112,682	118,309	(5,627)	(3,531)	(2,096)	(2)
Consolidated	\$ 409,776	\$ 439,192	\$ (29,416)	\$ (10,498)	\$ (18,918)	(4)%

The decrease in PLP-USA net sales of \$18 million, or 11%, was due to a sales volume decrease of \$16.5 million and a sales mix/price decrease of \$1.4 million when compared to 2012. Of the sales volume decrease of \$16.5 million, \$10.3 million was due to the completion of projects in the transmission market in 2012. International net sales for the year ended December 31, 2013 were unfavorably affected by \$10.5 million when local currencies were converted to U.S. dollars. The following discussions of international net sales exclude the effect of currency translation. The Americas net sales of \$91.5 million increased \$3.8 million, or 4%, primarily due to an increase in energy sales of \$2.2 million coupled with higher solar sales of \$1.6 million. EMEA's net sales of \$61.5 million decreased \$2.6 million, or 4%, primarily due to significant energy transmission investment in the region in 2012 that did not repeat in 2013. The decrease in the energy transmission investments primarily related to the United Kingdom's government delays on the national grid. Asia-Pacific net sales of \$112.7 million decreased \$2.1 million, or 2%, compared to 2012. The decrease in net sales was primarily due to lower transmission projects in the region and sales volume decreases in data communication.

*Gross Profit.* Gross profit of \$130.9 million for 2013 decreased \$13.5 million, or 9%, compared to 2012. Excluding the unfavorable effect of currency translation, gross profit decreased \$10.8 million, or 7%, as summarized in the following table:

<i>thousands of dollars</i>	Year Ended December 31					
	2013	2012	Change	Change due to currency translation	Change excluding currency translation	% Change
Gross profit						
PLP-USA	\$ 55,969	\$ 58,814	\$ (2,845)	\$ 0	\$ (2,845)	(5)%
The Americas	24,815	27,772	(2,957)	(1,217)	(1,740)	(6)
EMEA	21,146	23,358	(2,212)	(911)	(1,301)	(6)

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

Asia-Pacific	28,971	34,494	(5,523)	(602)	(4,921)	(14)
Consolidated	\$ 130,901	\$ 144,438	\$ (13,537)	\$ (2,730)	\$ (10,807)	(7)%

PLP-USA gross profit of \$56 million decreased \$2.8 million compared to 2012. As a percentage of net sales, gross profit increased from 36.3% to 38.9% of net sales in 2013. Of PLP-USA's \$2.8 million decrease in gross profit, \$6.5 million was due to lower net sales partially offset by \$1.7 million of lower pension related expenses, a net decrease in warranty expense of \$.8 million, a decrease in the elimination of intercompany profit in ending inventory and lower consulting related expenses. International gross profit for the twelve month period ended December 31, 2013 was unfavorably affected by \$2.7 million when local currencies were translated to U.S.

**Table of Contents**

dollars. The following discussion of gross profit changes excludes the unfavorable effect of currency translation. The Americas gross profit decrease of \$1.7 million was primarily the result of higher material costs of \$4.3 million partially offset by \$1.2 million from higher net sales and lower production costs of \$1.4 million. The EMEA gross profit decrease of \$1.3 million was primarily the result of lower net sales with relatively unchanged product margins. Asia-Pacific gross profit decreased \$4.9 million as a result of lower sales, higher product costs in the region, with higher provisions for excess inventory due to changing market conditions.

*Costs and expenses.* Costs and expenses of \$99.8 million for the year ended December 31, 2013 decreased \$.6 million, or less than 1%, compared to 2012. Excluding the effect of currency translation, costs and expenses increased 2% as summarized in the following table:

<i>thousands of dollars</i>	Year Ended December 31					
	2013	2012	Change	Change due to currency translation	Change excluding currency translation	% Change
Costs and expenses						
PLP-USA	\$ 38,622	\$ 35,682	\$ 2,940	\$ 0	\$ 2,940	8%
The Americas	16,803	18,758	(1,955)	(876)	(1,079)	(6)
EMEA	13,325	14,092	(767)	(327)	(440)	(3)
Asia-Pacific	31,003	31,784	(781)	(932)	151	0
Consolidated	\$ 99,753	\$ 100,316	\$ (563)	\$ (2,135)	\$ 1,572	2%

PLP-USA costs and expenses increased \$2.9 million primarily due to higher net foreign currency exchange losses of \$2.6 million, a \$.4 million increase in intercompany debt forgiveness, a decrease in intercompany income of \$.3 million, and an increase in legal expenses of \$.5 million partially offset by lower commissions of \$.6 million, a decrease in travel of \$.2 million and lower consulting expense of \$.1 million. The foreign currency exchange losses are primarily related to translating foreign denominated loans, trade receivables and royalty receivables from our foreign subsidiaries at the quarter end exchange rates. International costs and expenses for the twelve month period ended December 31, 2013 were favorably affected by \$2.1 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 decreased \$1.1 million primarily due to a \$1.1 million VAT refund and related interest, inflation from an income tax refund at our Brazilian location, lower commissions of \$.1 million and lower employee related costs in the region partially offset by higher net foreign currency exchange losses of \$.3 million, higher intercompany related expenses of \$.2 million and \$.4 million due to higher costs related to geographic market expansion. EMEA costs and expenses decreased \$.4 million primarily due to higher net foreign currency exchange gains of \$.4 million, lower commission expense of \$.1 million and intercompany debt forgiveness in the fourth quarter of 2012 of \$1 million, partially offset by an increase in intercompany expenses of \$.1 million and higher employee related costs and expenses. Asia-Pacific costs and expenses increased \$.2 million primarily due to non-cash goodwill impairment charges of \$.9 million related to two entities in the Asia-Pacific region coupled with higher commission expense of \$.1 million, higher net foreign currency exchange losses of \$.7 million, \$1 million related to loan and intercompany interest forgiveness with our EMEA segment in 2012, a \$.7 million reduction in the fair value of an acquisition earn-out consideration payment in 2012, partially offset by lower intercompany related expenses of \$.2 million, a decrease in costs and expenses of \$1.2 million due to the consolidation of our AES acquisition in 2012 into our Australian location and lower personnel related costs.

*Other income (expense).* Other income for the twelve month period ended December 31, 2013 of \$.6 million decreased less than \$.1 million compared to 2012 primarily due to lower Other income of \$.2 million partially offset by lower net interest expense of \$.1 million.

*Income taxes.* Income taxes for the year ended December 31, 2013 and December 31, 2012 were \$11.2 million and \$15.5 million, respectively. The effective tax rate on net income was 35.3% and 34.7% in 2013 and 2012, respectively. The 2013 effective tax rate is higher than the 2012 effective tax rate primarily due to the Company's decision not to recognize the tax benefit attributable to operating losses in certain foreign jurisdictions.

**Table of Contents**

The 2013 effective tax rate is higher than the 35% U.S. federal statutory tax rate primarily due to the Company's decision not to recognize the tax benefit attributable to operating losses in certain foreign jurisdictions. The 2012 effective tax rate is lower than the 35% U.S. federal statutory tax rate primarily due to inclusion of earnings in jurisdictions with lower tax rates than the U.S. federal statutory rate in jurisdictions where such earnings are permanently reinvested.

*Net income.* As a result of the preceding items, net income for the twelve month period ended December 31, 2013 was \$20.6 million, compared to \$29.3 million for the twelve month period ended December 31, 2012. Excluding the effect of currency translation, net income decreased \$8.3 million as summarized in the following table:

<i>thousands of dollars</i>	Year Ended December 31					
	2013	2012	Change	Change due to currency translation	Change excluding currency translation	% Change
Net income						
PLP-USA	\$ 10,875	\$ 13,290	\$ (2,415)	\$ 0	\$ (2,415)	(18)%
The Americas	5,896	6,763	(867)	(210)	(657)	(10)
EMEA	6,047	6,840	(793)	(440)	(353)	(5)
Asia-Pacific	(2,231)	2,393	(4,624)	206	(4,830)	NM
Consolidated	\$ 20,587	\$ 29,286	\$ (8,699)	\$ (444)	\$ (8,255)	(28)%

**NM-Not Meaningful**

PLP-USA net income decreased \$2.4 million due to a \$5.8 million decrease in operating income partially offset by lower income taxes of \$3.3 million and an increase in other income of \$.1 million. International net income for the twelve month period ended December 31, 2013 was unfavorably affected by \$.4 million when local currencies were converted to U.S. dollars. The following discussion of net income excludes the effect of currency translation. The Americas net income decreased \$.7 million as a result of a decrease in operating income. EMEA net income decreased \$.4 million as a result of a \$.9 million decrease in operating income partially offset by lower taxes. Asia-Pacific net income decreased \$4.8 million as a result of a \$5.1 million decrease in operating income coupled with a decrease in other income of \$.1 million partially offset by lower taxes.

**2012 RESULTS OF OPERATIONS COMPARED TO 2011**

*Net Sales.* In 2012, net sales were \$439.2 million, an increase of \$14.8 million, or 3%, compared to 2011. Excluding the effect of currency translation, net sales increased \$28.9 million as summarized in the following table:

Year Ended December 31	
Change due to currency	Change excluding currency
	%

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

<i>thousands of dollars</i>	2012	2011	Change	translation	translation	Change
Net sales						
PLP-USA	\$ 162,027	\$ 146,146	\$ 15,881	\$ 0	\$ 15,881	11%
The Americas	92,584	100,144	(7,560)	(9,635)	2,075	2
EMEA	66,272	61,430	4,842	(4,977)	9,819	16
Asia-Pacific	118,309	116,684	1,625	516	1,109	1
Consolidated	\$ 439,192	\$ 424,404	\$ 14,788	\$ (14,096)	\$ 28,884	7%

**Table of Contents**

The increase in PLP-USA net sales of \$15.9 million, or 11%, was due to a sales volume increase of \$14 million and a sales mix and price increase of \$1.9 million when compared to 2011. The PLP-USA sales volume increase was primarily due to sales to the transmission market. International net sales for the year ended December 31, 2012 were unfavorably affected by \$14.1 million when local currencies were converted to U.S. dollars. The following discussions of international net sales exclude the effect of currency translation. The Americas net sales of \$92.6 million increased \$2.1 million, or 2%, primarily due to an increase in energy volume in the region of \$10.1 million partially offset by lower solar sales of \$8 million. EMEA net sales of \$66.3 million increased \$9.8 million, or 16%, primarily due to an overall increase in sales volume in the region. In Asia-Pacific, net sales of \$118.3 million increased \$1.1 million, or 1%, compared to 2011. The increase in net sales was primarily due to \$10.5 million related to the acquisition of AES entered into on January 31, 2012, partially offset by lower organic sales volume of \$9.7 million partially due to government deferrals of constructing transmission lines in the region.

*Gross Profit.* Gross profit of \$144.4 million for 2012 increased \$3.6 million, or 3%, compared to 2011. Excluding the unfavorable effect of currency translation, gross profit increased \$8.1 million, or 6%, as summarized in the following table:

<i>thousands of dollars</i>	Year Ended December 31					
	2012	2011	Change	Change due to currency translation	Change excluding currency translation	% Change
Gross profit						
PLP-USA	\$ 58,814	\$ 52,826	\$ 5,988	\$ 0	\$ 5,988	11%
The Americas	27,772	30,495	(2,723)	(2,895)	172	1
EMEA	23,358	18,984	4,374	(1,653)	6,027	32
Asia-Pacific	34,494	38,544	(4,050)	62	(4,112)	(11)
Consolidated	\$ 144,438	\$ 140,849	\$ 3,589	\$ (4,486)	\$ 8,075	6%

PLP-USA gross profit of \$58.8 million increased \$6 million compared to 2011. As a percentage of net sales, gross profit increased from 36.1% of net sales in 2011 to 36.3% of net sales in 2012. PLP-USA's gross profit increased \$6 million primarily due to the increased net sales partially offset by \$1.4 million in higher manufacturing expenses primarily due to an increase in employee related costs of \$.9 million (of which \$.6 million related to an increase in pension expense), coupled with increases in consulting, repairs and maintenance, freight and shipping expenses. International gross profit for the twelve month period ended December 31, 2012 was unfavorably affected by \$4.5 million when local currencies were translated to U.S. dollars. The following discussion of gross profit changes excludes the unfavorable effect of currency translation. The Americas gross profit increase of \$.2 million was primarily the result of \$1.9 million from higher net sales partially offset by lower product margin in the region. The EMEA gross profit increase of \$6 million was primarily a result of \$3.8 million from higher net sales coupled with higher product margins of \$2.2 million in the region. Of the \$2.2 million increase in product margins, \$1.8 million was due to product warranty expenses in the second quarter of 2011. During the second quarter of 2011, we accepted certified product from a supplier which later failed in the field. We took responsibility to expedite correcting the situation. Asia-Pacific gross profit of \$34.5 million decreased \$4.1 million compared to 2011 due to \$2.8 million from lower net sales coupled with \$2.3 million due to lower product margins, offset by \$1 million of gross profit related to the acquisition entered into on January 31, 2012.

*Costs and expenses.* Costs and expenses of \$100.3 million for the year ended December 31, 2012 increased \$4.8 million, or 5%, compared to 2011. Excluding the effect of currency translation, costs and expenses increased 8% as summarized in the following table:

**Table of Contents**

<i>thousands of dollars</i>	Year Ended December 31					
	2012	2011	Change	Change due to currency translation	Change excluding currency translation	% Change
<b>Costs and expenses</b>						
PLP-USA	\$ 35,682	\$ 35,864	\$ (182)	\$ 0	\$ (182)	(1)%
The Americas	18,758	18,574	184	(1,856)	2,040	11
EMEA	14,092	12,100	1,992	(977)	2,969	25
Asia-Pacific	31,784	28,957	2,827	133	2,694	9
Consolidated	\$ 100,316	\$ 95,495	\$ 4,821	\$ (2,700)	\$ 7,521	8%

PLP-USA costs and expenses decreased \$.2 million primarily due to a favorable change in net currency exchange related to intercompany receivables and loans of \$.5 million coupled with an increase in intercompany income of \$.8 million, lower information system implementation and consulting expenses of \$2 million and \$.6 million related to lower acquisition related costs. Partially offsetting these decreases in PLP-USA's costs and expenses were higher employee related costs of \$2.5 million, an increase in commissions of \$.8 million, \$.2 million related to an increase in repairs and maintenance, and advertising, travel and professional related costs each increased \$.1 million. International costs and expenses for the twelve month period ended December 31, 2012 were favorably affected by \$2.7 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 increased \$2 million primarily due to an increase in personnel related costs in the region, higher intercompany related expenses of \$.5 million, and an increase of \$.5 million due to our investments in PLP-Argentina which began in June 2012. The increase in the Americas costs and expenses were partially offset by lower commissions of \$.3 million in the region coupled with lower net foreign currency exchange losses of \$.4 million. EMEA costs and expenses increased \$3 million primarily due to an increase in personnel related costs coupled with higher intercompany related expenses of \$.7 million and \$.3 million due to an immaterial acquisition entered into on March 1, 2012 partially offset by \$.2 million related to a change in net foreign currency exchange gains in 2012. Of the remaining increase in EMEA's costs and expenses, \$1 million was related to intercompany loan and interest forgiveness with our Asia-Pacific reporting segment. Asia-Pacific costs and expenses increased \$2.7 million compared to 2011. This increase is due the acquisition on January 31, 2012 which added \$2.8 million to cost and expenses compared to 2011, higher personnel related costs and higher ERP system implementation costs in the region. The increase in Asia-Pacific's costs and expenses was partially offset by \$1 million related to loan and intercompany interest forgiveness with our EMEA segment, lower commissions of \$.2 million and a \$.7 million reduction in the fair value of an acquisition earn-out consideration payment.

*Other income (expense).* Other income for the twelve month period ended December 31, 2012 of \$.7 million increased \$.1 million compared to 2011 primarily due to an increase in interest income of \$.1 million coupled with lower net interest expense of \$.2 million partially offset by a decrease in income related to PLP-USA's gas well revenue at our corporate headquarters of \$.2 million.

*Income taxes.* Income taxes for the year ended December 31, 2012 and December 31, 2011 were \$15.5 million and \$15 million, respectively. The effective tax rate on net income was 34.7% and 32.6% in 2012 and 2011, respectively. The 2012 effective tax rate is higher than the 2011 effective tax rate primarily due to net increased earnings in the U.S. at the federal statutory rate of 35% and the expiration of business tax provisions in 2012, including the research and experimentation credit, the Subpart F controlled foreign corporation look-through exception, among others. The 2012 effective tax rate is lower than the 35% U.S. federal statutory tax rate primarily due to inclusion of earnings in jurisdictions with lower tax rates than the U.S. federal statutory rate in jurisdictions where such earnings are

permanently reinvested. The 2011 effective tax rate is lower than the U.S. federal 35% statutory tax rate primarily due to earnings in jurisdictions with lower tax rates than the U.S. federal statutory rate in jurisdictions where such earnings are permanently reinvested.

**Table of Contents**

The American Taxpayer Relief Act of 2012 (the Act) was signed into law on January 2, 2013. The Act retroactively restored several expired business tax provisions, primarily the research and experimentation credit and the Subpart F controlled foreign corporation look-through exception. Because a change in tax law is accounted for in the period of enactment, the retroactive effect of the Act on the Company's U.S. federal taxes for 2012 of a benefit of approximately \$.3 million will be recognized in 2013.

*Net income.* As a result of the preceding items, net income for the twelve month period ended December 31, 2012 was \$29.3 million, compared to \$31 million for the twelve month period ended December 31, 2011. Excluding the effect of currency translation, net income decreased \$.4 million as summarized in the following table:

<i>thousands of dollars</i>	Year Ended December 31					
	2012	2011	Change	Change due to currency translation	Change excluding currency translation	% Change
Net income						
PLP-USA	\$ 13,290	\$ 10,413	\$ 2,877	\$ 0	\$ 2,877	28%
The Americas	6,763	8,159	(1,396)	(705)	(691)	(8)
EMEA	6,840	5,519	1,321	(521)	1,842	33
Asia-Pacific	2,393	6,893	(4,500)	(36)	(4,464)	(65)
Consolidated	\$ 29,286	\$ 30,984	\$ (1,698)	\$ (1,262)	\$ (436)	(1)%

PLP-USA net income increased \$2.9 million due to a \$6.2 million increase in operating income partially offset by a decrease in other income of \$.4 million coupled with an increase in income taxes of \$2.9 million. International net income for the twelve month period ended December 31, 2012 was unfavorably affected by \$1.3 million when local currencies were converted to U.S. dollars. The following discussion of net income excludes the effect of currency translation. The Americas net income decreased \$.7 million as a result of a decrease in operating income of \$1.8 million partially offset by an increase in other income of \$.4 million and lower taxes of \$.8 million. EMEA net income increased \$1.8 million primarily due to a \$3.1 million increase in operating income coupled with a \$.1 million increase in other income partially offset by an increase in income taxes of \$1.3 million. Asia-Pacific net income decreased \$4.5 million primarily due to a decrease in operating income of \$6.8 million partially offset by lower income taxes of \$2.3 million.

**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, 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. In 2013, we used cash of \$21 million for capital expenditures. We ended the fourth quarter of 2013 with \$24.3 million of cash and cash equivalents. We have adequate sources of liquidity including a borrowing

capacity of \$37.4 million and believe we have the ability to generate cash to meet existing or reasonably likely future cash requirements. Our cash and cash equivalents are held in various locations throughout the world. At December 31, 2013, the majority of our cash and cash equivalents are held outside the U.S. We expect 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.

---

**Table of Contents**

Our financial position remains strong and our current ratio at December 31, 2013 and 2012 was 3.6 to 1 and 3.3 to 1, respectively. At December 31, 2013, our unused availability under our line of credit was \$37.4 million and our bank debt to equity percentage was 5.7%. On October 16, 2013, we decreased our borrowing capacity under our credit facility from \$90 million to \$50 million and on January 23, 2014 we extended the term to January 2017. All other terms, including the interest rate at LIBOR plus 1.125%, remain the same. The line of credit agreement contains, among other provisions, requirements for maintaining levels of working capital, net worth and profitability. At December 31, 2013 and throughout the year, we were in compliance with these covenants.

We expect that our major source of funding for 2013 and beyond will be our operating cash flows, our existing cash and cash equivalents as well as our line of credit agreement. We believe our future operating cash flows will be more than sufficient to cover debt repayments, other contractual obligations, capital expenditures and dividends. In addition, we believe our borrowing capacity provides substantial financial resources if needed to supplement funding of capital expenditures and/or acquisitions. 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.

We earn a significant amount of our operating income outside the United States, which, except for current earnings, is deemed to be indefinitely reinvested in foreign jurisdictions. We currently do not intend nor foresee a need to repatriate these funds. We expect domestic cash generated from operations to be sufficient to fund our domestic operating activities and cash commitments for investing and financing activities, such as regular quarterly dividends, debt repayment, and capital expenditures, for at least the next 12 months and thereafter for the foreseeable future.

*Sources and Uses of Cash*

Cash decreased \$3.8 million for the year ended December 31, 2013. Net cash provided by operating activities was \$21.5 million. The major investing and financing uses of cash were capital expenditures of \$21 million, dividends of \$2.3 million and common share repurchases of \$6.9 million.

Net cash provided by operating activities decreased \$32.2 million compared to 2012 primarily as a result of a decrease in net income of \$8.7 million, an increase in operating assets (net of operating liabilities) of \$26.7 million partially offset by an increase in non-cash items of \$3.2 million.

Net cash used in investing activities of \$24.1 million represents a decrease of \$.1 million when compared to cash used in investing activities in 2012. The decrease was primarily related to business acquisition payments of \$5.2 million in 2012 partially offset by a \$1.4 million decrease in proceeds from the sale of property and equipment in the twelve month period ended December 31, 2013 when compared to the same period in 2012 and an increase in 2013 of \$3.6 million due to restricted cash and long-term term deposits. In January 2012, we purchased AES in Australia for \$4.3 million, net of cash received and working capital adjustments. In March 2012, we purchased all of the assets of Forma Line Industries CC in South Africa for \$.9 million, net of cash received and working capital adjustments. Capital expenditures were \$21 million in 2013, of which \$10.2 million related to the expansion of our worldwide corporate headquarters and \$1.9 million in machinery and equipment at our PLP-USA segment. The remainder of the expenditures was primarily due to the purchase of machinery and equipment in the EMEA, The Americas and Asia-Pacific segment and also a building in the EMEA segment.

Cash used by financing activities was \$3.2 million compared to \$30.4 million in 2012. This decrease in cash used by financing activities was primarily a result of net debt borrowings of \$4.7 million in 2013 compared to net debt repayments of \$20.7 million in 2012. Additionally, dividends paid decreased \$4.2 million, earn-out payments decreased \$.6 million and proceeds from the issuance of common shares increased \$1 million partially offset by \$4.2 million more of common shares repurchased during 2013. In December 2012, we advanced our first and second

quarter expected dividend payments (which would have been payable in January and April 2013) due to the uncertainty of the U.S. tax laws.

We have commitments under operating leases primarily for office and manufacturing space, transportation equipment, office and computer equipment and capital leases primarily for equipment. One such lease is for our aircraft with a lease commitment through December 2014. Under the terms of the lease, we maintain the risk to

**Table of Contents**

make up a deficiency from market value attributable to damage, extraordinary wear and tear, excess air hours or exceeding maintenance overhaul schedules required by the Federal Aviation Administration. At the present time, we believe our risks, if any, to be small because the estimated market value of the aircraft approximates its residual value.

Contractual obligations and other commercial commitments are summarized in the following tables:

Contractual Obligations <i>Thousands of dollars</i>	Total	Payments Due by Period			
		Less than 1 year	1-3 years	4-5 years	After 5 years
Notes payable to bank (A)	\$ 1,105	\$ 1,105	\$ 0	\$ 0	\$ 0
Long-term debt (B)	13,249	195	13,054	0	0
Capital leases	345	145	130	35	0
Operating leases	18,066	2,552	3,242	2,365	9,907
Purchase commitments	3,713	3,713	0	0	0
Pension contribution and other retirement plans (C)	694	694	0	0	0
Income taxes payable, non-current (D)	0	0	0	0	0

Other Commercial Commitments <i>Thousands of dollars</i>	Total	Amount of Commitment Expiration by Period			
		Less than 1 year	1-3 years	4-5 years	After 5 years
Letters of credit	\$ 4,724	\$ 2,739	\$ 1,918	\$ 67	\$ 0
Guarantees	1,957	1,942	0	15	0

- (A) Interest on short-term debt is included in the table at interest rates of 3.25% to 3.6% in effect at December 31, 2013.
- (B) Interest on long-term debt is included in the table at interest rates from 1.29% to 8.12% based on the variable interest rates in effect at December 31, 2013.
- (C) Amount represents the expected contribution to the Company's defined benefit pension plan in 2014. Future expected amounts beyond one year have not been disclosed as such amounts are subject to change based on performance of the assets in the plan as well as the discount rate used to determine the obligation. At December 31, 2013, our unfunded contractual obligation was \$5 million. Our Supplemental Profit Sharing Plan accrued liability at December 31, 2013 was \$3 million.
- (D) As of December 31, 2013, there were \$1.6 million of tax liabilities, including interest and penalties, related to unrecognized tax benefits. Because of the high degree of uncertainty regarding the timing of future cash outflows associated with these liabilities, if any, we are unable to estimate the years in which cash settlement may occur with the respective tax authorities.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our discussion and analysis of our financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses and related disclosure of contingent assets and liabilities at the date of the

consolidated financial statements. Actual results may differ from these estimates under different assumptions or conditions.

## **Table of Contents**

Critical accounting policies are defined as those that are reflective of significant judgment and uncertainties, and potentially may result in materially different outcomes under different assumptions and conditions.

### Revenue Recognition

Our revenue recognition policies are in accordance with FASB ASC 605, Revenue Recognition. We recognize sales when title passes to the customer either when goods are shipped or when they are delivered and based on the terms of the sale, there is persuasive evidence of an agreement, the price is fixed or determinable and collectability is reasonably assured. Revenue related to shipping and handling costs billed-to customers are included in net sales and the related shipping and handling costs are included in Cost of products sold.

### Receivable Allowances

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We record estimated allowances for uncollectible accounts receivable based upon the number of days the accounts are past due, the current business environment, and specific information such as bankruptcy or liquidity issues of customers. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. During 2013, we recorded a provision for doubtful accounts of \$.4 million. The allowance for doubtful accounts represents approximately 3% of our trade receivables at December 31, 2013 and 2% of our trade receivables at December 31, 2012.

### Excess and Obsolescence Reserves

We provide excess and obsolescence reserves to state inventories at the lower of cost or estimated market value. We identify inventory items which have had no usage or are in excess of the usages over the historical 12 to 24 months. A management team with representatives from marketing, manufacturing, engineering and finance reviews these inventory items, determines the disposition of the inventory and assesses the estimated market value based on their knowledge of the product and market conditions. These conditions include, among other things, future demand for product, product utility, unique customer order patterns or unique raw material purchase patterns, changes in customer and quality issues. At December 31, 2013 the allowance for excess and obsolete inventory was 9% of gross inventory and at December 31, 2012, the allowance for excess and obsolete inventory was 7% of gross inventory. If the impact of market conditions deteriorates from those projected by management, additional inventory reserves may be necessary.

### Impairment of Long-Lived Assets

We record impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the discounted cash flows estimated to be generated by those assets are less than the carrying value of those items. Our cash flows are based on historical results adjusted to reflect the best estimate of future market and operating conditions. The net carrying value of assets not recoverable is then reduced to fair value. The estimates of fair value represent the best estimate based on industry trends and reference to market rates and transactions.

### Goodwill

We perform our 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. We then compare 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 changed. However, we believe that the methodologies and weightings used are reasonable and result in appropriate fair values of the reporting units.

Our measurement date for our annual impairment test is October 1 of each year. We performed our annual impairment tests for goodwill as of October 1, 2013. We recorded impairment for goodwill for the year ended December 31, 2013 for \$.9 million. We did not have any impairment for goodwill or other intangibles for the year ended December 31, 2012. See Note J for additional information.

---

**Table of Contents****Deferred Tax Assets**

Deferred taxes are recognized at currently enacted tax rates for temporary differences between the financial reporting and income tax bases of assets and liabilities and operating loss and tax credit carryforwards. We establish a valuation allowance to record our deferred tax assets at an amount that is more likely than not to be realized. In the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of their recorded amount, an adjustment to the valuation allowance would increase income in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the valuation allowance would be charged to expense in the period such determination was made.

**Uncertain Tax Positions**

We identify tax positions taken on the federal, state, local and foreign income tax returns filed or to be filed. A tax position can include: a reduction in taxable income reported in a previously filed tax return or expected to be reported on a future tax return that impacts the measurement of current or deferred income tax assets or liabilities in the period being reported; a decision not to file a tax return; an allocation or a shift of income between jurisdictions; the characterization of income or a decision to exclude reporting taxable income in a tax return; or a decision to classify a transaction, entity or other position in a tax return as tax exempt. We determine whether a tax position is an uncertain or a routine business transaction tax position that is more-likely-than-not to be sustained at the full amount upon examination.

Under FASB ASC 740 (formerly FIN 48), tax benefits from uncertain tax positions that reduce our current or future income tax liability, are reported in our financial statements only to the extent that each benefit was recognized and measured under a two-step approach. The first step requires us to assess whether each tax position based on its technical merits and facts and circumstances as of the reporting date, is more-likely-than-not to be sustained upon examination. The second step measures the amount of tax benefit that we recognize in the financial statements, based on a cumulative probability approach. A tax position that meets the more-likely-than-not threshold that is not highly certain is measured based on the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement with the tax authority, assuming that the tax authority has examined the position and has full knowledge of all relevant information.

ASC 740 requires subjectivity of judgments to identify outcomes and to assign probability in order to estimate the settlement amount. We provide estimates in order to determine settlement amounts. During the year ended December 31, 2013, we recognized a benefit of \$.7 million for uncertain tax positions. At December 31, 2013, the total reserve for uncertain tax positions is \$.6 million.

**Pensions**

We record obligations and expenses related to pension benefit plans based on actuarial valuations, which include key assumptions on discount rates, expected returns on plan assets and compensation increases. These actuarial assumptions are reviewed annually and modified as appropriate. The effect of modifications is generally recorded or amortized over future periods. The discount rate of 5.0% at December 31, 2013 reflects an analysis of yield curves as of the end of the year and the schedule of expected cash needs of the plan. The expected long-term return on plan assets of 8.0% reflects the plan's historical returns and represents our best estimate of the likely future returns on the plan's asset mix. We believe the assumptions used in recording obligations under the plans are reasonable based on prior experience, market conditions and the advice of plan actuaries. However, an increase in the discount rate would decrease the plan obligations and the net periodic benefit cost, while a decrease in the discount rate would increase the

plan obligations and the net periodic benefit cost. In addition, an increase in the expected long-term return on plan assets would decrease the net periodic pension cost, while a decrease in expected long-term return on plan assets would increase the net periodic pension cost.

## Table of Contents

On December 12, 2012, we approved a freeze on further benefit accruals under the PLP-USA hourly employee pension plan and notified the participants of the freeze on December 19, 2012. Beginning February 1, 2013, participants ceased earning additional benefits under the plan and no new participants enter the plan. The plan freeze required an evaluation of the plans' assets and obligations as of December 31, 2012, which resulted in a non-cash curtailment gain of \$6.3 million, which was recognized in the Other comprehensive income (loss) during the fourth quarter 2012. The measurement of the plans' assets and obligations also resulted in a reduction in our pension liability of \$6.3 million. The evaluation did not have an effect on other components of net periodic pension expense for the year ended December 31, 2012.

## RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same period. For other amounts, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. We adopted this guidance in the first quarter of 2013. As these amendments relate to presentation only, the provisions of ASU 2012-04 did not have an effect on our results of operations, financial condition, and cash flows.

In July 2013, the FASB issued ASU 2013-11, Presentation of Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, an amendment to FASB ASC Topic 740, Income Taxes (ASC 740). This update clarifies that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. In situations where a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. Retrospective application was permitted. The adoption of ASU 2013-11 did not have any impact on our financial position, results of operations, cash flows or disclosures.

## NEW ACCOUNTING STANDARDS TO BE ADOPTED

Changes to GAAP are established by the FASB in the form of ASUs to the FASB's ASC.

In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. ASU 2013-05 clarifies the applicable guidance for the release of the cumulative translation adjustment under current U.S. GAAP by emphasizing that the accounting for the release of the cumulative translation adjustment into net income for sales or transfers of a controlling financial interest within a foreign entity is the same irrespective of whether the sale or transfer is of a subsidiary or a group of assets that is a nonprofit activity or business. When a reporting entity ceases to have a controlling financial interest in a subsidiary or

group of assets that is a nonprofit activity or a business within a foreign entity, the parent is required to apply the guidance in Subtopic 830-30 to release any related cumulative translation adjustment into net income. The amendments are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. We are currently evaluating the impact of the adoption of ASU 2013-05 on our financial statements.

**Table of Contents**

**Item 7A. 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 stability of the countries in which the Company's largest international operations are located.

As of December 31, 2013, the Company had no foreign currency forward exchange contract outstanding. The Company does not hold derivatives for trading purposes.

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 \$14.4 million at December 31, 2013. A 100 basis point increase in the interest rate would have resulted in an increase in interest expense of approximately \$.1 million for the year ended December 31, 2013.

The Company's primary currency rate exposures are related to foreign denominated debt, intercompany debt, forward exchange contracts, foreign denominated receivables and cash and short-term investments. A hypothetical 10% change in currency rates would have a favorable/unfavorable impact on net fair values of \$5.5 million and on income before tax of \$2.3 million.

Included in our accounting for defined benefit pension plan are assumptions on future discount rates and the expected return on Plan assets. The Company considers current market conditions, including changes in interest rates and plan asset investment returns, as well as long-term assumptions in determining these assumptions. Actuarial assumptions may differ materially from actual results due to changing market and economic conditions or higher or lower withdrawal rates. These differences may result in a significant impact to the amount of net pension expense or income recorded in the future.

A discount rate is used to determine the present value of future payments. In general, our liability increases as the discount rate decreases and decreases as the discount rate increases. The discount rate used to determine our future benefit obligation was 5.0% and 4.0% at December 31, 2013 and 2012, respectively. The discount rate is a significant factor in determining the amounts reported. A 50 basis point change in the discount rate of 5.0% used at December 31, 2013 would have a \$2.5 million effect on Plan's projected benefit obligation.

The Company developed the expected return on plan assets by considering various factors which include targeted asset allocation percentages, historical returns, and expected future returns. The Company assumed an expected rate of return of 8.0% in both 2013 and 2012. A 50 basis point change in the expected rate of return would have \$.1 million effect on the Plan's subsequent year's net periodic pension cost.

**Table of Contents**

**Item 8. Financial Statements and Supplementary Data**

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

of Preformed Line Products Company

We have audited the accompanying consolidated balance sheets of Preformed Line Products Company as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income (loss), cash flows, and shareholders' equity for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Preformed Line Products Company at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Preformed Line Products Company's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated March 14, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio

March 14, 2014

Table of Contents**PREFORMED LINE PRODUCTS COMPANY****CONSOLIDATED BALANCE SHEETS**

	December 31	
	2013	2012
	<i>(Thousands of dollars, except share and per share data)</i>	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 24,291	\$ 28,120
Accounts receivable, less allowances of \$2,136 (\$2,039 in 2012)	67,587	61,695
Inventories - net	73,835	86,916
Deferred income taxes	7,022	6,557
Prepays	6,112	5,652
Prepaid taxes	3,733	2,729
Other current assets	3,154	2,432
<b>TOTAL CURRENT ASSETS</b>	<b>185,734</b>	<b>194,101</b>
Property, plant and equipment - net	100,461	93,326
Patents and other intangibles - net	11,787	14,038
Goodwill	13,873	15,537
Deferred income taxes	3,416	6,069
Other assets	17,135	9,993
<b>TOTAL ASSETS</b>	<b>\$ 332,406</b>	<b>\$ 333,064</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Notes payable to banks	\$ 1,105	\$ 217
Current portion of long-term debt	195	251
Trade accounts payable	21,750	21,822
Accrued compensation and amounts withheld from employees	10,787	12,271
Accrued expenses and other liabilities	11,118	11,967
Accrued profit-sharing and other benefits	5,086	5,387
Dividends payable	1,098	0
Income taxes payable and deferred income taxes	1,076	6,328
<b>TOTAL CURRENT LIABILITIES</b>	<b>52,215</b>	<b>58,243</b>
Long-term debt, less current portion	13,054	9,322
Unfunded pension obligation	5,027	13,184
Income taxes payable	1,556	2,304
Deferred income taxes	3,621	4,485
Other noncurrent liabilities	4,603	4,457
<b>SHAREHOLDERS EQUITY</b>		
PLPC Shareholders equity:		
Common shares - \$2 par value per share, 15,000,000 shares authorized, 5,391,074 and 5,377,937 issued and outstanding, net of 779,279 and 689,472 treasury shares at par,	10,782	10,756

respectively, at December 31, 2013 and December 31, 2012

Common shares issued to rabbi trust, 253,156 and 184,036 shares at December 31, 2013 and December 31, 2012	(9,306)	(6,522)
Deferred compensation liability	9,306	6,522
Paid in capital	21,082	16,355
Retained earnings	238,168	227,622
Accumulated other comprehensive loss	(17,702)	(13,664)
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>252,330</b>	<b>241,069</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 332,406</b>	<b>\$ 333,064</b>

*See notes to consolidated financial statements.*

Table of Contents

**PREFORMED LINE PRODUCTS COMPANY**  
**STATEMENTS OF CONSOLIDATED INCOME**

	Year ended December 31		
	2013	2012	2011
	<i>(In thousands, except per share data)</i>		
Net sales	\$ 409,776	\$ 439,192	\$ 424,404
Cost of products sold	278,875	294,754	283,555
<b>GROSS PROFIT</b>	<b>130,901</b>	<b>144,438</b>	<b>140,849</b>
Costs and expenses			
Selling	35,704	37,093	35,825
General and administrative	44,557	46,222	44,396
Research and engineering	14,708	15,447	13,360
Other operating (income) expenses - net	3,922	1,554	1,914
Goodwill impairment	862	0	0
	99,753	100,316	95,495
<b>OPERATING INCOME</b>	<b>31,148</b>	<b>44,122</b>	<b>45,354</b>
Other income (expense)			
Interest income	618	648	575
Interest expense	(450)	(597)	(827)
Other income	478	654	892
	646	705	640
<b>INCOME BEFORE INCOME TAXES</b>	<b>31,794</b>	<b>44,827</b>	<b>45,994</b>
Income taxes	11,207	15,541	15,010
<b>NET INCOME</b>	<b>\$ 20,587</b>	<b>\$ 29,286</b>	<b>\$ 30,984</b>
<b>BASIC EARNINGS PER SHARE</b>			
Net income	\$ 3.84	\$ 5.50	\$ 5.89
<b>DILUTED EARNINGS PER SHARE</b>			
Net income	\$ 3.77	\$ 5.45	\$ 5.78
Cash dividends declared per share	\$ 0.60	\$ 1.00	\$ 0.80
Weighted-average number of shares outstanding - basic	5,361	5,324	5,259
Weighted-average number of shares outstanding - diluted	5,467	5,371	5,358

See notes to consolidated financial statements.



Table of Contents

## PREFORMED LINE PRODUCTS COMPANY

## STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)

	Year ended December 31		
	2013	2012	2011
	<i>Thousands of dollars</i>		
Net income	\$ 20,587	\$ 29,286	\$ 30,984
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	(8,457)	1,680	(7,460)
Recognized net actuarial loss	306	466	256
Gain (loss) on unfunded pension obligations	4,113	(2,670)	(3,825)
Gain on pension curtailment	0	3,899	0
Other comprehensive income (loss), net of tax	(4,038)	3,375	(11,029)
Less: Other comprehensive income, net of tax attributable to noncontrolling interest	0	19	(50)
Comprehensive income	\$ 16,549	\$ 32,680	\$ 19,905

*See notes to consolidated financial statements.*

Table of Contents**PREFORMED LINE PRODUCTS COMPANY****STATEMENTS OF CONSOLIDATED CASH FLOWS**

	Year ended December 31		
	2013	2012	2011
	<i>(Thousands of dollars)</i>		
<b>OPERATING ACTIVITIES</b>			
Net income	\$ 20,587	\$ 29,286	\$ 30,984
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization	12,088	11,564	10,525
Provision for accounts receivable allowances	837	1,416	1,292
Provision for inventory reserves	2,672	1,981	1,480
Deferred income taxes	(1,105)	(2,927)	(688)
Share-based compensation expense	3,057	3,080	2,933
Excess tax benefits from share-based awards	(357)	(197)	(203)
Goodwill impairment	862	0	0
Net investment in life insurance	10	(3)	(28)
Other - net	(56)	(137)	73
Changes in operating assets and liabilities:			
Accounts receivable	(10,273)	5,047	(16,061)
Inventories	3,040	1,290	(21,197)
Trade accounts payables and accrued liabilities	(3,906)	(3,196)	8,574
Income taxes payable	(4,670)	3,381	(815)
Other - net	(1,247)	(200)	180
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>18,223</b>	<b>50,385</b>	<b>17,049</b>
<b>INVESTING ACTIVITIES</b>			
Capital expenditures	(21,034)	(21,043)	(18,912)
Business acquisitions, net of cash acquired	0	(5,173)	0
Proceeds from the sale of property and equipment	532	1,965	464
Restricted cash and long-term term deposits	(3,642)	0	(328)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(24,144)</b>	<b>(24,251)</b>	<b>(18,776)</b>
<b>FINANCING ACTIVITIES</b>			
Increase (decrease) in notes payable to banks	922	(1,734)	1,015
Proceeds from the issuance of long-term debt	73,638	70,058	79,110
Payments of long-term debt	(69,884)	(89,060)	(61,065)
Dividends paid	(2,305)	(6,492)	(4,381)
Excess tax benefits from share-based awards	357	197	203
Earn-out consideration payment	(513)	(1,148)	0
Proceeds from issuance of common shares	1,519	549	1,064
Purchase of common shares for treasury	(2,881)	(333)	(623)
Purchase of common shares for treasury from related parties	(4,030)	(2,457)	(2,899)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>(3,177)</b>	<b>(30,420)</b>	<b>12,424</b>

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

Effects of exchange rate changes on cash and cash equivalents	1,953	280	(1,226)
Net increase (decrease) in cash and cash equivalents	(3,829)	(4,006)	9,471
Cash and cash equivalents at beginning of year	28,120	32,126	22,655
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 24,291</b>	<b>\$ 28,120</b>	<b>\$ 32,126</b>

*See notes to consolidated financial statements.*

Table of Contents

**PREFORMED LINE PRODUCTS COMPANY**  
**STATEMENTS OF CONSOLIDATED SHAREHOLDERS EQUITY**

	Common Shares Issued to	Deferred Compensation Liability	Paid in Capital	Retained Earnings	Accumulated Comprehensive Income (Loss)	Unrecognized Cumulative Translation Adjustment	Pension Benefit Cost	Non- controlling interests	Total
Common Shares	Rabbi Trust	Liability	Capital	Earnings	(Loss)	Adjustment	Cost	interests	Total
<i>(In thousands, except share and per share data)</i>									
Balance at January 1, 2011	\$ 10,542	\$ (1,200)	\$ 1,200	\$ 8,748	\$ 184,060	\$ (1,560)	\$ (4,450)	\$ (675)	\$ 196,665
Net income				30,984				0	30,984
Acquisition of noncontrolling interest				(725)				725	0
Foreign currency translation adjustment					(7,460)			(50)	(7,510)
Recognized net actuarial loss net of tax provision of \$156							256		256
Loss on unfunded pension obligations net of tax benefit of \$2,331							(3,825)		(3,825)
Total comprehensive income									19,905
Share-based compensation			2,933	(182)					2,751
Excess tax benefits from share based awards			203						203
Purchase of 52,392 common shares	(105)				(3,417)				(3,522)

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

Issuance of 26,353 common shares	53			1,011					1,064
Restricted shares awards of 88,692	177			(177)					0
Common shares issued to rabbi trust of 85,735		(2,612)	2,612						0
Cash dividends declared - \$.80 per share						(4,208)			(4,208)
Balance at December 31, 2011	10,667	(3,812)	3,812	12,718	206,512	(9,020)	(8,019)	0	212,858
Net income					29,286				29,286
Acquisition of noncontrolling interest					19				19
Foreign currency translation adjustment						1,680			1,680
Recognized net actuarial loss net of tax provision of \$284							466		466
Loss on unfunded pension obligations net of tax benefit of \$1,627							(2,670)		(2,670)
Gain on pension curtailment net of tax provision of \$2,376							3,899		3,899
Total comprehensive income									32,680
Share-based compensation				3,080	(189)				2,891
Excess tax benefits from share based awards				197					197
Purchase of 50,334 common shares	(101)					(2,689)			(2,790)

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

Issuance of 20,365 common shares	41			509					550
Restricted shares awards of 74,276	149			(149)					0
Common shares issued to rabbi trust of 74,996		(2,710)	2,710						0
Cash dividends declared - \$1.00 per share						(5,317)			(5,317)
Balance at December 31, 2012	10,756	(6,522)	6,522	16,355	227,622	(7,340)	(6,324)	0	241,069
Net income					20,587				20,587
Foreign currency translation adjustment						(8,457)			(8,457)
Recognized net actuarial loss net of tax provision of \$187							306		306
Gain on unfunded pension obligations net of tax provision of \$2,506							4,113		4,113
Total comprehensive income									16,549
Share-based compensation				3,057	(100)				2,957
Excess tax benefits from share based awards				357					357
Purchase of 89,807 common shares	(180)					(6,731)			(6,911)
Issuance of 34,575 common shares	69			1,450					1,519
Restricted shares awards of 68,369	137			(137)					0
		(2,784)	2,784						0

Common shares issued to rabbi trust of 69,120										
Cash dividends declared - \$.60 per share						(3,210)				(3,210)
Balance at December 31, 2013	\$ 10,782	\$ (9,306)	\$ 9,306	\$ 21,082	\$ 238,168	\$ (15,797)	\$ (1,905)	\$ 0		\$ 252,330

*See notes to consolidated financial statements.*

**Table of Contents**

**PREFORMED LINE PRODUCTS COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Tables in thousands of dollars, except share and per share data, unless specifically noted)**

**Note A Significant Accounting Policies**

*Nature of Operations*

Preformed Line Products Company and subsidiaries (the Company) is a designer and manufacturer of products and systems employed in the construction and maintenance of overhead and underground networks for the energy, telecommunication, cable operators, data communication and other similar industries. The Company's primary products support, protect, connect, terminate and secure cables and wires. The Company also provides solar hardware systems and mounting hardware for a variety of solar power applications. The Company's customers include public and private energy utilities and communication companies, cable operators, governmental agencies, contractors and subcontractors, distributors and value-added resellers. The Company serves its worldwide markets through strategically located domestic and international manufacturing facilities.

*Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries for which it has a controlling interest. All intercompany accounts and transactions have been eliminated upon consolidation.

*Noncontrolling Interests*

During 2011, the Company acquired the remaining 50% of BlueSky joint venture from BlueSky Energy Pty Ltd.

*Investments in Foreign Joint Ventures*

Investments in joint ventures, where the Company owns between 20% and 50%, or where the Company does not have control but has the ability to exercise significant influence over operations or financial policies, are accounted for by the equity method. As of December 31, 2013, the Company owned 25.93% in Proxisafe Ltd., located in Calgary, Alberta. The Company accounts for its joint venture interest in Proxisafe accounts using the equity method.

*Cash and Cash Equivalents*

Cash equivalents are stated at fair value and consist of highly liquid investments with original maturities of three months or less at the time of acquisition.

*Receivable Allowances*

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The allowances for uncollectible accounts receivable is based upon the number of days the accounts are past due, the current business environment and specific information such as bankruptcy or liquidity issues of customers. The Company also maintains an allowance for future sales credits related to sales recorded during the year. The estimated allowance is based on historical sales credits issued in the subsequent year

related to the prior year and any significant preapproved open return good authorizations as of the balance sheet date.

*Inventories*

The Company uses the last-in, first-out (LIFO) method of determining cost for the majority of its material portion of inventories in PLP-USA. All other inventories are determined by the first-in, first-out (FIFO) or average cost methods. Inventories are carried at the lower of cost or market. Reserves are maintained for estimated obsolescence or excess inventory based on past usage, and future demand.

---

**Table of Contents***Fair Value of Financial Instruments*

Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 825, Disclosures about Fair Value of Financial Instruments, requires disclosures of the fair value of financial instruments. The carrying value of the Company's current financial instruments, which include cash and cash equivalents, accounts receivable, accounts payable and short-term debt, approximates its fair value because of the short-term maturity of these instruments. At December 31, 2013, the fair value of the Company's long-term debt was estimated using discounted cash flow analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements, which is considered to be a level two input. Based on the analysis performed, the carrying value of the Company's long-term debt approximates fair value at December 31, 2013.

*Property, Plant and Equipment and Depreciation*

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

*Long-Lived Assets*

The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the carrying value of the assets might be impaired and the discounted future cash flows estimated to be generated by such assets are less than the carrying value. The Company's cash flows are based on historical results adjusted to reflect the Company's best estimate of future market and operating conditions. The net carrying value of assets not recoverable is then reduced to fair value. The estimates of fair value represent the Company's best estimate based on industry trends and reference to market rates and transactions. The Company did not record any impairments to long-lived assets during the years ended December 31, 2013 and 2012.

*Goodwill and Other Intangibles*

Goodwill and other intangible assets generally result from business acquisitions. Goodwill and intangible assets with indefinite lives are not subject to amortization, but are subject to annual impairment testing. Intangible assets with definite lives, consisting primarily of purchased customer relationships, patents, technology, customer backlogs, trademarks and land use rights, are generally amortized over periods from less than one year to twenty years. The Company's intangible assets with finite lives are generally amortized using a projected cash flow basis method over their useful lives unless another method was demonstrated to be more appropriate. Customer relationships and trademark intangibles acquired in 2009 and on January 31, 2012 are amortized using a projected cash flow basis method over the period in which the economic benefits of the intangibles are consumed. Customer relationships, technology and trademarks acquired in July 2010 are being amortized using the straight-line method over their useful lives. This straight-line method was more appropriate because it better reflected the pattern in which the economic benefits of the intangible asset are consumed or otherwise expire compared to using a projected cash flow basis method. An evaluation of the remaining useful life of intangible assets with a determinable life is performed on a periodic basis and when events and circumstances warrant an evaluation. The Company assesses intangible assets with a determinable life for impairment consistent with its policy for assessing other long-lived assets. Goodwill and intangible assets are also reviewed for impairment annually or more frequently when changes in circumstances indicate the carrying amount may be impaired, or in the case of finite lived intangible assets, when the carrying amount may not be recoverable. Events or circumstances that would result in an impairment review primarily include

operations reporting losses or a significant change in the use of an asset. Impairment charges are recognized pursuant to FASB ASC 350-20, Goodwill.

## **Table of Contents**

The Company performs the annual impairment test for goodwill utilizing a combination of discounted cash flow methodology, market comparable, 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 changed. However, the Company believes that the methodologies and weightings used are reasonable and result in appropriate fair values of the reporting units.

During the quarter ended December 31, 2012, the Company voluntarily changed the date of its annual goodwill and other indefinite-lived intangible asset impairment test from the first day of the first quarter (January 1) to the first day of the fourth quarter (October 1). The Company determined that this change is preferable under the circumstances as it (1) better aligns with the Company's annual business planning and budgeting process and (2) provides the Company with additional time to prepare and complete the impairment test, including measurement of any indicated impairment, as necessary, prior to issuance of the year-end financial statements. This voluntary change in accounting principle was not made to delay, accelerate or avoid an impairment charge. This change is not applied retrospectively as it is impracticable to do so because retrospective application would require the application of significant estimates and assumptions with the use of hindsight. Accordingly, the change was applied prospectively.

The Company performed its annual impairment test for goodwill as of October 1, 2013. The Company recorded impairment for goodwill during the year end December 31, 2013 of \$.9 million. The Company did not have any impairment for goodwill or other intangibles for the year ended December 31, 2012. See Note J for additional information.

### *Revenue Recognition*

Sales are recognized when products are shipped and the title and risk of loss has passed to unaffiliated customers or when they are delivered based on the terms of the sale, there is persuasive evidence of an agreement, the price is fixed or determinable and collectibility is reasonably assured. Revenue related to shipping and handling costs billed to customers is included in net sales and the related shipping and handling costs are included in cost of products sold.

### *Research and Development*

Research and development costs for new products are expensed as incurred and totaled \$2.3 million in 2013, \$2.1 million in 2012 and \$2.4 million in 2011.

### *Income Taxes*

Income taxes are computed in accordance with the provisions of ASC 740, Income Taxes. In the Consolidated Financial Statements, the benefits of a consolidated return have been reflected where such returns have or could be filed based on the entities and jurisdictions included in the financial statements. Deferred tax liabilities and assets are recognized for the expected future tax consequences of events that have been reflected on the Consolidated Financial Statements. Deferred tax liabilities and assets are determined based on the differences between the book and tax bases of particular assets and liabilities and operating loss carryforwards using tax rates in effect for the years in which the differences are expected to reverse.

Net deferred tax assets are recognized to the extent that we believe these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies and results of recent

operations. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

Uncertain tax positions are recorded in accordance with ASC 740 on the basis of a two-step process whereby (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

## **Table of Contents**

### *Advertising*

Advertising costs are expensed as incurred and totaled \$2 million in 2013, \$1.8 million in 2012 and \$1.8 million in 2011.

### *Foreign Currency Translation*

Asset and liability accounts are translated into U.S. dollars using exchange rates in effect at the date of the Consolidated Balance Sheet. The translation adjustments are recorded in Accumulated other comprehensive income (loss). Revenues and expenses are translated at weighted average exchange rates in effect during the period. Transaction gains and losses arising from exchange rate changes on transactions denominated in a currency other than the functional currency are included in income and expense as incurred. Aggregate transaction gains and losses for the periods ended December 31, 2013, 2012 and 2011 were \$3.7 million loss, a less than \$.1 million loss and a \$1.2 million loss, respectively. Upon sale or substantially complete liquidation of an investment in a foreign entity, the cumulative translation adjustment for that entity is reclassified from Accumulated other comprehensive income (loss) to earnings.

### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

### *Business Combinations*

The Company accounts for acquisitions in accordance with ASC 805.

### *Derivative Financial Instruments*

The Company does not hold derivatives for trading purposes.

### *Reclassifications*

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

### *Recently Adopted Accounting Pronouncements*

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same period. For other amounts, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. The Company adopted this guidance in the first quarter of 2013. As these amendments

relate to presentation only, the provisions of ASU 2012-04 did not have an effect on the Company's results of operations, financial condition, and cash flows.

In July 2013, the FASB issued ASU 2013-11, Presentation of Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, an amendment to FASB ASC Topic 740, Income Taxes (ASC 740). This update clarifies that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed.

**Table of Contents**

In situations where a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. Retrospective application was permitted. The adoption of ASU 2013-11 did not have an impact on the Company's financial position, results of operations, cash flows or disclosures.

*New Accounting Standards To Be Adopted*

In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. ASU 2013-05 clarifies the applicable guidance for the release of the cumulative translation adjustment under current U.S. GAAP by emphasizing that the accounting for the release of the cumulative translation adjustment into net income for sales or transfers of a controlling financial interest within a foreign Entity is the same irrespective of whether the sale or transfer is of a subsidiary or a group of assets that is a nonprofit activity or business. When a reporting entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity, the parent is required to apply the guidance in Subtopic 830-30 to release any related cumulative translation adjustment into net income. The amendments are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. The Company is currently evaluating the impact of the adoption of ASU 2013-05 on the Company's financial statements.

**Note B Other Financial Statement Information***Inventories net*

	December 31	
	2013	2012
Finished products	\$ 37,301	\$ 41,474
Work-in-process	7,779	7,940
Raw materials	40,251	46,133
	85,331	95,547
Excess of current cost over LIFO cost	(4,146)	(4,674)
Noncurrent portion of inventory	(7,350)	(3,957)
	\$ 73,835	\$ 86,916

Costs for inventories of certain material are determined using the LIFO method and totaled approximately \$25.1 million and \$30.2 million at December 31, 2013 and 2012, respectively.

**Table of Contents***Property and equipment net*

Major classes of property, plant and equipment are as follows:

	December 31	
	2013	2012
Land and improvements	\$ 12,141	\$ 13,190
Buildings and improvements	69,963	59,505
Machinery and equipment	141,940	138,533
Construction in progress	7,185	7,242
	231,229	218,470
Less accumulated depreciation	130,768	125,144
	\$ 100,461	\$ 93,326

Depreciation of property and equipment was \$10.6 million in 2013, \$10 million in 2012 and \$9.3 million in 2011. Machinery and equipment includes \$.4 million of capital leases at December 31, 2013 and 2012, respectively.

*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 length and date of service are covered by a defined benefit pension plan ( Plan ). On December 12, 2012, the Company approved a freeze on further benefit accruals under the PLP-USA hourly employee pension plan and notified the participants of the freeze on December 19, 2012. Beginning February 1, 2013, participants ceased earning additional benefits under the Plan and no new participants entered the plan. The Plan freeze required an evaluation of the Plans assets and obligations as of December 31, 2012, which resulted in a non-cash curtailment gain of \$6.3 million, which was recognized in Other comprehensive income (loss) during the fourth quarter 2012. The measurement of the Plans assets and obligations also resulted in a reduction in the Company s pension liability of \$6.3 million. The evaluation did not have an effect on net periodic pension expense for the year ended December 31, 2012. The Company uses a December 31 measurement date for its Plan.

Net periodic pension cost for the Plan consists of the following components for the years ended December 31:

	2013	2012	2011
Service cost	\$ 222	\$ 1,300	\$ 1,003
Interest cost	1,251	1,411	1,373
Expected return on plan assets	(1,436)	(1,186)	(1,089)

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

Recognized net actuarial loss	493	750	412
Net periodic pension cost	\$ 530	\$ 2,275	\$ 1,699

47

**Table of Contents**

The following tables set forth benefit obligations, plan assets and the accrued benefit cost of the Plan at December 31:

	2013	2012
Projected benefit obligation at beginning of the year	\$ 31,590	\$ 30,863
Service cost	222	1,300
Interest cost	1,251	1,411
Actuarial (gain) loss	(4,901)	4,859
Gain on curtailment	0	(6,275)
Benefits paid	(637)	(568)
<b>Projected benefit obligation at end of year</b>	<b>\$ 27,525</b>	<b>\$ 31,590</b>
Fair value of plan assets at beginning of the year	\$ 18,406	\$ 15,077
Actual return on plan assets	3,154	1,748
Employer contributions	1,576	2,149
Benefits paid	(637)	(568)
Fair value of plan assets at end of the year	\$ 22,499	\$ 18,406
<b>Unfunded pension obligation</b>	<b>\$ 5,026</b>	<b>\$ 13,184</b>

In accordance with ASC 715-20, the Company recognizes the underfunded status of the Plan as a liability. The amount recognized in Accumulated other comprehensive loss related to the Plan at December 31 is comprised of the following:

	2013	2012
Balance at January 1	\$ (6,305)	\$ (8,000)
Reclassification adjustments:		
Pretax amortized net actuarial loss	493	750
Tax provision	(187)	(284)
	306	466
Adjustment to recognize gain (loss) on unfunded pension obligations:		
Pretax gain (loss)	6,619	(4,297)
Tax (benefit) provision	(2,506)	1,627
	4,113	(2,670)
Adjustment to recognize the gain on curtailment of the pension plan:		
Pretax curtailment gain	0	6,275
Tax provision	0	(2,376)

	0	3,899
Balance at December 31	\$(1,886)	\$(6,305)

The estimated net loss for the Plan that will be amortized from Accumulated other comprehensive income into periodic benefit cost for 2014 is \$12 thousand. There is no prior service cost to be amortized in the future.

**Table of Contents**

The Plan had accumulated benefit obligations in excess of Plan assets as follows:

	2013	2012
Accumulated benefit obligation	\$ 27,525	\$ 31,590
Fair market value of assets	22,499	18,406

Weighted-average assumptions used to determine benefit obligations at December 31 are as follows:

	2013	2012
Discount rate	5.00%	4.00%
Rate of compensation increase	n/a	n/a

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31 are as follows:

	2013	2012	2011
Discount rate	4.00%	4.50%	5.60%
Rate of compensation increase	n/a	2.50	3.50
Expected long-term return on plan assets	8.00	8.00	8.00

The net periodic pension cost for 2013 was based on a long-term asset rate of return of 8.0%. This rate is based upon management's estimate of future long-term rates of return on similar assets and is consistent with historical returns on such assets. Using the Plan's current mix of assets and based on the average historical returns and expected future returns for such mix, an expected long-term rate-of-return of 8.0% is justified.

At December 31, 2013, the fair value of the Company's pension plan assets included inputs in Level 1: Quoted market prices in active markets for identical assets or liabilities and Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data. The fair value of the Company's pension plan assets as of December 31, 2013 and 2012, by category, are as follows:

**Table of Contents**

Asset Category	At December 31, 2013			
	Total Assets at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 1,127	\$ 1,127	\$ 0	\$ 0
Equity Securities	7,455	7,455	0	0
U.S. Treasury Bonds	4,161	4,161	0	0
Mutual Funds - Equity	6,776	6,776	0	0
Corporate Bonds	2,950	0	2,950	0
Mortgage-Backed Securities	30	0	30	0
<b>Total</b>	<b>\$ 22,499</b>	<b>\$ 19,519</b>	<b>\$ 2,980</b>	<b>\$ 0</b>

Asset Category	At December 31, 2012			
	Total Assets at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 464	\$ 464	\$ 0	\$ 0
Equity Securities	6,121	6,121	0	0
U.S. Treasury Bonds	4,205	4,205	0	0
Mutual Funds - Equity	4,944	4,944	0	0
Corporate Bonds	2,640	0	2,640	0
Mortgage-Backed Securities	32	0	32	0
<b>Total</b>	<b>\$ 18,406</b>	<b>\$ 15,734</b>	<b>\$ 2,672</b>	<b>\$ 0</b>

The Company's pension plan weighted-average asset allocations at December 31, 2013 and 2012, by asset category, are as follows:

Asset category	Plan assets at December 31	
	2013	2012
Equity securities	63%	60%
Debt securities	32	37
Cash and equivalents	5	3

100% 100%

Management seeks to maximize the long-term total return of financial assets consistent with the fiduciary standards of ERISA. The ability to achieve these returns is dependent upon the need to accept moderate risk to achieve long-term capital appreciation.

In recognition of the expected returns and volatility from financial assets, retirement plan assets are invested in the following ranges with the target allocation noted:

	Range	Target
Equities	30-80%	60%
Fixed Income	20-70%	40%
Cash Equivalents	0-10%	

**Table of Contents**

Investment in these markets is projected to provide performance consistent with expected long-term returns with appropriate diversification.

The Company's policy is to fund amounts deductible for federal income tax purposes. The Company expects to contribute \$.7 million to the Plan in 2014.

The benefits expected to be paid out of the Plan assets in each of the next five years and the aggregate benefits expected to be paid for the subsequent five years are as follows:

Year	Pension Benefits
2014	\$ 715,302
2015	776,134
2016	852,886
2017	926,748
2018	1,005,382
2019-2023	6,482,705

The Company also provides retirement benefits through various defined contribution plans including PLP-USA's Profit Sharing Plan. Expense for these defined contribution plans was \$5.6 million in 2013, \$5.7 million in 2012 and \$4.8 million in 2011.

Further, the Company also provides retirement benefits through the Supplemental Profit Sharing Plan. To the extent an employee's award under PLP-USA's Profit Sharing Plan exceeds the maximum allowable contribution permitted under existing tax laws, the excess is accrued for (but not funded) under a non-qualified Supplemental Profit Sharing Plan. The return under this Supplemental Profit Sharing Plan is calculated at a weighted average of the one year Treasury Bill rate plus 1%. At December 31, 2013 and 2012, the interest rate for the Supplemental Profit Sharing Plan was 1.15% and 1.12%, respectively. Expense for the Supplemental Profit Sharing Plan was \$.3 million for 2013, \$.4 million for 2012 and \$.3 million in 2011. The Supplemental Profit Sharing Plan unfunded status as of December 31, 2013 and 2012 was \$3 million and \$2.6 million and is included in Other noncurrent liabilities.

**Note D Accumulated Other Comprehensive Income ( AOCI )**

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

	Year ended December 31		
	Defined benefit pension plan activity	Currency Translation Adjustment	Total
Balance at January 1, 2013	\$ (6,324)	\$ (7,340)	\$ (13,664)
Other comprehensive income before reclassifications:			
Loss on foreign currency translation adjustment	0	(8,457)	(8,457)
Gain on unfunded pension obligations	4,113	0	4,113
Amounts reclassified from AOCI:			
Amortization of defined benefit pension actuarial loss (a)	306	0	306

Net current period other comprehensive income (loss)	4,419	(8,457)	(4,038)
Balance at December 31, 2013	\$ (1,905)	\$ (15,797)	\$ (17,702)

- (a) This AOCI component is included in the computation of net periodic pension costs as noted in Note C Pension Plans.

**Table of Contents****Note E Debt and Credit Arrangements**

	December 31	
	2013	2012
<b>Short-term debt</b>		
Secured notes		
Brazilian Real denominated (R\$3,808k) at 3.25% to 3.6% due 2014	\$ 1,105	\$ 0
New Zealand Dollar (NZ\$264k) at 1.70% to 5.56%	0	217
Current portion of long-term debt	195	251
 Total short-term debt	 1,300	 468
<b>Long-term debt</b>		
USD denominated at 1.29%, due 2017	12,604	9,236
Australian dollar denominated term loans (A\$1,065), at 6.0% (5.83% in 2012), due 2018, secured by land and building	570	70
Brazilian Real denominated term loan (R\$918k) at 4.5% to 8.12% due 2014 secured by capital equipment	75	267
 Total long-term debt	 13,249	 9,573
Less current portion	(195)	(251)
 Total long-term debt, less current portion	 13,054	 9,322
Total debt	\$ 14,354	\$ 9,790

The PLP-USA line of credit makes \$50 million available to the Company at an interest rate of LIBOR plus 1.125% with a term expiring January 2017. At December 31, 2013, the interest rate on the line of credit agreement was 1.29%. There was \$12.6 million outstanding at December 31, 2013 under the line of credit. On January 23, 2014, we extended the term to January 2017. The line of credit agreement contains, among other provisions, requirements for maintaining levels of working capital, net worth and profitability. At December 31, 2013, the Company was in compliance with these covenants.

Aggregate maturities of long-term debt during the next five years are as follows: \$.2 million for 2014, \$.1 million for 2015, \$.1 million for 2016, \$12.7 million for 2017, and \$.1 million thereafter.

Interest paid was \$.4 million in 2013, \$.9 million in 2012 and \$.8 million in 2011.

*Guarantees and Letters of Credit*

The Company has provided financial guarantees for uncompleted work and financial commitments. The terms of these guarantees vary with end dates ranging from the current year through the completion of such transactions. The guarantees would typically be triggered in the event of nonperformance. As of December 31, 2013, the Company had total outstanding guarantees of \$2 million. Additionally, certain domestic and foreign customers require the Company to issue letters of credit or performance bonds as a condition of placing an order. As of December 31, 2013, the Company had total outstanding letters of credit of \$4.7 million.



**Table of Contents****Note F Leases**

The Company has commitments under operating leases primarily for office and manufacturing space, transportation equipment, office equipment and computer equipment. Rental expense was \$3.8 million in 2013, \$3.7 million in 2012 and \$3.9 million in 2011. Future minimum rental commitments having non-cancelable terms exceeding one year are \$2.6 million in 2014, \$1.8 million in 2015, \$1.5 million in 2016, \$1.2 million in 2017, \$1.2 million in 2018, and an aggregate \$9.9 million thereafter. One such lease is for the Company's aircraft with a lease commitment through December 2014. Under the terms of the lease, the Company maintains the risk to make up a deficiency from market value attributable to damage, extraordinary wear and tear, excess air hours or exceeding maintenance overhaul schedules required by the Federal Aviation Administration. At the present time, the Company does not believe it has incurred any obligation for any contingent rent under the lease.

The Company has commitments under capital leases for equipment and vehicles. Amounts recognized as capital lease obligations are reported in Accrued expense and other liabilities and Other noncurrent liabilities in the Consolidated Balance Sheets. Future minimum rental commitments for capital leases are approximately \$.1 million in 2014, \$.1 million in 2015 and less than \$.1 million in 2016, 2017 and 2018. The imputed interest for the capital leases is less than \$.1 million. Leased property and equipment under capital leases are amortized using the straight-line method over the term of the lease. Routine maintenance, repairs and replacements are expensed as incurred.

**Note G Income Taxes**

Income before income taxes was derived from the following sources:

	2013	2012	2011
United States	\$ 16,388	\$ 21,754	\$ 18,842
Foreign	15,406	23,073	27,152
	\$ 31,794	\$ 44,827	\$ 45,994

The components of income taxes for the years ended December 31 are as follows:

	2013	2012	2011
<b>Current</b>			
Federal	\$ 6,308	\$ 9,663	\$ 5,679
Foreign	5,018	7,885	8,896
State and local	986	920	1,123
	12,312	18,468	15,698
<b>Deferred</b>			
Federal	(1,081)	(1,443)	726
Foreign	157	(1,310)	(1,199)
State and local	(181)	(174)	(215)

	(1,105)	(2,927)	(688)
Income taxes	\$ 11,207	\$ 15,541	\$ 15,010

The differences between the provision for income taxes at the U.S. federal statutory rate and the tax shown in the Statements of Consolidated Income for the years ended December 31 are summarized as follows:

**Table of Contents**

	2013	2012	2011
U. S. federal statutory tax rate	35%	35%	35%
Federal tax at statutory rate	\$ 11,128	\$ 15,689	\$ 16,098
State and local taxes, net of federal benefit	583	485	590
U.S. federal permanent items	124	332	14
Domestic productions activity deduction	(372)	(669)	(401)
Foreign earnings and related tax credits	658	1,498	261
Non-U.S. tax rate variances	(1,467)	(1,175)	(1,510)
Unrecognized tax benefits	(770)	310	21
Valuation allowance	1,091	(337)	19
Tax credits	(453)	(85)	(265)
Other, net	685	(507)	183
	\$ 11,207	\$ 15,541	\$ 15,010

Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the tax basis of assets and liabilities and their carrying value for financial statement purposes. The tax effects of temporary differences that give rise to the Company's deferred tax assets and liabilities at December 31 are as follows:

	2013	2012
Deferred tax assets:		
Accrued compensation and benefits	\$ 1,463	\$ 1,808
Inventory valuation reserves	2,581	2,771
Benefit plan reserves	7,773	9,468
Capital tax loss carryforwards	0	2,034
Net operating loss carryforwards	1,244	788
Other accrued expenses	2,926	2,480
Unrealized foreign exchange	743	58
Gross deferred tax assets	16,730	19,407
Valuation allowance	(1,420)	(2,329)
Net deferred tax assets	15,310	17,078
Deferred tax liabilities:		
Depreciation and other basis differences	(5,533)	(5,276)
Intangibles	(2,828)	(3,571)
Other	(132)	(90)
Deferred tax liabilities	(8,493)	(8,937)
Net deferred tax assets	\$ 6,817	\$ 8,141

**2013****2012**

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

Change in net deferred tax assets:		
Deferred income tax benefit	\$ 1,105	\$ 2,927
Items of other comprehensive income (loss)	(2,692)	(1,033)
Currency translation	263	(254)
Deferred tax balances from business acquisition	0	(1,036)
 Total change in net deferred tax assets	 \$ (1,324)	 \$ 604

Deferred taxes are recognized at currently enacted tax rates for temporary differences between the financial reporting and income tax bases of assets and liabilities and operating loss and tax credit carryforwards.

**Table of Contents**

At December 31, 2013, the Company has \$1.2 million of foreign net operating loss carryforwards that will expire between the years 2014 and 2018.

The Company assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets by jurisdiction. Based on this evaluation, the Company has established a valuation allowance of \$1.4 million a