CTS CORP
Form 10-Q
July 26, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For The Quarterly Period Ended June 30, 2018

OR

o 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: 1-4639

CTS CORPORATION
(Exact name of registrant as specified in its charter)

Indiana	35-0225010
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
4925 Indiana Avenue, Lisle, IL	60532
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: 630-577-8800

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 ¨

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 ¨

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 the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of July 23, 2018: 33,087,043.

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CTS CORPORATION AND SUBSIDIARIES
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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
CTS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS - UNAUDITED
(In thousands of dollars, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net sales	$118,021	$105,686	$231,551	$205,840
Cost of goods sold	76,208	69,892	151,305	135,822
Gross Margin	41,813	35,794	80,246	70,018
Selling, general and administrative expenses	19,621	15,808	36,993	31,056
Research and development expenses	6,476	6,049	12,983	12,052
Restructuring charges	1,172	729	2,367	1,507
Operating earnings	14,544	13,208	27,903	25,403
Other income (expense):				
Interest expense	(571)	(752)	(1,112)	(1,436)
Interest income	472	298	954	551
Other (expense) income, net	(2,874)	1,170	(870)	1,631
Total other (expense) income	(2,973)	716	(1,028)	746
Earnings before income taxes	11,571	13,924	26,875	26,149
Income tax expense	4,362	3,958	8,118	7,699
Net earnings	$7,209	$9,966	$18,757	$18,450
Earnings per share:				
Basic	$0.22	$0.30	$0.57	$0.56
Diluted	$0.21	$0.30	$0.56	$0.55
Basic weighted – average common shares outstanding:	33,051	32,890	33,014	32,846
Effect of dilutive securities	513	461	513	493
Diluted weighted – average common shares outstanding	33,564	33,351	33,527	33,339
Cash dividends declared per share	$0.04	$0.04	$0.08	$0.08

See notes to unaudited condensed consolidated financial statements.

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CTS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME UNAUDITED
(In thousands of dollars)

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net earnings	$7,209	$9,966	$18,757	$18,450
Other comprehensive income:				
Changes in fair market value of derivatives, net of tax	67	(152)	874	608
Changes in unrealized pension cost, net of tax	1,249	942	2,356	1,758
Cumulative translation adjustment, net of tax	(375)	200	(132)	288
Other comprehensive income	$941	$990	$3,098	$2,654
Comprehensive income	$8,150	$10,956	$21,855	$21,104

See notes to unaudited condensed consolidated financial statements.

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CTS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands of dollars)

	(Unaudited) June 30, 2018	December 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	$ 102,861	$ 113,572
Accounts receivable, net	75,597	70,584
Inventories, net	41,671	36,596
Other current assets	11,931	12,857
Total current assets	232,060	233,609
Property, plant and equipment, net	93,630	88,247
Other Assets		
Prepaid pension asset	59,938	57,050
Goodwill	71,057	71,057
Other intangible assets, net	63,557	66,943
Deferred income taxes	20,188	20,694
Other	2,123	2,096
Total other assets	216,863	217,840
Total Assets	$ 542,553	$ 539,696
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	51,652	49,201
Accrued payroll and benefits	9,689	11,867
Accrued liabilities	43,805	41,344
Total current liabilities	105,146	102,412
Long-term debt	57,000	76,300
Long-term pension obligations	6,998	7,201
Deferred income taxes	3,572	3,802
Other long-term obligations	6,077	6,176
Total Liabilities	178,793	195,891
Commitments and Contingencies (Note 10)		
Shareholders' Equity		
Common stock	306,570	304,777
Additional contributed capital	40,034	41,084
Retained earnings	436,274	420,160
Accumulated other comprehensive loss	(75,862)	(78,960)
Total shareholders' equity before treasury stock	707,016	687,061
Treasury stock	(343,256)	(343,256)
Total shareholders' equity	363,760	343,805
Total Liabilities and Shareholders' Equity	$ 542,553	$ 539,696

See notes to unaudited condensed consolidated financial statements.

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CTS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED
(In thousands of dollars)

	Six Months Ended	
	June 30, 2018	June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$18,757	$18,450
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	10,961	9,673
Pension and other post-retirement plan expense (income)	213	(893)
Stock-based compensation	2,186	1,687
Deferred income taxes	(648)	4,497
Loss on sales of fixed assets	2	1
(Gain) loss on foreign currency hedges, net of cash	(76)	73
Changes in assets and liabilities:		
Accounts receivable	(5,452)	(1,950)
Inventories	(5,275)	(4,737)
Other assets	1,280	(76)
Accounts payable	4,779	1,616
Accrued payroll and benefits	(2,028)	(4,735)
Accrued expenses	247	(1,944)
Income taxes payable	3,034	(347)
Other liabilities	(101)	2,115
Pension and other post-retirement plans	(158)	(159)
Net cash provided by operating activities	27,721	23,271
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(14,910)	(9,110)
Proceeds from sale of assets	1	1
Payments for acquisitions, net of cash acquired	—	(19,265)
Net cash used in investing activities	(14,909)	(28,374)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of long-term debt	(749,200)	(790,600)
Proceeds from borrowings of long-term debt	729,900	794,300
Dividends paid	(2,638)	(2,624)
Taxes paid on behalf of equity award participants	(1,429)	(1,569)
Net cash used in financing activities	(23,367)	(493)
Effect of exchange rate changes on cash and cash equivalents	(156)	(395)
Net decrease in cash and cash equivalents	(10,711)	(5,991)
Cash and cash equivalents at beginning of period	113,572	113,805
Cash and cash equivalents at end of period	$102,861	$107,814
Supplemental cash flow information:		
Cash paid for interest	$995	$1,053
Cash paid for income taxes, net	$3,724	$3,515

See notes to unaudited condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
(in thousands except for share and per share data)
June 30, 2018
NOTE 1—Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared by CTS Corporation (“CTS” "we", "our", "us" or the "Company”), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. The unaudited condensed consolidated financial statements should be read in conjunction with the financial statements, notes thereto, and other information included in the Company’s Annual Report on Form 10 K for the year ended December 31, 2017.

The accompanying unaudited condensed consolidated financial statements reflect, in the opinion of management, all adjustments (consisting of normal recurring items) necessary for a fair statement, in all material respects, of the financial position and results of operations for the periods presented. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ materially from those estimates. The results of operations for the interim periods are not necessarily indicative of the results for the entire year.

Changes in Accounting Principles

Beginning in January 2018, CTS adopted the provisions of Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)" under the modified retrospective method, which requires a cumulative effect adjustment to the opening balance of retained earnings on the date of adoption. This approach was applied to contracts not completed as of December 31, 2017. At date of adoption, there was no significant change to our past revenue recognition practices and therefore no adjustment to the opening balance of retained earnings was required.

Beginning in April 2018, CTS elected to adopt the provisions of ASU No. 2017-12 "Derivatives and Hedging (Topic 815): Target Improvements to Accounting for Hedging Activities" under the modified retrospective method, which requires a cumulative effect adjustment to the opening balance of retained earnings. Prior to adoption, the company measured hedge effectiveness for all cash flow hedges quarterly and recognized any ineffectiveness in earnings in the current period. Upon adoption the company elected to review hedge effectiveness qualitatively as described further in Note 12 - Derivative Financial Instruments. At the date of adoption there was no significant hedge ineffectiveness recorded in earnings for hedged assets existing as of January 1, 2018, and therefore no adjustment to the opening balance of retained earnings was required.

Subsequent Events

We have evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through the date the consolidated financial statements are issued.

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NOTE 2 – Revenue Recognition

The core principle of Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five-step process to achieve that core principle:

- Identify the contract(s) with a customer
- Identify the performance obligations
- Determine the transaction price
- Allocate the transaction price
- Recognize revenue when the performance obligations are met

We recognize revenue when the performance obligations specified in our contracts have been satisfied, after considering the impact of variable consideration and other factors that may affect the transaction price. Our contracts normally contain a single performance obligation that is fulfilled on the date of delivery based on shipping terms stipulated in the contract. We usually expect payment within 30 to 90 days from the shipping date, depending on our terms with the customer. None of our contracts as of June 30, 2018, contained a significant financing component. Differences between the amount of revenue recognized and the amount invoiced, collected from, or paid to our customers are recognized as contract assets or liabilities. Contract assets will be reviewed for impairment when events or circumstances indicate that they may not be recoverable.

To the extent the transaction price includes variable consideration, we estimate the amount of variable consideration that should be included in the transaction price utilizing the most likely amount method based on an analysis of historical experience and current facts and circumstances, which requires significant judgment. Variable consideration is included in the transaction price if, in our judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur.

Contract Assets and Liabilities

Contract assets and liabilities included in our Condensed Consolidated Balance Sheets are as follows:

	As of	
	June 30, 2018	December 31, 2017
Contract Assets		
Prepaid rebates included in Other current assets	$64	$52
Prepaid rebates included in Other assets	482	465
Total Contract Assets	$546	$517
Contract Liabilities		
Customer discounts and price concessions included in Accrued liabilities	$(2,323)	$(1,133)
Customer rights of return included in Accrued liabilities	(341)	(462)
Total Contract Liabilities	$(2,664)	$(1,595)

During the three and six months ended June 30, 2018, we recognized a decrease of revenues of $46 and an increase in revenues of $86, respectively, that were included in contract liabilities at the beginning of the period.

The increase in contract liabilities as of June 30, 2018 is primarily due to net increases in estimated future discounts and price concessions, offset by net settlements of products sold with rights of return.

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Disaggregated Revenue

The following table presents revenues disaggregated by the major markets we serve:

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Aero & Defense	$6,024	$4,675	$11,127	$9,332
Industrial	22,773	19,214	43,129	36,326
Medical	9,793	7,474	19,034	14,288
Telecom & IT	5,525	5,602	10,050	10,780
Transportation	73,906	68,721	148,211	135,114
Total	$118,021	$105,686	$231,551	$205,840

NOTE 3 – Accounts Receivable

The components of accounts receivable are as follows:

	As of	
	June 30, 2018	December 31, 2017
Accounts receivable, gross	$76,032	$70,941
Less: Allowance for doubtful accounts	(435)	(357)
Accounts receivable, net	$75,597	$70,584

NOTE 4 – Inventories

Inventories consist of the following:

	As of	
	June 30, 2018	December 31, 2017
Finished goods	$11,778	$9,203
Work-in-process	12,008	12,065
Raw materials	23,529	21,150
Less: Inventory reserves	(5,644)	(5,822)
Inventories, net	$41,671	$36,596

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NOTE 5 – Property, Plant and Equipment

Property, plant and equipment is comprised of the following:

	As of	
	June 30, 2018	December 31, 2017
Land	$1,137	$1,130
Buildings and improvements	68,778	64,201
Machinery and equipment	225,843	223,650
Less: Accumulated depreciation	(202,128)	(200,734)
Property, plant and equipment, net	$93,630	$88,247

Depreciation expense for the three months ended June 30, 2018	$3,774
Depreciation expense for the six months ended June 30, 2018	$7,537

NOTE 6 – Retirement Plans

Pension Plans

Net pension expense (income) for our domestic and foreign plans was as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net pension expense (income)	$78	$(491)	$157	$(924)

The components of net pension expense (income) for our domestic and foreign plans include the following:

	Domestic Pension Plans		Foreign Pension Plans	
	Three Months Ended		Three Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Service cost	$ —	$ —	$ 11	$ 12
Interest cost	1,781	2,068	11	9
Expected return on plan assets (1)	(3,225)	(4,060)	(6)	(5)
Amortization of loss	1,466	1,446	40	39
Expense (income), net	$ 22	$ (546)	$ 56	$ 55

(1) Expected return on plan assets is net of expected investment expenses and certain administrative expenses.

	Domestic Pension Plans		Foreign Pension Plans	
	Six Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Service cost	$ —	$ —	$ 22	$ 24

Interest cost	3,562	4,136	22	17
Expected return on plan assets (1)	(6,450)	(8,121)	(13)	(10)
Amortization of loss	2,932	2,892	82	77
Other cost due to retirement	—	61	—	—
Expense (income), net	$ 44	$ (1,032)	$ 113	$ 108

(1) Expected return on plan assets is net of expected investment expenses and certain administrative expenses.

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Other Post-retirement Benefit Plan

Net post-retirement expense for our other post-retirement plan includes the following components:

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Service cost	$—	$—	$1	$1
Interest cost	39	40	78	80
Amortization of gain	(11)	(25)	(23)	(50)
Expense, net	$28	$15	$56	$31

NOTE 7 – Other Intangible Assets

Intangible assets consist of the following components:

	As of June 30, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Amount
Customer lists/relationships	$64,323	$ (35,387)	$ 28,936
Patents	10,319	(10,319)	—
Technology and other intangibles	44,460	(12,039)	32,421
In process research and development	2,200	—	2,200
Other intangible assets, net	$121,302	$ (57,745)	$ 63,557
Amortization expense for the three months ended June 30, 2018		$ 1,704	
Amortization expense for the six months ended June 30, 2018		$ 3,424	

	As of December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Amount
Customer lists/relationships	$64,323	$ (33,685)	$ 30,638
Patents	10,319	(10,319)	—
Technology and other intangibles	44,460	(10,355)	34,105
In process research and development	2,200	—	2,200
Other intangible assets, net	$121,302	$ (54,359)	$ 66,943
Amortization expense for the three months ended June 30, 2017		$ 1,613	
Amortization expense for the three months ended June 30, 2017		$ 3,149	

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Remaining amortization expense for other intangible assets as of June 30, 2018 is as follows:

	Amortization expense
2018	$ 3,377
2019	6,754
2020	6,624
2021	6,467
2022	6,230
Thereafter	34,105
Total amortization expense	$ 63,557

NOTE 8 – Costs Associated with Exit and Restructuring Activities

Costs associated with exit and restructuring activities are recorded in the Condensed Consolidated Statement of Earnings as a separate component of Operating earnings.

Total restructuring charges, all related to the June 2016 Plan described below, were as follows:

	Three Months Ended	
	June 30, 2018	June 30, 2017
Restructuring charges	$1,172	$ 729

	Six Months Ended	
	June 30, 2018	June 30, 2017
Restructuring charges	$2,367	$ 1,507

In June 2016, we announced plans to restructure operations by phasing out production at our Elkhart facility by the end of 2018 and transitioning it into a research and development center supporting our global operations ("June 2016 Plan"). Additional organizational changes were also implemented in various other locations. During the third quarter of 2017, we revised the June 2016 Plan. The amendment added an additional $1,100 in planned costs related to the relocation of our corporate headquarters in Lisle, IL and our plant in Bolingbrook, IL, both of which will be consolidated into a single facility. The total cost of the plan is expected to be approximately $13,400. The total restructuring liability related to severance and other one-time benefit arrangements under the June 2016 Plan was $1,223 at June 30, 2018, and $1,460 at December 31, 2017. Additional costs related to production line movements, equipment charges, and other costs will be expensed as incurred.

The following table displays the planned restructuring charges associated with the June 2016 Plan as well as a summary of the actual costs incurred through June 30, 2018:

June 2016 Plan	Planned Costs	Actual costs incurred through June 30, 2018
Workforce reduction	$3,075	$ 3,211
Building and equipment relocation	9,025	5,518

Other charges	1,300	825
Total restructuring charges	$13,400	$ 9,554

In April 2014, we announced plans to restructure our operations and consolidate our Canadian operations into other existing facilities as part of our overall plan to simplify our business model and rationalize our global footprint ("April 2014 Plan"). These restructuring actions were completed in 2015. The remaining restructuring liability related to the April 2014 Plan was $433 at June 30, 2018, and $453 at December 31, 2017.

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The following table displays the restructuring liability activity for all plans for the six months ended June 30, 2018:

Restructuring liability at January 1, 2018	$1,913
Restructuring charges	2,367
Cost paid	(2,603)
Other activity (1)	(21)
Restructuring liability at June 30, 2018	$1,656

(1) Other activity includes the effects of currency translation and other charges that do not flow through restructuring expense.

NOTE 9 – Accrued Liabilities

The components of accrued liabilities are as follows:

	As of	
	June 30, 2018	December 31, 2017
Accrued product related costs	$4,716	$ 5,297
Accrued income taxes	8,512	5,475
Accrued property and other taxes	2,080	997
Accrued professional fees	3,055	2,228
Contract liabilities	2,664	1,595
Dividends payable	1,323	1,318
Remediation reserves	14,570	17,067
Other accrued liabilities	6,885	7,367
Total accrued liabilities	$43,805	$ 41,344

NOTE 10 – Contingencies

Certain processes in the manufacture of our current and past products create by-products classified as hazardous waste. We have been notified by the U.S. Environmental Protection Agency, state environmental agencies, and in some cases, groups of potentially responsible parties, that we may be potentially liable for environmental contamination at several sites currently and formerly owned or operated by us. Some sites, such as Asheville, North Carolina and Mountain View, California, are designated National Priorities List sites under the U.S. Environmental Protection Agency's Superfund program. We reserve for probable remediation activities and for claims and proceedings against us with respect to other environmental matters. We record reserves on an undiscounted basis. In the opinion of management, based upon presently available information relating to such matters, adequate provision for probable and estimable costs have been recorded. We do not have any known environmental obligations where a loss is probable or reasonably possible of occurring for which we do not have a reserve, nor do we have any amounts for which we have not reserved because the amount of the loss cannot be reasonably estimated. Due to the inherent nature of environmental obligations, we cannot provide assurance that our ultimate environmental liability will not materially exceed the amount of its current reserve. Our reserve and disclosures will be adjusted accordingly if additional information becomes available in the future.

A roll forward of remediation reserves included in accrued liabilities on the balance sheet is comprised of the following:

	As of	
	June 30, 2018	December 31, 2017
Balance at beginning of period	$17,067	$ 18,176
Remediation expense	1,048	307

Net remediation payments	(3,545)	(1,416)
Balance at end of the period	$14,570	$ 17,067

Unrelated to the environmental claims described above, certain other claims are pending against us with respect to matters arising in the ordinary conduct of our business. Although the ultimate outcome of any potential litigation resulting from these claims cannot be predicted with certainty, and some may be disposed of unfavorably to us, we believe that adequate provision for anticipated costs have been established based upon all presently available information. Except as noted herein, we do not believe we have any pending loss contingencies that are probable or reasonably possible of having a material impact on our consolidated financial position, results of operations, or cash flows.

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NOTE 11 - Debt

Long-term debt was comprised of the following:

	As of	
	June 30, 2018	December 31, 2017
Total credit facility	$300,000	$300,000
Balance outstanding	$57,000	$76,300
Standby letters of credit	$1,940	$2,065
Amount available	$241,060	$221,635
Weighted-average interest rate	3.01 %	2.30 %
Commitment fee percentage per annum	0.25 %	0.25 %

On August 10, 2015, we entered into a five-year credit agreement (“Revolving Credit Facility”) with a group of banks in order to support our financing needs. The Revolving Credit Facility originally provided for a credit line of $200,000. On May 23, 2016, we requested and received a $100,000 increase in the aggregate revolving credit commitments under the existing credit agreement, which increased the credit line from $200,000 to $300,000.

The Revolving Credit Facility includes a swing line sublimit of $15,000 and a letter of credit sublimit of $10,000. Borrowings under the Revolving Credit Facility bear interest, at our option, at the base rate plus the applicable margin for base rate loans or London Interbank Offered Rate ("LIBOR") plus the applicable margin for LIBOR loans. We also pay a quarterly commitment fee on the unused portion of the Revolving Credit Facility. The commitment fee ranges from 0.20% to 0.40% based on the our total leverage ratio.

The Revolving Credit Facility requires, among other things, that we comply with a maximum total leverage ratio and a minimum fixed charge coverage ratio. Failure to comply with these covenants could reduce the borrowing availability under the Revolving Credit Facility. We were in compliance with all debt covenants at June 30, 2018. The Revolving Credit Facility requires that we deliver quarterly financial statements, annual financial statements, auditor certifications, and compliance certificates within a specified number of days after the end of a quarter and year. Additionally, the Revolving Credit Facility contains restrictions limiting our ability to: dispose of assets; incur certain additional debt; repay other debt or amend subordinated debt instruments; create liens on assets; make investments, loans or advances; make acquisitions or engage in mergers or consolidations; engage in certain transactions with our subsidiaries and affiliates; and make stock repurchases and dividend payments. Interest rates on the Revolving Credit Facility fluctuate based upon the LIBOR and the Company’s quarterly total leverage ratio.

We have debt issuance costs related to our long-term debt that are being amortized using the straight-line method over the life of the debt. These costs are included in interest expense in our Condensed Consolidated Statement of Earnings. Amortization expense was approximately $46 for both the three months ended June 30, 2018 and June 30, 2017, respectively, and approximately $93 for both the six months ended June 30, 2018 and June 30, 2017, respectively.

Note 12 - Derivative Financial Instruments

Our earnings and cash flows are subject to fluctuations due to changes in foreign currency exchange rates and interest rates. We selectively use derivative financial instruments including foreign currency forward contracts and interest rate swaps to manage our exposure to these risks.

The use of derivative financial instruments exposes the Company to credit risk, which relates to the risk of nonperformance by a counterparty to the derivative contracts. We manage our credit risk by entering into derivative contracts with only highly rated financial institutions and by using netting agreements.

The effective portion of derivative gains and losses are recorded in accumulated other comprehensive (loss) income until the hedged transaction affects earnings upon settlement, at which time they are reclassified to cost of goods sold or net sales. If it is probable that an anticipated hedged transaction will not occur by the end of the originally specified time period, we reclassify the gains or losses related to that hedge from accumulated other comprehensive (loss) income to other income (expense).

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On April 1, 2018, the company adopted the provisions of ASU 2017-12 "Derivatives and Hedging (Topic 815): Target Improvements to Accounting for Hedging Activities". As a result, hedge effectiveness was reviewed qualitatively by verifying that the critical terms of the hedging instrument and the forecasted transaction continue to match, and that there have been no adverse developments that have increased the risk that the counterparty will default. No recognition of ineffectiveness was recorded in our Condensed Consolidated Statement of Earnings for the three months ended June 30, 2018.

Foreign Currency Hedges

In January of 2016, we began using forward contracts to mitigate currency risk related to a portion of our forecasted foreign currency revenues and costs. The currency forward contracts are designed as cash flow hedges and are recorded in the Condensed Consolidated Balance Sheets at fair value.
We continue to monitor the Company's overall currency exposure and may elect to add cash flow hedges in the future. At June 30, 2018, we had a net unrealized gain of $59 in accumulated other comprehensive (loss) income, of which $5 is expected to be reclassified to income within the next 12 months. At June 30, 2017 we had a net unrealized gain of $428 in accumulated other comprehensive (loss) income. The notional amount of foreign currency forward contracts outstanding was $21.1 million at June 30, 2018.

Interest Rate Swaps
We use interest rate swaps to convert the revolving credit facility's variable rate of interest into a fixed rate. In the second quarter of 2012, CTS entered into four separate interest rate swap agreements to fix interest rates on $50,000 of long-term debt for the periods January 2013 to January 2017. In the third quarter of 2012, we entered into four additional interest rate swap agreements to fix interest rates on $25,000 of long-term debt for the periods January 2013 to January 2017. In the third quarter of 2016, we entered into three additional interest rate swap agreements to fix interest rates on $50,000 of long-term debt for the periods August 2017 to August 2020. The difference to be paid or received under the terms of the swap agreements will be recognized as an adjustment to interest expense when settled. These swaps are treated as cash flow hedges and consequently, the changes in fair value were recorded in other comprehensive (loss) income. The estimated net amount of the existing gains that are reported in accumulated other comprehensive (loss) income that are expected to be reclassified into earnings within the next twelve months is approximately $524.

The location and fair values of derivative instruments designated as hedging instruments in the Condensed Consolidated Balance Sheets as of June 30, 2018, are shown in the following table:

	As of	
	June 30, 2018	December 31, 2017
Interest rate swaps reported in Other current assets	$524	$ 278
Interest rate swaps reported in Other assets	$835	$ 693
Foreign currency hedges reported in Other current assets	$76	$ —
Foreign currency hedges reported in Accrued liabilities	$—	$ (742)

The Company has elected to net its foreign currency derivative assets and liabilities in the balance sheet in accordance with ASC 210-20 (Balance Sheet, Offsetting). On a gross basis, there were foreign currency derivative assets of $301 and foreign currency derivative liabilities of $225.

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The effect of derivative instruments on the Condensed Consolidated Statements of Earnings is as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Foreign Exchange Contracts:				
Gain (loss) recognized in Net sales	$21	$(57)	$(37)	$(59)
Gain (loss) recognized in Cost of goods sold	32	58	140	(86)
(Loss) gain recognized in Selling, general and administrative expense	(4)	13	(5)	10
Loss recognized in Other income	—	(1)	(1)	(9)
Interest Rate Swaps:				
Benefit recorded in Interest expense	$105	$—	$170	$—
Total gain (loss)	$154	$13	$267	$(144)

NOTE 13 – Accumulated Other Comprehensive (Loss) Income

Shareholders' equity includes certain items classified as accumulated other comprehensive (loss) income ("AOCI") in the Condensed Consolidated Balance Sheets, including:

Unrealized gains (losses) on hedges relate to interest rate swaps to convert the revolving credit facility's variable rate of interest into a fixed rate and foreign currency forward contracts used to hedge our exposure to changes in exchange rates affecting certain revenues and costs denominated in foreign currencies. These hedges are designated as cash flow hedges, and we have deferred income statement recognition of gains and losses until the hedged transactions occur, at which time amounts are reclassified into earnings. Further information related to our derivative financial instruments is included in Note 12 - Derivative Financial Instruments and Note 16 – Fair Value Measurements.

Unrealized gains (losses) on pension obligations are deferred from income statement recognition until the gains or losses are realized. Amounts reclassified to income from AOCI are included in net periodic pension income / (expense). Further information related to our pension obligations is included in Note 6 – Retirement Plans.

Cumulative translation adjustments relate to our non-U.S. subsidiary companies that have designated a functional currency other than the U.S. dollar. We are required to translate the subsidiary functional currency financial statements to dollars using a combination of historical, period-end, and average foreign exchange rates. This combination of rates creates the foreign currency translation adjustment component of other comprehensive income.

Changes in exchange rates between the functional currency and the currency in which a transaction is denominated are foreign exchange transaction gains or losses. Transaction losses for the three and six months ended June 30, 2018 were $2,194 and $918, respectively and transaction gains for the three and six months ended June 30, 2017 were $1,162 and $1,557, respectively, which have been included in other income (expense) in the Condensed Consolidated Statement of Earnings.

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The components of accumulated other comprehensive (loss) income for the three months ended June 30, 2018, are as follows:

	As of March 31, 2018	Gain (Loss) Recognized in OCI	Gain (Loss) Reclassified from AOCI to Income	As of June 30, 2018
Changes in fair market value of hedges:				
Gross	$1,332	$ 240	$ (154)	$1,418
Income tax (benefit) expense	(341)	(54)	35	(360)
Net	991	186	(119)	1,058
Changes in unrealized pension cost:				
Gross	(128,672)	—	1,617	(127,055)
Income tax expense (benefit)	52,520	—	(368)	52,152
Net	(76,152)	—	1,249	(74,903)
Cumulative translation adjustment:				
Gross	(1,747)	(368)	—	(2,115)
Income tax expense (benefit)	105	(7)	—	98
Net	(1,642)	(375)	—	(2,017)
Total accumulated other comprehensive (loss) income	$(76,803)	$ (189)	$ 1,130	$(75,862)

The components of accumulated other comprehensive (loss) income for the three months ended June 30, 2017, are as follows:

	As of March 31, 2017	Gain (Loss) Recognized in OCI	Gain (Loss) Reclassified from AOCI to Income	As of June 30, 2017
Changes in fair market value of hedges:				
Gross	$1,308	$ (223)	$ (15)	$1,070
Income tax (benefit) expense	(474)	81	5	(388)
Net	834	(142)	(10)	682
Changes in unrealized pension cost:				
Gross	(150,322)	—	1,466	(148,856)
Income tax expense (benefit)	60,192	—	(524)	59,668
Net	(90,130)	—	942	(89,188)
Cumulative translation adjustment:				
Gross	(2,328)	196	—	(2,132)
Income tax expense	94	4	—	98
Net	(2,234)	200	—	(2,034)
Total accumulated other comprehensive (loss) income	$(91,530)	$ 58	$ 932	$(90,540)

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The components of accumulated other comprehensive (loss) income for the six months ended June 30, 2018, are as follows:

	As of December 31, 2017	Gain (Loss) Recognized in OCI	Gain (Loss) Reclassified from AOCI to Income	As of June 30, 2018
Changes in fair market value of hedges:				
Gross	$ 289	$ 1,397	$ (268)	$ 1,418
Income tax (benefit) expense	(105)	(315)	60	(360)
Net	184	1,082	(208)	1,058
Changes in unrealized pension cost:				
Gross	(130,096)	—	3,041	(127,055)
Income tax expense (benefit)	52,837	—	(685)	52,152
Net	(77,259)	—	2,356	(74,903)
Cumulative translation adjustment:				
Gross	(1,985)	(130)	—	(2,115)
Income tax expense (benefit)	100	(2)	—	98
Net	(1,885)	(132)	—	(2,017)
Total accumulated other comprehensive (loss) income	$ (78,960)	$ 950	$ 2,148	$ (75,862)

The components of accumulated other comprehensive (loss) income for the six months ended June 30, 2017, are as follows:

	As of December 31, 2016	Gain (Loss) Recognized in OCI	Gain (Loss) Reclassified from AOCI to Income	As of June 30, 2017
Changes in fair market value of hedges:				
Gross	$ 116	$ 819	$ 135	$ 1,070
Income tax benefit	(42)	(297)	(49)	(388)
Net	74	522	86	682
Changes in unrealized pension cost:				
Gross	(151,618)	—	2,762	(148,856)
Income tax expense (benefit)	60,672	—	(1,004)	59,668
Net	(90,946)	—	1,758	(89,188)
Cumulative translation adjustment:				
Gross	(2,414)	282	—	(2,132)
Income tax expense	92	6	—	98
Net	(2,322)	288	—	(2,034)
Total accumulated other comprehensive (loss) income	$ (93,194)	$ 810	$ 1,844	$ (90,540)

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NOTE 14 – Shareholders’ Equity

Share count and par value data related to shareholders’ equity are as follows:

	As of	
	June 30, 2018	December 31, 2017
Preferred Stock		
Par value per share	No par value	No par value
Shares authorized	25,000,000	25,000,000
Shares outstanding	—	—
Common Stock		
Par value per share	No par value	No par value
Shares authorized	75,000,000	75,000,000
Shares issued	56,781,065	56,632,488
Shares outstanding	33,087,043	32,938,466
Treasury stock		
Shares held	23,694,022	23,694,022

No common stock repurchases were made during the six months ended June 30, 2018. Through June 30, 2018, we had purchased an aggregate of $7,446 under a board-authorized share repurchase plan allowing for up to $25,000 in stock repurchases. Approximately $17,554 is available for future purchases.

A roll-forward of common shares outstanding is as follows:

	Six Months Ended	
	June 30, 2018	June 30, 2017
Balance at the beginning of the year	32,938,466	32,762,494
Repurchases	—	—
Shares issued upon exercise of stock options	—	—
Restricted share issuances	148,577	170,832
Balance at the end of the period	33,087,043	32,933,326

Certain potentially dilutive restricted stock units are excluded from diluted earning per share because they are anti-dilutive. The number of awards that were anti-dilutive at June 30, 2018 and June 30, 2017 were 72,658 and 122,511, respectively.

NOTE 15 - Stock-Based Compensation

At June 30, 2018, we had five active stock-based compensation plans: the Nonemployee Directors’ Stock Retirement Plan (“Directors’ Plan”), the 2004 Omnibus Long-Term Incentive Plan (“2004 Plan”), the 2009 Omnibus Equity and Performance Incentive Plan (“2009 Plan”), the 2014 Performance & Incentive Plan (“2014 Plan”), and the 2018 Equity and Incentive Compensation Plan ("2018 Plan"). Future grants can only be made under the 2018 Plan.

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The following table summarizes the compensation expense included in selling, general and administrative expenses in the Condensed Consolidated Statements of Earnings related to stock-based compensation plans:

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Service-Based RSUs	$563	$465	$1,018	$1,015
Performance-Based RSUs	643	297	1,153	680
Cash-settled RSUs	57	46	15	(8)
Total	$1,263	$808	$2,186	$1,687
Income tax benefit	285	304	494	634
Net	$978	$504	$1,692	$1,053

The following table summarizes the unrecognized compensation expense related to non-vested RSUs by type and the weighted-average period in which the expense is to be recognized:

	Unrecognized Compensation Expense at June 30, 2018	Weighted-Average Period
Service-Based RSUs	$ 1,973	1.94
Performance-Based RSUs	3,326	1.64
Total	$ 5,299	1.75

We recognize expense on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards.

The following table summarizes the status of these plans as of June 30, 2018:

2018 Plan	2014 Plan	2009 Plan	2004 Plan	Directors' Plan