HNI CORP
Form 10-Q
May 01, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 1-14225

HNI Corporation

Iowa	42-0617510
(State of Incorporation)	(I.R.S. Employer No.)

600 East Second Street
P. O. Box 1109
Muscatine, Iowa 52761-0071
(563) 272-7400

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 x NO o

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 x NO o

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o Emerging growth company o

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.
Common Stock, $1 Par Value Outstanding as of March 31, 2018 43,529,550

HNI Corporation and Subsidiaries
Quarterly Report on Form 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HNI Corporation and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended	
	March 31, 2018	April 1, 2017
Net sales	$505,069	$477,667
Cost of sales	328,150	303,944
Gross profit	176,919	173,723
Selling and administrative expenses	171,895	163,666
Restructuring charges	1,338	2,123
Operating income	3,686	7,934
Interest income	113	71
Interest expense	2,337	1,046
Income before income taxes	1,462	6,959
Income tax expense (benefit)	(999)	2,178
Net income	2,461	4,781
Less: Net income (loss) attributable to non-controlling interest	(49)	(56)
Net income attributable to HNI Corporation	$2,510	$4,837
Average number of common shares outstanding – basic	43,359,971	44,050,040
Net income attributable to HNI Corporation per common share – basic	$0.06	$0.11
Average number of common shares outstanding – diluted	44,134,142	45,452,664
Net income attributable to HNI Corporation per common share – diluted	$0.06	$0.11
Foreign currency translation adjustments	$1	$345
Change in unrealized gains (losses) on marketable securities, net of tax	(79)	18
Change in derivative financial instruments, net of tax	1,027	264
Other comprehensive income (loss), net of tax	949	627
Comprehensive income	3,410	5,408
Less: Comprehensive income (loss) attributable to non-controlling interest	(49)	(56)
Comprehensive income attributable to HNI Corporation	$3,459	$5,464

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

HNI Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(In thousands)
(Unaudited)

	March 31, 2018	December 30, 2017
Assets		
Current Assets:		
Cash and cash equivalents	$28,813	$ 23,348
Short-term investments	1,831	2,015
Receivables	223,043	258,551
Inventories	158,688	155,683
Prepaid expenses and other current assets	47,706	49,283
Total Current Assets	460,081	488,880
Property, Plant, and Equipment:		
Land and land improvements	28,437	28,593
Buildings	285,493	306,137
Machinery and equipment	550,565	556,571
Construction in progress	40,973	39,788
	905,468	931,089
Less accumulated depreciation	530,528	540,768
Net Property, Plant, and Equipment	374,940	390,321
Goodwill and Other Intangible Assets	486,711	490,892
Deferred Income Taxes	193	193
Other Assets	23,214	21,264
Total Assets	$1,345,139	$ 1,391,550

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

HNI Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(In thousands, except par value)
(Unaudited)

	March 31, 2018	December 30, 2017
Liabilities and Equity		
Current Liabilities:		
Accounts payable and accrued expenses	$ 347,029	$ 450,128
Current maturities of long-term debt	78,964	36,648
Current maturities of other long-term obligations	1,862	2,927
Total Current Liabilities	427,855	489,703
Long-Term Debt	250,000	240,000
Other Long-Term Liabilities	77,112	70,409
Deferred Income Taxes	75,931	76,861
Equity:		
HNI Corporation shareholders' equity:		
Capital Stock:		
Preferred stock - $1 par value, authorized 2,000 shares, no shares outstanding	—	—
Common stock - $1 par value, authorized 200,000 shares, outstanding: March 31, 2018 – 43,530 shares; December 30, 2017 – 43,354 shares	43,530	43,354
Additional paid-in capital	20,124	7,029
Retained earnings	452,748	467,296
Accumulated other comprehensive income (loss)	(2,662)	(3,611)
Total HNI Corporation shareholders' equity	513,740	514,068
Non-controlling interest	501	509
Total Equity	514,241	514,577
Total Liabilities and Equity	$ 1,345,139	$ 1,391,550

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

HNI Corporation and Subsidiaries
Consolidated Statements of Equity
(In thousands, except per share data)
(Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Shareholders' Equity
Balance, December 30, 2017	$43,354	$7,029	$467,296	$ (3,611)	$ 509	$514,577
Comprehensive income:						
Net income (loss)	—	—	2,510	—	(49)	2,461
Other comprehensive income (loss), net of tax	—	—	—	949	—	949
Change in ownership of non-controlling interest	—	—	(41)	—	41	—
Cash dividends; $0.285 per share	—	—	(12,381)	—	—	(12,381)
Common shares – treasury:						
Shares purchased	(153)	(1,175)	(4,636)	—	—	(5,964)
Shares issued under Members' Stock Purchase Plan and stock awards, net of tax	329	14,270	—	—	—	14,599
Balance, March 31, 2018	$43,530	$20,124	$452,748	$ (2,662)	$ 501	$514,241

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Shareholders' Equity
Balance, December 31, 2016	$44,079	$—	$461,524	$ (5,000)	$ 406	$501,009
Comprehensive income:						
Net income (loss)	—	—	4,837	—	(56)	4,781
Other comprehensive income (loss), net of tax	—	—	—	627	—	627
Change in ownership of non-controlling interest	—	—	—	—	—	—
Cash dividends; $0.275 per share	—	—	(12,132)	—	—	(12,132)
Common shares – treasury:						
Shares purchased	(234)	(6,602)	(4,839)	—	—	(11,675)
Shares issued under Members' Stock Purchase Plan and stock awards, net of tax	395	18,455	—	—	—	18,850
Balance, April 1, 2017	$44,240	$11,853	$449,390	$ (4,373)	$ 350	$501,460

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

HNI Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended	
	March 31, 2018	April 1, 2017
Net Cash Flows From (To) Operating Activities:		
Net income	$2,461	$4,781
Non-cash items included in net income:		
Depreciation and amortization	18,445	18,839
Other post-retirement and post-employment benefits	447	398
Stock-based compensation	3,712	4,671
Deferred income taxes	(1,196)	646
(Gain) loss on sale and retirement of long-lived assets, net	808	784
Amortization of deferred gain on sale leaseback transaction	(43)	—
Other – net	(699)	(1,890)
Net increase (decrease) in operating assets and liabilities, net of divestitures	(55,135)	(57,899)
Increase (decrease) in other liabilities	447	(2,339)
Net cash flows from (to) operating activities	(30,753)	(32,009)
Net Cash Flows From (To) Investing Activities:		
Capital expenditures	(12,383)	(25,072)
Proceeds from sale of property, plant, and equipment	18,353	76
Capitalized software	(3,948)	(7,704)
Purchase of investments	(605)	(1,539)
Sales or maturities of investments	650	1,611
Other – net	794	1,510
Net cash flows from (to) investing activities	2,861	(31,118)
Net Cash Flows From (To) Financing Activities:		
Payments of long-term debt and other financing	(104,573)	(68,579)
Proceeds from long-term debt	155,047	146,331
Dividends paid	(12,381)	(12,132)
Purchase of HNI Corporation common stock	(7,345)	(11,266)
Proceeds from sales of HNI Corporation common stock	2,764	1,798
Withholding related to net share settlements of equity based awards	(155)	(209)
Net cash flows from (to) financing activities	33,357	55,943
Net increase (decrease) in cash and cash equivalents	5,465	(7,184)
Cash and cash equivalents at beginning of period	23,348	36,312
Cash and cash equivalents at end of period	$28,813	$29,128

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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HNI Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2018

Note 1. Basis of Presentation

The accompanying unaudited, condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. The December 30, 2017 consolidated balance sheet included in this Form 10-Q was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included. Operating results for the three-month period ended March 31, 2018 are not necessarily indicative of the results expected for the fiscal year ending December 29, 2018. For further information, refer to the consolidated financial statements and accompanying notes included in HNI Corporation's (the "Corporation") Annual Report on Form 10-K for the fiscal year ended December 30, 2017.

Note 2. Revenue from Contracts with Customers

The Corporation implemented ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), in the first quarter of fiscal 2018 using the modified-retrospective method, which required the new guidance to be applied prospectively to revenue transactions completed on or after the effective date. Given the nature of the Corporation's revenue transactions, the new guidance did not have a material impact on the Corporation's results of operations or financial position. All necessary changes required by the new standard, including those to the Corporation's accounting policies, controls, and disclosures, have been identified and implemented as of the beginning of fiscal 2018.

Disaggregation of Revenue
Revenue from contracts with customers disaggregated by sales channel and by segment is as follows (in thousands):

	Segment	Three Months Ended March 31, 2018	April 1, 2017
Supplies-driven channel	Office Furniture	$191,228	$178,964
Contract channel	Office Furniture	189,687	181,017
Hearth	Hearth Products	124,154	117,686
Net sales		$505,069	$477,667

The majority of revenue presented as "Net sales" in the Condensed Consolidated Statements of Comprehensive Income is the result of contracts with customers. All other sources of revenue are not material to the Corporation's results of operations.

Sales by channel type are subject to similar economic factors and market conditions regardless of the channel the product is sold under. See “Note 17. Reportable Segment Information” in the Notes to Condensed Consolidated Financial Statements for further information about operating segments.

Contract Assets and Contract Liabilities

In addition to trade receivables, the Corporation has contract assets consisting of funds paid to certain office furniture dealers in exchange for their multi-year commitment to market and sell the Corporation's product. These dealer investments are amortized over the term of the contract. For contracts less than one year, the Corporation has elected the practical expedient to recognize incremental costs to obtain a contract as an expense when incurred. The Corporation has contract liabilities consisting of deferred revenue and rebate and marketing program liabilities.

Contract assets and liabilities were as follows (in thousands):

	March 31, 2018	December 30, 2017
Trade receivables (1)	$225,283	$ 260,455
Contract assets (current) (2)	$483	$ 300
Contract assets (long-term) (3)	$4,147	$ 2,350
Contract liabilities (4)	$33,103	$ 54,295

The index below indicates the line item in the Condensed Consolidated Balance Sheets where contract assets and contract liabilities are reported:

(1) "Receivables"
(2) "Prepaid expenses and other current assets"
(3) "Other Assets"
(4) "Accounts payable and accrued expenses"

Changes in contract asset and contract liability balances during the three months ended March 31, 2018 were as follows (in thousands):

	Contract assets increase (decrease)	Contract liabilities (increase) decrease
Contract assets recognized	$ 2,100	$ —
Reclassification of contract assets to contra revenue	(120)	—
Contract liabilities recognized and recorded to contra revenue as a result of performance obligations satisfied		(28,153)
Contract liabilities paid	—	45,326
Cash received in advance and not recognized as revenue	—	(20,806)
Reclassification of cash received in advance to revenue as a result of performance obligations satisfied	—	24,179
Impact of business combination	—	646
Net change	$ 1,980	$ 21,192

Performance Obligations

The Corporation recognizes revenue for sales of office furniture and hearth products at a point in time following the transfer of control of such products to the customer, which typically occurs upon shipment of the product. In certain circumstances, transfer of control to the customer does not occur until the goods are received by the customer or upon installation and/or customer acceptance, depending on the terms of the underlying contracts. Contracts typically have a duration of less than one year and normally do not include a significant financing component. Generally, payment is due within 30 days of invoicing. See “Note 7. Product Warranties” in the Notes to Condensed Consolidated Financial Statements for additional information on warranty obligations.

Significant Judgments

The Corporation uses significant judgment throughout the year in estimating the reduction in net sales driven by rebate and marketing programs. Judgments made include expected sales levels and utilization of funds. However, this judgment factor is significantly reduced at the end of each year when sales volumes and the impact to rebate and marketing programs are known and recorded.

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Accounting Policies and Practical Expedients Elected
The Corporation elected to use the modified-retrospective method of adopting the new standard on revenue recognition. It has been applied to all contracts not completed as of December 30, 2017, the end of the Corporation's fiscal 2017. The impact of the Corporation's transition adjustment for the new revenue recognition guidance was not material to the Corporation's results of operations or financial position. The additional disclosures required as a result of adopting the new revenue recognition guidance were material to the Corporation's financial statements.

The Corporation elected the following accounting policies as a result of adopting the new standard on revenue recognition:

Shipping and Handling Activities - The Corporation has elected to apply the accounting policy election permitted in ASC 606-10-25-18B, which allows an entity to account for shipping and handling activities as fulfillment activities when the activities are performed after a customer obtains control of the good. The Corporation accrues for shipping and handling costs at the same time revenue is recognized, which is in accordance with the policy election. When shipping and handling activities occur prior to the customer obtaining control of the good, they are considered fulfillment activities rather than a promised good or service.

Sales Taxes - The Corporation has elected to apply the accounting policy election permitted in ASC 606-10-32-2A, which allows an entity to exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are imposed on and concurrent with a specific revenue-producing transaction and collected by the entity from a customer, including sales, use, excise, value-added, and franchise taxes (collectively referred to as sales taxes). This allows the Corporation to present revenue net of these certain types of taxes.

These policies have been applied consistently to all revenue transactions.

The Corporation has elected the following practical expedients as a result of adopting the new standard on revenue recognition:

Incremental Costs of Obtaining a Contract - The Corporation has elected the practical expedient permitted in ASC 340-40-25-4, which permits an entity to recognize incremental costs to obtain a contract as an expense when incurred if the amortization period will be less than one year. The Corporation will apply this practical expedient when the requirements to apply it are met.

Significant Financing Component - The Corporation has elected the practical expedient permitted in ASC 606-10-32-18, which allows an entity to not adjust the promised amount of consideration for the effects of a significant financing component if a contract has a duration of one year or less. As the Corporation's contracts are typically less than one year in length, consideration will not be adjusted.

These accounting policies and practical expedients have been applied consistently to all revenue transactions.

Note 3. Restructuring

Restructuring costs recorded in the Condensed Consolidated Statements of Comprehensive Income are as follows (in thousands):

	Three Months Ended	
	March 31, 2018	April 1, 2017
Cost of sales - accelerated depreciation	$—	$4,199

Restructuring charges	1,338	2,123
Total restructuring costs	$1,338	$6,322

Restructuring costs in 2018 were primarily incurred as part of the previously announced closure of the office furniture manufacturing facility in Orleans, Indiana. Restructuring costs in 2017, which include accelerated depreciation recorded in "Cost of sales" in the Condensed Consolidated Statements of Comprehensive Income, were primarily incurred as part of the previously announced closures of the hearth manufacturing facilities in Paris, Kentucky and Colville, Washington and the office furniture manufacturing facility in Orleans, Indiana.

The accrued restructuring expenses are expected to be paid in the next twelve months and are included in "Accounts payable and accrued expenses" in the Condensed Consolidated Balance Sheets. The following is a summary of changes in restructuring accruals during the three months ended (in thousands):

	Severance Costs	Facility Exit Costs & Other	Total
Restructuring allowance as of December 30, 2017	$ 1,343	$ 516	$ 1,859
Restructuring charges	74	1,264	1,338
Cash payments	(1,333)	(1,724)	(3,057)
Restructuring allowance as of March 31, 2018	$ 84	$ 56	$ 140

Real Estate Transaction

As part of the Corporation's continued efforts to drive efficiency and simplification, the Corporation entered into a sale-leaseback transaction in the first quarter of 2018, selling a manufacturing facility and subsequently leasing back a portion of the facility for a term of 10 years. The net proceeds from the sale of the facility of $16.9 million are reflected in "Proceeds from sale of property, plant, and equipment" in the Condensed Consolidated Statements of Cash Flows. In accordance with ASC 840, Leases, the $5.1 million gain on the sale of the facility is deferred and will be amortized as a reduction to rent expense evenly over the term of the lease. The current portion of the deferred gain is $0.5 million and included within "Accounts payable and accrued expenses" and the long-term portion of the deferred gain is $4.6 million and included within "Other Long-Term Liabilities", both in the Condensed Consolidated Balance Sheets. The transaction did not have a material impact to the Condensed Consolidated Statements of Comprehensive Income.

Note 4. Acquisitions and Divestitures

Office Furniture Dealerships

As part of the Corporation's ongoing business strategy, it continues to acquire and divest small office furniture dealerships, for which the impact is not material to the Corporation's financial statements.

Note 5. Inventories

The Corporation values its inventory at the lower of cost or net realizable value with approximately 86 percent valued by the last-in, first-out ("LIFO") costing method.

(In thousands)	March 31, 2018	December 30, 2017
Finished products	$ 98,844	$ 101,715
Materials and work in process	87,226	81,202
LIFO allowance	(27,382)	(27,234)
Total inventories	$ 158,688	$ 155,683

Note 6. Goodwill and Other Intangible Assets

Goodwill and other intangible assets included in the Condensed Consolidated Balance Sheets consisted of the following (in thousands):

	March 31, 2018	December 30, 2017
Goodwill	$ 279,480	$ 279,505

Definite-lived intangible assets	178,078	182,186
Indefinite-lived intangible assets	29,153	29,201
Total goodwill and other intangible assets	$486,711	$ 490,892

Goodwill

The changes in the carrying amount of goodwill, by reporting segment, are as follows (in thousands):

	Office Furniture	Hearth Products	Total
Balance as of December 30, 2017			
Goodwill	$137,845	$183,199	$321,044
Accumulated impairment losses	(41,396)	(143)	(41,539)
Net goodwill balance as of December 30, 2017	96,449	183,056	279,505
Foreign currency translation adjustment	(25)	—	(25)
Balance as of March 31, 2018			
Goodwill	137,820	183,199	321,019
Accumulated impairment losses	(41,396)	(143)	(41,539)
Net goodwill balance as of March 31, 2018	$96,424	$183,056	$279,480

Definite-lived intangible assets

The table below summarizes amortizable definite-lived intangible assets, which are reflected in "Goodwill and Other Intangible Assets" in the Condensed Consolidated Balance Sheets (in thousands):

	March 31, 2018			December 30, 2017		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Patents	$40	$ 28	$12	$40	$ 26	$14
Software	168,612	38,690	129,922	167,105	34,792	132,313
Trademarks and trade names	7,564	2,226	5,338	7,564	2,061	5,503
Customer lists and other	105,871	63,065	42,806	106,090	61,734	44,356
Net definite-lived intangible assets	$282,087	$ 104,009	$178,078	$280,799	$ 98,613	$182,186

Amortization expense is reflected in "Selling and administrative expenses" in the Condensed Consolidated Statements of Comprehensive Income and was as follows (in thousands):

	Three Months Ended	
	March 31, 2018	April 1, 2017
Capitalized software	$4,167	$1,340
Other definite-lived intangibles	$1,688	$1,774

Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for each of the following five fiscal years is as follows (in millions):

	2018	2019	2020	2021	2022
Amortization expense	$23.1	$22.1	$21.2	$20.2	$18.3

The occurrence of events such as acquisitions, dispositions, or impairments in the future may result in changes to amounts.

Indefinite-lived intangible assets

The Corporation also owns certain intangible assets, which are deemed to have indefinite useful lives because they are expected to generate cash flows indefinitely. These indefinite-lived intangible assets are reflected in "Goodwill and Other Intangible Assets" in the Condensed Consolidated Balance Sheets (in thousands):

	March 31, 2018	December 30, 2017
Trademarks and trade names	$ 29,153	$ 29,201

Impairment Analysis

The Corporation evaluates its goodwill and indefinite-lived intangible assets for impairment on an annual basis during the fourth quarter or whenever indicators of impairment exist.

Note 7. Product Warranties

The Corporation issues certain warranty policies on its office furniture and hearth products that provide for repair or replacement of any covered product or component that fails during normal use because of a defect in design, materials, or workmanship. Allowances have been established for the anticipated future costs associated with the Corporation's warranty programs.

A warranty allowance is determined by recording a specific allowance for known warranty issues and an additional allowance for unknown claims expected to be incurred based on historical claims experience. Actual claims incurred could differ from the original estimates, requiring adjustments to the allowance. Activity associated with warranty obligations was as follows (in thousands):

	Three Months Ended	
	March 31, 2018	April 1, 2017
Balance at beginning of period	$15,388	$15,250
Accruals for warranties issued during period	5,992	5,540
Adjustments related to pre-existing warranties	68	(116)
Settlements made during the period	(6,010)	(5,548)
Balance at end of period	$15,438	$15,126

The current and long-term portions of the allowance for estimated settlements are included within "Accounts payable and accrued expenses" and "Other Long-Term Liabilities", respectively, in the Condensed Consolidated Balance Sheets. The following table summarizes when these estimated settlements are expected to be paid (in thousands):

	March 31, 2018	December 30, 2017
Current - in the next twelve months	$ 9,512	$ 9,524
Long-term - beyond one year	5,926	5,864
Total estimated settlements	$ 15,438	$ 15,388

Note 8. Long-Term Debt

Long-term debt is as follows (in thousands):

	March 31, 2018	December 30, 2017
Revolving credit facility with interest at a variable rate (March 31, 2018 - 3.0%; December 30, 2017 - 2.7%)	$ 328,000	$ 267,500
Other amounts	964	9,148
Total debt	328,964	276,648
Less: Current maturities of long-term debt	78,964	36,648
Long-term debt	$ 250,000	$ 240,000

As of March 31, 2018, the Corporation's revolving credit facility borrowings were under the credit agreement entered into January 6, 2016 with a scheduled maturity of January 6, 2021. The Corporation deferred the debt issuance costs related to the credit agreement, which are classified as assets, and is amortizing them over the term of the credit agreement. The current portion of $0.4 million is the amount to be amortized over the next twelve months based on the current credit agreement and is reflected in "Prepaid expenses and other current assets" in the Condensed Consolidated Balance Sheets. The long-term portion of $0.6 million is reflected in "Other Assets" in the Condensed Consolidated Balance Sheets.

As of March 31, 2018, there was $328 million outstanding under the $400 million revolving credit facility of which $250 million was classified as long-term since the Corporation does not expect to repay the borrowings within a year. Because the Corporation expects, but is not required, to repay the remaining $78 million in the next twelve months, it was classified as current.

The revolving credit facility under the credit agreement is the primary source of committed funding from which the Corporation finances its planned capital expenditures and strategic initiatives, such as acquisitions, repurchases of common stock, and certain working capital needs.

The credit agreement contains a number of covenants. Non-compliance with covenants in the credit agreement could prevent the Corporation from being able to access further borrowings under the revolving credit facility, require immediate repayment of all amounts outstanding with respect to the revolving credit facility, and/or increase the cost of borrowing.

Certain covenants require maintenance of financial ratios as of the end of any fiscal quarter, including:

- a consolidated interest coverage ratio (as defined in the credit agreement) of not less than 4.0 to 1.0, based upon the ratio of (a) consolidated EBITDA for the last four fiscal quarters to (b) the sum of consolidated interest charges; and
- a consolidated leverage ratio (as defined in the credit agreement) of not greater than 3.5 to 1.0, based upon the ratio of (a) the quarter-end consolidated funded indebtedness to (b) consolidated EBITDA for the last four fiscal quarters.

The most restrictive of the financial covenants is the consolidated leverage ratio requirement of 3.5 to 1.0. Under the credit agreement, consolidated EBITDA is defined as consolidated net income before interest expense, income taxes, and depreciation and amortization of intangibles, as well as non-cash, nonrecurring charges, and all non-cash items increasing net income. As of March 31, 2018, the Corporation was below the maximum allowable ratio and was in compliance with all of the covenants and other restrictions in the credit agreement. The Corporation expects to remain in compliance with all of the covenants and other restrictions in the credit agreement over the next twelve months.

Subsequent to quarter end, on April 20, 2018, the Corporation entered into a Third Amended and Restated Credit Agreement. This amendment to the credit agreement extends the maturity of the facility to April 20, 2023, with the option for two additional one-year extensions, and increases the maximum borrowing capacity to $450 million. All other terms and conditions of the agreement were substantially unchanged.

Note 9. Income Taxes

The Corporation's tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items. The following table summarizes the Corporation's income tax provision (dollars in thousands):

	Three Months Ended	
	March 31, 2018	April 1, 2017
Income before income taxes	$1,462	$6,959
Income tax expense (benefit)	$(999)	$2,178
Effective tax rate	(66.1 %)	31.0 %

The Corporation's effective tax rate was lower in the three months ended March 31, 2018 principally due to the release of a valuation allowance for certain foreign jurisdictions and the enactment of the Tax Cuts and Jobs Act in 2017 (the "Act").

On December 22, 2017, the Act was signed into law, making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. In January 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income ("GILTI") provisions of the Act. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The guidance indicates that either accounting for deferred taxes related to GILTI inclusions or treating any taxes on GILTI inclusions as a period cost are both acceptable methods subject to an accounting policy election. Effective in the first quarter of fiscal 2018, the Corporation is electing to treat any potential GILTI inclusions as a period cost, as no material impact is projected from GILTI inclusions and any deferred taxes related to any inclusion are not material. Also under the Act, a corporation's foreign earnings accumulated under legacy tax laws are deemed repatriated. The Corporation will continue to evaluate its ability to assert indefinite reinvestment to determine recognition of a deferred tax liability for other items such as Section 986(c) currency gain/loss, foreign withholding, and state taxes. Additionally, under the Act and for purposes of Internal Revenue Code Section 162(m) Excessive Executive Compensation Limit, the Corporation is electing to allocate deductible compensation to cash compensation first, then to share-based compensation.

Note 10. Fair Value Measurements of Financial Instruments

For recognition purposes, on a recurring basis, the Corporation is required to measure at fair value its marketable securities, derivative financial instruments, variable-rate debt obligations, and deferred stock-based compensation. The marketable securities are comprised of money market funds, government securities, and corporate bonds. When available, the Corporation uses quoted market prices to determine fair value and classifies such measurements within Level 1. Where market prices are not available, the Corporation makes use of observable market-based inputs (prices or quotes from published exchanges and indexes) to calculate fair value using the market approach, in which case the measurements are classified within Level 2.

Financial instruments measured at fair value were as follows (in thousands):

	Fair value as of measurement date	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Balance as of March 31, 2018				
Cash and cash equivalents (including money market funds) (1)	$ 28,813	$ 28,813	$ —	$ —
Government securities (2)	$ 6,582	$ —	$ 6,582	$ —
Corporate bonds (2)	$ 5,757	$ —	$ 5,757	$ —
Derivative financial instruments (3)	$ 4,715	$ —	$ 4,715	$ —
Variable-rate debt obligations (4)	$ 328,000	$ —	$ 328,000	$ —
Deferred stock-based compensation (5)	$ 8,649	$ —	$ 8,649	$ —
Balance as of December 30, 2017				
Cash and cash equivalents (including money market funds) (1)	$ 23,348	$ 23,348	$ —	$ —
Government securities (2)	$ 6,345	$ —	$ 6,345	$ —
Corporate bonds (2)	$ 6,149	$ —	$ 6,149	$ —
Derivative financial instruments (3)	$ 3,354	$ —	$ 3,354	$ —
Variable-rate debt obligations (4)	$ 267,500	$ —	$ 267,500	$ —
Deferred stock-based compensation (5)	$ 8,885	$ —	$ 8,885	$ —

The index below indicates the line item in the Condensed Consolidated Balance Sheets where the financial instruments are reported:

(1) "Cash and cash equivalents"
(2) Current portion - "Short-term investments"; Long-term portion - "Other Assets"
(3) Current portion - "Prepaid expenses and other current assets"; Long-term portion - "Other Assets"
(4) Current portion - "Current maturities of long-term debt"; Long-term portion - "Long-Term Debt"
(5) Current portion - "Current maturities of other long-term obligations"; Long-term portion - "Other Long-Term Liabilities"

Note 11. Accumulated Other Comprehensive Income (Loss) and Shareholders' Equity

The following tables summarize the components of accumulated other comprehensive income (loss) and the changes in accumulated other comprehensive income (loss), net of tax, as applicable for the three months ended (in thousands):

	Foreign Currency Translation Adjustment	Unrealized Gains (Losses) on Marketable Securities	Pension and Post-retirement Liabilities	Derivative Financial Instruments	Accumulated Other Comprehensive Income (Loss)
Balance as of December 30, 2017	$ 31	$ (132)	$ (5,630)	$ 2,120	$ (3,611)
Other comprehensive income (loss) before reclassifications	1	(100)	—	1,476	1,377
Tax (expense) or benefit	—	21	—	(362)	(341)

Amounts reclassified from accumulated other comprehensive income (loss), net of tax	—	—	—	(87)	(87)
Balance as of March 31, 2018	$ 32	$ (211)	$ (5,630)	$ 3,147	$ (2,662)

Amounts in parentheses indicate reductions to equity.

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	Foreign Currency Translation Adjustment	Unrealized Gains (Losses) on Marketable Securities	Pension and Post-retirement Liabilities	Derivative Financial Instruments	Accumulated Other Comprehensive Income (Loss)
Balance as of December 31, 2016	$ (1,188)	$ (105)	$ (5,167)	$ 1,460	$ (5,000)
Other comprehensive income (loss) before reclassifications	345	27	—	226	598
Tax (expense) or benefit	—	(9)	—	(83)	(92)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	—	—	—	121	121
Balance as of April 1, 2017	$ (843)	$ (87)	$ (5,167)	$ 1,724	$ (4,373)

Amounts in parentheses indicate reductions to equity.

Interest Rate Swap

In March 2016, the Corporation entered into an interest rate swap transaction to hedge $150 million of outstanding variable rate revolver borrowings against future interest rate volatility. Under the terms of the interest rate swap, the Corporation pays a fixed rate of 1.29 percent and receives one month LIBOR on a $150 million notional value expiring January 2021. As of March 31, 2018, the fair value of the Corporation's interest rate swap was an asset of $4.7 million, which is reflected in "Other Assets" in the Condensed Consolidated Balance Sheets. The unrecognized change in value of the interest rate swap is reported net of tax as $3.1 million in "Accumulated other comprehensive income (loss)" in the Condensed Consolidated Balance Sheets.

The following table details the reclassifications from accumulated other comprehensive income (loss) (in thousands):

Details about Accumulated Other Comprehensive Income (Loss) Components	Affected Line Item in the Statement Where Net Income is Presented	Three Months Ended March 31, 2018	April 1, 2017
Derivative financial instruments			
Interest rate swap	Interest (expense) or income	$ 115	$ (192)
	Tax (expense) or benefit	(28)	71