

LINDSAY CORP
Form 10-Q
June 30, 2017
Table of Contents

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 May 31, 2017

OR

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

Commission File Number 1-13419

Lindsay Corporation

(Exact name of registrant as specified in its charter)

Delaware 47 0554096
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

2222 N. 111th Street, Omaha, Nebraska 68164
(Address of principal executive offices) (Zip Code)

402 829-6800

(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 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, 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	(Do not check if smaller reporting company)	Smaller reporting company
Emerging growth company		

Edgar Filing: LINDSAY CORP - Form 10-Q

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

As of June 26, 2017, 10,689,648 shares of the registrant's common stock were outstanding.

Table of Contents

Lindsay Corporation

INDEX FORM 10-Q

	Page
<u>Part I – FINANCIAL INFORMATION</u>	
<u>ITEM 1 – Financial Statements</u>	
<u>Condensed Consolidated Statements of Earnings</u> <u>for the three and nine months ended May 31, 2017 and May 31, 2016</u>	3
<u>Condensed Consolidated Statements of Comprehensive Income</u> <u>for the three and nine months ended May 31, 2017 and May 31, 2016</u>	4
<u>Condensed Consolidated Balance Sheets</u> <u>as of May 31, 2017, May 31, 2016, and August 31, 2016</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u> <u>for the nine months ended May 31, 2017 and May 31, 2016</u>	6
<u>Notes to the Condensed Consolidated Financial Statements</u>	7
<u>ITEM 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	15
<u>ITEM 3 – Quantitative and Qualitative Disclosures about Market Risk</u>	22
<u>ITEM 4 – Controls and Procedures</u>	22
<u>Part II – OTHER INFORMATION</u>	
<u>ITEM 1 – Legal Proceedings</u>	22
<u>ITEM 1A – Risk Factors</u>	22
<u>ITEM 2 – Unregistered Sales of Equity Securities and Use of Proceeds</u>	23
<u>ITEM 3 – Defaults Upon Senior Securities</u>	23
<u>ITEM 4 – Mine Safety Disclosures</u>	23
<u>ITEM 5 – Other Information</u>	23
<u>ITEM 6 – Exhibits</u>	24
<u>SIGNATURES</u>	25

Table of Contents

Part I – FINANCIAL INFORMATION

ITEM 1 - Financial Statements

Lindsay Corporation and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(\$ and shares in thousands, except per share amounts)	Three months ended		Nine months ended	
	May 31, 2017	May 31, 2016	May 31, 2017	May 31, 2016
Operating revenues	\$ 151,533	\$ 141,319	\$ 386,048	\$ 383,514
Cost of operating revenues	105,627	99,511	278,827	274,847
Gross profit	45,906	41,808	107,221	108,667
Operating expenses:				
Selling expense	10,451	10,606	30,565	30,961
General and administrative expense	13,693	11,882	35,278	43,925
Engineering and research expense	4,348	3,995	12,707	11,402
Total operating expenses	28,492	26,483	78,550	86,288
Operating income	17,414	15,325	28,671	22,379
Other income (expense):				
Interest expense	(1,156)	(1,179)	(3,566)	(3,576)
Interest income	545	127	881	520
Other expense, net	(606)	(208)	(818)	(1,055)
Earnings before income taxes	16,197	14,065	25,168	18,268
Income tax expense	5,245	4,421	8,331	5,809
Net earnings	\$ 10,952	\$ 9,644	\$ 16,837	\$ 12,459
Earnings per share:				
Basic	\$ 1.03	\$ 0.90	\$ 1.58	\$ 1.13
Diluted	\$ 1.02	\$ 0.90	\$ 1.58	\$ 1.13
Shares used in computing earnings per share:				
Basic	10,677	10,709	10,657	10,997
Diluted	10,705	10,732	10,682	11,019

Edgar Filing: LINDSAY CORP - Form 10-Q

Cash dividends declared per share	\$ 0.29	\$ 0.28	\$ 0.87	\$ 0.84
-----------------------------------	---------	---------	---------	---------

See accompanying notes to condensed consolidated financial statements.

- 3 -

Table of Contents

Lindsay Corporation and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(\$ in thousands)	Three months ended		Nine months ended	
	May 31, 2017	May 31, 2016	May 31, 2017	May 31, 2016
Net earnings	\$ 10,952	\$ 9,644	\$ 16,837	\$ 12,459
Other comprehensive income (loss):				
Defined benefit pension plan adjustment, net of tax	38	33	113	71
Unrealized loss on cash flow hedges, net of tax	—	76	—	—
Foreign currency translation adjustment, net of hedging activities and tax	(476)	1,804	37	(269)
Total other comprehensive (loss) income, net of tax (benefit) expense of (\$722), (\$138), (\$69), and \$253, respectively	(438)	1,913	150	(198)
Total comprehensive income	\$ 10,514	\$ 11,557	\$ 16,987	\$ 12,261

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Lindsay Corporation and Subsidiaries
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)

(\$ and shares in thousands, except par values)	May 31, 2017	May 31, 2016	August 31, 2016
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 113,212	\$ 91,498	\$ 101,246
Restricted cash	—	2,029	2,030
Receivables, net of allowance of \$7,524, \$7,979, and \$8,312, respectively	86,772	81,915	80,610
Inventories, net	88,601	82,845	74,750
Prepaid expenses	4,944	4,068	3,671
Other current assets	11,877	14,373	14,468
Total current assets	305,406	276,728	276,775
Property, plant, and equipment:			
Cost	187,890	184,740	182,696
Less accumulated depreciation	(113,481)	(105,580)	(105,069)
Property, plant, and equipment, net	74,409	79,160	77,627
Intangibles, net			
Goodwill	43,874	48,367	47,200
Deferred income tax assets	76,843	76,778	76,803
Other noncurrent assets	6,027	3,473	4,225
Total assets	4,728	5,054	4,885
	\$ 511,287	\$ 489,560	\$ 487,515
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 40,256	\$ 40,805	\$ 32,268
Current portion of long-term debt	200	196	197
Other current liabilities	62,501	55,651	55,395
Total current liabilities	102,957	96,652	87,860
Pension benefits liabilities			
Long-term debt	6,628	6,362	6,869
Deferred income tax liabilities	116,826	117,025	116,976
Other noncurrent liabilities	1,111	1,278	1,223
Total liabilities	20,060	23,307	23,020
	247,582	244,624	235,948
Shareholders' equity:			
Preferred stock of \$1 par value - Authorized 2,000 shares; no shares issued and outstanding	—	—	—
Common stock of \$1 par value - authorized 25,000 shares;			

Edgar Filing: LINDSAY CORP - Form 10-Q

18,773, 18,713, and 18,713 shares issued, respectively	18,773	18,713	18,713
Capital in excess of stated value	61,709	56,766	57,338
Retained earnings	474,483	462,201	466,926
Less treasury stock - at cost, 8,083, 8,083, and 8,083 shares, respectively	(277,238)	(277,238)	(277,238)
Accumulated other comprehensive loss, net	(14,022)	(15,506)	(14,172)
Total shareholders' equity	263,705	244,936	251,567
Total liabilities and shareholders' equity	\$ 511,287	\$ 489,560	\$ 487,515

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Lindsay Corporation and Subsidiaries
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

(\$ in thousands)	Nine months ended	
	May 31, 2017	May 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 16,837	\$ 12,459
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	12,337	12,771
Provision for uncollectible accounts receivable	(408)	(1,161)
Deferred income taxes	(1,383)	(4,737)
Share-based compensation expense	2,798	2,440
Other, net	226	755
Changes in assets and liabilities:		
Receivables	(5,737)	(6,704)
Inventories	(13,217)	(7,732)
Prepaid expenses and other current assets	3,255	(1,425)
Accounts payable	8,182	1,452
Other current liabilities	4,734	(205)
Other noncurrent assets and liabilities	(3,158)	12,389
Net cash provided by operating activities	24,466	20,302
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant, and equipment	(6,219)	(10,073)
Proceeds from settlement of net investment hedges	2,054	2,317
Payments for settlement of net investment hedges	(948)	(2,719)
Other investing activities, net	137	1,118
Net cash used in investing activities	(4,976)	(9,357)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	2,455	113
Common stock withheld for payroll tax withholdings	(635)	(712)
Principal payments on long-term debt	(147)	(144)
Repurchase of common shares	—	(48,335)
Dividends paid	(9,280)	(9,161)
Net cash used in financing activities	(7,607)	(58,239)
Effect of exchange rate changes on cash and cash equivalents	83	(301)
Net change in cash and cash equivalents	11,966	(47,595)
Cash and cash equivalents, beginning of period	101,246	139,093
Cash and cash equivalents, end of period	\$ 113,212	\$ 91,498

SUPPLEMENTAL CASH FLOW INFORMATION

Income taxes paid	\$ 8,772	\$ 13,608
Interest paid	\$ 2,423	\$ 2,413

See accompanying notes to condensed consolidated financial statements.

- 6 -

Table of Contents

Lindsay Corporation and Subsidiaries

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 – Condensed Consolidated Financial Statements

The condensed consolidated financial statements are presented in accordance with the rules and regulations of the Securities and Exchange Commission and do not include all of the disclosures normally required by U.S. generally accepted accounting principles (“U.S. GAAP”) as contained in Lindsay Corporation’s (the “Company”) Annual Report on Form 10-K. Accordingly, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s most recent Annual Report on Form 10-K for the fiscal year ended August 31, 2016.

In the opinion of management, the condensed consolidated financial statements of the Company reflect all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position and the results of operations and cash flows for the periods presented. The results for interim periods are not necessarily indicative of trends or results expected by the Company for a full year. The condensed consolidated financial statements were prepared using U.S. GAAP. These principles require us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from these estimates. Certain reclassifications have been made to prior financial statements and notes to conform to the current year presentation.

Note 2 – New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date. The standard provides a single model for revenue arising from contracts with customers and supersedes current revenue recognition guidance. The ASU requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of goods or services. The ASU will replace existing revenue recognition guidance in U.S. GAAP and becomes effective in the first quarter of fiscal 2019. Early adoption is permitted only in fiscal 2018. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment.

The Company is currently in the assessment phase, reviewing a representative sample of contracts, holding discussions with key stakeholders, and cataloging potential impacts on the Company's operations, accounting policies, internal control over financial reporting, and financial statements. The Company has identified that the key changes in the ASU that could potentially impact the Company's revenue recognition relates to the allocation of contract revenues between various products and services, the timing of when those revenues are recognized, and the deferral of incremental costs to obtain a contract. The Company is continuing to evaluate the impact of the ASU on the consolidated statements of earnings, financial position, and financial statement disclosures, as well as the adoption method.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes: Balance Sheet Classification of Deferred Taxes. The standard requires an entity to classify all deferred tax assets and liabilities as noncurrent. In addition, companies will no longer allocate valuation allowances between current and noncurrent because all deferred tax assets will be classified as noncurrent. The guidance allows companies to apply the update either on a retrospective or prospective basis. The Company has early adopted this ASU during the first quarter of fiscal 2017 on a retrospective basis. Accordingly, the Company reclassified current deferred tax assets and liabilities to non-current on its May 31, 2016 and August 31, 2016 condensed consolidated balance sheets, which increased net non-current deferred tax assets by \$2.4 million and \$3.3 million, respectively, and decreased non-current deferred tax liabilities by \$12.1 million and \$12.0 million, respectively.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The standard requires a lessee to recognize assets and liabilities arising from an operating lease on the balance sheet. Additionally, companies are permitted to make an accounting policy election to not recognize lease assets and liabilities for leases with a term of 12 months or less. The effective date of ASU No. 2016-02 will be the first quarter of fiscal 2020 with early adoption permitted. The Company is currently evaluating the effect that adopting this standard will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. The standard provides guidance for employee share-based compensation payments, including the income tax consequences, classification of awards as either equity or liabilities and the classification on the statement of cash flows. The Company elected to early adopt this ASU as of the beginning of fiscal 2017. For the first quarter of fiscal 2017, the Company recognized all excess tax benefits and tax deficiencies as income tax expense or benefit in the quarter. The result of the adoption of ASU 2016-09 was

Table of Contents

immaterial to the financial statements. Additionally, as required by the new guidance, when calculating diluted earnings per share, excess tax benefits were excluded from the calculation of assumed proceeds since such amounts are recognized in the income statement. ASU 2016-09 also allows an entity to elect, as an accounting policy, either to estimate the number of forfeited awards or to account for forfeitures as they occur. The Company has elected to account for forfeitures as they occur. This change did not have a material impact on estimated expense. The Company elected to present the cash flow statement on a retrospective transition method and prior periods have been adjusted to present the excess tax benefits as part of cash flows from operating activities. This resulted in an increase in cash flows from operating activities and a decrease in cash flows from financing activities of \$0.1 million in fiscal 2016.

Note 3 – Net Earnings per Share

Basic earnings per share is calculated on the basis of weighted average outstanding common shares. Diluted earnings per share is calculated on the basis of basic weighted average outstanding common shares adjusted for the dilutive effect of stock options, restricted stock unit awards and other dilutive securities.

The following table shows the computation of basic and diluted net earnings per share for the three and nine months ended May 31, 2017 and May 31, 2016:

(\$ and shares in thousands, except per share amounts)	Three months ended		Nine months ended	
	May 31, 2017	May 31, 2016	May 31, 2017	May 31, 2016
Numerator:				
Net earnings	\$ 10,952	\$ 9,644	\$ 16,837	\$ 12,459
Denominator:				
Weighted average shares outstanding	10,677	10,709	10,657	10,997
Diluted effect of stock awards	28	23	25	22
Weighted average shares outstanding assuming dilution	10,705	10,732	10,682	11,019
Basic net earnings per share	\$ 1.03	\$ 0.90	\$ 1.58	\$ 1.13
Diluted net earnings per share	\$ 1.02	\$ 0.90	\$ 1.58	\$ 1.13

Certain stock options and restricted stock units were excluded from the computation of diluted net earnings per share because their effect would have been anti-dilutive. Performance stock units are excluded from the calculation of dilutive potential common shares until the threshold performance conditions have been satisfied. In addition, the

following table shows the securities excluded from the computation of earnings per share because their effect would have been anti-dilutive:

(Units and options in thousands)	Three months ended		Nine months ended	
	May 31, 2017	May 31, 2016	May 31, 2017	May 31, 2016
Restricted stock units	—	1	14	6
Stock options	101	104	123	84

Note 4 – Income Taxes

It is the Company's policy to report income tax expense for interim periods using an estimated annual effective income tax rate. However, the tax effects of significant or unusual items are not considered in the estimated annual effective income tax rate. The tax effects of such discrete events are recognized in the interim period in which the events occur. The Company recorded no material discrete items for the three and nine months ended May 31, 2017 and May 31, 2016.

The Company recorded income tax expense of \$5.2 million and \$4.4 million for the three months ended May 31, 2017 and May 31, 2016, respectively. The Company recorded income tax expense of \$8.3 million and \$5.8 million for the nine months ended May 31, 2017 and May 31, 2016, respectively. The estimated annual effective income tax rate was 33.1 percent and 31.8 percent for the fiscal year-to-date periods ended May 31, 2017 and May 31, 2016, respectively. The increase in the estimated annual effective income tax rate from May 2016 to May 2017 primarily relates to the change in earnings mix among domestic and foreign tax jurisdictions.

Table of Contents

Note 5 – Inventories

Inventories consisted of the following as of May 31, 2017, May 31, 2016, and August 31, 2016:

	May 31,	May 31,	August
(\$ in thousands)	2017	2016	31, 2016
Raw materials and supplies	\$ 32,960	\$ 25,903	\$ 26,599
Work in process	7,849	7,730	5,742
Finished goods and purchased parts	53,469	53,731	47,805
Total inventory value before LIFO adjustment	94,278	87,364	80,146
Less adjustment to LIFO value	(5,677)	(4,519)	(5,396)
Inventories, net	\$ 88,601	\$ 82,845	\$ 74,750

Note 6 – Long-Term Debt

The following table sets forth the outstanding principal balances of the Company's long-term debt as of the dates shown:

Edgar Filing: LINDSAY CORP - Form 10-Q

(\$ in thousands)	May 31, 2017	May 31, 2016	August 31, 2016
Series A Senior Notes	\$ 115,000	\$ 115,000	\$ 115,000
Revolving Credit Facility	—	—	—
Elecsys Series 2006A Bonds	2,026	2,221	2,173
Total debt	117,026	117,221	117,173
Less current portion	(200)	(196)	(197)
Total long-term debt	\$ 116,826	\$ 117,025	\$ 116,976

Principal payments on the debt are due as follows:

Due within	\$ in thousands
1 year	\$ 200
2 years	204
3 years	208
4 years	212
5 years	216
Thereafter	115,986
	\$ 117,026

Table of Contents

Note 7 – Financial Derivatives

The Company uses certain financial derivatives to mitigate its exposure to volatility in foreign currency exchange rates. The Company uses these derivative instruments to hedge exposures in the ordinary course of business and does not invest in derivative instruments for speculative purposes. The Company manages market and credit risks associated with its derivative instruments by establishing and monitoring limits as to the types and degree of risk that may be undertaken, and by entering into transactions with counterparties that have investment grade credit ratings. Fair values of derivative instruments are as follows:

(\$ in thousands)	Balance sheet location	May 31, 2017	May 31, 2016	August 31, 2016
Derivatives designated as hedging instruments:				
Foreign currency forward contracts	Other current assets	\$ —	\$ 858	\$ 40
Foreign currency forward contracts	Other current liabilities	(2,109)	(136)	(385)
Total derivatives designated as hedging instruments		\$ (2,109)	\$ 722	\$ (345)
Derivatives not designated as hedging instruments:				
Foreign currency forward contracts	Other current assets	\$ 71	\$ 16	\$ 33
Foreign currency forward contracts	Other current liabilities	(3)	(50)	(210)
Total derivatives not designated as hedging instruments		\$ 68	\$ (34)	\$ (177)

Accumulated other comprehensive income included realized and unrealized after-tax gains of \$5.1 million, \$5.9 million, and \$5.6 million at May 31, 2017, May 31, 2016, and August 31, 2016, respectively, related to derivative contracts designated as hedging instruments.

Net Investment Hedging Relationships

The amount of gain or (loss) recognized in other comprehensive income is as follows:

	Three months ended		Nine months ended	
	May 31, 2017	May 31, 2016	May 31, 2017	May 31, 2016
(\$ in thousands)				
Foreign currency forward contracts, net of tax				
(benefit) expense of (\$744), (\$260),				
(\$181), and \$149	\$ (1,213)	\$ (448)	\$ (477)	\$ 450

For the three months ended May 31, 2017 and May 31, 2016, the Company settled foreign currency forward contracts resulting in an after-tax net loss of \$0.3 million and \$1.4 million, respectively, which were included in other comprehensive income as part of a currency translation adjustment. For the nine months ended May 31, 2017 and May 31, 2016, the Company settled foreign currency forward contracts resulting in an after-tax net gain of \$0.6 million and an after-tax net loss of \$0.2 million, respectively, which were included in other comprehensive income as part of a currency translation adjustment. There were no amounts recorded in the condensed consolidated statements of earnings related to ineffectiveness of foreign currency forward contracts related to net investment hedges for the three and nine months ended May 31, 2017 and May 31, 2016.

At May 31, 2017, May 31, 2016, and August 31, 2016, the Company had outstanding foreign currency forward contracts to sell 32.9 million Euro, 28.5 million Euro, and 32.6 million Euro, respectively, at fixed prices to settle during the next fiscal quarter. At May 31, 2017, May 31, 2016, and August 31, 2016, the Company had an outstanding foreign currency forward contract to sell 43.0 million South African Rand at fixed prices to settle during the next fiscal quarter. The Company's foreign currency forward contracts qualify as hedges of a net investment in foreign operations.

Derivatives Not Designated as Hedging Instruments

The Company generally does not elect hedge accounting treatment for derivative contracts related to future settlements of foreign denominated intercompany receivables and payables. If the Company does not elect hedge accounting treatment for a derivative, the Company carries the derivative at its fair value in the condensed consolidated balance sheets and recognizes any subsequent changes in its fair value during a period through earnings in the condensed consolidated statements of earnings. At May 31, 2017, May 31, 2016, and August 31, 2016, the Company had \$3.1 million, \$8.4 million, and \$8.2 million, respectively, of U.S. dollar equivalent of foreign currency forward contracts outstanding that are not designated as hedging instruments.

Table of Contents

Note 8 – Fair Value Measurements

The following table presents the Company's financial assets and liabilities measured at fair value, based upon the level within the fair value hierarchy in which the fair value measurements fall, as of May 31, 2017, May 31, 2016, and August 31, 2016, respectively. There were no transfers between any levels for the periods presented.

	May 31, 2017			
(\$ in thousands)	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 113,212	\$ —	\$ —	\$ 113,212
Derivative assets	—	71	—	71
Derivative liabilities	—	(2,112)	—	(2,112)

	May 31, 2016			
(\$ in thousands)	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 91,498	\$ —	\$ —	\$ 91,498
Derivative assets	—	874	—	874
Derivative liabilities	—	(186)	—	(186)

	August 31, 2016			
(\$ in thousands)	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 101,246	\$ —	\$ —	\$ 101,246
Derivative assets	—	73	—	73
Derivative liabilities	—	(595)	—	(595)

There were no required fair value adjustments for assets and liabilities measured at fair value on a non-recurring basis for the three and nine months ended May 31, 2017 or May 31, 2016.

Note 9 – Commitments and Contingencies

In the ordinary course of its business operations, the Company enters into arrangements that obligate it to make future payments under contracts such as lease agreements. Additionally, the Company is involved, from time to time, in commercial litigation, employment disputes, administrative proceedings, business disputes and other legal

proceedings. The Company has established accruals for certain proceedings based on an assessment of probability of loss. The Company believes that any potential loss in excess of the amounts accrued would not have a material effect on the business or its consolidated financial statements. Such proceedings are exclusive of environmental remediation matters which are discussed separately below.

Environmental Remediation

In 1992, the Company entered into a consent decree with the U.S. Environmental Protection Agency (the "EPA") in which the Company committed to remediate environmental contamination of the groundwater that was discovered from 1982 through 1990 at and adjacent to its Lindsay, Nebraska facility (the "site"). The site was added to the EPA's list of priority superfund sites in 1989. Between 1993 and 1995, remediation plans for the site were approved by the EPA and fully implemented by the Company. Since 1998, the primary remaining contamination at the site has been the presence of volatile organic compounds in the soil and groundwater. To date, the remediation process has consisted primarily of drilling wells into the aquifer and pumping water to the surface to allow these contaminants to be removed by aeration.

In fiscal 2012, the Company undertook an investigation to assess further potential site remediation and containment actions. In connection with the receipt of preliminary results of this investigation and other evaluations, the Company estimated that it would incur \$7.2 million in remediation of source area contamination and operating costs and accrued that undiscounted amount. In addition to this source area, the Company determined that volatile organic compounds also existed under one of the manufacturing buildings on the site. Due to the location, the Company had not yet determined the extent of these compounds or the extent to which they were contributing to groundwater contamination. Based on the uncertainty of the remediation actions that might be required with respect to this affected area, the Company believed that meaningful estimates of costs or range of costs could not be made and accordingly were not accrued at that time.

In December 2014, the EPA requested that the Company prepare a feasibility study related to the site, including the area covered by the building, which resulted in a revision to the Company's remediation timeline. In the first quarter of fiscal 2015, the Company accrued \$1.5 million of incremental operating costs to reflect its updated timeline.

Table of Contents

The Company began soil and groundwater testing in preparation for developing this feasibility study during the first quarter of fiscal 2016. During the second quarter of fiscal 2016, the Company completed its testing which clarified the extent of contamination, including the identification of a source of contamination near the manufacturing building that was not part of the area for which reserves were previously established. The Company, with the assistance of third-party environmental experts, developed and evaluated remediation alternatives, a proposed remediation plan, and estimated costs. Based on these estimates of future remediation and operating costs, the Company accrued an additional \$13.0 million in the second quarter of fiscal 2016 and included the related expenses in general and administrative expenses in the condensed consolidated statements of earnings.

The current estimated aggregate accrued cost of \$18.3 million is based on consideration of several remediation options that would use different technologies, each of which the Company believes could be successful in meeting the long-term regulatory requirements of the site. The Company participated in a preliminary meeting with the EPA and the Nebraska Department of Environmental Quality (the "NDEQ") during the third quarter of fiscal 2016 to review remediation alternatives and proposed plans for the site and submitted its remedial alternatives evaluation report to the EPA in August 2016. The proposed remediation plan is preliminary and has not been approved by the EPA or the NDEQ. Based on guidance from third-party environmental experts and further discussions with the EPA and the NDEQ, the Company anticipates that a definitive plan will not be agreed upon until fiscal 2018 or beyond.

The Company accrues the anticipated cost of investigation and remediation when the obligation is probable and can be reasonably estimated. While the Company believes the current accrual is a good faith estimate of the long-term cost of remediation at this site based on the preliminary analysis currently available, the estimate of costs and their timing could change as a result of a number of factors, including (1) EPA and NDEQ input on the proposed remediation plan and any changes which they may subsequently require, (2) refinement of cost estimates and length of time required to complete remediation and post-remediation operations and maintenance, (3) effectiveness of the technology chosen in remediation of the site as well as changes in technology that may become available in the future, and (4) unforeseen circumstances existing at the site. As a result of these factors, the actual amount of costs incurred by the Company in connection with the remediation of contamination of its Lindsay, Nebraska site could exceed the amounts currently accrued for this expense. While any revisions could be material to the operating results of any fiscal quarter or fiscal year, the Company does not expect such additional expenses would have a material adverse effect on its liquidity or financial condition.

The following table summarizes the undiscounted environmental remediation liability classifications included in the balance sheet as of May 31, 2017, May 31, 2016, and August 31, 2016:

	May 31,	May 31,	August
(\$ in thousands)	2017	2016	31,
Other current liabilities	\$ 2,134	\$ 980	\$ 722
Other noncurrent liabilities	16,161	18,571	18,255
Total environmental remediation liabilities	\$ 18,295	\$ 19,551	\$ 18,977

Table of Contents

Note 10 – Warranties

The following table provides the changes in the Company's product warranties:

(\$ in thousands)	Three months ended	
	May 31, 2017	May 31, 2016
Product warranty accrual balance, beginning of period	\$ 6,938	\$ 6,431
Liabilities accrued for warranties during the period	2,364	1,372
Warranty claims paid during the period	(1,893)	(1,267)
Changes in estimates	186	(78)
Product warranty accrual balance, end of period	\$ 7,595	\$ 6,458

(\$ in thousands)	Nine months ended	
	May 31, 2017	May 31, 2016
Product warranty accrual balance, beginning of period	\$ 7,443	\$ 7,271
Liabilities accrued for warranties during the period	4,225	3,676
Warranty claims paid during the period	(4,514)	(3,853)
Changes in estimates	441	(636)
Product warranty accrual balance, end of period	\$ 7,595	\$ 6,458

Note 11 – Share-Based Compensation

The Company's current share-based compensation plans, approved by the stockholders of the Company, provides for awards of stock options, restricted shares, restricted stock units, stock appreciation rights, performance shares, and performance stock units to employees and non-employee directors of the Company. The Company measures and recognizes compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. Share-based compensation expense was \$1.0 million and \$0.9 million for the three months ended May 31, 2017 and May 31, 2016, respectively. Share-based compensation expense was \$2.8 million and \$2.4 million for the nine months ended May 31, 2017 and May 31, 2016, respectively.

Note 12 – Other Current Liabilities

(\$ in thousands)	May 31, 2017	May 31, 2016	August 31, 2016
Other current liabilities:			
Compensation and benefits	\$ 18,832	\$ 17,468	\$ 19,044
Deferred revenues	8,854	6,876	7,594
Warranties	7,595	6,458	7,443
Customer deposits	5,392	5,497	3,399
Tax related liabilities	5,112	5,286	4,200
Dealer related liabilities	3,330	4,656	4,978
Accrued environmental liabilities	2,134	980	722
Other	11,252	8,430	8,015
Total other current liabilities	\$ 62,501	\$ 55,651	\$ 55,395

Note 13 – Share Repurchases

In accordance with its share repurchase program, during the three and nine months ended May 31, 2016, the Company repurchased 219,578 shares and 688,790 shares, respectively, of common stock for an aggregate purchase price of \$16.1 million and \$48.3 million, respectively. There were no share repurchases during the three and nine months ended May 31, 2017. The remaining amount available under the repurchase program was \$63.7 million as of May 31, 2017.

Note 14 – Industry Segment Information

The Company manages its business activities in two reportable segments: irrigation and infrastructure. The Company evaluates the performance of its reportable segments based on segment sales, gross profit and operating income, with operating income for segment purposes excluding unallocated corporate general and administrative expenses, interest income,

Table of Contents

interest expense, other income and expenses and income taxes. Operating income for segment purposes includes general and administrative expenses, selling expenses, engineering and research expenses and other overhead charges directly attributable to the segment. There are no inter-segment sales included in the amounts disclosed. The Company had no single customer who represented 10 percent or more of its total revenues during the three and nine months ended May 31, 2017 and May 31, 2016.

Irrigation - This reporting segment includes the manufacture and marketing of center pivot, lateral move, and hose reel irrigation systems as well as various water pumping stations, controls, filtration solutions and machine-to-machine technology. The irrigation reporting segment consists of three operating segments that have similar economic characteristics and meet the aggregation criteria, including similar products, production processes, type or class of customer and methods for distribution.

Infrastructure – This reporting segment includes the manufacture and marketing of moveable barriers, specialty barriers, crash cushions and end terminals, and road marking and road safety equipment; the manufacture and sale of large diameter steel tubing and railroad signals and structures; and the provision of outsourced manufacturing and production services. The infrastructure reporting segment consists of one operating segment.

(\$ in thousands)	Three months ended		Nine months ended	
	May 31, 2017	May 31, 2016	May 31, 2017	May 31, 2016
Operating revenues:				
Irrigation	\$ 120,040	\$ 117,325	\$ 316,102	\$ 321,733
Infrastructure	31,493	23,994	69,946	61,781
Total operating revenues	\$ 151,533	\$ 141,319	\$ 386,048	\$ 383,514
Operating income:				
Irrigation	\$ 16,508	\$ 16,560	\$ 32,961	\$ 40,333
Infrastructure	8,016	4,654	12,588	9,268
Segment operating income	24,524	21,214	45,549	49,601
Unallocated general and administrative expenses	(7,110)	(5,889)	(16,878)	(27,222)
Interest and other expense, net	(1,217)	(1,260)	(3,503)	(4,111)
Earnings before income taxes	\$ 16,197	\$ 14,065	\$ 25,168	\$ 18,268
Capital expenditures:				
Irrigation	\$ 1,625	\$ 2,108	\$ 4,371	\$ 7,314
Infrastructure	131	524	1,235	2,710
Corporate	269	49	613	49
	\$ 2,025	\$ 2,681	\$ 6,219	\$ 10,073
Depreciation and amortization:				
Irrigation	\$ 3,011	\$ 2,981	\$ 8,714	\$ 8,890

Edgar Filing: LINDSAY CORP - Form 10-Q

Infrastructure	1,111	1,158	3,330	3,536
Corporate	95	96	293	345
	\$ 4,217	\$ 4,235	\$ 12,337	\$ 12,771

	May 31, 2017	May 31, 2016	August 31, 2016
(\$ in thousands)			
Total assets:			
Irrigation	\$ 343,722	\$ 336,376	\$ 332,294
Infrastructure	84,327	79,025	81,160
Corporate	83,238	74,159	74,061
	\$ 511,287	\$ 489,560	\$ 487,515

Table of Contents

ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

Concerning Forward Looking Statements

This Quarterly Report on Form 10-Q contains not only historical information, but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Statements that are not historical are forward-looking and reflect information concerning possible or assumed future results of operations and planned financing of the Company. In addition, forward-looking statements may be made orally or in press releases, conferences, reports, on the Company's web site, or otherwise, in the future by or on behalf of the Company. When used by or on behalf of the Company, the words "expect," "anticipate," "estimate," "believe," "intend," "will," "plan," "predict," "project," "outlook," "could," "may," "should" expressions generally identify forward-looking statements. The entire section entitled "Executive Overview and Outlook" should be considered forward-looking statements. For these statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Forward-looking statements involve a number of risks and uncertainties, including but not limited to those discussed in the "Risk Factors" section in the Company's Annual Report on Form 10-K for the year ended August 31, 2016. Readers should not place undue reliance on any forward-looking statement and should recognize that the statements are predictions of future results or conditions, which may not occur as anticipated. Actual results or conditions could differ materially from those anticipated in the forward-looking statements and from historical results, due to the risks and uncertainties described herein and in the Company's other public filings with the Securities and Exchange Commission, including the Company's Annual Report on Form 10-K for the Company's fiscal year ended August 31, 2016, as well as other risks and uncertainties not now anticipated. The risks and uncertainties described herein and in the Company's other public filings are not exclusive and further information concerning the Company and its businesses, including factors that potentially could materially affect the Company's financial results, may emerge from time to time. Except as required by law, the Company assumes no obligation to update forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.

Accounting Policies

In preparing the Company's condensed consolidated financial statements in conformity with U.S. GAAP, management must make a variety of decisions which impact the reported amounts and the related disclosures. These decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. In making these decisions, management applies its judgment based on its understanding and analysis of the relevant circumstances and the Company's historical experience.

The Company's accounting policies that are most important to the presentation of its results of operations and financial condition, and which require the greatest use of judgments and estimates by management, are designated as its critical accounting policies. See discussion of the Company's critical accounting policies under Item 7 in the Company's

Annual Report on Form 10-K for the Company's fiscal year ended August 31, 2016. Management periodically re-evaluates and adjusts its critical accounting policies as circumstances change. There were no changes in the Company's critical accounting policies during the three and nine months ended May 31, 2017.

New Accounting Pronouncements

See Note 2 – New Accounting Pronouncements to the condensed consolidated financial statements set forth in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Executive Overview and Outlook

Operating revenues for the three months ended May 31, 2017 were \$151.5 million compared to \$141.3 million for the three months ended May 31, 2016. The increase in operating revenues compared to the third quarter of the prior year is attributable to both the irrigation and infrastructure segments, where irrigation segment sales increased 2 percent to \$120.0 million and infrastructure segment sales increased 31 percent to \$31.5 million. Net earnings for the three months ended May 31, 2017 were \$11.0 million, or \$1.02 per diluted share, compared to net earnings of \$9.6 million, or \$0.90 per diluted share, for the three months ended May 31, 2016.

Operating revenues for the nine months ended May 31, 2017 were \$386.0 million compared to \$383.5 million for the nine months ended May 31, 2016. The increase in operating revenues compared to the first nine months of the prior year is attributable to a decrease in irrigation segment sales of 2 percent to \$316.1 million, more than offset by an increase in infrastructure sales of 13 percent to \$69.9 million. Net earnings for the nine months ended May 31, 2017 were \$16.8 million, or \$1.58 per diluted share, compared to net earnings of \$12.5 million, or \$1.13 per diluted share, for the nine months ended May 31, 2016.

Table of Contents

The Company's irrigation revenues are highly dependent upon the need for irrigated agricultural crop production, which, in turn, depends upon many factors, including the following primary drivers:

- Agricultural commodity prices - As of May 2017, corn prices have increased approximately 17 percent and soybean prices have decreased approximately 4 percent from August 2016. Commodity prices, in general, continue to be constrained from rising following record 2016 harvests in the U.S. and resulting high stocks.
- Net farm income - As of May 2017, the U.S. Department of Agriculture (the "USDA") estimated U.S. 2017 net farm income to be \$62.3 billion, down 9 percent from the USDA's estimated U.S. 2016 net farm income of \$68.3 billion. If the USDA's estimate proves accurate, net farm income in 2017 would be at its lowest level since 2009.
- Weather conditions – Demand for irrigation equipment is often positively affected by storm damage and prolonged periods of drought conditions as producers look for ways to reduce the risk of low crop production and crop failures. Conversely, demand for irrigation equipment can be negatively affected during periods of more predictable natural precipitation.
- Governmental policies - A number of governmental laws and regulations can affect the Company's business, including:
 - The Agricultural Act of 2014 provides a degree of certainty to growers by adopting a five-year farm bill. This law continued many of the existing programs, including funding for the Environmental Quality Incentives Program, which provides financial assistance to farmers to implement conservation practices, and is frequently used to assist in the purchase of center pivot irrigation systems.
- Current tax incentives, such as the Section 179 income tax deduction and Section 168 bonus depreciation, are intended to encourage equipment purchases. These incentives could benefit equipment sales in the future.
- Biofuel production continues to be a major demand driver for irrigated corn, sugar cane and soybeans as these crops are used in high volumes to produce ethanol and biodiesel. Annual biofuel production targets established by the U.S. Environmental Protection Agency in November 2016 project a 6 percent increase in ethanol production and a 5 percent increase in biodiesel production from 2016 to 2017.
- Many international markets are affected by government policies such as subsidies and other agriculturally related incentives. While these policies can have a significant effect on individual markets, they typically do not have a material effect on the consolidated results of the Company.
- Currency – The value of the U.S. dollar has been rising in relation to the value of currencies in a number of countries to which the Company exports products and in which the Company maintains local operations. The strengthening of the dollar increases the cost in the local currency of the products exported from the U.S. into these countries and,

therefore, could negatively affect the Company's international sales and margins. In addition, the U.S. dollar value of sales made in any affected foreign currencies will decline as the value of the dollar rises in relation to these other currencies.

As the Company continues to manage through a prolonged downturn in the agricultural cycle, there has not been a sufficient catalyst to improvement in the short term. While corn prices have improved somewhat during the first nine months of fiscal 2017, they are still below the levels that prevailed in May of 2016. Net farm income in the U.S. is projected to be at the lowest level since 2009, leading to uncertainty among growers and continuing to limit demand for investment in irrigation equipment. In the international markets, regional political and economic factors, currency conditions and local competition create a challenging environment. Additionally, international results are heavily dependent upon project sales which tend to fluctuate and can be difficult to forecast accurately.

- 16 -

Table of Contents

The Company remains confident in the long-term drivers for efficient agricultural irrigation and water use efficiency globally. The Company has expanded global capacity with the opening of a factory in Turkey that began manufacturing operations in March 2015. While the additional capacity from the plant in Turkey has created some fixed cost absorption challenges under current market conditions, the Company is confident in the incremental profit potential of global expansion plans and the long-term growth opportunities throughout the region, including in the European, Middle Eastern and African markets.

In a global environment of constrained government spending, demand for the Company's transportation safety products continues to be driven by population growth and the increased promulgation of safety standard regulations. In the United States, the enactment of a \$305 billion bill in December 2015 to fund highway, bridge and transit projects over the subsequent five years creates opportunities for market growth in each of the road safety product lines. While the outlook for infrastructure products in international markets continues to be positive, global or economic slowdowns could negatively impact government spending and have a resultant negative impact on demand for the Company's products in certain regions. Domestically, the Federal Highway Administration has mandated a change to certification standards for road safety products to be phased in beginning in 2018. However, individual states may mandate the adoption of these standards earlier. This change has required additional research and development spending and could have an impact on the competitive positioning of the Company's highway safety products. Overall, the Company's outlook for infrastructure continues to be positive, although somewhat mitigated by the possibilities of a global economic slowdown and increased regulatory requirements.

As of May 31, 2017, the Company had an order backlog of \$70.1 million compared with \$61.2 million at May 31, 2016 and \$50.7 million at August 31, 2016. The Company's backlog can fluctuate from period to period due to the seasonality, cyclicality, timing and execution of contracts. Backlog typically represents long-term projects as well as short lead-time orders, and therefore is generally not a good indication of the next fiscal quarter's revenues.

The global drivers for the Company's markets of population growth, expanded food production, efficient water use and infrastructure expansion support the Company's long-term growth goals. The most significant opportunities for growth over the next several years are in international markets, where irrigation use is less developed and demand is driven primarily by food security, water scarcity and population growth. In the United States, the focus on converting dryland acres to irrigated cropland while increasing the efficiency of water utilization is expected to have an impact on future irrigation equipment demand.

Table of Contents

Results of Operations

For the Three Months ended May 31, 2017 compared to the Three Months ended May 31, 2016

The following section presents an analysis of the Company's operating results displayed in the condensed consolidated statements of earnings for the three months ended May 31, 2017 and May 31, 2016. It should be read together with the industry segment information in Note 14 to the condensed consolidated financial statements:

(\$ in thousands)	Three months ended		Percent
	May 31,	May 31,	Increase
	2017	2016	(Decrease)
Consolidated			
Operating revenues	\$ 151,533	\$ 141,319	7%
Gross profit	\$ 45,906	\$ 41,808	10%
Gross margin	30.3%	29.6%	
Operating expenses (1)	\$ 28,492	\$ 26,483	8%
Operating income	\$ 17,414	\$ 15,325	14%
Operating margin	11.5%	10.8%	
Other (expense), net	\$ (1,217)	\$ (1,260)	(3%)
Income tax expense	\$ 5,245	\$ 4,421	19%
Effective income tax rate	32.4%	31.4%	
Net earnings	\$ 10,952	\$ 9,644	14%
Irrigation Equipment Segment			
Segment operating revenues	\$ 120,040	\$ 117,325	2%
Segment operating income (2)	\$ 16,508	\$ 16,560	0%
Segment operating margin (2)	13.8%	14.1%	
Infrastructure Products Segment			
Segment operating revenues	\$ 31,493	\$ 23,994	31%
Segment operating income (2)	\$ 8,016	\$ 4,654	72%
Segment operating margin (2)	25.5%	19.4%	

(1) Includes \$7.1 million and \$5.9 million of unallocated general and administrative expenses for the three months ended May 31, 2017 and May 31, 2016, respectively.

(2) Excludes unallocated general and administrative expenses.

Revenues

Operating revenues for the three months ended May 31, 2017 increased 7 percent to \$151.5 million from \$141.3 million for the three months ended May 31, 2016, as irrigation revenues increased \$2.7 million and infrastructure revenues increased \$7.5 million. The irrigation segment provided 79 percent of the Company's revenue for the three months ended May 31, 2017 as compared to 83 percent for the three months ended May 31, 2016.

U.S. irrigation revenues for the three months ended May 31, 2017 of \$75.2 million increased \$1.8 million, or 2 percent, from \$73.4 million for the three months ended May 31, 2016. Higher irrigation equipment revenue, resulting from higher average selling prices and a modest increase in irrigation equipment unit volume, was partially offset by lower revenue from other irrigation components, including filtration and pump systems.

International irrigation revenues for the three months ended May 31, 2017 of \$44.8 million increased \$0.9 million, or 2 percent, from \$43.9 million for the three months ended May 31, 2016. The continuation of a notable recovery in Brazil, increased project activity in developing markets, and a slightly favorable currency translation impact, were partially offset by lower revenues in other international markets.

Infrastructure segment revenues for the three months ended May 31, 2017 of \$31.5 million increased \$7.5 million, or 31 percent, from \$24.0 million for the three months ended May 31, 2016. The increase resulted from higher Road Zipper® system sales and lease revenue and higher sales of road safety products in international markets. Sales of road safety products in the U.S. increased modestly compared to the same period last year.

Table of Contents

Gross Profit

Gross profit for the three months ended May 31, 2017 of \$45.9 million increased 10 percent from \$41.8 million for the three months ended May 31, 2016. The increase in gross profit resulted from higher revenues as well as an increase in gross margin to 30.3 percent for the three months ended May 31, 2017 from 29.6 percent for the three months ended May 31, 2016. Improved gross margin in the infrastructure segment was partially offset by slightly lower gross margin in the irrigation segment. Improved infrastructure margin resulted from higher Road Zipper system sales and lease revenue and volume leverage from higher road safety products sales. International irrigation margin was lower due to a less-favorable regional sales mix compared to the prior year. U.S. irrigation margin increased compared to the prior year as higher margin from technology products was partially offset by the impact of higher material costs.

Operating Expenses

Operating expenses of \$28.5 million for the three months ended May 31, 2017 increased by \$2.0 million over operating expenses in the three months ended May 31, 2016. The increase resulted primarily from higher product development costs and professional fees. Operating expenses were 18.8 percent of sales for the three months ended May 31, 2017 compared to 18.7 percent of sales for the three months ended May 31, 2016.

Income Taxes

The Company recorded income tax expense of \$5.2 million and \$4.4 million for the three months ended May 31, 2017 and May 31, 2016, respectively. The effective income tax rate was 32.4 percent and 31.4 percent for the three months ended May 31, 2017 and May 31, 2016, respectively. The increase in the effective income tax rate reflects anticipated changes in earnings mix among domestic and foreign tax jurisdictions for the full fiscal year.

For the Nine Months ended May 31, 2017 compared to the Nine Months ended May 31, 2016

The following section presents an analysis of the Company's operating results displayed in the condensed consolidated statements of earnings for the nine months ended May 31, 2017 and May 31, 2016. It should be read together with the industry segment information in Note 14 to the condensed consolidated financial statements:

	Nine months ended		Percent
	May 31,	May 31,	Increase
(\$ in thousands)	2017	2016	(Decrease)
Consolidated			

Edgar Filing: LINDSAY CORP - Form 10-Q

Operating revenues	\$ 386,048	\$ 383,514	1%
Gross profit	\$ 107,221	\$ 108,667	(1%)
Gross margin	27.8%	28.3%	
Operating expenses (1)	\$ 78,550	\$ 86,288	(9%)
Operating income	\$ 28,671	\$ 22,379	28%
Operating margin	7.4%	5.8%	
Other (expense), net	\$ (3,503)	\$ (4,111)	(15%)
Income tax expense	\$ 8,331	\$ 5,809	43%
Effective income tax rate	33.1%	31.8%	
Net earnings	\$ 16,837	\$ 12,549	34%
Irrigation Equipment Segment			
Segment operating revenues	\$ 316,102	\$ 321,733	(2%)
Segment operating income (2)	\$ 32,961	\$ 40,333	(18%)
Segment operating margin (2)	10.4%	12.5%	
Infrastructure Products Segment			
Segment operating revenues	\$ 69,946	\$ 61,781	13%
Segment operating income (2)	\$ 12,588	\$ 9,268	36%
Segment operating margin (2)	18.0%	15.0%	

(1) Includes \$16.9 million and \$27.2 million of unallocated general and administrative expenses for the nine months ended May 31, 2017 and May 31, 2016, respectively. Unallocated general and administrative expenses includes environmental remediation expenses of \$13.0 million for the nine months ended May 31, 2016.

(2) Excludes unallocated general and administrative expenses.

Table of Contents

Revenues

Operating revenues for the nine months ended May 31, 2017 increased 1 percent to \$386.0 million from \$383.5 million for the nine months ended May 31, 2016, as irrigation revenues decreased \$5.6 million and infrastructure revenues increased by \$8.1 million. The irrigation segment provided 82 percent of the Company's revenue for the nine months ended May 31, 2017 as compared to 84 percent for the nine months ended May 31, 2016.

U.S. irrigation revenues for the nine months ended May 31, 2017 of \$187.0 million decreased \$17.9 million or 9 percent from \$204.9 million for the nine months ended May 31, 2016. The decrease in U.S. irrigation revenues is due to a decline in irrigation equipment unit volume and lower revenue from other irrigation components, including pump systems and a Company-owned dealership, compared to the prior year. Lower commodity prices and lower farm income affected farmers' sentiment regarding equipment purchases and contributed to lower demand for U.S. irrigation equipment.

International irrigation revenues for the nine months ended May 31, 2017 of \$129.1 million increased \$12.3 million or 11 percent from \$116.8 million for the nine months ended May 31, 2016. Foreign currency translation as compared to the prior year had a favorable impact on revenues of approximately 4 percent. Increased revenues were driven primarily by improved demand and project activity in South America, Africa, and the CIS region, partially offset by declines in other regions.

Infrastructure segment revenues for the nine months ended May 31, 2017 of \$69.9 million increased \$8.1 million or 13 percent from \$61.8 million for the nine months ended May 31, 2016. The increase resulted from increased demand for road safety products and higher sales of movable traffic barrier product compared with the prior year.

Gross Profit

Gross profit for the nine months ended May 31, 2017 of \$107.2 million decreased 1 percent from \$108.7 million for the nine months ended May 31, 2016. The decrease in gross profit resulted from lower irrigation sales and a decline in gross margin to 27.8 percent for the nine months ended May 31, 2017 from 28.3 percent for the nine months ended May 31, 2016. Improved gross margin in the infrastructure segment was more than offset by lower gross margin in the irrigation segment. Irrigation gross margin declined primarily due to lower overhead cost absorption from lower domestic unit volume and a higher mix of revenue from international markets. Infrastructure margin improved as the result of higher Road Zipper system sales and volume leverage from higher road safety product sales.

Operating Expenses

The Company's operating expenses of \$78.6 million for the nine months ended May 31, 2017 decreased by \$7.7 million over operating expenses for the nine months ended May 31, 2016. The reduction in operating expenses in the current year is due to \$13.0 million of environmental remediation expenses in the prior year that did not repeat, offset in part by higher product development and testing costs and professional fees compared to the current year. Operating expenses were 20.3 percent of sales for the nine months ended May 31, 2017 compared to 22.5 percent of sales for the nine months ended May 31, 2016.

Income Taxes

The Company recorded income tax expense of \$8.3 million and \$5.8 million for the nine months ended May 31, 2017 and May 31, 2016, respectively. The effective income tax rate was 33.1 percent and 31.8 percent for the nine months ended May 31, 2017 and May 31, 2016, respectively. The increase in the effective income tax rate from May 2016 to May 2017 reflects anticipated changes in earnings mix among domestic and foreign tax jurisdictions for the full fiscal year.

Liquidity and Capital Resources

The Company's cash and cash equivalents totaled \$113.2 million at May 31, 2017 compared with \$91.5 million at May 31, 2016 and \$101.2 million at August 31, 2016. The Company requires cash for financing its receivables and inventories, paying operating expenses and capital expenditures, and for dividends and share repurchases. The Company meets its liquidity needs and finances its capital expenditures from its available cash and funds provided by operations along with borrowings under its credit arrangements described below. The Company believes its current cash resources, projected operating cash flow, and remaining capacity under its continuing bank lines of credit are sufficient to cover all of its expected working capital needs, planned capital expenditures and dividends. The Company may require additional borrowings to fund potential acquisitions in the future.

The Company's total cash and cash equivalents held by foreign subsidiaries was approximately \$23.5 million, \$27.0 million, and \$34.6 million as of May 31, 2017, May 31, 2016, and August 31, 2016, respectively. The Company considers earnings in foreign subsidiaries to be permanently reinvested in those subsidiaries and would need to accrue and pay taxes if such earnings were repatriated to the United States. Accordingly, the Company does not intend to repatriate the funds, and does not expect these funds to have a significant impact on the Company's overall liquidity.

Table of Contents

Net working capital was \$202.4 million at May 31, 2017, as compared with \$180.1 million at May 31, 2016 and \$188.9 million at August 31, 2016. Cash provided by operations totaled \$24.5 million during the nine months ended May 31, 2017, an increase of \$4.2 million compared to cash provided by operations of \$20.3 million during the nine months ended May 31, 2016. This increase was primarily due to the increase in net earnings.

Cash flows used in investing activities totaled \$5.0 million during the nine months ended May 31, 2017 compared to \$9.4 million used in investing activities during the nine months ended May 31, 2016. The decrease is primarily attributable to a decrease in capital spending. Capital spending was \$6.2 million in the first nine months of fiscal 2017 compared to capital spending of \$10.1 million in the same period of the prior fiscal year.

Cash flows used in financing activities totaled \$7.6 million during the nine months ended May 31, 2017 compared to cash flows used in financing activities of \$58.2 million during the nine months ended May 31, 2016. The decrease in cash used in financing activities was primarily due to a \$48.3 million reduction in the repurchase of common shares for fiscal 2017 compared to the prior fiscal year.

Capital Allocation Plan

The Company's capital allocation plan is to continue investing in revenue and earnings growth, combined with a defined process for enhancing returns to stockholders. Under the Company's capital allocation plan, the priorities for uses of cash include:

- Investment in organic growth including capital expenditures and expansion of international markets,
- Dividends to stockholders, along with expectations to increase dividends on an annual basis,
- Synergistic water-related acquisitions that provide attractive returns to stockholders, and
- Opportunistic share repurchases taking into account cyclical and seasonal fluctuations.

Capital Expenditures

Capital expenditures for fiscal 2017 are estimated to be between \$8.0 million and \$10.0 million, largely focused on equipment maintenance and replacement, and productivity improvement. The Company's management does maintain flexibility to modify the amount and timing of some of the planned expenditures in response to economic conditions.

Dividends

In the third quarter of fiscal 2017, the Company paid a quarterly cash dividend of \$0.29 per common share, or \$3.1 million, to stockholders as compared to \$0.28 per common share, or \$3.0 million, in the third quarter of fiscal 2016. During fiscal 2017, the Company has paid total quarterly cash dividends of \$0.87 per common share, or \$9.3 million, to stockholders as compared to \$0.84 per common share, or \$9.2 million, during the same period of fiscal

2016.

Share Repurchases

On January 3, 2014, the Company announced that its Board of Directors authorized the Company to repurchase up to \$150.0 million of common stock through January 2, 2016. On July 22, 2015, the Company announced that its Board of Directors increased its outstanding share repurchase authorization by \$100.0 million with no expiration. Under the program, shares may be repurchased in privately negotiated and/or open market transactions as well as under formalized trading plans in accordance with the guidelines specified under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. There were no share repurchases for the nine months ended May 31, 2017. During the three and nine months ended May 31, 2016, the Company repurchased 219,578 shares and 688,790 shares, respectively, of common stock for an aggregate purchase price of \$16.1 million and \$48.3 million, respectively. The remaining amount available under the repurchase program was \$63.7 million as of May 31, 2017.

Long-Term Borrowing Facilities

Series A, Senior Notes. On February 19, 2015, the Company issued \$115.0 million in aggregate principal amount of Senior Notes, Series A (the "Senior Notes"). The entire principal of the Senior Notes is due and payable on February 19, 2030. Interest on the Senior Notes is payable semi-annually at a fixed annual rate of 3.82 percent and borrowings under the Senior Notes are unsecured. The Company intends to use the proceeds of the sale of the Senior Notes for general corporate purposes, including acquisitions and dividends.

- 21 -

Table of Contents

Revolving Credit Facility. On February 18, 2015, the Company entered into a \$50.0 million unsecured Amended and Restated Revolving Credit Facility (the “Revolving Credit Facility”) with Wells Fargo Bank, National Association (“Wells Fargo”). On February 28, 2017, the Company and Wells Fargo entered into an amendment to the Revolving Credit Facility which, among other things, extends the termination date of the agreement from February 18, 2018 to February 28, 2020. The Company intends to use borrowings under the Revolving Credit Facility for working capital purposes and to fund acquisitions. At May 31, 2017 and May 31, 2016, the Company had no outstanding borrowings under the Revolving Credit Facility. The amount of borrowings available at any time under the Revolving Credit Facility is reduced by the amount of standby letters of credit issued by Wells Fargo then outstanding. At May 31, 2017, the Company had the ability to borrow up to \$44.0 million under the Revolving Credit Facility, after consideration of outstanding standby letters of credit of \$6.0 million. Borrowings under the Revolving Credit Facility bear interest at a variable rate equal to LIBOR plus 90 basis points (1.96 percent at May 31, 2017), subject to adjustment as set forth in the loan documents for the Revolving Credit Facility. Interest is paid on a monthly to quarterly basis depending on loan type. The Company also pays an annual commitment fee of 0.25 percent on the unused portion of the Revolving Credit Facility. Unpaid principal and interest on the Revolving Credit Facility is due by February 28, 2020.

Borrowings under the Revolving Credit Facility have equal priority with borrowings under the Company’s Senior Notes. Each of the credit arrangements described above include certain covenants relating primarily to the Company’s financial condition. These financial covenants include a funded debt to EBITDA leverage ratio and an interest coverage ratio. Upon the occurrence of any event of default of these covenants, including a change in control of the Company, all amounts outstanding thereunder may be declared to be immediately due and payable. At May 31, 2017, May 31, 2016, and August 31, 2016, the Company was in compliance with all financial loan covenants contained in its credit arrangements in place as of each of those dates.

Elecsys Series 2006A Bonds. Elecsys Corporation, a wholly owned subsidiary of the Company, has outstanding \$2.0 million in principal amount of industrial revenue bonds that were issued in 2006 (the “Series 2006A Bonds”). Principal and interest on the Series 2006A Bonds are payable monthly through maturity on September 1, 2026. The interest rate is adjustable every 5 years based on the yield of the 5-year United States Treasury Notes, plus 0.45 percent (1.92 percent as of May 31, 2017). This rate was reset on September 1, 2016 in accordance with the terms of the bonds, and will be in force until September 1, 2021. The obligations under the Series 2006A Bonds are secured by a first priority security interest in certain real estate.

Contractual Obligations and Commercial Commitments

There have been no material changes in the Company’s contractual obligations and commercial commitments as described in the Company’s Annual Report on Form 10-K for the fiscal year ended August 31, 2016.

ITEM 3 – Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes from the Company's quantitative and qualitative disclosures about market risk previously disclosed in the Company's most recent Annual Report on Form 10-K. See discussion of the Company's quantitative and qualitative disclosures about market risk under Part II, Item 7A in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2016.

ITEM 4 – Controls and Procedures

The Company carried out an evaluation under the supervision and the participation of the Company's management, including the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of May 31, 2017.

Additionally, the CEO and CFO determined that there has not been any change to the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II – OTHER INFORMATION

ITEM 1 – Legal Proceedings

See the disclosure in Note 9 – Commitments and Contingencies to the condensed consolidated financial statements set forth in Part I, Item 1 of this Quarterly Report on Form 10-Q, which disclosure is hereby incorporated herein by reference.

ITEM 1A – Risk Factors

There have been no material changes from risk factors previously disclosed in the Company's most recent Annual Report on Form 10-K. See the discussion of the Company's risk factors under Part I, Item 1A in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2016.

Table of Contents

ITEM 2 – Unregistered Sales of Equity Securities and Use of Proceeds

None.

ITEM 3 – Defaults Upon Senior Securities

None.

ITEM 4 – Mine Safety Disclosures

Not applicable.

ITEM 5 – Other Information

None.

- 23 -

Table of Contents

ITEM 6 – Exhibits

Exhibit

No.	Description
3.1	Restated Certificate of Incorporation of the Company, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on December 14, 2006.
3.2	Amended and Restated By Laws of the Company, effective May 2, 2014, incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on May 5, 2014.
4.1	Specimen Form of Common Stock Certificate, incorporated by reference to Exhibit 4(a) of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2006.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 18 U.S.C. Section 1350.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 18 U.S.C. Section 1350.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 18 U.S.C. Section 1350.
101*	Interactive Data Files.

* Filed herein.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 30th day of June 2017.

LINDSAY CORPORATION

By: /s/ BRIAN L. KETCHAM
Name: Brian L. Ketcham
Title: Vice President and Chief Financial Officer
(on behalf of the registrant and as principal financial officer)