CSW INDUSTRIALS, INC.
Form 10-Q
November 07, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED September 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 No. 001-37454

CSW INDUSTRIALS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**47-2266942**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
5420 Lyndon B. Johnson Freeway, Suite 500, Dallas, Texas	**75240**
(Address of principal executive offices)	**(Zip Code)**

(214) 884-3777
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 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 ý	Non-accelerated filer ¨ (Do not check if smaller reporting company)	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 x No
As of November 1, 2018, there were 15,270,883 shares of the issuer’s common stock outstanding.

CSW INDUSTRIALS, INC.
FORM 10-Q

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PART I — FINANCIAL INFORMATION
CSW INDUSTRIALS, INC.
Item 1. Financial Statements.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Amounts in thousands, except per share amounts)	**Three Months Ended September 30,**				**Six Months Ended September 30,**			
	2018		**2017**		**2018**		**2017**	
Revenues, net	$	91,612	$	84,422	$	181,190	$	173,721
Cost of revenues	(49,403)		(44,761)		(96,892)		(92,187)	
Gross profit	42,209		39,661		84,298		81,534	
Selling, general and administrative expenses	(25,005)		(25,109)		(49,349)		(50,311)	
Operating income	17,204		14,552		34,949		31,223	
Interest expense, net	(420)		(671)		(805)		(1,302)	
Other income, net	82		600		820		619	
Income before income taxes	16,866		14,481		34,964		30,540	
Provision for income taxes	(4,442)		(5,331)		(8,534)		(11,103)	
Income from continuing operations	12,424		9,150		26,430		19,437	
Income (loss) from discontinued operations, net of tax	2,732		(1,848)		400		(3,621)	
Net income	15,156		7,302		26,830		15,816	
Basic earnings (loss) earnings per common share:								
Continuing operations	$	0.80	$	0.58	$	1.69	$	1.23
Discontinued operations	0.18		(0.12)		0.02		(0.23)	

Net income	$	0.98	$	0.46	$	1.71	$	1.00
Diluted earnings (loss) earnings per common share:								
Continuing operations	$	0.79	$	0.57	$	1.67	$	1.22
Discontinued operations	0.18		(0.11)		0.03		(0.23)	
Net income	$	0.97	$	0.46	$	1.70	$	0.99

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
(Amounts in thousands)	**2018**	**2017**	**2018**	**2017**
Net income	$ 15,156	$ 7,302	$ 26,830	$ 15,816
Other comprehensive income (loss):				
Foreign currency translation adjustments	(43)	1,961	(1,442)	3,637
Cash flow hedging activity, net of taxes of $(30), $(4), $(41) and $18, respectively	209	7	252	(34)
Pension and other postretirement effects, net of taxes of $(1), $9, $(8) and $14, respectively	1	(17)	22	(26)
Other comprehensive income (loss)	167	1,951	(1,168)	3,577
Comprehensive income	$ 15,323	$ 9,253	$ 25,662	$ 19,393

See accompanying notes to condensed consolidated financial statements.

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CSW INDUSTRIALS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Amounts in thousands, except per share amounts)	September 30, 2018		March 31, 2018	
ASSETS				
Current assets:				
Cash and cash equivalents	$	11,213	$	11,706
Accounts receivable, net of allowance for doubtful accounts of $1,059 and $1,015, respectively	61,617		63,383	
Inventories, net	48,769		42,974	
Prepaid expenses and other current assets	11,232		7,077	
Current assets, discontinued operations	666		2,427	
Total current assets	133,497		127,567	
Property, plant and equipment, net of accumulated depreciation of $63,315 and $61,967, respectively	52,368		54,473	
Goodwill	81,340		81,764	
Intangible assets, net	49,266		53,054	
Other assets	14,453		23,958	
Total assets	$	330,924	$	340,816
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable	$	14,766	$	16,826

Accrued and other current liabilities	26,265	23,501
Current portion of long-term debt	561	561
Current liabilities, discontinued operations	404	3,966
Total current liabilities	41,996	44,854
Long-term debt	21,179	23,459
Retirement benefits payable	1,892	2,017
Other long-term liabilities	4,577	4,721
Noncurrent liabilities, discontinued operations	979	—
Total liabilities	70,623	75,051
Equity:		
Common shares, $0.01 par value	158	158
Shares authorized – 50,000		
Shares issued – 15,942 and 15,957, respectively		
Preferred shares, $0.01 par value	—	—
Shares authorized and issued – 10,000 and 0, respectively		
Additional paid-in capital	44,478	42,684
Treasury shares, at cost (656 and 80 shares, respectively)	(34,249)	(3,252)
Retained earnings	258,557	233,650

Accumulated other comprehensive loss	(8,643)		(7,475)	
Total equity	260,301		265,765	
Total liabilities and equity	$	330,924	$	340,816

See accompanying notes to condensed consolidated financial statements.

CSW INDUSTRIALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Amounts in thousands)	**Six Months Ended September 30,** **2018**	**2017**	
Cash flows from operating activities:			
Net income	26,830	$	15,816
Less: Income (loss) from discontinued operations	400	(3,621)	
Income from continuing operations	26,430	19,437	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	3,750	3,730	
Amortization of intangible and other assets	3,236	3,633	
Provision for inventory reserves	700	—	
Share-based and other executive compensation	1,794	2,036	
Net gain on disposals of property, plant and equipment	(2,539)	(79)	
Net pension benefit	(211)	(650)	
Net deferred taxes	8,647	1,229	
Changes in operating assets			

and liabilities:		
Accounts receivable, net	1,473	(2,663)
Inventories	(5,749)	260
Prepaid expenses and other current assets	(4,163)	703
Other assets	190	26
Accounts payable and other current liabilities	(1,153)	11,022
Retirement benefits payable and other liabilities	109	(6,801)
Net cash provided by operating activities, continuing operations	32,514	31,883
Net cash used in operating activities, discontinued operations	(7,574)	(6,427)
Net cash provided by operating activities	24,940	25,456
Cash flows from investing activities:		
Capital expenditures	(2,742)	(2,964)
Proceeds from sale of assets held for investment	278	466
Proceeds from sale of assets	3,269	11
Net cash provided by (used in) investing	805	(2,487)

activities, continuing operations				
Net cash provided by (used in) investing activities, discontinued operations	7,151		(883)	
Net cash provided by (used in) investing activities	7,956		(3,370)	
Cash flows from financing activities:				
Borrowings on lines of credit	8,000		—	
Repayments of lines of credit	(10,281)		(20,031)	
Payments of deferred loan costs	—		(401)	
Purchase of treasury shares	(30,997)		(26)	
Proceeds from stock option activity	—		329	
Net cash used in financing activities	(33,278)		(20,129)	
Effect of exchange rate changes on cash and equivalents	(111)		1,380	
Net change in cash and cash equivalents	(493)		3,337	
Cash and cash equivalents, beginning of period	11,706		23,146	
Cash and cash equivalents,	$	11,213	$	26,483

end of period

See accompanying notes to condensed consolidated financial statements.

CSW INDUSTRIALS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED
1. ORGANIZATION AND OPERATIONS AND SUMMARY OF ACCOUNTING POLICIES

CSW Industrials, Inc. ("CSWI," the "Company," "we," "our" or "us") is a diversified industrial growth company with well-established, scalable platforms and domain expertise across two segments: Industrial Products and Specialty Chemicals. Our broad portfolio of leading products provides performance optimizing solutions to our customers. Our products include mechanical products for heating, ventilating and air conditioning ("HVAC") and refrigeration applications, sealants and high-performance specialty lubricants. Drawing on our innovative and proven technologies, we seek to deliver solutions to our professional customers that require superior performance and reliability. Our diverse product portfolio includes more than 100 highly respected industrial brands including RectorSeal No. 5 ® thread sealants, KOPR KOTE® anti-seize lubricants, KATS® Coatings, Jet-Lube Extreme®, SmokeGuard®, Safe-T-Switch® condensate overflow shutoff devices, Mighty Bracket™, Balco®, Whitmore®, Air Sentry® breathers, Oil Safe®, Deacon® high temperature sealants, AC Leak Freeze® to stop refrigerant leaks and Greco Aluminum Railings®. Our products are well known in the specific markets we serve and have a reputation for high quality and reliability. Markets that we serve include HVAC, architecturally-specified building products, industrial, plumbing, energy, rail, mining and other general industrial markets.

Basis of Presentation

The condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2018 ("Quarterly Report") include all revenues, costs, assets and liabilities directly attributable to CSWI and have been prepared in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP").

The condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary to present a fair statement of CSWI's financial position as of September 30, 2018, and the results of operations for the three and six month periods ended September 30, 2018 and 2017. All adjustments are of a normal, recurring nature. All significant intercompany balances and transactions have been eliminated in consolidation. Where applicable, prior period information has been updated to conform to current year presentation.

The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in CSWI's Annual Report on Form 10-K for the fiscal year ended March 31, 2018 (the "Annual Report").

Discontinued Operations

During the fiscal quarter ended December 31, 2017, we committed to a plan to divest our Strathmore Products business (the "Coatings business"). This determination resulted in the reclassification of the assets and liabilities comprising that business to assets held-for-sale, and a corresponding adjustment to our condensed consolidated statements of income to reflect discontinued operations for all periods presented.

Restructuring

During the fiscal year ended March 31, 2017, we initiated a restructuring program related to our Industrial Products segment. The program was initiated in response to excess capacity, which caused us to perform a facility rationalization analysis. The restructuring program was completed in the fiscal year ended March 31, 2018, and no additional costs are expected to be incurred in connection with it. We incurred other restructuring costs in the fiscal years ended March 31, 2018 and 2017, which are now presented as part of discontinued operations. Restructuring charges are as follows (in thousands):

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	Severance/ Retention		Asset Write-down		Other (a)		Total	
Three Months Ended September 30, 2017								
Cost of revenues	$	—	$	—	$	37	$	37
Selling, general and administrative expense	—		—		—		—	
Total	$	—	$	—	$	37	$	37
Six Months Ended September 30, 2017								
Cost of revenues	$	—	$	69	$	200	$	269
Selling, general and administrative expense	—		—		—		—	
Total	$	—	$	69	$	200	$	269
Inception to Date Restructuring Charges								
Cost of revenues	$	291	$	69	$	496	$	856
Selling, general and administrative expense	—		—		—		—	
Total	$	291	$	69	$	496	$	856

a. Other consisted of moving costs related to relocation of manufacturing activities, recruiting fees to increase staff in locations where production is being relocated and duplicate and inefficient labor costs incurred during the transition and relocation. The charges were expensed as incurred.

Accounting Policies

We have consistently applied the accounting policies described in our Annual Report in preparing these condensed consolidated financial statements. We have not made any changes in significant accounting policies disclosed in the Annual Report, with the exception of the revenue recognition policy described below as a result of adopting Accounting Standards Update ("ASU") No. 2014-09.

Revenue Recognition- We recognize revenues to depict the transfer of control of promised goods or services to our customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Refer to Note 16 for further discussion. We recognize revenue when all of the following criteria have been met: (i) a contract with a customer exists, (ii) performance obligations have been identified, (iii) the price to the customer has been determined, (iv) the price to the customer has been allocated to the performance obligations, and (v) performance obligations are satisfied, which are more fully described below.

(i) We identify a contract with a customer when a sales agreement indicates approval and commitment of the parties; identifies the rights of the parties; identifies the payment terms; has commercial substance; and it is probable that we will collect the consideration to which we will be entitled in exchange for the goods or services that will be transferred to the customer. In most instances, our contract with a customer is the customer's purchase order. For certain customers, we may also enter into a sales agreement that outlines a framework of terms and conditions that apply to all future purchase orders for that customer. In these situations, our contract with the customer is both the sales agreement and the specific customer purchase order. Because our contract with a customer is typically for a single transaction or customer purchase order, the duration of the contract is one year or less. As a result, we have elected to apply certain practical expedients and, as permitted by the Financial Accounting Standards Board ("FASB"), omit certain disclosures of remaining performance obligations for contracts that have an initial term of one year or less.

(ii) We identify performance obligations in a contract for each promised good or service that is separately identifiable from other promises in the contract and for which the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer. Goods and services provided to our customers that are deemed immaterial are included with other performance obligations.

(iii) We determine the transaction price as the amount of consideration we expect to be entitled to in exchange for fulfilling the performance obligations, including the effects of any variable consideration.

(iv) For any contracts that have more than one performance obligation, we allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which we expect to be entitled in exchange for satisfying each performance obligation. We have excluded disclosure of the transaction price allocated to remaining performance obligations if the performance obligation is part of a contract that has an original expected duration of one year or less as the majority of our contracts are short-term in nature with a term of one year or less.

(v) We recognize revenue when, or as, we satisfy the performance obligation in a contract by transferring control of a promised good or service to the customer.

We exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected from a customer. As such, we present revenue net of sales and other similar taxes. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of revenues. Costs to obtain a contract, which include sales commissions recorded in selling, general and administrative expense, are expensed when incurred as the amortization period is one year or less. We do not have customer contracts that include significant financing components.

Accounting Developments

Pronouncements Implemented

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," which was subsequently amended with additional ASUs including ASU No. 2016-12, issued in May 2016, and ASU No. 2016-20, issued in December 2016. ASU No. 2014-09, as amended, supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)." The standard is principle-based and provides a five-step model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. On April 1, 2018, we adopted the new revenue standard using the modified retrospective method for transition, applying the guidance to those contracts which were not completed as of that date. In accordance with our method of transition, we calculated the cumulative effect of the changes made to our condensed consolidated balance sheet and recorded a cumulative effect adjustment to decrease retained earnings by $0.7 million, mostly associated with transition of contracts with revenue previously recognized under the percentage of completion ("POC") method of revenue recognition. We have modified our accounting policies to support compliance with the standard requirements. Revenue recognition and related financial information for this Quarterly Report are based on the requirements of Accounting Standards Codification ("ASC") Topic 606. Accordingly, periods prior to April 1, 2018 are presented in accordance with ASC Topic 605. Refer to Note 16 for a discussion on our adoption of ASC Topic 606.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments," which clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows and how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. We adopted this standard effective April 1, 2018. This standard did not have an impact on our consolidated statement of cash flows as cash receipts and payments presented do not have aspects of more than one class of cash flows.

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory," to improve the accounting for the income tax consequences arising from these types of transfers. This ASU aligns the recognition of the income tax consequences with International Financial Reporting Standards. Specifically, International Accounting Standards No. 12, "Income Taxes," requires recognition of current and deferred income taxes resulting from an intra-entity transfer of any asset (excluding inventory) when the transfer occurs. We adopted this standard effective April 1, 2018. The resulting impact was a reduction of opening retained earnings of $1.4 million.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)," which requires that amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. We adopted this standard effective April 1, 2018. This standard did not have an impact on our consolidated statement of cash flows as we do not have any restricted cash or restricted cash equivalents for any period presented.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business," to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this ASU require that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set of assets is not a business. We adopted this standard effective April 1, 2018. This standard did not have an impact on our financial position or results of operations as we did not have any acquisitions or dispositions during the six months ended September 30, 2018 for which we applied this guidance.

In March 2017, the FASB issued ASU No. 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which requires that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost in the statement of income and allow only the service cost component of net benefit cost to be eligible for capitalization. We adopted this standard effective April 1, 2018 on a retrospective basis. The adoption of this ASU had no impact on our financial condition or results of operations, except for reclassification of costs within the condensed consolidated income statement. Refer to Note 12 for details of the impact of the adoption of this ASU.

On December 22, 2017, the President of the U.S. signed new tax legislation, commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act significantly changed U.S. income tax law, including a reduction of the corporate income tax rate to 21%, creation of a territorial tax system (with a one-time mandatory tax on previously deferred foreign earnings), broadened the tax base and allowed for immediate capital expensing of certain qualified property. It also requires companies to pay minimum taxes on foreign earnings and subjects certain payments from corporations to foreign related parties to additional taxes. ASC 740, “Accounting for Income Taxes,” requires companies to recognize the effect of tax law changes in the period of enactment even though the effective date for most provisions is for tax years beginning after December 31, 2017, or in the case of certain other provisions, January 1, 2018. Certain key aspects of the new law were effective January 1, 2018 and were accounted for during the fiscal year ended March 31, 2018. Other significant provisions became effective April 1, 2018 for March 31 fiscal year end entities, and will be accounted for in the fiscal year ending March 31, 2019. Some of the changes effective for the year ending March 31, 2019 include the deduction for executive compensation and interest expense, a tax on global intangible low-taxed provisions ("GILTI"), and a deduction for foreign-derived intangible income ("FDII").

The Securities and Exchange Commission ("SEC") staff issued Staff Accounting Bulletin ("SAB") 118 to provide guidance for companies that were not able to complete their accounting for the income tax effects of the Tax Act in the period of enactment. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate to be included in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act. In accordance with SAB 118, we recorded provisional amounts reflecting the impact of the Tax Act in our consolidated financial statements and related disclosures as of March 31, 2018. As of March 31, 2018, we recorded $1.9 million related to the deemed repatriation. However, the final impact of the deemed repatriation tax computation is still open due to finalization of the earnings and profits of our foreign subsidiaries, as well as our evaluation of certain elections and guidance. We expect to complete our evaluation upon the filing of our federal and state tax returns, during the fiscal quarter ending December 31, 2018.

The Tax Act subjects us to GILTI earned by certain of our foreign subsidiaries. In general, this income will effectively be taxed at a 10.5% tax rate reduced by any available current year foreign tax credits. This provision was effective for taxable years beginning after December 31, 2017. Under U.S. GAAP, we are allowed to make an accounting policy election of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current period expense when incurred (the "period cost method") or (2) factoring such amounts into measurement of our deferred taxes (the "deferred method"). We have not yet adopted either accounting policy because we have not completed our analysis of this provision. We recorded tax expense of $0.5 million excluding credits related to GILTI tax related to current year operations in our estimated annual effective tax rate. Because we are still evaluating the GILTI provisions and performing our analysis of future taxable income that is subject to GILTI, we have not provided for additional GILTI tax on deferred items.

The Tax Act allows a domestic corporation an immediate deduction in U.S. taxable income for a portion of its FDII. The amount of the deduction will depend in part on our U.S. taxable income. The FDII deduction will be available for the current fiscal year ending March 31, 2019. However, we have no tax benefit recorded for the FDII deduction related to the current year operations in our estimated annual effective tax rate.

Pronouncements not yet implemented

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which has been subsequently amended with additional ASUs including ASU No. 2018-10 and ASU No. 2018-11, issued in July 2018, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous U.S. GAAP. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. Modified retrospective application is permitted with certain practical expedients. Early adoption is permitted. We continue to evaluate critical components of this new guidance and the potential impact that the guidance will have on our financial position, results of operations and cash flows, which includes review of our leasing contracts and implementation of our selected software tool. The impact of adoption on our financial position, results of operations and cash flows will be available when the software implementation is complete.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles -Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which modifies the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. The amendments in this ASU should be adopted for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of ASU No. 2017-04 will only impact our consolidated financial condition and results of operations to the extent that we incur a future goodwill impairment.

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted improvements of Accounting for Hedging Activities." The purpose of this ASU is to better align a company's risk management activities and financial reporting for hedging relationships. Additionally, the ASU simplifies the hedge accounting requirements and improve the disclosures of hedging arrangements. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. We do not expect adoption of this ASU to have a material impact on our consolidated financial condition or results of operations.

In February 2018, the FASB issued ASU No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." The amendments in this ASU allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this ASU also require certain disclosures about stranded tax effects. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. We are currently evaluating the impact of this ASU on our consolidated financial condition and results of operations.

In August 2018, the FASB issued ASU No. 2018-13, "Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement," which modifies the disclosure requirements on fair value measurements. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. An entity is permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until their effective date. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. We do not expect adoption of this ASU to have a material impact on our consolidated financial condition and results of operations.

In August 2018, the FASB issued ASU No. 2018-14, "Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans," which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendments remove disclosures that no longer are considered cost beneficial, clarify the specific requirements of disclosures and add disclosure requirements identified as relevant. This ASU is effective, on a retrospective basis, for fiscal years ending after December 15, 2020. Early adoption is permitted. We do not expect adoption of this ASU to have a material impact on our consolidated financial condition and results of operations.

In August 2018, the FASB issued ASU No. 2018-15, "Customer's Accounting for the Implementation Costs Incurred in Cloud Computing Arrangement That is a Service Contract." The amendments in this ASU align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, and should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Early adoption is permitted. We are currently evaluating the impact of this ASU on our consolidated financial condition and results of operations.

2. DISCONTINUED OPERATIONS

During the quarter ended December 31, 2017, we commenced a sale process to divest our Coatings business to allow us to focus resources on our core growth platforms. Our Coatings business manufactured specialized industrial coating products including urethanes, epoxies, acrylics and alkyds. The Coatings business met the held-for-sale criteria under ASC 360, "Property, Plant and Equipment," and accordingly, we classified and accounted for the assets and liabilities of the Coatings business as held-for-sale in the accompanying condensed consolidated balance sheets, and as discontinued operations, net of tax, in the accompanying condensed consolidated statements of income and cash flows. We estimated that the fair value of the business was less than carrying value at December 31, 2017, resulting in a $46.0 million impairment charge. We completed an initial assessment of the assets and liabilities of the Coatings business and recorded the impairment based on our best estimates as of the date of issuance of financial results for the quarter ended December 31, 2017.

On July 31, 2018, we consummated a sale of assets related to our Coatings business to an unrelated third party, the terms of which were not disclosed due to immateriality. During the three months ended September 30, 2018, we received an aggregate of $6.9 million for the sale of assets that related to our Coatings business in multiple transactions. This resulted in gains on disposal of $6.9 million due to write-downs of long-lived assets in prior periods.

Summarized selected financial information for the Coatings business for the three and six months ended September 30, 2018 and 2017, is presented in the following table:

	Three Months Ended September 30,						**Six Months Ended September 30,**	
(amounts in thousands)	**2018**		**2017**		**2018**		**2017**	
Revenues, net	$	1,938	$	5,947	$	5,303	$	14,675
Income (loss) from discontinued operations before income taxes	3,612		(2,917)		532		(5,655)	
Income tax (expense) benefit	(880)		1,069		(132)		2,034	
Income (loss) from discontinued operations, net	$	2,732	$	(1,848)	$	400	$	(3,621)

(amounts in thousands)	September 30, 2018		March 31, 2018	
Assets				
Accounts receivable, net	$	666	$	2,259
Prepaid expenses and other current assets (a)	—		168	
Total assets	$	666	$	2,427
Liabilities				
Accounts payable, accrued expenses and other liabilities	$	1,383	$	3,966

(a) The assets and liabilities of the Coatings business reside in a disregarded entity for tax purposes. Accordingly, the tax attributes associated with the operations of our Coatings business will ultimately flow through to the corporate parent, which files a consolidated federal return. Therefore, any corresponding tax assets or liabilities have been reflected as a component of our continuing operations.

3. INVENTORIES

Inventories consist of the following (in thousands):

	September 30, 2018		March 31, 2018	
Raw materials and supplies	$	22,735	$	21,855
Work in process	5,288		3,756	
Finished goods	28,606		24,561	
Total inventories	56,629		50,172	
Less: LIFO reserve	(5,511)		(5,511)	
Less: Obsolescence reserve	(2,349)		(1,687)	
Inventories, net	$	48,769	$	42,974

4. INTANGIBLE ASSETS

The following table provides information about our intangible assets (in thousands, except years):

		September 30, 2018					March 31, 2018	
	Wtd Avg Life (Years)	Ending Gross Amount		Accumulated Amortization		Ending Gross Amount		Accumulated Amortization	
Finite-lived intangible assets:									
Patents	11	$	9,436	$	(5,921)	$	9,489	$	(5,564)
Customer lists and amortized trademarks	12	56,997		(26,496)		58,160		(24,812)	
Non-compete agreements	5	1,705		(919)		1,713		(762)	
Other	10	5,016		(1,881)		5,017		(1529)	