Altra Industrial Motion Corp.
Form 10-Q
July 27, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

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: 001-33209

ALTRA INDUSTRIAL MOTION CORP.

(Exact name of registrant as specified in its charter)

Delaware	61-1478870
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)
300 Granite Street, Suite 201, Braintree, MA	02184
(Address of principal executive offices)	(Zip Code)

(781) 917-0600

(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   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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).   Yes   No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See 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		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company.)	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

As of July 24, 2017, 29,309,448 shares of Common Stock, $0.001 par value per share, were outstanding.

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ALTRA INDUSTRIAL MOTION CORP.

Condensed Consolidated Balance Sheets

Amounts in thousands, except share amounts

	June 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 58,981	$ 69,118
Trade receivables, less allowance for doubtful accounts of $5,377 and $3,114 at June 30, 2017 and December 31, 2016, respectively	137,797	120,319
Inventories	142,696	139,840
Income tax receivable	6,417	607
Prepaid expenses and other current assets	14,891	10,429
Assets held for sale	3,967	3,874
Total current assets	364,749	344,187
Property, plant and equipment, net	185,034	177,043
Intangible assets, net	158,766	154,683
Goodwill	198,986	188,841
Deferred income taxes	1,363	2,510
Other non-current assets, net	2,189	2,560
Total assets	$ 911,087	$ 869,824
LIABILITIES, AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 57,451	$ 60,845
Accrued payroll	26,736	31,302
Accruals and other current liabilities	40,129	35,080
Income tax payable	7,740	706
Current portion of long-term debt	371	43,690
Total current liabilities	132,427	171,623
Long-term debt - less current portion and net of unaccreted discount	308,009	325,969
Deferred income taxes	56,132	61,084
Pension liabilities	26,288	23,691
Other long-term liabilities	19,452	4,109
Stockholders' equity:		
Common stock ($0.001 par value, 90,000,000 shares authorized, 28,996,039 and 27,206,162 issued and outstanding at June 30, 2017 and December 31, 2016, respectively)	29	27
Additional paid-in capital	222,913	168,299

Retained earnings	207,439	191,108
Accumulated other comprehensive loss	(61,602)	(76,086)
Total stockholders' equity	368,779	283,348
Total liabilities, and stockholders' equity	$ 911,087	$ 869,824

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

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ALTRA INDUSTRIAL MOTION CORP.

Condensed Consolidated Statements of Operations

Amounts in thousands, except per share data

	Quarter Ended		Year to Date Ended	
	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)
Net sales	$223,357	$ 182,674	$438,792	$ 363,127
Cost of sales	151,231	124,474	300,499	250,297
Gross profit	72,126	58,200	138,293	112,830
Operating expenses:				
Selling, general and administrative expenses	41,619	35,870	82,003	69,406
Research and development expenses	6,160	4,514	12,383	9,078
Restructuring costs	1,198	1,641	3,096	3,194
	48,977	42,025	97,482	81,678
Income from operations	23,149	16,175	40,811	31,152
Other non-operating income and expense:				
Interest expense, net	2,031	2,904	3,736	5,800
Other non-operating income, net	(136)	(205)	(666)	(483)
Loss on extinguishment of convertible debt	—	—	1,797	—
	1,895	2,699	4,867	5,317
Income before income taxes	21,254	13,476	35,944	25,835
Provision for income taxes	5,870	4,127	10,234	7,676
Net income	$15,384	$ 9,349	$25,710	$ 18,159
Weighted average shares, basic	28,978	25,699	28,873	25,699
Weighted average shares, diluted	29,114	25,968	29,042	25,793
Net income per share:				
Basic net income	$0.53	$ 0.36	$0.89	$ 0.71
Diluted net income	$0.53	$ 0.36	$0.89	$ 0.70
Cash dividend declared	$0.17	$ 0.15	$0.32	$ 0.30

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

ALTRA INDUSTRIAL MOTION CORP.

Condensed Consolidated Statements of Comprehensive Income

Amounts in thousands

	Quarter Ended		Year to Date Ended	
	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)
Net Income	$15,384	$ 9,349	$25,710	$ 18,159
Other Comprehensive income:				
Foreign currency translation adjustment	10,275	(4,951)	13,827	(762)
Change in fair value of derivative financial instruments, net of tax	(161)	—	657	—
Other comprehensive loss	10,114	(4,951)	14,484	(762)
Comprehensive income	$25,498	$ 4,398	40,194	17,397

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

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ALTRA INDUSTRIAL MOTION CORP.

Condensed Consolidated Statements of Cash Flows

Amounts in thousands

	Year to Date Ended	
	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)
Cash flows from operating activities		
Net income	$25,710	$ 18,159
Adjustments to reconcile net income to net cash flows:		
Depreciation	12,930	10,487
Amortization of intangible assets	4,685	4,262
Amortization of deferred financing costs	299	393
Loss/(Gain) on foreign currency, net	132	(100)
Accretion of debt discount, net	—	1,962
(Gain)/Loss on disposal of fixed assets	(74)	411
Loss on extinguishment of debt	1,797	—
Stock based compensation	3,153	2,312
Amortization of inventory fair value adjustment	2,347	—
Changes in assets and liabilities:		
Trade receivables	(12,812)	(8,890)
Inventories	(1,473)	238
Accounts payable and accrued liabilities	(9,212)	1,470
Other current assets and liabilities	(1,146)	(698)
Other operating assets and liabilities	(380)	526
Net cash provided by operating activities	25,956	30,532
Cash flows from investing activities		
Purchase of property, plant and equipment	(14,416)	(10,861)
Working capital settlement from prior year acquisitions	2,883	—
Net cash used in investing activities	(11,533)	(10,861)
Cash flows from financing activities		
Payments on 2015 Revolving Credit Facility	(24,054)	(26,507)
Dividend payments	(8,300)	(3,903)
Borrowing under 2015 Revolving Credit Facility	5,000	—
Payments of equipment, working capital notes, mortgages and other debt	(505)	(2,545)
Cash paid to redeem Convertible Notes	(954)	—
Proceeds from mortgages and other debt	—	3,112
Shares surrendered for tax withholding	(386)	(103)
Purchases of common stock under share repurchase program	—	(4,391)
Net cash used in financing activities	(29,199)	(34,337)
Effect of exchange rate changes on cash and cash equivalents	4,639	(1,324)
Net change in cash and cash equivalents	(10,137)	(15,990)
Cash and cash equivalents at beginning of year	69,118	50,320
Cash and cash equivalents at end of period	$58,981	$ 34,330
Cash paid during the period for:		
Interest	$3,752	$ 3,584

Income taxes	11,802	5,176
Non-cash Financing and Investing		
Conversion of Convertible Notes to common stock	$51,851	$ —

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

ALTRA INDUSTRIAL MOTION CORP.

Consolidated Statements of Stockholders' Equity

Amounts in thousands

(Unaudited)

	Common Stock	Shares	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2016	$ 26	25,773	$ 124,834	$ 181,539	$ (63,832)	$ 242,567
Stock-based compensation and vesting of restricted stock	—	19	2,208	—	—	2,208
Net income	—	—	—	18,159	—	18,159
Dividends declared	—	—	—	(7,791)		(7,791)
Changes in Accumulated Other Comprehensive Income	—	—	—	—	(762)	(762)
Repurchases of common stock - 294,013 shares	—	(172)	(4,391)	—	—	(4,391)
Balance at June 30, 2016	$ 26	25,620	$ 122,651	$ 191,907	$ (64,594)	$ 249,990
Balance at January 1, 2017	$ 27	27,206	$ 168,299	$ 191,108	$ (76,086)	$ 283,348
Stock-based compensation and vesting of restricted stock	—	42	2,765	—	—	2,765
Net income	—	—	—	25,710	—	25,710
Conversion of convertible debt	2	1,748	51,849	—	—	51,851
Dividends declared	—	—	—	(9,379)	—	(9,379)
Changes in Accumulated Other Comprehensive Loss	—	—	—	—	14,484	14,484
Balance at June 30, 2017	$ 29	28,996	$ 222,913	$ 207,439	$ (61,602)	$ 368,779

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

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ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

1. Organization and Nature of Operations

Headquartered in Braintree, Massachusetts, Altra Industrial Motion Corp. (the “Company”, “we”, or “our”) is a leading multi-national designer, producer and marketer of a wide range of electro-mechanical power transmission products. The Company brings together strong brands covering over 42 product lines with production facilities in twelve countries. Altra’s leading brands include Ameridrives Couplings, Bauer Gear Motor, Bibby Turboflex, Boston Gear, Delroyd Worm Gear, Formsprag Clutch, Guardian Couplings, Huco, Industrial Clutch, Inertia Dynamics, Kilian Manufacturing, Lamiflex Couplings, Marland Clutch, Matrix, Nuttall Gear, Stieber Clutch, Stromag, Svendborg Brakes, TB Wood’s, Twiflex, Warner Electric, Warner Linear, and Wichita Clutch.

2. Basis of Presentation

The Company’s unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America. These statements should be read in conjunction with the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company’s financial position for the interim periods presented, and cash flows for the interim periods presented. The results are not necessarily indicative of future results. The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure.

3. Recent Accounting Standards

In October 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory (“ASU 2016-16”). This ASU requires entities to recognize the income tax consequences of many intercompany asset transfers at the transaction date. The seller and buyer will immediately recognize the current and deferred income tax consequences of an intercompany transfer of an asset other than inventory. The tax consequences were previously deferred until the asset is sold to a third party or recovered through use. This guidance will be effective for the Company on January 1, 2018. We are currently evaluating this guidance and the impact it will have on our consolidated financial statements.

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-15, Statement of Cash Flows (Topic 230): Classification of certain cash receipts and cash payments (a consensus of the emerging issues task force) (“ASU 2016-15”). This ASU addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. This guidance will be effective for the Company on January 1, 2018. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In February 2015, the FASB issued ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”). The ASU requires management to recognize lease assets and lease liabilities by lessees for all operating leases. The ASU is effective for periods beginning after December 15, 2018 and interim periods therein on a modified retrospective basis. We are currently evaluating the impact this guidance will have on our consolidated financial statements and expect to recognize a significant lease obligation upon adoption.

In May 2014, the FASB issued ASU No. 2014-09 Revenue from Contracts with Customers (“ASU 2014-09”). ASU 2014-09 provides a single principles-based, five-step model to be applied to all contracts with customers. The five steps are to (i) identify the contracts with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when each performance obligation is satisfied. Revenue will be recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration expected in exchange for those goods or services. ASU 2014-09 will be effective for the Company beginning on January 1, 2018 and the standard allows for either full retrospective adoption or modified retrospective adoption. The Company expects to adopt this new guidance using the modified retrospective method that will result in a cumulative effect adjustment as of the date of

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Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

adoption. We are continuing to evaluate the impact that the adoption of this guidance will have on our financial condition, results of operations and the presentation of our consolidated financial statements, but currently do not expect the adoption to be material to our consolidated financial statements.

Recently Adopted Accounting Standards

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). The updated guidance revises aspects of stock-based compensation guidance which include income tax consequences, classification of awards as equity or liabilities, and classification on the statement of cash flows. The Company adopted this guidance on January 1, 2017 which resulted in the recognition of excess tax benefits in our provision for income taxes with the Unaudited Condensed Consolidated Statements of Operations rather than paid-in capital and was not material for the quarter ended June 30, 2017. Additionally, our Unaudited Condensed Consolidated Statements of Cash Flows now present excess tax benefits as an operating activity, adjusted prospectively. Finally, the Company elected to continue to estimate forfeitures based on historical data and recognizes forfeiture compensation expense over the vesting period of the award.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory ("ASU 2015-11"). Under this guidance, entities utilizing the first-in-first-out ("FIFO") or average cost method should measure inventory at the lower of cost or net realizable value, whereas net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The Company adopted this guidance on January 1, 2017. The adoption of this ASU did not have a material impact to our Unaudited Condensed Consolidated Financial Statements.

4. Fair Value of Financial Instruments

Fair value is determined based upon the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, as determined by either the principal market or the most advantageous market. Inputs used in the valuation techniques to derive fair values are classified based on a three-level hierarchy, as follows:

- Level 1- Quoted prices in active markets for identical assets or liabilities.
- Level 2- Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived,
- Level 3- Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

The Company considers all highly liquid investments purchased with a remaining maturity of three months or less to be cash equivalents.

The carrying values of financial instruments, including accounts receivable, cash equivalents, accounts payable, and other accrued liabilities approximate fair value. Debt under the Company's 2015 Credit Agreement approximates the fair value due to the variable rate and the fact that the agreement was renegotiated in the prior period.

The Company determines the fair value of financial instruments using quoted market prices whenever available. When quoted market prices are not available for various types of financial instruments (such as forwards, options and swaps), the Company uses standard models with market-based inputs, which take into account the present value of estimated future cash flows and the ability of the Company or the financial counterparty to perform. For interest rate and cross currency swaps, the significant inputs to these models are interest rate curves for discounting future cash flows and are adjusted for credit risk. For forward foreign currency contracts, the significant inputs are interest rate curves for discounting future cash flows, and exchange rate curves of the foreign currency for translating future cash flows. See additional discussion of the Company's use of financial instruments including a cross-currency swap included in Note 15.

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Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

5. Changes in Accumulated Other Comprehensive Loss by Component

The following is a reconciliation of changes in accumulated other comprehensive loss by component for the periods presented:

	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Plans	Cumulative Foreign Currency Translation Adjustment	Total
Accumulated Other Comprehensive Loss by Component, January 1, 2017	$ (646)	$ (5,668)	$ (69,772)	$ (76,086)
Net current-period Other Comprehensive Income Gain (Loss)	657	(171)	13,998	14,484
Accumulated Other Comprehensive Income (Loss) by Component, June 30, 2017	$ 11	$ (5,839)	$ (55,774)	$ (61,602)

	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Plans	Cumulative Foreign Currency Translation Adjustment	Total
Accumulated Other Comprehensive Loss by Component, January 1, 2016	$ (140)	$ (5,807)	$ (57,885)	$ (63,832)
Net current-period Other Comprehensive Income	—	148	(910)	(762)
Accumulated Other Comprehensive Loss by Component, June 30, 2016	$ (140)	$ (5,659)	$ (58,795)	$ (64,594)

6. Acquisitions

On December 30, 2016, we acquired the shares and certain assets and liabilities of the Stromag business from GKN plc., and as a result, the Company's unaudited condensed consolidated financial statements reflect Stromag's results of operations from the beginning of business on December 30, 2016 forward. Stromag is a leading global manufacturer of highly engineered clutches and brakes, couplings, and limit switches for use in a variety of end markets including renewable energy, crane & hoist, and marine. We refer to this transaction as the Stromag Acquisition.

As of June 30, 2017, the allocation of the purchase price for the Stromag Acquisition is preliminary. The fair value of all the acquired identifiable assets and liabilities is provisional pending finalization of the Company's acquisition accounting. The Company believes that such preliminary allocations provide a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the Company is waiting for additional information necessary to finalize fair value. The Company recorded certain immaterial measurement period adjustments during the quarter ended June 30, 2017. The preliminary purchase price allocations below include such adjustments.

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Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

	Preliminary Purchase Price Allocation
Total purchase price, excluding acquisition costs of approximately $2.9 million	$ 191,852
Cash and cash equivalents	8,758
Trade receivables	24,087
Inventories	23,048
Property, plant and equipment	40,343
Intangible assets	74,795
Prepaid expenses and other current assets	778
Total assets acquired	$ 171,809
Accounts payable	(15,370)
Accrued payroll	(7,171)
Accrued expenses and other current liabilities	(4,357)
Income tax payable	(2,525)
Deferred tax liability	(27,859)
Other long-term liabilities	(1,255)
Pension liability	(15,283)
Total liabilities assumed	$ (73,820)
Net assets acquired	97,989
Excess purchase price over fair value of net assets acquired	$ 93,863

The excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill. This goodwill is not deductible for income tax purposes. The Company expects to develop synergies, such as lower cost country sourcing, global procurement, the ability to cross-sell product, and the ability to penetrate certain geographic areas, as a result of the acquisition of Stromag.

During the second quarter, the Company and the seller completed the working capital adjustment under the sale and purchase agreement which reduced the purchase price by $2.9 million.

Intangible assets acquired consist of:	
Customer relationships	$56,019
Trade names and trademarks	18,776
Total intangible assets	$74,795

Customer relationships are subject to amortization which will be amortized on a straight-line basis over their estimated useful lives of 15 years, which represents the anticipated period over which the Company estimates it will benefit from the acquired assets.

The following table sets forth the unaudited pro forma results of operations of the Company for the quarter and year to date periods ended June 30, 2017, as if the Company had acquired Stromag at the beginning of the period. The pro forma information contains the actual operating results of the Company, including Stromag, adjusted to include the pro forma impact of (i) additional depreciation expense as a result of estimated depreciation based on the fair value of fixed assets and; (ii) additional expense as a result of the estimated amortization of identifiable intangible assets; (iii) additional interest expense for borrowings under the Credit Agreement associated with the Stromag Acquisition. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisition occurred at the beginning of the period or that may be obtained in the future.

	Proforma (unaudited)	
	Quarter Ended June 30, 2016	Year to Date Ended June 30, 2016
Total revenues	$221,061	$437,938
Net income	$11,305	$22,193
Basic earnings per share	$0.44	$0.86
Diluted earnings per share	$0.44	$0.86

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ALTRA INDUSTRIAL MOTION CORP.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

Amounts in thousands, unless otherwise noted

7. Net Income per Share

Basic earnings per share is based on the weighted average number of shares of common stock outstanding, and diluted earnings per share is based on the weighted average number of shares of common stock outstanding and all potentially dilutive common stock equivalents outstanding. Common stock equivalents are included in the per share calculations when the effect of their inclusion is dilutive.

The following is a reconciliation of basic to diluted net income per share:

	Quarter Ended		Year to Date Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net income	$15,384	$9,349	$25,710	$18,159
Shares used in net income per common share - basic	28,978	25,699	28,873	25,699
Dilutive effect of the equity premium on Convertible Notes at the average price of common stock	—	232	—	9
Incremental shares of unvested restricted common stock	136	37	169	85
Shares used in net income per common share - diluted	29,114	25,968	29,042	25,793
Basic net income	$0.53	$0.36	$0.89	$0.71
Diluted net income	$0.53	$0.36	$0.89	$0.70

8. Inventories

Inventories at June 30, 2017 and December 31, 2016 consisted of the following:

	June 30, 2017	December 31, 2016
Raw materials	$43,636	$ 45,507
Work in process	23,529	20,128
Finished goods	75,531	74,205

$142,696 $ 139,840

9. Goodwill and Intangible Assets

Changes in goodwill from January 1, 2017 through June 30, 2017 were as follows:

	Couplings, Clutches & Brakes	Electromagnetic Clutches & Brakes	Gearing	Total
Net goodwill balance January 1, 2017	$ 104,465	$ 37,161	$47,215	$188,841
Measurement period adjustment related to acquisition of Stromag (See Note 6)	$ 712	$ 361	$ -	1,073
Impact of changes in foreign currency and other	8,213	286	573	9,072
Net goodwill balance June 30, 2017	$ 113,390	$ 37,808	$47,788	$198,986

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Amounts in thousands, unless otherwise noted

Other intangible assets as of June 30, 2017 and December 31, 2016 consisted of the following:

	June 30, 2017			December 31, 2016		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Other intangible assets						
Intangible assets not subject to amortization:						
Tradenames and trademarks	$53,158	$ —	$53,158	$50,416	$ —	$50,416
Intangible assets subject to amortization:						
Customer relationships	172,013	67,012	$105,001	164,406	60,761	103,645
Product technology and patents	6,158	5,551	$607	6,090	5,468	622
Total intangible assets	$231,329	$ 72,563	$158,766	$220,912	$ 66,229	$154,683

The Company recorded $2.3 million and $2.1 million of amortization expense in the quarters ended June 30, 2017 and 2016, respectively, and recorded $4.7 million and $4.3 million of amortization expense in the year to date periods ended June 30, 2017 and June 30, 2016, respectively.

The estimated amortization expense for intangible assets is approximately $4.8 million for the remainder of 2017, $9.5 million in each of the next four years and then $63.0 million thereafter.

10. Warranty Costs

The contractual warranty period of the Company's products generally ranges from three months to two years with certain warranties extending for longer periods. Estimated expenses related to product warranties are accrued at the time products are sold to customers and are recorded in accruals and other current liabilities on the unaudited condensed consolidated balance sheet. Estimates are established using historical information as to the nature, frequency and average costs of warranty claims. Changes in the carrying amount of accrued product warranty costs for each of the quarters ended June 30, 2017 and June 30, 2016 are as follows:

	June 30, 2017	June 30, 2016
Balance at beginning of period	$9,158	$9,468

Accrued current period warranty expense	355	930
Payments and adjustments	(1,161)	(1,161)
Balance at end of period	$8,352	$9,237

11. Debt

Outstanding debt obligations at June 30, 2017 and December 31, 2016 were as follows.

	June 30, 2017	December 31, 2016
Debt:		
Revolving Credit Facility	$295,203	$313,620
Convertible Notes	—	45,656
Mortgages	12,883	12,755
Capital leases	294	363
Total debt	308,380	372,394
Less: debt discount, net of accretion	—	(2,735)
Total debt, net of unaccreted discount	$308,380	$369,659
Less current portion of long-term debt	(371)	(43,690)
Total long-term debt, net of unaccreted discount	$308,009	$325,969

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Second Amended and Restated Credit Agreement

On October 22, 2015, the Company entered into a Second Amended and Restated Credit Agreement, which may be amended from time to time (the “2015 Credit Agreement”). Under the 2015 Credit Agreement, the amount of the Company’s prior revolving credit facility was increased to $350 million (the “2015 Revolving Credit Facility”). The amounts available under the 2015 Revolving Credit Facility can be used for general corporate purposes, including acquisitions, and to repay existing indebtedness. The stated maturity of the 2015 Revolving Credit Facility is October 22, 2020.

The amounts available under the 2015 Revolving Credit Facility may be drawn upon in accordance with the terms of the 2015 Credit Agreement. All amounts outstanding under the 2015 Revolving Credit Facility are due on the stated maturity or such earlier time, if any, required under the 2015 Credit Agreement. The amounts owed under the 2015 Revolving Credit Facility may be prepaid at any time, subject to usual notification and breakage payment provisions. Interest on the amounts outstanding under the 2015 Revolving Credit Facility is calculated using either an ABR Rate or Eurodollar Rate, plus the applicable margin. The applicable margins for Eurodollar Loans are between 1.25% to 2.00%, and for ABR Loans are between 0.25% and 1.00%. The amounts of the margins are calculated based on either a consolidated total net leverage ratio (as defined in the 2015 Credit Agreement), or the then applicable rating(s) of the Company’s debt and then to the extent as provided in the 2015 Credit Agreement. The rate at December 31, 2015 was 1.5%. A portion of the 2015 Revolving Credit Facility may also be used for the issuance of letters of credit, and a portion of the amount of the 2015 Revolving Credit Facility is available for borrowings in certain agreed upon foreign currencies. The 2015 Credit Agreement contains various affirmative and negative covenants and restrictions, which among other things, will require the Borrowers to provide certain financial reports to the Lenders, require the Company to maintain certain financial covenants relating to consolidated leverage and interest coverage, limit maximum annual capital expenditures, and limit the ability of the Company and its subsidiaries to incur or guarantee additional indebtedness, pay dividends or make other equity distributions, purchase or redeem capital stock or debt, make certain investments, sell assets, engage in certain transactions, and effect a consolidation or merger. The 2015 Credit Agreement also contains customary events of default.

On October 21, 2016, the Company entered into an agreement to amend the 2015 Credit Agreement. This amendment, which became effective upon closing of the purchase of Stromag, which was December 30, 2016, increased the 2015 Revolving Credit Facility by $75 million to $425 million. The Company used additional borrowings under the increased facility to finance its purchase of Stromag. In addition, the amendment increased the multicurrency sublimit to $250 million and adjusted certain financial covenants. The pricing terms and maturity date under the 2015 Credit Agreement remain unchanged. The Company paid $0.6 million in fees in connection with the October 2016 amendment, which is recorded in other non-current assets.

As of June 30, 2017 we had $295.2 million outstanding on our 2015 Revolving Credit Facility, including $290.9 million outstanding on our USD tranche at an interest rate of 2.80% and $4.3 million outstanding on our Euro tranche at an interest rate of 1.75%. As of June 30, 2017 and December 31, 2016, we had $3.7 million and $4.1 million in letters of credit outstanding, respectively. We had $113.3 million available to borrow under the 2015 Revolving Credit Facility at June 30, 2017 and may borrow an additional $150 million under certain circumstances.

Convertible Senior Notes

In March 2011, the Company issued Convertible Senior Notes (the “Convertible Notes”) due March 1, 2031. The Convertible Notes were guaranteed by the Company’s U.S. domestic subsidiaries. Interest on the Convertible Notes was payable semi-annually in arrears, on March 1 and September 1 of each year, commencing on September 1, 2011 at an annual rate of 2.75%. Proceeds from the offering were $81.3 million, net of fees and expenses that were capitalized.

On December 12, 2016 the Company gave notice to the holders of the Convertible Notes of its intention to redeem all of the Convertible Notes outstanding on January 12, 2017 (the “Redemption Date”), pursuant to the optional redemption provisions in the Indenture. The redemption price for the Convertible Notes was 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but not including, the Redemption Date plus a Make-Whole Premium equal to the present values of the remaining scheduled payments of interest on any Convertible Notes through March 1, 2018 (excluding interest accrued to, but excluding, the Redemption Date). In lieu of receiving the redemption price, holders of the Notes could surrender their Convertible Notes for conversion at any time before January 9, 2017. The conversion rate of the Convertible Notes was 39.0809 shares of the Company’s common stock, for each $1,000 of outstanding principal of the Convertible Notes. As of December 31, 2016, Convertible Notes with an outstanding principal of approximately $39.3 million were converted resulting in the issuance of 1.5 million shares of the Company’s common stock. As a result of the conversion, the Company incurred a loss on extinguishment of debt of approximately $1.9 million and the carrying value of the Convertible Notes was $42.9 million as of December 31, 2016. In January 2017, additional

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Convertible Notes with an outstanding principal of approximately $44.7 million were converted resulting in the issuance of 1.7 million shares of the Company’s common stock, and $0.9 million of Convertible Notes were redeemed for cash. The Company incurred an additional loss on extinguishment of debt of approximately $1.8 million during the quarter ended March 31, 2017. All Convertible Notes were converted or redeemed as of January 12, 2017.

Mortgages

Heidelberg Germany

During 2015, a foreign subsidiary of the Company entered into a mortgage with a bank for €1.5 million, or $1.7 million, secured by its facility in Heidelberg, Germany to replace its previously existing mortgage. The mortgage has an interest rate of 1.79%, which is payable in monthly installments through August 2023. The mortgage has a remaining principal balance of € 1.3 million, or $1.5 million, at June 30, 2017.

Esslingen Germany

During 2015, a foreign subsidiary of the Company entered into a mortgage with a bank for €6.0 million, or $6.7 million, secured by its facility in Esslingen, Germany. The mortgage has an interest rate of 2.5% per year, which is payable in annual interest payments of €0.1 million, or $0.1 million, to be paid in monthly installments. The mortgage had a remaining principal balance of €6.0 million, or $6.8 million, at June 30, 2017. The principal portion of the mortgage will be due in a lump-sum payment in May 2019.

During the quarter ended March 31, 2016, a foreign subsidiary of the Company entered in to a loan with a bank to equip its facility in Zlate Moravce, Slovakia. As of June 30, 2017, the total principal outstanding was €2.1 million, or $2.5 million, and is guaranteed by land security at its parent company facility in Esslingen, Germany. The loan is due in installments from 2016 through 2020, with an interest rate of 1.95%.

Angers France

During 2015, a foreign subsidiary of the Company entered into a mortgage with a bank for €2.0 million, or $2.3 million, secured by its facility in in Angers, France. The mortgage has an interest rate of 1.85% per year which is payable in monthly installments from June 2016 until May 2025. The mortgage had a balance of €1.8 million, or $2.0 million, at June 30, 2017.

Capital Leases

The Company leases certain equipment under capital lease arrangements, whose obligations are included in both short-term and long-term debt. Capital lease obligations amounted to approximately $0.3 million at June 30, 2017 and approximately $0.4 million at December 31, 2016. Assets subject to capital leases are included in property, plant and equipment with the related amortization recorded as depreciation expense.

Overdraft Agreements

Certain of our foreign subsidiaries maintain overdraft agreements with financial institutions. There were no borrowings as of June 30, 2017 or December 31, 2016 under any of the overdraft agreements.

12. Stockholders’ Equity

Stock-Based Compensation

The Company’s 2004 Equity Incentive Plan (the “2004 Plan”) permitted the grant of various forms of stock based compensation to our officers and senior level employees. The 2004 Plan expired in 2014 and, upon expiration, there were 750,576 shares subject to outstanding awards under the 2004 Plan. The 2014 Omnibus Incentive Plan (the “2014 Plan”) was approved by the Company’s shareholders at its 2014 annual meeting. The 2014 Plan provides for various forms of stock based compensation to our directors, executive personnel and other key employees and consultants. Under the 2014 Plan, the total number of shares of common stock available for delivery pursuant to the grant of awards (“Awards”) was originally 750,000. At the Company’s 2017 Annual Meeting, its shareholders approved amendments to the 2014 Plan which, among other things, made an additional 750,000 shares of common stock available for grant under the 2014 Plan. Shares of our common stock subject to Awards awarded under the 2004 Plan and outstanding as of the effective date of the 2014 Plan (except for substitute awards) that terminate without being exercised, expire, are forfeited or

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canceled, are exchanged for Awards that did not involve shares of common stock, are not issued on the stock settlement of a stock appreciation right, are withheld by the Company or tendered by a participant (either actually or by attestation) to pay an option exercise price or to pay the withholding tax on any Award, or are settled in cash in lieu of shares will again be available for Awards under the 2014 Plan.

The restricted shares issued pursuant to the 2014 Plan generally vest ratably over a period ranging from immediately to five years from the date of grant, provided, that the vesting of the restricted shares may accelerate upon the occurrence of certain events. Common stock awarded under the 2014 Plan is generally subject to restrictions on transfer, repurchase rights, and other limitations and rights as set forth in the applicable award agreements. The fair value of the shares repurchased are measured based on the share price on the date of grant.

The 2014 Plan permits the Company to grant, among other things, restricted stock, restricted stock units, and performance share awards to key employees and other persons who make significant contributions to the success of the Company. The restrictions and vesting schedule for restricted stock granted under the 2014 Plan are determined by the Personnel and Compensation Committee of the Board of Directors.

Stock-based compensation expense recorded during the year to date periods ended June 30, 2017 and June 30, 2016, was $3.2 million and $2.3 million, respectively. The Company recognizes stock-based compensation expense on a straight-line basis for the shares vesting ratably under the plan and uses the graded-vesting method of recognizing stock-based compensation expense for the performance share awards based on the probability of the specific performance metrics being achieved over the requisite service period.

The following table sets forth the activity of the Company's restricted stock and performance share grants in the year to date period ended June 30, 2017:

	Shares	Weighted-average grant date fair value
Shares unvested January 1, 2017	199,712	$ 24.68
Shares granted	145,516	39.26
Shares for which restrictions lapsed	(22,716)	39.16
Shares unvested June 30, 2017	322,512	$ 30.85

Total remaining unrecognized compensation cost was $7.5 million as of June 30, 2017, which will be recognized over a weighted average remaining period of 3 years. The fair market value of the shares for which the restrictions have lapsed during the year to date period ended June 30, 2017 was $0.9 million. Restricted shares granted are valued based on the fair market value of the stock on the date of grant.

Share Repurchase Program

In May 2014, our board of directors approved a share repurchase program (the “2014 Program”) authorizing the buyback of up to $50.0 million of the Company’s common stock. Under the 2014 program, the Company was authorized to purchase shares on the open market, through block trades, in privately negotiated transactions, in compliance with SEC Rule 10b-18 (including through Rule 10b5-1 plans), or in any other appropriate manner. The timing of the shares repurchased was at the discretion of management and depended on a number of factors, including price, market conditions and regulatory requirements. Shares acquired through the repurchase program were retired.

On October 19, 2016, our board of directors approved a new share repurchase program authorizing the buyback of up to $30.0 million of the Company's common stock through December 31, 2019. This plan replaces the 2014 Program which was terminated. The Company expects to purchase shares on the open market, through block trades, in privately negotiated transactions, in compliance with SEC Rule 10b-18 (including through Rule 10b5-1 plans), or in any other appropriate manner. The timing of the shares repurchased will be at the discretion of management and will depend on a number of factors, including price, market conditions and regulatory requirements. Shares acquired through the repurchase program will be retired. The Company retains the right to limit, terminate or extend the share repurchase program at any time without prior notice. The Company expects to fund any further repurchases of its common stock through a combination of cash on hand and cash generated by operations. During the year to date period ended June 30, 2017, the Company did not repurchase any of its common stock under the share repurchase program.

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Dividends

The Company declared a dividend of $0.17 per share of common stock related to the quarter ended June 30, 2017 which was accrued in the balance sheet at June 30, 2017.

Future declarations of quarterly cash dividends are subject to approval by the Board of Directors and to the Board's continuing determination that the declaration of dividends are in the best interest of the Company's stockholders and are in compliance with all laws and agreements of the Company applicable to the declaration and payment of cash dividends.

13. Restructuring, Asset Impairment, and Transition Expenses

From time to time, the Company has initiated various restructuring programs and incurred severance and other restructuring costs.

In the quarter ended March 31, 2015, the Company commenced a restructuring plan ("2015 Altra Plan") as a result of weak demand in Europe and to make certain adjustments to improve business effectiveness, reduce the number of facilities and streamline the Company's cost structure. The actions taken pursuant to the 2015 Altra Plan included reducing headcount, facility consolidations and related asset impairments, and limiting discretionary spending to improve profitability.

The following table details restructuring charges incurred by segment for the periods presented.

	Quarter Ended		Year to Date Period Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Couplings, Clutches & Brakes	$488	$ 1,089	$1,849	$ 1,493
Electromagnetic Clutches & Brakes	—	345	—	1,017
Gearing	488	—	784	16
Corporate	222	207	463	668
Total	$1,198	$ 1,641	$3,096	$ 3,194

(1) Certain expenses are maintained at the corporate level and not allocated to the segments. These include various administrative expenses related to corporate headquarters, depreciation on capitalized software costs, non-capitalizable software implementation costs and acquisition related expenses and non-cash partial pension

settlements.

The amounts for the quarter ended June 30, 2017 were comprised of approximately $0.6 million in severance, $0.4 million in consolidation costs, and $0.2 million in other restructuring consolidation costs. The amounts for the year to date period ended June 30, 2017 were comprised of approximately $0.7 million in severance, $1.1 million in consolidation costs, and $1.3 million in other restructuring consolidation costs, and are classified in the accompanying unaudited condensed consolidated statement of income as restructuring costs.

The following is a reconciliation of the accrued restructuring costs between January 1, 2017 and June 30, 2017.

	All Plans
Balance at January 1, 2017	$1,971
Restructuring expense incurred	3,096
Cash payments	(3,631)
Balance at June 30, 2017	$1,436

The total accrued restructuring reserve as of June 30, 2017 relates to severance costs to be paid to former employees which are expected to be paid during 2017 and are recorded in accruals and other current liabilities on the accompanying unaudited condensed consolidated balance sheet. The Company does not expect to incur any additional material restructuring expenses related to the 2015 Altra Plan.

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14. Segments, Concentrations and Geographic Information

Segments

The Company currently operates through three business segments that are aligned with key product types and end markets served:

- Couplings, Clutches & Brakes.

Couplings are the interface between two shafts, which enable power to be transmitted from one shaft to the other. Clutches in this segment are devices which use mechanical, hydraulic, pneumatic, or friction type connections to facilitate engaging or disengaging two rotating members. Brakes are combinations of interacting parts that work to slow or stop machinery. Products in this segment are generally used in heavy industrial applications and energy markets.

- Electromagnetic Clutches & Brakes.

Products in this segment include brakes and clutches that are used to electronically slow, stop, engage or disengage equipment utilizing electromagnetic friction type connections. Products in this segment are used in industrial and commercial markets including agricultural machinery, material handling, motion control, and turf & garden.

- Gearing.

Gears are utilized to reduce the speed and increase the torque of an electric motor or engine to the level required to drive a particular piece of equipment. Gears produced by the Company are primarily utilized in industrial applications.

Segment financial information and a reconciliation of segment results to consolidated results follows:

	Quarters Ended June 30,		Six Months Ended Ended June 30,	
	2017	2016	2017	2016
Net Sales:				
Couplings, Clutches & Brakes	$110,969	$78,157	$217,201	$153,780
Electromagnetic Clutches & Brakes	65,281	57,053	129,159	114,402
Gearing	49,149	49,096	96,177	98,015
Inter-segment eliminations	(2,042)	(1,632)	(3,745)	(3,070)
Net sales	$223,357	$182,674	$438,792	$363,127
Income from operations:				
Segment earnings:				
Couplings, Clutches & Brakes	$12,007	$7,554	$20,352	$13,845
Electromagnetic Clutches & Brakes	8,163	7,068	15,756	13,531
Gearing	6,590	5,867	12,115	11,629
Restructuring	(1,198)	(1,641)	(3,096)	(3,194)

Corporate expenses (1)	(2,413)	(2,673)	(4,316)	(4,659)
Income from operations	$23,149	$16,175	$40,811	$31,152
Other non-operating (income) expense:				
Net interest expense	$2,031	$2,904	$3,736	$5,800
Other non-operating income, net	(136)	(205)	(666)	(483)
Loss on extinguishment of convertible debt	—	—	1,797	—
	1,895	2,699	4,867	5,317
Income before income taxes	21,254	13,476	35,944	25,835
Provision for income taxes	5,870	4,127	10,234	7,676
Net income	$15,384	$9,349	$25,710	$18,159

(1) Certain expenses are maintained at the corporate level and not allocated to the segments. These include various administrative expenses related to corporate headquarters, depreciation on capitalized software costs, non-capitalizable software implementation costs and acquisition related expenses and non-cash partial pension settlements.

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Selected information by segment (continued)

	Quarter Ended		Year to Date Period Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Depreciation and amortization:				
Couplings, Clutches & Brakes	$5,133	$3,770	$10,270	$7,458
Electromagnetic Clutches & Brakes	1,201	1,177	2,416	2,325
Gearing	1,651	1,728	3,301	3,398
Corporate	824	813	1,628	1,568
Total depreciation and amortization	$8,809	$7,488	$17,615	$14,749

	June 30, 2017	December 31, 2016
Total assets:		
Couplings, Clutches & Brakes	$557,642	$511,934
Electromagnetic Clutches & Brakes	185,839	169,507
Gearing	137,713	147,829
Corporate (2)	29,893	40,554
Total assets	$911,087	$869,824

(2) Corporate assets are primarily cash and cash equivalents, tax related asset accounts, certain capitalized software costs, property, plant and equipment and deferred financing costs.

Net sales to third parties by geographic region are as follows:

	Net Sales			
	Quarter Ended		Year to Date Period Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
North America (primarily U.S.)	$115,236	$104,779	$230,376	$216,962
Europe	84,983	59,237	168,275	111,351
Asia and other	23,138	18,658	40,141	34,814
Total	$223,357	$182,674	$438,792	$363,127

Net sales to third parties are attributed to the geographic regions based on the country in which the shipment originates. Amounts attributed to the geographic regions for property, plant and equipment are based on the location of the entity which holds such assets.

Concentrations

Financial instruments, which are potentially subject to counter party performance and concentrations of credit risk, consist primarily of trade accounts receivable. The Company manages these risks by conducting credit evaluations of customers prior to delivery or commencement of services. When the Company enters into a sales contract, collateral is normally not required from the customer. Payments are typically due within 30 days of billing. An allowance for potential credit losses is maintained, and losses have historically been within management’s expectations. While the Company did not have any customers that represented total sales greater than 10% for each of the quarters ended June 30, 2017 and 2016, the Gearing business had one customer that approximated 12% of total sales for that segment during the quarter ended June 30, 2017.

The Company is also subject to counter party performance risk of loss in the event of non-performance by counterparties to financial instruments, such as cash and investments. Cash and cash equivalents are held by well-established financial institutions and invested in AAA rated mutual funds. The Company is exposed to swap counterparty credit risk with well-established financial institutions.

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15. Derivative Financial Instruments

The Company enters into contractual derivative arrangements to manage changes in market conditions related to interest on debt obligations, and foreign currency exposures. Derivative instruments utilized during the period include interest rate swap agreements and foreign currency contracts. All derivative instruments are recognized as either assets or liabilities on the balance sheet at fair value at the end of each period. The counterparties to the Company's contractual derivative agreements are all major international financial institutions. The Company is exposed to credit loss in the event of nonperformance by these counterparties. The Company continually monitors its positions and the credit ratings of its counterparties, and does not anticipate nonperformance by the counterparties. For designated hedging relationships, the Company formally documents the hedging relationship and its risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method of measuring ineffectiveness. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting cash flows of hedged items.

Cross Currency Interest Rate Swaps

The Company is exposed to foreign currency and interest rate cash flow exposure related to non-functional currency long-term debt of the Company’s wholly owned Dutch subsidiary. To manage this foreign currency and interest rate cash flow exposure, the Company entered into a cross-currency interest rate swap that converts $100.0 million of U.S. dollar denominated floating interest payments to functional currency (euro) fixed interest payments during the life of the hedging instrument. In addition, the Company has two cross-currency interest rate swaps that convert an additional $70.0 million of the U.S. dollar denominated floating interest payments to functional currency (euro) floating interest payments during the life of the hedging instruments. The effective period of one of the cross-currency interest rate swaps in the amount of $30 million (the “Initial Swap”) that the Company entered in to as of December 21, 2016 expired as of June 30, 2017. The Company net settled the Initial Swap and a new $30 million cross-currency swap transaction was entered into which will amortize down to $20 million after six-months. The effective period of the second of these two cross-currency interest rate swaps in the amount of $40 million expires on December 31, 2018. As changes in foreign exchange and interest rates impact the future cash flow of interest payments, the hedges are intended to offset changes in cash flows attributable to interest rate and foreign exchange movements.

The Company designated the $100.0 million swap as a cash flow hedge, with the effective portion of the gain or loss on the derivative reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction impacts earnings. There were no amounts recorded for ineffectiveness for the periods reported herein related to the cross-currency interest rate swaps. Changes in the fair value of the derivatives that are not designated as a cash flow hedge are recorded in other operating (income) expense, net.

Changes in the fair value of a derivative that is designated as and meets all the required criteria for a cash flow hedge are recorded in accumulated other comprehensive income and reclassified into earnings as the underlying hedged item affects earnings. As of June 30, 2017, approximately $0.7 million of net unrealized gains related to the cross-currency interest rate swaps were included in accumulated other comprehensive income.

Interest Rate Swap

In January 2017, the Company entered into an interest rate swap agreement designed to fix the variable interest rate payable on a portion of its outstanding borrowings under the 2015 Credit Agreement, for a notional value of $50.0 million, at 1.625%. The effective date was January 31, 2017 and the maturity date is January 31, 2020.

The interest rate swap agreement was designed to manage exposure to interest rates on the Company's variable rate indebtedness. The Company recognizes all derivatives on its balance sheet at fair value. The Company has designated this interest rate swap agreement as a cash flow hedge. Changes in the fair value of the swap will be recognized in other comprehensive income until the hedged items are recognized in earnings. Hedge ineffectiveness, if any, associated with the swap will be reported by the Company in interest expense. As of June 30, 2017, approximately $47 thousand of unrealized loss related to the interest rate swap was included in accumulated other comprehensive income.

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The following table summarizes outstanding swaps which the Company has recorded at June 30, 2017.