VALMONT INDUSTRIES INC
Form 10-Q
November 01, 2018

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

Form 10-Q
(Mark One)
x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 29, 2018
or
o 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 1-31429

Valmont Industries, Inc.
(Exact name of registrant as specified in its charter)

Delaware	47-0351813
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
One Valmont Plaza, Omaha, Nebraska	68154-5215
(Address of Principal Executive Offices)	(Zip Code)

(402) 963-1000
(Registrant’s telephone number, including area code)
(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 Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
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 x No o
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 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 x	Accelerated filer o	Non accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
Emerging growth company o			

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. o

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

22,088,480

Outstanding shares of common stock as of October 25, 2018

VALMONT INDUSTRIES, INC.

INDEX TO FORM 10-Q

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
PART I. FINANCIAL INFORMATION
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Dollars in thousands, except per share amounts)
(Unaudited)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Product sales	$597,469	$ 602,080	$1,816,597	$ 1,807,539
Services sales	81,223	78,699	243,184	223,450
Net sales	678,692	680,779	2,059,781	2,030,989
Product cost of sales	460,547	462,854	1,389,832	1,366,875
Services cost of sales	53,805	54,331	161,370	152,635
Total cost of sales	514,352	517,185	1,551,202	1,519,510
Gross profit	164,340	163,594	508,579	511,479
Selling, general and administrative expenses	110,200	103,504	326,809	308,283
Impairment of goodwill and intangible assets	15,780	—	15,780	—
Operating income	38,360	60,090	165,990	203,196
Other income (expenses):				
Interest expense	(10,954)	(11,190)	(33,819)	(33,312)
Interest income	1,000	1,311	3,713	3,205
Costs associated with refinancing of debt	(14,820)	—	(14,820)	—
Loss from divestiture of grinding media business	—	—	(6,084)	—
Other	2,496	350	3,199	1,203
	(22,278)	(9,529)	(47,811)	(28,904)
Earnings before income taxes	16,082	50,561	118,179	174,292
Income tax expense (benefit):				
Current	10,777	21,163	35,214	50,264
Deferred	(1,686)	(7,268)	814	79
	9,091	13,895	36,028	50,343
Net earnings	6,991	36,666	82,151	123,949
Less: Earnings attributable to noncontrolling interests	(2,543)	(1,458)	(5,462)	(4,098)
Net earnings attributable to Valmont Industries, Inc.	$4,448	$ 35,208	$76,689	$ 119,851
Earnings per share:				
Basic	$0.20	$ 1.56	$3.42	$ 5.33
Diluted	$0.20	$ 1.55	$3.40	$ 5.28
Cash dividends declared per share	$0.375	$ 0.375	$1.125	$ 1.125
Weighted average number of shares of common stock outstanding - Basic (000 omitted)	22,215	22,527	22,421	22,505
Weighted average number of shares of common stock outstanding - Diluted (000 omitted)	22,352	22,751	22,574	22,717

See accompanying notes to condensed consolidated financial statements.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
(Unaudited)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Net earnings	$6,991	$ 36,666	$82,151	$ 123,949
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments:				
Unrealized translation gain (loss)	(10,632)	19,530	(50,781)	60,471
Realized loss on divestiture of grinding media business recorded in earnings	—	—	9,203	—
Gain (loss) on hedging activities:				
Net investment hedges	1,223	(740)	2,830	(1,816)
Realized loss on net investment hedge for grinding media business recorded in earnings	—	—	1,215	—
Amortization cost included in interest expense	395	19	439	56
Deferred loss on interest rate hedges	—	—	(2,467)	—
Commodity hedges	226	—	1,571	—
Realized gain on commodity hedges recorded in earnings	(717)	—	(717)	—
Cross currency swaps	(2,037)	—	(2,037)	—
Other comprehensive income (loss)	(11,542)	18,809	(40,744)	58,711
Comprehensive income (loss)	(4,551)	55,475	41,407	182,660
Comprehensive loss (income) attributable to noncontrolling interests	(2,389)	(2,570)	(8,250)	(4,552)
Comprehensive income attributable to Valmont Industries, Inc.	$(6,940)	$ 52,905	$33,157	$ 178,108

See accompanying notes to condensed consolidated financial statements.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)
(Unaudited)

	September 29, 2018	December 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 295,622	$ 492,805
Receivables, net	500,406	503,677
Inventories	399,905	420,948
Contract asset - costs and profits in excess of billings	112,620	16,165
Prepaid expenses and other assets	40,655	27,478
Refundable income taxes	13,182	11,492
Total current assets	1,362,390	1,472,565
Property, plant and equipment, at cost	1,153,843	1,165,687
Less accumulated depreciation and amortization	646,122	646,759
Net property, plant and equipment	507,721	518,928
Goodwill	389,594	337,720
Other intangible assets, net	178,693	138,599
Other assets	124,680	134,438
Total assets	$ 2,563,078	$ 2,602,250
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current installments of long-term debt	$ 829	$ 966
Notes payable to banks	3,328	161
Accounts payable	200,468	227,906
Accrued employee compensation and benefits	80,843	84,426
Accrued expenses	106,929	81,029
Dividends payable	8,310	8,510
Total current liabilities	400,707	402,998
Deferred income taxes	45,076	34,906
Long-term debt, excluding current installments	736,185	753,888
Defined benefit pension liability	179,877	189,552
Deferred compensation	48,174	48,526
Other noncurrent liabilities	19,311	20,585
Shareholders' equity:		
Preferred stock of $1 par value -		
Authorized 500,000 shares; none issued	—	—
Common stock of $1 par value -		
Authorized 75,000,000 shares; 27,900,000 issued	27,900	27,900
Retained earnings	2,022,538	1,954,344
Accumulated other comprehensive loss	(322,554)	(279,022)
Treasury stock	(670,667)	(590,386)
Total Valmont Industries, Inc. shareholders' equity	1,057,217	1,112,836
Noncontrolling interest in consolidated subsidiaries	76,531	38,959
Total shareholders' equity	1,133,748	1,151,795
Total liabilities and shareholders' equity	$ 2,563,078	$ 2,602,250

See accompanying notes to condensed consolidated financial statements.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Thirty-nine Weeks Ended	
	September 29, 2018	September 30, 2017
Cash flows from operating activities:		
Net earnings	$82,151	$ 123,949
Adjustments to reconcile net earnings to net cash flows from operations:		
Depreciation and amortization	62,018	63,500
Noncash (gain) loss on trading securities	(62)	395
Impairment of property, plant and equipment	4,197	—
Impairment of goodwill & intangible assets	15,780	—
Loss on divestiture of grinding media business	6,084	—
Stock-based compensation	8,076	7,300
Defined benefit pension plan expense (benefit)	(1,713)	481
Contribution to defined benefit pension plan	(1,555)	(26,064)
Gain on sale of property, plant and equipment	(353)	(732)
Deferred income taxes	814	79
Changes in assets and liabilities:		
Receivables	(612)	(39,584)
Inventories	(33,004)	(41,545)
Prepaid expenses and other assets	(18,486)	(12,331)
Contract asset - costs and profits in excess of billings	(33,029)	695
Accounts payable	(19,069)	28,895
Accrued expenses	7,288	20,157
Other noncurrent liabilities	(1,249)	(1,627)
Income taxes refundable	(9,223)	(1,732)
Net cash flows from operating activities	68,053	121,836
Cash flows from investing activities:		
Purchase of property, plant and equipment	(48,919)	(39,898)
Proceeds from sale of assets	64,786	1,575
Acquisitions, net of cash acquired	(125,309)	(5,362)
Settlement of net investment hedges	(1,621)	5,123
Other, net	(2,371)	(3,462)
Net cash flows from investing activities	(113,434)	(42,024)
Cash flows from financing activities:		
Proceeds/(payments) under short-term agreements	3,217	(549)
Proceeds from long-term borrowings	236,936	—
Principal payments on long-term borrowings	(252,952)	(658)
Settlement of financial derivatives	(2,467)	—
Debt issuance costs	(2,322)	—
Dividends paid	(25,415)	(25,386)
Dividends to noncontrolling interest	(5,737)	(3,895)
Purchase of noncontrolling interest	(5,510)	—
Purchase of treasury shares	(86,919)	—
Proceeds from exercises under stock plans	6,376	12,446
Purchase of common treasury shares—stock plan exercises	(1,914)	(3,929)

Net cash flows from financing activities	(136,707)	(21,971)
Effect of exchange rate changes on cash and cash equivalents	(15,095)	23,133
Net change in cash and cash equivalents	(197,183)	80,974
Cash, cash equivalents, and restricted cash—beginning of year	492,805	412,516
Cash, cash equivalents, and restricted cash—end of period	$295,622	$ 493,490

See accompanying notes to condensed consolidated financial statements.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Dollars in thousands)
(Unaudited)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Noncontrolling interest in consolidated subsidiaries	Total shareholders' equity
Balance at December 31, 2016	$27,900	$ —	$1,874,722	$(346,359)	$(612,781)	$39,104	$982,586
Net earnings	—	—	119,851	—	—	4,098	123,949
Other comprehensive income (loss)	—	—	—	58,257	—	454	58,711
Cash dividends declared	—	—	(25,417)	—	—	—	(25,417)
Dividends to noncontrolling interests	—	—	—	—	—	(3,895)	(3,895)
Stock plan exercises; 24,672 shares acquired	—	—	—	—	(3,929)	—	(3,929)
Stock options exercised; 106,351 shares issued	—	(7,300)	5,445	—	14,301	—	12,446
Stock option expense	—	3,868	—	—	—	—	3,868
Stock awards; 6,034 shares issued	—	3,432	—	—	844	—	4,276
Balance at September 30, 2017	$27,900	$ —	$1,974,601	$(288,102)	$(601,565)	$39,761	$1,152,595
Balance at December 30, 2017	$27,900	$ —	$1,954,344	$(279,022)	$(590,386)	$38,959	$1,151,795
Net earnings	—	—	76,689	—	—	5,462	82,151
Other comprehensive income (loss)	—	—	—	(43,532)	—	2,788	(40,744)
Cash dividends declared	—	—	(25,204)	—	—	—	(25,204)
Dividends to noncontrolling interests	—	—	—	—	—	(5,737)	(5,737)
Purchase of noncontrolling interests	—	—	—	—	—	(5,510)	(5,510)
Cumulative impact of ASC 606 adoption	—	—	9,771	—	—	—	9,771
Impact of ASU 2016-16 adoption	—	—	1,038	—	—	—	1,038
Addition of noncontrolling interest	—	—	—	—	—	40,569	40,569
Purchase of treasury shares; 614,454 shares acquired	—	—	—	—	(86,919)	—	(86,919)
Stock plan exercises; 12,971 shares acquired	—	—	—	—	(1,914)	—	(1,914)
Stock options exercised; 52,404 shares issued	—	(7,172)	5,900	—	7,648	—	6,376
Stock option expense	—	3,138	—	—	—	—	3,138
Stock awards; 7,774 shares issued	—	4,034	—	—	904	—	4,938
Balance at September 29, 2018	$27,900	$ —	$2,022,538	$(322,554)	$(670,667)	$76,531	$1,133,748

See accompanying notes to condensed consolidated financial statements.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)
(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Condensed Consolidated Financial Statements
The Condensed Consolidated Balance Sheet as of September 29, 2018, the Condensed Consolidated Statements of Earnings and Comprehensive Income for the thirteen and thirty-nine weeks ended September 29, 2018 and September 30, 2017, and the Condensed Consolidated Statements of Cash Flows and Shareholders' Equity for the thirty-nine week periods then ended have been prepared by the Company, without audit. In the opinion of management, all necessary adjustments (which include normal recurring adjustments) have been made to present fairly the financial statements as of September 29, 2018 and for all periods presented.
Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These Condensed Consolidated Financial Statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2017. The accounting policies and methods of computation followed in these interim financial statements are the same as those followed in the financial statements for the year ended December 30, 2017 with the exception of the revenue recognition accounting policy which changed from adopting ASU 2014-09 and is discussed later within this footnote. The results of operations for the period ended September 29, 2018 are not necessarily indicative of the operating results for the full year.
Inventories
Approximately 35% and 37% of inventory is valued at the lower of cost, determined on the last-in, first-out (LIFO) method, or market as of September 29, 2018 and December 30, 2017. All other inventory is valued at the lower of cost, determined on the first-in, first-out (FIFO) method or market. Finished goods and manufactured goods inventories include the costs of acquired raw materials and related factory labor and overhead charges required to convert raw materials to manufactured and finished goods. The excess of replacement cost of inventories over the LIFO value is approximately $49,239 and $43,727 at September 29, 2018 and December 30, 2017, respectively.
Inventories consisted of the following:

	September 29, 2018	December 30, 2017
Raw materials and purchased parts	$ 202,517	$ 183,029
Work-in-process	24,046	30,671
Finished goods and manufactured goods	222,581	250,975
Subtotal	449,144	464,675
Less: LIFO reserve	49,239	43,727
	$ 399,905	$ 420,948

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)
(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
Income Taxes
Earnings before income taxes and equity in earnings of nonconsolidated subsidiaries for the thirteen and thirty-nine weeks ended September 29, 2018 and September 30, 2017, were as follows:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	2018	2017	2018	2017
United States	$15,596	$28,886	$99,697	$115,082
Foreign	486	21,675	18,482	59,210
	$16,082	$50,561	$118,179	$174,292

The Company estimated and recognized provisional amounts at December 30, 2017 for the following aspect of the 2017 Tax Cuts and Jobs Act ("2017 Tax Act") and updated the amounts as of September 29, 2018:

- Deemed Repatriation transition tax: The Deemed Repatriation transition tax (“Transition Tax”) is a tax on unremitted foreign earnings of certain foreign subsidiaries, which subjected the Company's unremitted foreign earnings of $393,962 to tax at certain specified rates less associated foreign tax credits, a decrease of $6,038 from the December 30, 2017 estimate. The Company recorded a provisional Transition Tax obligation of $9,436, a decrease of $454 from the December 30, 2017 estimate.
- Indefinite reinvestment assertion: The Company's position remains that unremitted foreign earnings subject to the Transition Tax are not indefinitely reinvested. The Company recorded a provisional amount of the deferred income taxes for foreign withholding taxes and U.S. state income taxes of $10,713 and $1,300, respectively. This was an increase of $340 from the December 30, 2017 estimate related to foreign withholding taxes.
- Adjustments to these 2017 Tax Act amounts, as discussed above, were recognized during the third quarter of 2018. However, the Company may adjust these provisional amounts in the fourth quarter of 2018 after assessing additional implementation guidance as it becomes available.

Pension Benefits

The Company incurs expenses in connection with the Delta Pension Plan ("DPP"). The DPP was acquired as part of the Delta plc acquisition in fiscal 2010 and has no members that are active employees. In order to measure expense and the related benefit obligation, various assumptions are made including discount rates used to value the obligation, expected return on plan assets used to fund these expenses and estimated future inflation rates. These assumptions are based on historical experience as well as current facts and circumstances. An actuarial analysis is used to measure the expense and liability associated with pension benefits.

The components of the net periodic pension (benefit) expense for the thirteen and thirty-nine weeks ended September 29, 2018 and September 30, 2017 were as follows:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
Net periodic (benefit) expense:	2018	2017	2018	2017
Interest cost	$4,400	$4,676	$13,602	$13,475
Expected return on plan assets	(5,704)	(5,277)	(17,633)	(15,208)
Amortization of actuarial loss	750	768	2,318	2,214

Net periodic expense (benefit)	$(554)	$167	$(1,713)	$481

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VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)
(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
Stock Plans

The Company maintains stock based compensation plans approved by the shareholders, which provide that the Human Resource Committee of the Board of Directors may grant incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock awards, restricted stock units, and bonuses of common stock. At September 29, 2018, 1,683,908 shares of common stock remained available for issuance under the plans.
Under the plans, the exercise price of each option equals the closing market price at the date of the grant. Options vest beginning on the first anniversary of the grant in equal amounts over three to six years or on the grant's fifth anniversary. Expiration of grants is from seven to ten years from the date of grant. Restricted stock units and awards generally vest in equal installments over three years beginning on the first anniversary of the grant.
The Company's compensation expense (included in selling, general and administrative expenses) and associated income tax benefits related to stock options and restricted stock for the thirteen and thirty-nine weeks ended September 29, 2018 and September 30, 2017, respectively, were as follows:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	2018	2017	2018	2017
Compensation expense	$2,702	$2,710	$8,076	$7,300
Income tax benefits	676	1,043	2,019	2,811

Fair Value
The Company applies the provisions of Accounting Standards Codification 820, Fair Value Measurements (“ASC 820”) which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of ASC 820 apply to other accounting pronouncements that require or permit fair value measurements. As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
ASC 820 establishes a three level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:
Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.
The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Following is a description of the valuation methodologies used for assets and liabilities measured at fair value.
Trading Securities: The assets and liabilities recorded for the investments held in the Valmont Deferred Compensation Plan of $39,521 ($39,091 at December 30, 2017) represent mutual funds, invested in debt and equity securities, classified as trading securities in accordance with Accounting Standards Codification 320, Accounting for Certain

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)
(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
Investments in Debt and Equity Securities, considering the employee's ability to change investment allocation of their deferred compensation at any time.
The Company's ownership of shares in Delta EMD Pty. Ltd. (JSE:DTA) is also classified as trading securities. The shares are valued at $1,954 and $1,951 as of September 29, 2018 and December 30, 2017, respectively, which is the estimated fair value. Quoted market prices are available for these securities in an active market and therefore categorized as a Level 1 input.

		Fair Value Measurement Using:		
	Carrying Value September 29, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Trading Securities	$ 41,475	$41,475	$ —	$ —

		Fair Value Measurement Using:		
	Carrying Value December 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Trading Securities	$ 41,042	$41,042	$ —	$ —

Long-Lived Assets
The Company's other non-financial assets include goodwill and other intangible assets, which are classified as Level 3 items. These assets are measured at fair value on a non-recurring basis as part of annual impairment testing. Note 5 to these condensed consolidated financial statements contain additional information related to goodwill and intangible asset impairments.

Comprehensive Income
Comprehensive income includes net earnings, currency translation adjustments, certain derivative-related activity and changes in net actuarial gains/losses from a pension plan. Results of operations for foreign subsidiaries are translated using the average exchange rates during the period. Assets and liabilities are translated at the exchange rates in effect on the balance sheet dates. Accumulated other comprehensive income (loss) consisted of the following at September 29, 2018 and December 30, 2017:

	Foreign Currency Translation Adjustments	Gain/(Loss) on Hedging Activities	Defined Benefit Pension Plan	Accumulated Other Comprehensive Loss
Balance at December 30, 2017	$ (171,399)	$ 6,357	$ (113,980)	$ (279,022)
Current-period comprehensive income (loss)	(53,569)	(381)	—	(53,950)
Divestiture of grinding media business	9,203	1,215	—	10,418
Balance at September 29, 2018	$ (215,765)	$ 7,191	$ (113,980)	$ (322,554)

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)
(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
Subsequent Events
On October 18, 2018, the Company acquired CSP Coating Systems of Auckland, New Zealand, to further strengthen the Company's Asia-Pacific market position. CSP Coating Systems provides a wide range of coating services. The acquisition was funded with cash on hand and will be included in the Coatings segment.
Revenue Recognition
On December 31, 2017, the Company adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). The Company elected to use the modified retrospective approach for the adoption of the new revenue standard. The cumulative effect of initially applying the new revenue standard was recorded as an adjustment to the opening balance of retained earnings, which impacted the Condensed Consolidated Balance Sheet as follows:

Balance Sheet	December 30, 2017	ASC 606 Adjustments	December 31, 2017
Assets			
Inventories	$420,948	$ (36,243)	$384,705
Contract asset - costs & profits in excess of billings	16,165	51,507	67,672
Liabilities and shareholders' equity			
Accrued expenses	81,029	2,043	83,072
Deferred income taxes	34,906	3,450	38,356
Retained earnings	1,954,344	9,771	1,964,115

The adoption of ASC 606 had the following impact on the Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Earnings for the thirteen and thirty-nine weeks ended September 29, 2018:

Balance Sheet	As Reported	Balance Excluding ASC 606 Effects	Change
Assets			
Inventories	$399,905	$463,184	$(63,279)
Contract asset - costs & profits in excess of billings	112,620	26,369	86,251
Liabilities and shareholders' equity			
Accrued expenses	106,929	101,878	5,051
Deferred income taxes	45,076	40,451	4,625
Retained earnings	2,022,538	2,009,242	13,296

	Thirteen Weeks Ended September 29, 2018			Thirty-nine Weeks Ended September 29, 2018		
Statement of Earnings	As Reported	Balance Excluding ASC 606 Effects	Change	As Reported	Balance Excluding ASC 606 Effects	Change
Net Sales	678,692	$666,095	$12,597	2,059,781	$2,024,921	$34,860
Operating Income	38,360	$35,697	$2,663	165,990	$161,289	$4,701

The Company determines the appropriate revenue recognition for our contracts by analyzing the type, terms and conditions of each contract or arrangement with a customer. Contracts with customers for all businesses are fixed-price with sales tax excluded from revenue, and do not include variable consideration. Discounts included in contracts with customers, typically early pay discounts, are recorded as a reduction of net sales in the period in which the sale is recognized. Contract revenues are classified as product when the performance obligation is related to the manufacturing of goods. Contract

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(Dollars in thousands, except per share amounts)
(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
revenues are classified as service when the performance obligation is the performance of a service. Service revenue is primarily related to the Coatings segment.

Customer acceptance provisions exist only in the design stage of our products and acceptance of the design by the customer is required before the project is manufactured and delivered to the customer. The Company is not entitled to any compensation solely based on design of the product and does not recognize revenue associated with the design stage. There is one performance obligation for revenue recognition. No general rights of return exist for customers once the product has been delivered and the Company establishes provisions for estimated warranties. The Company does not sell extended warranties for any of its products.

Shipping and handling costs associated with sales are recorded as cost of goods sold. The Company elected to use the practical expedient of treating freight as a fulfillment obligation instead of a separate performance obligation and ratably recognize freight expense as the structure is being manufactured, when the revenue from the associated customer contract is being recognized over time. With the exception of the Utility segment and the wireless communication structures product line, the Company’s inventory is interchangeable for a variety of each segment’s customers. The Company elected the practical expedient to not disclose the partially satisfied performance obligation at the end of the period when the contract has an original expected duration of one year or less. In addition, the Company elected the practical expedient to not adjust the amount of consideration to be received in a contract for any significant financing component if payment is expected within twelve months of transfer of control of goods or services; the Company expects all consideration to be received in one year or less at contract inception.

Segment and Product Line Revenue Recognition

The global Utility segment revenues are derived from manufactured steel and concrete structures for the North America utility industry and offshore and other complex structures used in energy generation and distribution outside of the United States. Steel and concrete utility structures are engineered to customer specifications resulting in limited ability to sell the structure to a different customer if an order is canceled after production commences. The continuous transfer of control to the customer is evidenced either by contractual termination clauses or by our rights to payment for work performed to-date plus a reasonable profit as the products do not have an alternative use to the Company. Since control is transferring over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment. For our steel and concrete utility and wireless communication structure product lines, we generally recognize revenue on an inputs basis, using total production hours incurred to-date for each order as a percentage of total hours estimated to produce the order. The completion percentage is applied to the order’s total revenue and total estimated costs to determine reported revenue, cost of goods sold and gross profit. Production of an order, once started, is typically completed within three months. Revenue from the offshore and other complex structures business is also recognized using an inputs method, based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. External sales agents are used in certain sales of steel and concrete structures; the Company has chosen to use the practical expedient to expense estimated commissions owed to third parties by recognizing them proportionately as the goods are manufactured.

The global ESS segment revenues are derived from the manufacture and distribution of engineered metal, composite structures and components for lighting and traffic and roadway safety, engineered access systems, and wireless communication. For the lighting and traffic and roadway safety product lines, revenue is recognized upon shipment or delivery of goods to the customer depending on contract terms, which is the same point in time that the customer is billed. For Access Systems, revenue is generally recognized upon delivery of goods to the customer which is the same point in time that the customer is billed. The wireless communication product line has large regional customers who have unique product specifications for communication structures. When the customer contract includes a cancellation clause that would require them to pay for work completed plus a reasonable margin if an order was canceled, revenue is recognized over time based on hours worked as a percent of total estimated hours to complete production. For the remaining wireless communication product line customers which do not provide a contractual right to bill for work completed on a canceled order, revenue is recognized upon shipment or delivery of the goods to the customer which is the same point in time that the customer is billed.

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(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
The global Coatings segment revenues are derived by providing coating services to customers’ products, which include galvanizing, anodizing, and powder coating. Revenue is recognized once the coating service has been performed and the goods are ready to be picked up or delivered to the customer which is the same time that the customer is billed.
The global Irrigation segment revenues are derived from the manufacture of agricultural irrigation equipment and related parts and services for the agricultural industry and tubular products for industrial customers. Revenue recognition for the irrigation segment is generally upon shipment of the goods to the customer which is the same point in time that the customer is billed. The remote monitoring subscription services are primarily billed annually and revenue is recognized on a straight-line basis over the subsequent twelve months.
Disaggregation of revenue by product line is disclosed in the Segment footnote. A breakdown by segment of revenue recognized over time and revenue recognized at a point in time for the thirteen and thirty-nine weeks ended September 29, 2018 is as follows:

	Point in Time	Over Time	Point in Time	Over Time
	Thirteen weeks ended September 29, 2018	Thirteen weeks ended September 29, 2018	Thirty-nine weeks ended September 29, 2018	Thirty-nine weeks ended September 29, 2018
Utility Support Structures	$ 6,090	$ 211,853	$ 6,090	$ 618,243
Engineered Support Structures	235,948	12,483	680,863	29,525
Coatings	74,547	—	217,544	—
Irrigation	134,710	3,061	475,744	8,692
Other	—	—	23,080	—
Total	$ 451,295	$ 227,397	$ 1,403,321	$ 656,460

The Company's contract asset as of September 29, 2018 is $112,620. The contract assets attributable to the cumulative effect from the adoption of the new revenue recognition guidance was $51,507; the contract asset at December 30, 2017, attributable to the offshore and other complex structures product line, was $16,165. Both steel and concrete utility customers are generally invoiced upon shipment or delivery of the goods to the customer's specified location and there are normally no up-front or progress payments. The offshore and complex steel structures business invoices customers a number of ways including advanced billings, progress billings, and billings upon shipment.

At September 29, 2018 and December 30, 2017, the contract liability for revenue recognized over time was $5,088 and $7,368. The contract liability is included in Accrued Expenses on the condensed consolidated balance sheets. During the thirty-nine weeks ended September 29, 2018, the Company recognized $4,456 of revenue that was included in the liability as of December 30, 2017. The revenue recognized was due to applying advance payments received for projects completed during the period.
Recently Adopted Accounting Pronouncements
In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-9, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") 605, Revenue Recognition. Effective December 31, 2017, the Company adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). The Company elected the modified retrospective approach for the adoption of the new revenue standard,

resulting in a credit to retained earnings being recognized for $9,771. The Company calculated the cumulative effect on revenue of approximately $51,507 with $13,121 of pre-tax operating income; these were customer orders for the steel utility, concrete utility, and wireless communication structures product lines at various stages of production at December 30, 2017.

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(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
In March 2017, the FASB issued ASU 2017-07, Presentation of Net Periodic Benefit Cost Related to Defined Benefit Plans, which amends the income statement presentation requirements for the components of net periodic benefit cost for an entity's defined benefit pension and post-retirement plans. The Company adopted this ASU in the first quarter of 2018, recognizing the DPP net periodic pension expense within Other income (expense). The Company also reclassified $167 and $481 of DPP net periodic pension expense for third quarter and first three quarters of