WORTHINGTON INDUSTRIES INC
Form 10-Q
January 09, 2019
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended November 30, 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	(I.R.S. Employer Identification No.)
incorporation or organization)	
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 December 31, 2018, the number of Common Shares, without par value, issued and outstanding was 57,736,995.

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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 demand or 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)

	November 30, 2018	May 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$93,027	$121,967
Receivables, less allowances of $650 and $632 at November 30, 2018 and May 31, 2018, respectively	518,006	572,689
Inventories:		
Raw materials	267,871	237,471
Work in process	111,158	122,977
Finished products	109,713	93,579
Total inventories	488,742	454,027
Income taxes receivable	18,079	1,650
Assets held for sale	7,395	30,655
Prepaid expenses and other current assets	62,367	60,134
Total current assets	1,187,616	1,241,122
Investments in unconsolidated affiliates	221,701	216,010
Goodwill	342,126	345,183
Other intangible assets, net of accumulated amortization of $82,659 and $74,922 at November 30, 2018 and May 31, 2018, respectively	205,142	214,026
Other assets	21,570	20,476
Property, plant and equipment:		
Land	24,066	24,229
Buildings and improvements	308,549	300,542
Machinery and equipment	1,045,864	1,030,720
Construction in progress	45,077	32,282
Total property, plant and equipment	1,423,556	1,387,773
Less: accumulated depreciation	839,274	802,803
Total property, plant and equipment, net	584,282	584,970
Total assets	$2,562,437	$2,621,787
Liabilities and equity		
Current liabilities:		
Accounts payable	$406,444	$473,485
Accrued compensation, contributions to employee benefit plans and related taxes	69,611	96,487

Dividends payable	14,348	13,731
Other accrued items	57,864	57,125
Income taxes payable	1,276	4,593
Current maturities of long-term debt	1,387	1,474
Total current liabilities	550,930	646,895
Other liabilities	73,053	74,237
Distributions in excess of investment in unconsolidated affiliate	122,806	55,198
Long-term debt	748,392	748,894
Deferred income taxes, net	81,001	60,188
Total liabilities	1,576,182	1,585,412
Shareholders' equity - controlling interest	868,672	918,769
Noncontrolling interests	117,583	117,606
Total equity	986,255	1,036,375
Total liabilities and equity	$2,562,437	$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 November 30,		Six Months Ended November 30,	
	2018	2017	2018	2017
Net sales	$958,226	$871,266	$1,946,333	$1,719,503
Cost of goods sold	837,292	731,187	1,682,402	1,446,646
Gross margin	120,934	140,079	263,931	272,857
Selling, general and administrative expense	84,668	89,425	175,309	177,674
Impairment of goodwill and long-lived assets	-	8,289	2,381	8,289
Restructuring and other expense (income), net	402	(9,694)	(534)	(7,390)
Operating income	35,864	52,059	86,775	94,284
Other income (expense):				
Miscellaneous income, net	1,432	1,321	1,697	1,669
Interest expense	(9,472)	(10,038)	(19,200)	(18,845)
Equity in net income of unconsolidated affiliates	21,087	16,445	51,095	43,751
Earnings before income taxes	48,911	59,787	120,367	120,859
Income tax expense	11,119	18,165	25,617	31,163
Net earnings	37,792	41,622	94,750	89,696
Net earnings attributable to noncontrolling interests	3,790	2,219	5,806	4,759
Net earnings attributable to controlling interest	$34,002	$39,403	$88,944	$84,937
Basic				
Average common shares outstanding	57,716	61,503	58,226	61,976
Earnings per share attributable to controlling interest	$0.59	$0.64	$1.53	$1.37
Diluted				
Average common shares outstanding	59,338	63,468	60,013	64,044
Earnings per share attributable to controlling interest	$0.57	$0.62	$1.48	$1.33
Common shares outstanding at end of period	56,957	60,755	56,957	60,755
Cash dividends declared per share	$0.23	$0.21	$0.46	$0.42

See notes to consolidated financial statements.

WORTHINGTON INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended November 30,		Six Months Ended November 30,	
	2018	2017	2018	2017
Net earnings	$37,792	$41,622	$94,750	$89,696
Other comprehensive income (loss):				
Foreign currency translation	(6,638)	1,511	(10,333)	17,383
Pension liability adjustment, net of tax	-	-	(97)	(6)
Cash flow hedges, net of tax	(4,662)	(2,210)	(6,632)	(323)
Other comprehensive income (loss)	(11,300)	(699)	(17,062)	17,054
Comprehensive income	26,492	40,923	77,688	106,750
Comprehensive income attributable to noncontrolling interests	3,735	2,139	5,734	5,118
Comprehensive income attributable to controlling interest	$22,757	$38,784	$71,954	$101,632

See notes to consolidated financial statements.

WORTHINGTON INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended November 30,		Six Months Ended November 30,	
	2018	2017	2018	2017
Operating activities:				
Net earnings	$37,792	$41,622	$94,750	$89,696
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation and amortization	23,525	26,283	48,018	51,648
Impairment of goodwill and long-lived assets	-	8,289	2,381	8,289
Provision for (benefit from) deferred income taxes	3,289	(583)	22,223	7,351
Bad debt (income) expense	32	41	253	(21)
Equity in net income of unconsolidated affiliates, net of distributions	14,182	2,952	4,163	(4,803)
Net (gain) loss on assets	(312)	(10,680)	2,403	(9,255)
Stock-based compensation	3,456	3,787	6,612	7,194
Changes in assets and liabilities, net of impact of acquisitions:				
Receivables	40,838	(46,097)	54,247	16,581
Inventories	5,866	9,871	(37,471)	(24,825)
Prepaid expenses and other current assets	(13,249)	3,622	(21,668)	4,765
Other assets	(1,194)	(626)	(1,260)	(976)
Accounts payable and accrued expenses	(71,711)	(21,577)	(100,496)	(48,368)
Other liabilities	2,190	2,478	994	5,461
Net cash provided by operating activities	44,704	19,382	75,149	102,737
Investing activities:				
Investment in property, plant and equipment	(21,741)	(23,678)	(41,175)	(41,691)
Acquisitions, net of cash acquired	-	(523)	-	(285,028)
Distributions from unconsolidated affiliates	55,201	-	55,201	-
Proceeds from sale of assets	170	16,312	20,447	16,739
Net cash provided (used) by investing activities	33,630	(7,889)	34,473	(309,980)
Financing activities:				
Net proceeds from short-term borrowings, net of issuance costs	-	302	-	600
Proceeds from long-term debt, net of issuance costs	-	(594)	-	197,685
Principal payments on long-term debt	(371)	(220)	(801)	(439)
Payments for issuance of common shares, net of tax withholdings	(658)	(722)	(4,749)	(3,996)
Payments to noncontrolling interests	(4,007)	(3,196)	(6,327)	(3,916)
Repurchase of common shares	(63,581)	(67,448)	(100,433)	(112,524)
Dividends paid	(13,533)	(13,256)	(26,252)	(26,034)
Net cash provided (used) by financing activities	(82,150)	(85,134)	(138,562)	51,376
Decrease in cash and cash equivalents	(3,816)	(73,641)	(28,940)	(155,867)

Cash and cash equivalents at beginning of period	96,843	195,855	121,967	278,081
Cash and cash equivalents at end of period	$93,027	$122,214	$93,027	$122,214

See notes to consolidated financial statements.

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WORTHINGTON INDUSTRIES, INC.

Notes to Consolidated Financial Statements

(Unaudited)

NOTE A – Basis of Presentation

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

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

These unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the United States Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments, which are of a normal and recurring nature except those which have been disclosed elsewhere in this Quarterly Report on Form 10-Q, necessary for a fair presentation of the consolidated financial statements for these interim periods, have been included. Operating results for the three and six months ended November 30, 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.

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

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

Recently Issued Accounting Standards

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

While we are in the process of evaluating the effect this new accounting guidance will have on the presentation of our consolidated financial statements and related disclosures, the adoption is anticipated to have a material impact on the Company's consolidated balance sheets with the addition of right-of-use assets, offset by the associated liabilities.

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

In August 2017, amended accounting guidance was issued that modifies hedge accounting by making more hedge strategies eligible for hedge accounting, amending presentation and disclosure requirements, and changing how companies assess effectiveness. The intent is to simplify application of hedge accounting and increase transparency of information about an entity's risk management activities. The amended accounting guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. It is to be applied using a modified retrospective transition approach for cash flow and net investment hedges existing at the date of adoption. The presentation and disclosure guidance is only required prospectively. Early adoption is permitted. We are in the process of evaluating the effect this amended accounting guidance will have on our consolidated financial position and results of operations, 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 our historical accounting policies for revenue recognition, we recognized revenue upon transfer of title and risk of loss, or in the case of toll processing revenue, upon delivery of the goods, provided persuasive evidence of an arrangement existed, pricing was fixed or determinable and collectability was reasonably assured. Through charges to net sales, provisions were made for returns & allowances, customer rebates and sales discounts based on past experience, specific agreements, and anticipated levels of customer activity.

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

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

(in thousands)	May 31, 2018 (As Reported)	Cumulative Effect of Topic 606 Adoption	June 1, 2018 (As Adjusted)
Consolidated Balance Sheet			

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

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

Shipping and handling costs charged to customers are treated as fulfillment activities and are recorded in both net sales and cost of goods sold at the time control is transferred to the customer. Due to the short-term nature of our contracts with customers, we have elected to apply the practical expedients under Topic 606 to: (1) expense as incurred, incremental costs of obtaining a contract and (2) not adjust the consideration for the effects of a significant financing component for contracts with an original expected duration of one year or less. When we satisfy (or partially satisfy) a performance obligation, prior to being able to invoice the customer, we recognize an unbilled receivable when the right to consideration is unconditional and a contract asset when the right to consideration is conditional. Unbilled receivables and contract assets are included in receivables and prepaid and other current assets, respectively, on

the consolidated balance sheets. Additionally, we do not maintain contract liability balances, as performance obligations are satisfied prior to customer payment for product. Payments from customers are generally due within 30 to 60 days of invoicing, which generally occurs upon shipment or delivery of the goods.

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

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

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

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

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

The following tables summarize net sales by product class and by timing of revenue recognition for the three month and six month periods ended November 30, 2018:

(in thousands)	Reportable Segments				
Three months ended November 30, 2018	Steel Processing	Pressure Cylinders	Engineered Cabs	Other	Total
Product class:					
Steel Processing					
Direct	$602,010	$ -	$ -	$ -	$602,010
Toll	33,033	-	-	-	33,033
Pressure Cylinders					
Industrial products	-	152,018	-	-	152,018
Consumer products	-	117,194	-	-	117,194
Oil & gas equipment	-	25,235	-	-	25,235
Engineered Cabs	-	-	28,729	-	28,729
Other	-	-	-	7	7
Total	$635,043	$294,447	$ 28,729	$ 7	$958,226

Timing of revenue recognition:					
Goods transferred at a point in time	$602,010	$276,965	$ 28,729	$ 7	$907,711
Goods and services transferred over time	33,033	17,482	-	-	50,515
Total	$635,043	$294,447	$ 28,729	$ 7	$958,226

7

(in thousands)	Reportable Segments				
	Steel	Pressure	Engineered		
Six months ended November 30, 2018	Processing	Cylinders	Cabs	Other	Total
Product class:					
Steel Processing					
Direct	$1,228,872	$-	$ -	$ -	$1,228,872
Toll	66,658	-	-	-	66,658
Pressure Cylinders					
Industrial products	-	304,865	-	-	304,865
Consumer products	-	234,017	-	-	234,017
Oil & gas equipment	-	55,918	-	-	55,918
Engineered Cabs	-	-	55,981	-	55,981
Other	-	-	-	22	22
Total	$1,295,530	$594,800	$ 55,981	$ 22	$1,946,333
Timing of revenue recognition:					
Goods transferred at a point in time	$1,228,872	$565,999	$ 55,981	$ 22	$1,850,874
Goods and services transferred over time	66,658	28,801	-	-	95,459
Total	$1,295,530	$594,800	$ 55,981	$ 22	$1,946,333

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

(in thousands)	November 30, 2018 As Currently Reported	Topic 606 Adjustments	Balances Without Adoption of Topic 606
Consolidated Balance Sheet			
Assets			
Receivables	$518,006	$ (4,750)	$513,256
Total inventories	488,742	6,376	495,118
Prepaid expenses and other current assets	62,367	(4,556)	57,811
Liabilities and Equity			
Income taxes payable	1,276	(106)	1,170
Deferred income taxes, net	81,001	(454)	80,547
Shareholders' equity - controlling interest	868,672	(1,753)	866,919
Noncontrolling interests	117,583	(617)	116,966

	Three months ended November 30, 2018			Six months ended November 30, 2018		
(in thousands)	As Currently Reported	Topic 606 Adjustments	Balances Without Adoption of Topic 606	As Currently Reported	Topic 606 Adjustments	Balances Without Adoption of Topic 606
Consolidated Statement of Earnings						
Net sales	$958,226	$ (2,793)	$955,433	$1,946,333	$ (3,656)	$1,942,677
Cost of goods sold	837,292	2,320	839,612	1,682,402	2,924	1,685,326
Income tax expense	11,119	110	11,229	25,617	106	25,723
Net earnings	37,792	(363)	37,429	94,750	(626)	94,124
Net earnings attributable to noncontrolling interests	3,790	(24)	3,766	5,806	(48)	5,758
Net earnings attributable to controlling interest	34,002	(339)	33,663	88,944	(578)	88,366

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 $110,459,000 during the six months ended November 30, 2018, including $60,000,000 of one-time special distributions from WAVE, comprised of $35,000,000 related to the pending sale of the international operations and $25,000,000 in connection with a financing

transaction. We have received cumulative distributions from WAVE in excess of our investment balance, which resulted in an amount recorded within other liabilities on our consolidated balance sheets of $122,806,000 at November 30, 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. We received excess distributions from WAVE of $55,201,000 during the six months ended November 30, 2018.

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

(in thousands)	November 30, 2018	May 31, 2018
Cash	$35,079	$52,812
Other current assets	625,214	590,578
Current assets for discontinued operations	35,390	37,640
Noncurrent assets	364,305	358,927
Total assets	$1,059,988	$1,039,957
Current liabilities	256,608	166,493
Current liabilities for discontinued operations	8,884	7,142
Short-term borrowings	38,366	26,599
Current maturities of long-term debt	8,173	23,243
Long-term debt	323,598	259,588
Other noncurrent liabilities	17,452	17,536
Equity	406,907	539,356
Total liabilities and equity	$1,059,988	$1,039,957

	Three Months Ended November 30,		Six Months Ended November 30,	
(in thousands)	2018	2017	2018	2017
Net sales	$480,716	$412,617	$979,261	$855,241
Gross margin	75,515	71,122	179,327	157,357
Operating income	44,592	34,604	116,968	91,767
Depreciation and amortization	6,581	5,935	13,058	13,128
Interest expense	3,382	2,461	6,307	4,953
Income tax expense	3,568	1,816	8,093	3,164
Net earnings from continuing operations	36,523	31,893	101,417	82,937
Net earnings (loss) from discontinued operations	2,028	(1,703)	3,712	(273)
Net earnings	38,551	30,190	105,129	82,664

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 first quarter of fiscal 2019, the parties agreed to extend the date by which certain competition clearance conditions were to be satisfied per the original purchase agreement. In exchange, Knauf Group irrevocably agreed to fund the purchase price which was received by AWI in two distributions, the first on August 1, 2018, and the balance on September 15, 2018. In September 2018, we received a cash distribution of $35,000,000 from WAVE related to the pending sale of the international operations. Despite receiving the sales proceeds, there has been no change in control of the international operations, therefore, the gain or loss to be realized from this transaction has not been reflected in WAVE's statement of earnings. We expect to receive total proceeds of approximately $45,000,000 in connection with

the sale transaction.

NOTE D – Impairment of Goodwill and Long-Lived Assets

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

During the second quarter of fiscal 2019, we began to explore strategic alternatives related to the cryoscience business within Pressure Cylinders, which was considered to be an impairment indicator. The required impairment test indicated that the current estimate of the undiscounted future cash flows exceeded the carrying amount of approximately $34,000,000. However, it is reasonably possible any change in the estimated future cash flows may result in an impairment.

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 November 30, 2018
Early retirement and severance	$ 1,116	$ 1,155	$ (1,257)	$ (61)	$ 953
Facility exit and other costs	-	273	(231)	8	50
	$ 1,116	1,428	$ (1,488)	$ (53)	$ 1,003
Net gain on sale of assets		(1,962)			
Restructuring and other income, net		$ (534)			

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 fiscal 2018. During the six months ended November 30, 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 November 30, 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 November 30, 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 $7,881,000 at November 30, 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 $13,145,000 of outstanding stand-by letters of credit issued to third-party service providers at November 30, 2018. No amounts were drawn against them at November 30, 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 which matures in February 2023. Borrowings under the Credit Facility have maturities of up to one year. We have the option to borrow at rates equal to an applicable margin over the LIBOR, Prime Rate or Overnight Bank Funding Rate. The applicable margin is determined by our credit rating. There were no borrowings outstanding under the Credit Facility at November 30, 2018. As discussed in “NOTE G – Guarantees,” we provided $13,145,000 in letters of credit for third-party beneficiaries as of November 30, 2018. While not drawn against at November 30, 2018, $450,000 of these letters of credit were issued against availability under the Credit Facility, leaving $499,550,000 available at November 30, 2018.

We also maintain a $50,000,000 revolving trade accounts receivable securitization facility (the “AR Facility”) which matures in January 2019. We are in the process of renewing the AR Facility for a term of one year, with an anticipated closing date of January 15, 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 November 30, 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 November 30:

	Three months ended November 30,					
	2018			2017		
	Before-Tax	Tax	Net-of-Tax	Before-Tax	Tax	Net-of-Tax
(in thousands)						
Foreign currency translation	$(6,638)	$-	$ (6,638)	$1,511	$-	$ 1,511
Pension liability adjustment	-	-	-	-	-	-
Cash flow hedges	(6,066)	1,404	(4,662)	(3,495)	1,285	(2,210)
Other comprehensive loss	$(12,704)	$1,404	$ (11,300)	$(1,984)	$1,285	$ (699)

The following table summarizes the tax effects on each component of OCI for the six months ended November 30:

	Six months ended November 30,					
	2018			2017		
	Before-Tax	Tax	Net-of-Tax	Before-Tax	Tax	Net-of-Tax
(in thousands)						
Foreign currency translation	$(10,333)	$-	$ (10,333)	$17,383	$-	$ 17,383
Pension liability adjustment	-	(97)	(97)	-	(6)	(6)
Cash flow hedges	(8,593)	1,961	(6,632)	(502)	179	(323)
Other comprehensive income (loss)	$(18,926)	$1,864	$ (17,062)	$16,881	$173	$ 17,054

NOTE J – Changes in Equity

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

	Controlling Interest					
(in thousands)	Additional Paid-in Capital	Accumulated Other Comprehensive Loss, Net of Tax	Retained Earnings	Total	Non-controlling Interests	Total
Balance at May 31, 2018	$295,592	$ (14,580)	$637,757	$918,769	$117,606	$1,036,375
Net earnings	-	-	54,942	54,942	2,016	56,958
Other comprehensive loss	-	(5,745)	-	(5,745)	(17)	(5,762)
Common shares issued, net of withholding tax	(4,091)	-	-	(4,091)	-	(4,091)
Common shares in NQ plans	152	-	-	152	-	152
Stock-based compensation	4,838	-	-	4,838	-	4,838
ASC 606 transition adjustment	-	-	1,174	1,174	570	1,744
Purchases and retirement of common shares	(4,003)	-	(32,849)	(36,852)	-	(36,852)
Cash dividends declared	-	-	(13,668)	(13,668)	-	(13,668)
Dividends to noncontrolling interest	-	-	-	-	(2,320)	(2,320)
Balance at August 31, 2018	$292,488	$ (20,325)	$647,356	$919,519	$117,855	$1,037,374
Net earnings	-	-	34,002	34,002	3,790	37,792
Other comprehensive loss	-	(11,245)	-	(11,245)	(55)	(11,300)
Common shares issued, net of withholding tax	(658)	-	-	(658)	-	(658)
Common shares in NQ plans	306	-	-	306	-	306
Stock-based compensation	3,730	-	-	3,730	-	3,730
Purchases and retirement of common shares	(7,540)	-	(56,041)	(63,581)	-	(63,581)
Cash dividends declared	-	-	(13,401)	(13,401)	-	(13,401)
Dividends to noncontrolling interest	-	-	-	-	(4,007)	(4,007)
Balance at November 30, 2018	$288,326	$ (31,570)	$611,916	$868,672	$117,583	$986,255

	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, 2017	$303,391	$ (27,775)	$676,019	$951,635	$122,294	$1,073,929
Net earnings	-	-	45,534	45,534	2,540	48,074
Other comprehensive income	-	17,314	-	17,314	439	17,753
Common shares issued, net of withholding tax	(3,274)	-	-	(3,274)	-	(3,274)
Common shares in NQ plans	536	-	-	536	-	536
Stock-based compensation	4,822	-	-	4,822	-	4,822

Purchases and retirement of common shares	(4,235)	-	(40,841)	(45,076)	-	(45,076)
Cash dividends declared	-	-	(13,317)	(13,317)	-	(13,317)
Dividends to noncontrolling interest	-	-	-	-	(720)	(720)
Balance at August 31, 2017	$301,240	$ (10,461)	$667,395	$958,174	$ 124,553	$ 1,082,727
Net earnings	-	-	39,403	39,403	2,219	41,622
Other comprehensive loss	-	(619)	-	(619)	(80)	(699)
Common shares issued, net of withholding tax	(722)	-	-	(722)	-	(722)
Common shares in NQ plans	350	-	-	350	-	350
Stock-based compensation	3,169	-	-	3,169	-	3,169
Purchases and retirement of common shares	(7,245)	-	(60,203)	(67,448)	-	(67,448)
Cash dividends declared	-	-	(13,020)	(13,020)	-	(13,020)
Dividends to noncontrolling interest	-	-	-	-	(3,196)	(3,196)
Balance at November 30, 2017	$296,792	$ (11,080)	$633,575	$919,287	$ 123,496	$ 1,042,783

Of the 6,828,855 common shares of Worthington Industries, Inc. authorized for repurchase by our Board of Directors on September 27, 2017, 4,200,000 remained available for repurchase at November 30, 2018. During the first six months of fiscal 2019, we repurchased 2,300,000 common shares for $100,433,000.

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	(10,261)	-	(4,530)	(14,791)
Reclassification adjustments to income (a)	-	-	(4,063)	(4,063)
Income taxes	-	(97)	1,961	1,864
Balance as of November 30, 2018	$ (15,248)	$ (16,168)	$ (154)	$ (31,570)

(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."

NOTE K – Stock-Based Compensation

Non-Qualified Stock Options

During the six months ended November 30, 2018, we granted non-qualified stock options covering a total of 95,600 common shares under our stock-based compensation plans. The weighted average option price of $42.86 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 is $1,200,000 and will be recognized on a straight-line basis over the three-year vesting period, net of any forfeitures. The following assumptions were used to value these stock options:

Dividend yield	2.01% - 2.16%
Expected volatility	33.04% - 33.60%
Risk-free interest rate	2.77% - 2.96%
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 six months ended November 30, 2018, we granted an aggregate of 323,925 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 $43.59 per share. The calculated pre-tax stock-based compensation expense for these restricted common shares is $14,119,000 and will be recognized on a straight-line basis over the three-year service-based vesting period, net of any forfeitures.

Market-Based Restricted Common Shares

On September 28, 2018, we granted an aggregate of 225,000 restricted common shares to two key employees under our stock-based compensation plans. Vesting of these restricted common share awards is contingent upon the price of our common shares reaching $65.00 per share and remaining at or above that price for 90 consecutive days during the five-year period following the date of grant and the completion of a five-year service vesting period. The grant-date fair value of these restricted common shares, as determined by a Monte Carlo simulation model, was $23.38 per share. The following assumptions were used to determine the grant-date fair value and the derived service period for these restricted common shares:

Dividend yield	2.16 %
Expected volatility	33.60 %
Risk-free interest rate	2.96 %

The calculated pre-tax stock-based compensation expense for these restricted common shares is $5,261,000 and will be recognized on a straight-line basis over the five-year service vesting period, net of any forfeitures.

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 six months ended November 30, 2018, we granted performance share awards covering an aggregate of 58,200 common shares (at target levels). The calculated pre-tax stock-based compensation expense for these performance shares is $2,494,000 and will be recognized over the three-year performance period as the performance condition is probable.

NOTE L – Income Taxes

Income tax expense for the six months ended November 30, 2018 and 2017 reflected estimated annual effective income tax rates of 23.4% and 30.0%, 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, 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 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 November 30, 2018.

On December 22, 2017, the U.S. government enacted tax reform, the Tax Cuts and Jobs Act (the "TCJA"), which made comprehensive changes to U.S. federal income tax laws by moving from a global to a modified territorial tax regime. The TCJA lowered the U.S. corporate income tax rate from 35% to 21% in calendar year 2018 along with the elimination of certain deductions and credits, and a one-time "deemed repatriation" of accumulated foreign earnings. We recognized a provisional income tax benefit of $38,200,000 related to the re-measurement of deferred tax assets and liabilities and a provisional income tax expense of $6,900,000 for the one-time mandatory deemed repatriation tax during fiscal 2018. During the second quarter of fiscal 2019, we finalized the accounting for the TCJA and for the six months ended November 30, 2018, we made no material adjustments to these provisional amounts.

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 November 30,		Six Months Ended November 30,	
	2018	2017	2018	2017
Numerator (basic & diluted):				
Net earnings attributable to controlling interest - income available to common shareholders	$34,002	$39,403	$88,944	$84,937
Denominator:				
Denominator for basic earnings per share attributable to controlling interest - weighted average common shares	57,716	61,503	58,226	61,976
Effect of dilutive securities	1,622	1,965	1,787	2,068
Denominator for diluted earnings per share attributable to controlling interest - adjusted weighted average common shares	59,338	63,468	60,013	64,044
Basic earnings per share attributable to controlling interest	$0.59	$0.64	$1.53	$1.37
Diluted earnings per share attributable to controlling interest	$0.57	$0.62	$1.48	$1.33

Stock options covering 223,372 and 195,774 common shares for the three months ended November 30, 2018 and 2017, respectively, and 152,256 and 76,605 common shares for the six months ended November 30, 2018 and 2017, respectively, have been excluded from the computation of diluted earnings per share because the effect of their inclusion would have been “anti-dilutive” for those periods.

NOTE N – Segment Operations

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

	Three Months Ended November 30,		Six Months Ended November 30,	
(in thousands)	2018	2017	2018	2017
Net sales				
Steel Processing	$635,043	$538,390	$1,295,530	$1,081,881
Pressure Cylinders	294,447	300,862	594,800	570,673
Engineered Cabs	28,729	30,404	55,981	62,350
Other	7	1,610	22	4,599
Total net sales	$958,226	$871,266	$1,946,333	$1,719,503
Operating income (loss)				
Steel Processing	$25,016	$41,130	$64,676	$74,002
Pressure Cylinders	14,758	24,675	29,491	35,133
Engineered Cabs	(3,371)	(1,587)	(7,682)	(1,948)
Other	(539)	(12,159)	290	(12,903)
Total operating income	$35,864	$52,059	$86,775	$94,284
Impairment of goodwill and long-lived assets				
Steel Processing	$-	$-	$-	$-
Pressure Cylinders	-	964	2,381	964
Engineered Cabs	-	-	-	-
Other	-	7,325	-	7,325
Total impairment of goodwill and long-lived assets	$-	$8,289	$2,381	$8,289
Restructuring and other expense (income), net				
Steel Processing	$-	$(10,335)	$(9)	$(10,056)
Pressure Cylinders	402	488	(525)	2,365
Engineered Cabs	-	(82)	-	(78)
Other	-	235	-	379
Total restructuring and other expense (income), net	$402	$(9,694)	$(534)	$(7,390)

(in thousands)	November 30, 2018	May 31, 2018
Total assets		
Steel Processing	$963,717	$999,238
Pressure Cylinders	1,128,656	1,147,268
Engineered Cabs	66,590	66,456
Other	403,474	408,825
Total assets	$2,562,437	$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 Rate 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 November 30, 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	$ -	Accounts payable	$ 1,560
	Other assets	-	Other liabilities	85
Totals		$ -		$ 1,645
Derivatives not designated as hedging instruments:				
Commodity contracts	Receivables	$ 890	Accounts payable	$ 1,167
	Other assets	92	Other liabilities	150
		982		1,317
Foreign currency exchange contracts	Receivables	-	Accounts payable	36
Totals		$ 982		$ 1,353
Total derivative instruments		$ 982		$ 2,998

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 $961,000 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 currency 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 November 30, 2018:

(in thousands)	Notional Amount	Maturity Date
Commodity contracts	$22,067	December 2018 - December 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 November 30, 2018:					
Commodity contracts	$ (4,499)	Cost of goods sold	$ 1,565	Cost of goods sold	$ -
Interest rate contracts	-	Interest expense	(34)	Interest expense	-
Foreign currency exchange contracts	-	Miscellaneous income, net	36	Miscellaneous income, net	-
Totals	$ (4,499)		$ 1,567		$ -
For the three months ended November 30, 2017:					
Commodity contracts	$ 2,080	Cost of goods sold	$ 5,637	Cost of goods sold	$ -
Interest rate contracts	34	Interest expense	(28)	Interest expense	-
Totals	$ 2,114		$ 5,609		$ -
For the six months ended November 30, 2018:					
Commodity contracts	$ (4,530)	Cost of goods sold	$ 4,108	Cost of goods sold	$ -
Interest rate contracts	-	Interest expense	(81)	Interest expense	-
Foreign currency exchange contracts	-	Miscellaneous income, net	36	Miscellaneous income, net	-
Totals	$ (4,530)		$ 4,063		$ -
For the six months ended November 30, 2017:					
Commodity contracts	$ 5,814	Cost of goods sold	$ 9,805	Cost of goods sold	$ -
Interest rate contracts	3,098	Interest expense	(391)	Interest expense	-
Totals	$ 8,912		$ 9,414		$ -

The estimated net amount of the losses recognized in AOCI at November 30, 2018 expected to be reclassified into net earnings within the succeeding twelve months is $765,000 (net of tax of $229,000). This amount was computed using the fair value of the cash flow hedges at November 30, 2018, and will change before actual reclassification from OCI to net earnings during the fiscal years ending May 31, 2019 and May 31, 2020.

Economic (Non-designated) Hedges

We enter into foreign currency exchange contracts to manage our foreign currency exchange rate exposure related to inter-company and financing transactions that do not meet the requirements for hedge accounting treatment. We also enter into certain commodity contracts that do not qualify for hedge accounting treatment. Accordingly, these derivative instruments are adjusted to current market value at the end of each period through earnings.

The following table summarizes our economic (non-designated) derivative instruments outstanding at November 30, 2018:

(in thousands)	Notional Amount	Maturity Date(s)
Commodity contracts	$ 10,513	December 2018 - April 2020
Foreign currency exchange contracts	5,030	December 2018 - May 2019

The following table summarizes the gain (loss) recognized in earnings for economic (non-designated) derivative financial instruments for the periods presented:

		Gain (Loss) Recognized In Earnings for the Three Months Ended November 30,	
(in thousands)	Location of Gain (Loss) Recognized in Earnings	2018	2017
Commodity contracts	Cost of goods sold	$ (737)	$ (86)
Foreign currency exchange contracts	Miscellaneous income, net	(1,183)	19
Total		$ (1,920)	$ (67)

		Gain (Loss) Recognized in Earnings for the Six Months Ended November 30,	
(in thousands)	Location of Gain (Loss) Recognized in Earnings	2018	2017
Commodity contracts	Cost of goods sold	$ (2,934)	$ 2,248
Foreign currency exchange contracts	Miscellaneous income, net	(2,689)	(189)
Total		$ (5,623)	$ 2,059

The gain (loss) on the foreign currency exchange contract derivatives significantly offsets the gain (loss) on the hedged item.

NOTE P – Fair Value

Fair value is defined as 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. Fair value is an exit price concept that assumes an orderly transaction between willing market participants and is required to be based on assumptions that market participants would use in pricing an asset or a liability. Current accounting guidance establishes a three-tier fair value

hierarchy as a basis for considering such assumptions and for classifying the inputs used in the valuation methodologies. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair values are as follows:

Level 1 – Observable prices in active markets for identical assets and liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets and liabilities, either directly or indirectly.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

Recurring Fair Value Measurements

At November 30, 2018, our assets and liabilities measured at fair value on a recurring basis were as follows:

(in thousands)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Assets				
Derivative instruments (1)	$ -	$ 982	$ -	$982
Total assets	$ -	$ 982	$ -	$982
Liabilities				
Derivative instruments (1)	$ -	$ 2,998	$ -	$2,998
Total liabilities	$ -	$ 2,998	$ -	$2,998

At May 31, 2018, our assets and liabilities measured at fair value on a recurring basis were as follows:

(in thousands)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Assets				
Derivative instruments (1)	$ -	$ 11,423	$ -	$11,423
Total assets	$ -	$ 11,423	$ -	$11,423
Liabilities				
Derivative instruments (1)	$ -	$ 846	$ -	$846
Total liabilities	$ -	$ 846	$ -	$846

(1) The fair value of our derivative instruments is based on the present value of the expected future cash flows considering the risks involved, including non-performance risk, and using discount rates appropriate for the respective maturities. Market observable, Level 2 inputs are used to determine the present value of the expected future cash flows. Refer to “NOTE O – Derivative Instruments and Hedging Activities” for additional information regarding our use of derivative instruments.

Non-Recurring Fair Value Measurements

At November 30, 2018, there were no assets or liabilities measured at fair value on a non-recurring basis on our consolidated balance sheet.

At May 31, 2018, our assets measured at fair value on a non-recurring basis were as follows:

(in thousands)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Assets				
Long-lived assets held for sale (1)	$			