MSA Safety Inc
Form 10-Q
April 25, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarter ended March 31, 2019
Commission File No. 1-15579

MSA SAFETY INCORPORATED
(Exact name of registrant as specified in its charter)

Pennsylvania	46-4914539
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1000 Cranberry Woods Drive Cranberry Township, Pennsylvania	16066-5207
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (724) 776-8600

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 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 every Interactive Data File required to be submitted 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 such files). Yes x 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 the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
As of April 23, 2019, 38,688,532 shares of common stock, of the registrant were outstanding.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
MSA SAFETY INCORPORATED
CONDENSED CONSOLIDATED STATEMENT OF INCOME
Unaudited

	Three Months Ended March 31,	
(In thousands, except per share amounts)	2019	2018
Net sales	$326,038	$325,894
Cost of products sold	176,056	178,555
Gross profit	149,982	147,339
Selling, general and administrative	78,429	80,250
Research and development	13,705	12,548
Restructuring charges (Note 4)	5,831	5,274
Currency exchange losses, net (Note 6)	16,961	2,008
Product liability expense (Note 18)	2,896	2,824
Operating income	32,160	44,435
Interest expense	2,360	4,781
Other income, net	(2,579)	(2,340)
Total other (income) expense, net	(219)	2,441
Income before income taxes	32,379	41,994
Provision for income taxes (Note 10)	9,003	9,505
Net income	23,376	32,489
Net income attributable to noncontrolling interests	(144)	(118)
Net income attributable to MSA Safety Incorporated	$23,232	$32,371
Earnings per share attributable to MSA Safety Incorporated common shareholders:		
Basic	$0.60	$0.85
Diluted	$0.59	$0.83
Dividends per common share	$0.38	$0.35

The accompanying notes are an integral part of the consolidated financial statements.

MSA SAFETY INCORPORATED
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Unaudited

	Three Months Ended March 31,	
(In thousands)	2019	2018
Net income	$23,376	$32,489
Other comprehensive income, net of tax:		
Foreign currency translation adjustments (Note 6)	361	13,400
Pension and post-retirement plan actuarial gains, net of tax (Note 6)	2,023	2,329
Unrealized gains on available-for-sale securities (Note 6)	536	—
Reclassification of currency translation from accumulated other comprehensive (loss) into net income (Note 6)	15,359	—
Total other comprehensive income, net of tax	18,279	15,729
Comprehensive income	41,655	48,218
Comprehensive income attributable to noncontrolling interests	(287)	(288)
Comprehensive income attributable to MSA Safety Incorporated	$41,368	$47,930

The accompanying notes are an integral part of the consolidated financial statements.

MSA SAFETY INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEET
Unaudited

(In thousands)	March 31, 2019	December 31, 2018
Assets		
Cash and cash equivalents	$107,668	$140,095
Trade receivables, less allowance for doubtful accounts of $5,115 and $5,369	253,351	245,032
Inventories (Note 3)	172,663	156,602
Investments, short-term (Note 17)	73,619	55,106
Prepaid income taxes	12,252	10,769
Notes receivable, insurance companies (Note 18)	3,586	3,555
Prepaid expenses and other current assets	49,652	45,464
Total current assets	672,791	656,623
Property, plant and equipment, net (Note 5)	156,099	157,940
Operating lease assets, net (Note 14)	52,020	—
Prepaid pension cost	61,500	57,568
Deferred tax assets (Note 10)	29,492	32,522
Goodwill (Note 13)	415,254	413,640
Intangible assets (Note 13)	168,050	169,515
Notes receivable, insurance companies, noncurrent (Note 18)	56,368	56,012
Insurance receivable (Note 18) and other noncurrent assets	59,794	64,192
Total assets	$1,671,368	$1,608,012
Liabilities		
Notes payable and current portion of long-term debt, net (Note 12)	$20,155	$20,063
Accounts payable	75,524	78,367
Employees' compensation	33,740	51,386
Insurance and product liability (Note 18)	32,429	48,688
Income taxes payable (Note 10)	8,208	—
Warranty reserve (Note 18) and other current liabilities	96,214	83,556
Total current liabilities	266,270	282,060
Long-term debt, net (Note 12)	357,304	341,311
Pensions and other employee benefits	166,294	166,101
Noncurrent operating lease liabilities (Note 14)	41,962	—
Deferred tax liabilities (Note 10)	7,613	7,164
Product liability (Note 18) and other noncurrent liabilities	168,640	171,857
Total liabilities	$1,008,083	$968,493
Commitments and contingencies (Note 18)		
Equity		
Preferred stock, 4 1/2% cumulative, $50 par value (Note 7)	$3,569	$3,569
Common stock, no par value (Note 7)	213,099	211,806
Treasury shares, at cost (Note 7)	(302,673)	(298,143)
Accumulated other comprehensive loss (Note 6)	(204,563)	(218,927)
Retained earnings	947,929	935,577
Total MSA Safety Incorporated shareholders' equity	657,361	633,882

Noncontrolling interests	5,924	5,637
Total shareholders' equity	663,285	639,519
Total liabilities and shareholders' equity	$1,671,368	$1,608,012

The accompanying notes are an integral part of the consolidated financial statements.

MSA SAFETY INCORPORATED
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
Unaudited

	Three Months Ended March 31,					
(In thousands)	2019			2018		
Operating Activities						
Net income	$	23,376		$	32,489	
Depreciation and amortization	9,326			9,671		
Stock-based compensation (Note 11)	2,745			5,606		
Pension expense (Note 15)	48			1,488		
Deferred income tax provision (benefit) (Note 10)	1,834			(600		)
Loss on asset dispositions, net	25			17		
Pension contributions (Note 15)	(1,767		)	(1,243		)
Currency exchange losses, net	16,961			2,008		
Product liability expense (Note 18)	2,896			2,824		
Collections on insurance receivables and notes receivable, insurance companies (Note 18)	8,122			17,700		
Product liability payments (Note 18)	(20,003		)	(5,600		)
Changes in:						
Trade receivables	(7,720		)	(6,858		)
Inventories (Note 3)	(16,127		)	(14,513		)
Prepaid expenses and other current assets	(8,055		)	(1,642		)
Accounts payable and accrued liabilities	(10,523		)	(24,372		)
Other noncurrent assets and liabilities	79			378		
Cash Flow From Operating Activities	1,217			17,353		
Investing Activities						
Capital expenditures	(4,897		)	(3,241		)
Purchase of short-term	(52,541		)	—		

investments (Note 17)				
Proceeds from maturities of short-term investments (Note 17)	33,600		—	
Property disposals	12		58	
Cash Flow Used in Investing Activities	(23,826	)	(3,183	)
Financing Activities				
Payments on short-term debt, net	91		99	
Proceeds from long-term debt (Note 12)	133,000		137,500	
Payments on long-term debt (Note 12)	(119,000	)	(147,000	)
Cash dividends paid	(14,652	)	(13,390	)
Company stock purchases (Note 7)	(7,446	)	(2,673	)
Exercise of stock options (Note 7)	1,465		848	
Cash Flow Used in Financing Activities	(6,542	)	(24,616	)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(3,221	)	1,363	
Decrease in cash, cash equivalents and restricted cash	(32,372	)	(9,083	)
Beginning cash, cash equivalents and restricted cash	140,604		137,889	
Ending cash, cash equivalents and restricted cash	$ 108,232		$ 128,806	
Supplemental cash flow information:				
Cash and cash equivalents	$ 107,668		$ 124,883	
Restricted cash included in prepaid expenses and other current assets	564		3,923	
Total cash, cash equivalents and restricted cash	$ 108,232		$ 128,806	

The accompanying notes are an integral part of the consolidated financial statements.

MSA SAFETY INCORPORATED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RETAINED EARNINGS, ACCUMULATED OTHER COMPREHENSIVE LOSS AND NONCONTROLLING INTERESTS
Unaudited

(In thousands)	Retained Earnings	Accumulated Other Comprehensive (Loss)	Noncontrolling Interests
Balances December 31, 2017	$868,675	$ (171,762)	$ 4,977
Net income	32,489	—	—
Foreign currency translation adjustments	—	13,400	—
Pension and post-retirement plan adjustments, net of tax of $1,066	—	2,329	—
Income attributable to noncontrolling interests	(118)	(170)	288
Common dividends	(13,380)	—	—
Preferred dividends ($0.5625 per share)	(10)	—	—
Balances March 31, 2018	$887,656	$ (156,203)	$ 5,265
Balances December 31, 2018	$935,577	$ (218,927)	$ 5,637
Net income	23,376	—	—
Foreign currency translation adjustments	—	361	—
Pension and post-retirement plan adjustments, net of tax of $666	—	2,023	—
Unrealized net gains on available-for-sale securities (Note 17)	—	536	—
Reclassification of currency translation from accumulated other comprehensive (loss) into net income (Note 6)	—	15,359	—
Income attributable to noncontrolling interests	(144)	(143)	287
Common dividends	(14,642)	—	—
Preferred dividends ($0.5625 per share)	(10)	—	—
Reclassification due to the adoption of ASU 2018-02 (Note 2)	3,772	(3,772)	—
Balances March 31, 2019	$947,929	$ (204,563)	$ 5,924

The accompanying notes are an integral part of the consolidated financial statements.

MSA SAFETY INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

Note 1—Basis of Presentation

The condensed consolidated financial statements of MSA Safety Incorporated and its subsidiaries ("MSA" or the "Company") are unaudited. These condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, considered necessary by management to fairly state the Company's results. Intercompany accounts and transactions have been eliminated. The results reported in these condensed consolidated financial statements are not necessarily indicative of the results that may be expected for the entire year. The December 31, 2018 Condensed Consolidated Balance Sheet data was derived from the audited consolidated balance sheet, but does not include all disclosures required by accounting principles generally accepted in the United States of America (U.S. GAAP). This Form 10-Q report should be read in conjunction with MSA's Form 10-K for the year ended December 31, 2018, which includes all disclosures required by U.S. GAAP.

Reclassifications - Certain reclassifications of prior years' data have been made to conform to the current year presentation. These reclassifications relate to (1) additional captions disclosed within the operating section of the unaudited Condensed Consolidated Statement of Cash Flows but do not change the overall cash flow from operating activities for the prior years as previously reported, and (2) additional captions disclosed for product warranty activity within the table that reconciles the changes in the Company's accrued warranty reserve (Note 18—Contingencies).

Note 2—Recently Adopted and Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, Leases. This ASU requires lessees to record a right-of-use asset and a liability for virtually all leases. This ASU was adopted on January 1, 2019, using the modified retrospective transition method at the adoption date. Comparative periods presented in our unaudited condensed consolidated financial statements are reported in accordance with ASC 840, Leases. In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed us to carry forward the historical lease classification. The Company also elected the practical expedient to not separate lease and non-lease components for new leases entered into after January 1, 2019 when calculating the lease liability under this ASU. Adoption of this ASU resulted in the recording of lease liabilities of approximately $54 million with the offset to lease right-of-use assets of $54 million. The standard did not materially impact our unaudited Condensed Consolidated Statement of Income and had no impact on our unaudited Condensed Consolidated Statement of Cash Flows. The new standard also requires increased disclosures to help financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. See additional disclosures in Note 14—Leases.

In June 2016, the FASB issued ASU 2016-13, Allowance for Loan and Lease Losses. This ASU introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments, including loans, held-to-maturity debt securities, loan commitments, financial guarantees and net investments in leases, as well as reinsurance and trade receivables. This ASU will be effective beginning in 2020. Based on a review of its portfolio of financial instruments, the Company has developed a project plan and is in the process of assessing the impact that this ASU will have on our reserve for trade receivables as recorded in our unaudited Condensed Consolidated Balance Sheet. Additionally, we expect the adoption of this ASU to result in additional disclosures.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment. This ASU simplifies the accounting for goodwill impairments under Step 2 by eliminating the requirement to perform procedures to determine the fair value of the assets and liabilities of the reporting unit, including previously unrecognized assets and liabilities, in order to determine the fair value of the goodwill and any impairment charge to be recognized. Under this ASU, the impairment charge to be recognized should be the amount by which the reporting unit's carrying value exceeds the reporting unit's fair value as calculated under Step 1 provided that the loss recognized should not exceed the total amount of goodwill allocated to the reporting unit. The Company adopted ASU 2017-04 on January 1, 2019 and adoption of this ASU may have a material effect on our unaudited condensed consolidated financial statements in the event that we determine that goodwill for any of our reporting units is impaired.

In January 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("AOCI"), which gives entities the option to reclassify to retained earnings the tax effects resulting from the new tax reform legislation commonly known as the Tax Cuts and Jobs Act ("the Act") related to items in AOCI that the FASB refers to as having been stranded in AOCI. The new guidance may be applied retrospectively to each period in which the effect of the Act is recognized in the period of adoption. The Company must adopt this guidance for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. ASU2018-02 requires new disclosures regarding the Company’s accounting policy for releasing the tax effects in accumulated other comprehensive loss and allows the Company to reclassify the effect of remeasuring deferred tax liabilities and assets related to items within accumulated other comprehensive loss using the then newly enacted 21% federal corporate income tax rate. The Company adopted ASU 2018-02 on January 1, 2019 and this adoption resulted in a reclassification that increased retained earnings by $3.8 million, with an offsetting increase to accumulated other comprehensive loss for the same amount.

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, which improves fair value disclosure requirements by removing disclosures that are not cost beneficial, clarifying disclosures’ specific requirements and adding relevant disclosure requirements. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted and an entity can choose to early adopt any removed or modified disclosures upon issuance of this ASU and delay adoption of the additional disclosures until their effective date. The Company is still evaluating the impact that the adoption of ASU 2018-13 will have on the unaudited condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans, which improves defined benefit disclosure requirements by removing disclosures that are not cost beneficial, clarifying disclosures’ specific requirements and adding relevant disclosure requirements. This ASU is effective for fiscal years ending after December 15, 2020 and early adoption is permitted. The amendments in this ASU are required to be applied on a retrospective basis to all periods presented. The Company is still evaluating the impact that the adoption of ASU 2018-14 will have on the unaudited condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, which will now allow all cloud computing arrangements classified as service contracts to capitalize certain implementation costs in accordance with ASC 350-40, Intangibles - Goodwill and Other - Internal-Use Software, depending on the project stage within which the costs were incurred. This ASU is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal periods. Early adoption of the amendments in this ASU is permitted, including adoption in any interim period and the amendments can be applied either retrospectively or prospectively. In 2018, the Company has adopted this ASU prospectively for all implementation costs incurred related to cloud computing arrangements and the implementation did not have a material impact on our unaudited condensed consolidated financial statements.

Note 3—Inventories

The following table sets forth the components of inventory:

(In thousands)	March 31, 2019	December 31, 2018
Finished products	$75,164	$65,965
Work in process	8,517	6,169
Raw materials and supplies	129,248	124,554
Inventories at current cost	212,929	196,688
Less: LIFO valuation	(40,266)	(40,086)
Total inventories	$172,663	$156,602

-8-

Note 4—Restructuring Charges

During the three months ended March 31, 2019, we recorded restructuring charges of $5.8 million. International segment restructuring charges of $5.7 million during the three months ended March 31, 2019, were primarily related to severance costs for staff reductions associated with our ongoing initiatives to drive profitable growth. Corporate segment restructuring charges of $0.1 million during the three months ended March 31, 2019, related primarily to the legal and operational realignment of our U.S. and Canadian operations.

During the three months ended March 31, 2018, we recorded restructuring charges of $5.3 million, respectively. Corporate segment restructuring charges of $2.0 million during the three months ended March 31, 2018, related primarily to our ongoing review of the Company's legal structure to evaluate potential realignments to better facilitate the execution of our corporate strategy. International segment restructuring charges of $3.3 million during the three months ended March 31, 2018, were related to severance costs for staff reductions associated with our ongoing initiatives to drive profitable growth in Europe.

Activity and reserve balances for restructuring charges by segment were as follows:

(In millions)	Americas	International	Corporate	Total
Reserve balances at December 31, 2017	$ 0.5	$ 3.6	$ —	$4.1
Restructuring charges	2.3	5.6	5.3	13.2
Currency translation and other adjustments	(0.3)	(0.3)	—	(0.6)
Cash payments / utilization	(2.0)	(4.9)	(5.3)	(12.2)
Reserve balances at December 31, 2018	$ 0.5	$ 4.0	$ —	$4.5
Restructuring charges	—	5.7	0.1	5.8
Currency translation and other adjustments	—	(0.1)	—	(0.1)
Cash payments	(0.1)	(1.9)	(0.1)	(2.1)
Reserve balances at March 31, 2019	$ 0.4	$ 7.7	$ —	$8.1

Note 5—Property, Plant and Equipment

The following table sets forth the components of property, plant and equipment:

(In thousands)	March 31, 2019	December 31, 2018
Land	$3,020	$3,188
Buildings	119,051	117,910
Machinery and equipment	387,758	386,690
Construction in progress	26,251	24,044
Total	536,080	531,832
Less: accumulated depreciation	(379,981)	(373,892)
Net property, plant and equipment	$156,099	$157,940

Note 6—Reclassifications Out of Accumulated Other Comprehensive Loss

During three months ended March 31, 2019 , we recognized non-cash cumulative translation losses of approximately $15.4 million as a result of the approval of our plan to close our South Africa affiliates. This charge is related to the historical translation of the elements of the financial statements for the business from the functional currency to the U.S. Dollar. The translation impact has been historically recorded as currency translation adjustment ("CTA"), a separate component of accumulated other comprehensive loss within the equity section of the unaudited Condensed Consolidated Balance Sheet and has been reclassified into net income during three months ended March 31, 2019.

Changes in accumulated other comprehensive loss were as follows:

	MSA Safety Incorporated		Noncontrolling Interests	
	Three Months Ended March 31,		Three Months Ended March 31,	
(In thousands)	2019	2018	2019	2018
Pension and other post-retirement benefits [a]				
Balance at beginning of period	$(115,517)	$(97,948)	$ —	$ —
Amounts reclassified from accumulated other comprehensive loss into net income:				
Amortization of prior service credit (Note 15)	(105)	(83)	—	—
Recognized net actuarial losses (Note 15)	2,794	3,478	—	—
Tax benefit	(666)	(1,066)	—	—
Total amount reclassified from accumulated other comprehensive loss, net of tax, into net income	2,023	2,329	—	—
Reclassification to retained earnings due to the adoption of ASU 2018-02 (Note 2)	(3,772)	—	—	—
Balance at end of period	$(117,266)	$(95,619)	$ —	$ —
Available-for-sale securities				
Balance at beginning of period	$(572)	$—	$ —	$ —
Unrealized gains on available-for-sale securities (Note 17)	536	—	—	—
Balance at end of period	$(36)	$—	$ —	$ —
Foreign Currency Translation				
Balance at beginning of period	$(102,838)	$(73,814)	$ 496	$ 801
Reclassification from accumulated other comprehensive loss into net income	15,359 [b]	—	—	—
Foreign currency translation adjustments	218	13,230	143	170
Balance at end of period	$(87,261)	$(60,584)	$ 639	$ 971

[a] Reclassifications out of accumulated other comprehensive loss and into net income are included in the computation of net periodic pension and other post-retirement benefit costs (refer to Note 15—Pensions and Other Post-retirement Benefits).

[b] Reclassifications into net income relate primarily to the approval of our plan to close our South Africa affiliates as discussed above and are included in Currency exchange losses, net within the unaudited Condensed Consolidated Statement of Income.

Note 7—Capital Stock

Preferred Stock - The Company has authorized 100,000 shares of $50 par value 4.5% cumulative preferred nonvoting stock which is callable at $52.50. There are 71,340 shares issued and 52,878 shares held in treasury at March 31, 2019. The Treasury shares at cost line on the unaudited Condensed Consolidated Balance Sheet includes $1.8 million related to preferred stock. There were no treasury purchases of preferred stock during the three months ended March 31, 2019 or 2018. The Company has also authorized 1,000,000 shares of $10 par value second cumulative preferred voting stock. No shares have been issued as of March 31, 2019.

Common Stock - The Company has authorized 180,000,000 shares of no par value common stock. There were 62,081,391 shares issued as of December 31, 2018. No new shares were issued during three months ended March 31, 2019 or 2018. There were 38,682,918 and 38,526,523 shares outstanding at March 31, 2019, and December 31, 2018, respectively.

Treasury Shares - The Company's share repurchase program authorizes up to $100.0 million to repurchase MSA common stock in the open market and in private transactions. The share purchase program has no expiration date. The maximum number of shares that may be purchased is calculated based on the dollars remaining under the program and the respective month-end closing share price. No shares were repurchased under this program during the three months ended March 31, 2019 or 2018. We do not have any other share repurchase programs. There were 23,398,473 and 23,554,868 Treasury Shares at March 31, 2019, and December 31, 2018, respectively.

The Company issues Treasury Shares for all share based benefit plans. Shares are issued from Treasury at the average Treasury Share cost on the date of the transaction. There were 230,112 and 111,902 Treasury Shares issued for these purposes during the three months ended March 31, 2019 and 2018, respectively.

Common stock activity is summarized as follows:

	Three Months Ended March 31, 2019		Three Months Ended March 31, 2018	
(In thousands)	Common Stock	Treasury Cost	Common Stock	Treasury Cost
Balance at beginning of period	211,806	(296,390)	194,953	(296,081)
Stock compensation expense	2,745	—	5,606	—
Restricted and performance stock awards	(2,411)	2,411	(1,102)	1,102
Stock options exercised	959	506	545	302
Treasury shares purchased	—	(7,446)	—	(2,673)
Balance at end of period	213,099	(300,919)	200,002	(297,350)

Note 8—Segment Information

We are organized into six geographic operating segments based on management responsibilities. The operating segments have been aggregated (based on economic similarities, the nature of their products, end-user markets and methods of distribution) into three reportable segments: Americas, International, and Corporate.

The Americas segment is comprised of our operations in North America and Latin America geographies. The International segment is comprised of our operations of all geographies outside of the Americas. Certain global expenses are allocated to each segment in a manner consistent with where the benefits from the expenses are derived. The Company's sales are allocated to each country based primarily on the destination of the end-customer.

Adjusted operating income (loss), adjusted operating margin, adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) and adjusted EBITDA margin are the measures used by the chief operating decision maker to evaluate segment performance and allocate resources. Adjusted operating income (loss) is defined as operating income excluding restructuring charges, currency exchange gains/losses, product liability expense and strategic transaction costs and adjusted operating margin is defined as adjusted operating income (loss) divided by segment sales to external customers. Adjusted EBITDA is defined as adjusted operating income (loss) plus depreciation and amortization and adjusted EBITDA margin is defined as adjusted EBITDA divided by segment sales to external customers. Adjusted operating income (loss), adjusted operating margin, adjusted EBITDA and adjusted EBITDA margin are not recognized terms under U.S. GAAP and therefore do not purport to be alternatives to operating income or operating margin as a measure of operating performance. Further, the Company's measure of adjusted operating income (loss), adjusted operating margin, adjusted EBITDA and adjusted EBITDA margin may not be comparable to similarly titled measures of other companies. Adjusted operating income (loss) and adjusted EBITDA on a consolidated basis is presented in the following table to reconcile the segment operating performance measure to operating income as presented on the unaudited Condensed Consolidated Statement of Income.

The accounting principles applied at the operating segment level in determining operating income (loss) are generally the same as those applied at the consolidated financial statement level. Sales and transfers between operating segments are accounted for at market-based transaction prices and are eliminated in consolidation.

Reportable segment information is presented in the following table:

(In thousands, except percentage amounts)	Americas	International	Corporate	Reconciling Items[1]	Consolidated Totals
Three Months Ended March 31, 2019					
Sales to external customers	$213,687	$112,351	$ —	$ —	$ 326,038
Intercompany sales	159,262	79,329	—	(238,591)	—
Operating income					32,160
Restructuring charges (Note 4)					5,831
Currency exchange losses, net (Note 6)					16,961
Product liability expense (Note 18)					2,896
Strategic transaction costs					456
Adjusted operating income (loss)	54,803	11,040	(7,539)	—	58,304
Adjusted operating margin %	25.6 %	9.8 %			
Depreciation and amortization					9,326
Adjusted EBITDA	60,900	14,171	(7,441)	—	67,630
Adjusted EBITDA %	28.5 %	12.6 %			

(In thousands, except percentage amounts)	Americas	International	Corporate	Reconciling Items[1]	Consolidated Totals
Three Months Ended March 31, 2018					
Sales to external customers	$209,129	$ 116,765	$ —	$ —	$ 325,894
Intercompany sales	34,198	82,379	—	(116,577)	—
Operating income					44,435
Restructuring charges (Note 4)					5,274
Currency exchange losses, net (Note 6)					