LYDALL INC /DE/
Form 10-Q
April 30, 2019

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

FORM 10-Q

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

For the quarterly period ended March 31, 2019

OR

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

For the transition period from to

Commission File Number: 1-7665

LYDALL, INC.
(Exact name of registrant as specified in its charter)

Delaware	06-0865505
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
One Colonial Road, Manchester, Connecticut	06042
(Address of principal executive offices)	(zip code)

(860) 646-1233
(Registrant’s telephone number, including area code)
None
(Former name, former address and former fiscal year, if changed since last report)

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 a 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 ýNo ¨

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ýNo ¨

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 ýAccelerated filer ¨Non-accelerated filer ¨Smaller reporting company ¨Emerging growth company¨

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock $ .01 par value per share.
Total Shares outstanding April 15, 2019 17,530,795

LYDALL, INC.
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Lydall, Inc. and its subsidiaries are hereafter collectively referred to as “Lydall,” the “Company” or the “Registrant.” Lydall and its subsidiaries’ names, abbreviations thereof, logos, and product and service designators are all either the registered or unregistered trademarks or trade names of Lydall and its subsidiaries.

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Any statements contained in this Quarterly Report on Form 10-Q that are not statements of historical fact may be deemed to be forward-looking statements. All such forward-looking statements are intended to provide management’s current expectations for the future operating and financial performance of the Company based on current assumptions relating to the Company’s business, the economy and future conditions. Forward-looking statements generally can be identified through the use of words such as “believes,” “anticipates,” “may,” “should,” “will,” “plans,” “projects,” “expects,” “expectations,” “estimates,” “forecasts,” “pre “prospects,” “strategy,” “signs” and other words of similar meaning in connection with the discussion of future operating or financial performance. Forward-looking statements may include, among other things, statements relating to future sales, earnings, cash flow, results of operations, uses of cash and other measures of financial performance. Because forward-looking statements relate to the future, they are subject to inherent risks, uncertainties and changes in circumstances that are difficult to predict. Accordingly, the Company’s actual results may differ materially from those contemplated by the forward-looking statements. Investors, therefore, are cautioned against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. Forward-looking statements in this Quarterly Report on Form 10-Q include, among others, statements relating to:

- Overall economic and business conditions and the effects on the Company’s markets;
- Outlook for the second quarter and full year 2019;
- Ability to improve operational effectiveness in the Thermal Acoustical Solutions segment;
- Expected vehicle production in the North American, European or Asian markets;
- Growth opportunities in markets served by the Company;
- Ability to integrate the Interface Performance Materials business, which was acquired in the third quarter of 2018;
- Expected future financial and operating performance of Interface Performance Materials;
- Expected costs and future savings associated with restructuring programs;
- Expected gross margin, operating margin and working capital improvements from cost control and other improvement programs;
- Product development and new business opportunities;
- Future strategic transactions, including but not limited to: acquisitions, joint ventures, alliances, licensing agreements and divestitures;
- Pension plan funding and expected impacts of the Lydall Pension Plan termination during 2019;
- Future cash flow and uses of cash;
- Future amounts of stock-based compensation expense;
- Future earnings and other measurements of financial performance;
- Ability to meet cash operating requirements;
- Future levels of indebtedness and capital spending;
- Ability to meet financial covenants in the Company's amended revolving credit facility;
- Future impact of the variability of interest rates and foreign currency exchange rates;
- Expected future impact of recently issued accounting pronouncements upon adoption;
- Future effective income tax rates and realization of deferred tax assets;
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Estimates of fair values of reporting units and long-lived assets used in assessing goodwill and long-lived assets for possible impairment; and

- The expected outcomes of legal proceedings and other contingencies, including environmental matters.

All forward-looking statements are inherently subject to a number of risks and uncertainties that could cause the actual results of the Company to differ materially from those reflected in forward-looking statements made in this Quarterly Report on Form 10-

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Q, as well as in press releases and other statements made from time to time by the Company’s authorized officers. Such risks and uncertainties include, among others, worldwide economic cycles and political changes and uncertainties that affect the markets which the Company’s businesses serve, which could have an effect on demand for the Company’s products and impact the Company’s profitability; challenges encountered by the Company in the execution of restructuring programs; challenges encountered in the integration of the acquired Interface Performance Materials business; disruptions in the global credit and financial markets, including diminished liquidity and credit availability; changes in international trade agreements and policies, including tariff regulation and trade restrictions; swings in consumer confidence and spending; unstable economic growth; volatility in foreign currency exchange rates; raw material pricing and supply issues; fluctuations in unemployment rates; retention of key employees; increases in fuel prices; and outcomes of legal proceedings, claims and investigations, as well as other risks and uncertainties identified in Part II, Item 1A - Risk Factors of this Quarterly Report on Form 10-Q, and Part I, Item 1A - Risk Factors of Lydall’s Annual Report on Form 10-K for the year ended December 31, 2018. The Company does not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LYDALL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands Except Per Share Data)

	Quarter Ended March 31,	
	2019	2018
	(Unaudited)	
Net sales	$218,025	$191,660
Cost of sales	175,969	152,153
Gross profit	42,056	39,507
Selling, product development and administrative expenses	33,006	25,471
Operating income	9,050	14,036
Interest expense	3,628	540
Other expense, net	399	315
Income before income taxes	5,023	13,181
Income tax expense	1,106	2,123
Loss from equity method investment	27	4
Net income	$3,890	$11,054
Earnings per share:		
Basic	$0.23	$0.64
Diluted	$0.22	$0.64
Weighted average number of common shares outstanding:		
Basic	17,254	17,164
Diluted	17,318	17,339

See accompanying Notes to Condensed Consolidated Financial Statements.

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LYDALL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

	Quarter Ended March 31,	
	2019	2018
	(Unaudited)	
Net income	$3,890	$11,054
Other comprehensive income (loss):		
Foreign currency translation adjustments	(127)	2,545
Pension liability adjustment, net of tax	215	198
Unrealized (loss) gain on hedging activities, net of tax	(675)	102
Comprehensive income	$3,303	$13,899

See accompanying Notes to Condensed Consolidated Financial Statements.

LYDALL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands)

	March 31, 2019 (Unaudited)	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 47,874	$ 49,237
Accounts receivable, less allowances (2019 - $1,477; 2018 - $1,440)	156,349	144,938
Contract assets	22,322	23,040
Inventories	91,048	84,465
Taxes receivable	3,138	2,912
Prepaid expenses	5,062	4,707
Other current assets	8,669	7,779
Total current assets	334,462	317,078
Property, plant and equipment, at cost	462,765	458,075
Accumulated depreciation	(248,845)	(244,706)
Net, property, plant and equipment	213,920	213,369
Operating lease right-of-use assets	27,254	—
Goodwill	197,022	196,963
Other intangible assets, net	131,325	136,604
Other assets, net	7,929	8,672
Total assets	$ 911,912	$ 872,686
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 10,111	$ 10,172
Accounts payable	86,921	73,265
Accrued payroll and other compensation	18,724	16,621
Deferred revenue	5,471	6,990
Other accrued liabilities	21,571	14,298
Total current liabilities	142,798	121,346
Long-term debt	307,656	314,641
Long-term operating lease liabilities	22,138	—
Deferred tax liabilities	39,038	39,265
Benefit plan liabilities	22,170	22,795
Other long-term liabilities	4,898	5,364
Commitments and Contingencies (Note 16)		
Stockholders' equity:		
Preferred stock	—	—
Common stock	252	253
Capital in excess of par value	91,713	90,851
Retained earnings	415,032	411,325
Accumulated other comprehensive loss	(43,272)	(42,685)
Treasury stock, at cost	(90,511)	(90,469)
Total stockholders' equity	373,214	369,275
Total liabilities and stockholders' equity	$ 911,912	$ 872,686

See accompanying Notes to Condensed Consolidated Financial Statements.

LYDALL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Three Months Ended March 31,	
	2019	2018
	(Unaudited)	
Cash flows from operating activities:		
Net income	$3,890	$11,054
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	11,935	7,220
Deferred income taxes	(260)	601
Stock-based compensation	982	1,201
Loss from equity method investment	27	4
Changes in operating assets and liabilities:		
Accounts receivable	(11,395)	(18,626)
Contract assets	447	(5,745)
Inventories	(6,617)	(8,796)
Accounts payable	15,498	9,471
Accrued payroll and other compensation	2,443	(2,432)
Accrued taxes	396	877
Other, net	(2,976)	1,209
Net cash provided by (used for) operating activities	14,370	(3,962)
Cash flows from investing activities:		
Capital expenditures	(9,239)	(7,676)
Proceeds from the sale of property, plant and equipment	256	—
Net cash used for investing activities	(8,983)	(7,676)
Cash flows from financing activities:		
Debt repayments	(7,067)	(57)
Common stock issued	—	666
Common stock repurchased	(43)	(823)
Net cash used for financing activities	(7,110)	(214)
Effect of exchange rate changes on cash	360	1,080
Decrease in cash and cash equivalents	(1,363)	(10,772)
Cash and cash equivalents at beginning of period	49,237	59,875
Cash and cash equivalents at end of period	$47,874	$49,103

Non-cash capital expenditures of $3.1 million and $4.2 million were included in accounts payable at March 31, 2019 and 2018, respectively.

See accompanying Notes to Condensed Consolidated Financial Statements.

LYDALL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

In thousands of dollars and shares	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
Balance at December 31, 2018	25,254	$ 253	$ 90,851	$ 411,325	$ (42,685)	$ (90,469)	$ 369,275
Net Income				3,890			3,890
Other comprehensive loss, net of tax					(587)		(587)
Stock repurchased						(42)	(42)
Stock issued (canceled) under employee plans	(26)	(1)					(1)
Stock-based compensation expense			862				862
Adoption of ASC 606 (1)				(183)			(183)
Balance at March 31, 2019	25,228	252	91,713	415,032	(43,272)	(90,511)	373,214

In thousands of dollars and shares	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
Balance at December 31, 2017	25,018	$ 250	$ 88,006	$ 374,783	$ (20,148)	$ (89,495)	$ 353,396
Net Income				11,054			11,054
Other comprehensive income, net of tax					2,845		2,845
Stock repurchased						(823)	(823)
Stock issued under employee plans	50	1	666				667
Stock-based compensation expense			1,096				1,096
Adoption of ASC 606				1,598			1,598
Balance at March 31, 2018	25,068	251	89,768	387,435	(17,303)	(90,318)	369,833

(1) During the quarter ended March 31, 2019, the Company recorded an adjustment reducing retained earnings and contract assets by $0.2 million to correct an error in the adoption of ASC 606.

See accompanying Notes to Condensed Consolidated Financial Statements.

LYDALL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Financial Statement Presentation

Description of Business

Lydall, Inc. and its subsidiaries (the “Company” or “Lydall”) design and manufacture specialty engineered nonwoven filtration media, industrial thermal insulating solutions, and thermal and acoustical barriers for filtration/separation and heat abatement and sound dampening applications.

On August 31, 2018, the Company acquired an engineered sealing materials business operating under Interface Performance Materials ("Interface"), based in Lancaster, Pennsylvania for $268.4 million, net of cash acquired of $5.2 million. A globally-recognized leader in the delivery of engineered sealing solutions, the Interface operations manufacture wet-laid gasket and specialty materials primarily serving OEM and Tier I manufacturers in the agriculture, construction, earthmoving, industrial, and automotive segments. The acquired business is included in the Company's Performance Materials operating segment.

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements include the accounts of Lydall, Inc. and its subsidiaries. All financial information is unaudited for the interim periods reported. All significant intercompany transactions have been eliminated in the Condensed Consolidated Financial Statements. The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The operating results of Interface have been included in the Consolidated Statements of Operations beginning on the date of acquisition. The year-end Condensed Consolidated Balance Sheet was derived from the December 31, 2018 audited financial statements, but does not include all disclosures required by U.S. GAAP. Management believes that all adjustments, which include only normal recurring adjustments necessary for a fair statement of the Company’s condensed consolidated financial position, results of operations and cash flows for the periods reported, have been included. For further information, refer to the audited consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

Recent Accounting Pronouncements

Effective January 1, 2019, the Company adopted the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, "Leases (Topic 842)", along with several additional clarification ASU's issued during 2018, collectively "New Lease Standard". The New Lease Standard requires entities that lease assets with lease terms of more than 12 months to recognize right-of-use assets and lease liabilities created by those leases on their balance sheets. This New Lease Standard also requires new qualitative and quantitative disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The Company's adoption of the New Lease Standard was on a modified retrospective basis and did not have any impact on the Company's 2018 financial statements and disclosures. As part of the adoption of the New Lease Standard, the Company elected the package of practical expedients which allowed the Company to not re-assess 1) if any existing arrangements contained a lease, 2) the lease classification of any existing leases and 3) initial direct costs for any existing lease. The Company also elected the practical expedient which allows use of hindsight in determining the lease term for leases in existence at the date of adoption. Effective January 1, 2019, the

Company reported lease right-of-use assets and lease liabilities on the Company's Condensed Consolidated Balance Sheets. Adoption of the New Lease Standard did not change the balances reported in the Company's 2019 Condensed Consolidated Statements of Operations, Condensed Consolidated Statements of Cash Flows, or Condensed Statements of Comprehensive Income. Please refer to Footnote 8 "Leases" for additional information required as part of the adoption of the New Lease Standard.

Effective January 1, 2019, the Company adopted the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Account for Hedging Activities". This ASU provides various improvements revolving around the financial reporting of hedging relationships that requires an entity to amend the presentation and disclosure of hedging activities to better portray the economic results of an entity's risk management activities in its financial statements. The adoption of this ASU did not have any impact on the Company’s consolidated financial statements and disclosures.

Effective January 1, 2019, the Company adopted FASB issued ASU No. 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income". This ASU allows for reclassification of stranded tax effects resulting from the 2017 Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings, but does not require the reclassification. The Company has elected not to reclassify the income tax effects of the 2017 Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings.

Effective January 1, 2019, the Company adopted FASB issued ASU No. 2018-07, Compensation - Stock Compensation (Topic 718) (“ASU 2018-07”). ASU 2018-07 expands the guidance for stock-based compensation to include share-based payment transactions for acquiring goods and services from nonemployees. The adoption of this ASU did not have any impact on the Company’s consolidated financial statements and disclosures.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326)". The new standard amends guidance on reporting credit losses for assets held at amortized cost basis. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating the impact this guidance may have on its consolidated financial statements and disclosures.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement (“ASU 2018-13”), which adds, amends and removes certain disclosure requirements related to fair value measurements. Among other changes, this standard requires certain additional disclosure surrounding Level 3 assets, including changes in unrealized gains or losses in other comprehensive income and certain inputs in those measurements. ASU 2018-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain amended or eliminated disclosures in this standard may be adopted early, while certain additional disclosure requirements in this standard can be adopted on its effective date. In addition, certain changes in the standard require retrospective adoption, while other changes must be adopted prospectively. The Company is currently evaluating the impact of this update on its consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-14, "Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans." This ASU requires entities to disclose the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates. This ASU also requires entities to disclose an explanation for significant gains and losses related to changes in the benefit obligation for the period. This ASU is effective for fiscal years beginning after December 15, 2020 with early adoption permitted. The Company is currently evaluating the method and impact the adoption of ASU 2018-14 will have on the Company’s consolidated financial statements and disclosures.

In August 2018, the FASB issued ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40); Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments in this update require implementation costs incurred by customers in cloud computing arrangements (i.e., hosting arrangements) to be capitalized under the same premises of authoritative guidance for internal-use software, and deferred over the noncancellable term of the cloud computing arrangement plus any option renewal periods that are reasonably certain to be exercised by the customer or for which the exercise is controlled by the service provider. The Company is required to adopt this new guidance in the first quarter of 2020. Early adoption is permitted. The Company is currently evaluating the impact of this update on its consolidated financial statements and related disclosures.

Significant Accounting Policies

The Company’s significant accounting policies are detailed in Note 1 “Significant Accounting Policies” within Part IV Item 15 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2018. Significant changes to these accounting policies as a result of adopting the New Lease Standard are discussed within Note 8, “Leases”.

2. Revenue from Contracts with Customers

The Company accounts for revenue in accordance with ASC 606, Revenue from Contracts from Customers. These revenues are generated from the design and manufacture of specialty engineered filtration media, industrial thermal insulating solutions, automotive thermal and acoustical barriers for filtration/separation and thermal/acoustical applications. The Company’s revenue recognition policies require the Company to make significant judgments and estimates. In applying the Company’s revenue recognition policy, determinations must be made as to when control of products passes to the Company’s customers which can be either at a point in time or over time. Revenue is generally recognized at a point in time when control passes to customers upon shipment of the Company’s products and revenue is generally recognized over time when control of the Company’s products transfers to customers during the manufacturing process. The Company analyzes several factors, including but not limited to, the nature of the products being sold and contractual terms and conditions in contracts with customers to help the Company make such judgments about revenue recognition.

Contract Assets and Liabilities

The Company’s contract assets primarily include unbilled amounts typically resulting from sales under contracts when the over time method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer. These unbilled accounts receivable in contract assets are transferred to accounts receivable upon invoicing, typically when the right to payment becomes unconditional in which case payment is due based only upon the passage of time.

The Company's contract liabilities primarily relate to billings and advance payments received from customers, and deferred revenue. These contract liabilities represent the Company's obligation to transfer its products to its customers for which the Company has received, or is owed consideration from its customers. Contract liabilities are included in deferred revenue on the Company's Condensed Consolidated Balance Sheets.

Contract assets and liabilities consisted of the following:

In thousands	March 31, 2019	December 31, 2018	Dollar Change
Contract assets	$ 22,322	$ 23,040	$ (718)
Contract liabilities	$ 3,418	$ 4,537	$ (1,119)

The $0.7 million decrease in contract assets from December 31, 2018 to March 31, 2019 was primarily due to timing of billings to customers.

The $1.1 million decrease in contract liabilities from December 31, 2018 to March 31, 2019 was primarily due to revenue recognized of $2.3 million in the first three months of 2019 related to contract liabilities at December 31, 2018, partially offset by an increase in customer deposits.

Disaggregated Revenue

The Company disaggregates revenue from customers by geographic region, as it believes this disclosure best depicts how the nature, amount, timing and uncertainty of the Company's revenue and cash flows are affected by economic factors. Disaggregated revenue by geographical region for the quarters ended March 31, 2019 and 2018 were as follows:

	Quarter Ended March 31, 2019				
In thousands	Performance Materials	Technical Nonwovens	Thermal Acoustical Solutions	Eliminations and Other	Consolidated Net Sales
North America	$ 46,377	$ 37,189	$ 63,602	$ (6,268)	$ 140,900
Europe	16,657	19,049	26,442	(206)	61,942
Asia	1,546	9,368	4,269	—	15,183
Total Net Sales	$ 64,580	$ 65,606	$ 94,313	$ (6,474)	$ 218,025

	Quarter Ended March 31, 2018				
In thousands	Performance Materials	Technical Nonwovens	Thermal Acoustical Solutions	Eliminations and Other	Consolidated Net Sales
North America	$ 19,161	$ 39,133	$ 69,979	$ (7,826)	$ 120,447
Europe	11,532	19,386	28,055	(185)	58,788
Asia	—	9,022	3,403	—	12,425
Total Net Sales	$ 30,693	$ 67,541	$ 101,437	$ (8,011)	$ 191,660

3. Acquisitions

On August 31, 2018, the Company completed the acquisition of Interface Performance Materials ("Interface"), based in Lancaster, Pennsylvania. A globally-recognized leader in the delivery of engineered sealing solutions, the Interface operations manufacture wet-laid gasket and specialty materials primarily serving OEM and Tier I manufacturers in the Agriculture, Construction, Earthmoving, Industrial, and Automotive segments. The transaction strengthens the Company's position as an industry-leading global provider of filtration and engineered materials and expands the Company's end markets into attractive adjacencies. The Company acquired one hundred percent of Interface for $268.4 million, net of cash acquired of $5.2 million, subject to a post-closing purchase price adjustment which has not yet been finalized. The purchase price was financed with a combination of cash on hand and $261.4 million of borrowings from the Company's amended $450 million credit facility. The operating results of the Interface businesses have been included in the Consolidated Statements of Operations since August 31, 2018, the date of acquisition, and are reported within the Performance Materials reporting segment.

For the quarter ended March 31, 2019, Interface reported net sales and operating loss of $32.9 million and $0.8 million, respectively. Interface's operating loss for the quarter ended March 31, 2019 included $4.0 million of intangible assets amortization expense in selling, product development and administrative expenses. There were no sales or operating income for Interface during the quarter ended March 31, 2018 as the acquisition was completed on August 31, 2018.

The following table presents the preliminary determination of the fair value of identifiable assets acquired and liabilities assumed from the Company's acquisition of Interface. The final determination of the fair value of certain assets and liabilities will be completed within the one year measurement period as required by the FASB ASC Topic 805, “Business Combinations.” As the Company finalizes the fair value of assets acquired and liabilities assumed, additional purchase price adjustments may be recorded during the measurement period within one year of the acquisition date. Fair value estimates are based on a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions. The judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact the Company's results of operations. The finalization of the purchase accounting assessment may result in a change in the valuation of assets acquired and liabilities assumed and may have a material impact on the Company's results of operations and financial position.

In thousands	
Accounts receivable	$25,182
Inventories	17,313
Prepaid expenses and other current assets	2,382
Property, plant and equipment	40,902
Goodwill (Note 5)	130,991
Other intangible assets (Note 5)	106,900
Other assets	308
Total assets acquired, net of cash acquired	$323,978
Current liabilities	$(11,319)
Deferred tax liabilities	(24,904)
Benefit plan liabilities (Note 12)	(18,352)
Other long-term liabilities	(1,031)
Total liabilities assumed	(55,606)
Total purchase price, net of cash acquired	$268,372

The following table reflects the unaudited actual results of the Company for the quarter ended March 31, 2019 and the pro forma operating results of the Company for the quarter ended March 31, 2018, which gives effect to the acquisition of Interface as if it had occurred on January 1, 2017. The pro forma information includes the historical financial results of the Company and Interface. The pro forma results are not necessarily indicative of the operating results that would have occurred had the acquisition been effective January 1, 2017, nor are they intended to be indicative of results that may occur in the future. The pro forma information does not include the effects of any synergies related to the acquisition.

	Quarter Ended March 31,	
	(Actual)	(Pro Forma)
In thousands	2019	2018
Net sales	$218,025	$231,077
Net income	$3,890	$10,946
Earnings per share:		
Basic	$0.23	$0.64
Diluted	$0.22	$0.63
Basic	17,254	17,164
Diluted	17,318	17,339

Included in net income during the quarter ended March 31, 2019 was $3.1 million of intangible assets amortization expense related to acquired Interface intangible assets and $2.6 million of interest expense primarily to finance the Interface acquisition.

Pro forma adjustments during the quarter ended March 31, 2018 reduced net income by $1.5 million. Included in net income for the quarter ended March 31, 2018 was $3.1 million of intangible assets amortization expense and $2.5 million of interest expense associated with borrowings under the Company's Amended Credit Facility. Net income was adjusted to exclude items such as Interface management fee expenses and tax valuation allowance expenses.

On July 12, 2018, the Company acquired certain assets and assumed certain liabilities of the Precision Filtration division of Precision Custom Coatings ("PCC") based in Totowa, NJ. Precision Filtration is a producer of high-quality, air filtration media principally serving the commercial and residential HVAC markets with a range of low efficiency through high-performing air filtration media. The Company acquired the assets and liabilities of PCC for $1.6 million in cash with additional cash payments of up to $2.0 million to be made based on the achievement of certain future financial targets through 2022. PCC had a minimal impact on the Company's sales and operating income for the quarter ended March 31, 2019.

4. Inventories

Inventories as of March 31, 2019 and December 31, 2018 were as follows:

In thousands	March 31, 2019	December 31, 2018
Raw materials	$ 43,447	$ 37,731
Work in process	16,450	18,296
Finished goods	31,151	28,438
Total inventories	$ 91,048	$ 84,465

Included in work in process is gross tooling inventory of $2.4 million and $4.3 million at March 31, 2019 and December 31, 2018, respectively.

5. Goodwill and Other Intangible Assets

Goodwill:

The Company tests its goodwill for impairment annually in the fourth quarter, and whenever events or changes in circumstances indicate that the carrying value may exceed its fair value.

The changes in the carrying amount of goodwill by segment as of and for the three months ended March 31, 2019 were as follows:

In thousands	December 31, 2018	Currency translation adjustments	Additions	March 31, 2019
Performance Materials	$ 144,626	$ (209)	$ —	$ 144,417
Technical Nonwovens	52,337	268	—	52,605
Total goodwill	$ 196,963	$ 59	$ —	$ 197,022

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Other Intangible Assets:

The table below presents the gross carrying amount and, as applicable, the accumulated amortization of the Company’s acquired intangible assets other than goodwill included in “Other intangible assets, net” in the Condensed Consolidated Balance Sheets as of March 31, 2019 and December 31, 2018:

	March 31, 2019		December 31, 2018	
In thousands	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Customer Relationships	$141,631	$ (16,259)	$141,455	$ (11,453)
Patents	4,252	(3,771)	4,333	(3,816)
Technology	2,500	(853)	2,500	(810)
Trade Names	7,238	(3,413)	7,235	(2,840)
License Agreements	610	(610)	619	(619)
Other	560	(560)	561	(561)
Total amortized intangible assets	$156,791	$ (25,466)	$156,703	$ (20,099)

6. Long-term Debt and Financing Arrangements

On August 31, 2018, the Company amended and restated its $175 million senior secured revolving credit agreement ("Amended Credit Agreement") that increased the available borrowing from $175 million to $450 million, added three additional lenders and extended the maturity date from July 7, 2021 to August 31, 2023.

Under the terms of the Amended Credit Agreement, the lenders are providing up to a $450 million credit facility (the “Facility”) to the Company, under which the lenders provided a term loan commitment of $200 million and revolving loans to or for the benefit of the Company and its subsidiaries of up to $250 million. The Facility may be increased by an aggregate amount not to exceed $150 million through an accordion feature, subject to specified conditions. The Facility is secured by substantially all of the assets of the Company.

Interest is charged on borrowings at the Company’s option of either: (i) Base Rate plus the Applicable Rate, or (ii) the Eurodollar Rate plus the Applicable Rate. The Base Rate is a fluctuating rate equal to the highest of (a) the federal funds rate plus 0.50%, (b) the prime rate as set by Bank of America, and (c) the Eurocurrency Rate plus 1.00%. The Eurocurrency Rate means (i) if denominated in LIBOR quoted currency, a fluctuating LIBOR per annum rate equal to the London Interbank Offered Rate; (ii) if denominated in Canadian Dollars, the rate per annum equal to the Canadian Dollar Offered Rate; or (iii) the rate per annum as designated with respect to such alternative currency at the time such alternative currency is approved by the Lenders. The Applicable Rate is determined based on the Company’s Consolidated Leverage Ratio (as defined in the Amended Credit Agreement). The Applicable Rate added to the Base Rate Committed Loans ranges from 0.00% to 1.25%, and the Applicable Rate added to Eurocurrency Rate Committed Loans and Letters of Credit ranges from 0.75% to 2.00%. The Company pays a quarterly fee ranging from 0.15% to 0.275% on the unused portion of the revolving commitment. The Company has entered into multiple interest rate swaps to convert a portion of the Company's one-month LIBOR-based borrowings from a variable rate to a fixed rate. See Note 7.

The Company is permitted to prepay term and revolving borrowings in whole or in part at any time without premium or penalty, subject to certain minimum payment requirements, and the Company is generally permitted to irrevocably cancel unutilized portions of the revolving commitments under the Amended Credit Agreement. The Company is required to repay the term commitment in an amount of $2.5 million per quarter beginning with the quarter ending December 31, 2018 through the quarter ending June 30, 2023.

The Amended Credit Agreement contains covenants required of the Company and its subsidiaries, including various affirmative and negative financial and operational covenants. The Company is required to meet certain quarterly financial covenants calculated from the four fiscal quarters most recently ended, including: (i) a minimum consolidated fixed charge coverage ratio, which requires that at the end of each fiscal quarter the ratio of (a) consolidated EBITDA to (b) the sum of consolidated interest charges, redemptions, non-financed maintenance capital expenditures, restricted payments and taxes paid, each as defined in the Amended Credit Agreement, may not be lower than 1.25 to 1.0; and (ii) a consolidated net leverage ratio, which requires that at the end of each fiscal quarter the ratio of consolidated funded indebtedness minus consolidated domestic cash to consolidated EBITDA, as defined in the Amended Credit Agreement, may not be greater than 3.5 to 1.0. The Company was in compliance with all covenants at March 31, 2019.

At March 31, 2019, the Company had borrowing availability of $108.1 million under the Facility, net of $318.0 million of borrowings outstanding and standby letters of credit outstanding of $3.9 million. The borrowings outstanding included a $180.0 million term loan, net of $0.5 million in debt issuance costs being amortized to interest expense over the debt maturity period.

In addition to the amounts outstanding under the Facility, the Company has various acquired foreign credit facilities totaling approximately $8.1 million. At March 31, 2019, the Company's foreign subsidiaries had $2.6 million in standby letters of credit outstanding.

The Company also has finance lease agreements for machinery and equipment at multiple operations requiring monthly principal and interest payments through 2020.

Total outstanding debt consists of:

In thousands	Effective Rate		Maturity	March 31, 2019	December 31, 2018
Revolver loan	4.12	%	8/31/2023	$138,000	$138,000
Term loan, net of debt issuance costs	4.12	%	8/31/2023	179,524	