

WORTHINGTON INDUSTRIES INC

Form 10-Q

April 09, 2015

Table of Contents

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended February 28, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-08399

**WORTHINGTON INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

Ohio  
(State or other jurisdiction of incorporation or organization)

31-1189815  
(I.R.S. Employer Identification No.)

200 Old Wilson Bridge Road, Columbus, Ohio  
(Address of principal executive offices)

43085  
(Zip Code)

(614) 438-3210  
(Registrant's telephone number, including area code)

Not applicable  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject

Edgar Filing: WORTHINGTON INDUSTRIES INC - Form 10-Q

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, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the Issuer's classes of common stock, as of the latest practicable date. On March 31, 2015, the number of Common Shares, without par value, issued and outstanding was 65,364,681.

**Table of Contents**

**TABLE OF CONTENTS**

<u>Safe Harbor Statement</u>	ii
<u>Part I. Financial Information</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Consolidated Balance Sheets</u> <u>February 28, 2015 and May 31, 2014</u>	1
<u>Consolidated Statements of Earnings</u> <u>Three and Nine Months Ended February 28, 2015 and 2014</u>	2
<u>Consolidated Statements of Comprehensive Income (Loss)</u> <u>Three and Nine Months Ended February 28, 2015 and 2014</u>	3
<u>Consolidated Statements of Cash Flows</u> <u>Three and Nine Months Ended February 28, 2015 and 2014</u>	4
<u>Notes to Consolidated Financial Statements</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	45
Item 4. <u>Controls and Procedures</u>	45
<u>Part II. Other Information</u>	
Item 1. <u>Legal Proceedings</u>	45
Item 1A. <u>Risk Factors</u>	45
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	46
Item 3. <u>Defaults Upon Senior Securities (Not applicable)</u>	46
Item 4. <u>Mine Safety Disclosures (Not applicable)</u>	46
Item 5. <u>Other Information (Not applicable)</u>	46
Item 6. <u>Exhibits</u>	47
<u>Signatures</u>	48
<u>Index to Exhibits</u>	49

**Table of Contents**

**SAFE HARBOR STATEMENT**

*Selected statements contained in this Quarterly Report on Form 10-Q, including, without limitation, in PART I Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements as that term is used in the Private Securities Litigation Reform Act of 1995 (the Act). Forward-looking statements reflect our current expectations, estimates or projections concerning future results or events. These statements are often identified by the use of forward-looking words or phrases such as believe, expect, anticipate, may, could, intend, estimate, plan, foresee, likely, will, should or other similar words or phrases. These forward-looking statements include, without limitation, statements relating to:*

*outlook, strategy or business plans;*  
*the ability to correct performance issues at operations;*  
*future or expected growth, forward momentum, performance, sales, volumes, cash flows, earnings, balance sheet strengths, debt, financial condition or other financial measures;*  
*projected profitability potential, capacity, and working capital needs;*  
*pricing trends for raw materials and finished goods and the impact of pricing changes;*  
*anticipated improvements and efficiencies in costs, operations, sales, inventory management, sourcing and the supply chain and the results thereof;*  
*the ability to make acquisitions and the projected timing, results, benefits, costs, charges and expenditures related to acquisitions, newly-created joint ventures, headcount reductions and facility dispositions, shutdowns and consolidations;*  
*the alignment of operations with demand;*  
*the ability to operate profitably and generate cash in down markets;*  
*anticipated capital expenditures and asset sales;*  
*demand trends for us or our markets;*  
*additions to product lines and opportunities to participate in new markets;*  
*the ability to maintain margins and capture and maintain market share and to develop or take advantage of future opportunities, customer initiatives, new businesses, new products and new markets;*  
*expectations for Company and customer inventories, jobs and orders;*  
*expectations for the economy and markets or improvements therein;*  
*expected benefits from transformation plans, cost reduction efforts and other new initiatives;*  
*expectations for increasing volatility or improving and sustaining earnings, earnings potential, margins or shareholder value;*  
*effects of judicial rulings; and*  
*other non-historical matters.*

*Because they are based on beliefs, estimates and assumptions, forward-looking statements are inherently subject to risks and uncertainties that could cause actual results to differ materially from those projected. Any number of factors could affect actual results, including, without limitation, those that follow:*

*the effect of national, regional and worldwide economic conditions generally and within major product markets, including a recurrent slowing economy;*  
*the effect of conditions in national and worldwide financial markets;*  
*product demand and pricing;*  
*fluctuations in the pricing, quality or availability of raw materials (particularly steel), supplies, transportation, utilities and other items required by operations;*  
*the ability to realize targeted expense reductions from headcount reductions, facility closures and other cost reduction efforts;*  
*effects of facility closures and the consolidation of operations;*  
*the effect of financial difficulties, consolidation and other changes within the steel, automotive, oil and gas, construction and other industries in which we participate;*  
*failure to maintain appropriate levels of inventories;*  
*changes in product mix, product substitution and market acceptance of our products;*  
*financial difficulties (including bankruptcy filings) of original equipment manufacturers, end-users and customers, suppliers, joint venture partners and others with whom we do business;*  
*the ability to realize other cost savings and operational, sales and sourcing improvements and efficiencies, and other expected benefits from transformation initiatives, on a timely basis;*  
*the overall success of, and the ability to integrate, newly-acquired businesses and joint ventures, maintain and develop their customers, and achieve synergies and other expected benefits and cost savings therefrom;*

**Table of Contents**

*capacity levels and efficiencies, within facilities, within major product markets and within the industry as a whole;*  
*the effect of disruption in the business of suppliers, customers, facilities and shipping operations due to adverse weather, casualty events, equipment breakdowns, acts of war or terrorist activities or other causes;*  
*changes in customer demand, inventories, spending patterns, product choices, and supplier choices;*  
*risks associated with doing business internationally, including economic, political and social instability, foreign currency exposure and the acceptance of our products in these markets;*  
*the ability to improve and maintain processes and business practices to keep pace with the economic, competitive and technological environment;*  
*the outcome of adverse claims experience with respect to workers' compensation, product recalls or product liability, casualty events or other matters;*  
*deviation of actual results from estimates and/or assumptions used by us in the application of our significant accounting policies;*  
*level of imports and import prices in our markets;*  
*the impact of the outcome of judicial rulings and governmental regulations, both in the United States and abroad, including those adopted by the United States Securities and Exchange Commission and other governmental agencies as contemplated by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010;*  
*the effect of changes to healthcare laws in the United States, which may increase our healthcare and other costs and negatively impact our consolidated financial results and operations; and*  
*other risks described from time to time in our filings with the United States Securities and Exchange Commission, including those described in PART I Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended May 31, 2014, as well as in Part II Item 1A. Risk Factors of this Quarterly Report on Form 10-Q.*

*We note these factors for investors as contemplated by the Act. It is impossible to predict or identify all potential risk factors. Consequently, you should not consider the foregoing list to be a complete set of all potential risks and uncertainties. Any forward-looking statements in this Quarterly Report on Form 10-Q are based on current information as of the date of this Quarterly Report on Form 10-Q, and we assume no obligation to correct or update any such statements in the future, except as required by applicable law.*

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****WORTHINGTON INDUSTRIES, INC.****CONSOLIDATED BALANCE SHEETS****(In thousands)****(Unaudited)**

	February 28, 2015	May 31, 2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 42,468	\$ 190,079
Receivables, less allowances of \$2,838 and \$3,043 at February 28, 2015 and May 31, 2014, respectively	495,861	493,127
Inventories:		
Raw materials	230,507	213,173
Work in process	135,759	105,872
Finished products	111,831	90,957
Total inventories	478,097	410,002
Income taxes receivable	8,440	5,438
Assets held for sale	24,560	32,235
Deferred income taxes	24,832	24,272
Prepaid expenses and other current assets	51,672	43,769
Total current assets	1,125,930	1,198,922
Investments in unconsolidated affiliates	195,788	179,113
Goodwill	240,738	251,093
Other intangible assets, net of accumulated amortization of \$42,906 and \$35,506 at February 28, 2015 and May 31, 2014, respectively	126,558	145,993
Other assets	20,697	22,399
Property, plant & equipment:		
Land	16,148	15,260
Buildings and improvements	214,541	213,848
Machinery and equipment	866,928	848,889
Construction in progress	43,157	32,135
Total property, plant & equipment	1,140,774	1,110,132
Less: accumulated depreciation	629,084	611,271
Property, plant and equipment, net	511,690	498,861
<b>Total assets</b>	<b>\$ 2,221,401</b>	<b>\$ 2,296,381</b>
<b>Liabilities and equity</b>		
Current liabilities:		
Accounts payable	\$ 386,408	\$ 333,744
Short-term borrowings	123,054	10,362
Accrued compensation, contributions to employee benefit plans and related taxes	67,273	78,514

Edgar Filing: WORTHINGTON INDUSTRIES INC - Form 10-Q

Dividends payable	12,850	11,044
Other accrued items	58,627	49,873
Income taxes payable	2,920	4,953
Current maturities of long-term debt	835	101,173
<b>Total current liabilities</b>	<b>651,967</b>	<b>589,663</b>
Other liabilities	55,744	76,426
Distributions in excess of investment in unconsolidated affiliate	63,933	59,287
Long-term debt	575,968	554,790
Deferred income taxes	22,116	71,333
<b>Total liabilities</b>	<b>1,369,728</b>	<b>1,351,499</b>
Shareholders' equity - controlling interest	760,740	850,812
Noncontrolling interest	90,933	94,070
<b>Total equity</b>	<b>851,673</b>	<b>944,882</b>
<b>Total liabilities and equity</b>	<b>\$ 2,221,401</b>	<b>\$ 2,296,381</b>

See notes to consolidated financial statements.

Table of Contents

## WORTHINGTON INDUSTRIES, INC.

## CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2015	2014	2015	2014
Net sales	\$ 804,785	\$ 773,230	\$ 2,538,211	\$ 2,235,421
Cost of goods sold	706,294	650,743	2,184,990	1,873,738
Gross margin	98,491	122,487	353,221	361,683
Selling, general and administrative expense	66,764	75,680	219,327	225,615
Impairment of goodwill and long-lived assets	81,600	-	97,785	35,375
Restructuring and other expense (income)	2,093	1,398	2,491	(3,781)
Joint venture transactions	84	120	274	1,048
Operating income (loss)	(52,050)	45,289	33,344	103,426
Other income (expense):				
Miscellaneous income	213	488	1,756	13,897
Interest expense	(8,381)	(6,196)	(27,573)	(18,694)
Equity in net income of unconsolidated affiliates	18,800	21,186	69,043	69,223
Earnings (loss) before income taxes	(41,418)	60,767	76,570	167,852
Income tax expense (benefit)	(18,173)	16,556	19,540	38,948
Net earnings (loss)	(23,245)	44,211	57,030	128,904
Net earnings attributable to noncontrolling interest	2,465	3,608	9,110	10,767
<b>Net earnings (loss) attributable to controlling interest</b>	<b>\$ (25,710)</b>	<b>\$ 40,603</b>	<b>\$ 47,920</b>	<b>\$ 118,137</b>
<b>Basic</b>				
Average common shares outstanding	66,359	68,895	67,013	69,268
<b>Earnings (loss) per share attributable to controlling interest</b>	<b>\$ (0.39)</b>	<b>\$ 0.59</b>	<b>\$ 0.72</b>	<b>\$ 1.71</b>
<b>Diluted</b>				
Average common shares outstanding	66,359	71,528	69,301	71,910
<b>Earnings (loss) per share attributable to controlling interest</b>	<b>\$ (0.39)</b>	<b>\$ 0.57</b>	<b>\$ 0.69</b>	<b>\$ 1.64</b>
Common shares outstanding at end of period	65,078	68,302	65,078	68,302
Cash dividends declared per share	\$ 0.18	\$ 0.15	\$ 0.54	\$ 0.45

See notes to consolidated financial statements.





Table of Contents

## WORTHINGTON INDUSTRIES, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three Months Ended February 28.		Nine Months Ended February 28.	
	2015	2014	2015	2014
Net earnings (loss)	\$ (23,245)	\$ 44,211	\$ 57,030	\$ 128,904
Other comprehensive income (loss):				
Foreign currency translation	(14,873)	3,043	(31,735)	5,594
Pension liability adjustment, net of tax	(701)	450	(701)	450
Cash flow hedges, net of tax	(9,538)	(94)	(10,458)	3,610
Other comprehensive income (loss)	(25,112)	3,399	(42,894)	9,654
<b>Comprehensive income (loss)</b>	<b>(48,357)</b>	<b>47,610</b>	<b>14,136</b>	<b>138,558</b>
Comprehensive income attributable to noncontrolling interest	1,626	4,057	6,657	10,515
<b>Comprehensive income (loss) attributable to controlling interest</b>	<b>\$ (49,983)</b>	<b>\$ 43,553</b>	<b>\$ 7,479</b>	<b>\$ 128,043</b>

See notes to consolidated financial statements.

**Table of Contents****WORTHINGTON INDUSTRIES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	<b>Three Months Ended February 28,</b>		<b>Nine Months Ended February 28,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Operating activities</b>				
Net earnings (loss)	\$ (23,245)	\$ 44,211	\$ 57,030	\$ 128,904
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:				
Depreciation and amortization	21,762	20,208	63,329	59,763
Impairment of long-lived assets	81,600	-	97,785	35,375
Provision for deferred income taxes	(35,334)	1,278	(41,361)	(20,256)
Bad debt income	(46)	(134)	(106)	(430)
Equity in net income of unconsolidated affiliates, net of distributions	(571)	1,048	(8,374)	(8,373)
Net loss (gain) on sale of assets and insurance	3,047	990	3,481	(10,860)
Stock-based compensation	4,058	4,705	12,911	13,207
Excess tax benefits - stock-based compensation	(663)	(1,462)	(6,416)	(7,294)
Gain on previously held interest in TWB	-	-	-	(11,000)
Changes in assets and liabilities, net of impact of acquisitions:				
Receivables	5,078	(30,228)	10,914	(14,999)
Inventories	(8,795)	(38,260)	(43,925)	(59,583)
Prepaid expenses and other current assets	(3,078)	2,429	(11,182)	4,136
Other assets	2,415	(762)	5,631	(187)
Accounts payable and accrued expenses	40,260	91,485	10,055	108,185
Other liabilities	(3,612)	1,316	(10,108)	4,019
<b>Net cash provided by operating activities</b>	<b>82,876</b>	<b>96,824</b>	<b>139,664</b>	<b>220,607</b>
<b>Investing activities</b>				
Investment in property, plant and equipment	(26,119)	(21,743)	(73,265)	(52,157)
Investment in notes receivable	-	-	(7,300)	-
Acquisitions, net of cash acquired	(54,389)	(35,599)	(105,482)	17,634
Distributions from (investments in) unconsolidated affiliates	(4,559)	-	(8,230)	9,223
Proceeds from sale of assets and insurance	3,521	580	3,813	24,313
<b>Net cash used by investing activities</b>	<b>(81,546)</b>	<b>(56,762)</b>	<b>(190,464)</b>	<b>(987)</b>
<b>Financing activities</b>				
Net proceeds from (repayments of) short-term borrowings	112,285	(8,347)	112,644	(78,624)
Proceeds from long-term debt	5,916	-	26,396	-
Principal payments on long-term debt	(101,832)	(286)	(102,645)	(855)
Proceeds from (payments for) issuance of common shares	2,081	(1,241)	1,627	5,246
Excess tax benefits - stock-based compensation	663	1,462	6,416	7,294
Payments to noncontrolling interest	(9,200)	(36,512)	(12,067)	(39,150)
Repurchase of common shares	(52,795)	(40,762)	(94,415)	(91,078)
Dividends paid	(12,517)	(10,545)	(34,767)	(20,952)

Edgar Filing: WORTHINGTON INDUSTRIES INC - Form 10-Q

<b>Net cash used by financing activities</b>	(55,399)	(96,231)	(96,811)	(218,119)
Increase (decrease) in cash and cash equivalents	(54,069)	(56,169)	(147,611)	1,501
Cash and cash equivalents at beginning of period	96,537	109,055	190,079	51,385
<b>Cash and cash equivalents at end of period</b>	\$ 42,468	\$ 52,886	\$ 42,468	\$ 52,886

See notes to consolidated financial statements.

**Table of Contents**

**WORTHINGTON INDUSTRIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE A Basis of Presentation**

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

dHybrid Systems, LLC ( dHybrid ), Spartan Steel Coating, LLC ( Spartan ), TWB Company, L.L.C. ( TWB ), Worthington Aritas Basınçlı Kaplı Sanayi ( Worthington Aritas ), Worthington Energy Innovations, LLC ( WEI ), and Worthington Nitin Cylinders Limited ( Worthington Nitin Cylinders ) in which we own controlling interests of 79.59%, 52%, 55%, 75%, 75%, and 60%, respectively, are consolidated with the equity owned by the other joint venture members shown as noncontrolling interest in our consolidated balance sheets, and the other joint venture members' portions of net earnings and other comprehensive income (loss) shown as net earnings or comprehensive income attributable to noncontrolling interest in our consolidated statements of earnings and consolidated statements of comprehensive income (loss), respectively.

These unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission ( SEC ). Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments, which are of a normal and recurring nature, except those which have been disclosed elsewhere in this Quarterly Report on Form 10-Q, necessary for a fair presentation of the results of operations of these interim periods, have been included. Operating results for the three and nine months ended February 28, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending May 31, 2015 ( fiscal 2015 ). For further information, refer to the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the fiscal year ended May 31, 2014 ( fiscal 2014 ) of Worthington Industries, Inc. (the 2014 Form 10-K ).

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

**Recently Issued Accounting Standards**

In March 2013, amended accounting guidance was issued regarding the accounting for cumulative translation adjustment. The amended guidance specifies that a cumulative translation adjustment should be recorded to earnings when an entity ceases to have a controlling financial interest in a subsidiary or a group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. For sales of an equity method investment that is a foreign entity, a pro rata portion of the cumulative translation adjustment attributable to the investment would be recognized in earnings upon sale of the investment. The amended guidance is effective prospectively for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2013. Early adoption is permitted. The adoption of this amended accounting guidance on June 1, 2014 did not have a material impact on our consolidated financial position or results of operations.

In May 2014, amended accounting guidance was issued that replaces most existing revenue recognition guidance under U.S. GAAP. The amended guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The amended guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. We are in the process of evaluating the effect this guidance will have on our consolidated financial position and results of operations. The amended guidance permits the use of either the retrospective or cumulative effect transition method. We have not selected a transition method nor have we determined the effect of the amended guidance on our ongoing financial reporting.

**Table of Contents**

**NOTE B Inventory**

Due to the recent severe decline in steel pricing, the replacement cost of our inventory was lower than what was reflected in our records at February 28, 2015. Accordingly, we recorded a lower of cost or market adjustment during the third quarter of fiscal 2015 totaling \$5,115,000 to reflect this lower value. The entire amount related to our Steel Processing operating segment and was recorded in cost of goods sold.

**NOTE C Investments in Unconsolidated Affiliates**

Our investments in affiliated companies that we do not control, either through majority ownership or otherwise, are accounted for using the equity method. These include ArtiFlex Manufacturing, LLC ( ArtiFlex ) (50%), Clarkwestern Dietrich Building Systems LLC ( ClarkDietrich ) (25%), Samuel Steel Pickling Company (31.25%), Serviacero Planos, S. de R. L. de C.V. ( Serviacero ) (50%), Worthington Armstrong Venture ( WAVE ) (50%), Worthington Specialty Processing ( WSP ) (51%), and Zhejiang Nisshin Worthington Precision Specialty Steel Co., Ltd. (10%). WSP is considered to be jointly controlled and not consolidated due to substantive participating rights of the minority partner.

We received distributions from unconsolidated affiliates totaling \$61,239,000 during the nine months ended February 28, 2015. We have received cumulative distributions from WAVE in excess of our investment balance totaling \$63,933,000 at February 28, 2015. In accordance with the applicable accounting guidance, these excess distributions are reclassified to the liabilities section of our consolidated balance sheet. We will continue to record our equity in the net income of WAVE as a debit to the investment account, and if it becomes positive, it will again be shown as an asset on our consolidated balance sheet. If it becomes obvious that any excess distribution may not be returned (upon joint venture liquidation or otherwise), we will recognize any balance classified as a liability as income immediately.

We use the cumulative earnings approach for determining cash flow presentation of distributions from our unconsolidated joint ventures. Distributions received are included in our consolidated statements of cash flows as operating activities, unless the cumulative distributions exceed our portion of the cumulative equity in the net earnings of the joint venture, in which case the excess distributions are deemed to be returns of the investment and are classified as investing activities in our consolidated statements of cash flows. During the nine months ended February 28, 2015, we received excess distributions from ClarkDietrich of \$570,000.

**Table of Contents**

Combined financial information for our unconsolidated affiliates is summarized as follows:

(in thousands)	February 28, 2015	May 31, 2014
Cash	\$ 48,422	\$ 52,997
Receivable from member (1)	10,865	12,717
Other current assets	462,631	454,417
Noncurrent assets	286,170	294,001
<b>Total assets</b>	<b>\$ 808,088</b>	<b>\$ 814,132</b>
Current liabilities	\$ 131,216	\$ 128,595
Short-term borrowings	38,324	40,992
Current maturities of long-term debt	4,480	4,510
Long-term debt	264,982	268,350
Other noncurrent liabilities	20,407	20,217
Equity	348,679	351,468
<b>Total liabilities and equity</b>	<b>\$ 808,088</b>	<b>\$ 814,132</b>

(in thousands)	Three Months Ended February 28,		Nine Months Ended February 28,	
	2015	2014	2015	2014
Net sales	\$ 356,604	\$ 340,645	\$ 1,137,866	\$ 1,121,362
Gross margin	67,636	73,217	232,580	239,098
Operating income	41,335	48,752	154,678	164,824
Depreciation and amortization	8,827	8,622	26,932	28,063
Interest expense	2,157	2,494	6,492	6,950
Income tax expense	2,555	2,937	8,107	8,829
Net earnings	37,859	44,018	141,789	149,801

(1) Represents cash owed from a joint venture member as a result of centralized cash management.

The financial results of TWB have been included in the amounts presented in the tables above through July 31, 2013. On July 31, 2013, we completed the acquisition of an additional 10% interest in TWB. As a result, TWB's results have been consolidated within Steel Processing since that date with the minority member's portion of earnings eliminated within earnings attributable to noncontrolling interest.

**NOTE D Impairment of Goodwill and Long-Lived Assets**

During the third quarter of fiscal 2015, the Company concluded that an interim impairment test of the goodwill of its Engineered Cabs reporting unit was necessary. This conclusion was based on certain indicators of impairment, including the decision to close the Company's Engineered Cabs facility in Florence, South Carolina, and significant downward revisions to forecasted cash flows as a result of continued weakness in the mining and agricultural end markets and higher than expected manufacturing costs. The Company expects to incur approximately \$3,000,000 of severance expense associated with the facility closure. This amount will be recognized as restructuring expense ratably over the future service period.

Prior to conducting the goodwill impairment test, the Company first evaluated the other long-lived assets of the Engineered Cabs reporting unit for recoverability. Recoverability was tested using future cash flow projections based on management's long-range estimates of market conditions. The sums of the undiscounted future cash flows for the customer relationship intangible asset and the property, plant and equipment

## Edgar Filing: WORTHINGTON INDUSTRIES INC - Form 10-Q

of the Florence facility were less than their respective carrying values. As a result, these assets were written down to their respective fair values, resulting in impairment charges of \$22,356,000 for the customer relationship intangible asset and \$14,311,000 for the property, plant and equipment of the Florence asset group during the third quarter of fiscal 2015.

As noted above, the Company determined that indicators of potential impairment existed to require an interim goodwill analysis of the Engineered Cabs reporting unit. A comparison of the fair value of the Engineered Cabs



---

**Table of Contents**

reporting unit, determined using discounted cash flows, to its carrying value indicated that a step 2 calculation to quantify the potential impairment was required. After a subsequent review of the fair value of the net assets of Engineered Cabs, it was determined that the implied fair value of goodwill was \$0 and as a result the entire \$44,933,000 goodwill balance was written-off during the third quarter of fiscal 2015. The key assumptions that drive the fair value calculations are projected cash flows and the discount rate.

During the second quarter of fiscal 2015, management committed to a plan to sell the assets of the Advanced Component Technologies, Inc. business within Engineered Cabs. In accordance with the applicable accounting guidance, the net assets were recorded at the lower of net book value or fair value less costs to sell, resulting in an impairment charge of \$2,389,000. During the third quarter of fiscal 2015, the Company completed the sale of this business and recognized a gain of \$313,000.

During the second quarter of fiscal 2015, we determined that indicators of impairment were present at the Company's aluminum high-pressure cylinder business in New Albany, Mississippi, due to current and projected operating losses. Recoverability of the identified asset group was tested using future cash flow projections based on management's long-range estimates of market conditions. The sum of these undiscounted future cash flows was less than the net book value of the asset group. In accordance with the applicable accounting guidance, the net assets were written down to their fair value, resulting in an impairment charge of \$3,221,000.

During the second quarter of fiscal 2015, we determined that indicators of impairment were present at the Company's military construction business. Recoverability of the identified asset group was tested using future cash flow projections based on management's long-range estimates of market conditions. The sum of these undiscounted future cash flows was less than the net book value of the asset group. In accordance with the applicable accounting guidance, the net assets were written down to their fair value, resulting in an impairment charge of \$1,179,000, which represents the remaining book value of the asset group.

During the fourth quarter of fiscal 2014, management committed to a plan to sell the Company's 60%-owned consolidated joint venture in India, Worthington Nitin Cylinders. As all of the criteria for classification as assets held for sale were met, the net assets of the business were presented separately as assets held for sale in our consolidated balance sheet as of May 31, 2014. In accordance with the applicable accounting guidance, the net assets were recorded at the lower of net book value or fair value less costs to sell as of May 31, 2014. As a result of changes in facts and circumstances related to the planned sale of Worthington Nitin Cylinders during the second quarter of fiscal 2015, the Company reassessed the fair value of the business and determined that the remaining book value should be written off resulting in an impairment charge of \$6,346,000.

During the fourth quarter of fiscal 2014, management committed to a plan to sell certain non-core Steel Processing assets. As all of the criteria for classification as assets held for sale were met, the net assets of the business have been presented separately as assets held for sale in our consolidated balance sheets as of February 28, 2015 and May 31, 2014. In accordance with the applicable accounting guidance, the net assets were recorded at the lower of net book value or fair value less costs to sell as of May 31, 2014. As a result of changes in facts and circumstances related to the planned sale, the Company reassessed the fair value of the business resulting in additional impairment charges totaling \$3,050,000 during fiscal 2015.

**NOTE E Restructuring and Other Expense**

In fiscal 2008, we initiated a Transformation Plan (the "Transformation Plan") with the overall goal to improve our sustainable earnings potential, asset utilization and operational performance. The Transformation Plan focuses on cost reduction, margin expansion and organizational capability improvements and, in the process, seeks to drive excellence in three core competencies: sales; operations; and supply chain management. Most of the work is now being done by our internal teams. These internal teams are now an integral part of our business. The Transformation teams will continue to monitor performance metrics and new processes instituted across our transformed operations and drive continuous improvements in all areas of our operations. The expenses related to these teams have been included in selling, general and administrative (SG&A) expense since the beginning of fiscal 2013.

To date, we have completed the transformation phases in each of the core facilities within our Steel Processing operating segment, including the facilities of our Mexican joint venture, Serviacero. We also substantially completed the transformation phases at our metal framing facilities prior to their contribution to ClarkDietrich. Transformation efforts within our Pressure Cylinders and Engineered Cabs operating segments, which began during the first quarter of fiscal 2012 and the first quarter of fiscal 2013, respectively, are ongoing.

**Table of Contents**

A progression of the liabilities associated with our restructuring activities, combined with a reconciliation to the restructuring and other expense financial statement caption in our consolidated statement of earnings for the nine months ended February 28, 2015 is summarized as follows:

(in thousands)	Beginning Balance	Expense	Payments	Adjustments	Ending Balance
Early retirement and severance	\$ 6,495	\$ 2,169	\$ (5,313)	\$ 46	\$ 3,397
Facility exit and other costs	534	909	(1,203)	79	319
	\$ 7,029	3,078	\$ (6,516)	\$ 125	\$ 3,716
Gain on asset disposal		(313)			
Less: joint venture transactions		(274)			
Restructuring and other expense		\$ 2,491			

Severance expense in the current year consisted primarily of \$2,291,000 recognized in connection with the recently announced workforce reductions in our oil and gas equipment business within Pressure Cylinders.

Approximately \$3,552,000 of the total liability as of February 28, 2015 is expected to be paid in the next twelve months. The remaining liability will be paid through September 2016.

**NOTE F Contingent Liabilities**

We are defendants in certain legal actions. In the opinion of management, the outcome of these actions, which is not clearly determinable at the present time, would not significantly affect our consolidated financial position or future results of operations. We believe that environmental issues will not have a material effect on our capital expenditures, consolidated financial position or future results of operations.

**Insurance Recoveries**

On August 19, 2013, a fire occurred at our Pressure Cylinders facility in Kienberg, Austria, in the building that houses the massing process in the production of acetylene cylinders. The other portions of the Austrian facility were not damaged; however, the massing process building sustained extensive damage and was rendered inoperable. Additionally, we have incurred incremental business interruption costs. The Company has business interruption and property damage insurance and, as a result, the fire did not have a material adverse impact on the Company's consolidated financial results.

During fiscal 2015, the Company received proceeds of \$1,248,000 representing advance payments for the replacement value of damaged equipment. These proceeds were in excess of the \$243,000 remaining book value of the assets, resulting in a gain of \$1,005,000 within miscellaneous income.

Total proceeds received related to insurance claims since the date of loss have been as follows:

(in thousands)	
Property and equipment	\$ 6,892
Business interruption	5,521
Other expenses	1,001
Total insurance proceeds	\$ 13,414

The proceeds for business interruption relate to the loss of profits since the date of the fire and have been recorded as a reduction of manufacturing expense, including \$2,653,000 during the nine months ended February 28, 2015. The proceeds for other expenses represent

## Edgar Filing: WORTHINGTON INDUSTRIES INC - Form 10-Q

reimbursement for incremental expenses related to the fire and were recorded as an offset to manufacturing expense, including \$256,000 during the nine months ended February 28, 2015. This claim was settled during the third quarter of fiscal 2015.

### **NOTE G Guarantees**

We do not have guarantees that we believe are reasonably likely to have a material current or future effect on our consolidated financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. However, as of February 28, 2015, we were party to an operating

---

**Table of Contents**

lease for an aircraft in which we have guaranteed a residual value at the termination of the lease. The maximum obligation under the terms of this guarantee was approximately \$12,036,000 at February 28, 2015. We have also guaranteed the repayment of a \$2,083,000 term loan entered into by one of our unconsolidated affiliates, ArtiFlex. Based on current facts and circumstances, we have estimated the likelihood of payment pursuant to these guarantees, and determined that the fair value of our obligation under each guarantee based on those likely outcomes is not material and, therefore, no amounts have been recognized in our consolidated financial statements.

**NOTE H Debt and Receivables Securitization**

On September 26, 2014, our consolidated joint venture in Turkey, Worthington Aritas, executed a \$28,605,000 five-year term loan credit facility denominated in Euros. As of February 28, 2015, we had borrowed \$23,432,000 against the facility, leaving \$5,173,000 available for future borrowings. The facility bears interest at a variable rate based on EURIBOR. The applicable variable rate was 1.569% at February 28, 2015. On October 15, 2014, we entered into an interest rate swap to fix the interest rate on \$17,131,000 of borrowings under this facility at 2.015% starting on December 26, 2014 through September 26, 2019. Borrowings against the facility will be used for the construction of a new cryogenics manufacturing facility in Turkey.

We have a \$425,000,000 multi-year revolving credit facility (the Credit Facility ) with a group of lenders that matures in May 2017. Borrowings under the Credit Facility have maturities of less than one year. However, we can extend the term of amounts borrowed by renewing these borrowings for the term of the Credit Facility. We have the option to borrow at rates equal to an applicable margin over the LIBOR, Prime or Fed Funds rates. The applicable margin is determined by our credit rating. The applicable interest rate at February 28, 2015 was 1.23%. Borrowings outstanding under the Credit Facility totaled \$33,840,000 at February 28, 2015, leaving \$391,160,000 available for future use. We are currently in the process of amending the Credit Facility, which we expect to be completed during the fourth quarter of fiscal 2015.

We also maintain a \$100,000,000 revolving trade accounts receivable securitization facility (the AR Facility ). The AR Facility has been available throughout fiscal 2015 to date, and was available throughout fiscal 2014. During the third quarter of fiscal 2015, we extended the maturity under the AR Facility to January 2018. Pursuant to the terms of the AR Facility, certain of our subsidiaries sell their accounts receivable without recourse, on a revolving basis, to Worthington Receivables Corporation ( WRC ), a wholly-owned, consolidated, bankruptcy-remote subsidiary. In turn, WRC may sell without recourse, on a revolving basis, up to \$100,000,000 of undivided ownership interests in this pool of accounts receivable to a multi-seller, asset-backed commercial paper conduit (the Conduit ). Purchases by the Conduit are financed with the sale of A1/P1 commercial paper. We retain an undivided interest in this pool and are subject to risk of loss based on the collectability of the receivables from this retained interest. Because the amount eligible to be sold excludes receivables more than 90 days past due, receivables offset by an allowance for doubtful accounts due to bankruptcy or other cause, concentrations over certain limits with specific customers and certain reserve amounts, we believe additional risk of loss is minimal. The book value of the retained portion of the pool of accounts receivable approximates fair value. As of February 28, 2015, the pool of eligible accounts receivable exceeded the \$100,000,000 limit, and \$80,000,000 of undivided interests in this pool of accounts receivable had been sold.

Short-term borrowings at February 28, 2015 also included \$3,305,000 outstanding under a credit facility maintained by our consolidated affiliate, Worthington Aritas, that matures in May 2015 and bears interest at a fixed rate of 5.55%, and \$5,909,000 outstanding under a \$9,500,000 credit facility maintained by our consolidated affiliate, Worthington Nitin Cylinders, that matured in November 2014 and bears interest at a variable rate. The applicable variable rate was 9.05% at February 28, 2015. The borrowings outstanding under the Nitin credit facility are currently in default; however, the lender has not called the note.

**Table of Contents****NOTE I Comprehensive Income (Loss)**

The following table summarizes the tax effects on each component of other comprehensive income (loss) for the three months ended February 28, 2015 and 2014:

(in thousands)	2015			2014		
	Before-Tax Amount	Tax Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax Expense	Net-of-Tax Amount
Foreign currency translation	(14,873)	\$ -	\$ (14,873)	\$ 3,043	-	\$ 3,043
Pension liability adjustment	(1,072)	371	(701)	691	(241)	450
Cash flow hedges	(15,253)	5,715	(9,538)	(62)	(32)	(94)
<b>Other comprehensive income (loss )</b>	<b>\$ (31,198)</b>	<b>\$ 6,086</b>	<b>\$ (25,112)</b>	<b>\$ 3,672</b>	<b>\$ (273)</b>	<b>\$ 3,399</b>

The following table summarizes the tax effects on each component of other comprehensive income (loss) for the nine months ended February 28, 2015 and 2014:

(in thousands)	2015			2014		
	Before-Tax Amount	Tax Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax Expense	Net-of-Tax Amount
Foreign currency translation	\$ (31,735)	\$ -	\$ (31,735)	\$ 5,594	\$ -	\$ 5,594
Pension liability adjustment	(1,072)	371	(701)	691	(241)	450
Cash flow hedges	(16,683)	6,225	(10,458)	5,419	(1,809)	3,610
<b>Other comprehensive income (loss)</b>	<b>\$ (49,490)</b>	<b>\$ 6,596</b>	<b>\$ (42,894)</b>	<b>\$ 11,704</b>	<b>\$ (2,050)</b>	<b>\$ 9,654</b>

**Table of Contents****NOTE J Changes in Equity**

The following table provides a summary of the changes in total equity, shareholders' equity attributable to controlling interest, and equity attributable to noncontrolling interest for the nine months ended February 28, 2015:

(in thousands)	Controlling Interest			Total	Non-controlling Interest	
	Additional Paid-in Capital	Cumulative Other Comprehensive Loss, Net of Tax	Retained Earnings		Interest	Total
<b>Balance at May 31, 2014</b>	\$ 262,610	\$ (3,581)	\$ 591,783	\$ 850,812	\$ 94,070	\$ 944,882
Net earnings	-	-	47,920	47,920	9,110	57,030
Other comprehensive loss	-	(40,441)	-	(40,441)	(2,453)	(42,894)
Common shares issued, net of withholding tax	1,627	-	-	1,627	-	1,627
Common shares in NQ plans	14,323	-	-	14,323	-	14,323
Stock-based compensation	21,344	-	-	21,344	-	21,344
Purchases and retirement of common shares	(13,007)	-	(85,278)	(98,285)	-	(98,285)
Cash dividends declared	-	-	(36,560)	(36,560)	-	(36,560)
Acquisition of dHybrid Systems, LLC	-	-	-	-	4,082	4,082
Payments to noncontrolling interest	-	-	-	-	(13,876)	(13,876)
<b>Balance at February 28, 2015</b>	\$ 286,897	\$ (44,022)	\$ 517,865	\$ 760,740	\$ 90,933	\$ 851,673

The components of the changes in other comprehensive loss for the nine months ended February 28, 2015, were as follows:

(in thousands)	Foreign Currency Translation	Pension Liability Adjustment	Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance as of May 31, 2014	\$ 11,015	\$ (11,265)	\$ (3,331)	\$ (3,581)
Other comprehensive loss before reclassifications	(29,281)	(1,072)	(19,742)	(50,095)
Reclassification adjustments to income (a)	-	-	3,058	3,058
Income taxes	-	371	6,225	6,596
Balance as of February 28, 2015	\$ (18,266)	\$ (11,966)	\$ (13,790)	\$ (44,022)

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

**NOTE K Stock-Based Compensation****Non-Qualified Stock Options**

During the nine months ended February 28, 2015, we granted non-qualified stock options covering a total of 96,200 common shares under our stock-based compensation plans. The option price of \$43.04 per share was equal to the market price of the underlying common shares at the grant date. The fair value of these stock options, based on the Black-Scholes option-pricing model, calculated at the grant date, was \$17.96 per share. The calculated pre-tax stock-based compensation expense for these stock options, after an estimate for forfeitures, is \$1,538,000 and will be recognized on a straight-line basis over the three-year vesting period. The following assumptions were used to value these stock options:

## Edgar Filing: WORTHINGTON INDUSTRIES INC - Form 10-Q

Dividend yield	1.88%
Expected volatility	50.92%
Risk-free interest rate	1.88%
Expected term (years)	6.0

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

**Table of Contents****Service-Based Restricted Common Shares**

During the nine months ended February 28, 2015, we granted an aggregate of 237,815 service-based restricted common shares under our stock-based compensation plans. The fair values of these restricted common shares were equal to the weighted average closing market prices of the underlying common shares on the respective dates of grant, or \$40.18 per share. The calculated pre-tax stock-based compensation expense for these restricted common shares, after an estimate for forfeitures, is \$8,596,000 and will be recognized on a straight-line basis over the three-year service-based vesting period.

**Market-Based Restricted Common Shares**

During the nine months ended February 28, 2015, we granted an aggregate of 50,000 restricted common shares to two key employees under one of our stock-based compensation plans. Vesting of these restricted common share awards is contingent upon the price of our common shares reaching \$60.00 per share and remaining at or above that price for 30 consecutive days during the five-year period following the date of grant and the completion of a five-year service vesting period. The grant-date fair value of these restricted common shares, as determined by a Monte Carlo simulation model, was \$32.06 per share. The Monte Carlo simulation model is a statistical technique that incorporates multiple assumptions to determine the probability that the market condition will be achieved. The following assumptions were used to determine the grant-date fair value and the derived service period for these restricted common shares:

Dividend yield	1.60%
Expected volatility	44.00%
Risk-free interest rate	1.70%

The calculated pre-tax stock-based compensation expense for these restricted common shares is \$1,603,000 and will be recognized on a straight-line basis over the five-year service vesting period.

**Performance Share Awards**

We have awarded performance shares to certain key employees that are earned based on the level of achievement with respect to corporate targets for cumulative corporate economic value added, earnings per share growth and, in the case of business unit executives, business unit operating income targets for the three-year periods ending May 31, 2015, 2016 and 2017. These performance share awards will be paid, to the extent earned, in common shares of the Company in the fiscal quarter following the end of the applicable three-year performance period. The fair values of our performance shares are determined by the closing market prices of the underlying common shares at their respective grant dates and the pre-tax stock-based compensation expense is based on our periodic assessment of the probability of the targets being achieved and our estimate of the number of common shares that will ultimately be issued. During the nine months ended February 28, 2015, we granted performance share awards covering an aggregate of 61,500 common shares (at target levels). The calculated pre-tax stock-based compensation expense for these performance shares is \$2,627,000 and will be recognized over the three-year performance period.

**NOTE L Income Taxes**

Income tax expense for the nine months ended February 28, 2015 and February 28, 2014 reflected estimated annual effective income tax rates of 30.9% and 27.3%, respectively. The annual effective income tax rates exclude any impact from the inclusion of net earnings attributable to noncontrolling interests in our consolidated statements of earnings. Net earnings attributable to noncontrolling interest is a result of our Spartan, TWB, Worthington Aritas, WEI, dHybrid, and Worthington Nitin Cylinders consolidated joint ventures. The earnings attributable to the noncontrolling interest in Spartan, WEI, dHybrid and TWB's U.S. operations do not generate tax expense to Worthington since the investors in Spartan, WEI, dHybrid, and TWB's U.S. operations are taxed directly based on the earnings attributable to them. All of the tax expense of Worthington Aritas and Worthington Nitin Cylinders, both foreign corporations, is reported in our consolidated tax expense. Since the consolidation of TWB on July 31, 2013, all of the tax expense of TWB's wholly-owned foreign corporations has been reported in our consolidated tax expense. Management is required to estimate the annual effective income tax rate based upon its forecast of annual pre-tax income for domestic and foreign operations. Our actual effective income tax rate for fiscal 2015 could be materially different from the forecasted rate as of February 28, 2015.



**Table of Contents****NOTE M Earnings (Loss) Per Share**

The following table sets forth the computation of basic and diluted earnings (loss) per share attributable to controlling interest for the three and nine months ended February 28, 2015 and 2014:

<b>(in thousands, except per share amounts)</b>	<b>Three Months Ended February 28,</b>		<b>Nine Months Ended February 28,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Numerator (basic &amp; diluted):</b>				
Net earnings (loss) attributable to controlling interest income (loss) available to common shareholders	\$ (25,710)	\$ 40,603	\$ 47,920	\$ 118,137
<b>Denominator:</b>				
Denominator for basic earnings (loss) per share attributable to controlling interest weighted average common shares	66,359	68,895	67,013	69,268
Effect of dilutive securities	-	2,633	2,288	2,642
Denominator for diluted earnings (loss) per share attributable to controlling interest adjusted weighted average common shares	66,359	71,528	69,301	71,910
Basic earnings (loss) per share attributable to controlling interest	\$ (0.39)	\$ 0.59	\$ 0.72	\$ 1.71
Diluted earnings (loss) per share attributable to controlling interest	\$ (0.39)	\$ 0.57	\$ 0.69	\$ 1.64

Stock options and restricted common shares covering 1,924,019 and 9,922 common shares for the three months ended February 28, 2015 and 2014, respectively, and 122,721 and 8,048 common shares for the nine months ended February 28, 2015 and 2014, respectively, have been excluded from the computation of diluted earnings (loss) per share because the effect would have been anti-dilutive. All potentially dilutive shares have been excluded from the computation of diluted loss per share for the three months ended February 28, 2015, because the effect would have been anti-dilutive due to the overall net loss for the period.

**Table of Contents****NOTE N Segment Operations**

Summarized financial information for our reportable segments is shown in the following table:

(in thousands)	Three Months Ended February 28,		Nine Months Ended February 28,	
	2015	2014	2015	2014
<b>Net sales</b>				
Steel Processing	\$ 500,703	\$ 477,983	\$ 1,605,790	\$ 1,372,558
Pressure Cylinders	248,086	233,290	749,789	664,212
Engineered Cabs	45,390	51,485	146,484	147,814
Other	10,606	10,472	36,148	50,837
<b>Consolidated net sales</b>	<b>\$ 804,785</b>	<b>\$ 773,230</b>	<b>\$ 2,538,211</b>	<b>\$ 2,235,421</b>
<b>Operating income (loss)</b>				
Steel Processing	\$ 16,406	\$ 28,264	\$ 86,152	\$ 85,713
Pressure Cylinders	18,611	21,278	47,797	49,007
Engineered Cabs	(85,780)	(1,088)	(93,534)	(22,284)
Other	(1,287)	(3,165)	(7,071)	(9,010)
<b>Consolidated operating income (loss)</b>	<b>\$ (52,050)</b>	<b>\$ 45,289</b>	<b>\$ 33,344</b>	<b>\$ 103,426</b>
<b>Impairment of goodwill and long-lived assets</b>				
Steel Processing	\$ -	\$ -	\$ 3,050	\$ 4,641
Pressure Cylinders	-	-	9,567	11,634
Engineered Cabs	81,600	-	83,989	19,100
Other	-	-	1,179	-
<b>Consolidated impairment of goodwill and long-lived assets</b>	<b>\$ 81,600</b>	<b>\$ -</b>	<b>\$ 97,785</b>	<b>\$ 35,375</b>
<b>Restructuring and other expense (income)</b>				
Steel Processing	\$ (28)	\$ 1,380	\$ (58)	\$ (3,382)
Pressure Cylinders	2,498	412	2,926	(1,035)
Engineered Cabs	(313)	-	(313)	-
Other	(64)	(394)	(64)	636
<b>Consolidated restructuring and other expense (income)</b>	<b>\$ 2,093</b>	<b>\$ 1,398</b>	<b>\$ 2,491</b>	<b>\$ (3,781)</b>
<b>Joint venture transactions</b>				
Steel Processing	\$ -	\$ -	\$ -	\$ -
Pressure Cylinders	-	-	-	-
Engineered Cabs	-	-	-	-
Other	84	120	274	1,048
<b>Consolidated joint venture transactions</b>	<b>\$ 84</b>	<b>\$ 120</b>	<b>\$ 274</b>	<b>\$ 1,048</b>
<b>Total assets</b>				
(in thousands)	<b>February 28, 2015</b>	<b>May 31, 2014</b>		

Edgar Filing: WORTHINGTON INDUSTRIES INC - Form 10-Q

Steel Processing	\$ 927,717	\$ 850,748
Pressure Cylinders	851,279	818,720
Engineered Cabs	93,597	181,251
Other	348,808	445,662
<b>Consolidated total assets</b>	<b>\$ 2,221,401</b>	<b>\$ 2,296,381</b>

**Table of Contents****NOTE O Acquisitions****Rome Strip Steel Company, Inc.**

On January 16, 2015, the Company acquired the net assets of Rome Strip Steel Company, Inc. ( Rome Strip Steel ) for cash consideration of \$54,495,000. This amount differs from the \$55,312,000 paid at closing due to an estimated working capital deficit of \$817,000. Located in Rome, New York, the Rome Strip Steel business manufactures cold rolled steel to extremely tight tolerances. The acquired net assets became part of our Steel Processing operating segment upon closing.

The assets acquired and liabilities assumed were recognized at their acquisition-date fair values, with goodwill representing the excess of the purchase price over the fair value of the net identifiable assets acquired. In connection with the acquisition of the net assets of Rome Strip Steel, we identified and valued the following identifiable intangible assets:

Category	(in thousands)	Amount	Useful Life (Years)
Customer relationships		\$ 4,300	10
Non-compete agreements		1,200	5
<b>Total acquired identifiable intangible assets</b>		<b>\$ 5,500</b>	

The purchase price includes the fair values of other assets that were not identifiable, not separately recognizable under accounting rules (e.g., assembled workforce) or of immaterial value. The purchase price also includes a going-concern element that represents our ability to earn a higher rate of return on this group of assets than would be expected on the separate assets as determined during the valuation process. This additional investment value resulted in goodwill, which is expected to be deductible for income tax purposes.

The following table summarizes the consideration transferred for the net assets of Rome Strip Steel and the fair value assigned to the assets acquired and liabilities assumed at the acquisition date:

(in thousands)	
Cash	\$ 10
Accounts receivable	6,333
Inventories	17,063
Prepaid expenses	41
Intangible assets	5,500
Property, plant and equipment	22,775
<b>Total identifiable assets</b>	<b>51,722</b>
Accounts payable	(3,091)
Other accrued items	(410)
Other liabilities	(313)
<b>Net assets</b>	<b>47,908</b>
Goodwill	6,587
<b>Purchase price</b>	<b>\$ 54,495</b>
Plus: estimated working capital deficit	817
<b>Cash paid at closing</b>	<b>\$ 55,312</b>

Operating results of the acquired business have been included in our consolidated statement of earnings for the three and nine months ended February 28, 2015 from the acquisition date, forward, and have not been material. Pro forma net sales and net earnings, including the acquired

business since the beginning of fiscal 2014, would not be materially different than reported results.

**dHybrid Systems, LLC**

On October 20, 2014, we acquired a 79.59% ownership interest in dHybrid, a leader in compressed natural gas ( CNG ) systems for large trucks. The remaining 20.41% was retained by a founding member. The total purchase price was \$15,918,000, which includes contingent consideration with an estimated fair value of \$3,979,000. The acquired business became part of our Pressure Cylinders operating segment upon closing.

**Table of Contents**

The contingent consideration arrangement requires the Company to pay \$3,979,000 of additional consideration when cumulative net sales beginning January 1, 2013 reach \$20,000,000 plus 50% of gross margin above certain thresholds in each of the five twelve-month periods following the closing date. We determined the acquisition-date fair value of the contingent consideration obligation using a probability weighted cash flow approach based on management's projections of future sales and gross margin. Refer to Note Q Fair Value Measurements for additional information regarding the fair value measurement of the contingent consideration obligation.

The assets acquired and liabilities assumed were recognized at their acquisition-date fair values, with goodwill representing the excess of the purchase price over the fair value of the net identifiable assets acquired. In connection with the acquisition of the net assets of dHybrid, we identified and valued the following identifiable intangible assets:

<b>Category</b>	<b>(in thousands)</b>	<b>Amount</b>	<b>Useful Life (Years)</b>
Technological know-how		\$ 3,100	10
Customer relationships		600	7
Backlog		88	Less than 1
Total acquired identifiable intangible assets		\$ 3,788	

The purchase price includes the fair values of other assets that were not identifiable, not separately recognizable under accounting rules (e.g., assembled workforce) or of immaterial value. The purchase price also includes a going-concern element that represents our ability to earn a higher rate of return on this group of assets than would be expected on the separate assets as determined during the valuation process. This additional investment value resulted in goodwill, which is expected to be deductible for income tax purposes.

The following table summarizes the consideration transferred for our 79.59% interest in dHybrid and the fair value assigned to the assets acquired and liabilities assumed at the acquisition date:

<b>(in thousands)</b>	
<b>Consideration Transferred:</b>	
Cash consideration	\$ 11,939
Fair value of contingent consideration	3,979
Total consideration	\$ 15,918
<b>Estimated Fair Value of Assets Acquired and Liabilities Assumed:</b>	
Cash and cash equivalents	\$ 795
Accounts receivable	1,459
Inventories	3,300
Prepaid expenses and other current assets	38
Intangible assets	3,788
Property, plant and equipment	396
Total identifiable assets	9,776
Accounts payable	(1,163)
Accrued liabilities	(160)
Long-term debt	(5,000)
Net identifiable assets	3,453
Goodwill	16,547
Net assets	20,000
Noncontrolling interest	(4,082)

Edgar Filing: WORTHINGTON INDUSTRIES INC - Form 10-Q

Total consideration	\$ 15,918
---------------------	-----------

**Table of Contents**

Operating results of the acquired business have been included in our consolidated statements of earnings for the three and nine months ended February 28, 2015 from the acquisition date, forward, and have not been material. Pro forma net sales and net earnings, including the acquired business since the beginning of fiscal 2014, would not be materially different than reported results.

**Midstream Equipment Fabrication, LLC**

On August 1, 2014, we acquired the net assets of Midstream Equipment Fabrication LLC ( MEF ) for cash consideration of \$38,441,000 and the assumption of certain liabilities. The MEF business manufactures patented horizontal heated and high pressure separators used to separate oilfield fluids and gas for customers drilling in the Eagle Ford Shale and is well-situated to serve customers in the Permian Basin. The acquired net assets became part of our Pressure Cylinders operating segment upon closing.

The assets acquired and liabilities assumed were recognized at their acquisition-date fair values, with goodwill representing the excess of the purchase price over the fair value of the net identifiable assets acquired. In connection with the acquisition of the net assets of MEF, we identified and valued the following identifiable intangible assets:

<b>Category</b>	<b>(in thousands)</b>	<b>Amount</b>	<b>Useful Life (Years)</b>
Technological know-how		\$ 5,100	10
Customer relationships		4,300	7
Non-compete agreements		2,400	4
Backlog		1,800	Less than 1
<b>Total acquired identifiable intangible assets</b>		<b>\$ 13,600</b>	

The purchase price includes the fair values of other assets that were not identifiable, not separately recognizable under accounting rules (e.g., assembled workforce) or of immaterial value. The purchase price also includes a going-concern element that represents our ability to earn a higher rate of return on this group of assets than would be expected on the separate assets as determined during the valuation process. This additional investment value resulted in goodwill, which is expected to be deductible for income tax purposes.

The following table summarizes the consideration transferred for the net assets of MEF and the fair value assigned to the assets acquired and liabilities assumed at the acquisition date:

	<b>(in thousands)</b>
Accounts receivable	\$ 3,329
Inventories	3,550
Intangible assets	13,600
Property, plant and equipment	166
<b>Total identifiable assets</b>	<b>20,645</b>
Accounts payable	(555)
Other accrued items	(92)
Deferred revenue	(4,808)
<b>Net assets</b>	<b>15,190</b>
Goodwill	23,251
<b>Cash consideration</b>	<b>38,441</b>

The Company incurred \$273,000 of acquisition-related costs that were expensed within SG&A expense during the nine months ended February 28, 2015. Operating results of the acquired business have been included in our consolidated statements of earnings for the three and nine months ended February 28, 2015 from the acquisition date, forward, and have not been material. Pro forma net sales and net earnings,



Edgar Filing: WORTHINGTON INDUSTRIES INC - Form 10-Q

including the acquired business since the beginning of fiscal 2014, would not be materially different than reported results.

**Table of Contents****James Russell Engineering Works, Inc.**

On July 31, 2014, we acquired the net assets of James Russell Engineering Works, Inc. ( JRE ) for cash consideration of \$1,571,000. The JRE business manufactures aluminum and stainless steel cryogenic transport trailers used for hauling liquid oxygen, nitrogen, argon, hydrogen and liquefied natural gas ( LNG ) for producers and distributors of industrial gases and LNG. The acquired net assets became part of our Pressure Cylinders operating segment upon closing.

The assets acquired and liabilities assumed were recognized at their acquisition-date fair values. The purchase price includes the fair values of other assets that were not identifiable, not separately recognizable under accounting rules (e.g., assembled workforce) or of immaterial value. The purchase price also includes a going-concern element that represents our ability to earn a higher rate of return on this group of assets than would be expected on the separate assets as determined during the valuation process. This additional investment value resulted in goodwill, which is expected to be deductible for income tax purposes.

The following table summarizes the consideration transferred for the net assets of JRE and the fair value assigned to the assets acquired and liabilities assumed at the acquisition date:

(in thousands)	
Cash	\$ 253
Accounts receivable	509
Inventories	2,793
Prepaid expense and other current assets	40
Property, plant and equipment	250
Total identifiable assets	3,845
Accounts payable	(514)
Other accrued items	(2,160)
Net identifiable assets	1,171
Goodwill	400
Total cash consideration	\$ 1,571

Operating results of the acquired business have been included in our consolidated statements of earnings for the three and nine months ended February 28, 2015 from the acquisition date, forward, and have not been material. Pro forma net sales and net earnings, including the acquired business since the beginning of fiscal 2014, would not be materially different than reported results.

**NOTE P Derivative Instruments and Hedging Activities**

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

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

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

used to manage this risk.

**Table of Contents**

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

We are exposed to counterparty credit risk on all of our derivative instruments. Accordingly, we have established and maintain strict counterparty credit guidelines and enter into derivative instruments only with major financial institutions. We have credit support agreements in place with certain counterparties to limit our credit exposure. These agreements require either party to post cash collateral if its cumulative market position exceeds a predefined liability threshold. At February 28, 2015, we had posted total cash collateral of \$6,300,000 to our margin accounts. Amounts posted to the margin accounts accrue interest at market rates and are required to be refunded in the period in which the cumulative market position falls below the required threshold. We do not have significant exposure to any one counterparty and management believes the risk of loss is remote and, in any event, would not be material.

Refer to Note Q Fair Value for additional information regarding the accounting treatment for our derivative instruments, as well as how fair value is determined.

The following table summarizes the fair value of our derivative instruments and the respective financial statement caption in which they were recorded in our consolidated balance sheet at February 28, 2015:

(in thousands)	Location	Value	Location	Value
<b>Derivatives designated as hedging instruments:</b>				
Interest rate contracts	Receivables	\$ -	Accounts payable	\$ 246
Foreign exchange contracts	Receivables	438	Accounts payable	-
Commodity contracts	Receivables	-	Accounts payable	18,207
Commodity contracts	Other assets	-	Other liabilities	413
Totals		\$ 438		\$ 18,866
<b>Derivatives not designated as hedging instruments:</b>				
Commodity contracts	Receivables	\$ 73	Accounts payable	\$ 5,422
Commodity contracts	Other assets	-	Other liabilities	590
Totals		\$ 73		\$ 6,012
<b>Total Derivative Instruments</b>		<b>\$ 511</b>		<b>\$ 24,878</b>

The amounts in the table above reflect the fair value of the Company's derivative contracts on a net basis. Had these amounts been recognized on a gross basis, the impact would have been a \$345,000 increase in receivables with a corresponding increase in accounts payable.

**Table of Contents**

The following table summarizes the fair value of our derivative instruments and the respective line in which they were recorded in the consolidated balance sheet at May 31, 2014:

(in thousands)	Asset Derivatives Balance		Liability Derivatives Balance	
	Sheet Location	Fair Value	Sheet Location	Fair Value
<b>Derivatives designated as hedging instruments:</b>				
Interest rate contracts	Receivables	\$ -	Accounts payable	\$ 4,180
Commodity contracts	Receivables	456	Accounts payable	-
Totals		\$ 456		\$ 4,180
<b>Derivatives not designated as hedging instruments:</b>				
Commodity contracts	Receivables	\$ 796	Accounts payable	\$ 295
Foreign exchange contracts	Receivables	32	Accounts payable	-
Totals		\$ 828		\$ 295
Total Derivative Instruments		\$ 1,284		\$ 4,475

The amounts in the table above reflect the fair value of the Company's derivative contracts on a net basis. Had these amounts been recognized on a gross basis, the impact would have been a \$730,000 increase in receivables with a corresponding increase in accounts payable.

**Cash Flow Hedges**

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

The following table summarizes our cash flow hedges outstanding at February 28, 2015:

(in thousands)	Notional Amount	Maturity Date
Commodity contracts	\$ 95,228	March 2015 - June 2016
Interest rate contracts	17,131	September 2019
Foreign currency contracts	3,810	March 2015 - June 2015

**Table of Contents**

The following table summarizes the gain (loss) recognized in OCI and the gain (loss) reclassified from accumulated OCI into earnings for derivative instruments designated as cash flow hedges during the three months ended February 28, 2015 and 2014:

(in thousands)	Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI (Effective Portion)	Gain (Loss) Reclassified from Accumulated OCI (Effective Portion)	Location of Gain (Loss) (Ineffective Portion) and Excluded from Effectiveness Testing	Gain (Loss) (Ineffective Portion) and Excluded from Effectiveness Testing
For the three months ended February 28, 2015:					
Interest rate contracts	\$ -	Interest expense	\$ (160)	Interest expense	\$ -
Commodity contracts	(15,178)	Cost of goods sold	539	Cost of goods sold	-
Foreign currency contracts	314	Miscellaneous income	-	Miscellaneous income	-
<b>Totals</b>	<b>\$ (14,864)</b>		<b>\$ 379</b>		<b>\$ -</b>
For the three months ended February 28, 2014:					
Interest rate contracts	\$ 4	Interest expense	\$ (1,059)	Interest expense	\$ -
Commodity contracts	(3,644)	Cost of goods sold	(2,519)	Cost of goods sold	-
<b>Totals</b>	<b>\$ (3,640)</b>		<b>\$ (3,578)</b>		<b>\$ -</b>

**Table of Contents**

The following table summarizes the gain (loss) recognized in OCI and the gain (loss) reclassified from accumulated OCI into earnings for derivative instruments designated as cash flow hedges during the nine months ended February 28, 2015 and 2014:

(in thousands)	Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI (Effective Portion)	Gain (Loss) Reclassified from Accumulated OCI (Effective Portion)	Location of Gain (Loss) (Ineffective Portion) and Excluded from Effectiveness Testing	Gain (Loss) (Ineffective Portion) and Excluded from Effectiveness Testing
For the nine months ended February 28, 2015:					
Interest rate contracts	\$ -	Interest expense	\$ (2,445)	Interest expense	\$ -
Commodity contracts	(19,953)	Cost of goods sold	(613)	Cost of goods sold	-
Foreign currency contracts	211	Miscellaneous income	-	Miscellaneous income	-
<b>Totals</b>	<b>\$ (19,742)</b>		<b>\$ (3,058)</b>		<b>\$ -</b>
For the nine months ended February 28, 2014:					
Interest rate contracts	\$ (380)	Interest expense	\$ (3,179)	Interest expense	\$ -
Commodity contracts	(1,027)	Cost of goods sold	(3,647)	Cost of goods sold	-
<b>Totals</b>	<b>\$ (1,407)</b>		<b>\$ (6,826)</b>		<b>\$ -</b>

The estimated net amount of the losses recognized in accumulated OCI at February 28, 2015 expected to be reclassified into net earnings within the succeeding twelve months is \$11,742,000 (net of tax of \$6,982,000). This amount was computed using the fair value of the cash flow hedges at February 28, 2015, and will change before actual reclassification from OCI to net earnings during the fiscal years ending May 31, 2015 and 2016.

**Economic (Non-designated) Hedges**

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

The following table summarizes our economic (non-designated) derivative instruments outstanding at February 28, 2015:

(in thousands)	Notional Amount	Maturity Date(s)
Commodity contracts	\$ 50,973	March 2015 - February 2016

**Table of Contents**

The following table summarizes the loss recognized in earnings for economic (non-designated) derivative financial instruments during the three months ended February 28, 2015 and 2014:

(in thousands)	Location of Loss Recognized in Earnings	Loss Recognized in Earnings for the Three Months Ended February 28,	
		2015	2014
Commodity contracts	Cost of goods sold	\$ (4,105)	\$ (1,241)
Foreign currency contracts	Miscellaneous income (expense)	-	(205)
<b>Total</b>		<b>\$ (4,105)</b>	<b>\$ (1,446)</b>

The following table summarizes the gain (loss) recognized in earnings for economic (non-designated) derivative financial instruments during the nine months ended February 28, 2015 and 2014:

(in thousands)	Location of Gain (Loss) Recognized in Earnings	Gain (Loss) Recognized in Earnings for the Nine Months Ended February 28,	
		2015	2014
Commodity contracts	Cost of goods sold	\$ (6,522)	\$ (959)
Foreign currency contracts	Miscellaneous income (expense)	43	(210)
<b>Total</b>		<b>\$ (6,479)</b>	<b>\$ (1,169)</b>

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

**NOTE Q Fair Value**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is an exit price concept that assumes an orderly transaction between willing market participants and is required to be based on assumptions that market participants would use in pricing an asset or a liability. Current accounting guidance establishes a three-tier fair value hierarchy as a basis for considering such assumptions and for classifying the inputs used in the valuation methodologies. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair values are as follows:

- Level 1      Observable prices in active markets for identical assets and liabilities.
- Level 2      Observable inputs other than quoted prices in active markets for identical assets and liabilities.
- Level 3      Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.



**Table of Contents****Recurring Fair Value Measurements**

At February 28, 2015, our financial assets and liabilities measured at fair value on a recurring basis were as follows:

(in thousands)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
<b>Assets</b>				
Derivative contracts (1)	\$ -	\$ 511	\$ -	\$ 511
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 511</b>	<b>\$ -</b>	<b>\$ 511</b>
<b>Liabilities</b>				
Derivative contracts (1)	\$ -	\$ 24,878	\$ -	\$ 24,878
Contingent consideration obligation (2)	-	-	3,979	3,979
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ 24,878</b>	<b>\$ 3,979</b>	<b>\$ 28,857</b>

At May 31, 2014, our financial assets and liabilities measured at fair value on a recurring basis were as follows:

(in thousands)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
<b>Assets</b>				
Derivative contracts (1)	\$ -	\$ 1,284	\$ -	\$ 1,284
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 1,284</b>	<b>\$ -</b>	<b>\$ 1,284</b>
<b>Liabilities</b>				
Derivative contracts (1)	\$ -	\$ 4,475	\$ -	\$ 4,475
Contingent consideration obligation (2)	-	-	404	404
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ 4,475</b>	<b>\$ 404</b>	<b>\$ 4,879</b>

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

(2) The fair value of the Company's contingent consideration obligations is determined using a probability weighted cash flow approach based on management's projections of future cash flows of the acquired businesses. The fair value measurements are based on significant inputs not observable in the market and thus represent Level 3 measurements.



**Table of Contents****Non-Recurring Fair Value Measurements**

At February 28, 2015, our financial assets and liabilities measured at fair value on a non-recurring basis were as follows:

(in thousands)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
<b><u>Assets</u></b>				
Long-lived assets held and used (1)	\$ -	\$ -	\$ 11,803	\$ 11,803
Total assets	\$ -	\$ -	\$ 11,803	\$ 11,803

- (1) During the third quarter of fiscal 2015, the Company concluded that an interim impairment test of the goodwill of its Engineered Cabs operating segment was necessary. Prior to conducting the goodwill impairment test, the Company first evaluated the other long-lived assets of the Engineered Cabs operating segment for recoverability. Recoverability was tested using future cash flow projections based on management's long-range estimates of market conditions. The sum of the undiscounted future cash flows for the customer relationship intangible asset and the property, plant and equipment of the Florence facility were less than their respective carrying values. As a result, these assets were written down to their respective fair values of \$2,000,000 and \$9,803,000, resulting in impairment charges of \$22,356,000 for the customer relationship intangible asset and \$14,311,000 for the property, plant and equipment of the Florence asset group during the third quarter of fiscal 2015. The fair value measurements are based on significant inputs not observable in the market and thus represent Level 3 measurements.

**Table of Contents**

At May 31, 2014, our assets measured at fair value on a non-recurring basis were categorized as follows:

(in thousands)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
<b>Assets</b>				
Long-lived assets held for sale (1)	\$ -	\$ 25,040	\$ -	\$ 25,040
Long-lived assets held and used (2)	-	7,034	-	7,034
Total assets	\$ -	\$ 32,074	\$ -	\$ 32,074

(1) During the fourth quarter of fiscal 2014, management committed to a plan to sell the Company's 60%-owned consolidated joint venture in India, Worthington Nitin Cylinders. In accordance with the applicable accounting guidance, the net assets were recorded at the lower of net book value or fair value less costs to sell. As the fair value of the asset group, or \$5,925,000, was lower than its net book value, an impairment charge of \$18,959,000 was recognized within impairment of long-lived assets in our fiscal 2014 consolidated statement of earnings. The portion of this impairment loss attributable to the noncontrolling interest, or \$7,583,000, was recorded within net earnings attributable to noncontrolling interest in our fiscal 2014 consolidated statement of earnings.

During the fourth quarter of fiscal 2014, management committed to plans to sell certain non-core Steel Processing assets. In accordance with the applicable accounting guidance, the net assets were recorded at the lower of net book value or fair value less costs to sell. As the fair value of the asset group, or \$19,115,000, was lower than its net book value, an impairment charge of \$7,141,000 was recognized within impairment of long-lived assets in our fiscal 2014 consolidated statement of earnings.

(2) During the fourth quarter of fiscal 2014, we determined that indicators of impairment were present at the Company's aluminum high-pressure cylinder business in New Albany, Mississippi, due to current and projected operating losses. Recoverability of the identified asset group was tested using future cash flow projections based on management's long-range estimates of market conditions. The sum of these undiscounted future cash flows was less than the net book value of the asset group. In accordance with the applicable accounting guidance, the net assets were written down to their fair value of \$7,034,000, resulting in an impairment charge of \$1,412,000 within impairment of long-lived assets in our fiscal 2014 consolidated statement of earnings.

The fair value of non-derivative financial instruments included in the carrying amounts of cash and cash equivalents, receivables, notes receivable, income taxes receivable, other assets, accounts payable, short-term borrowings, accrued compensation, contributions to employee benefit plans and related taxes, other accrued items, income taxes payable and other liabilities approximate carrying value due to their short-term nature. The fair value of long-term debt, including current maturities, based upon models utilizing market observable (Level 2) inputs and credit risk, was \$624,142,000 and \$674,488,000 at February 28, 2015 and May 31, 2014, respectively. The carrying amount of long-term debt, including current maturities, was \$576,803,000 and \$655,963,000 at February 28, 2015 and May 31, 2014, respectively.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*Selected statements contained in this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements as that term is used in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based, in whole or in part, on management's beliefs, estimates, assumptions and currently available information. For a more detailed discussion of what constitutes a forward-looking statement and of some of the factors that could cause actual results to differ materially from such forward-looking statements, please refer to the Safe Harbor Statement in the beginning of this Quarterly Report on Form 10-Q and Part I - Item 1A. - Risk Factors of our Annual Report on Form 10-K for the fiscal year ended May 31, 2014, as well as in Part II - Item 1A. Risk Factors of this Quarterly Report on Form 10-Q.*

***Introduction***

The following discussion and analysis of market and industry trends, business developments, and the results of operations and financial position of Worthington Industries, Inc., together with its subsidiaries (collectively, we, our, Worthington, or our Company), should be read in conjunction with our consolidated financial statements and notes thereto included in Item 1. Financial Statements of this Quarterly Report on Form 10-Q. Our Annual Report on Form 10-K for the fiscal year ended May 31, 2014 (fiscal 2014) includes additional information about Worthington, our operations and our consolidated financial position and should be read in conjunction with this Quarterly Report on Form 10-Q.

We are primarily a diversified metals manufacturing company, focused on value-added steel processing and manufactured metal products. As of February 28, 2015, excluding our joint ventures, we operated 34 manufacturing facilities worldwide, principally in three operating segments, which correspond with our reportable business segments: Steel Processing, Pressure Cylinders and Engineered Cabs. Our remaining operating segments, which do not meet the applicable aggregation criteria or quantitative thresholds for separate disclosure, are combined and reported in the Other category. These include Construction Services and Worthington Energy Innovations.

We also held equity positions in 13 active joint ventures, which operated 48 manufacturing facilities worldwide, as of February 28, 2015. Six of these joint ventures are consolidated with the equity owned by the other joint venture member(s) shown as noncontrolling interest in our consolidated balance sheets, and the other joint venture member(s) portion of net earnings and other comprehensive income shown as net earnings or comprehensive income attributable to noncontrolling interest in our consolidated statements of earnings and consolidated statements of comprehensive income (loss), respectively. The remaining seven of these joint ventures are accounted for using the equity method.

***Overview***

Net sales increased 4% during the third quarter of fiscal 2015; however, rapidly declining steel prices and higher than expected manufacturing costs in a few plants had a significant adverse impact on results. The falling price of steel resulted in higher inventory holding losses recognized throughout the current quarter, and a \$5.1 million inventory write-down to reflect the lower replacement cost of steel at February 28, 2015. Demand remained strong in most of our key end markets, with the exception of oil and gas equipment and agriculture. To address softness in these markets, the Company decided to close its Engineered Cabs facility in Florence, South Carolina, and scale down costs in its oil and gas equipment business in Pressure Cylinders. These decisions led to non-cash impairment charges of \$81.6 million for goodwill and other long-lived assets in Engineered Cabs and a restructuring charge of \$2.3 million for the estimated severance expense covering those affected by the workforce reductions within Pressure Cylinders.

Equity in net income of unconsolidated affiliates (equity income) for the quarter of \$18.8 million was \$2.4 million lower than the prior year quarter. The overall decrease was primarily due to a \$3.3 million decrease at Serviacero, which was negatively impacted by the falling price of steel, and a \$0.8 million decrease at ClarkDietrich on lower volumes. Equity income from ArtiFlex was \$2.3 million higher than the prior year quarter on increased volumes and gains on asset disposals. We received \$18.7 million in cash distributions from our unconsolidated affiliates during the quarter.

***Recent Business Developments***

On July 31, 2014, the Company acquired the net assets of James Russell Engineering Works, Inc. (JRE) for cash consideration of \$1.6 million. The JRE business manufactures aluminum and stainless steel

**Table of Contents**

cryogenic transport trailers used for hauling liquid oxygen, nitrogen, argon, hydrogen and liquefied natural gas ( LNG ) for producers and distributors of industrial gases and LNG. The acquired net assets became part of our Pressure Cylinders operating segment upon closing.

On August 1, 2014, the Company acquired the net assets of Midstream Equipment Fabrication LLC ( MEF ) for cash consideration of \$38.4 million and the assumption of certain liabilities. The MEF business manufactures patented horizontal heated and high pressure separators used to separate oilfield fluids and gas for customers drilling in the Eagle Ford Shale and is well-situated to serve customers in the Permian Basin. The acquired net assets became part of our Pressure Cylinders operating segment upon closing.

On October 20, 2014, we acquired a 79.59% ownership interest in dHybrid Systems, LLC ( dHybrid ), a leader in compressed natural gas ( CNG ) systems for large trucks. The remaining 20.41% was retained by a founding member. The total purchase price was \$15.9 million, which includes contingent consideration with an estimated fair value of \$4.0 million. The acquired business became part of our Pressure Cylinders operating segment upon closing.

On November 13, 2014, the Company s consolidated tailor welded blanking joint venture, TWB, opened a new facility in Cambridge, Ontario. The facility will initially operate one laser welding line with the capacity to produce two million tailor welded blanks per year.

On January 16, 2015, the Company acquired the net assets of Rome Strip Steel Company, Inc. ( Rome Strip Steel ) for cash consideration of \$54.5 million after an adjustment for estimated working capital. Located in Rome, New York, the Rome Strip Steel business manufactures cold rolled steel to extremely tight tolerances. The acquired net assets became part of our Steel Processing operating segment upon closing.

On March 12, 2015, WAVE, Worthington s joint venture with Armstrong World Industries, Inc., acquired the Axiom® and Serpentina® ceiling system manufacturing capabilities from Fry Reglet Corporation.

On March 24, 2015, the Company announced its decision to close its Engineered Cabs facility in Florence, South Carolina, and a workforce reduction in several oil and gas equipment locations due to slowing demand. These decisions led to non-cash impairment charges of \$81.6 million for goodwill and other long-lived assets in Engineered Cabs and a restructuring charge of \$2.3 million for the estimated severance expense covering those affected by the workforce reductions within Pressure Cylinders.

On March 25, 2015, the Board of Directors of Worthington Industries, Inc. (the Board ) declared a quarterly dividend of \$0.18 per share payable on June 29, 2015 to shareholders of record on June 12, 2015.

During the quarter, the Company repurchased a total of 1,990,000 common shares for \$56.6 million at an average price of \$28.46.

**Table of Contents****Market & Industry Overview**

We sell our products and services to a diverse customer base and a broad range of end markets. The breakdown of our net sales by end market for the third quarter of fiscal 2015 and the third quarter of fiscal 2014 is illustrated in the following chart:

The automotive industry is one of the largest consumers of flat-rolled steel, and thus the largest end market for our Steel Processing operating segment. Approximately 60% of the net sales of our Steel Processing operating segment are to the automotive market. North American vehicle production, primarily by Chrysler, Ford and General Motors (the Detroit Three automakers), has a considerable impact on the activity within this operating segment. The majority of the net sales of four of our unconsolidated joint ventures are also to the automotive end market.

Approximately 10% of the net sales of our Steel Processing operating segment, 60% of the net sales of our Engineered Cabs operating segment and substantially all of the net sales of our Construction Services operating segment are to the construction market. The construction market is also the predominant end market for two of our unconsolidated joint ventures: WAVE and ClarkDietrich. While the market price of steel significantly impacts these businesses, there are other key indicators that are meaningful in analyzing construction market demand, including U.S. gross domestic product (GDP), the Dodge Index of construction contracts and, in the case of ClarkDietrich, trends in the relative price of framing lumber and steel.

Substantially all of the net sales of our Pressure Cylinders operating segment, and approximately 30% and 40% of the net sales of our Steel Processing and Engineered Cabs operating segments, respectively, are to other markets such as consumer products, industrial, lawn and garden, agriculture, oil and gas equipment, heavy truck, mining, forestry and appliance. Given the many different products that make up these net sales and the wide variety of end markets, it is very difficult to detail the key market indicators that drive this portion of our business. However, we believe that the trend in U.S. GDP growth is a good economic indicator for analyzing these operating segments.

We use the following information to monitor our costs and demand in our major end markets:

	Three Months Ended February 28,			Nine Months Ended February 28,		
	2015	2014	Inc / (Dec)	2015	2014	Inc / (Dec)
U.S. GDP (% growth year-over-year) <sup>1</sup>	2.3%	2.2%	0.1%	2.6%	1.6%	1.0%
Hot-Rolled Steel (\$ per ton) <sup>2</sup>	\$ 578	\$ 669	(\$ 91)	\$ 634	\$ 649	(\$ 15)
Detroit Three Auto Build (000 s vehicles) <sup>3</sup>	2,106	2,065	41	6,694	6,656	38
No. America Auto Build (000 s vehicles) <sup>3</sup>	4,024	3,800	224	12,682	12,028	654
Zinc (\$ per pound) <sup>4</sup>	\$ 0.93	\$ 0.85	\$ 0.08	\$ 0.99	\$ 0.85	\$ 0.14
Natural Gas (\$ per mcf) <sup>5</sup>	\$ 3.33	\$ 4.58	(\$ 1.25)	\$ 3.97	\$ 3.95	\$ 0.02
On-Highway Diesel Fuel Prices (\$ per gallon) <sup>6</sup>	\$ 3.09	\$ 3.92	(\$ 0.83)	\$ 3.56	\$ 3.89	(\$ 0.33)

<sup>1</sup> 2014 and 2015 figures based on revised actuals <sup>2</sup> CRU Hot-Rolled Index; period average <sup>3</sup> IHS Global <sup>4</sup> LME Zinc; period average <sup>5</sup> NYMEX Henry Hub Natural Gas; period average <sup>6</sup> Energy Information Administration; period average

**Table of Contents**

U.S. GDP growth rate trends are generally indicative of the strength in demand and, in many cases, pricing for our products. A year-over-year increase in U.S. GDP growth rates is indicative of a stronger economy, which generally increases demand and pricing for our products. Conversely, decreasing U.S. GDP growth rates generally indicate a weaker economy. Changes in U.S. GDP growth rates can also signal changes in conversion costs related to production and in selling, general and administrative ( SG&A ) expense.

The market price of hot-rolled steel is one of the most significant factors impacting our selling prices and operating results. When steel prices fall, which was the case during the second and third quarters of fiscal 2015, we typically have higher-priced material flowing through cost of goods sold, while selling prices compress to what the market will bear, negatively impacting our results. On the other hand, in a rising price environment, our results are generally favorably impacted, as lower-priced material purchased in previous periods flows through cost of goods sold, while our selling prices increase at a faster pace to cover current replacement costs.

The following table provides the average quarterly market price per ton of hot-rolled steel during fiscal 2015 (first, second and third quarters), fiscal 2014 and fiscal 2013:

	(Dollars per ton <sup>1</sup> )			Increase / (Decrease)			
	Fiscal Year 2015	Fiscal Year 2014	Fiscal Year 2013	2015 vs. 2014	2014 vs. 2013	2015 vs. 2014	2014 vs. 2013
1st Quarter	\$ 673	\$ 627	\$ 616	\$ 46	7.3%	\$ 11	1.8%
2nd Quarter	\$ 651	\$ 651	\$ 622	\$ 0	0.0%	\$ 29	4.7%
3rd Quarter	\$ 578	\$ 669	\$ 629	(\$ 91)	-13.6%	\$ 40	6.4%
4th Quarter	N/A	\$ 655	\$ 595	N/A	N/A	\$ 60	10.1%
Annual Avg.	N/A	\$ 651	\$ 616	N/A	N/A	\$ 35	5.7%

<sup>1</sup> CRU Hot-Rolled Index, period average

No single customer contributed more than 10% of our consolidated net sales during the third quarter of fiscal 2015. While our automotive business is largely driven by the production schedules of the Detroit Three automakers, our customer base is much broader and includes other domestic manufacturers and many of their suppliers. During the third quarter of fiscal 2015, vehicle production for the Detroit Three automakers was up 2% from the comparable period in the prior year. North American vehicle production as a whole during the third quarter of fiscal 2015 increased 6% over the comparable period in the prior year.

Certain other commodities, such as zinc, natural gas and diesel fuel, represent a significant portion of our cost of goods sold, both directly through our plant operations and indirectly through transportation and freight expense.



**Table of Contents****Results of Operations****Third Quarter Fiscal 2015 Compared to Fiscal 2014****Consolidated Operations**

The following table presents consolidated operating results for the periods indicated:

(Dollars in millions)	Three Months Ended February 28,				
	2015	% of Net sales	2014	% of Net sales	Increase/ (Decrease)
Net sales	\$ 804.8	100.0%	\$ 773.2	100.0%	\$ 31.6
Cost of goods sold	706.3	87.8%	650.7	84.2%	55.6
<b>Gross margin</b>	98.5	12.2%	122.5	15.8%	(24.0)
Selling, general and administrative expense	66.8	8.3%	75.7	9.8%	(8.9)
Impairment of goodwill and long-lived assets	81.6	10.1%	-	0.0%	81.6
Restructuring and other expense	2.1	0.3%	1.4	0.2%	0.7
Joint venture transactions	0.1	0.0%	0.1	0.0%	-
<b>Operating income (loss)</b>	(52.1)	-6.5%	45.3	5.9%	(97.4)
Miscellaneous income	0.2	0.0%	0.5	0.1%	(0.3)
Interest expense	(8.4)	-1.0%	(6.2)	-0.8%	2.2
Equity in net income of unconsolidated affiliates	18.8	2.3%	21.2	2.7%	(2.4)
Income tax benefit (expense)	18.2	2.3%	(16.6)	-2.1%	(34.8)
<b>Net earnings (loss)</b>	(23.3)	-2.9%	44.2	5.7%	(67.5)
Net earnings attributable to noncontrolling interest	2.4	0.3%	3.6	0.5%	1.2
<b>Net earnings (loss) attributable to controlling interest</b>	\$ (25.7)	-3.2%	\$ 40.6	5.3%	\$ (66.3)

Net loss attributable to controlling interest for the three months ended February 28, 2015 of \$25.7 million represents a \$66.3 million decrease from the \$40.6 million of net earnings attributable to controlling interest in the comparable period in the prior year. Net sales and operating highlights were as follows:

Net sales increased \$31.6 million over the comparable period in the prior year. Higher overall volume favorably impacted net sales by \$31.4 million driven by the impact of recent acquisitions in Steel Processing and Pressure Cylinders.

Gross margin decreased \$24.0 million from the comparable period in the prior year to \$98.5 million. Lower volumes in consumer and industrial products within Pressure Cylinders and higher inventory holding losses caused by rapidly falling steel prices in Steel Processing more than offset contributions from recent acquisitions.

SG&A expense decreased \$8.9 million from the comparable period in the prior year driven by lower profit sharing and bonus expense partially offset by the impact of acquisitions.

Impairment charges of \$81.6 million were due to the impairment of goodwill and other long-lived assets in Engineered Cabs. For additional information, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE D Impairment of

## Edgar Filing: WORTHINGTON INDUSTRIES INC - Form 10-Q

Goodwill and Long-Lived Assets of this Quarterly Report on Form 10-Q.

Restructuring and other expense of \$2.1 million was driven by \$2.3 million of severance expense related to the recently announced workforce reductions in our oil and gas equipment business within Pressure Cylinders.

Interest expense of \$8.4 million was \$2.2 million higher than the comparable period in the prior year. The increase was due to the impact of higher average debt levels resulting from the issuance of \$250.0 million of 4.55% unsecured senior notes in April 2014. However, interest expense in the current quarter was down \$1.3 million from the second quarter of fiscal 2015 as \$100.0 million of 2004 notes matured and were repaid in December 2014.

**Table of Contents**

Equity income decreased \$2.4 million over the prior year quarter to \$18.8 million on net sales of \$356.6 million. The overall decrease was driven by Serviacero and ClarkDietrich where our equity portion of income decreased by \$3.3 million and \$0.8 million, respectively, on lower volume. The decrease at Serviacero was also due in part to inventory holding losses resulting from declining steel prices. Equity income from ArtiFlex increased \$2.3 million on higher volumes and gains on asset disposals. For additional financial information regarding our unconsolidated affiliates, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE C Investments in Unconsolidated Affiliates of this Quarterly Report on Form 10-Q.

An income tax benefit of \$18.2 million was recorded in the current year, resulting primarily from the impairment charges in Engineered Cabs. Excluding the impact of these impairment charges, current year income tax expense was approximately \$10.9 million compared to \$16.6 million in the comparable period in the prior year primarily due to lower earnings. The current quarter tax benefit was calculated using an estimated annual effective income tax rate of 30.9% versus 27.3% in the prior year quarter. Refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE L Income Taxes of this Quarterly Report on Form 10-Q for more information on our tax rates.

**Segment Operations****Steel Processing**

The following table presents a summary of operating results for our Steel Processing operating segment for the periods indicated:

(Dollars in millions)	Three Months Ended February 28,				
	2015	% of Net sales	2014	% of Net sales	Increase/ (Decrease)
Net sales	\$ 500.7	100.0%	\$ 478.0	100.0%	\$ 22.7
Cost of goods sold	457.0	91.3%	415.9	87.0%	41.1
<b>Gross margin</b>	43.7	8.7%	62.1	13.0%	(18.4)
Selling, general and administrative expense	27.3	5.5%	32.4	6.8%	(5.1)
Restructuring and other expense	-	0.0%	1.4	0.3%	(1.4)
<b>Operating income</b>	\$ 16.4	3.3%	\$ 28.3	5.9%	\$ (11.9)
Material cost	\$ 375.6		\$ 342.2		\$ 33.4
Tons shipped (in thousands)	831		796		35

Net sales and operating highlights were as follows:

Net sales increased \$22.7 million over the comparable period in the prior year to \$500.7 million due to the recent acquisition of Rome Strip Steel and higher volume, which increased 4%. The mix of direct versus toll tons was relatively unchanged from the prior year at 60% to 40%.

Operating income of \$16.4 million was \$11.9 million lower than the prior year quarter due to the unfavorable impact of inventory holding losses in the current quarter combined with higher manufacturing expenses. The falling price of steel resulted in higher inventory holding losses recognized throughout the current quarter, and a \$5.1 million inventory write-down to reflect the lower replacement cost of steel at February 28, 2015. The overall decrease in operating income was partially offset by lower SG&A expenses resulting from a decrease in profit sharing and bonus accruals and depreciation expense.

**Table of Contents****Pressure Cylinders**

The following table presents a summary of operating results for our Pressure Cylinders operating segment for the periods indicated:

(Dollars in millions)	Three Months Ended February 28,		Three Months Ended February 28,		Increase/ (Decrease)
	2015	% of Net sales	2014	% of Net sales	
Net sales	\$ 248.1	100.0%	\$ 233.3	100.0%	\$ 14.8
Cost of goods sold	193.9	78.2%	178.9	76.7%	15.0
<b>Gross margin</b>	54.2	21.8%	54.4	23.3%	(0.2)
Selling, general and administrative expense	33.1	13.3%	32.7	14.0%	0.4
Restructuring and other expense	2.5	1.0%	0.4	0.2%	2.1
<b>Operating income</b>	\$ 18.6	7.5%	\$ 21.3	9.1%	\$ (2.7)
Material cost	\$ 117.2		\$ 105.6		\$ 11.6
Net sales by principal class of products:					
Consumer Products	\$ 54.1		\$ 60.0		\$ (5.9)
Industrial Products	106.6		112.0		(5.4)
Alternative Fuels	23.7		22.3		1.4
Oil and Gas Equipment	60.2		37.7		22.5
Cryogenics	3.5		1.3		2.2
Total Pressure Cylinders	\$ 248.1		\$ 233.3		\$ 14.8
Units shipped by principal class of products:					
Consumer Products	11,826,910		14,093,639		(2,266,729)
Industrial Products	7,634,572		8,427,042		(792,470)
Alternative Fuels	105,460		100,303		5,157
Oil and Gas Equipment	2,548		2,149		399
Cryogenics	95		13		82
Total Pressure Cylinders	19,569,585		22,623,146		(3,053,561)

Net sales and operating highlights were as follows:

Net sales increased \$14.8 million over the comparable period in the prior year to \$248.1 million. The increase was driven by contributions from recent acquisitions partially offset by lower volume in the industrial and consumer products end markets.

Operating income decreased \$2.7 million from the prior year quarter to \$18.6 million as contributions from recent acquisitions were more than offset by higher restructuring charges and lower contributions from the industrial and consumer products end markets. Restructuring charges in the current quarter related to the \$2.3 million of severance expense resulting from efforts to scale down costs at our oil and gas equipment facilities.

**Table of Contents****Engineered Cabs**

The following table presents a summary of operating results for our Engineered Cabs operating segment for the periods indicated:

(Dollars in millions)	Three Months Ended February 28,				
	2015	% of Net sales	2014	% of Net sales	Increase/ (Decrease)
Net sales	\$ 45.4	100.0%	\$ 51.5	100.0%	\$ (6.1)
Cost of goods sold	43.6	96.0%	45.0	87.4%	(1.4)
<b>Gross margin</b>	1.8	4.0%	6.5	12.6%	(4.7)
Selling, general and administrative expense	6.3	13.9%	7.6	14.8%	(1.3)
Impairment of goodwill and long-lived assets	81.6	179.7%	-	0.0%	81.6
Restructuring and other income	(0.3)	-0.7%	-	0.0%	(0.3)
<b>Operating loss</b>	\$ (85.8)	-189.0%	\$ (1.1)	-2.1%	\$ (84.7)

Net sales and operating highlights were as follows:

Net sales decreased \$6.1 million over the comparable period in the prior year on lower tooling revenue from startup programs and the January 2015 sale of the assets of Advanced Component Technologies, Inc.

Operating loss of \$85.8 million in the current quarter includes impairment charges of \$81.6 million for the impairment of goodwill and other long-lived assets. Excluding the impact of impairment charges, operating loss in the current quarter increased \$3.1 million due to lower average selling prices and higher operating costs at the facility in Florence, South Carolina. For additional information, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE D Impairment of Goodwill and Long-Lived Assets of this Quarterly Report on Form 10-Q.

**Other**

The Other category includes the Construction Services and Worthington Energy Innovations operating segments, as they do not meet the quantitative thresholds for separate disclosure. Certain income and expense items not allocated to our operating segments are also included in the Other category, including costs associated with our non-captive insurance company, as is the activity related to the wind-down of our former Metal Framing operating segment. The following table presents a summary of operating results for the Other category for the periods indicated:

(Dollars in millions)	Three Months Ended February 28,				
	2015	% of Net sales	2014	% of Net sales	Increase/ (Decrease)
Net sales	\$ 10.6	100.0%	\$ 10.5	100.0%	\$ 0.1
Cost of goods sold	11.9	112.3%	11.1	105.7%	0.8
<b>Gross margin</b>	(1.3)	-12.3%	(0.6)	-5.7%	(0.7)
Selling, general and administrative expense	-	0.0%	2.9	27.6%	(2.9)
Restructuring and other income	(0.1)	-0.9%	(0.4)	-3.8%	0.3
Joint venture transactions	0.1	0.9%	0.1	1.0%	-
<b>Operating loss</b>	\$ (1.3)	-12.3%	\$ (3.2)	-30.5%	\$ 1.9

## Edgar Filing: WORTHINGTON INDUSTRIES INC - Form 10-Q

Net sales and operating highlights were as follows:

Net sales were \$10.6 million, slightly higher than the \$10.5 million reported in the prior year quarter. Increased sales in the Energy Innovations business were mostly offset by lower revenue in Construction Services.

Operating loss of \$1.3 million was \$1.9 million lower than the prior year quarter. The improvement resulted from lower losses in Construction Services.

**Table of Contents****Nine Months Year-to-Date Fiscal 2015 Compared to Fiscal 2014****Consolidated Operations**

The following table presents consolidated operating results for the periods indicated:

(Dollars in millions)	Nine Months Ended February 28,		%		Increase/ (Decrease)
	2015	% of Net sales	2014	% of Net sales	
Net sales	\$ 2,538.2	100.0%	\$ 2,235.4	100.0%	\$ 302.8
Cost of goods sold	2,185.0	86.1%	1,873.7	83.8%	311.3
<b>Gross margin</b>	353.2	13.9%	361.7	16.2%	(8.5)
Selling, general and administrative expense	219.3	8.6%	225.6	10.1%	(6.3)
Impairment of goodwill and long-lived assets	97.8	3.9%	35.4	1.6%	62.4
Restructuring and other expense (income)	2.5	0.1%	(3.8)	-0.2%	6.3
Joint venture transactions	0.3	0.0%	1.0	0.0%	(0.7)
<b>Operating income</b>	33.3	1.3%	103.5	4.6%	(70.2)
Miscellaneous income	1.8	0.1%	13.8	0.6%	(12.0)
Interest expense	(27.6)	-1.1%	(18.7)	-0.8%	8.9
Equity in net income of unconsolidated affiliates	69.0	2.7%	69.2	3.1%	(0.2)
Income tax expense	(19.5)	-0.8%	(38.9)	-1.7%	(19.4)
<b>Net earnings</b>	57.0	2.2%	128.9	5.8%	(71.9)
Net earnings attributable to noncontrolling interest	(9.1)	-0.4%	(10.8)	-0.5%	(1.7)
<b>Net earnings attributable to controlling interest</b>	\$ 47.9	1.9%	\$ 118.1	5.3%	\$ (70.2)

Net earnings attributable to controlling interest for the nine months ended February 28, 2015 decreased \$70.2 million from the comparable period in the prior year. Net sales and operating highlights were as follows:

Net sales increased \$302.8 million from the comparable period in the prior year. Higher overall volume favorably impacted net sales by \$268.2 million driven by the impact of recent acquisitions in Steel Processing and Pressure Cylinders.

Gross margin decreased \$8.5 million from the comparable period in the prior year. Higher manufacturing expenses combined with inventory holding losses caused by rapidly falling steel prices in Steel Processing more than offset contributions from recent acquisitions in Steel Processing and Pressure Cylinders.

SG&A expense decreased \$6.3 million from the comparable period in the prior year due primarily to lower profit sharing and bonus expense partially offset by the impact of acquisitions.

Impairment charges of \$97.8 million consisted primarily of \$81.6 million for the impairment of goodwill and other long-lived assets in Engineered Cabs. Additional impairment charges in the current period include \$6.4 million related to the Company's 60%-owned consolidated joint venture in India, \$3.2 million related to the Company's aluminum high-pressure cylinder business in New Albany, Mississippi, \$3.1 million related to certain non-core Steel Processing assets, \$2.4 million related to certain non-core Engineered Cabs assets, and \$1.2 million related to the military construction business. Impairment charges in the comparable period in the prior year

## Edgar Filing: WORTHINGTON INDUSTRIES INC - Form 10-Q

consisted of \$30.7 million related to the write-off of certain trade name intangible assets in connection with a branding initiative committed to during the second quarter of fiscal 2014 and \$4.7 million related to certain non-core assets within Steel Processing. For additional information, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE D Impairment of Goodwill and Long-Lived Assets of this Quarterly Report on Form 10-Q.

Restructuring and other expense of \$2.5 million consisted primarily of \$2.3 million of severance expense related to the recently announced workforce reductions in our oil and gas equipment business within Pressure Cylinders.



**Table of Contents**

Miscellaneous income decreased \$12.0 million from the comparable period in the prior year due to an \$11.0 million non-cash gain in the prior year period related to the acquisition of an additional 10% interest in the TWB joint venture.

Interest expense of \$27.6 million was \$8.9 million higher than the comparable period in the prior year. The increase was due to the impact of higher average debt levels resulting from the issuance of \$250.0 million of 4.55% unsecured senior notes in April 2014.

Equity income decreased \$0.2 million over the prior year period to \$69.0 million on net sales of \$1,137.9 million. The equity portion of income from ArtiFlex and WAVE exceeded the prior year period by \$3.8 million and \$3.5 million, respectively. However, equity income from ClarkDietrich and Serviacero decreased \$3.7 million and \$1.5 million, respectively, on lower volumes. Inventory holding losses resulting from declining steel prices also contributed to the overall decline in equity income at Serviacero. Additionally, TWB contributed equity income of \$1.8 million in the prior year, prior to its consolidation in July of 2013. For additional financial information regarding our unconsolidated affiliates, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE C Investments in Unconsolidated Affiliates of this Quarterly Report on Form 10-Q.

Income tax expense decreased \$19.4 million from the comparable period in the prior year due to lower earnings, primarily resulting from the impact of the impairment charges within Engineered Cabs, offset partially by (i) the impact of trade name impairment charges recorded in the prior year, and (ii) an approximately \$7.2 million favorable tax impact associated with the acquisition of an additional 10% interest in TWB recorded in the prior year (the TWB acquisition adjustment). The TWB acquisition adjustment related primarily to the estimated U.S. deferred tax liability associated with the unremitted earnings of TWB's wholly-owned foreign corporations. Tax expense of \$19.5 million for the nine months ended February 28, 2015 was calculated using an estimated annual effective rate of 30.9% versus 27.3% in the prior year comparable period. See Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE L Income Taxes of this Quarterly Report on Form 10-Q for more information on our tax rates.

**Segment Operations****Steel Processing**

The following table presents a summary of operating results for our Steel Processing operating segment for the periods indicated:

(Dollars in millions)	Nine Months Ended February 28,				
	2015	% of Net sales	2014	% of Net sales	Increase/ (Decrease)
Net sales	\$ 1,605.8	100.0%	\$ 1,372.6	100.0%	\$ 233.2
Cost of goods sold	1,427.2	88.9%	1,189.7	86.7%	237.5
<b>Gross margin</b>	178.6	11.1%	182.9	13.3%	(4.3)
Selling, general and administrative expense	89.5	5.6%	95.9	7.0%	(6.4)
Impairment of long-lived assets	3.1	0.2%	4.7	0.3%	(1.6)
Restructuring and other income	(0.1)	0.0%	(3.4)	-0.2%	3.3
<b>Operating income</b>	\$ 86.1	5.4%	\$ 85.7	6.2%	\$ 0.4
Material cost	\$ 1,171.2		\$ 979.8		\$ 191.4
Tons shipped (in thousands)	2,635		2,333		302

Net sales and operating highlights were as follows:

Net sales increased \$233.2 million from the comparable period in the prior year on higher volume resulting from the consolidation of TWB and increased sales in the automotive market. Overall volumes were up 11% and the mix of direct versus toll tons processed

## Edgar Filing: WORTHINGTON INDUSTRIES INC - Form 10-Q

was 55% to 45%, compared to 57% to 43% in the comparable prior year period.

Operating income increased \$0.4 million from the comparable period in the prior year. Higher manufacturing expenses combined with the unfavorable impact of inventory holding losses in the current year substantially offset the impact of higher volume. SG&A expense decreased due to lower profit sharing and bonus expense. Operating income in the current period included an impairment charge of \$3.1 million compared to \$4.7 million in the comparable period in the prior year. Impairment charges in both periods related to certain non-core Steel Processing assets. Operating income in the prior year period was favorably impacted by a net restructuring gain of \$3.4 million, which consisted of \$4.8 million related to the sale of the Company's Integrated Terminals warehouse facility in Detroit, Michigan, offset by \$1.4 million of severance costs accrued in connection with the closure of the Company's Baltimore steel facility.

**Table of Contents****Pressure Cylinders**

The following table presents a summary of operating results for our Pressure Cylinders operating segment for the periods indicated:

(Dollars in millions)	Nine Months Ended February 28,				
	2015	% of Net sales	2014	% of Net sales	Increase/ (Decrease)
Net sales	\$ 749.8	100.0%	\$ 664.2	100.0%	\$ 85.6
Cost of goods sold	585.4	78.1%	508.6	76.6%	76.8
<b>Gross margin</b>	164.4	21.9%	155.6	23.4%	8.8
Selling, general and administrative expense	104.1	13.9%	96.0	14.5%	8.1
Impairment of long-lived assets	9.6	1.3%	11.6	1.7%	(2.0)
Restructuring and other expense (income)	2.9	0.4%	(1.0)	-0.2%	3.9
<b>Operating income</b>	\$ 47.8	6.4%	\$ 49.0	7.4%	\$ (1.2)
Material cost	\$ 351.5		\$ 302.4		\$ 49.1
Net sales by principal class of products:					
Consumer Products	\$ 161.5		\$ 159.5		\$ 2.0
Industrial Products	320.7		325.0		(4.3)
Alternative Fuels	68.3		69.7		(1.4)
Oil and Gas Equipment	184.5		108.7		75.8
Cryogenics	14.8		1.3		13.5
<b>Total Pressure Cylinders</b>	\$ 749.8		\$ 664.2		\$ 85.6
Units shipped by principal class of products:					
Consumer Products	35,413,635		35,899,207		(485,572)
Industrial Products	23,290,540		24,128,760		(838,220)
Alternative Fuels	316,849		322,740		(5,891)
Oil and Gas Equipment	8,529		5,681		2,848
Cryogenics	443		13		430
<b>Total Pressure Cylinders</b>	59,029,996		60,356,401		(1,326,405)

Net sales and operating highlights were as follows:

Net sales increased \$85.6 million over the comparable period in the prior year to \$749.8 million. The increase was driven by contributions from recent acquisitions partially offset by lower volume in the industrial and consumer products end markets.

Operating income decreased \$1.2 million from prior year as contributions from recent acquisitions were offset by higher manufacturing and SG&A expense driven by higher than expected costs associated with bringing new capacity online in the oil and gas equipment business. Impairment charges in the current period consisted of \$6.4 million related to the Company's 60%-owned consolidated joint venture in India and \$3.2 million related to the Company's aluminum high-pressure cylinder business in New

## Edgar Filing: WORTHINGTON INDUSTRIES INC - Form 10-Q

Albany, Mississippi. Impairment charges in the comparable period in the prior year consisted of \$11.6 million related to the write-off of certain trade name intangible assets in connection with a branding initiative committed to during the second quarter of fiscal 2014. Restructuring charges in the current quarter

**Table of Contents**

consisted of a \$2.3 million severance accrual resulting from efforts to scale down costs at our oil and gas equipment facilities to meet demand. For additional information, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE D Impairment of Goodwill and Long-Lived Assets of this Quarterly Report on Form 10-Q.

**Engineered Cabs**

The following table presents a summary of operating results for our Engineered Cabs operating segment for the periods indicated:

(Dollars in millions)	Nine Months Ended February 28,		Increase/		
	2015	% of Net sales	2014	% of Net sales	(Decrease)
Net sales	\$ 146.5	100.0%	\$ 147.8	100.0%	\$ (1.3)
Cost of goods sold	136.1	92.9%	128.4	86.9%	7.7
<b>Gross margin</b>	10.4	7.1%	19.4	13.1%	(9.0)
Selling, general and administrative expense	20.2	13.8%	22.6	15.3%	(2.4)
Impairment of goodwill and long-lived assets	84.0	57.3%	19.1	12.9%	64.9
Restructuring and other income	(0.3)	-0.2%	-	0.0%	(0.3)
<b>Operating loss</b>	\$ (93.5)	-63.8%	\$ (22.3)	-15.1%	\$ (71.2)
Material cost	\$ 66.5		\$ 66.2		\$ 0.3

Net sales and operating highlights were as follows:

Net sales decreased \$1.3 million over the comparable period in the prior year on lower volume.

Operating loss increased \$71.2 million to \$93.5 million due to higher impairment charges, which were up \$64.9 million from the prior year period. Excluding the impact of impairment charges, operating loss increased \$6.3 million largely due to lower average selling prices and higher operating costs at the facility in Florence, South Carolina. Current period impairment charges consisted primarily of \$81.6 million for the impairment of goodwill and other long-lived assets. Impairment charges in the comparable period in the prior year consisted of \$19.1 million related to the write-off of certain trade name intangible assets in connection with a branding initiative committed to during the second quarter of fiscal 2014. For additional information, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE D Impairment of Goodwill and Long-Lived Assets of this Quarterly Report on Form 10-Q.

**Table of Contents****Other**

The Other category includes the Construction Services and Worthington Energy Innovations operating segments, as they do not meet the quantitative thresholds for separate disclosure. Certain income and expense items not allocated to our operating segments are also included in the Other category, including costs associated with our non-captive insurance company, as is the activity related to the wind-down of our former Metal Framing operating segment. The following table presents a summary of operating results for the Other category for the periods indicated:

(Dollars in millions)	Nine Months Ended February 28,		%		Increase/ (Decrease)
	2015	% of Net sales	2014	% of Net sales	
Net sales	\$ 36.1	100.0%	\$ 50.8	100.0%	\$ (14.7)
Cost of goods sold	36.2	100.3%	47.0	92.5%	(10.8)
<b>Gross margin</b>	\$ (0.1)	-0.3%	\$ 3.8	7.5%	(3.9)
Selling, general and administrative expense	5.6	15.5%	11.1	21.9%	(5.5)
Impairment of long-lived assets	1.2	3.3%	-	0.0%	1.2
Restructuring and other expense (income)	(0.1)	-0.3%	0.7	1.4%	(0.8)
Joint venture transactions	0.3	0.8%	1.0	2.0%	(0.7)
<b>Operating loss</b>	\$ (7.1)	-19.7%	\$ (9.0)	-17.7%	\$ 1.9

Net sales and operating highlights were as follows:

Net sales decreased \$14.7 million from the comparable period in the prior year to \$36.1 million. Increased sales in the Energy Innovations business were more than offset by lower sales in Construction Services.

Operating loss of \$7.1 million improved \$1.9 million versus the comparable period. The improvement resulted from lower losses within Construction Services partially offset by impairment charges of \$1.2 million related to the military construction business.

**Liquidity and Capital Resources**

During the nine months ended February 28, 2015, we generated \$139.7 million of cash from operating activities, spent \$105.5 million on acquisitions and invested \$73.3 million in property, plant and equipment. Additionally, we repurchased 3,080,800 of our common shares for \$98.3 million, of which \$94.4 million was paid at quarter end, and paid \$34.8 million of dividends. The following table summarizes our consolidated cash flows for the nine months ended February 28, 2015 and 2014:

(in millions)	Nine Months Ended February 28,	
	2015	2014
Net cash provided by operating activities	\$ 139.7	\$ 220.6
Net cash used by investing activities	(190.5)	(1.0)
Net cash used by financing activities	(96.8)	(218.1)
Increase (decrease) in cash and cash equivalents	(147.6)	1.5
Cash and cash equivalents at beginning of period	190.1	51.4
<b>Cash and cash equivalents at end of period</b>	\$ 42.5	\$ 52.9

## Edgar Filing: WORTHINGTON INDUSTRIES INC - Form 10-Q

We believe we have access to adequate resources to meet our needs for normal operating costs, mandatory capital expenditures and debt redemptions, dividend payments and working capital for our existing businesses. These resources include cash and cash equivalents, cash provided by operating activities and unused lines of credit. We also believe that we have adequate access to the financial markets to allow us to be in a position to sell long-term debt or equity securities. However, given the uncertainty and volatility in the financial markets, our ability to access capital, and the terms under which we can do so, may change.

---

## **Table of Contents**

The cash and cash equivalents balance at February 28, 2015 included \$12.1 million of cash held by subsidiaries outside of the United States that the Company intends to indefinitely reinvest. Although the majority of this cash is available for repatriation, bringing the money into the United States could trigger federal, state and local income tax obligations. We do not have any intention to repatriate this cash.

### ***Operating Activities***

Our business is cyclical and cash flows from operating activities may fluctuate during the year and from year to year due to economic conditions. We rely on cash and short-term borrowings to meet cyclical increases in working capital needs. These needs generally rise during periods of increased economic activity or increasing raw material prices due to higher levels of inventory and accounts receivable. During economic slowdowns, or periods of decreasing raw material costs, working capital needs generally decrease as a result of the reduction of inventories and accounts receivable.

Net cash provided by operating activities was \$139.7 million during the nine months ended February 28, 2015 compared to \$220.6 million in the comparable period of fiscal 2014. The difference was driven largely by changes in working capital needs and a decrease in the provision for deferred income taxes.

### ***Investing Activities***

Net cash used by investing activities was \$190.5 million during the nine months ended February 28, 2015 compared to \$1.0 million in the comparable period of fiscal 2014. During the first nine months of fiscal 2015, we spent a combined \$105.5 million, net of cash acquired, for the net assets of Rome, MEF and JRE and our 79.59% interest in dHybrid and incurred capital expenditures of \$73.3 million. Net cash used by investing activities in the prior year period was driven by capital expenditures of \$52.2 million partially offset by \$24.3 million of proceeds from the sale of assets and the overall positive cash impact of acquisitions. During the nine months ended February 28, 2014, the Company paid \$35.6 million for a 75% interest in Worthington Aritas and \$17.9 million for an additional 10% interest in TWB. However, the overall impact to cash was an increase of \$17.6 million, as TWB's cash balance at the time of acquisition exceeded the cash paid for our additional 10% interest.

Investment activities are largely discretionary, and future investment activities could be reduced significantly, or eliminated, as economic conditions warrant. We assess acquisition opportunities as they arise, and such opportunities may require additional financing. There can be no assurance, however, that any such opportunities will arise, that any such acquisitions will be consummated, or that any needed additional financing will be available on satisfactory terms when required.

### ***Financing Activities***

Net cash used by financing activities was \$96.8 million during the nine months ended February 28, 2015. During the first nine months of fiscal 2015, we repurchased 3,080,800 of our common shares for \$98.3 million, of which \$94.4 million was paid at quarter end, and paid dividends of \$34.8 million on our common shares. Additionally, we received proceeds of \$26.4 million during the nine months ended February 28, 2015 related primarily to borrowings against a \$28.6 million five-year term loan credit facility entered into by our consolidated joint venture in Turkey on September 26, 2014.

As of February 28, 2015, we were in compliance with our short-term and long-term debt covenants. These debt agreements do not include credit rating triggers or material adverse change provisions. Our credit ratings at February 28, 2015 were unchanged from those reported as of May 31, 2014.

At November 30, 2014, we had \$100.0 million aggregate amount of unsecured floating rate senior notes outstanding due on December 17, 2014. We repaid these notes during December 2014 using a combination of cash on hand and borrowings available under our revolving credit facilities.

**Common shares** The Board declared a quarterly dividend of \$0.18 per common share during the first, second and third quarters of fiscal 2015 compared to \$0.15 per common share during the comparable periods of fiscal 2014. Dividends paid on our common shares totaled \$34.8 million and \$21.0 million during the nine months ended February 28, 2015 and 2014, respectively. The increase was due to an accelerated cash dividend for the third and fourth quarters of fiscal 2013 totaling \$0.26 per common share. The dividend was paid on December 28, 2012 to shareholders of record as of December 21, 2012. As a result, no dividends were paid on our common shares during the first quarter of fiscal 2014.



## **Table of Contents**

On June 29, 2011, the Board authorized the repurchase of up to 10,000,000 of our outstanding common shares of which none remained available for repurchase at February 28, 2015. During the first nine months of fiscal 2015, 1,722,332 common shares were repurchased under this authorization.

On June 25, 2014, the Board authorized the repurchase of up to an additional 10,000,000 of our outstanding common shares. During the first nine months of fiscal 2015, an aggregate of 1,358,468 common shares were repurchased under this authorization. At February 28, 2015, 8,641,532 shares remained available for repurchase under this authorization.

The common shares remaining available for repurchase under the June 25, 2014 authorization may be purchased from time to time, with consideration given to the market price of the common shares, the nature of other investment opportunities, cash flows from operations, general economic conditions and other relevant considerations. Repurchases may be made on the open market or through privately negotiated transactions.

### ***Dividend Policy***

We currently have no material contractual or regulatory restrictions on the payment of dividends. Dividends are declared at the discretion of the Board. The Board reviews the dividend quarterly and establishes the dividend rate based upon our consolidated financial condition, results of operations, capital requirements, current and projected cash flows, business prospects and other relevant factors. While we have paid a dividend every quarter since becoming a public company in 1968, there is no guarantee that payments will continue in the future.

### ***Contractual Cash Obligations and Other Commercial Commitments***

Our contractual cash obligations and other commercial commitments have not changed significantly from those disclosed in Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Contractual Cash Obligations and Other Commercial Commitments of our 2014 Form 10-K, other than the changes in borrowings, as described in Part I - Item 1. Financial Statements - NOTE H Debt and Receivables Securitization of this Quarterly Report on Form 10-Q.

### ***Off-Balance Sheet Arrangements***

We do not have guarantees or other off-balance sheet financing arrangements that we believe are reasonably likely to have a material current or future effect on our consolidated financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. However, as of February 28, 2015, we were party to an operating lease for an aircraft in which we have guaranteed a residual value at the termination of the lease. The maximum obligation under the terms of this guarantee was approximately \$12.0 million at February 28, 2015. We have also guaranteed the repayment of a \$2.1 million term loan entered into by ArtiFlex, one of our unconsolidated joint ventures. In addition, we had in place \$14.1 million of outstanding stand-by letters of credit for third-party beneficiaries as of February 28, 2015. These letters of credit were issued to third-party service providers and customers and had no amounts drawn against them at February 28, 2015. Based on current facts and circumstances, we have estimated the likelihood of payment pursuant to these guarantees, and determined that the fair value of our obligation under each guarantee based on those likely outcomes is not material.

### ***Recently Issued Accounting Standards***

In March 2013, amended accounting guidance was issued regarding the accounting for cumulative translation adjustment. The amended guidance specifies that a cumulative translation adjustment should be recorded to earnings when an entity ceases to have a controlling financial interest in a subsidiary or a group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. For sales of an equity method investment that is a foreign entity, a pro rata portion of the cumulative translation adjustment attributable to the investment would be recognized in earnings upon sale of the investment. The amended guidance is effective prospectively for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2013. Early adoption is permitted. The adoption of this amended accounting guidance on June 1, 2014 did not have a material impact on our consolidated financial position or results of operations.

In May 2014, amended accounting guidance was issued that replaces most existing revenue recognition guidance under U.S. GAAP. The amended guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The amended guidance is



---

**Table of Contents**

effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. We are in the process of evaluating the effect this guidance will have on our consolidated financial position and results of operations. The amended guidance permits the use of either the retrospective or cumulative effect transition method. We have not selected a transition method nor have we determined the effect of the amended guidance on our ongoing financial reporting.

***Critical Accounting Policies***

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. We continually evaluate our estimates, including those related to our valuation of receivables, intangible assets, accrued liabilities, income and other tax accruals, and contingencies and litigation. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. These results form the basis for making judgments about the carrying values of assets and liabilities that are not readily obtained from other sources. Critical accounting policies are defined as those that require our significant judgments and involve uncertainties that could potentially result in materially different results under different assumptions and conditions. Although actual results historically have not deviated significantly from those determined using our estimates, our financial position or results of operations could be materially different if we were to report under different conditions or to use different assumptions in the application of such policies. Our critical accounting policies have not significantly changed from those discussed in Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies of our 2014 Form 10-K.

We review our receivables on an ongoing basis to ensure they are properly valued. Based on this review, we believe our reserve for doubtful accounts is adequate. However, if the economic environment and market conditions deteriorate, particularly in the automotive and construction markets where our exposure is greatest, additional reserves may be required. We recognize revenue upon transfer of title and risk of loss provided evidence of an arrangement exists, pricing is fixed and determinable, and the ability to collect is probable. In circumstances where the collection of payment is not probable at the time of shipment, we defer recognition of revenue until payment is collected.

We review the carrying value of our long-lived assets, including intangible assets with finite useful lives, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset or asset group may not be recoverable.

Impairment testing involves a comparison of the sum of the undiscounted future cash flows of the asset or asset group to its respective carrying amount. If the sum of the undiscounted future cash flows exceeds the carrying amount, then no impairment exists. If the carrying amount exceeds the sum of the undiscounted future cash flows, then a second step is performed to determine the amount of impairment, which would be recorded as an impairment charge in our consolidated statements of earnings.

During the second quarter of fiscal 2015, we determined that indicators of impairment were present at the Company's aluminum high-pressure cylinder business in New Albany, Mississippi, due to current and projected operating losses. Recoverability of the identified asset group was tested using future cash flow projections based on management's long-range estimates of market conditions. The sum of these undiscounted future cash flows was less than the net book value of the asset group. In accordance with the applicable accounting guidance, the net assets were written down to their fair value, resulting in an impairment charge of \$3.2 million.

During the second quarter of fiscal 2015, management committed to a plan to sell the assets of the Advanced Component Technologies, Inc. business within Engineered Cabs. In accordance with the applicable accounting guidance, the net assets were recorded at the lower of net book value or fair value less costs to sell, resulting in an impairment charge of \$2.4 million. During the third quarter of fiscal 2015, the Company completed the sale of this business and recognized a gain of \$313,000.

During the second quarter of fiscal 2015, we determined that indicators of impairment were present at the Company's military construction business. Recoverability of the identified asset group was tested using future cash flow projections based on management's long-range estimates of market conditions. The sum of these undiscounted future cash flows was less than the net book value of the asset group. In accordance with the applicable accounting guidance, the net assets were written down to their fair value, resulting in an impairment charge of \$1.2 million, which represents the remaining book value of the asset group.

---

**Table of Contents**

During the fourth quarter of fiscal 2014, management committed to a plan to sell the Company's 60%-owned consolidated joint venture in India, Worthington Nitin Cylinders. As all of the criteria for classification as assets held for sale were met, the net assets of the business were presented separately as assets held for sale in our consolidated balance sheet as of May 31, 2014. In accordance with the applicable accounting guidance, the net assets were recorded at the lower of net book value or fair value less costs to sell as of May 31, 2014. As a result of changes in facts and circumstances related to the planned sale of Worthington Nitin Cylinders during the second quarter of fiscal 2015, the Company reassessed the fair value of the business and determined that the remaining book value should be written off resulting in an impairment charge of \$6.3 million.

During the fourth quarter of fiscal 2014, management committed to a plan to sell certain non-core Steel Processing assets. As all of the criteria for classification as assets held for sale were met, the net assets of the business have been presented separately as assets held for sale in our consolidated balance sheets as of February 28, 2015 and May 31, 2014. In accordance with the applicable accounting guidance, the net assets were recorded at the lower of net book value or fair value less costs to sell as of May 31, 2014. As a result of changes in facts and circumstances related to the planned sale, the Company reassessed the fair value of the business resulting in additional impairment charges totaling \$3.1 million during fiscal 2015.

Goodwill and intangible assets with indefinite lives are not amortized, but instead are tested for impairment annually, during the fourth quarter, or more frequently if events or changes in circumstances indicate that impairment may be present. Application of goodwill impairment testing involves judgment, including but not limited to, the identification of reporting units and the estimation of the fair value of each reporting unit. A reporting unit is defined as an operating segment or one level below an operating segment. We test goodwill at the operating segment level as we have determined that the characteristics of the reporting units within each operating segment are similar and allow for their aggregation in accordance with the applicable accounting guidance.

The goodwill impairment test consists of comparing the fair value of each operating segment, determined using discounted cash flows, to each operating segment's respective carrying value. If the estimated fair value of an operating segment exceeds its carrying value, there is no impairment. If the carrying amount of the operating segment exceeds its estimated fair value, a goodwill impairment is indicated. The amount of the impairment is determined by comparing the fair value of the net assets of the operating segment, excluding goodwill, to its estimated fair value, with the difference representing the implied fair value of the goodwill. If the implied fair value of the goodwill is lower than its carrying value, the difference is recorded as an impairment charge in the applicable consolidated statement of earnings. We performed our annual impairment evaluation of goodwill and other indefinite-lived intangible assets during the fourth quarter of fiscal 2014 and concluded that the fair value of each operating segment exceeded its carrying value; therefore, no impairment charges were recognized.

During the third quarter of fiscal 2015, the Company concluded that an interim impairment test of the goodwill of its Engineered Cabs operating segment was necessary. This conclusion was based on certain indicators of impairment, including the decision to close the Company's unprofitable Engineered Cabs facility in Florence, South Carolina, and significant downward revisions to forecasted cash flows as a result of continued weakness in the mining and agricultural end markets and higher than expected manufacturing costs.

Prior to conducting the goodwill impairment test, the Company first evaluated the other long-lived assets of the Engineered Cabs operating segment for recoverability. Recoverability was tested using future cash flow projections based on management's long-range estimates of market conditions. The sum of the undiscounted future cash flows for both the customer relationship intangible asset and the property, plant and equipment of the Florence facility were less than their respective carrying values. As a result, these assets were written down to their respective fair values, resulting in impairment charges of \$22.4 million for the customer relationship intangible asset and \$14.3 million for the property, plant and equipment of the Florence asset group during the third quarter of fiscal 2015.

In addition to the above, the Company also determined that sufficient indicators of potential impairment existed to require an interim goodwill analysis of the Engineered Cabs operating segment. A comparison of the fair value of the Engineered Cabs operating segment, determined using discounted cash flows, to its carrying value indicated potential goodwill impairment. After a subsequent review of the fair value of the net assets of Engineered Cabs, it was determined that the implied fair value of goodwill was \$0 and as a result the entire \$44.9 million goodwill balance was written-off during the third quarter of fiscal 2015.

---

## **Table of Contents**

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Market risks have not changed significantly from those disclosed in Part II - Item 7A. Quantitative and Qualitative Disclosures About Market Risk of our 2014 Form 10-K.

### **Item 4. Controls and Procedures**

#### ***Evaluation of Disclosure Controls and Procedures***

We maintain disclosure controls and procedures [as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)] that are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management, with the participation of our principal executive officer and our principal financial officer, performed an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q (the fiscal quarter ended February 28, 2015). Based on that evaluation, our principal executive officer and our principal financial officer have concluded that such disclosure controls and procedures were effective at a reasonable assurance level as of the end of the period covered by this Quarterly Report on Form 10-Q.

#### ***Changes in Internal Control Over Financial Reporting***

There were no changes that occurred during the period covered by this Quarterly Report on Form 10-Q (the fiscal quarter ended February 28, 2015) in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

Various legal actions, which generally have arisen in the ordinary course of business, are pending against the Company. None of this pending litigation, individually or collectively, is expected to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

### **Item 1A. Risk Factors**

There are certain risks and uncertainties in our business that could cause our actual results to differ materially from those anticipated. In PART I Item 1A. -- Risk Factors of the Annual Report on Form 10-K of Worthington Industries, Inc. for the fiscal year ended May 31, 2014 (the 2014 Form 10-K), as filed with the Securities and Exchange Commission on July 30, 2014, and available at [www.sec.gov](http://www.sec.gov) or at [www.worthingtonindustries.com](http://www.worthingtonindustries.com), we included a detailed discussion of our risk factors. Other than as noted below, our risk factors have not changed significantly from those disclosed in our 2014 Form 10-K. These risk factors should be read carefully in connection with evaluating our business and in connection with the forward-looking statements and other information contained in this Quarterly Report on Form 10-Q. Any of the risks described in our 2014 Form 10-K could materially affect our business, consolidated financial condition or future results and the actual outcome of matters as to which forward-looking statements are made. The risk factors described in our 2014 Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, also may materially adversely affect our business, financial condition and/or future results.

*If the price of natural gas declines or oil prices remain low or decline further, the demand for products in our oil and gas equipment business could be adversely affected.* Volatility or weakness in oil prices or natural gas prices, or the perception of future price declines, affects the spending patterns of our customers within the oil and gas equipment business and may result in the drilling of fewer wells or lower production spending on existing wells. This, in turn, could result in lower demand for our oil and gas equipment products and negatively impact our results of operations and financial condition.



**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table provides information about purchases made by, or on behalf of, Worthington Industries, Inc. or any affiliated purchaser (as defined in Rule 10b-18(a) (3) under the Exchange Act, as amended) of common shares of Worthington Industries, Inc. during each month of the fiscal quarter ended February 28, 2015:

<b>Period</b>	<b>Total Number of Common Shares Purchased</b>	<b>Average Price Paid per Common Share</b>	<b>Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Common Shares that May Yet Be Purchased Under the Plans or Programs (1)</b>
December 1-31, 2014	-	-	-	10,631,532
January 1-31, 2015	1,100,000	\$ 27.62	1,100,000	9,531,532
February 1-28, 2015	890,000	\$ 29.53	890,000	8,641,532
<b>Total</b>	<b>1,990,000</b>	<b>\$ 28.46</b>	<b>1,990,000</b>	

- (1) On June 29, 2011, Worthington Industries, Inc. announced that the Board authorized the repurchase of up to 10,000,000 of our outstanding common shares. At February 28, 2015, no common shares remained available for purchase under this authorization. On June 25, 2014, the Board authorized the repurchase of up to 10,000,000 of our outstanding common shares, which Worthington Industries, Inc. announced on June 26, 2014. At February 28, 2015, 8,641,532 common shares remained available for repurchase under this authorization. The common shares available for repurchase under the this authorization may be purchased from time to time, with consideration given to the market price of the common shares, the nature of other investment opportunities, cash flows from operations and general economic conditions. Repurchases may be made on the open market or through privately negotiated transactions.

**Item 3. Defaults Upon Senior Securities**

Not applicable

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

Not applicable

**Table of Contents**

**Item 6. Exhibits**

10.1	Amendment No. 17 to Receivables Purchase Agreement, dated as of January 16, 2015, among Worthington Receivables Corporation, as Seller, Worthington Industries, Inc., as Servicer, the members of the various purchaser groups from time to time party to the Receivables Purchase Agreement and PNC Bank, National Association, as Administrator *
10.2	Amendment No. 7, dated as of January 16, 2015, to Purchase and Sale Agreement, dated as of November 30, 2000, among the various originators listed therein, Advanced Component Technologies, Inc., Worthington Cylinders Mississippi, LLC, The Worthington Steel Company (a North Carolina corporation) and Worthington Steel Company of Kentucky, L.L.C., and Worthington Receivables Corporation *
10.3	Amendment No. 8, dated as of February 18, 2015, to Purchase and Sale Agreement, dated as of November 30, 2000, among the various originators listed therein and Worthington Receivables Corporation *
31.1	Rule 13a - 14(a) / 15d - 14(a) Certifications (Principal Executive Officer) *
31.2	Rule 13a - 14(a) / 15d - 14(a) Certifications (Principal Financial Officer) *
32.1	Certifications of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
32.2	Certifications of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
101.INS	XBRL Instance Document #
101.SCH	XBRL Taxonomy Extension Schema Document #
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document #
101.LAB	XBRL Taxonomy Extension Label Linkbase Document #
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document #
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document #

\* Filed herewith.

\*\* Furnished herewith.

# Attached as Exhibit 101 to this Quarterly Report on Form 10-Q of Worthington Industries, Inc. are the following documents formatted in XBRL (Extensible Business Reporting Language):

- (i) Consolidated Balance Sheets at February 28, 2015 and May 31, 2014;
- (ii) Consolidated Statements of Earnings for the three and nine months ended February 28, 2015 and February 28, 2014;
- (iii) Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended February 28, 2015 and February 28, 2014;
- (iv) Consolidated Statements of Cash Flows for the three and nine months ended February 28, 2015 and February 28, 2014; and
- (v) Notes to Consolidated Financial Statements.



**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.

**WORTHINGTON INDUSTRIES, INC.**

Date: April 9, 2015

By: /s/ B. Andrew Rose  
B. Andrew Rose,

Executive Vice President and Chief Financial Officer

(On behalf of the Registrant and as Principal

Financial Officer)

**Table of Contents****INDEX TO EXHIBITS**

<b>Exhibit No.</b>	<b>Description</b>	<b>Location</b>
10.1	Amendment No. 17 to Receivables Purchase Agreement, dated as of January 16, 2015, among Worthington Receivables Corporation, as Seller, Worthington Industries, Inc., as Servicer, the members of the various purchaser groups from time to time party to the Receivables Purchase Agreement and PNC Bank, National Association, as Administrator	Filed herewith
10.2	Amendment No. 7, dated as of January 16, 2015, to Purchase and Sale Agreement, dated as of November 30, 2000, among the various originators listed therein, Advanced Component Technologies, Inc., Worthington Cylinders Mississippi, LLC, The Worthington Steel Company (a North Carolina corporation) and Worthington Steel Company of Kentucky, L.L.C., and Worthington Receivables Corporation	Filed herewith
10.3	Amendment No. 8, dated as of February 18, 2015, to Purchase and Sale Agreement, dated as of November 30, 2000, among the various originators listed therein and Worthington Receivables Corporation	Filed herewith
31.1	Rule 13a - 14(a) / 15d - 14(a) Certifications (Principal Executive Officer)	Filed herewith
31.2	Rule 13a - 14(a) / 15d - 14(a) Certifications (Principal Financial Officer)	Filed herewith
32.1	Certifications of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
32.2	Certifications of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
101.INS	XBRL Instance Document	Submitted electronically herewith #
101.SCH	XBRL Taxonomy Extension Schema Document	Submitted electronically herewith #
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Submitted electronically herewith #
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Submitted electronically herewith #
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Submitted electronically herewith #
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Submitted electronically herewith #

**Table of Contents**

- # Attached as Exhibit 101 to this Quarterly Report on Form 10-Q of Worthington Industries, Inc. are the following documents formatted in XBRL (Extensible Business Reporting Language):
- (i) Consolidated Balance Sheets at February 28, 2015 and May 31, 2014;
  - (ii) Consolidated Statements of Earnings for the three and nine months ended February 28, 2015 and February 28, 2014;
  - (iii) Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended February 28, 2015 and February 28, 2014;
  - (iv) Consolidated Statements of Cash Flows for the three and nine months ended February 28, 2015 and February 28, 2014; and
  - (v) Notes to Consolidated Financial Statements.