Quanex Building Products CORP
Form 10-Q
March 07, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended January 31, 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 1-33913

QUANEX BUILDING PRODUCTS CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	26-1561397
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1800 West Loop South, Suite 1500, Houston, Texas 77027
(Address of principal executive offices and zip code)
Registrant's telephone number, including area code: (713) 961-4600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at March 3, 2017
Common Stock, par value $0.01 per share	34,425,373

QUANEX BUILDING PRODUCTS CORPORATION

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
QUANEX BUILDING PRODUCTS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	January 31, 2017	October 31, 2016
	(In thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,074	$ 25,526
Accounts receivable, net of allowance for doubtful accounts of $276 and $251	62,754	83,625
Inventories, net (Note 3)	92,225	84,335
Prepaid and other current assets	7,879	10,488
Total current assets	176,932	203,974
Property, plant and equipment, net of accumulated depreciation of $254,286 and $245,128	196,903	198,497
Goodwill (Note 4)	218,213	217,035
Intangible assets, net (Note 4)	150,345	154,180
Other assets	7,927	6,667
Total assets	$ 750,320	$ 780,353
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 41,198	$ 47,781
Accrued liabilities	28,944	55,101
Income taxes payable (Note 8)	1,153	732
Current maturities of long-term debt (Note 5)	17,630	10,520
Total current liabilities	88,925	114,134
Long-term debt (Note 5)	254,829	259,011
Deferred pension and postretirement benefits (Note 6)	9,004	8,167
Deferred income taxes (Note 8)	15,567	18,322
Other liabilities	13,714	12,888
Total liabilities	382,039	412,522
Commitments and contingencies (Note 9)		
Stockholders’ equity:		
Preferred stock, no par value, shares authorized 1,000,000; issued and outstanding - none	—	—
Common stock, $0.01 par value, shares authorized 125,000,000; issued 37,512,907 and 37,560,249, respectively; outstanding 34,425,473 and 34,220,496, respectively	375	376
Additional paid-in-capital	254,139	254,540
Retained earnings	208,617	214,047
Accumulated other comprehensive loss	(35,933)	(38,765)
Less: Treasury stock at cost, 3,087,434 and 3,339,753 shares, respectively	(58,917)	(62,367)
Total stockholders’ equity	368,281	367,831
Total liabilities and stockholders' equity	$ 750,320	$ 780,353

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

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QUANEX BUILDING PRODUCTS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(Unaudited)

	Three Months Ended January 31,	
	2017	2016
	(In thousands, except per share amounts)	
Net sales	$ 195,096	$ 201,468
Cost and expenses:		
Cost of sales (excluding depreciation and amortization)	154,947	159,348
Selling, general and administrative	27,445	31,288
Restructuring charges	1,139	—
Depreciation and amortization	15,406	12,970
Operating loss	(3,841)	(2,138)
Non-operating (expense) income:		
Interest expense	(2,160)	(6,491)
Other, net	661	(2,361)
Loss before income taxes	(5,340)	(10,990)
Income tax benefit	1,614	3,741
Net loss	$ (3,726)	$ (7,249)
Basic loss per common share	$ (0.11)	$ (0.21)
Diluted loss per common share:	$ (0.11)	$ (0.21)
Weighted-average common shares outstanding:		
Basic	34,055	33,763
Diluted	34,055	33,763
Cash dividends per share	$ 0.04	$ 0.04

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

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QUANEX BUILDING PRODUCTS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended January 31,	
	2017	2016
	(In thousands)	
Net loss	$(3,726)	$(7,249)
Other comprehensive income (loss):		
Foreign currency translation adjustments gain (loss)	2,832	(10,025)
Other comprehensive income (loss)	2,832	(10,025)
Comprehensive loss	$(894)	$(17,274)

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

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QUANEX BUILDING PRODUCTS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

	Three Months Ended January 31,	
	2017	2016
	(In thousands)	
Operating activities:		
Net loss	$(3,726)	$(7,249)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	15,406	12,970
Stock-based compensation	2,226	1,527
Deferred income tax	(3,684)	(6,158)
Excess tax benefit from share-based compensation	(87)	(1)
Other, net	1,241	1,012
Changes in assets and liabilities, net of effects from acquisitions:		
Decrease in accounts receivable	21,143	20,912
Increase in inventory	(7,622)	(4,499)
(Increase) decrease in other current assets	(438)	1,178
Decrease in accounts payable	(7,232)	(8,305)
Decrease in accrued liabilities	(18,928)	(11,879)
Increase in income taxes payable	2,761	300
Increase in deferred pension and postretirement benefits	837	684
Increase in other long-term liabilities	366	361
Other, net	(226)	(74)
Cash provided by operating activities	2,037	779
Investing activities:		
Acquisitions, net of cash acquired	(8,497)	(245,946)
Capital expenditures	(8,141)	(8,652)
Proceeds from disposition of capital assets	390	561
Cash used for investing activities	(16,248)	(254,037)
Financing activities:		
Borrowings under credit facilities	24,000	332,800
Repayments of credit facility borrowings	(20,875)	(68,500)
Debt issuance costs	—	(8,349)
Repayments of other long-term debt	(429)	(546)
Common stock dividends paid	(1,372)	(1,362)
Issuance of common stock	1,383	2,920
Excess tax benefit from share-based compensation	87	1
Cash provided by financing activities	2,794	256,964
Effect of exchange rate changes on cash and cash equivalents	(35)	917
(Decrease) increase in cash and cash equivalents	(11,452)	4,623
Cash and cash equivalents at beginning of period	25,526	23,125
Cash and cash equivalents at end of period	$14,074	$27,748

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

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QUANEX BUILDING PRODUCTS CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)

Three Months Ended January 31, 2017	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
	(In thousands, no per share amounts shown except in verbiage)					
Balance at October 31, 2016	$376	$254,540	$214,047	$ (38,765)	$(62,367)	$ 367,831
Net loss	—	—	(3,726)	—	—	(3,726)
Foreign currency translation adjustment	—	—	—	2,832	—	2,832
Common dividends ($0.04 per share)	—	—	(1,372)	—	—	(1,372)
Stock-based compensation activity:						
Expense related to stock-based compensation	—	2,226	—	—	—	2,226
Stock options exercised	—	(76)	(240)	—	1,699	1,383
Tax effect from share-based compensation	—	63	—	—	—	63
Restricted stock awards granted	—	(1,752)	—	—	1,752	—
Other	(1)	(862)	(92)	—	(1)	(956)
Balance at January 31, 2017	$375	$254,139	$208,617	$ (35,933)	$(58,917)	$ 368,281

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

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QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Basis of Presentation

Quanex Building Products Corporation is a component supplier to original equipment manufacturers (OEMs) in the building products industry. These components can be categorized as window and door (fenestration) components and kitchen and bath cabinet components. Examples of fenestration components include: (1) energy-efficient flexible insulating glass spacers, (2) extruded vinyl profiles, (3) window and door screens, and (4) precision-formed metal and wood products. We also manufacture cabinet doors and other components for OEMs in the kitchen and bathroom cabinet industry. In addition, we provide certain other non-fenestration components and products, which include solar panel sealants, wood flooring, trim moldings, vinyl decking, fencing, water retention barriers, and conservatory roof components. We have organized our business into three reportable operating segments. For additional discussion of our reportable operating segments, see Note 14, "Segment Information." We use low-cost, short lead-time production processes and engineering expertise to provide our customers with specialized products for their specific window, door, and cabinet applications. We believe these capabilities provide us with unique competitive advantages. We serve a primary customer base in North America and the United Kingdom, and also serve customers in international markets through our operating plants in the United Kingdom and Germany, as well as through sales and marketing efforts in other countries.

Unless the context indicates otherwise, references to "Quanex", the "Company", "we", "us" and "our" refer to the consolidated business operations of Quanex Building Products Corporation and its subsidiaries.

The accompanying interim condensed consolidated financial statements include the accounts of Quanex Building Products Corporation. All intercompany accounts and transactions have been eliminated in consolidation. These financial statements have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated balance sheet as of October 31, 2016 was derived from audited financial information, but does not include all disclosures required by U.S. GAAP. The accompanying financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto, included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2016. In our opinion, the accompanying financial statements contain all adjustments (which consist of normal recurring adjustments, except as disclosed herein) necessary to fairly present our financial position, results of operations and cash flows for the interim periods. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year or for any future periods.

In preparing financial statements, we make informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting period. We review our estimates on an on-going basis, including those related to impairment of long lived assets and goodwill, contingencies and income taxes. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates.

Restructuring

We accrue one-time severance costs pursuant to an approved plan of restructuring at the communication date, when affected employees have been notified of the potential severance and sufficient information has been provided for the employee to calculate severance benefits, in the event the employee is involuntarily terminated. In addition, we accrue costs associated with the termination of contractual commitments including operating leases at the time the lease is terminated pursuant to the lease provisions or in accordance with another agreement with the landlord. Otherwise, we continue to recognize operating lease expense through the cease-use date. After the cease-use date, we determine if our operating lease payments are at market. We assume sublet of the facility at the market rate. To the extent our lease obligations exceed the fair value rentals, we discount to arrive at the present value and record a liability. If the facility is not sublet, we expense the amount of the rental in the current period. For other costs directly related to the restructuring effort, such as equipment moving costs, we expense in the period incurred.

In October 2016, we announced the closure of three operating plants, two related to our United States vinyl operations, and one related to our kitchen and bathroom cabinet door business in Mexico. We expensed $1.1 million and $0.5 million pursuant to these restructuring efforts during the three-month period ended January 31, 2017 and the year ended October 31, 2016, respectively. Our facility lease obligations were deemed to be at fair market value and we have not yet negotiated exit from these lease obligations. We expect to continue to incur costs related to equipment moves, potential fixed asset retirements and inventory adjustments related to these restructuring efforts during fiscal 2017.

In addition, we evaluated the remaining depreciable lives of property, plant and equipment that will be abandoned or otherwise disposed as of the cease-use date of these plants. In October 2016, we recorded a change in estimate associated with the remaining useful lives of these assets which resulted in an increase in depreciation expense of $1.6 million for the three months ended January 31, 2017 and $1.0 million for the year ended October 31, 2016. We continue to evaluate our property, plant and equipment with regard to these restructuring efforts and are determining the best use of this equipment within our business. We may incur additional accelerated depreciation or gains or losses on asset disposals as management concludes this analysis. Concurrently, we evaluated the remaining service lives of intangible assets with defined lives associated with our United States vinyl extrusion business and recorded a change in estimate associated with the remaining useful lives of a customer relationship intangible and a utility process intangible asset resulting in an increase in amortization expense of $0.9 million for the three months ended January 31, 2017 and $0.3 million for the year ended October 31, 2016, and we expect to incur incremental amortization expense totaling $1.0 million associated with these intangible assets during the remainder of fiscal 2017.

2. Acquisitions

Woodcraft

On November 2, 2015, we completed a merger of QWMS, Inc., a Delaware corporation which was a newly-formed and wholly-owned Quanex subsidiary, and WII Holding, Inc. (WII), a Delaware corporation. Upon satisfaction or waiver of conditions set forth in the merger agreement, QWMS, Inc. merged with and into WII, and WII became our wholly-owned subsidiary, and, as a result, we acquired all the subsidiaries of WII (referred to collectively as Woodcraft). Woodcraft is a manufacturer of cabinet doors and other components to OEMs in the kitchen and bathroom cabinet industry. Woodcraft operates 12 plants within the United States. We paid $245.9 million in cash, net of cash acquired and including certain holdbacks with regard to potential indemnity claims, and received less than $0.1 million from the sellers as a working capital true-up, resulting in goodwill totaling $113.7 million. For the period from the date of acquisition, November 2, 2015 through January 31, 2016, our consolidated operating results included revenues of $48.5 million and a net loss of $0.3 million, respectively, associated with Woodcraft. We recorded a charge of $0.6 million related to restructuring efforts at Woodcraft for the three months ended January 31, 2017. See Note 1, "Nature of Operations and Basis of Presentation - Restructuring." We believe this acquisition expanded our business into a new segment of the building products industry, which is experiencing favorable growth and which is less susceptible to the impact of seasonality due to inclement weather.

The Woodcraft purchase price is summarized in the table below.

	As of Date of Opening Balance Sheet (In thousands)
Net assets acquired:	
Accounts receivable	$ 23,944
Inventory	29,552
Prepaid and other current assets	4,081
Property, plant and equipment	63,154
Goodwill	113,747
Intangible assets	62,900
Other non-current assets	24
Accounts payable	(4,620)
Accrued expenses	(9,492)
Deferred income tax liabilities, net	(37,386)
Net assets acquired	$ 245,904

Consideration:	
Cash, net of cash and cash equivalents acquired and working-capital true-up received	$ 245,904

We used recognized valuation techniques to determine the fair value of the assets and liabilities, including the income approach for customer relationships, with a discount rate that reflects the risk of the expected future cash flows. Intangible assets related to the Woodcraft acquisition included $62.8 million of customer relationships and other intangibles of less than $0.1 million, with original estimated useful lives of 12 years and 1 year, respectively. These intangible assets are being amortized on a straight-line basis. The goodwill balance is not deductible for tax purposes. Woodcraft is allocated entirely to our North American Cabinet Components reportable operating segment.

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QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

As more fully described in our Annual Report on Form 10-K for the year ended October 31, 2016, we acquired the outstanding ownership shares of an extruder of vinyl lineal products and manufacturer of other plastic products incorporated and registered in England and Wales ("HLP") on June 15, 2015. The purchase agreement contained an earn-out provision which is calculated as a percentage of earnings before interest, tax and depreciation and amortization for a specified period, as defined in the purchase agreement. Pursuant to this earn-out provision, the former owner could select a base year upon which to calculate the earn-out (one of the next three succeeding twelve-month periods ended July 31). In August 2016, the former owner selected the twelve-month period ended July 31, 2016 as the measurement period for the earn-out calculation. On November 7, 2016, we paid $8.5 million to settle the earn-out, which included a foreign currency adjustment of $0.1 million. We have included this earn-out payment under the caption "Acquisitions, net of cash acquired" in the accompanying cash flow statement for the three months ending January 31, 2017.

We assumed operating leases associated with the HLP acquisition for which our lessors are entities that were either wholly-owned subsidiaries or affiliates of HLP prior to the acquisition, and in which a former owner, who is now our employee, has an ownership interest. These leases include our primary operating facilities, a finished goods warehouse and a mixing plant. The lease for the manufacturing plant has a 20-year term which began in 2007, the lease for the warehouse has a 15-year term which began in 2012, and the lease for the mixing plant has a 13.5-year term which began in 2013. We have recorded rent expense pursuant to these agreements of approximately $0.3 million and $0.4 million for the three-month periods ended January 31, 2017 and 2016. Commitments under these lease arrangements are included in our operating lease commitments as disclosed in our Annual Report on Form 10-K for the year ended October 31, 2016.

3. Inventories

Inventories consisted of the following at January 31, 2017 and October 31, 2016:

	January 31, 2017	October 31, 2016
	(In thousands)	
Raw materials	$52,299	$ 50,584
Finished goods and work in process	42,548	36,886
Supplies and other	2,593	1,859
Total	97,440	89,329
Less: Inventory reserves	5,215	4,994
Inventories, net	$92,225	$ 84,335

Fixed costs related to excess manufacturing capacity, if any, have been expensed in the period they were incurred and, therefore, are not capitalized into inventory.

Our inventories at January 31, 2017 and October 31, 2016 were valued using the following costing methods:

	January 31, 2017	October 31, 2016
	(In thousands)	
LIFO	$5,106	$ 4,017
FIFO	87,119	80,318
Total	$92,225	$ 84,335

During interim periods, we estimate a LIFO reserve based on our expectations of year-end inventory levels and costs. If our calculations indicate that an adjustment at year-end will be required, we may record a proportionate share of this amount during the period. At year-end, we calculate the actual LIFO reserve and record an adjustment for the difference between the annual calculation and any estimates recognized during the interim periods. Because the interim projections are subject to many factors beyond our control, the results could differ significantly from the year-end LIFO calculation. We recorded no interim LIFO reserve adjustment for the three-month periods ended January 31, 2017 and 2016.

For inventories valued under the LIFO method, replacement cost exceeded the LIFO value by approximately $1.1 million at January 31, 2017 and October 31, 2016.

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QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Goodwill and Intangible Assets
Goodwill
The change in the carrying amount of goodwill for the three months ended January 31, 2017 was as follows:

	Three Months Ended January 31, 2017 (In thousands)
Beginning balance as of November 1, 2016	$ 217,035
Foreign currency translation adjustment	1,178
Balance as of the end of the period	$ 218,213

During the fourth fiscal quarter of 2016, we evaluated our goodwill balances for indicators of impairment and performed our annual goodwill impairment test to determine the recoverability of these assets. At our annual testing date, August 31, 2016, we had six reportable units with goodwill balances. Three of these units were included in our NA Engineered Components segment, two units were included in our EU Engineered Components segment, and our NA Cabinet Components segment had one unit. One reporting unit included in our NA Engineered Components segment, our United States vinyl extrusion business, recorded an impairment charge of $12.6 million, or 100% of the remaining goodwill for this unit, as more fully described at Note 1, "Nature of Operations, Basis of Presentation and Significant Accounting Policies - Long-Lived Assets - Goodwill" in our Annual Report on Form 10-K for the year ended October 31, 2016.
Identifiable Intangible Assets
Amortizable intangible assets consisted of the following as of January 31, 2017 and October 31, 2016:

	January 31, 2017		October 31, 2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Customer relationships	$153,151	$ 38,879	$152,146	$ 35,693
Trademarks and trade names	55,791	27,184	55,481	26,288
Patents and other technology	24,585	17,119	24,571	16,037
Other	100	100	100	100
Total	$233,627	$ 83,282	$232,298	$ 78,118

In October 2016, we recorded a change in estimate with regard to the remaining service lives of certain intangible assets and recorded incremental amortization expense of $0.3 million and $0.9 million for the year ended October 31, 2016 and the three months ended January 31, 2017, respectively. See additional disclosure at Note 1, "Nature of Operations, Basis of Presentation and Significant Accounting Policies - Restructuring."
For the three-month periods ended January 31, 2017 and 2016, we had aggregate amortization expense related to intangible assets of $5.4 million and $3.2 million, respectively.

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QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Estimated remaining amortization expense, assuming current intangible balances and no new acquisitions, for each of the fiscal years ending October 31, is as follows (in thousands):

	Estimated Amortization Expense
2017 (remaining nine months)	$ 13,269
2018	15,964
2019	15,176
2020	14,117
2021	12,399
Thereafter	79,420
Total	$ 150,345

5. Debt and Capital Lease Obligations

Debt consisted of the following at January 31, 2017 and October 31, 2016:

	January 31, 2017	October 31, 2016
	(In thousands)	
Revolving Credit Facility	$ 125,000	$ 120,000
Term Loan A	146,250	148,125
City of Richmond, Kentucky Industrial Building Revenue Bonds	400	400
Capital lease obligations	3,345	3,683
Unamortized deferred financing fees	(2,536)	(2,677)
Total debt	$ 272,459	$ 269,531
Less: Current maturities of long-term debt	17,630	10,520
Long-term debt	$ 254,829	$ 259,011

As described in our Annual Report on Form 10-K for the year ended October 31, 2016, on July 29, 2016, we refinanced and retired our prior credit facilities and entered into a $450.0 million credit agreement comprised of a $150.0 million Term Loan A and a $300.0 million revolving credit facility (collectively, the “Credit Agreement”), with Wells Fargo Bank, National Association, as Agent, Swingline Lender and Issuing Lender, and Bank of America, N.A. serving as Syndication Agent. The Credit Agreement has a five-year term, maturing on July 29, 2021, and requires interest payments calculated, at our election and depending upon our Consolidated Leverage Ratio, at either a Base Rate plus an applicable margin or the LIBOR Rate plus an applicable margin. At the time of the initial borrowing, the applicable rate was LIBOR + 2.00%. In addition, we are subject to commitment fees for the unused portion of the Credit Agreement.

The applicable margin and commitment fees are outlined in the following table:

Pricing Level	Consolidated Leverage Ratio	Commitment Fee	LIBOR Rate Loans	Base Rate Loans
I	Less than or equal to 1.50 to 1.00	0.200%	1.50%	0.50%
II	Greater than 1.50 to 1.00, but less than or equal to 2.25 to 1.00	0.225%	1.75%	0.75%
III		0.250%	2.00%	1.00%

	Greater than 2.25 to 1.00, but less than or equal to 3.00 to 1.00			
IV	Greater than 3.00 to 1.00	0.300%	2.25%	1.25%

In the event of default, outstanding borrowings would accrue interest at the Default Rate, as defined, whereby the obligations will bear interest at a per annum rate equal to 2% above the total per annum rate otherwise applicable.
The term loan portion of the Credit Agreement requires quarterly principal payments on the last business day of each fiscal quarter in accordance with a stated repayment schedule. Required aggregate principal repayments total $11.3 million for the

succeeding twelve-month period, and are included in the accompanying condensed consolidated balance sheet under the caption "Current Maturities of Long-term Debt." No stated principal payments are required under the revolving credit portion of the Credit Agreement, except upon maturity. If our Consolidated Leverage Ratio is less than 2.25 to 1.00, then we are required to make mandatory prepayments of "excess cash flow" as defined in the agreement.

The Credit Agreement contains a: (1) Consolidated Fixed Charge Coverage Ratio requirement whereby we must not permit the Consolidated Fixed Charge Coverage Ratio, as defined, to be less than 1.10 to 1.00, and (2) Consolidated Leverage Ratio requirement, as summarized by period in the following table:

Period	Maximum Ratio
Closing Date through January 30, 2017	3.50 to 1.00
January 31, 2017 through January 30, 2018	3.25 to 1.00
January 31, 2018 and thereafter	3.00 to 1.00

In addition to maintaining these financial covenants, the Credit Agreement also limits our ability to enter into certain business transactions, such as to incur indebtedness or liens, to acquire businesses or dispose of material assets, make restricted payments, pay dividends (limited to $10.0 million per year) and other transactions as further defined in the Credit Agreement. Substantially all of our domestic assets, with the exception of real property, are utilized as collateral for the Credit Agreement.

As of January 31, 2017, we had $271.3 million of borrowings outstanding under the Credit Agreement (reduced by unamortized debt issuance costs of $2.5 million), $5.8 million of outstanding letters of credit and $3.7 million outstanding under capital leases and other debt vehicles. We had $169.2 million available for use under the Credit Agreement at January 31, 2017. These borrowings outstanding under the Credit Agreement accrue interest at 2.8% per annum. Our weighted average borrowing rate for borrowings outstanding during the three months ended January 31, 2017 and 2016 was 2.65% and 6.02%, respectively. We were in compliance with our debt covenants as of January 31, 2017.

Other Debt Instruments

We maintain certain capital lease obligations related to equipment purchases. In conjunction with the acquisition of HLP, we assumed additional capital lease obligations of approximately $7.7 million. These capital lease obligations relate to equipment purchases and accrue interest at an average rate of 4.9%, and extend through the year 2020. As of January 31, 2017, our obligations under the HLP capital leases total $3.3 million, of which $1.6 million is classified as the current portion of long-term debt and $1.8 million is classified as long-term debt on the accompanying unaudited condensed consolidated balance sheet.

6. Retirement Plans

Pension Plan

Our non-contributory, single employer defined benefit pension plan covers a majority of our employees in the United States excluding employees of recent acquisitions. Employees of acquired companies may be covered after a transitional period. The net periodic pension cost for this plan for the three-month periods ended January 31, 2017 and 2016 was as follows:

	Three Months Ended January 31,	
	2017	2016

	(In thousands)	
Service cost	$926	$795
Interest cost	212	196
Expected return on plan assets	(457)	(423)
Amortization of net loss	143	68
Net periodic benefit cost	$	