Green Plains Inc.
Form 10-Q
August 02, 2018

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, 2018

Commission File Number 001-32924

Green Plains Inc.

(Exact name of registrant as specified in its charter)

Iowa (State or other jurisdiction of incorporation or organization)	84-1652107 (I.R.S. Employer Identification No.)
1811 Aksarben Drive, Omaha, NE 68106 (Address of principal executive offices, including zip code)	(402) 884-8700 (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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer 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

The number of shares of common stock, par value $0.001 per share, outstanding as of July 27, 2018, was 41,429,651 shares.

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Commonly Used Defined Terms

The abbreviations, acronyms and industry terminology used in this quarterly report are defined as follows:

Green Plains Inc., Subsidiaries, and Partners:

Green Plains; the company	Green Plains Inc. and its subsidiaries
BioProcess Algae	BioProcess Algae LLC
DKGP	DKGP Energy Terminals LLC
Fleischmann's Vinegar	Fleischmann's Vinegar Company, Inc.
Green Plains Cattle	Green Plains Cattle Company LLC
Green Plains Grain	Green Plains Grain Company LLC
Green Plains Partners; the partnership	Green Plains Partners LP
Green Plains Processing	Green Plains Processing LLC and its subsidiaries
Green Plains Trade	Green Plains Trade Group LLC
Green Plains Commodity Management	Green Plains Commodity Management LLC

Accounting Defined Terms:

AMT	Alternative minimum tax
ASC	Accounting Standards Codification
EBITDA	Earnings before interest, income taxes, depreciation and amortization
EPS	Earnings per share
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
GAAP	U.S. Generally Accepted Accounting Principles
LIBOR	London Interbank Offered Rate
LTIP	Long-Term Incentive Plan
R&D Credits	Research and development tax credits
SEC	Securities and Exchange Commission

Other Defined Terms:

CAFE	Corporate Average Fuel Economy
D.C.	District of Columbia
E10	Gasoline blended with up to 10% ethanol by volume
E15	Gasoline blended with up to 15% ethanol by volume
E85	Gasoline blended with up to 85% ethanol by volume
EIA	U.S. Energy Information Administration
EISA	Energy Independence and Security Act of 2017, as amended
EPA	U.S. Environmental Protection Agency
MmBtu	Million British Thermal Units
Mmg	Million gallons
MTBE	Methyl tertiary-butyl ether
RBOB	Reformulated blendstock for oxygenate blending
RFS II	Renewable Fuels Standard II
RIN	Renewable identification number
RVO	Renewable volume obligation
U.S.	United States
USDA	U.S. Department of Agriculture

PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements.

GREEN PLAINS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 235,133	$ 266,651
Restricted cash	15,863	45,709
Accounts receivable, net of allowances of $209 and $217, respectively	137,068	151,122
Income taxes receivable	33,891	6,413
Inventories	625,302	711,878
Prepaid expenses and other	14,915	17,808
Derivative financial instruments	30,647	6,890
Total current assets	1,092,819	1,206,471
Property and equipment, net of accumulated depreciation and amortization of $564,395 and $514,585, respectively	1,139,249	1,176,707
Goodwill	182,879	182,879
Other assets	170,826	218,593
Total assets	$ 2,585,773	$ 2,784,650
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 121,573	$ 205,479
Accrued and other liabilities	53,859	63,886
Derivative financial instruments	22,868	12,884
Income taxes payable	-	9,909

Short-term notes payable and other borrowings	457,472	526,180
Current maturities of long-term debt	69,752	67,923
Total current liabilities	725,524	886,261
Long-term debt	768,111	767,396
Deferred income taxes	40,591	56,801
Other liabilities	14,434	15,056
Total liabilities	1,548,660	1,725,514
Commitments and contingencies (Note 14)		
Stockholders' equity		
Common stock, $0.001 par value; 75,000,000 shares authorized; 46,760,696 and 46,410,405 shares issued, and 41,434,804 and 41,084,463 shares outstanding, respectively	47	46
Additional paid-in capital	687,469	685,019
Retained earnings	293,405	325,411
Accumulated other comprehensive loss	(4,208)	(13,110)
Treasury stock, 5,325,892 and 5,325,942 shares, respectively	(55,183)	(55,184)
Total Green Plains stockholders' equity	921,530	942,182
Noncontrolling interests	115,583	116,954
Total stockholders' equity	1,037,113	1,059,136
Total liabilities and stockholders' equity	$ 2,585,773	$ 2,784,650

See accompanying notes to the consolidated financial statements.

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GREEN PLAINS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues				
Product revenues	$ 985,217	$ 884,712	$ 2,028,876	$ 1,770,924
Service revenues	1,620	1,551	3,248	3,023
Total revenues	986,837	886,263	2,032,124	1,773,947
Costs and expenses				
Cost of goods sold (excluding depreciation and amortization expenses reflected below)	910,625	830,019	1,898,960	1,641,915
Operations and maintenance expenses	7,893	8,267	16,293	16,798
Selling, general and administrative expenses	29,731	25,575	55,734	49,357
Depreciation and amortization expenses	26,823	26,188	53,297	52,271
Total costs and expenses	975,072	890,049	2,024,284	1,760,341
Operating income (loss)	11,765	(3,786)	7,840	13,606
Other income (expense)				
Interest income	709	314	1,346	678
Interest expense	(22,021)	(19,430)	(44,149)	(37,926)
Other, net	2,545	1,357	2,479	1,367
Total other expense	(18,767)	(17,759)	(40,324)	(35,881)
Loss before income taxes	(7,002)	(21,545)	(32,484)	(22,275)
Income tax benefit	10,753	9,749	16,780	12,130
Net income (loss)	3,751	(11,796)	(15,704)	(10,145)
Net income attributable to noncontrolling interests	4,745	4,570	9,407	9,818
Net loss attributable to Green Plains	$ (994)	$ (16,366)	$ (25,111)	$ (19,963)
Earnings per share:				
Net loss attributable to Green Plains - basic	$ (0.02)	$ (0.41)	$ (0.63)	$ (0.51)
Net loss attributable to Green Plains - diluted	$ (0.02)	$ (0.41)	$ (0.63)	$ (0.51)
Weighted average shares outstanding:				

Basic	40,194	40,220	40,168	39,326
Diluted	40,194	40,220	40,168	39,326
Cash dividend declared per share	$ 0.12	$ 0.12	$ 0.24	$ 0.24

See accompanying notes to the consolidated financial statements.

GREEN PLAINS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited and in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss)	$ 3,751	$ (11,796)	$ (15,704)	$ (10,145)
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on derivatives arising during the period, net of tax benefit (expense) of $1,145, $2,026, ($3,971) and $1,058, respectively	(4,277)	(3,418)	12,873	(1,776)
Reclassification of realized gains (losses) on derivatives, net of tax benefit of $185, $824, $365 and $2,672, respectively	(581)	(1,353)	(1,184)	(4,487)
Total other comprehensive income (loss), net of tax	(4,858)	(4,771)	11,689	(6,263)
Comprehensive loss	(1,107)	(16,567)	(4,015)	(16,408)
Comprehensive income attributable to noncontrolling interests	4,745	4,570	9,407	9,818
Comprehensive loss attributable to Green Plains	$ (5,852)	$ (21,137)	$ (13,422)	$ (26,226)

See accompanying notes to the consolidated financial statements.

GREEN PLAINS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net loss	$ (15,704)	$ (10,145)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	53,297	52,271
Amortization of debt issuance costs and debt discount	7,515	7,925
Loss on exchange of 3.25% convertible notes due 2018	-	1,291
Gain on disposal of assets	(2,624)	(1,422)
Deferred income taxes	(23,061)	(12,896)
Stock-based compensation	5,435	5,497
Undistributed equity loss of affiliates	239	75
Other	-	19
Changes in operating assets and liabilities before effects of business combinations:		
Accounts receivable	14,054	12,341
Inventories	88,450	(1,079)
Derivative financial instruments	1,513	(17,236)
Prepaid expenses and other assets	2,797	(9)
Accounts payable and accrued liabilities	(96,295)	(74,435)
Current income taxes	10,540	(1,262)
Other	(297)	1,322
Net cash provided by (used in) operating activities	45,859	(37,743)
Cash flows from investing activities:		
Purchases of property and equipment, net	(14,640)	(27,985)
Acquisition of a business, net of cash acquired	(1,629)	(61,727)
Investments in unconsolidated subsidiaries	(2,253)	(8,849)
Other investing activities	7,500	-
Net cash used in investing activities	(11,022)	(98,561)
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	42,300	33,800
Payments of principal on long-term debt	(43,370)	(66,339)

Proceeds from short-term borrowings	2,089,208	2,149,950
Payments on short-term borrowings	(2,158,274)	(2,099,929)
Cash payment for exchange of 3.25% convertible notes due 2018	-	(8,523)
Payments of cash dividends and distributions	(20,580)	(19,244)
Payments of loan fees	(2,622)	(1,675)
Payments related to tax withholdings for stock-based compensation	(3,013)	(3,801)
Proceeds from exercise of stock options	150	50
Net cash used in financing activities	(96,201)	(15,711)
Net change in cash, cash equivalents and restricted cash	(61,364)	(152,015)
Cash, cash equivalents and restricted cash, beginning of period	312,360	406,791
Cash, cash equivalents and restricted cash, end of period	$ 250,996	$ 254,776

Continued on the following page

GREEN PLAINS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

Continued from the previous page

	Six Months Ended June 30, 2018	2017
Reconciliation of total cash, cash equivalents and restricted cash:		
Cash and cash equivalents	$ 235,133	$ 195,442
Restricted cash	15,863	59,334
Total cash, cash equivalents and restricted cash	$ 250,996	$ 254,776
Non-cash financing activity:		
Exchange of 3.25% convertible notes due 2018 for shares of common stock	$ -	$ 47,743
Exchange of common stock held in treasury stock for 3.25% convertible notes due 2018	$ 1	$ 27,356
Supplemental investing and financing activities:		
Assets acquired in acquisitions and mergers, net of cash	$ 1,629	$ 62,209
Less: liabilities assumed	-	(482)
Net assets acquired	$ 1,629	$ 61,727
Supplemental disclosures of cash flow:		
Cash paid (received) for income taxes	$ (3,163)	$ 1,976
Cash paid for interest	$ 36,923	$ 30,314

See accompanying notes to the consolidated financial statements.

GREEN PLAINS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. BASIS OF PRESENTATION, DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

References to the Company

References to “Green Plains” or the “company” in the consolidated financial statements and in these notes to the consolidated financial statements refer to Green Plains Inc., an Iowa corporation, and its subsidiaries.

Consolidated Financial Statements

The consolidated financial statements include the company’s accounts and all significant intercompany balances and transactions are eliminated. Unconsolidated entities are included in the financial statements on an equity basis. As of June 30, 2018, the company owns a 62.5% limited partner interest and a 2.0% general partner interest in Green Plains Partners LP. Public investors own the remaining 35.5% limited partner interest in the partnership. The company determined that the limited partners in the partnership with equity at risk lack the power, through voting rights or similar rights, to direct the activities that most significantly impact partnership’s economic performance; therefore, the partnership is considered a variable interest entity. The company, through its ownership of the general partner interest in the partnership, has the power to direct the activities that most significantly affect economic performance and is obligated to absorb losses and has the right to receive benefits that could be significant to the partnership. Therefore, the company is considered the primary beneficiary and consolidates the partnership in the company’s financial statements. The assets of the partnership cannot be used by the company for general corporate purposes. The partnership’s consolidated total assets as of June 30, 2018 and December 31, 2017, excluding intercompany balances, were $73.2 million and $74.9 million, respectively, and primarily consisted of property and equipment and goodwill. The partnership’s consolidated total liabilities as of June 30, 2018 and December 31, 2017, excluding intercompany balances, were $155.1 million and $153.0 million, respectively, which primarily consisted of long-term debt as discussed in Note 9 – Debt. The liabilities recognized as a result of consolidating the partnership do not represent additional claims on our general assets. The company also owns a 90.0% interest in BioProcess Algae, a joint venture formed in 2008, and consolidates their results in its consolidated financial statements.

The accompanying unaudited consolidated financial statements are prepared in accordance with GAAP for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Because they do not include all of the information and notes required by GAAP, the consolidated financial statements should be read in conjunction with the company's annual report on Form 10-K for the year ended December 31, 2017.

The unaudited financial information reflects adjustments which are, in the opinion of management, necessary for a fair presentation of results of operations, financial position and cash flows for the periods presented. The adjustments are normal and recurring in nature, unless otherwise noted. Interim period results are not necessarily indicative of the results to be expected for the entire year.

Reclassifications

Certain prior year amounts were reclassified to conform to the current year presentation. These reclassifications did not affect total revenues, costs and expenses, net income (loss) or stockholders' equity.

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The company bases its estimates on historical experience and assumptions it believes are proper and reasonable under the circumstances and regularly evaluates the appropriateness of its estimates and assumptions. Actual results could differ from those estimates. Key accounting policies, including but not limited to those relating to revenue recognition, depreciation of property and equipment, carrying value of intangible assets, impairment of long-lived assets and goodwill, derivative financial instruments, and accounting for income taxes, are impacted significantly by judgments, assumptions and estimates used in the preparation of the consolidated financial statements.

Description of Business

The company operates within four business segments: (1) ethanol production, which includes the production of ethanol and distillers grains, and recovery of corn oil, (2) agribusiness and energy services, which includes grain handling and storage, commodity marketing and merchant trading for company-produced and third-party ethanol, distillers grains, corn oil, natural gas and other commodities, (3) food and ingredients, which includes cattle feeding, vinegar production and food-grade corn oil operations and (4) partnership, which includes fuel storage and transportation services.

Cash and Cash Equivalents

Cash and cash equivalents includes bank deposits as well as short-term, highly liquid investments with original maturities of three months or less.

Restricted Cash

The company has restricted cash, which can only be used for funding letters of credit or for payment towards a revolving credit agreement. Restricted cash also includes cash margins and securities pledged to commodity exchange clearinghouses. To the degree these segregated balances are cash and cash equivalents, they are considered restricted cash on the consolidated statements of cash flows.

Revenue Recognition

The company recognizes revenue at the point in time when the product or service is transferred to the customer.

Sales of ethanol, distillers grains, corn oil, natural gas and other commodities by the company’s marketing business are recognized when obligations under the terms of a contract with a customer are satisfied. Generally, this occurs with the transfer of control of products or services. Revenues related to marketing for third parties are presented on a gross basis as the company controls the product prior to the sale to the end customer, takes title of the product and has inventory risk. Unearned revenue is recorded for goods in transit when the company has received payment but control has not yet been transferred to the customer. Revenues for receiving, storing, transferring and transporting ethanol and other fuels are recognized when the product is delivered to the customer.

The company routinely enters into physical-delivery energy commodity purchase and sale agreements. At times, the company settles these transactions by transferring its obligations to other counterparties rather than delivering the physical commodity. Energy trading transactions are reported net as a component of revenue. All other transactions are reported net as either a component of revenue or cost of goods sold, depending on their position as a gain or loss. Revenues also include realized gains and losses on related derivative financial instruments and reclassifications of realized gains and losses on cash flow hedges from accumulated other comprehensive income or loss.

Sales of products, including agricultural commodities, cattle and vinegar, are recognized when control of the product is transferred to the customer, which depends on the agreed upon shipment or delivery terms. Revenues related to grain merchandising are presented gross and include shipping and handling, which is also a component of cost of goods sold. Revenues from grain storage are recognized when services are rendered.

A substantial portion of the partnership revenues are derived from fixed-fee commercial agreements for storage, terminal or transportation services. The partnership recognizes revenue upon transfer of control of product from its storage tanks and fuel terminals, when railcar volumetric capacity is provided, and as truck transportation services are performed.

Shipping and Handling Costs

We account for shipping and handling activities related to contracts with customers as costs to fulfill our promise to transfer the associated products. Accordingly, we record customer payments associated with shipping and handling costs as a component of revenue, and classify such costs as a component of cost of goods sold.

Cost of Goods Sold

Cost of goods sold includes direct labor, materials, shipping and plant overhead costs. Direct labor includes all compensation and related benefits of non-management personnel involved in ethanol and vinegar production, and cattle feeding operations. Grain purchasing and receiving costs, excluding labor costs for grain buyers and scale operators, are also included in cost of goods sold. Materials include the cost of corn feedstock, denaturant, process chemicals, cattle and veterinary supplies. Corn feedstock costs include gains and losses on related derivative financial instruments not designated as cash flow hedges, inbound freight charges, inspection costs and transfer costs, as well as reclassifications of gains and losses on cash flow hedges from accumulated other comprehensive income or loss. Plant overhead consists primarily of plant and feedlot utilities, repairs and maintenance, yard expenses and outbound freight charges. Shipping costs incurred by the company, including railcar costs, are also reflected in cost of goods sold.

The company uses exchange-traded futures and options contracts and forward purchase and sales contracts to attempt to minimize the effect of price changes on grain, natural gas and cattle inventories. Exchange-traded futures and options contracts are valued at quoted market prices and settled predominantly in cash. The company is exposed to loss when counterparties default on forward purchase and sale contracts. Grain inventories held for sale and forward purchase and sale contracts are valued at market prices when available or other market quotes adjusted for differences, primarily in transportation, between the exchange-traded market and local market where the terms of the contract is based. Changes in forward purchase contracts and exchange-traded futures and options contracts are recognized as a component of cost of goods sold.

Operations and Maintenance Expenses

In the partnership segment, transportation expenses represent the primary component of operations and maintenance expenses. Transportation expenses include railcar leases, freight and shipping of the company’s ethanol and co-products, as well as costs incurred storing ethanol at destination terminals.

Derivative Financial Instruments

The company uses various derivative financial instruments, including exchange-traded futures and exchange-traded and over-the-counter options contracts, to attempt to minimize risk and the effect of commodity price changes including but not limited to, corn, ethanol, cattle, natural gas and crude oil. The company monitors and manages this exposure as part of its overall risk management policy to reduce the adverse effect market volatility may have on its operating results. The company may hedge these commodities as one way to mitigate risk; however, there may be situations when these hedging activities themselves result in losses.

By using derivatives to hedge exposures to changes in commodity prices, the company is exposed to credit and market risk. The company’s exposure to credit risk includes the counterparty’s failure to fulfill its performance obligations under the terms of the derivative contract. The company minimizes its credit risk by entering into transactions with high quality counterparties, limiting the amount of financial exposure it has with each counterparty and monitoring their financial condition. Market risk is the risk that the value of the financial instrument might be adversely affected by a change in commodity prices or interest rates. The company manages market risk by incorporating parameters to monitor exposure within its risk management strategy, which limits the types of derivative instruments and strategies the company can use and the degree of market risk it can take using derivative instruments.

The company evaluates its physical delivery contracts to determine if they qualify for normal purchase or sale exemptions which are expected to be used or sold over a reasonable period in the normal course of business. Contracts that do not meet the normal purchase or sale criteria are recorded at fair value. Changes in fair value are recorded in operating income unless the contracts qualify for, and the company elects, cash flow hedge accounting treatment.

Certain qualifying derivatives related to ethanol production, agribusiness and energy services, and food and ingredients segments are designated as cash flow hedges. The company evaluates the derivative instrument to ascertain its effectiveness prior to entering into cash flow hedges. Unrealized gains and losses are reflected in accumulated other comprehensive income or loss until the gain or loss from the underlying hedged transaction is realized. When it becomes probable a forecasted transaction will not occur, the cash flow hedge treatment is discontinued, which affects earnings. These derivative financial instruments are recognized in current assets or other current liabilities at fair value.

At times, the company hedges its exposure to changes in inventory values and designates qualifying derivatives as fair value hedges. The carrying amount of the hedged inventory is adjusted in the current period for changes in fair value. Ineffectiveness of the hedges is recognized in the current period to the extent the change in fair value of the inventory is not offset by the change in fair value of the derivative.

Recent Accounting Pronouncements

Effective January 1, 2018, the company adopted the amended guidance in ASC Topic 606, Revenue from Contracts with Customers. Please refer to Note 2 – Revenue for further details.

Effective January 1, 2018, the company adopted the amended guidance in ASC Topic 230, Statement of Cash Flows: Restricted Cash, which requires amounts generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amended guidance was applied retrospectively. As a result, net cash used in operating activities for the six months ended June 30, 2017 was adjusted to exclude the change in restricted cash and decreased the previously reported balance by $25.2 million. Net cash provided by financing activities for the six months ended June 30, 2017 was adjusted to exclude the change in restricted cash and decreased the previously reported balance by $18.1 million.

Effective January 1, 2018, the company adopted the amended guidance in ASC Topic 740, Income Taxes: Intra-Entity Transfers of Assets other than Inventory, which requires the recognition of current and deferred income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amended guidance is required on a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The adoption of the guidance did not have an impact to the financial statements.

Effective January 1, 2018, the company adopted the amended guidance in ASC Topic 805, Business Combinations: Clarifying the Definition of a Business, which clarifies the definition of a business and provides guidance to assist companies and other reporting organizations evaluate whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The amended guidance will be applied prospectively.

Effective January 1, 2018, the company early adopted the amended guidance in ASC Topic 350, Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment, which simplifies the measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The annual goodwill impairment test will be performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge equal to the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit, would be recognized. The amended guidance will be applied prospectively, and used when the annual impairment test is performed in the current year. The company does not believe the new guidance will have a material impact on the consolidated financial statements.

Effective January 1, 2018, the company early adopted the amended guidance in ASC Topic 220, Income Statement – Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendment eliminates the stranded tax effects resulting from the Tax Cuts and Jobs Act and is intended to improve the usefulness of information reported. As a result, the company recorded a $2.8 million reclassification from accumulated other comprehensive income to retained earnings during the first quarter of 2018. It is the company's policy to release income tax effects from accumulated other comprehensive income using the portfolio approach.

Effective January 1, 2019, the company will adopt the amended guidance in ASC Topic 842, Leases, which aims to make leasing activities more transparent and comparable, requiring substantially all leases to be recognized by lessees on the balance sheet as a right-of-use asset and corresponding lease liability, including leases currently accounted for as operating leases. The new standard is effective for fiscal years and interim periods within those years, beginning after December 15, 2018. The standard requires a modified retrospective transition approach and allows for early adoption. In July 2018, the FASB issued Accounting Standards Update, Leases (Topic 842): Targeted Improvements, which provides an option to apply the transition provisions of the new standard at adoption date instead of the earliest comparative period presented in the financial statements. The company will elect to use this optional tra