SPARTON CORP
Form 10-Q
November 05, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 27, 2015
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 1-1000

Sparton Corporation
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Ohio<br>(State or other jurisdiction of<br>incorporation or organization) | 38-1054690<br>(I.R.S. Employer<br>Identification No.) |
| 425 N. Martingale Road, Suite 1000,<br>Schaumburg, Illinois | 60173-2213 |
| (Address of principal executive offices) | (Zip code) |
| (847) 762-5800<br>(Registrant's telephone number, including area code) | |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 such shorter period that the registrant was required to submit and post such files). Yes ý 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. (Check one):

| | |
|---|---|
| Large accelerated filer ¨ | Accelerated filer ý |
| Non-accelerated filer ¨ (Do not check if a smaller reporting company) | Smaller reporting company ¨ |

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

As of October 23, 2015, there were 9,880,527 shares of common stock, $1.25 par value per share, outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.
SPARTON CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share data)

| | September 27, 2015 (Unaudited) | June 30, 2015 |
|---|---|---|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | $2,187 | $14,914 |
| Accounts receivable, net of allowance for doubtful accounts of $480 and $173, respectively | 59,926 | 70,974 |
| Inventories and cost of contracts in progress, net | 86,589 | 79,503 |
| Deferred income taxes | 4,714 | 4,714 |
| Prepaid expenses and other current assets | 7,328 | 5,488 |
| Total current assets | 160,744 | 175,593 |
| Property, plant and equipment, net | 32,896 | 32,608 |
| Goodwill | 72,473 | 74,175 |
| Other intangible assets, net | 43,922 | 45,825 |
| Deferred income taxes | 2,324 | 2,199 |
| Other assets | 7,301 | 7,151 |
| Total assets | $319,660 | $337,551 |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities: | | |
| Accounts payable | $26,508 | $29,948 |
| Accrued salaries and wages | 9,419 | 9,089 |
| Accrued health benefits | 1,515 | 1,510 |
| Performance based payments on customer contracts | — | 1,756 |
| Other accrued expenses | 16,423 | 16,328 |
| Total current liabilities | 53,865 | 58,631 |
| Pension liability | 424 | 424 |
| Long-term debt | 138,800 | 154,500 |
| Environmental remediation | 6,910 | 7,117 |
| Total liabilities | 199,999 | 220,672 |
| Commitments and contingencies | | |
| Shareholders' Equity: | | |
| Preferred stock, no par value; 200,000 shares authorized, none issued | — | — |
| Common stock, $1.25 par value; 15,000,000 shares authorized, 9,880,527 and 9,886,618 shares issued and outstanding, respectively | 12,351 | 12,358 |
| Capital in excess of par value | 16,504 | 16,045 |
| Retained earnings | 92,327 | 89,933 |
| Accumulated other comprehensive loss | (1,521) | (1,457) |
| Total shareholders' equity | 119,661 | 116,879 |
| Total liabilities and shareholders' equity | $319,660 | $337,551 |

See Notes to unaudited consolidated financial statements.

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SPARTON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(Dollars in thousands, except share and per share data)

| | For the First Quarter of Fiscal Years | |
|---|---|---|
| | 2016 | 2015 |
| Net sales | $106,691 | $77,025 |
| Cost of goods sold | 85,553 | 64,172 |
| Gross profit | 21,138 | 12,853 |
| Operating Expense: | | |
| Selling and administrative expenses | 13,624 | 10,584 |
| Internal research and development expenses | 513 | 100 |
| Amortization of intangible assets | 2,503 | 1,340 |
| Total operating expense | 16,640 | 12,024 |
| Operating income | 4,498 | 829 |
| Other income (expense): | | |
| Interest expense | (885) | (746) |
| Interest income | 2 | 2 |
| Other, net | 68 | 146 |
| Total other expense, net | (815) | (598) |
| Income before income taxes | 3,683 | 231 |
| Income taxes | 1,289 | 35 |
| Net income | $2,394 | $196 |
| Income per share of common stock: | | |
| Basic | $0.24 | $0.02 |
| Diluted | $0.24 | $0.02 |
| Weighted average shares of common stock outstanding: | | |
| Basic | 9,780,274 | 9,960,817 |
| Diluted | 9,780,274 | 9,985,111 |

See Notes to unaudited consolidated financial statements.

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SPARTON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(Dollars in thousands)

| | For the First Quarter of Fiscal Years | |
|---|---|---|
| | 2016 | 2015 |
| Net income | $2,394 | $196 |
| Other comprehensive income, net: | | |
| Amortization of unrecognized net actuarial loss, net of tax benefit | 7 | 20 |
| Unrecognized loss on marketable equity securities, net of tax benefit | (71) | — |
| Other comprehensive (loss) income, net | (64) | 20 |
| Comprehensive income | $2,330 | $216 |

See Notes to unaudited consolidated financial statements.

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SPARTON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(Dollars in thousands)

| | For the First Quarter of Fiscal Years | |
|---|---|---|
| | 2016 | 2015 |
| Cash Flows from Operating Activities: | | |
| Net income | $2,394 | $196 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 1,192 | 1,118 |
| Amortization of intangible assets | 2,503 | 1,340 |
| Deferred income taxes | (125) | (36) |
| Stock-based compensation expense | 432 | 449 |
| Excess tax benefit from stock-based compensation | (161) | (974) |
| Amortization of deferred financing costs | 70 | 461 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 11,047 | 12,882 |
| Inventories and cost of contracts in progress | (7,086) | 1,848 |
| Prepaid expenses and other current assets | (1,898) | (512) |
| Performance based payments on customer contracts | (1,756) | 6,898 |
| Accounts payable and accrued expenses | (2,179) | (5,053) |
| Net cash provided by operating activities | 4,433 | 18,617 |
| Cash Flows from Investing Activities: | | |
| Acquisition of businesses, net of cash acquired | — | (18,260) |
| Purchases of property, plant and equipment | (1,480) | (1,013) |
| Net cash used in investing activities | (1,480) | (19,273) |
| Cash Flows from Financing Activities: | | |
| Borrowings on long-term debt | 18,000 | 20,014 |
| Repayment on long-term debt | (33,700) | (19,014) |
| Payment of debt financing costs | — | (982) |
| Repurchase of stock | (141) | (1,830) |
| Proceeds from the exercise of stock options | — | 12 |
| Excess tax benefit from stock-based compensation | 161 | 974 |
| Net cash used in financing activities | (15,680) | (826) |
| Net decrease in cash and cash equivalents | (12,727) | (1,482) |
| Cash and cash equivalents at beginning of period | 14,914 | 8,028 |
| Cash and cash equivalents at end of period | $2,187 | $6,546 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | $663 | $291 |
| Cash paid for income taxes | $2 | $1,529 |
| Supplemental disclosure of non-cash investing activities: | | |
| Adjustments to acquired companies opening balance sheets | $1,702 | $832 |

See Notes to unaudited consolidated financial statements.

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SPARTON CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except share and per share data)

(1) Business and Basis of Presentation

The accompanying unaudited 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 footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Additionally, the consolidated financial statements should be read in conjunction with Item 2 of Management's Discussion and Analysis of Financial Condition and Results of Operations, included in this Quarterly Report on Form 10-Q.

For fiscal year 2016, the Company has changed from a calendar year to a 52-53 week year (5-4-4 basis) ending on the Sunday closest to June 30. Therefore, the financial results of certain fiscal years, and the associated 14 week quarters, will not be exactly comparable to the prior and subsequent 52 week fiscal years and the associated quarters having only 13 weeks. The change was not deemed a change in fiscal year for purposes of reporting subject to Rule 13a-10 or 15d-10; hence, a transition report is not required to be filed on Form 10-K for the year ended June 30, 2015 or for the first interim report of fiscal 2016 for the quarter ended September 27, 2015. The Company has made the change in fiscal years on a prospective basis and thus will not impact the Company's financial statements as of and for the year ended June 30, 2015 or any interim period therein. The Company believes the change in fiscal years will provide numerous benefits, including more consistency between reported periods and to better align its reporting periods with the Company's peer group.

Operating results for the quarter ended September 27, 2015 are not necessarily indicative of the results that may be expected for the year ending July 3, 2016.

The consolidated balance sheet at June 30, 2015 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2015.

(2) Acquisitions

The company consummated seven acquisitions in fiscal year 2015. The following table summarizes the pro forma results of operations for the first quarter of fiscal year 2015 had the acquisitions occurred as of the the first day of the quarter:

| | For the First Quarter of Fiscal Year 2015 |
|---|---|
| Net sales | $104,330 |
| Net income | 1,514 |
| Net income per share — basic | 0.15 |
| Net income per share — diluted | 0.15 |

In connection with the acquisitions, certain adjustments were made to the opening balance sheets of the acquired companies based upon the most recent information available. For the first quarter of fiscal year 2016, the adjustments, with offsetting reductions to goodwill, amounted to $1,702.

Certain of the acquisitions included escrow amounts as well as contingent consideration based on future earnings. Other than described above, no additional amounts have been adjusted as of September 27, 2015.

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(3) Inventories and Cost of Contracts in Progress

The following are the major classifications of inventory, net of interim billings:

| | September 27, 2015 | June 30, 2015 |
|---|---|---|
| Raw materials | $53,151 | $60,668 |
| Work in process | 20,711 | 19,047 |
| Finished goods | 13,606 | 7,244 |
| Total inventory and cost of contracts in progress, gross | 87,468 | 86,959 |
| Inventory to which the U.S. government has title due to interim billings | (879) | (7,456) |
| Total inventory and cost of contracts in progress, net | $86,589 | $79,503 |

(4) Property, Plant and Equipment, Net

Property, plant and equipment, net consists of the following:

| | September 27, 2015 | June 30, 2015 |
|---|---|---|
| Land and land improvements | $1,429 | $1,429 |
| Buildings and building improvements | 27,512 | 27,482 |
| Machinery and equipment | 38,082 | 36,923 |
| Construction in progress | 1,466 | 2,278 |
| Total property, plant and equipment | 68,489 | 68,112 |
| Less accumulated depreciation | (35,593) | (35,504) |
| Total property, plant and equipment, net | $32,896 | $32,608 |

(5) Goodwill and Other Intangible Assets

Changes in the carrying value of goodwill for the first quarter of fiscal year 2016 are as follows:

| | Manufacturing and Design Services | Engineered Components and Products | Total |
|---|---|---|---|
| Goodwill at June 30, 2015 | $61,512 | $12,663 | $74,175 |
| Adjustments to goodwill during the period | (1,702) | — | (1,702) |
| Goodwill at September 27, 2015 | $59,810 | $12,663 | $72,473 |

The components of other intangible assets, net consist of the following:

| | Net Carrying Value at June 30, 2015 | Additions | Amortization | Net Carrying Value at September 27, 2015 |
|---|---|---|---|---|
| Non-compete agreements | $3,129 | $— | $(238) | $2,891 |
| Customer relationships | 40,126 | 600 | (2,141) | 38,585 |
| Trademarks/Tradenames | 1,551 | — | (48) | 1,503 |
| Unpatented technology | 1,019 | — | (76) | 943 |
| Other intangible assets, net | $45,825 | $600 | $(2,503) | $43,922 |

(6) Debt

The Company has a revolving line-of-credit facility (the “Credit Facility”) of $275,000, which can be expanded by up to $100,000. The facility is secured by substantially all assets of the Company and its subsidiaries and expires on September 11, 2019.

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Outstanding borrowings under the Credit Facility will bear interest, at the Company's option, at either LIBOR, fixed for interest periods of one, two, three or six month periods, plus 1.00% to 1.75%, or at the bank's base rate, as defined, plus 0.00% to 0.75%, based upon the Company's Total Funded Debt/EBITDA Ratio, as defined. The Company is also required to pay commitment fees on unused portions of the Credit Facility ranging from 0.20% to 0.35%, based on the Company's Total Funded Debt/EBITDA Ratio, as defined. The Credit Facility includes representations, covenants and events of default that are customary for financing transactions of this nature. The effective interest rate on outstanding borrowings under the Credit Facility was 2.10% at September 27, 2015. As a condition of the Credit Facility, the Company is subject to certain customary covenants, which it was in compliance with at September 27, 2015.

As of September 27, 2015, the Company had approximately $135,753 available under its $275,000 credit facility, reflecting borrowings of $138,800 and certain letters of credit outstanding of $447.

(7) Fair Value Measurements

The Financial Accounting Standards Board ("FASB") ASC topic entitled Fair Value Measurements and Disclosures defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The accounting guidance classifies the inputs used to measure fair value as follows: Level 1 - unadjusted quoted prices in active markets for the identical asset or liability, Level 2 - observable inputs for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability, and Level 3 - unobservable inputs for the asset or liability.

The fair value of the Company's Credit Facility (See Note 6, Debt, of the "Notes to Unaudited Consolidated Financial Statements" in this Quarterly Report on Form 10-Q) approximate its carrying value as the rates on these borrowings are variable and repriced based on current market conditions. Due to the current nature of the Company's accounts receivable and accounts payable, their fair values approximate their carrying value.

The Company holds marketable equity securities of $730 and $846 at September 27, 2015 and June 30, 2015, respectively, that it classifies as available-for-sale and are recorded in other non-current assets on the Consolidated Balance Sheets. These securities are carried at fair value with unrealized gains and losses reflected in Accumulated Other Comprehensive Income and are classified as Level 1 in the fair value hierarchy.

In connection with certain acquisitions, as of September 27, 2015, the Company had recorded $1,530 of contingent consideration using significant unobservable inputs (Level 3).

(8) Income Taxes

The Company's effective income tax rate was 35.0% for the first quarter of fiscal year 2016, compared to 33.7% for the first quarter of fiscal year 2015. The Company's effective income tax rate for the interim periods presented was determined from the Company's estimated annual effective tax rate for the applicable year, which was based on the federal statutory income tax rate, permanent tax differences, foreign income taxes and state income taxes.

(9) Defined Benefit Pension Plan

The Company has a frozen defined benefit pension plan. The net periodic pension expense under the plan was $10 for both the first quarters of fiscal years 2016 and 2015. During the first quarter of fiscal years 2016 and 2015, no contributions were made to the pension plan.

(10) Commitments and Contingencies

From time to time, the Company is involved in various legal proceedings relating to claims arising in the ordinary course of business. The Company is not currently a party to any such legal proceedings, the adverse outcome of which, individually or in the aggregate, is expected to have a material adverse effect on the Company's financial condition or results of operations. Additionally, the Company believes it has sufficient insurance coverage to effectively mitigate any litigation exposure. On October 1, 2015, the Company settled an outstanding legal matter with L-3 for $2,500. The settlement amount was fully accrued on the Company's consolidated balance sheet as of September 27, 2015.

The Company is a party to an environment remediation matter in Albuquerque, New Mexico. As of September 27, 2015 and June 30, 2015, Sparton had accrued approximately $7,584 and $7,792, respectively, as its estimate of the remaining minimum future discounted financial liability regarding this matter, of which approximately $675 is classified as a current liability and included on the balance sheets in other accrued expenses. See the Company’s annual report as filed on Form 10-K for further information.

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The Company is subject to audits by certain federal government agencies, including the Defense Contract Audit Agency and the Defense Contract Management Agency. The agencies audit and evaluate government contracts and government contractors' administrative processes and systems. These agencies review the Company's performance on contracts, pricing practices, cost structure, financial capability and compliance with applicable laws, regulations and standards. They also review the adequacy of the Company's internal control systems and policies, including the Company's purchasing, accounting, estimating, compensation and management information processes and systems. The Company works closely with these agencies to ensure compliance. From time to time, the Company is notified of claims related to noncompliance arising from the audits performed by agencies. Such claims have historically been subject to actions of remediation and/or financial claims that are typically subject to negotiated settlements. The Company believes that it has appropriate reserves established for outstanding issues and is not aware of any other issues of noncompliance that would have a material effect on the Company's financial position or results of operations.

(11) Stock-Based Compensation

The Company has a long-term incentive plan to offer incentive and non-qualified stock options, stock appreciation rights, restricted stock or restricted stock units, performance awards and other stock-based awards, including grants of shares under the Sparton Corporation 2010 Long-Term Incentive Plan (the "2010 Plan").

The following table shows stock-based compensation expense by type of share-based award, included in the consolidated statements of income:

| | For the First Quarter of Fiscal Years | |
|---|---|---|
| | 2016 | 2015 |
| Fair value expense of stock option awards | $122 | $38 |
| Restricted stock units | 218 | 76 |
| Restricted stock | 92 | 335 |
| Total stock-based compensation expense | $432 | $449 |

During the first quarter of fiscal year 2016, the Company awarded an aggregate of 124,722 stock options to certain members of management with an exercise price of $23.02. The fair value of each stock option is estimated at the grant date using the Black-Scholes option pricing method. The Company granted 92,695 stock options during the first quarter of fiscal year 2015.

The following is a summary of activity for the first quarter of fiscal year 2016 related to the 2010 plan:

| | Stock Options | Restricted stock units | Restricted shares |
|---|---|---|---|
| Outstanding at June 30, 2015 | 107,584 | 62,828 | 132,299 |
| Granted | 124,722 | 92,962 | — |
| Vested | — | — | (27,345) |
| Outstanding at September 27, 2015 | 232,306 | 155,790 | 104,954 |

As of September 27, 2015, 19,143 stock options were exercisable.

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(12) Earnings Per Share Data

The following table sets forth the computation of basic and diluted net income per share:

| | For the First Quarter of Fiscal Years | |
|---|---|---|
| | 2016 | 2015 |
| Numerator: | | |
| Net income | $2,394 | $196 |
| Less net income allocated to contingently issuable participating securities | (25) | (3) |
| Net income available to common shareholders | $2,369 | $193 |
| | | |
| Weighted average shares outstanding – Basic | 9,780,274 | 9,960,817 |
| Dilutive effect of stock options | — | 24,294 |
| Weighted average shares outstanding – Diluted | 9,780,274 | 9,985,111 |
| | | |
| Net income available to common shareholders per share: | | |
| Basic | $0.24 | $0.02 |
| Diluted | $0.24 | $0.02 |

For the first quarter of fiscal years 2016 and 2015, 104,954 and 175,666, respectively, of unvested participating restricted shares were included in determining both basic and diluted earnings per share. Potential common shares, excluded from the calculation of diluted net income per share because they were either contingently issuable or their inclusion would be anti-dilutive, were 493,050 for the first quarter of fiscal year 2016.

(13) Business Segments

The Company has identified two reportable segments; Manufacturing & Design Services and Engineered Components & Products. The Company uses an internal management reporting system, which provides important financial data to evaluate performance and allocate the Company's resources on a segment basis. The Company’s Chief Decision Maker (CODM) assesses segment performance and allocates resources to each segment individually.

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Net sales, gross profit, operating income and total assets for the Company's reportable segments for the first quarter of fiscal years 2016 and 2015 are as follows:

| | For the First Quarter of Fiscal Year 2016 | | | | |
|---|---|---|---|---|---|
| | Manufacturing and Design Services | Engineered Components and Products | Corporate and Other Unallocated | Eliminations | Total |
| Sales | $73,957 | $38,089 | $— | $(5,355) | $106,691 |
| Gross profit | 10,296 | 10,842 | — | — | 21,138 |
| Operating income | 2,341 | 6,303 | (4,146) | — | 4,498 |
| Selling and administrative expenses | 5,881 | 3,597 | 4,146 | — | 13,624 |
| Internal research and development expenses | — | 513 | — | — | 513 |
| Depreciation/amortization | 2,815 | 664 | 216 | — | 3,695 |
| Capital expenditures | 1,006 | 45 | 429 | — | 1,480 |
| Total assets at September 27, 2015 | $238,229 | $91,016 | $17,950 | $(27,535) | $319,660 |

| | For the First Quarter of Fiscal Year 2015 | | | | |
|---|---|---|---|---|---|
| | Manufacturing and Design Services | Engineered Components and Products | Corporate and Other Unallocated | Eliminations | Total |
| Sales | $56,251 | $23,069 | $— | $(2,295) | $77,025 |
| Gross profit | 7,086 | 5,767 | — | — | 12,853 |
| Operating income | 2,106 | 3,266 | (4,543) | — | 829 |
| Selling and administrative expenses | 3,729 | 2,312 | 4,543 | — | 10,584 |
| Internal research and development expenses | — | 100 | — | — | 100 |
| Depreciation/amortization | 2,059 | 292 | 107 | — | 2,458 |
| Capital expenditures | 400 | 462 | 151 | — | 1,013 |
| Total assets at June 30, 2015 | $238,777 | $64,880 | $33,894 | $— | $337,551 |

(14) New Accounting Standards

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 ("ASU 2014-09"), Revenue from Contracts with Customers, which amends guidance for revenue recognition. Under the new standard, revenue will be recognized when control of the promised goods or services is transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. The standard creates a five-step model that will generally require companies to use more judgment and make more estimates than under current guidance when considering the terms of contracts along with all relevant facts and circumstances. These include the identification of customer contracts and separating performance obligations, the determination of transaction price that potentially includes an estimate of variable consideration, allocating the transaction price to each separate performance obligation, and recognizing revenue in line with the pattern of transfer. The standard also requires extensive additional disclosures to provide greater insight into revenues recognized and deferred, including quantitative and qualitative information about significant judgments and changes in those judgments made to determine the timing and amount of revenues recognized. ASU 2014-09, as amended by ASU 2015-14, is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Companies have the option of using either a full or modified retrospective approach in applying this standard. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03 ("ASU 2015-03"), Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 changes the presentation of debt issuance costs for term debt in the balance sheet by requiring the debt issuance costs to be presented as a direct deduction from the related debt liability, rather than recorded as an asset. The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2015, and interim periods within those annual periods and will need to be applied retrospectively. Early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11 ("ASU 2015-11"), Simplifying the Measurement of Inventory. ASU 2015-11 clarifies that inventory should be held at the lower of cost or net realizable value. Net realizable value is defined as the estimated selling price, less the estimated costs to complete, dispose and transport such

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inventory. ASU 2015-11 will be effective for fiscal year