WORTHINGTON INDUSTRIES INC
Form 10-Q
April 09, 2019
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 February 28, 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 001-08399

WORTHINGTON INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Ohio	31-1189815
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 Old Wilson Bridge Road, Columbus, Ohio	43085
(Address of principal executive offices)	(Zip Code)

(614) 438-3210
(Registrant’s telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date. On April 1, 2019, the number of Common Shares, without par value, issued and outstanding was 57,312,254.

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Safe Harbor Statement

Selected statements contained in this Quarterly Report on Form 10-Q, including, without limitation, in "PART I – Item 2. – Management's Discussion and Analysis of Financial Condition and Results of Operations," constitute "forward-looking statements" as that term is used in the Private Securities Litigation Reform Act of 1995 (the "Act"). Forward-looking statements reflect our current expectations, estimates or projections concerning future results or events. These statements are often identified by the use of forward-looking words or phrases such as "believe," "expect," "anticipate," "may," "could," "intend," "estimate," "plan," "foresee," "likely," "will," "should" or other similar word phrases. These forward-looking statements include, without limitation, statements relating to:

- outlook, strategy or business plans;
- future or expected growth, growth potential, forward momentum, performance, competitive position, sales, volumes, cash flows, earnings, margins, balance sheet strengths, debt, financial condition or other financial measures;
- pricing trends for raw materials and finished goods and the impact of pricing changes;
- the ability to improve or maintain margins;
- expected demand or demand trends for us or our markets;
- additions to product lines and opportunities to participate in new markets;
- expected benefits from Transformation and innovation efforts;
- the ability to improve performance and competitive position at our operations;
- anticipated working capital needs, capital expenditures and asset sales;
- anticipated improvements and efficiencies in costs, operations, sales, inventory management, sourcing and the supply chain and the results thereof;
- projected profitability potential;
- the ability to make acquisitions and the projected timing, results, benefits, costs, charges and expenditures related to acquisitions, newly-created joint ventures, headcount reductions and facility dispositions, shutdowns and consolidations;
- the successful sale of the WAVE international business;
- projected capacity and the alignment of operations with demand;
- the ability to operate profitably and generate cash in down markets;
- the ability to capture and maintain market share and to develop or take advantage of future opportunities, customer initiatives, new businesses, new products and new markets;
- expectations for Company and customer inventories, jobs and orders;
- expectations for the economy and markets or improvements therein;
- expectations for generating improving and sustainable earnings, earnings potential, margins or shareholder value;
- effects of judicial rulings; and
- other non-historical matters.

Because they are based on beliefs, estimates and assumptions, forward-looking statements are inherently subject to risks and uncertainties that could cause actual results to differ materially from those projected. Any number of factors could affect actual results, including, without limitation, those that follow:

- the effect of national, regional and global economic conditions generally and within major product markets, including a recurrent slowing economy;
- the effect of conditions in national and worldwide financial markets;
- the impact of tariffs, the adoption of trade restrictions affecting our products or suppliers, a United States withdrawal from or significant renegotiation of trade agreements, the occurrence of trade wars, the closing of border crossings, and other changes in trade regulations or relationships;
- lower oil prices as a factor in demand for products;
- product demand and pricing;
- changes in product mix, product substitution and market acceptance of our products;
- fluctuations in the pricing, quality or availability of raw materials (particularly steel), supplies, transportation, utilities and other items required by operations;

- the outcome of adverse claims experience with respect to workers' compensation, product recalls or product liability, casualty events or other matters;
- effects of facility closures and the consolidation of operations;
- the effect of financial difficulties, consolidation and other changes within the steel, automotive, construction, oil and gas, and other industries in which we participate;
- failure to maintain appropriate levels of inventories;
- financial difficulties (including bankruptcy filings) of original equipment manufacturers, end-users and customers, suppliers, joint venture partners and others with whom we do business;

- the ability to realize targeted expense reductions from headcount reductions, facility closures and other cost reduction efforts;
- the ability to realize cost savings and operational, sales and sourcing improvements and efficiencies, and other expected benefits from Transformation initiatives, on a timely basis;
- the overall success of, and the ability to integrate, newly-acquired businesses and joint ventures, maintain and develop their customers, and achieve synergies and other expected benefits and cost savings therefrom;
- capacity levels and efficiencies, within facilities, within major product markets and within the industries as a whole;
- the effect of disruption in the business of suppliers, customers, facilities and shipping operations due to adverse weather, casualty events, equipment breakdowns, interruption in utility services, civil unrest, international conflicts, terrorist activities or other causes;
- changes in customer demand, inventories, spending patterns, product choices, and supplier choices;
- risks associated with doing business internationally, including economic, political and social instability, foreign currency exchange rate exposure and the acceptance of our products in global markets;
- the ability to improve and maintain processes and business practices to keep pace with the economic, competitive and technological environment;
- deviation of actual results from estimates and/or assumptions used by the Company in the application of its significant accounting policies;
- level of imports and import prices in our markets;
- the impact of judicial rulings and governmental regulations, both in the United States and abroad, including those adopted by the United States Securities and Exchange Commission and other governmental agencies as contemplated by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010;
- the effect of healthcare laws in the United States and potential changes for such laws which may increase our healthcare and other costs and negatively impact our operations and financial results;
- cyber security risks;
- the effects of privacy and information security laws and standards; and
- other risks described from time to time in the filings of Worthington Industries, Inc. with the United States Securities and Exchange Commission, including those described in “PART I – Item 1A. — Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended May 31, 2018 and in “PART II – Item 1A. – Risk Factors” of this Quarterly Report on Form 10-Q.

We note these factors for investors as contemplated by the Act. It is impossible to predict or identify all potential risk factors. Consequently, you should not consider the foregoing list to be a complete set of all potential risks and uncertainties. Any forward-looking statements in this Quarterly Report on Form 10-Q are based on current information as of the date of this Quarterly Report on Form 10-Q, and we assume no obligation to correct or update any such statements in the future, except as required by applicable law.

PART I. FINANCIAL INFORMATION

Item 1. – Financial Statements

WORTHINGTON INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	February 28, 2019	May 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$113,116	$121,967
Receivables, less allowances of $859 and $632 at February 28, 2019 and May 31, 2018, respectively	512,739	572,689
Inventories:		
Raw materials	269,733	237,471
Work in process	110,326	122,977
Finished products	106,015	93,579
Total inventories	486,074	454,027
Income taxes receivable	17,534	1,650
Assets held for sale	7,568	30,655
Prepaid expenses and other current assets	68,082	60,134
Total current assets	1,205,113	1,241,122
Investments in unconsolidated affiliates	222,865	216,010
Goodwill	335,311	345,183
Other intangible assets, net of accumulated amortization of $86,370 and $74,922 at February 28, 2019 and May 31, 2018, respectively	201,588	214,026
Other assets	21,475	20,476
Property, plant and equipment:		
Land	24,018	24,229
Buildings and improvements	309,141	300,542
Machinery and equipment	1,050,372	1,030,720
Construction in progress	49,314	32,282
Total property, plant and equipment	1,432,845	1,387,773
Less: accumulated depreciation	851,904	802,803
Total property, plant and equipment, net	580,941	584,970
Total assets	$2,567,293	$2,621,787
Liabilities and equity		
Current liabilities:		
Accounts payable	$424,480	$473,485
Accrued compensation, contributions to employee benefit plans and related taxes	58,160	96,487

Dividends payable	14,380	13,731
Other accrued items	67,045	57,125
Income taxes payable	106	4,593
Current maturities of long-term debt	1,167	1,474
Total current liabilities	565,338	646,895
Other liabilities	72,396	74,237
Distributions in excess of investment in unconsolidated affiliate	124,198	55,198
Long-term debt	748,319	748,894
Deferred income taxes, net	80,034	60,188
Total liabilities	1,590,285	1,585,412
Shareholders' equity - controlling interest	856,622	918,769
Noncontrolling interests	120,386	117,606
Total equity	977,008	1,036,375
Total liabilities and equity	$2,567,293	$2,621,787

See notes to consolidated financial statements.

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WORTHINGTON INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2019	2018	2019	2018
Net sales	$874,381	$841,657	$2,820,714	$2,561,160
Cost of goods sold	784,360	714,603	2,466,762	2,161,249
Gross margin	90,021	127,054	353,952	399,911
Selling, general and administrative expense	75,220	84,294	250,529	261,968
Impairment of goodwill and long-lived assets	-	-	2,381	8,289
Restructuring and other income, net	(11,176)	(3)	(11,710)	(7,393)
Operating income	25,977	42,763	112,752	137,047
Other income (expense):				
Miscellaneous income, net	525	1,500	2,222	3,169
Interest expense	(9,341)	(9,775)	(28,541)	(28,620)
Equity in net income of unconsolidated affiliates	20,802	19,770	71,897	63,521
Earnings before income taxes	37,963	54,258	158,330	175,117
Income tax expense (benefit)	8,415	(24,039)	34,032	7,124
Net earnings	29,548	78,297	124,298	167,993
Net earnings (loss) attributable to noncontrolling interests	2,775	(791)	8,581	3,968
Net earnings attributable to controlling interest	$26,773	$79,088	$115,717	$164,025
Basic				
Average common shares outstanding	56,478	60,383	57,650	61,451
Earnings per share attributable to controlling interest	$0.47	$1.31	$2.01	$2.67
Diluted				
Average common shares outstanding	57,974	62,345	59,389	63,507
Earnings per share attributable to controlling interest	$0.46	$1.27	$1.95	$2.58
Common shares outstanding at end of period	56,181	59,802	56,181	59,802
Cash dividends declared per share	$0.23	$0.21	$0.69	$0.63

See notes to consolidated financial statements.

WORTHINGTON INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2019	2018	2019	2018
Net earnings	$29,548	$78,297	$124,298	$167,993
Other comprehensive income (loss):				
Foreign currency translation	1,476	9,542	(8,857)	26,925
Pension liability adjustment, net of tax	37	251	(60)	245
Cash flow hedges, net of tax	(596)	(556)	(7,228)	(879)
Other comprehensive income (loss)	917	9,237	(16,145)	26,291
Comprehensive income	30,465	87,534	108,153	194,284
Comprehensive income (loss) attributable to noncontrolling interests	2,803	(680)	8,537	4,438
Comprehensive income attributable to controlling interest	$27,662	$88,214	$99,616	$189,846

See notes to consolidated financial statements.

WORTHINGTON INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2019	2018	2019	2018
Operating activities:				
Net earnings	$29,548	$78,297	$124,298	$167,993
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation and amortization	23,625	25,338	71,643	76,986
Impairment of goodwill and long-lived assets	-	-	2,381	8,289
Provision for (benefit from) deferred income taxes	(730)	(27,373)	21,493	(20,022)
Bad debt (income) expense	201	17	454	(4)
Equity in net income of unconsolidated affiliates, net of distributions	(865)	2,835	3,298	(1,968)
Net gain on assets	(12,606)	(1,437)	(10,203)	(10,692)
Stock-based compensation	1,143	2,882	7,755	10,076
Changes in assets and liabilities, net of impact of acquisitions:				
Receivables	1,546	4,071	55,793	20,652
Inventories	(1,054)	(15,398)	(38,525)	(40,223)
Prepaid expenses and other current assets	(4,276)	(4,914)	(25,944)	(149)
Other assets	79	(2,069)	(1,181)	(3,045)
Accounts payable and accrued expenses	14,963	35,564	(85,533)	(12,804)
Other liabilities	464	2,107	1,458	7,568
Net cash provided by operating activities	52,038	99,920	127,187	202,657
Investing activities:				
Investment in property, plant and equipment	(19,379)	(13,628)	(60,554)	(55,319)
Acquisitions, net of cash acquired	-	-	-	(285,028)
Distributions from unconsolidated affiliate	1,492	-	56,693	-
Proceeds from sale of assets	27,843	3	48,290	16,742
Net cash provided (used) by investing activities	9,956	(13,625)	44,429	(323,605)
Financing activities:				
Net repayments of short-term borrowings, net of issuance costs	-	(1,108)	-	(508)
Proceeds from long-term debt, net of issuance costs	-	-	-	197,685
Principal payments on long-term debt	(303)	(374)	(1,104)	(813)
Proceeds from issuance of common shares, net of tax withholdings	104	581	(4,645)	(3,415)
Payments to noncontrolling interests	-	-	(6,327)	(3,916)
Repurchase of common shares	(28,587)	(47,418)	(129,020)	(159,942)
Dividends paid	(13,119)	(12,766)	(39,371)	(38,800)
Net cash used by financing activities	(41,905)	(61,085)	(180,467)	(9,709)
Increase (decrease) in cash and cash equivalents	20,089	25,210	(8,851)	(130,657)

Cash and cash equivalents at beginning of period	93,027	122,214	121,967	278,081
Cash and cash equivalents at end of period	$113,116	$147,424	$113,116	$147,424

See notes to consolidated financial statements.

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WORTHINGTON INDUSTRIES, INC.

Notes to Consolidated Financial Statements

(Unaudited)

NOTE A – Basis of Presentation

The consolidated financial statements include the accounts of Worthington Industries, Inc. and consolidated subsidiaries (collectively, "we," "our," "Worthington," or the "Company"). Investments in unconsolidated affiliates are accounted for using the equity method. Significant intercompany accounts and transactions are eliminated.

The Company owns controlling interests in the following three joint ventures: Spartan Steel Coating, LLC ("Spartan") (52%), TWB Company, L.L.C. ("TWB") (55%), and Worthington Specialty Processing ("WSP") (51%). These joint ventures are consolidated with the equity owned by the other joint venture members shown as noncontrolling interests in our consolidated balance sheets, and their portions of net earnings and other comprehensive income ("OCI") shown as net earnings or comprehensive income (loss) attributable to noncontrolling interests in our consolidated statements of earnings and consolidated statements of comprehensive income, respectively.

These unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the United States Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments, which are of a normal and recurring nature except those which have been disclosed elsewhere in this Quarterly Report on Form 10-Q, necessary for a fair presentation of the consolidated financial statements for these interim periods, have been included. Operating results for the three and nine months ended February 28, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending May 31, 2019 ("fiscal 2019"). For further information, refer to the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the fiscal year ended May 31, 2018 ("fiscal 2018") of Worthington Industries, Inc. (the "2018 Form 10-K").

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Recently Adopted Accounting Standards

On June 1, 2018, the Company adopted new accounting guidance that replaces most existing revenue recognition guidance under U.S. GAAP. See "NOTE B – Revenue Recognition" for further explanation related to this adoption, including newly-required disclosures.

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532; 34-83875, "Disclosure Update and Simplification," adopting amendments to certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded, in light of other SEC disclosure requirements, GAAP or changes in the information environment. In addition, the amendments expanded the disclosure requirements relating to the analysis of shareholders' equity for interim financial statements. Under the amendments, an analysis of the changes in each caption of shareholders' equity and noncontrolling interests presented in the balance sheet must be provided in a note

or separate statement. The analysis must present a reconciliation of the beginning balance to the ending balance of each period for which a statement of earnings is required to be filed. The final rule was effective on November 5, 2018. The Company adopted the final rule effective for the second quarter of fiscal 2019. The adoption of the final rule did not have a significant impact on the Company's consolidated financial position or results of operations. See "NOTE J – Changes in Equity" for the newly-required disclosures related to this adoption.

Recently Issued Accounting Standards

In February 2016, new accounting guidance was issued that replaces most existing lease accounting guidance under U.S. GAAP. Among other changes, the new accounting guidance requires that leased assets and liabilities be recognized on the balance sheet by lessees for those leases classified as operating leases under previous accounting guidance. The new accounting guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted, and the change is to be applied using a modified retrospective approach as of the beginning of the earliest period presented. In July 2018, the FASB issued additional accounting standard updates clarifying certain provisions, as well as providing for a second transition method allowing entities to initially apply the standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance sheet of retained earnings. The scoping and diagnostic phases of the implementation of this new accounting guidance have been completed. We are continuing to evaluate the components and criteria of existing leases and reviewing contracts

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and agreements to identify items that may meet the definition of a lease under the new accounting guidance. We have procured a third-party software to track and manage our leases and are getting ready to start the process of importing lease data into the software. While we are in the process of evaluating the effect this new accounting guidance will have on the presentation of our consolidated financial statements and related disclosures, the adoption is anticipated to have a material impact on the Company's consolidated balance sheets with the addition of right-of-use assets, offset by the associated liabilities; however, we do not expect it to have a material impact on the consolidated statements of earnings.

In June 2016, amended accounting guidance was issued related to the measurement of credit losses on financial instruments. The amended accounting guidance changes the impairment model for most financial assets to require measurement and recognition of expected credit losses for financial assets held. The amended accounting guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We are in the process of evaluating the effect this amended accounting guidance will have on our consolidated financial position and results of operations; however, we do not expect the amended accounting guidance to have a material impact on our ongoing financial reporting.

In August 2017, amended accounting guidance was issued that modifies hedge accounting by making more hedge strategies eligible for hedge accounting, amending presentation and disclosure requirements, and changing how companies assess effectiveness. The intent is to simplify application of hedge accounting and increase transparency of information about an entity's risk management activities. The amended accounting guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. It is to be applied using a modified retrospective transition approach for cash flow and net investment hedges existing at the date of adoption. The presentation and disclosure guidance is only required prospectively. Early adoption is permitted. We are in the process of evaluating the effect this amended accounting guidance will have on our consolidated financial position and results of operations; however, we do not expect the amended accounting guidance to have a material impact on our ongoing financial reporting.

NOTE B – Revenue Recognition

Through fiscal 2018, in accordance with our historical accounting policies for revenue recognition, we recognized revenue upon transfer of title and risk of loss, or in the case of toll processing revenue, upon delivery of the goods, provided persuasive evidence of an arrangement existed, pricing was fixed or determinable and collectability was reasonably assured. Through charges to net sales, provisions were made for returns & allowances, customer rebates and sales discounts based on past experience, specific agreements, and anticipated levels of customer activity.

On June 1, 2018, we adopted new accounting guidance that replaces most existing revenue recognition accounting guidance under U.S. GAAP, Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) ("Topic 606"). The new accounting guidance was adopted using the modified retrospective approach as applied to customer contracts that were not complete at the date of adoption, with the cumulative effect recognized in retained earnings. Comparative financial information for reporting periods beginning prior to June 1, 2018, has not been restated and continues to be reported under the previous accounting guidance. The cumulative effect adjustment resulted from a change in the pattern of recognition for our toll processing revenue stream and certain contracts within the oil & gas equipment revenue stream, which previously were accounted for as point in time and now will be accounted for over time.

The following table outlines the cumulative effect of adopting the new revenue recognition guidance:

(in thousands)	May 31, 2018	Cumulative Effect of	June 1, 2018

	(As Reported)	Topic 606 Adoption	(As Adjusted)
Consolidated Balance Sheet			
Assets			
Receivables	$ 572,689	$ 4,706	$ 577,395
Total inventories	454,027	(3,452)	450,575
Prepaid expenses and other current assets	60,134	944	61,078
Liabilities and equity			
Deferred income taxes, net	60,188	454	60,642
Retained earnings	637,757	1,174	638,931
Noncontrolling interests	117,606	570	118,176

Under the new accounting guidance, we recognize revenue upon transfer of control of promised goods or services to customers in an amount that reflects the consideration we expect to receive for those goods or services, including any variable consideration.

Shipping and handling costs charged to customers are treated as fulfillment activities and are recorded in both net sales and cost of goods sold at the time control is transferred to the customer. Due to the short-term nature of our contracts with customers, we have

elected to apply the practical expedients under Topic 606 to: (1) expense as incurred, incremental costs of obtaining a contract; and (2) not adjust the consideration for the effects of a significant financing component for contracts with an original expected duration of one year or less. When we satisfy (or partially satisfy) a performance obligation, prior to being able to invoice the customer, we recognize an unbilled receivable when the right to consideration is unconditional and a contract asset when the right to consideration is conditional. Unbilled receivables and contract assets are included in receivables and prepaid and other current assets, respectively, on the consolidated balance sheets. Additionally, we do not maintain contract liability balances, as performance obligations are satisfied prior to customer payment for product. Payments from customers are generally due within 30 to 60 days of invoicing, which generally occurs upon shipment or delivery of the goods.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that we collect from a customer, are excluded from revenue.

Certain contracts with customers include warranties associated with the delivered goods or services. These warranties are not considered to be separate performance obligations, and accordingly, we record an estimated liability for potential warranty costs as the goods or services are transferred.

With the exception of the toll processing revenue stream and certain contracts within the oil & gas equipment revenue stream, we recognize revenue at the point in time the performance obligation is satisfied and control of the product is transferred to the customer upon shipment or delivery. Generally, we receive and acknowledge purchase orders from our customers, which define the quantity, pricing, payment and other applicable terms and conditions. In some cases, we receive a blanket purchase order from our customers, which includes pricing, payment and other terms and conditions, with quantities defined at the time each customer subsequently issues periodic releases against the blanket purchase order.

For the toll processing revenue stream and certain contracts within the oil & gas equipment revenue stream, we recognize revenue over time. Revenue is primarily measured using the cost-to-cost method, which we believe best depicts the transfer of control to the customer. Under the cost-to-cost method, the extent of progress towards completion is measured based on the ratio of actual costs incurred to the total estimated costs expected upon satisfying the identified performance obligation. Revenues are recorded proportionally as costs are incurred. We have elected to not disclose the value of unsatisfied performance obligations for contracts with an original expected duration of one year or less.

Certain contracts contain variable consideration, which is not constrained, and primarily include estimated sales returns, customer rebates, and sales discounts which are recorded on an expected value basis. These estimates are based on historical returns, analysis of credit memo data and other known factors. We account for rebates by recording reductions to revenue for rebates in the same period the related revenue is recorded. The amount of these reductions is based upon the terms agreed to with the customer. We do not exercise significant judgments in determining the timing of satisfaction of performance obligations or the transaction price.

The following tables summarize net sales by product class and by timing of revenue recognition for the three month and nine month periods ended February 28, 2019:

(in thousands)	Reportable Segments				
	Steel	Pressure	Engineered		
Three months ended February 28, 2019	Processing	Cylinders	Cabs	Other	Total
Product class:					
Steel Processing					
Direct	$527,970	$ -	$ -	$ -	$527,970
Toll	27,901	-	-	-	27,901
Pressure Cylinders					

Industrial products	-	148,018	-	-	148,018
Consumer products	-	118,006	-	-	118,006
Oil & gas equipment	-	24,666	-	-	24,666
Engineered Cabs	-	-	27,817	-	27,817
Other	-	-	-	3	3
Total	$555,871	$290,690	$ 27,817	$ 3	$874,381
Timing of revenue recognition:					
Goods transferred at a point in time	$527,970	$270,131	$ 27,817	$ 3	$825,921
Goods and services transferred over time	27,901	20,559	-	-	48,460
Total	$555,871	$290,690	$ 27,817	$ 3	$874,381

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(in thousands)	Reportable Segments				
	Steel	Pressure	Engineered		
Nine months ended February 28, 2019	Processing	Cylinders	Cabs	Other	Total
Product class:					
Steel Processing					
Direct	$1,756,842	$ -	$ -	$ -	$1,756,842
Toll	94,559	-	-	-	94,559
Pressure Cylinders					
Industrial products	-	452,883	-	-	452,883
Consumer products	-	352,023	-	-	352,023
Oil & gas equipment	-	80,584	-	-	80,584
Engineered Cabs	-	-	83,798	-	83,798
Other	-	-	-	25	25
Total	$1,851,401	$885,490	$ 83,798	$ 25	$2,820,714
Timing of revenue recognition:					
Goods transferred at a point in time	$1,756,842	$836,130	$ 83,798	$ 25	$2,676,795
Goods and services transferred over time	94,559	49,360	-	-	143,919
Total	$1,851,401	$885,490	$ 83,798	$ 25	$2,820,714

The following tables show the adjustments that would be required to be made to our fiscal 2019 consolidated financial statements to reflect the balances that would have been recorded if we continued to follow our accounting policies under the previous revenue recognition guidance.

(in thousands)	February 28, 2019 As Currently Reported	Topic 606 Adjustments	Balances Without Adoption of Topic 606
Consolidated Balance Sheet			
Assets			
Receivables	$512,739	$ (4,785)	$507,954
Total inventories	486,074	6,207	492,281
Prepaid expenses and other current assets	68,082	(4,057)	64,025
Liabilities and equity			
Income taxes payable	106	(41)	65
Deferred income taxes, net	80,034	(454)	79,580
Shareholders' equity - controlling interest	856,622	(1,489)	855,133
Noncontrolling interests	120,386	(651)	119,735

(in thousands)	Three months ended February 28, 2019 As Currently Reported	Topic 606 Adjustments	Balances Without Adoption of Topic 606	Nine months ended February 28, 2019 As Currently Reported	Topic 606 Adjustments	Balances Without Adoption of Topic 606
Consolidated Statements of Earnings						
Net sales	$874,381	$ 464	$874,845	$2,820,714	$ (3,193)	$2,817,521
Cost of goods sold	784,360	170	784,530	2,466,762	(2,755)	2,464,007
Income tax expense	8,415	65	8,480	34,032	(41)	33,991
Net earnings	29,548	229	29,777	124,298	(397)	123,901
Net earnings attributable to noncontrolling interests	2,775	(34)	2,741	8,581	(82)	8,499
Net earnings attributable to controlling interest	26,773	263	27,036	115,717	(315)	115,402

NOTE C – Investments in Unconsolidated Affiliates

Investments in affiliated companies that we do not control, either through majority ownership or otherwise, are accounted for using the equity method. These include ArtiFlex Manufacturing, LLC (“ArtiFlex”) (50%), Clarkwestern Dietrich Building Systems LLC (“ClarkDietrich”) (25%), Samuel Steel Pickling Company (31.25%), Serviacero Planos, S. de R. L. de C.V. (“Serviacero Worthington”) (50%), Worthington Armstrong Venture (“WAVE”) (50%), and Zhejiang Nisshin Worthington Precision Specialty Steel Co., Ltd. (10%).

We received distributions from unconsolidated affiliates totaling $131,888,000 during the nine months ended February 28, 2019, including $60,000,000 of one-time special distributions from WAVE, comprised of $35,000,000 related to the pending sale of the international operations and $25,000,000 in connection with a financing transaction. We have received cumulative distributions from WAVE in excess of our investment balance, which resulted in an amount recorded within other liabilities on our consolidated balance sheets of $124,198,000 at February 28, 2019. In accordance with the applicable accounting guidance, we reclassified the negative investment balance to

the liabilities section of our consolidated balance sheet. We will continue to record our equity in the net income of WAVE as a debit to the investment account, and if the investment balance becomes positive, it will again be shown as an asset on our consolidated balance sheet. If it becomes probable that any excess distribution may not be returned (upon joint venture liquidation or otherwise), we will recognize any negative investment balance classified as a liability as income immediately.

We use the "cumulative earnings" approach for determining cash flow presentation of distributions from our unconsolidated joint ventures. Distributions received are included in our consolidated statements of cash flows as operating activities, unless the cumulative distributions received, less distributions received in prior periods that were determined to be returns of investment, exceed our portion of the cumulative equity in the net earnings of the joint venture, in which case the excess distributions are deemed to be returns of the investment and are classified as investing activities in our consolidated statements of cash flows. We received excess distributions from WAVE of $56,693,000 during the nine months ended February 28, 2019.

The following tables summarize combined financial information for our unconsolidated affiliates as of the dates, and for the periods presented:

(in thousands)	February 28, 2019	May 31, 2018
Cash	$41,087	$52,812
Other current assets	595,417	590,578
Current assets for discontinued operations	35,609	37,640
Noncurrent assets	363,992	358,927
Total assets	$1,036,105	$1,039,957
Current liabilities	$234,230	$166,493
Current liabilities for discontinued operations	8,744	7,142
Short-term borrowings	21,983	26,599
Current maturities of long-term debt	23,216	23,243
Long-term debt	322,306	259,588
Other noncurrent liabilities	18,734	17,536
Equity	406,892	539,356
Total liabilities and equity	$1,036,105	$1,039,957

	Three Months Ended February 28,		Nine Months Ended February 28,	
(in thousands)	2019	2018	2019	2018
Net sales	$454,579	$403,426	$1,433,840	$1,258,667
Gross margin	77,706	72,828	257,033	230,185
Operating income	47,392	41,546	164,360	133,313
Depreciation and amortization	6,310	5,406	19,368	18,534
Interest expense	3,529	2,564	9,836	7,517
Income tax expense (benefit)	1,877	(1,095)	9,970	2,069
Net earnings from continuing operations	40,196	36,058	141,613	118,995
Net earnings from discontinued operations	1,001	1,805	4,713	1,532
Net earnings	41,197	37,863	146,326	120,527

The amounts presented within the discontinued operations captions in the tables above reflect the international operations of our WAVE joint venture, which are being sold as part of a broader transaction between the joint venture partner, Armstrong World Industries, Inc. (“AWI”), and Knauf Group, a family-owned manufacturer of building materials headquartered in Germany. WAVE’s portion of the total sales proceeds is expected to be approximately $90,000,000 ($45,000,000 attributed to Worthington). The transaction is subject to regulatory approvals and other customary closing conditions. During the first quarter of fiscal 2019, the parties agreed to extend the date by which certain competition clearance conditions were to be satisfied per the original purchase agreement. In exchange, Knauf Group irrevocably agreed to fund the purchase price which was received by AWI in two distributions, the first on August 1, 2018, and the balance on September 15, 2018. In September 2018, we received a cash distribution of $35,000,000 from WAVE related to the pending sale of the international operations. We will receive the remaining proceeds at closing, subject to certain adjustments as provided in the purchase agreement, including those related to the economic impact of any required regulatory remedies and a working capital adjustment. Despite receiving a portion of the sales proceeds, there has been no change in control of the international operations of WAVE; therefore, the gain to be realized from this transaction has not been reflected in WAVE’s statement of earnings. The closing is expected to occur by June 30, 2019.

NOTE D – Impairment of Goodwill and Long-Lived Assets

During the first quarter of fiscal 2019, changes in the facts and circumstances related to the planned sale of our cryogenics business in Turkey, Worthington Aritas, resulted in our lowering the estimate of fair value less cost to sell to $7,000,000 which generated an impairment charge of $2,381,000. Fair value was determined using observable (Level 2) inputs.

During the second quarter of fiscal 2018, the Company determined that indicators of impairment were present with regard to the goodwill and intangible assets of the WEI reporting unit. As a result, these assets were written down to their estimated fair value resulting in an impairment charge of $7,325,000. During the second quarter of fiscal 2018, the Company also identified the presence of impairment indicators with regard to vacant land at the oil & gas equipment facility in Bremen, Ohio, resulting in an impairment charge of $964,000 to write the vacant land down to its estimated fair market value.

NOTE E – Restructuring and Other Income, Net

We consider restructuring activities to be programs whereby we fundamentally change our operations, such as closing and consolidating manufacturing facilities or moving manufacturing of a product to another location. Restructuring activities may also involve substantial realignment of the management structure of a business unit in response to changing market conditions.

A progression of the liabilities associated with our restructuring activities, combined with a reconciliation to the restructuring and other income, net financial statement caption, in our consolidated statement of earnings is summarized below for the period presented:

(in thousands)	Balance, as of May 31, 2018	Expense (income)	Payments	Adjustments	Balance, as of February 28, 2019
Early retirement and severance	$ 1,116	$ 1,379	$ (1,522)	$ (58)	$ 915
Facility exit and other costs	-	306	(278)	8	36
	$ 1,116	1,685	$ (1,800)	$ (50)	$ 951
Net gain on sale of assets		(13,395)			
Restructuring and other income, net		$ (11,710)			

During the nine months ended February 28, 2019, the following actions were taken related to the Company's restructuring activities:

- In connection with the ongoing consolidation of the Company's industrial gas operations in Portugal following the acquisition of AMTROL in fiscal 2018, the Company recognized severance expense of $1,086,000 and facility exit costs of $315,000.
- Within the Pressure Cylinders business, the Company sold two oil & gas manufacturing facilities resulting in a net gain on disposal of $1,962,000.
- In connection with the sale of the operating assets and real property related to the solder business and certain brazing assets within the Pressure Cylinders business, the Company recognized severance expense of $89,000 and a net gain on disposal of $11,433,000.
- In connection with other non-significant restructuring activities, the Company recognized severance expense of $204,000 and a reduction to facility exit costs of $9,000.

The total liability associated with our restructuring activities as of February 28, 2019 is expected to be paid in the next twelve months.

NOTE F – Contingent Liabilities and Commitments

Legal Proceedings

We are defendants in certain legal actions. In the opinion of management, the outcome of these actions, which is not clearly determinable at the present time, would not significantly affect our consolidated financial position or future

results of operations. We also believe that environmental issues will not have a material effect on our capital expenditures, consolidated financial position or future results of operations.

Voluntary Tank Replacement Program

In February 2019, our Structural Composites Industries, LLC subsidiary ("SCI") agreed to participate in a tank replacement program for specific design sizes of its composite hydrogen fuel tanks, which are integrated into a customer's hydrogen fuel cells used to fuel material handling equipment, primarily rider pallet jacks in warehouses. The tanks being replaced were sold mainly between 2012 and 2015, and were designed to meet specified ISO-standards. These tanks successfully passed a number of ISO-certification tests; however, because it was mistakenly determined these tanks would qualify as a "child" of a similar fully-tested tank, not all tests for full standalone ISO-certification were completed. Since the identical carbon fiber used to manufacture most of these tanks is no longer commercially available, SCI cannot manufacture new units to retroactively complete this testing. The tanks were supplied to a single customer. The replacement program is underway and is expected to take approximately six months to complete. In connection with this matter, we recorded a $13,000,000 charge to costs of goods sold during the third quarter of fiscal 2019 to reflect our estimated costs of replacing these tanks. The actual cost incurred by the Company related to this matter may vary from the initial estimate.

A progression of the liabilities recorded in connection with this matter during fiscal 2019 is summarized in the following table:
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(in thousands)	Beginning Balance	Payments	Adjustments	Ending Balance
Tank replacement costs	$ 13,000	$ 2,000	$ -	$ 11,000

We believe these liabilities are sufficient to absorb our remaining direct costs related to the replacement program, which are expected to be paid in the next six months.

NOTE G – Guarantees

We do not have guarantees that we believe are reasonably likely to have a material current or future effect on our consolidated financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. However, as of February 28, 2019, we were party to an operating lease for an aircraft in which we have guaranteed a residual value at the termination of the lease. The maximum obligation under the terms of this guarantee was approximately $7,642,000 at February 28, 2019. Based on current facts and circumstances, we have estimated the likelihood of payment pursuant to this guarantee is not probable and, therefore, no amount has been recognized in our consolidated financial statements.

We also had in place $15,366,000 of outstanding stand-by letters of credit issued to third-party service providers at February 28, 2019. No amounts were drawn against them at February 28, 2019.

NOTE H – Debt and Receivables Securitization

We maintain a $500,000,000 multi-year revolving credit facility (the "Credit Facility") with a group of lenders which matures in February 2023. Borrowings under the Credit Facility have maturities of up to one year. We have the option to borrow at rates equal to an applicable margin over the LIBOR, Prime Rate or Overnight Bank Funding Rate. The applicable margin is determined by our credit rating. There were no borrowings outstanding under the Credit Facility at February 28, 2019. As discussed in "NOTE G – Guarantees," we provided $15,366,000 in letters of credit for third-party beneficiaries as of February 28, 2019. While not drawn against at February 28, 2019, $1,950,000 of these letters of credit were issued against availability under the Credit Facility, leaving $498,050,000 available at February 28, 2019.

We also maintain a $50,000,000 revolving trade accounts receivable securitization facility (the "AR Facility"). On January 15, 2019, the Company extended the maturity of the AR Facility by one year to January 2020. Pursuant to the terms of the AR Facility, certain of our subsidiaries sell their accounts receivable without recourse, on a revolving basis, to Worthington Receivables Corporation ("WRC"), a wholly-owned, consolidated, bankruptcy-remote subsidiary. In turn, WRC may sell without recourse, on a revolving basis, up to $50,000,000 of undivided ownership interests in this pool of accounts receivable to a third-party bank. We retain an undivided interest in this pool and are subject to risk of loss based on the collectability of the receivables from this retained interest. Because the amount eligible to be sold excludes receivables more than 90 days past due, receivables offset by an allowance for doubtful accounts due to bankruptcy or other cause, concentrations over certain limits with specific customers and certain reserve amounts, we believe additional risk of loss is minimal. As of February 28, 2019, no undivided ownership interests in this pool of accounts receivable had been sold.

NOTE I – Other Comprehensive Income

The following table summarizes the tax effects on each component of OCI for the periods presented:

	Three months ended February 28,					
	2019			2018		
	Before-Tax	Tax	Net-of-Tax	Before-Tax	Tax	Net-of-Tax
(in thousands)						
Foreign currency translation	$1,476	$-	$ 1,476	$9,542	$-	$ 9,542
Pension liability adjustment	48	(11)	37	230	21	251
Cash flow hedges	(844)	248	(596)	(711)	155	(556)
Other comprehensive income	$680	$237	$ 917	$9,061	$176	$ 9,237

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	Nine months ended February 28,					
	2019			2018		
(in thousands)	Before-Tax	Tax	Net-of-Tax	Before-Tax	Tax	Net-of-Tax
Foreign currency translation	$(8,857)	$-	$(8,857)	$26,925	$-	$26,925
Pension liability adjustment	48	(108)	(60)	230	15	245
Cash flow hedges	(9,437)	2,209	(7,228)	(1,213)	334	(879)
Other comprehensive income (loss)	$(18,246)	$2,101	$(16,145)	$25,942	$349	$26,291

NOTE J – Changes in Equity

The following tables summarize the changes in equity by component and in total for the periods presented:

	Controlling Interest					
(in thousands)	Additional Paid-in Capital	Accumulated Other Comprehensive Loss, Net of Tax	Retained Earnings	Total	Non-controlling Interests	Total
Balance at May 31, 2018	$295,592	$(14,580)	$637,757	$918,769	$117,606	$1,036,375
Net earnings	-	-	54,942	54,942	2,016	56,958
Other comprehensive loss	-	(5,745)	-	(5,745)	(17)	(5,762)
Common shares issued, net of withholding tax	(4,091)	-	-	(4,091)	-	(4,091)
Common shares in NQ plans	152	-	-	152	-	152
Stock-based compensation	4,838	-	-	4,838	-	4,838
ASC 606 transition adjustment	-	-	1,174	1,174	570	1,744
Purchases and retirement of common shares	(4,003)	-	(32,849)	(36,852)	-	(36,852)
Cash dividends declared	-	-	(13,668)	(13,668)	-	(13,668)
Dividends to noncontrolling interest	-	-	-	-	(2,320)	(2,320)
Balance at August 31, 2018	$292,488	$(20,325)	$647,356	$919,519	$117,855	$1,037,374