AMPHENOL CORP /DE/
Form 10-Q
April 26, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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: 1-10879

AMPHENOL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	22-2785165
(State of Incorporation)	(IRS Employer Identification No.)

358 Hall Avenue

Wallingford, Connecticut 06492

(Address of principal executive offices) (Zip Code)

203-265-8900

(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 (§232.405 of this chapter) 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, the total number of shares outstanding of the registrant's Class A Common Stock was 298,732,261.

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Amphenol Corporation

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

AMPHENOL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(dollars in millions)

	March 31, 2019	December 31, 2018
Assets		
Current Assets:		
Cash and cash equivalents	$ 969.7	$ 1,279.3
Short-term investments	17.9	12.4
Total cash, cash equivalents and short-term investments	987.6	1,291.7
Accounts receivable, less allowance for doubtful accounts of $33.1 and $33.5, respectively	1,661.9	1,791.8
Inventories	1,224.4	1,233.8
Other current assets	253.6	254.3
Total current assets	4,127.5	4,571.6
Property, plant and equipment, less accumulated depreciation of $1,369.0 and $1,314.8, respectively	932.0	875.8
Goodwill	4,439.9	4,103.2
Intangibles, net and other long-term assets	708.7	494.3
	$ 10,208.1	$ 10,044.9
Liabilities & Equity		
Current Liabilities:		
Accounts payable	$ 797.1	$ 890.5
Accrued salaries, wages and employee benefits	151.0	157.2
Accrued income taxes	177.7	203.5
Accrued dividends	68.5	68.7
Other accrued expenses	448.9	367.1
Current portion of long-term debt	6.0	764.3
Total current liabilities	1,649.2	2,451.3
Long-term debt, less current portion	3,554.8	2,806.4
Accrued pension and postretirement benefit obligations	186.1	190.2
Deferred income taxes	255.8	255.6

Other long-term liabilities	391.8	277.2
Equity:		
Common stock	0.3	0.3
Additional paid-in capital	1,485.2	1,433.2
Retained earnings	3,142.1	3,028.7
Treasury stock, at cost	(119.7)	(55.0)
Accumulated other comprehensive loss	(384.8)	(390.2)
Total shareholders’ equity attributable to Amphenol Corporation	4,123.1	4,017.0
Noncontrolling interests	47.3	47.2
Total equity	4,170.4	4,064.2
	$ 10,208.1	$ 10,044.9

See accompanying notes to condensed consolidated financial statements.

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AMPHENOL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(dollars and shares in millions, except per share data)

	Three Months Ended March 31, 2019	2018
Net sales	$ 1,958.5	$ 1,866.9
Cost of sales	1,330.7	1,260.0
Gross profit	627.8	606.9
Acquisition-related expenses	16.5	—
Selling, general and administrative expenses	235.1	230.0
Operating income	376.2	376.9
Interest expense	(29.7)	(24.5)
Other income, net	3.0	2.3
Income before income taxes	349.5	354.7
Provision for income taxes	(79.6)	(86.4)
Net income	269.9	268.3
Less: Net income attributable to noncontrolling interests	(2.4)	(2.7)
Net income attributable to Amphenol Corporation	$ 267.5	$ 265.6
Net income per common share — Basic	$ 0.90	$ 0.87
Weighted average common shares outstanding — Basic	298.1	303.7
Net income per common share — Diluted	$ 0.87	$ 0.84
Weighted average common shares outstanding — Diluted	308.6	316.0

See accompanying notes to condensed consolidated financial statements.

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AMPHENOL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(dollars in millions)

	Three Months Ended March 31, 2019	2018
Net income	$ 269.9	$ 268.3
Total other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	2.7	58.7
Unrealized loss on cash flow hedges	(0.2)	(0.9)
Defined benefit plan adjustment, net of tax of ($1.2) and ($1.6), respectively	3.8	5.0
Total other comprehensive income (loss), net of tax	6.3	62.8
Total comprehensive income	276.2	331.1
Less: Comprehensive income attributable to noncontrolling interests	(3.3)	(4.2)
Comprehensive income attributable to Amphenol Corporation	$ 272.9	$ 326.9

See accompanying notes to condensed consolidated financial statements.

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AMPHENOL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

(dollars in millions)

	Three Months Ended March 31, 2019	2018
Cash from operating activities:		
Net income	$ 269.9	$ 268.3
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	85.6	60.5
Stock-based compensation expense	14.4	12.7
Deferred income tax benefit	(0.7)	(0.2)
Net change in components of working capital	(22.7)	(133.3)
Net change in accrued pension and postretirement benefits	1.5	(79.0)
Net change in other long-term assets and liabilities	(4.4)	1.2
Net cash provided by operating activities	343.6	130.2
Cash from investing activities:		
Capital expenditures	(74.5)	(54.9)
Proceeds from disposals of property, plant and equipment	4.3	0.8
Purchases of short-term investments	(23.1)	(6.8)
Sales and maturities of short-term investments	17.5	18.1
Acquisitions, net of cash acquired	(399.3)	(99.5)
Net cash used in investing activities	(475.1)	(142.3)
Cash from financing activities:		
Proceeds from issuance of senior notes	499.5	—
Repayments of long-term debt	(757.2)	—
Borrowings (repayments) under commercial paper programs, net	267.4	(304.8)
Payment of costs related to debt financing	(6.9)	—
Proceeds from exercise of stock options	47.5	20.6
Distributions to shareholders of noncontrolling interests	(3.2)	(3.9)
Purchase of treasury stock	(160.0)	(382.0)
Dividend payments	(68.7)	(58.1)
Net cash used in financing activities	(181.6)	(728.2)
Effect of exchange rate changes on cash and cash equivalents	3.5	21.4

Net change in cash and cash equivalents	(309.6)	(718.9)
Cash and cash equivalents balance, beginning of period	1,279.3	1,719.1
Cash and cash equivalents balance, end of period	$ 969.7	$ 1,000.2
Cash paid for:		
Interest	$ 31.6	$ 41.0
Income taxes	104.0	75.9

See accompanying notes to condensed consolidated financial statements.

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AMPHENOL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(amounts in millions, except share and per share data)

Note 1—Basis of Presentation and Principles of Consolidation

The condensed consolidated balance sheets as of March 31, 2019 and December 31, 2018, and the related condensed consolidated statements of income, condensed consolidated statements of comprehensive income, and condensed consolidated statements of cash flow for the three months ended March 31, 2019 and 2018 include the accounts of Amphenol Corporation and its subsidiaries ("Amphenol", the "Company", "we", "our", or "us"). All material intercompany balances and transactions have been eliminated in consolidation. The condensed consolidated financial statements included herein are unaudited. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation in conformity with accounting principles generally accepted in the United States of America have been included. The results of operations for the three months ended March 31, 2019 are not necessarily indicative of the results to be expected for the full year. These condensed consolidated financial statements and the related notes should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (the "2018 Annual Report").

Net change in accrued pension and postretirement benefits has been presented as a separate line item within cash from operating activities for the prior period in the Company's Condensed Consolidated Statements of Cash Flow, in order to conform to the current period presentation, which had no impact on our consolidated results of operations, financial position or cash flows. Previously, this item was included within Net change in other long-term assets and liabilities.

Note 2—New Accounting Pronouncements

Recently Adopted Accounting Standards

Leases

In February 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842) ("Topic 842"), which amended, among other things, the existing guidance by requiring lessees to recognize lease right-of-use assets ("ROU assets") and liabilities arising from operating leases on the balance sheet. Since issuing Topic 842, the FASB has issued various subsequent ASU's, including but not limited to, ASU 2018-10, Codification Improvements to Topic 842, Leases, which clarified various aspects of the guidance under Topic 842, as well as ASU 2018-11, Leases (Topic 842): Targeted Improvements, which allows entities the option of recognizing the cumulative effect of applying Topic 842 as an adjustment to the opening balance of retained earnings in the year of adoption while continuing to present all prior periods under previous lease accounting guidance.

Prior to adoption, the Company evaluated Topic 842, including the initial review of any necessary changes to existing processes and systems that would be required to implement this standard, in order to determine its impact on our consolidated financial statements and related disclosures. In 2018, the Company implemented a new lease management system that facilitated the adoption of this standard and enabled the Company to fulfill its requirements for both reporting and disclosure purposes, as well as to better manage and monitor the Company's ongoing lease portfolio. The Company ensured all key system functionality and other requirements were met, and we completed our assessment of the standard and implemented the necessary changes to our existing policies, processes and controls to achieve appropriate compliance with regards to our lease portfolio.

On January 1, 2019, we adopted Topic 842 using the updated modified retrospective transition approach allowed under ASU 2018-11 and did not restate prior periods. The Company recognized ROU assets and related lease liabilities on our Condensed Consolidated Balance Sheets as of January 1, 2019 of approximately $180 related to our operating lease commitments, and there was no cumulative impact on retained earnings as of January 1, 2019. Topic 842 did not have a material impact on our Condensed Consolidated Statements of Income and Condensed Consolidated Statements

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of Cash Flow for the three months ended March 31, 2019, nor did it have any impact on our compliance with debt covenants. The adoption of Topic 842 provided various optional practical expedients in transition, some of which we have elected. As part of the adoption, the Company elected the "package of 3" practical expedient, which among other things, permitted us not to reassess the historical lease classifications for existing or expired leases. Going forward, the impact of Topic 842 on the Company's consolidated financial statements will be dependent upon the Company's lease portfolio. The accounting for finance leases (formerly referred to as "capital leases") remains substantially unchanged. Refer to Note 15 herein for further details regarding the impact of the adoption of Topic 842 and other information related to our lease portfolio.

Accounting Standards Issued But Not Yet Adopted

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 ("ASU 2018-13"), which adds, amends and removes certain disclosure requirements related to fair value measurements. Among other changes, this standard requires certain additional disclosure surrounding Level 3 assets, including changes in unrealized gains or losses in other comprehensive income and certain inputs in those measurements. ASU 2018-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain amended or eliminated disclosures in this standard may be adopted early, while certain additional disclosure requirements in this standard can be adopted on its effective date. In addition, certain changes in the standard require retrospective adoption, while other changes must be adopted prospectively. The Company is currently evaluating ASU 2018-13 and its impact on our consolidated financial statements.

Note 3—Revenue Recognition

Revenues consist of product sales to either end customers and their appointed contract manufacturers (including original equipment manufacturers) or to distributors, and the vast majority of our sales are recognized at a point-in-time under the core principle of recognizing revenue when control transfers to the customer. With limited exceptions, the Company recognizes revenue at the point in time when we ship or deliver the product from our manufacturing facility to our customer, when our customer accepts and has legal title of the goods, and the Company has a present right to payment for such goods. For the three months ended March 31, 2019 and 2018, less than 5% of our net sales are recognized over time, as the associated contracts relate to the sale of goods with no alternative use as they are only sold to a single customer and whose underlying contract terms provide the Company with an enforceable right to payment, including a reasonable profit margin, for performance completed to date, in the event of customer termination. Since we typically invoice our customers at the same time that we satisfy our performance obligations, contract assets and contract liabilities recorded in the Company's Condensed Consolidated Balance Sheets were not significant as of March 31, 2019 and December 31, 2018. These amounts are recorded in the accompanying Condensed Consolidated Balance Sheets within Other current assets or Other accrued expenses as of March 31, 2019 and December 31, 2018.

The Company receives customer orders negotiated with multiple delivery dates that may extend across more than one reporting period until the contract is fulfilled, the end of the order period is reached, or a pre-determined maximum order value has been reached. Orders typically fluctuate from quarter to quarter based on customer demand and general business conditions. It is generally expected that a substantial portion of our remaining performance obligations will be fulfilled within three months, and nearly all of our performance obligations are part of contracts that have original durations of one year or less. Since our performance obligations are generally fulfilled within one year, we have not disclosed the aggregate amount of transaction prices associated with unsatisfied or partially unsatisfied performance obligations as of March 31, 2019.

While the Company typically offers standard product warranty coverage which provides assurance that our products will conform to the contractually agreed-upon specifications for a limited period from the date of shipment, the Company's warranty liabilities and related warranty expense have not been and were not material in the accompanying Condensed Consolidated Financial Statements as of March 31, 2019 and December 31, 2018, and for the three months ended March 31, 2019 and 2018.

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Disaggregation of Net Sales

The following tables show our net sales disaggregated into categories the Company considers meaningful to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors for the three months ended March 31, 2019 and 2018:

	Three months ended March 31, 2019		
	Interconnect Products and Assemblies	Cable Products and Solutions	Total Reportable Business Segments
Net sales by:			
Sales channel:			
End customers and contract manufacturers	$ 1,592.8	$ 72.9	$ 1,665.7
Distributors and resellers	269.9	22.9	292.8
	$ 1,862.7	$ 95.8	$ 1,958.5
Geography:			
United States	$ 534.0	$ 44.9	$ 578.9
China	522.4	0.8	523.2
Other foreign locations	806.3	50.1	856.4
	$ 1,862.7	$ 95.8	$ 1,958.5

	Three months ended March 31, 2018		
	Interconnect Products and Assemblies	Cable Products and Solutions	Total Reportable Business Segments
Net sales by:			
Sales channel:			
End customers and contract manufacturers	$ 1,515.6	$ 70.0	$ 1,585.6
Distributors and resellers	254.4	26.9	281.3
	$ 1,770.0	$ 96.9	$ 1,866.9
Geography:			
United States	$ 479.2	$ 47.8	$ 527.0
China	527.2	0.8	528.0
Other foreign locations	763.6	48.3	811.9
	$ 1,770.0	$ 96.9	$ 1,866.9

Net sales by geographic area are based on the customer location to which the product is shipped.

Note 4—Inventories

Inventories consist of:

	March 31, 2019	December 31, 2018
Raw materials and supplies	$ 475.8	$ 463.6
Work in process	388.9	371.1
Finished goods	359.7	399.1
	$ 1,224.4	$ 1,233.8

Note 5—Reportable Business Segments

The Company has two reportable business segments: (i) Interconnect Products and Assemblies and (ii) Cable Products and Solutions. The Company organizes its reportable business segments based upon similar economic characteristics and business groupings of products, services and customers. These reportable business segments are determined based upon how the Company reviews its businesses, assesses operating performance and makes investing and resource allocation decisions. The Interconnect Product and Assemblies segment primarily designs, manufactures

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and markets a broad range of connector and connector systems, value-add products and other products, including antennas and sensors, used in a broad range of applications in a diverse set of end markets. The Cable Products and Solutions segment primarily designs, manufactures and markets cable, value-add products and components for use primarily in the broadband communications and information technology markets as well as certain applications in other markets. The accounting policies of the segments are the same as those for the Company as a whole and are described herein and in Note 1 of the notes to the consolidated financial statements in the Company's 2018 Annual Report. The Company evaluates the performance of business units on, among other things, profit or loss from operations before interest, headquarters' expense allocations, stock-based compensation expense, income taxes, amortization related to certain intangible assets and nonrecurring gains and losses.

The segment results for the three months ended March 31, 2019 and 2018 are as follows:

	Interconnect Products and Assemblies		Cable Products and Solutions		Total Reportable Business Segments	
Three Months Ended March 31:	2019	2018	2019	2018	2019	2018
Net sales:						
External	$ 1,862.7	$ 1,770.0	$ 95.8	$ 96.9	$ 1,958.5	$ 1,866.9
Intersegment	2.9	2.6	15.7	8.9	18.6	11.5
Segment operating income	410.0	391.1	10.5	11.3	420.5	402.4

A reconciliation of segment operating income to consolidated income before income taxes for the three months ended March 31, 2019 and 2018 is summarized as follows:

	Three months ended March 31,	
	2019	2018
Segment operating income	$ 420.5	$ 402.4
Interest expense	(29.7)	(24.5)
Other income, net	3.0	2.3
Stock-based compensation expense	(14.4)	(12.7)
Acquisition-related expenses	(16.5)	—
Other operating expenses	(13.4)	(12.8)
Income before income taxes	$ 349.5	$ 354.7

Note 6—Shareholders' Equity and Noncontrolling Interests

Net income attributable to noncontrolling interests is classified below net income. Earnings per share is determined after the impact of the noncontrolling interests' share in net income of the Company. In addition, the equity attributable to noncontrolling interests is presented as a separate caption within equity.

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A rollforward of consolidated changes in equity for the three months ended March 31, 2019 is as follows:

	Amphenol Corporation Shareholders								
	Common Stock Shares (in millions)	Amount	Treasury Stock Shares (in millions)	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equi
ce as of mber 31, 2018	299.2	$ 0.3	(0.7)	$ (55.0)	$ 1,433.2	$ 3,028.7	$ (390.2)	$ 47.2	$ 4,(
come						267.5		2.4	26
rehensive ne							5.4	0.9	6.3
butions to holders of ntrolling sts								(3.2)	(3.
ase of treasury			(1.8)	(160.0)					(16
ement of ry stock	(0.8)		0.8	72.4		(72.4)			—
options sed	1.0		0.3	22.9	37.6	(13.2)			47
ends declared 3 per common						(68.5)			(68
-based ensation se					14.4				14
ce as of n 31, 2019	299.4	$ 0.3	(1.4)	$ (119.7)	$ 1,485.2	$ 3,142.1	$ (384.8)	$ 47.3	$ 4,1

A rollforward of consolidated changes in equity for the three months ended March 31, 2018 is as follows:

	Amphenol Corporation Shareholders								
	Common Stock Shares (in millions)	Amount	Treasury Stock Shares (in millions)	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equi
	305.7	$ 0.3	—	$ —	$ 1,249.0	$ 2,941.5	$ (201.0)	$ 53.6	$ 4,(

ce as of mber 31, 2017									
lative effect option of ue recognition ard						3.2			3.2
come						265.6		2.7	26
rehensive ne							61.3	1.5	62
sitions ing in ontrolling st								0.1	0.1
butions to holders of ontrolling sts								(3.9)	(3.
ase of treasury			(4.2)	(382.0)					(38
ement of ry stock	(4.2)		4.2	382.0		(382.0)			—
options sed	0.6				20.7				20
ends declared 9 per common						(57.4)			(5
-based ensation se					12.7				12
ce as of n 31, 2018	302.1	$ 0.3	—	$ —	$ 1,282.4	$ 2,770.9	$ (139.7)	$ 54.0	$ 3,9

On January 24, 2017, the Company's Board of Directors authorized a stock repurchase program under which the Company could purchase up to $1,000.0 of the Company's Common Stock during the two-year period ending January 24, 2019 (the "2017 Stock Repurchase Program") in accordance with the requirements of Rule 10b-18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). During the three months ended March 31, 2018, the Company repurchased 4.2 million shares of its Common Stock for $382.0 under the 2017 Stock Repurchase Program, bringing total repurchases under this program to approximately 12.6 million shares or $1,000.0, thus completing the 2017 Stock Repurchase Program.

On April 24, 2018, the Company's Board of Directors authorized a new stock repurchase program under which the Company may purchase up to $2,000.0 of the Company's Common Stock during the three-year period ending April 24, 2021 in accordance with the requirements of Rule 10b-18 of the Exchange Act (the "2018 Stock Repurchase

Program”). During the three months ended March 31, 2019, the Company repurchased 1.8 million shares of its Common Stock for $160.0 under the 2018 Stock Repurchase Program. Of the total repurchases during the first quarter of 2019, approximately 1.0 million shares, or $87.6, have been retained in Treasury stock; the remaining 0.8 million shares, or $72.4, have been retired by the Company. The Company has not repurchased any additional shares of its Common Stock through April 23, 2019, and has remaining authorization to purchase up to approximately $1,286.7 of its Common Stock under the 2018 Stock Repurchase Program. The price and timing of any future purchases under the 2018 Stock Repurchase Program will depend on factors such as levels of cash generation from operations, the volume of stock

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option exercises by employees, cash requirements for acquisitions, dividends, economic and market conditions and stock price.

Contingent upon declaration by the Board of Directors, the Company generally pays a quarterly dividend on shares of its Common Stock. The following table summarizes the dividends declared and paid for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31,	
	2019	2018
Dividends declared	$ 68.5	$ 57.4
Dividends paid (including those declared in the prior year)	68.7	58.1

Note 7—Earnings Per Share

Basic earnings per share (“EPS”) is computed by dividing net income attributable to Amphenol Corporation by the weighted average number of common shares outstanding. Diluted EPS is computed by dividing net income attributable to Amphenol Corporation by the weighted average number of common shares and dilutive common shares outstanding, which relates to stock options. A reconciliation of the basic weighted average common shares outstanding to diluted weighted average common shares outstanding for the three months ended March 31, 2019 and 2018 is as follows:

	Three Months Ended March 31,	
(dollars and shares in millions, except per share data)	2019	2018
Net income attributable to Amphenol Corporation shareholders	$ 267.5	$ 265.6

Basic weighted average common shares outstanding	298.1	303.7
Effect of dilutive stock options	10.5	12.3
Diluted weighted average common shares outstanding	308.6	316.0
Earnings per share attributable to Amphenol Corporation shareholders:		
Basic	$ 0.90	$ 0.87
Diluted	$ 0.87	$ 0.84

Excluded from the computations above were anti-dilutive common shares of 6.3 million and nil for the three months ended March 31, 2019 and 2018, respectively.

Note 8—Commitments and Contingencies

The Company has been named as a defendant in several legal actions arising from normal business activities. The Company records a loss contingency liability when a loss is considered probable and the amount can be reasonably estimated. Although the potential liability with respect to certain of such legal actions cannot be reasonably estimated, none of such matters is expected to have a material adverse effect on the Company's financial condition, results of operations or cash flows. The Company's legal costs associated with defending itself are recorded to expense as incurred.

In August 2018, the Company received a subpoena from the U.S. Department of Defense, Office of the Inspector General, requesting documents pertaining to certain products manufactured by the Company's Military and Aerospace Group that are purchased or used by the U.S. government. The Company is cooperating with the request. The inquiry remains in the early stages and the Company is unable to estimate the timing or outcome of the matter.

Certain operations of the Company are subject to environmental laws and regulations which govern the discharge of pollutants into the air and water, as well as the handling and disposal of solid and hazardous wastes. The Company believes that its operations are currently in substantial compliance with applicable environmental laws and regulations and that the costs of continuing compliance will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

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Note 9—Stock-Based Compensation

For the three months ended March 31, 2019 and 2018, the Company's income before income taxes was reduced for stock-based compensation expense of $14.4 and $12.7, respectively. In addition, for the three months ended March 31, 2019 and 2018, the Company recognized aggregate income tax benefits of $8.6 and $5.9, respectively, in the provision for income taxes in the accompanying Condensed Consolidated Statements of Income associated with stock-based compensation, which include the excess tax benefits from option exercises of $6.8 and $4.1, respectively. The impact associated with recognizing excess tax benefits from option exercises in the provision for income taxes on our consolidated financial statements could result in significant fluctuations in our effective tax rate in the future, since the provision for income taxes will be impacted by the timing and intrinsic value of future stock-based compensation award exercises.

Stock-based compensation expense includes the estimated effects of forfeitures, which are adjusted over the requisite service period to the extent actual forfeitures differ or are expected to differ from such estimates. Changes in estimated forfeitures are recognized in the period of change and impact the amount of expense to be recognized in future periods. The expense incurred for stock-based compensation plans is included in Selling, general and administrative expenses in the accompanying Condensed Consolidated Statements of Income.

Stock Options

In May 2017, the Company adopted the 2017 Stock Purchase and Option Plan for Key Employees of Amphenol and Subsidiaries (the "2017 Employee Option Plan"). A committee of the Company's Board of Directors has been authorized to grant stock options pursuant to the 2017 Employee Option Plan. The number of shares of the Company's Class A Common Stock ("Common Stock") reserved for issuance under the 2017 Employee Option Plan is 30,000,000 shares. As of March 31, 2019, there were 16,982,040 shares of Common Stock available for the granting of additional stock options under the 2017 Employee Option Plan. The Company also continues to maintain the 2009 Stock Purchase and Option Plan for Key Employees of Amphenol and Subsidiaries, as amended (the "2009 Employee Option Plan"). No additional stock options will be granted under the 2009 Employee Option Plan. Options granted under the 2017 Employee Option Plan and the 2009 Employee Option Plan generally vest ratably over a period of five years from the date of grant and are generally exercisable over a period of ten years from the date of grant.

In 2004, the Company adopted the 2004 Stock Option Plan for Directors of Amphenol Corporation (the "2004 Directors Option Plan"). The 2004 Directors Option Plan is administered by the Company's Board of Directors. The 2004 Directors Option Plan expired in May 2014, except that its terms continue with respect to any outstanding options granted thereunder. Options were last granted under the 2004 Directors Option Plan in May 2011. Options granted under the 2004 Directors Option Plan are fully vested and are generally exercisable over a period of ten years from the date of grant.

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Stock option activity for the three months ended March 31, 2019 was as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Options outstanding at January 1, 2019	35,550,668	$ 59.77	6.81	$ 798.6
Options granted	40,000	78.12		
Options exercised	(1,269,121)	37.30		
Options forfeited	(40,440)	75.17		
Options outstanding at March 31, 2019	34,281,107	$ 60.60	6.67	$ 1,160.0
Vested and non-vested options expected to vest at March 31, 2019	32,308,769	$ 59.92	6.59	$ 1,115.4
Exercisable options at March 31, 2019	15,053,947	$ 46.98	5.17	$ 714.4

A summary of the status of the Company's non-vested options as of March 31, 2019 and changes during the three months then ended is as follows:

	Options	Weighted Average Fair Value at Grant Date
Non-vested options at January 1, 2019	19,289,500	$ 9.73
Options granted	40,000	10.48
Options vested	(61,900)	8.27
Options forfeited	(40,440)	9.74
Non-vested options at March 31, 2019	19,227,160	$ 9.74

During the three months ended March 31, 2019 and 2018, the following activity occurred under the Company's option plans:

	Three Months Ended March 31, 2019	2018
Total intrinsic value of stock options exercised	$ 70.0	$ 34.3
Total fair value of stock options vested	0.5	0.5

As of March 31, 2019, the total compensation cost related to non-vested options not yet recognized was approximately $127.3 with a weighted average expected amortization period of 3.25 years.

The grant-date fair value of each option grant under the 2009 Employee Option Plan, the 2017 Employee Option Plan and the 2004 Directors Option Plan is estimated using the Black-Scholes option pricing model. The grant-date fair value of each share grant is determined based on the closing share price of the Company's Common Stock on the date of the grant. The fair value is then amortized on a straight-line basis over the requisite service period of the awards, which is generally the vesting period. Use of a valuation model for option grants requires management to make certain assumptions with respect to selected model inputs. Expected share price volatility is calculated based on the historical volatility of the Common Stock and implied volatility derived from related exchange traded options. The average expected life is based on the contractual term of the option and expected exercise and historical post-vesting termination experience. The risk-free interest rate is based on U.S. Treasury zero-coupon issuances with a remaining term equal to the expected life assumed at the date of grant. The expected annual dividend per share is based on the Company's dividend rate.

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Restricted Shares

In 2012, the Company adopted the 2012 Restricted Stock Plan for Directors of Amphenol Corporation (the "2012 Directors Restricted Stock Plan"). The 2012 Directors Restricted Stock Plan is administered by the Company's Board of Directors. As of March 31, 2019, the number of restricted shares available for grant under the 2012 Directors Restricted Stock Plan was 109,150. Restricted shares granted under the 2012 Directors Restricted Stock Plan generally vest on the first anniversary of the grant date. Grants under the 2012 Directors Restricted Stock Plan entitle the holder to receive shares of the Company's Common Stock without payment.

Restricted share activity for the three months ended March 31, 2019 was as follows:

	Restricted Shares	Fair Value at Grant Date	Weighted Average Remaining Amortization Term (in years)
Restricted shares outstanding at January 1, 2019	14,873	$ 87.89	0.39
Restricted shares granted	—	—	
Restricted shares outstanding at March 31, 2019	14,873	$ 87.89	0.14

As of March 31, 2019, the total compensation cost related to non-vested restricted shares not yet recognized was approximately $0.2 with a weighted average expected amortization period of 0.14 years.

Note 10—Benefit Plans and Other Postretirement Benefits

The Company and certain of its domestic subsidiaries have defined benefit pension plans (the "U.S. Plans"), which cover certain U.S. employees and which represent the majority of the plan assets and benefit obligations of the aggregate defined benefit plans of the Company. The U.S. Plans' benefits are generally based on years of service and compensation and are generally noncontributory. Certain U.S. employees not covered by the U.S. Plans are covered by defined contribution plans. Certain foreign subsidiaries have defined benefit plans covering their employees (the "Foreign Plans" and, together with the U.S. Plans, the "Plans"). The following is a summary, based on the most recent actuarial valuations of the Company's net cost for pension benefits, of the Plans for the three months ended March 31, 2019 and 2018:

	Pension Benefits	
Three Months Ended March 31:	2019	2018
Service cost	$ 1.8	$ 1.9
Interest cost	5.4	4.9
Expected return on plan assets	(9.2)	(9.7)
Amortization of prior service cost	0.4	0.6
Amortization of net actuarial losses	4.6	5.9
Net pension expense	$ 3.0	$ 3.6

In January 2018, the Company made a voluntary cash contribution of approximately $81.0 to fund the U.S. Plans. This voluntary cash contribution made in the first quarter of 2018 was reflected as cash used in operating activities within Net change in accrued pension and postretirement benefits in the Condensed Consolidated Statements of Cash Flow. The timing and amount of cash contributions in subsequent years will depend on a number of factors, including the investment performance of the Plans' assets.

The Company offers various defined contribution plans for certain U.S. and foreign employees. Participation in these plans is based on certain eligibility requirements. Through 2018, the Company matched the majority of employee contributions to the U.S. defined contribution plans with cash contributions up to a maximum of 5% of eligible compensation. Effective January 1, 2019, the Company increased its matching of employee contributions to the U.S. defined contribution plans to a maximum of 6% of eligible compensation. During the three months ended March 31, 2019 and 2018, the Company provided matching contributions to the U.S. defined contribution plans of approximately $4.0 and $2.3, respectively.

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Note 11—Acquisitions

In January 2019, pursuant to a definitive agreement entered into on November 27, 2018, the Company acquired SSI Controls Technologies (“SSI”), the sensor manufacturing division of SSI Technologies, Inc., for approximately $397, net of cash acquired (subject to customary post-closing adjustments), plus a performance-related contingent payment. SSI, which is headquartered in the United States (Wisconsin), is a leading designer and manufacturer of sensors and sensing solutions for the global automotive and industrial markets. The acquisition of SSI is not material to the Company. The contingent consideration payment is based on certain 2019 revenue and profitability levels of SSI. The Company determined the fair value of this liability using Level 3 unobservable inputs, such as probability weighted payout projections, and is classified as Level 3 in the fair value hierarchy (Note 16). The contingent consideration is payable in 2020 and recorded in Other accrued expenses on the accompanying Condensed Consolidated Balance Sheets as of March 31, 2019.

In the past twelve months, the Company has completed several other acquisitions, all within the Interconnect Products and Assemblies segment. The Company is in the process of completing its analyses of the fair value of the assets acquired and liabilities assumed. The Company anticipates that the final assessments of values will not differ materially from the preliminary assessments. These acquisitions were not material to the Company either individually or in the aggregate.

During the three months ended March 31, 2019, the Company incurred approximately $16.5 ($13.2 after-tax) of acquisition-related expenses, which includes the amortization of $12.5 related to the value associated with acquired backlog from the SSI acquisition, as well as external transaction costs of $4.0. Such acquisition-related expenses are separately presented in the accompanying Condensed Consolidated Statements of Income.

Note 12—Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill by segment were as follows:

	Interconnect Products and Assemblies	Cable Products and Solutions	Total
Goodwill at December 31, 2018	$ 3,956.7	$ 146.5	$ 4,103.2
Acquisition-related	347.1	—	347.1
Foreign currency translation	(10.4)	—	(10.4)

Goodwill at March 31, 2019	$ 4,293.4	$ 146.5	$ 4,439.9

The increase in goodwill, net of foreign currency translation, during the first three months of 2019 is primarily due to the acquisition of SSI in January 2019, which is included in the Interconnect Products and Assemblies segment.

Other than goodwill noted above, the Company's intangible assets as of March 31, 2019 and December 31, 2018 were as follows:

	March 31, 2019	December 31, 2018