NU SKIN ENTERPRISES INC
Form 10-Q
May 01, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 MARCH 31, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ____________ TO ____________

Commission File Number: 001-12421

NU SKIN ENTERPRISES, INC.
(Exact name of registrant as specified in its charter)

Delaware	87-0565309
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

75 WEST CENTER STREET
PROVO, UTAH 84601
(Address of principal executive offices, including zip code)

(801) 345-1000
(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 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 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	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of April 23, 2019, 55,486,600 shares of the registrant's Class A common stock, $.001 par value per share, were outstanding.

NU SKIN ENTERPRISES, INC.

QUARTERLY REPORT ON FORM 10-Q – FIRST QUARTER 2019

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In this Quarterly Report on Form 10-Q, references to "dollars" and "$" are to United States ("U.S.") dollars.

Nu Skin, Pharmanex, and ageLOC are our trademarks. The italicized product names used in this Quarterly Report on Form 10-Q are product names and also, in certain cases, our trademarks.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NU SKIN ENTERPRISES, INC.
Consolidated Balance Sheets (Unaudited)
(U.S. dollars in thousands)

	March 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$310,288	$386,911
Current investments	8,038	11,346
Accounts receivable	57,390	53,282
Inventories, net	304,311	295,821
Prepaid expenses and other	67,655	51,877
Total current assets	747,682	799,237
Property and equipment, net	445,605	464,535
Right-of-use assets	117,329	—
Goodwill	196,573	196,573
Other intangible assets, net	86,935	89,989
Other assets	160,977	144,112
Total assets	$1,755,101	$1,694,446
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$52,273	$47,617
Accrued expenses	304,770	322,583
Current portion of long-term debt	45,000	69,455
Total current liabilities	402,043	439,655
Operating lease liabilities	81,075	—
Long-term debt	356,247	361,008
Other liabilities	104,541	111,916
Total liabilities	943,906	912,579
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Class A common stock – 500 million shares authorized, $0.001 par value, 90.6 million shares issued	91	91
Additional paid-in capital	553,270	552,564
Treasury stock, at cost – 35.0 million and 35.2 million shares	(1,325,251)	(1,326,605)
Accumulated other comprehensive loss	(75,794)	(79,934)
Retained earnings	1,658,879	1,635,751
Total stockholders' equity	811,195	781,867
Total liabilities and stockholders' equity	$1,755,101	$1,694,446

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

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NU SKIN ENTERPRISES, INC.
Consolidated Statements of Income (Unaudited)
(U.S. dollars in thousands, except per share amounts)

	Three Months Ended March 31,	
	2019	2018
Revenue	$623,623	$616,219
Cost of sales	146,664	146,281
Gross profit	476,959	469,938
Operating expenses:		
Selling expenses	249,708	257,702
General and administrative expenses	158,598	153,246
Total operating expenses	408,306	410,948
Operating income	68,653	58,990
Other income (expense), net	(2,848)	1,207
Income before provision for income taxes	65,805	60,197
Provision for income taxes	22,803	24,658
Net income	$43,002	$35,539
Net income per share (Note 6):		
Basic	$0.78	$0.66
Diluted	$0.77	$0.64
Weighted-average common shares outstanding (000s):		
Basic	55,436	53,997
Diluted	56,128	55,959

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

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NU SKIN ENTERPRISES, INC.
Consolidated Statements of Comprehensive Income (Unaudited)
(U.S. dollars in thousands)

	Three Months Ended March 31,	
	2019	2018
Net income	$ 43,002	$ 35,539
Other comprehensive income, net of tax:		
Foreign currency translation adjustment, net of taxes of $(145) and $854 for the three months ended March 31, 2019 and 2018, respectively	4,140	11,047
Net unrealized gains/(losses) on foreign currency cash flow hedges, net of taxes of zero and $28 for the three months ended March 31, 2019 and 2018, respectively	—	(247)
Reclassification adjustment for realized losses/(gains) in current earnings, net of taxes of zero and $(5) for the three months ended March 31, 2019 and 2018, respectively	—	44
	4,140	10,844
Comprehensive income	$ 47,142	$ 46,383

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

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NU SKIN ENTERPRISES, INC.
Consolidated Statements of Stockholders' Equity (Unaudited)
(U.S. dollars in thousands)

	Class A Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at January 1, 2018	$ 91	$ 466,349	$ (1,304,694)	$ (66,318)	$ 1,609,168	$ 704,596
Cumulative effect adjustment from adoption of ASC 606	—	—	—	—	(13,042)	(13,042)
Net income	—	—	—	—	35,539	35,539
Other comprehensive income, net of tax	—	—	—	10,844	—	10,844
Repurchase of Class A common stock (Note 6)	—	—	(17,386)	—	—	(17,386)
Exercise of employee stock options (0.3 million shares)/vesting of stock awards	—	(3,199)	3,498	—	—	299
Stock-based compensation	—	6,761	—	—	—	6,761
Business Acquisitions (1.4 million shares)	—	76,584	18,109	—	—	94,693
Equity component of convertible note settlement (net)	—	(23,262)	19,887	—	—	(3,375)
Cash dividends	—	—	—	—	(19,801)	(19,801)
Balance at March 31, 2018	$ 91	$ 523,233	$ (1,280,586)	$ (55,474)	$ 1,611,864	$ 799,128
Balance at January 1, 2019	$ 91	$ 552,564	$ (1,326,605)	$ (79,934)	$ 1,635,751	$ 781,867
Cumulative effect adjustment from adoption of ASC 842	—	—	—	—	657	657
Net income	—	—	—	—	43,002	43,002
Other comprehensive income, net of tax	—	—	—	4,140	—	4,140
Repurchase of Class A common stock (Note 6)	—	—	(825)	—	—	(825)
Exercise of employee stock options (0.2 million shares)/vesting of stock awards	—	(4,335)	2,179	—	—	(2,156)
Stock-based compensation	—	5,041	—	—	—	5,041
Cash dividends	—	—	—	—	(20,531)	(20,531)
Balance at March 31, 2019	$ 91	$ 553,270	$ (1,325,251)	$ (75,794)	$ 1,658,879	$ 811,195

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

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NU SKIN ENTERPRISES, INC.
Consolidated Statements of Cash Flows (Unaudited)
(U.S. dollars in thousands)

	Three Months Ended March 31, 2019	2018
Cash flows from operating activities:		
Net income	$43,002	$35,539
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,607	18,907
Equity method earnings	—	(456)
Gain on step acquisitions	—	(13,644)
Loss on extinguishment of debt	—	7,220
Foreign currency losses	458	1,764
Stock-based compensation	5,041	6,761
Deferred taxes	1,668	10,062
Non-cash lease expense	11,375	—
Changes in operating assets and liabilities:		
Accounts receivable	(4,145)	(8,589)
Inventories, net	(7,271)	(6,624)
Prepaid expenses and other	(15,540)	(12,915)
Other assets	(180)	(974)
Accounts payable	5,157	2,179
Accrued expenses	(68,842)	(36,230)
Other liabilities	1,484	(4,113)
Net cash provided by operating activities	(8,186)	(1,113)
Cash flows from investing activities:		
Purchases of property and equipment	(13,765)	(12,652)
Proceeds on investment sales	7,444	7,781
Purchases of investments	(4,321)	(4,539)
Acquisitions and investments in equity investees	(7,500)	(33,061)
Net cash used in investing activities	(18,142)	(42,471)
Cash flows from financing activities:		
Exercise of employee stock options and taxes paid related to the net shares settlement of stock awards	(2,156)	299
Payments of debt	(134,455)	(9,094)
Payment of cash dividends	(20,531)	(19,801)
Proceeds from debt	105,000	75,943
Repurchases of shares of common stock	(825)	(17,386)
Net cash used in financing activities	(52,967)	29,961
Effect of exchange rate changes on cash	2,672	8,708
Net increase (decrease) in cash and cash equivalents	(76,623)	(4,915)
Cash and cash equivalents, beginning of period	386,911	426,399

Cash and cash equivalents, end of period	$310,288	$421,484

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

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NU SKIN ENTERPRISES, INC.
Notes to Consolidated Financial Statements

1. The Company

Nu Skin Enterprises, Inc. (the "Company") is a holding company, with Nu Skin, a leading, global direct selling company, being the primary operating unit. Nu Skin develops and distributes premium-quality, innovative personal care products and nutritional supplements that are sold worldwide under the Nu Skin and Pharmanex brands and a small number of other products and services. Over the last several years, Nu Skin has introduced new Pharmanex nutritional supplements and Nu Skin personal care products under its ageLOC anti-aging brand. The Company reports revenue from nine segments, consisting of its seven geographic Nu Skin segments—Mainland China; South Korea; Southeast Asia, which includes Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam; Americas/Pacific, which includes Australia, Canada, Latin America, New Caledonia, New Zealand and the United States; Japan; Hong Kong/Taiwan, which also includes Macau; and Europe, Middle East and Africa ("EMEA"), which includes several markets in Europe as well as Israel, Russia and South Africa—its Manufacturing segment, which includes the manufacturing and packaging subsidiaries it acquired in the first quarter of 2018; and its Grow Tech segment, which focuses on a long-term strategy for consistently sourcing pure, effective and sustainable ingredients for use in the Company's products, while also exploring applications in other industries (the Company's subsidiaries operating within each segment are collectively referred to as the "Subsidiaries").

2. Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The unaudited consolidated financial statements include the accounts of the Company and its Subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, considered necessary for a fair statement of the Company's financial information as of March 31, 2019, and for the three-month periods ended March 31, 2019 and 2018. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the fiscal year. The consolidated balance sheet as of December 31, 2018 has been prepared using information from the audited financial statements at that date. For further information, refer to the consolidated financial statements and accompanying footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard was effective for the Company in the first quarter of 2018. As a result of adopting this new accounting guidance, the Company has changed the method of accounting for its loyalty points program from a cost provision method to a deferred revenue method. The Company adopted the new standard effective January 1, 2018 using the modified retrospective transition method. The cumulative impact of adoption was a $13.0 million net reduction to beginning retained earnings. See Note 2 – Revenue Recognition.

In February 2016, the FASB issued ASU 2016-02, Leases (Subtopic 842). ASU 2016-02 requires companies to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. For public companies, this standard is effective for annual reporting periods beginning after December 15, 2018, and early adoption is permitted. The Company adopted the new standard effective January 1, 2019 using the modified retrospective transition method. The Company elected the package of practical expedients available under the transition provisions of the new lease standard, including: not reassessing whether expired or existing contract are or contain leases; not reassessing the classification of expired or existing leases; not reassessing the initial direct cost for any existing leases; and using hindsight in determining the lease term. As a result of adopting this new accounting guidance, the Company derecognized the build-to-suit assets and liabilities that remained on the balance sheet following the construction period, along with recognition of right-of-use assets and lease liabilities for operating leases. The cumulative impact of adoption was a $0.7 million increase to beginning retained earnings. See Note 5 - Leases.

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This guidance simplifies the required test of goodwill for impairment by eliminating Step 2 from the goodwill impairment test. If a company determines in Step 1 of the goodwill impairment test that the carrying value of a reporting unit is less than the fair value, an impairment in that amount should be recorded to the income statement, rather than proceeding to Step 2. This ASU is effective for interim and annual impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company has elected to early adopt the new standard effective January 1, 2019. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

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In December 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The new standard makes more financial and non-financial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. For public companies, the amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. This ASU was effective for the Company beginning on January 1, 2019. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This guidance provides an option to reclassify from accumulated other comprehensive income to retained earnings the stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. This ASU is effective for interim and annual periods beginning after December 15, 2018. The Company has elected to early adopt the standard effective October 1, 2018. The cumulative impact of adoption was a $1.7 million net reduction to beginning retained earnings.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This guidance modifies, removes, and adds certain disclosure requirements on fair value measurements. This ASU is effective for annual periods beginning after December 15, 2019, including interim periods therein. Early adoption is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

Inventory

Inventories consist of the following (U.S. dollars in thousands):

	March 31, 2019	December 31, 2018
Raw materials	$ 89,984	$ 91,610
Finished goods	214,327	204,211
Total Inventory, net	$ 304,311	$ 295,821

Revenue Recognition

Adoption of ASC Topic 606, "Revenue from Contracts with Customers"

On January 1, 2018, the Company adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with historic accounting under Topic 605.

The Company recorded a net reduction to opening retained earnings of $13.0 million, net of tax, as of January 1, 2018 due to the cumulative impact of adopting Topic 606, with the impact primarily related to the Company's loyalty point program deferrals. The impact to revenues as a result of applying Topic 606 for the three-month periods ended March 31, 2019, and 2018 was an increase of $0.5 million and an increase of $1.3 million, respectively.

Revenue Recognition

Net sales include products and shipping and handling charges, net of estimates for product returns and any related sales incentives. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products. All revenue is recognized when the Company satisfies the performance obligations under the contract. The Company recognizes revenue by transferring the promised products to the customer, with revenue recognized at shipping point, the point in time the customer obtains control of the products. The Company recognizes revenue for shipping and handling charges at the time the products are delivered to or picked up by the customer. The Company estimates product returns based on historical return rates. The majority of the Company's contracts have a single performance obligation and are short term in nature. Sales taxes and value added taxes in foreign jurisdictions that are collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from net sales.

Contract Liabilities – Customer Loyalty Programs

Contract liabilities, recorded as deferred revenue within the accrued expenses line in the Condensed Consolidated Balance Sheets, include loyalty point program deferrals with certain customers which are accounted for as a reduction in the transaction price and are generally recognized as points are redeemed for additional products on an annual basis.

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The balance of deferred revenue related to contract liabilities as of March 31, 2019 and December 31, 2018 was $13.3 million and $13.8 million respectively.

Disaggregation of Revenue

Please refer to Note 10 - Segment Information for revenue by segment and product line.

Arrangements with Multiple Performance Obligations

The Company's contracts with customers may include multiple performance obligations. For such arrangements, the Company allocates revenues to each performance obligation based on its relative standalone selling price. The Company generally determines standalone selling prices based on the prices charged to customers for individual products sales to customers.

Practical Expedients and Exemptions

The Company generally expenses sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within selling expenses.

The Company does not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less.

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in right-of-use ("ROU") assets, accrued expenses, and operating lease liabilities on the consolidated balance sheets. The Company has not separately disclosed finance leases, as they are not material, either individually or in the aggregate, to the Company's consolidated financial statements.

Operating lease ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. The Company uses their estimated incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives and initial direct costs incurred. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. Leases with a term of 12 months or less are not recorded on the balance sheet. The Company's lease agreements do not contain any residual value guarantees.

The Company has lease agreements with lease and non-lease components. The Company accounts for the lease and non-lease components as a single lease component.

3. Goodwill

During the first quarter of 2019, the Company reorganized the structure of the segments to separately disclose the Manufacturing entities that were acquired in the first quarter of 2018 and the Grow Tech segment, both of which were previously included in the Other category. The Company's reporting units for goodwill are its operating segments, which are also its reportable segments.

The following table presents goodwill allocated to the Company's reportable segments for the periods ended March 31, 2019 and December 31, 2018 (U.S. dollars in thousands):

	March 31, 2019	December 31, 2018
Nu Skin		
Mainland China	$ 32,179	$ 32,179
Americas/Pacific	9,449	9,449
South Korea	29,261	29,261
Southeast Asia	18,537	18,537
Japan	16,019	16,019
Hong Kong/Taiwan	6,634	6,634
EMEA	2,875	2,875
Manufacturing	72,469	72,469
Grow Tech	9,150	9,150
Total	$ 196,573	$ 196,573

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4. Debt

Previous Credit Agreement

On October 9, 2014, the Company entered into a Credit Agreement (the “Previous Credit Agreement”) with various financial institutions, and Bank of America, N.A. as administrative agent. The Previous Credit Agreement provided for a $127.5 million term loan facility, a 6.6 billion Japanese yen term loan facility and a $187.5 million revolving credit facility, each with a term of five years. On October 10, 2014, the Company drew the full amount of the term loan facilities. On April 18, 2018, the Company repaid the full balance that was outstanding under the Previous Credit Agreement.

Existing Credit Agreement

On April 18, 2018, the Company entered into a Credit Agreement (the “Existing Credit Agreement”) with several financial institutions as lenders and Bank of America, N.A., as administrative agent. The Existing Credit Agreement provides for a $400 million term loan facility and a $350 million revolving credit facility, each with a term of five years. Concurrently with the closing of the Existing Credit Agreement, the Company drew the full amount of the term loan facility and $78.5 million of the revolving facility, each of which initially bear interest at the London Interbank Offered Rate (“LIBOR”), plus 2.25%. The interest rate applicable to the facilities is subject to adjustment based on the Company’s consolidated leverage ratio. The term loan facility will amortize in quarterly installments in amounts resulting in an annual amortization of 5.0% during the first and second years, 7.5% during the third and fourth years and 10.0% during the fifth year after the closing date of the Existing Credit Agreement, with the remainder payable at final maturity. The Existing Credit Agreement requires the Company to maintain a consolidated leverage ratio not exceeding 2.25 to 1.00 and a consolidated interest coverage ratio of no less than 3.00 to 1.00.

Convertible Note

On June 16, 2016, the Company issued $210.0 million of convertible senior notes (the “Convertible Notes”) in a private offering to a Chinese investor (the “Holder”). The Convertible Notes were senior unsecured obligations which ranked equal in right of payment to all senior unsecured indebtedness of the Company and ranked senior in right of payment to any indebtedness that was contractually subordinated to the Convertible Notes. Interest on the Convertible Notes was payable semiannually in arrears on June 15 and December 15 of each year at a rate of 4.75% per annum.

The Convertible Notes had a stated maturity date of June 15, 2020, unless repurchased or converted prior to maturity. Prior to the stated maturity date, the Company could, at its option, redeem all or part of the Convertible Notes at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, provided that its common stock share price was equal to or exceeded 180% of the applicable conversion price for 20 or more trading days (including the final three trading days) in the 30 consecutive trading days prior to the Company’s exercise of such redemption right. The Holder of the Convertible Notes could, at its option, cause the Company to repurchase all of such Holder’s Convertible Notes or any portion thereof that was equal to $1,000 in principal amount or multiples of $1,000 upon a change in control or a termination of trading of the Company’s common stock, as those terms were defined in the indenture governing the Convertible Notes. In addition, the Holder of the Convertible Notes had the right, at such Holder’s option, to convert all or any portion thereof that is equal to $1,000 in principal amount or multiples of $1,000 at any time beginning six calendar months following June 16, 2016, at the then-applicable conversion rate. Upon conversion by the Holder, the Convertible Notes would be settled in cash with respect to principal and any accrued and unpaid interest to such date and in the Company’s common shares with respect to any additional amounts, based on the applicable conversion rate at such time. The Convertible Notes had an initial conversion rate of 21.5054 common shares per $1,000 principal amount of the Convertible Notes (which is equal to an initial conversion price of approximately $46.50 per common share). Throughout the term of the Convertible Notes, the conversion rate could be adjusted upon the occurrence of certain specified events.

Of the $210.0 million in proceeds received from the issuance of the Convertible Notes, $199.1 million was originally allocated to long-term debt (the “Liability Component”) and $10.9 million was allocated to additional paid-in capital (the “Equity Component”) within the Company’s consolidated balance sheet. The Liability Component was calculated by measuring the fair value of a similar debt instrument that does not have an associated conversion feature. The amount allocated to the Equity Component, representing the conversion option, was calculated by deducting the fair value of the Liability Component from the par value of the Convertible Notes. The Company determined that the conversion option did not require separate accounting treatment as a derivative instrument because it was both indexed to the Company’s own stock and would be classified in stockholders’ equity if freestanding. The Equity Component would not be remeasured as long as it continued to meet the conditions for equity classification. The excess of the principal amount of the Liability Component over its carrying amount (the “Debt Discount”) was amortized to interest expense over the term of the Convertible Notes. As a result, the Liability Component was accreted up to the Convertible Notes’ $210.0 million face value, resulting in additional non-cash interest expense being recognized within the Company’s consolidated statement of income. The effective interest rate on the Convertible Notes was approximately 7.1% per annum.

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The Company incurred approximately $6.6 million of issuance costs related to the issuance of the Convertible Notes. Of the $6.6 million in issuance costs incurred, $6.3 million and $0.3 million were recorded to deferred financing cost and additional paid-in capital, respectively, in proportion to the allocation of the proceeds of the Convertible Notes. The $6.3 million recorded to deferred financing cost on the Company's consolidated balance sheet as a reduction of long-term debt was amortized over the contractual term of the Convertible Notes using the effective interest method. During the first quarter of 2018 the issuance costs were expensed due to the conversion of the Notes.

During the first quarter of 2018, the Holder elected to convert the Convertible Notes pursuant to their terms in the indenture. The Company satisfied the equity portion of its conversion obligation on February 28, 2018 by issuing 1,535,652 shares of the Company's Class A Common Stock to the Holder and, on April 18, 2018, satisfied and discharged its obligations under the Convertible Notes and the indenture governing the Convertible Notes by paying the Holder $213.4 million which included $3.4 million of accrued interest from December 15, 2017 through April 17, 2018. The early conversion of the notes resulted in a $7.2 million charge to other income (expense) during the first quarter of 2018 for a loss on extinguishment of debt.

The following table summarizes the Company's debt facilities as of March 31, 2019 and December 31, 2018:

Facility or Arrangement	Original Principal Amount	Balance as of March 31, 2019(1)(2)	Balance as of December 31, 2018(2)	Interest Rate	Repayment Terms
April 2018 Credit Agreement term loan facility	$ 400.0 million	380.0 $ million	$ 385.0 million	Variable 30 day: 4.75%	35% of the principal amount is payable in increasing quarterly installments over a five-year period that began on June 30, 2018, with the remainder payable at the end of the five-year term.
April 2018 Credit Agreement revolving credit facility		$ 25.0 million	$ 49.5 million	Variable 30 day: 4.82%	Revolving line of credit expires April 18, 2023.

(1) As of March 31, 2019, the current portion of the Company's debt (i.e. becoming due in the next 12 months) included $20.0 million of the balance of its term loan under the Existing Credit Agreement facility. The Company has classified the $25.0 million borrowed under the revolving line of credit as short-term debt because it is the Company's intention to use the line of credit to borrow and pay back funds over short periods of time.

(2) The carrying value of the debt reflects the amounts stated in the above table less debt issuance costs of $3.8 million as of March 31, 2019 related to the credit agreement.

5. Leases

The Company has operating and finance leases for regional offices, manufacturing facilities, retail centers, distribution centers and certain equipment. The Company's leases have remaining lease terms of 1 year to 15 years, some of which include options to extend the leases for up to 10 years, and some of which include options to terminate the leases within 1 year. As of March 31, 2019, the weighted average remaining lease term and weighted average discount rate for operating leases was 4.1 years and 4.8%. The Company has not separately disclosed finance leases, as they are not material, either individually or in the aggregate, to the Company's consolidated financial statements.

The components of lease expense were as follows (U.S. dollars in thousands):

	Three Months Ended March 31, 2019
Operating lease cost	$ 12,861
Short-term lease cost	52
Variable lease cost	1,052
	$ 13,965

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As of March 31, 2019, the Company had $117.3 million of operating right-of-use assets on the balance sheet, along with $38.9 million and $81.1 million of operating lease liabilities in accrued expenses and long-term operating lease liabilities, respectively.

Supplemental cash flow information related to leases was as follows (U.S. dollars in thousands):

	Three Months Ended March 31, 2019
Operating cash outflow from operating leases	$ 14,377
ROU assets obtained in exchange for lease obligations	128,704

Maturities of lease liabilities were as follows (U.S. dollars in thousands):

Year Ending December 31,	Operating leases
2019	$43,686
2020	33,522
2021	23,544
2022	13,187
2023	8,542
Thereafter	10,398
Total	132,879
Less: Finance charges	12,899
Total principal liability	$119,980

The Company has additional lease liabilities of $2.6 million which have not yet commenced as of March 31, 2019, and as such, have not been recognized on the Company's Consolidated balance sheet.

Under ASC 840, minimum future operating leases and financing obligations at December 31, 2018 are as follows (U.S. dollars in thousands):

Year Ending December 31,	Operating leases	Finance leases
2019	$39,358	$726
2020	27,553	748
2021	20,266	757
2022	11,723	770
2023	9,950	794
Thereafter	7,628	1,148
Total minimum lease payments	$116,478	$4,943

6. Capital Stock

Net income per share

Net income per share is computed based on the weighted-average number of common shares outstanding during the periods presented. Additionally, diluted earnings per share data gives effect to all potentially dilutive common shares that were outstanding during the periods presented. For the three-month periods ended March 31, 2019 and 2018, stock options of 1.0 million and 0.9 million, respectively, were excluded from the calculation of diluted earnings per share because they were anti-dilutive.

Dividends

In February 2019, the Company’s board of directors declared a quarterly cash dividend of $0.37 per share. This quarterly cash dividend of $20.5 million was paid on March 13, 2019 to stockholders of record on February 25, 2019. In April 2019, the board of directors declared a quarterly cash dividend of $0.37 per share to be paid on June 12, 2019 to shareholders of record on May 31, 2019.

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Repurchase of common stock

During the three-month periods ended March 31, 2019 and 2018, the Company repurchased approximately 14,000 shares and 0.2 million shares of its Class A common stock under its open market stock repurchase plans for $0.8 million and $17.4 million, respectively. As of March 31, 2019, $470.2 million was available for repurchases under the Company's open market stock repurchase plan.

7. Fair Value

The carrying value of financial instruments including cash and cash equivalents, accounts receivable and accounts payable approximate fair values due to the short-term nature of these instruments. Fair value estimates are made at a specific point in time, based on relevant market information.

The FASB Codification defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. On a quarterly basis, the Company measures at fair value certain financial assets, including cash equivalents. Accounting standards specify a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair-value hierarchy:

Level 1 – quoted prices in active markets for identical assets or liabilities;
Level 2 – inputs, other than the quoted prices in active markets, that are observable either directly or indirectly;
Level 3 – unobservable inputs based on the Company's own assumptions.

Accounting standards permit companies, at their option, to measure certain financial instruments and other eligible items at fair value. The Company has elected not to apply the fair value option to existing eligible items beyond what is required by US GAAP.

The following tables present the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis (U.S. dollars in thousands):

	Fair Value at March 31, 2019			
	Level 1	Level 2	Level 3	Total
Financial assets (liabilities):				
Cash equivalents and current investments	$32,326	$ —	$—	$32,326
Other long-term assets	3,496	—	—	3,496
Life insurance contracts	—	—	38,516	38,516
Total	$35,822	$ —	$38,516	$74,338

	Fair Value at December 31, 2018			
	Level 1	Level 2	Level 3	Total
Financial assets (liabilities):				
Cash equivalents and current investments	$35,260	$ —	$—	$35,260
Other long-term assets	3,568	—	—	3,568
Life insurance contracts	—	—	35,590	35,590
Total	$			