WORTHINGTON INDUSTRIES INC
Form 10-Q
October 10, 2018
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 August 31, 2018

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 September 30, 2018, the number of Common Shares, without par value, issued and outstanding was 59,165,664.

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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, balance sheet strengths, debt, financial condition or other financial measures;
- pricing trends for raw materials and finished goods and the impact of pricing changes;
- 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 and 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 maintain margins and 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;
- the expected impact of the provisions of the Tax Cuts and Jobs Act (the "TCJA") on the Company;
- 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, and other changes in trade regulations;
- 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;

- 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, 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;
- the outcome of adverse claims experience with respect to workers' compensation, product recalls or product liability, casualty events or other matters;
- deviation of actual results from estimates and/or assumptions used by us in the application of our 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;
- the actual impact on our business of the TCJA differing materially from our estimates;
- 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)

	August 31, 2018	May 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$96,843	$121,967
Receivables, less allowances of $622 and $632 at August 31, 2018 and May 31, 2018, respectively	564,612	572,689
Inventories:		
Raw materials	270,126	237,471
Work in process	120,722	122,977
Finished products	103,268	93,579
Total inventories	494,116	454,027
Income taxes receivable	6,349	1,650
Assets held for sale	7,655	30,655
Prepaid expenses and other current assets	60,846	60,134
Total current assets	1,230,421	1,241,122
Investments in unconsolidated affiliates	221,144	216,010
Goodwill	344,467	345,183
Other intangible assets, net of accumulated amortization of $79,077 and $74,922 at August 31, 2018 and May 31, 2018, respectively	209,602	214,026
Other assets	20,478	20,476
Property, plant and equipment:		
Land	24,193	24,229
Buildings and improvements	302,153	300,542
Machinery and equipment	1,040,410	1,030,720
Construction in progress	39,463	32,282
Total property, plant and equipment	1,406,219	1,387,773
Less: accumulated depreciation	822,156	802,803
Total property, plant and equipment, net	584,063	584,970
Total assets	$2,610,175	$2,621,787
Liabilities and equity		
Current liabilities:		
Accounts payable	$478,205	$473,485
Accrued compensation, contributions to employee benefit plans and related taxes	66,055	96,487
Dividends payable	14,584	13,731

Other accrued items	59,383	57,125
Income taxes payable	2,042	4,593
Current maturities of long-term debt	1,327	1,474
Total current liabilities	621,596	646,895
Other liabilities	71,225	74,237
Distributions in excess of investment in unconsolidated affiliate	52,133	55,198
Long-term debt	748,731	748,894
Deferred income taxes, net	79,116	60,188
Total liabilities	1,572,801	1,585,412
Shareholders' equity - controlling interest	919,519	918,769
Noncontrolling interests	117,855	117,606
Total equity	1,037,374	1,036,375
Total liabilities and equity	$2,610,175	$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 August 31,	
	2018	2017
Net sales	$988,107	$848,237
Cost of goods sold	845,110	715,459
Gross margin	142,997	132,778
Selling, general and administrative expense	90,641	88,249
Impairment of long-lived assets	2,381	-
Restructuring and other expense (income), net	(936)	2,304
Operating income	50,911	42,225
Other income (expense):		
Miscellaneous income, net	265	348
Interest expense	(9,728)	(8,807)
Equity in net income of unconsolidated affiliates	30,008	27,306
Earnings before income taxes	71,456	61,072
Income tax expense	14,498	12,998
Net earnings	56,958	48,074
Net earnings attributable to noncontrolling interests	2,016	2,540
Net earnings attributable to controlling interest	$54,942	$45,534
Basic		
Average common shares outstanding	58,731	62,444
Earnings per share attributable to controlling interest	$0.94	$0.73
Diluted		
Average common shares outstanding	60,621	64,590
Earnings per share attributable to controlling interest	$0.91	$0.70
Common shares outstanding at end of period	58,389	62,144
Cash dividends declared per share	$0.23	$0.21

See notes to consolidated financial statements.

WORTHINGTON INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended August 31,	
	2018	2017
Net earnings	$56,958	$48,074
Other comprehensive income (loss):		
Foreign currency translation	(3,695)	15,872
Pension liability adjustment, net of tax	(97)	(6)
Cash flow hedges, net of tax	(1,970)	1,887
Other comprehensive income (loss)	(5,762)	17,753
Comprehensive income	51,196	65,827
Comprehensive income attributable to noncontrolling interests	1,999	2,979
Comprehensive income attributable to controlling interest	$49,197	$62,848

See notes to consolidated financial statements.

WORTHINGTON INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended August 31,	
	2018	2017
Operating activities:		
Net earnings	$56,958	$48,074
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	24,493	25,365
Impairment of long-lived assets	2,381	-
Provision for deferred income taxes	18,934	7,934
Bad debt (income) expense	221	(62)
Equity in net income of unconsolidated affiliates, net of distributions	(10,019)	(7,755)
Net loss on assets	2,715	1,425
Stock-based compensation	3,156	3,407
Changes in assets and liabilities, net of impact of acquisitions:		
Receivables	13,409	62,678
Inventories	(43,337)	(34,696)
Prepaid expenses and other current assets	(8,419)	1,143
Other assets	(66)	(350)
Accounts payable and accrued expenses	(28,785)	(26,791)
Other liabilities	(1,196)	2,983
Net cash provided by operating activities	30,445	83,355
Investing activities:		
Investment in property, plant and equipment	(19,434)	(18,013)
Acquisitions, net of cash acquired	-	(284,505)
Proceeds from sale of assets	20,277	427
Net cash provided (used) by investing activities	843	(302,091)
Financing activities:		
Net proceeds from short-term borrowings, net of issuance costs	-	298
Proceeds from long-term debt, net of issuance costs	-	198,279
Principal payments on long-term debt	(430)	(219)
Payments for issuance of common shares, net of tax withholdings	(4,091)	(3,274)
Payments to noncontrolling interests	(2,320)	(720)
Repurchase of common shares	(36,852)	(45,076)
Dividends paid	(12,719)	(12,778)
Net cash provided (used) by financing activities	(56,412)	136,510
Decrease in cash and cash equivalents	(25,124)	(82,226)
Cash and cash equivalents at beginning of period	121,967	278,081
Cash and cash equivalents at end of period	$96,843	$195,855

See notes to consolidated financial statements.

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 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 ("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 months ended August 31, 2018 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.

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 guidance requires that leased assets and liabilities be recognized on the balance sheet by lessees for those leases classified as operating leases under previous guidance. The new 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. We are in the process of evaluating the effect this guidance will have on our consolidated financial position, results of operations and cash flows, and we have not determined the effect of the new guidance on our ongoing financial reporting.

In June 2016, amended accounting guidance was issued related to the measurement of credit losses on financial instruments. The amended guidance changes the impairment model for most financial assets to require measurement and recognition of expected credit losses for financial assets held. The amended 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 guidance will have on our consolidated financial position and results of operations; however, we do not expect the new 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 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 guidance will have on our consolidated financial position and results of operations, and have not determined the effect on our ongoing financial reporting.

NOTE B – Revenue Recognition

Through the fiscal year ended May 31, 2018, in accordance with the Company's historical accounting policies for revenue recognition, the Company 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. We provided, through charges to net sales, for returns and allowances based on experience and current customer activities. We also provided, through charges to net sales, for customer rebates and sales discounts based on specific agreements and recent and anticipated levels of customer activity.

On June 1, 2018, the Company adopted new accounting guidance that replaces most existing revenue recognition guidance under U.S. GAAP, Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) ("Topic 606"). The new 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 the Company's toll processing and oil & gas equipment revenue streams, 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 guidance:

(in thousands)	May 31, 2018 (As Reported)	Cumulative Effect of Topic 606 Adoption	June 1, 2018 (As Adjusted)
Consolidated Balance Sheet caption			
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
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 guidance, the Company recognizes revenue upon transfer of control of promised goods or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those goods or services, including any variable consideration. Under the new revenue guidance, the Company applies the following five step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when a performance obligation is satisfied.

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 the Company satisfies (or partially satisfies) 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 are collected by the Company from a customer, are excluded from revenue.

The Company includes a warranty in connection with certain contracts with customers, which are not considered to be separate performance obligations. The Company provides its customers with a manufacturer’s warranty and records, at the time of the sale, a corresponding estimated liability for potential warranty costs.

With the exception of the toll processing and oil & gas equipment revenue streams, the Company recognizes 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, the Company receives and acknowledges purchase orders from its customers, which define the quantity, pricing, payment and other applicable terms and conditions. In some cases, the Company receives a blanket purchase order from its 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 and oil & gas equipment revenue streams, the Company recognizes revenue over time. Revenue is primarily measured using the cost-to-cost method, which the Company believes 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. Under Topic 606, the Company has 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. The Company accounts 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. The Company does not exercise significant judgments in determining the timing of satisfaction of performance obligations or the transaction price.

The following table summarizes net sales disaggregated by product class and timing of revenue recognition for the period presented:

(in thousands)	Reportable Segments				
Three months ended August 31, 2018	Steel Processing	Pressure Cylinders	Engineered Cabs	Other	Total
Product class:					
Steel Processing					
Direct	$626,862	$ -	$ -	$ -	$626,862
Toll	33,625	-	-	-	33,625
Pressure Cylinders					
Industrial products	-	152,847	-	-	152,847
Consumer products	-	116,823	-	-	116,823
Oil & gas equipment	-	30,683	-	-	30,683
Engineered Cabs	-	-	27,252	-	27,252
Other	-	-	-	15	15
Total	$660,487	$300,353	$ 27,252	$ 15	$988,107
Timing of revenue recognition:					
Goods transferred at a point in time	$626,862	$289,034	$ 27,252	$ 15	$943,163
Goods and services transferred over time	33,625	11,319	-	-	44,944
Total	$660,487	$300,353	$ 27,252	$ 15	$988,107

The following tables summarize the impacts of adopting Topic 606 on the Company's consolidated financial statements as of and for the period ended August 31, 2018 as if the Company continued to follow its accounting policies under the previous revenue recognition guidance.

(in thousands)	August 31, 2018 As Currently Reported	Topic 606 Adjustments	Balances Without Adoption of Topic 606
Consolidated Balance Sheet			
Assets			
Receivables	$564,612	$ (4,690)	$559,922
Total inventories	494,116	4,056	498,172
Prepaid expenses and other current assets	60,846	(1,823)	59,023
Liabilities and Equity			
Deferred income taxes, net	79,116	(450)	78,666
Shareholders' equity - controlling interest	919,519	(1,413)	918,106
Noncontrolling interests	117,855	(594)	117,261

(in thousands)	Three months ended August 31, 2018 As Currently Reported	Topic 606 Adjustments	Balances Without Adoption of Topic 606
Consolidated Statement of Earnings			
Net sales	$988,107	$ (863)	$987,244
Cost of goods sold	845,110	604	845,714
Income tax expense	14,498	(4)	14,494
Net earnings	56,958	(263)	56,695
Net earnings attributable to noncontrolling interests	2,016	(24)	1,992
Net earnings attributable to controlling interest	54,942	(239)	54,703

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 $19,989,000 during the three months ended August 31, 2018. 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 $52,133,000 at August 31, 2018. 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.

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

(in thousands)	August 31, 2018	May 31, 2018
Cash	$43,004	$52,812
Other current assets	717,270	590,578
Current assets for discontinued operations	37,474	37,640
Noncurrent assets	365,396	358,927
Total assets	$1,163,144	$1,039,957
Current liabilities	244,831	166,493
Current liabilities for discontinued operations	8,243	7,142
Short-term borrowings	36,215	26,599
Current maturities of long-term debt	43,131	23,243
Long-term debt	261,348	259,588
Other noncurrent liabilities	17,541	17,536
Equity	551,835	539,356
Total liabilities and equity	$1,163,144	$1,039,957

	Three Months Ended August 31,	
(in thousands)	2018	2017
Net sales	$ 498,545	$ 442,624
Gross margin	103,812	86,235
Operating income	72,376	57,163
Depreciation and amortization	6,477	7,193
Interest expense	2,925	2,492
Income tax expense	4,525	1,348
Net earnings from continuing operations	64,894	51,061
Net earnings from discontinued operations	1,684	1,413
Net earnings	66,578	52,474

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. The transaction is subject to regulatory approvals and other customary closing conditions. During the current quarter, 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. Despite the realization of the sales proceeds, there has been no change in the parent-subsidiary relationship and therefore, no change in control. As a result, WAVE’s balance sheet at August 31, 2018, includes a $70,000,000 receivable within current assets for its portion of the proceeds received by AWI prior to quarter end, with an offsetting current liability for deferred proceeds. This $70,000,000 was received by WAVE in September 2018 and subsequently distributed to the joint venture partners in equal amounts.

NOTE D – Impairment of Long-Lived Assets

As a result of changes in the facts and circumstances related to the planned sale of the Company's cryogenics business in Turkey, Worthington Aritas, the Company lowered its estimate of fair value less cost to sell to $7,000,000 resulting in an impairment charge of $2,381,000 during the three months ended August 31, 2018. Fair value was determined using observable (Level 2) inputs.

NOTE E – Restructuring and Other Expense (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 August 31, 2018
Early retirement and severance	$ 1,116	$ 904	$ (658)	$ 2	$ 1,364
Facility exit and other costs	-	122	-	10	132
	$ 1,116	1,026	$ (658)	$ 12	$ 1,496
Net gain on sale of assets		(1,962)			
Restructuring and other income, net		$ (936)			

Severance and facility exit costs in the table above resulted primarily from activities related to the ongoing consolidation of the Company's industrial gas operations in Portugal following the acquisition of AMTROL in the prior year. During the three months ended August 31, 2018, the Company also completed the sale of two oil & gas manufacturing facilities resulting in a net gain of $1,962,000. The total liability associated with our restructuring activities as of August 31, 2018 is expected to be paid in the next twelve months.

NOTE F – Contingent Liabilities and Commitments

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.

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 August 31, 2018, 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 $8,118,000 at August 31, 2018. 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 $13,912,000 of outstanding stand-by letters of credit issued to third-party service providers at August 31, 2018. No amounts were drawn against them at August 31, 2018.

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. On February 16, 2018, the Company amended the terms of the Credit Facility, extending the maturity by three years to

February 2023. Debt issuance costs of $805,000 were incurred as a result of the renewal. These costs have been deferred and will be amortized over the life of the Credit Facility to interest expense. 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 August 31, 2018. As discussed in “NOTE G – Guarantees,” we provided $13,912,000 in letters of credit for third-party beneficiaries as of August 31, 2018. While not drawn against at August 31, 2018, $12,800,000 of these letters of credit were issued against availability under the Credit Facility, leaving $487,200,000 available at August 31, 2018.

We also maintain a $50,000,000 revolving trade accounts receivable securitization facility (the “AR Facility”) which matures in January 2019. 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 August 31, 2018, 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 three months ended August 31:

	Three months ended August 31,					
	2018			2017		
(in thousands)	Before-Tax	Tax	Net-of-Tax	Before-Tax	Tax	Net-of-Tax
Foreign currency translation	$(3,695)	$-	$ (3,695)	$15,872	$-	$ 15,872
Pension liability adjustment	-	(97)	(97)	-	(6)	(6)
Cash flow hedges	(2,527)	557	(1,970)	2,993	(1,106)	1,887
Other comprehensive income (loss)	$(6,222)	$460	$ (5,762)	$18,865	$(1,112)	$ 17,753

NOTE J – Changes in Equity

The following table summarizes the changes in equity by component and in total for the period 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

On September 27, 2017, the Board of Directors of Worthington Industries, Inc. authorized the repurchase of up to 6,828,855 of the outstanding common shares of Worthington Industries, Inc. The total number of common shares available for repurchase at August 31, 2018 was 5,700,000.

The following table summarizes the changes in accumulated other comprehensive loss for the period presented:

(in thousands)	Foreign Currency Translation	Pension Liability Adjustment	Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance as of May 31, 2018	$ (4,987)	$ (16,071)	$ 6,478	$ (14,580)
Other comprehensive loss before reclassifications	(3,678)	-	(31)	(3,709)
Reclassification adjustments to income (a)	-	-	(2,496)	(2,496)
Income taxes	-	(97)	557	460
Balance as of August 31, 2018	$ (8,665)	$ (16,168)	$ 4,508	$ (20,325)

(a) The statement of earnings classification of amounts reclassified to income for cash flow hedges is disclosed in “NOTE O – Derivative Instruments and Hedging Activities.”

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NOTE K – Stock-Based Compensation

Non-Qualified Stock Options

During the three months ended August 31, 2018, we granted non-qualified stock options covering a total of 87,300 common shares under our stock-based compensation plans. The option price of $42.91 per share was equal to the market price of the underlying common shares at the grant date. The fair value of these stock options, based on the Black-Scholes option-pricing model, calculated at the grant date, was $12.55 per share. The calculated pre-tax stock-based compensation expense for these stock options, after an estimate for forfeitures, is $975,000 and will be recognized on a straight-line basis over the three-year vesting period. The following assumptions were used to value these stock options:

Dividend yield	2.01	%
Expected volatility	33.04	%
Risk-free interest rate	2.77	%
Expected term (years)	6.0	

Expected volatility is based on the historical volatility of our common shares and the risk-free interest rate is based on the U.S. Treasury strip rate for the expected term of the stock options. The expected term was developed using historical exercise experience.

Service-Based Restricted Common Shares

During the three months ended August 31, 2018, we granted an aggregate of 105,025 service-based restricted common shares under our stock-based compensation plans. The fair value of these restricted common shares was equal to the weighted average closing market price of the underlying common shares on the respective dates of grant, or $43.09 per share. The calculated pre-tax stock-based compensation expense for these restricted common shares, after an estimate for forfeitures, is $4,027,000 and will be recognized on a straight-line basis over the three-year service-based vesting period.

Performance Share Awards

We have awarded performance shares to certain key employees under our stock-based compensation plans. These performance shares are earned based on the level of achievement with respect to corporate targets for cumulative corporate economic value added, earnings per share growth and, in the case of business unit executives, business unit operating income targets for the three-year periods ending May 31, 2019, 2020 and 2021. These performance share awards will be paid, to the extent earned, in common shares of the Company in the fiscal quarter following the end of the applicable three-year performance period. The fair values of our performance shares are determined by the closing market prices of the underlying common shares at the respective grant dates of the performance shares and the pre-tax stock-based compensation expense is based on our periodic assessment of the probability of the targets being achieved and our estimate of the number of common shares that will ultimately be issued. During the three months ended August 31, 2018, we granted performance share awards covering an aggregate of 53,000 common shares (at target levels). The calculated pre-tax stock-based compensation expense for these performance shares is $2,274,000 and will be recognized over the three-year performance period.

NOTE L – Income Taxes

Income tax expense for the three months ended August 31, 2018 and 2017 reflected estimated annual effective income tax rates of 23.2% and 30.5%, respectively. The annual effective income tax rates exclude any impact from the inclusion of net earnings attributable to noncontrolling interests in our consolidated statements of earnings. Net earnings attributable to noncontrolling interests are primarily a result of our WSP, Spartan, Worthington Aritas, and TWB consolidated joint ventures. The earnings attributable to the noncontrolling interests in WSP, Spartan and TWB's U.S. operations do not generate tax expense to Worthington since the investors in WSP, Spartan and TWB's U.S. operations are taxed directly based on the earnings attributable to them. The tax expense of Worthington Aritas (a foreign corporation) and TWB's wholly-owned foreign corporations is reported in our consolidated tax expense. Management is required to estimate the annual effective income tax rate based upon its forecast of annual pre-tax income for domestic and foreign operations. Our actual effective income tax rate for fiscal 2019 could be materially different from the forecasted rate as of August 31, 2018.

NOTE M – Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share attributable to controlling interest for the periods presented:

(in thousands, except per share amounts)	Three Months Ended August 31, 2018	2017
Numerator (basic & diluted):		
Net earnings attributable to controlling interest - income available to common shareholders	$54,942	$45,534
Denominator:		
Denominator for basic earnings per share attributable to controlling interest - weighted average common shares	58,731	62,444
Effect of dilutive securities	1,890	2,146
Denominator for diluted earnings per share attributable to controlling interest - adjusted weighted average common shares	60,621	64,590
Basic earnings per share attributable to controlling interest	$0.94	$0.73
Diluted earnings per share attributable to controlling interest	$0.91	$0.70

Stock options covering 148,004 common shares have been excluded from the computation of diluted earnings per share for the three months ended August 31, 2018 because the effect of their inclusion would have been “anti-dilutive” for the period.

NOTE N – Segment Operations

The following table presents summarized financial information for our reportable segments as of, and for the periods presented:

	Three Months Ended August 31,	
(in thousands)	2018	2017
Net sales		
Steel Processing	$660,487	$543,491
Pressure Cylinders	300,353	269,811
Engineered Cabs	27,252	31,946
Other	15	2,989
Total net sales	$988,107	$848,237
Operating income (loss)		
Steel Processing	$39,660	$32,872
Pressure Cylinders	14,733	10,458
Engineered Cabs	(4,311)	(361)
Other	829	(744)
Total operating income	$50,911	$42,225
Impairment of long-lived assets		
Steel Processing	$-	$-
Pressure Cylinders	2,381	-
Engineered Cabs	-	-
Other	-	-
Total impairment of long-lived assets	$2,381	$-
Restructuring and other expense (income), net		
Steel Processing	$(9)	$279
Pressure Cylinders	(927)	1,877
Engineered Cabs	-	4
Other	-	144
Total restructuring and other expense (income), net	$(936)	$2,304

(in thousands)	August 31, 2018	May 31, 2018
Total assets		
Steel Processing	$1,029,852	$999,238
Pressure Cylinders	1,131,120	1,147,268
Engineered Cabs	64,333	66,456
Other	384,870	408,825
Total assets	$2,610,175	$2,621,787

NOTE O – Derivative Instruments and Hedging Activities

We utilize derivative financial instruments to manage exposure to certain risks related to our ongoing operations. The primary risks managed through the use of derivative instruments include interest rate risk, foreign currency exchange rate risk and commodity price risk. While certain of our derivative instruments are designated as hedging instruments, we also enter into derivative instruments that are designed to hedge a risk, but are not designated as hedging instruments and therefore do not qualify for hedge accounting. These derivative instruments are adjusted to current fair value through earnings at the end of each period.

Interest Rate Risk Management – We are exposed to the impact of interest rate changes. Our objective is to manage the impact of interest rate changes on cash flows and the market value of our borrowings. We utilize a mix of debt maturities along with both fixed-rate and variable-rate debt to manage changes in interest rates. In addition, we enter into interest rate swaps and treasury locks to further manage our exposure to interest rate variations related to our borrowings and to lower our overall borrowing costs.

Foreign Currency Exchange Risk Management – We conduct business in several major international currencies and are therefore subject to risks associated with changing foreign currency exchange rates. We enter into various contracts that change in value as foreign currency exchange rates change to manage this exposure. Such contracts limit exposure to both favorable and unfavorable currency exchange rate fluctuations. The translation of foreign currencies into U.S. dollars also subjects us to exposure related to fluctuating currency exchange rates; however, derivative instruments are not used to manage this risk.

Commodity Price Risk Management – We are exposed to changes in the price of certain commodities, including steel, natural gas, zinc and other raw materials, and our utility requirements. Our objective is to reduce earnings and cash flow volatility associated with forecasted purchases and sales of these commodities to allow management to focus its attention on business operations. Accordingly, we enter into derivative contracts to manage the associated price risk.

We are exposed to counterparty credit risk on all of our derivative instruments. Accordingly, we have established and maintain strict counterparty credit guidelines. We have credit support agreements in place with certain counterparties to limit our credit exposure. These agreements require either party to post cash collateral if its cumulative market position exceeds a predefined liability threshold. Amounts posted to the margin accounts accrue interest at market rates and are required to be refunded in the period in which the cumulative market position falls below the required threshold. We do not have significant exposure to any one counterparty, and management believes the risk of loss is remote and, in any event, would not be material.

Refer to "NOTE P – Fair Value" for additional information regarding the accounting treatment for our derivative instruments, as well as how fair value is determined.

The following table summarizes the fair value of our derivative instruments and the respective lines in which they were recorded in the consolidated balance sheet at August 31, 2018:

	Asset Derivatives		Liability Derivatives	
(in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Commodity contracts	Receivables	$3,133	Accounts payable	$179
	Other assets	-	Other liabilities	36
Totals		$3,133		$215
Derivatives not designated as hedging instruments:				
Commodity contracts	Receivables	$1,789	Accounts payable	$916
	Other assets	217	Other liabilities	438
		2,006		1,354
Foreign exchange contracts	Receivables	5	Accounts payable	-
Totals		$2,011		$1,354
Total derivative instruments		$5,144		$1,569

The amounts in the table above reflect the fair value of the Company's derivative instruments on a net basis. Had these amounts been recognized on a gross basis, the impact would have been a $1,392,000 increase in receivables with a corresponding increase in accounts payable.

The following table summarizes the fair value of our derivative instruments and the respective lines in which they were recorded in the consolidated balance sheet at May 31, 2018:

	Asset Derivatives		Liability Derivatives	
(in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Commodity contracts	Receivables	$6,385	Accounts payable	$ -
	Other assets	68	Other liabilities	-
Totals		$6,453		$ -
Derivatives not designated as hedging instruments:				
Commodity contracts	Receivables	$4,749	Accounts payable	$ 613
	Other assets	221	Other liabilities	158
		4,970		771
Foreign exchange contracts	Receivables	-	Accounts payable	75
Totals		$4,970		$ 846
Total derivative instruments		$11,423		$ 846

The amounts in the table above reflect the fair value of the Company's derivative instruments on a net basis. Had these amounts been recognized on a gross basis, the impact would have been a $351,000 increase in receivables with a corresponding increase in accounts payable.

Cash Flow Hedges

We enter into derivative instruments to hedge our exposure to changes in cash flows attributable to interest rate and commodity price fluctuations associated with certain forecasted transactions. These derivative instruments are designated and qualify as cash flow hedges. Accordingly, the effective portion of the gain or loss on the derivative instrument is reported as a component of AOCI and reclassified into earnings in the same line associated with the forecasted transaction and in the same period during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument is recognized in earnings immediately.

The following table summarizes our cash flow hedges outstanding at August 31, 2018:

(in thousands)	Notional Amount	Maturity Date
Commodity contracts	$12,181	September 2018 - September 2019

The following table summarizes the gain (loss) recognized in OCI and the gain (loss) reclassified from AOCI into earnings for derivative instruments designated as cash flow hedges for the periods presented:

(in thousands)	Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI (Effective Portion)	Gain (Loss) Reclassified from AOCI (Effective Portion)	Location of Gain (Ineffective Portion) and Excluded from Effectiveness Testing	Gain (Ineffective Portion) and Excluded from Effectiveness Testing
For the three months ended August 31, 2018:					
Commodity contracts	$ (31)	Cost of goods sold	$ 2,543	Cost of goods sold	$ -
Interest rate contracts	-	Interest expense	(47)	Interest expense	-
Totals	$ (31)		$ 2,496		$ -