WORTHINGTON INDUSTRIES INC
Form 10-Q
April 07, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended February 28, 2014

OR

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

Commission File Number 001-08399

WORTHINGTON INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Ohio	31-1189815
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 Old Wilson Bridge Road, Columbus, Ohio	43085
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES x 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 x 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	x	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 x

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, 2014, the number of Common Shares, without par value, issued and outstanding was 69,398,956.

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SAFE HARBOR STATEMENT

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

- *Outlook, strategy or business plans;*
- *future or expected growth, performance, sales, volumes, cash flows, earnings, balance sheet strengths, debt, financial condition or other financial measures;*
- *projected profitability potential, capacity, and working capital needs;*
- *demand trends for us or our markets;*
- *additions to product lines and opportunities to participate in new markets;*
- *pricing trends for raw materials and finished goods and the impact of pricing changes;*
- *anticipated capital expenditures and asset sales;*
- *anticipated improvements and efficiencies in costs, operations, sales, inventory management, sourcing or 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;*
- *the ability to maintain margins and capture and maintain market share and to develop or take advantage of future opportunities, 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 prolonged or substantial economic downturn;*
- *the effect of legislation or regulations relating to the United States debt and budget, which may be adverse due to its impact on tax increases, governmental spending, customer confidence and spending, and the overall economy;*
- *the effect of conditions in national and worldwide financial markets;*
- *product demand and pricing;*
- *changes in product mix, product substitution and market acceptance of our products;*
- *fluctuations in the pricing, quality or availability of raw materials (particularly steel), supplies, transportation, utilities and other items required by operations;*
- *effects of facility closures and the consolidation of operations;*
- *the effect of financial difficulties, consolidation and other changes within the steel, automotive, construction and other industries in which we participate;*
- *failure to maintain appropriate levels of inventories;*
- *financial difficulties (including bankruptcy filings) of original equipment manufacturers, end-users and customers, suppliers, joint venture partners and others with whom we do business;*
- *the ability to realize targeted expense reductions from headcount reductions, facility closures and other cost reduction efforts;*
- *the ability to realize other cost savings and operational, sales and sourcing improvements and efficiencies, and other expected benefits from transformation initiatives, on a timely basis;*

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- *the overall success of, and the ability to integrate, newly-acquired businesses and joint ventures, maintain and develop their customers, and achieve synergies and other expected benefits and cost savings therefrom;*
- *capacity levels and efficiencies, within facilities, within major product markets and within the 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 lack of acceptance of our products;*
- *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 and governmental agency rulings as well as the impact of 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 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, 2013.*

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.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

WORTHINGTON INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	February 28, 2014	May 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 52,886	$ 51,385
Receivables, less allowances of $2,807 and $3,408 at February 28, 2014 and May 31, 2013	467,927	394,327
Inventories:		
Raw materials	214,510	175,093
Work in process	123,011	103,861
Finished products	103,823	77,814
Total inventories	441,344	356,768
Income taxes receivable	9,346	724
Assets held for sale	2,435	3,040
Deferred income taxes	23,984	21,928
Prepaid expenses and other current assets	45,678	38,711
Total current assets	1,043,600	866,883
Investments in unconsolidated affiliates	175,454	246,125
Goodwill	237,553	213,858
Other intangible assets, net of accumulated amortization of $32,667 and $26,669 at February 28, 2014 and May 31, 2013	141,446	147,144
Other assets	16,876	17,417
Property, plant & equipment:		
Property, plant & equipment at cost	1,133,536	1,052,636
Less: accumulated depreciation	622,558	593,206
Property, plant and equipment, net	510,978	459,430
Total assets	$ 2,125,907	$ 1,950,857
Liabilities and equity		
Current liabilities:		
Accounts payable	$ 379,230	$ 222,696
Short-term borrowings	35,356	113,728
Accrued compensation, contributions to employee benefit plans and related taxes	78,944	68,043
Dividends payable	11,022	551
Other accrued items	38,552	36,536
Income taxes payable	4,879	6,268
Current maturities of long-term debt	101,114	1,092

Total current liabilities	649,097	448,914
Other liabilities	73,467	70,882
Distributions in excess of investment in unconsolidated affiliate	62,387	63,187
Long-term debt	305,370	406,236
Deferred income taxes	77,673	89,401
Total liabilities	1,167,994	1,078,620
Shareholders equity controlling interest	861,020	830,822
Noncontrolling interest	96,893	41,415
Total equity	957,913	872,237
Total liabilities and equity	$ 2,125,907	$ 1,950,857

See notes to consolidated financial statements.

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WORTHINGTON INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2014	**2013**	**2014**	**2013**
Net sales	$ 773,230	$ 619,527	$ 2,235,421	$ 1,908,184
Cost of goods sold	650,743	522,501	1,873,738	1,622,651
Gross margin	122,487	97,026	361,683	285,533
Selling, general and administrative expense	75,680	63,221	225,615	187,744
Impairment of long-lived assets	-	-	35,375	1,520
Restructuring and other expense (income)	1,398	146	(3,781)	1,811
Joint venture transactions	120	253	1,048	(1,188)
Operating income	45,289	33,406	103,426	95,646
Other income (expense):				
Miscellaneous income	488	596	13,897	1,064
Interest expense	(6,196)	(6,158)	(18,694)	(17,751)
Equity in net income of unconsolidated affiliates	21,186	25,716	69,223	73,580
Earnings before income taxes	60,767	53,560	167,852	152,539
Income tax expense	16,556	16,229	38,948	47,721
Net earnings	44,211	37,331	128,904	104,818
Net earnings attributable to noncontrolling interest	3,608	200	10,767	1,899
Net earnings attributable to controlling interest	$ 40,603	$ 37,131	$ 118,137	$ 102,919
Basic				
Average common shares outstanding	68,895	69,791	69,268	68,998
Earnings per share attributable to controlling interest	$ 0.59	$ 0.53	$ 1.71	$ 1.49
Diluted				
Average common shares outstanding	71,528	71,914	71,910	70,501
Earnings per share attributable to controlling interest	$ 0.57	$ 0.52	$ 1.64	$ 1.46
Common shares outstanding at end of period	68,302	70,168	68,302	70,168
Cash dividends declared per share	$ 0.15	$ 0.26	$ 0.45	$ 0.52

See notes to consolidated financial statements.

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WORTHINGTON INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2014	2013	2014	2013
Net earnings	$ 44,211	$ 37,331	$ 128,904	$ 104,818
Other comprehensive income (loss):				
Foreign currency translation	3,043	(1,675)	5,594	6,400
Pension liability adjustment, net of tax	450	(28)	450	(201)
Cash flow hedges, net of tax	(94)	837	3,610	1,493
Other comprehensive income (loss)	3,399	(866)	9,654	7,692
Comprehensive income	47,610	36,465	138,558	112,510
Comprehensive income attributable to noncontrolling interest	4,057	182	10,515	2,239
Comprehensive income attributable to controlling interest	$ 43,553	$ 36,283	$ 128,043	$ 110,271

See notes to consolidated financial statements.

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WORTHINGTON INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2014	**2013**	**2014**	**2013**
Operating activities				
Net earnings	$ 44,211	$ 37,331	$ 128,904	$ 104,818
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation and amortization	20,208	17,048	59,763	48,136
Impairment of long-lived assets	-	-	35,375	1,520
Provision for deferred income taxes	1,278	6,491	(20,256)	9,850
Bad debt expense (income)	(134)	76	(430)	575
Equity in net income of unconsolidated affiliates, net of distributions	1,048	(4,841)	(8,373)	(19,256)
Net gain (loss) on sale of assets	990	(153)	(10,860)	(222)
Stock-based compensation	4,705	3,653	13,207	10,586
Excess tax benefits - stock-based compensation	(1,462)	(3,455)	(7,294)	(3,455)
Gain on previously held equity interest in TWB	-	-	(11,000)	-
Changes in assets and liabilities, net of impact of acquisitions:				
Receivables	(30,228)	(41,672)	(14,999)	27,078
Inventories	(38,260)	(15,158)	(59,583)	42,743
Prepaid expenses and other current assets	2,429	32	4,136	1,634
Other assets	(762)	198	(187)	3,135
Accounts payable and accrued expenses	91,485	35,320	108,185	(34,871)
Other liabilities	1,316	1,434	4,019	3,412
Net cash provided by operating activities	96,824	36,304	220,607	195,683
Investing activities				
Investment in property, plant and equipment	(21,743)	(9,786)	(52,157)	(34,402)
Acquisitions, net of cash acquired	(35,599)	-	17,634	(62,110)
Distributions from unconsolidated affiliates	-	-	9,223	-
Proceeds from sale of assets	580	552	24,313	16,227
Net cash used by investing activities	(56,762)	(9,234)	(987)	(80,285)
Financing activities				
Net payments of short-term borrowings	(8,347)	(13,390)	(78,624)	(251,586)
Proceeds from long-term debt	-	-	-	150,000
Principal payments on long-term debt	(286)	(365)	(855)	(1,170)
Proceeds from (payments for) issuance of common shares	(1,241)	17,332	5,246	32,960
Excess tax benefits - stock-based compensation	1,462	3,455	7,294	3,455
Distributions to noncontrolling interest	(36,512)	(2,592)	(39,150)	(8,582)
Repurchase of common shares	(40,762)	-	(91,078)	-
Dividends paid	(10,545)	(27,040)	(20,952)	(44,144)
Net cash used by financing activities	(96,231)	(22,600)	(218,119)	(119,067)

Increase (decrease) in cash and cash equivalents	(56,169)	4,470	1,501	(3,669)
Cash and cash equivalents at beginning of period	109,055	32,889	51,385	41,028
Cash and cash equivalents at end of period	$ 52,886	$ 37,359	$ 52,886	$ 37,359

See notes to consolidated financial statements.

WORTHINGTON INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE A Basis of Presentation

The accompanying unaudited 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 equi method. Significant intercompany accounts and transactions are eliminated.

Worthington Aritas Basincli Kaplar Sanayi A.S. (Worthington Aritas), Spartan Steel Coating, LLC (Spartan), TWB Company, L.L.C. (TWB), Worthington Energy Innovations, LLC (WEI), and Worthington Nitin Cylinders Limited (WNCL) in which we own controlling interests of 75%, 52%, 55%, 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 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, respectively. As more fully described in NOTE N Acquisitions , on July 31, 2013, we purchased an additional 10% interest in TWB for $17,869,000, increasing our ownership to a 55% controlling interest. As a result, TWB s results have been consolidated within the Steel Processing operating segment since the acquisition date.

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, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending May 31, 2014 (fiscal 2014). 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, 2013 (fiscal 2013) of Worthington Industries, Inc. (the 2013 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.

Joint Venture Transactions

On March 1, 2011, we joined with ClarkWestern Building Systems Inc. to form Clarkwestern Dietrich Building Systems LLC (ClarkDietrich), a joint venture that manufactures a full line of drywall studs and accessories, structural studs and joists, metal lath and accessories, and shaft wall studs and track used primarily in residential and commercial construction. We contributed our metal framing business and related working capital in exchange for a 25% ownership interest in ClarkDietrich. As we do not have a controlling interest in ClarkDietrich, our investment in this joint venture is accounted for under the equity method, and the contributed net assets were deconsolidated effective March 1, 2011.

We retained and continued to operate the remaining metal framing facilities (the retained facilities), on a short-term basis, to support the transition of the business into ClarkDietrich. The buildings and equipment associated with the majority of these facilities were sold during fiscal 2013 and fiscal 2012. The remaining facilities are expected to be sold during fiscal 2014 and actions to locate buyers are ongoing. As the other relevant criteria for classification as assets held for sale have been satisfied, the $2,435,000 carrying value of these asset groups, which consist primarily of property, plant and equipment, is presented separately in our consolidated balance sheet as of February 28, 2014.

Recently Issued Accounting Standards

In December 2011, new accounting guidance was issued that establishes certain additional disclosure requirements about financial instruments and derivatives instruments that are subject to netting arrangements. The new disclosures are required for annual reporting periods beginning on or after January 1, 2013, and interim periods within those periods. We adopted this new guidance on June 1, 2013, and have provided the required disclosures in NOTE O Derivative Instruments and Hedging Activities.

In June 2011, new accounting guidance was issued regarding the presentation of comprehensive income in financial statements prepared in accordance with U.S. GAAP. This new guidance requires entities to present reclassification adjustments included in other comprehensive income on the face of the financial statements and allows entities to present total comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. It also eliminates the option for entities to present the components of other comprehensive income as part of the statement of equity. For public companies, this accounting guidance was effective for fiscal years (and interim periods within those fiscal years) beginning after December 15, 2011, with early adoption permitted. Retrospective application to prior periods is required. We adopted the effective provisions of this new accounting guidance on June 1, 2012 and have provided the required statements of comprehensive income for the three and nine months ended February 28, 2014 and 2013. In December 2011, certain provisions of this new guidance related to the presentation of reclassification adjustments out of accumulated other comprehensive income were temporarily deferred. In February 2013, an effective date was established for the provisions that had been deferred. These provisions are effective prospectively for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2012. We adopted the deferred provisions, which relate to presentation only, on June 1, 2013 and have provided the required disclosures in NOTE H Comprehensive Income. There was no impact on our financial position or results of operations.

In July 2012, amended accounting guidance was issued that simplifies how an entity tests indefinite-lived intangible assets for impairment. The amended guidance allows an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. An entity will no longer be required to calculate the fair value of an indefinite-lived intangible asset and perform the quantitative test unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amended guidance is effective for interim and annual indefinite-lived intangible asset impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of this amended accounting guidance on June 1, 2013, did not have a material impact on our financial position or results of operations.

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 released into 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. We do not expect the adoption of this amended accounting guidance to have a material impact on our financial position or results of operations.

NOTE B Investments in Unconsolidated Affiliates

At February 28, 2014, equity investments and the percentage interests owned consisted of the following (in alphabetic order): ArtiFlex Manufacturing, LLC (ArtiFlex) (50%), 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 Modern Steel Framing Manufacturing Co., Ltd. (WMSFMCo.) (40%), and Worthington Specialty Processing (WSP) (51%). WSP is considered to be jointly controlled and not consolidated due to substantive participating rights of the minority partner.

On July 31, 2013, we acquired an additional 10% interest in our laser welded blanks joint venture, TWB, increasing our ownership to a 55% controlling interest. Since that date, TWB s results have been consolidated within Steel Processing versus reported in equity in net income of unconsolidated affiliates. For additional information, refer to NOTE N Acquisitions.

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On October 18, 2013, we finalized an agreement with Nisshin Steel Co., Ltd. and Marubeni-Itochu Steel Inc. to form Zhejiang Nisshin Worthington Precision Specialty Steel Co., Ltd., which is awaiting regulatory approval. Initially, we will own a 10% interest in the joint venture with the option to increase our ownership interest to 34%. The joint venture will construct a plant in Zhejiang Province in the People s Republic of China that will produce cold rolled strip steel primarily for the automotive industry.

During the second quarter of fiscal 2014, we dissolved our wind tower joint venture, Gestamp Worthington Wind Steel, LLC, due to the volatile political environment in the United States, particularly in regards to the Federal Production Tax Credit. This event did not have a material impact on our financial position or results of operations.

We received distributions from unconsolidated affiliates totaling $70,073,000 during the nine months ended February 28, 2014. We have received cumulative distributions from WAVE in excess of our investment balance totaling $62,387,000 and $63,187,000 at February 28, 2014 and May 31, 2013, respectively. 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, 2014, we received excess distributions from ClarkDietrich of $9,223,000.

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

(in thousands)	February 28, 2014	May 31, 2013
Cash	$ 56,077	$ 70,380
Receivable from partner (1)	12,897	69,706
Other current assets	437,179	518,262
Noncurrent assets	296,033	350,681
Total assets	$ 802,186	$ 1,009,029
Current liabilities	$ 136,419	$ 181,111
Short-term borrowings	38,204	21,369
Current maturities of long-term debt	4,782	5,442
Long-term debt	269,461	274,750
Other noncurrent liabilities	18,105	18,345
Equity	335,215	508,012
Total liabilities and equity	$ 802,186	$ 1,009,029

	Three Months Ended February 28,		Nine Months Ended February 28,	
(in thousands)	2014	2013	2014	2013
Net sales	$ 340,645	$ 421,645	$ 1,121,362	$ 1,306,758
Gross margin	73,217	90,570	239,098	254,796
Operating income	48,752	61,387	164,824	169,997
Depreciation and amortization	8,622	9,979	28,063	29,089

Interest expense	2,494	2,212	6,950	6,681
Income tax expense	2,937	1,842	8,829	5,488
Net earnings	44,018	57,421	149,801	158,570

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

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The fluctuations in the financial information presented in the tables above were driven primarily by the consolidation of TWB effective July 31, 2013.

NOTE C Impairment of Long-Lived Assets

During the second quarter of fiscal 2014, we committed to a re-branding initiative. Under the re-branding initiative, we re-branded substantially all of our businesses under the Worthington Industries name. In connection with the change in branding strategy, we discontinued the use of all non-Worthington trade names except those related to retail products such as BernzOmatic® and Balloon Time® and those related to our joint ventures. As a result, we determined an impairment indicator was present with regard to the trade name intangible assets impacted by the re-branding initiative. As no future cash flows will be attributed to the impacted trade names, the entire book value was written-off, resulting in an impairment charge of $30,734,000. The impairment charge was recorded within the impairment of long-lived assets financial statement caption in our consolidated statement of earnings for the nine months ended February 28, 2014. Fair value was determined using unobservable (Level 3) inputs.

During the first quarter of fiscal 2014, we determined that certain indicators of impairment were present with regard to certain non-core Steel Processing assets. Recoverability of the identified asset group was tested using future cash flow projections based on management s estimate of market conditions. The sum of these undiscounted future cash flows was less than the net book value of the asset group. The net book value was also determined to be in excess of fair value and, accordingly, the asset group was written down to its fair value of $11,827,000, resulting in an impairment charge of $4,641,000. The impairment charge was recorded within the impairment of long-lived assets financial statement caption in our consolidated statement of earnings for the nine months ended February 28, 2014. Fair value was determined based on market prices for similar assets.

During the first quarter of fiscal 2013, our Pressure Cylinders operations in Czech Republic met the applicable criteria for classification as assets held for sale. The net book value of this asset group was determined to be in excess of fair value, and, as a result, this asset group was written down to its fair value less cost to sell, or $6,934,000, resulting in an impairment charge of $1,570,000. Fair value was determined based on market prices for similar assets. On October 31, 2012, we completed the sale of this asset group to an unrelated third party resulting in a gain of approximately $50,000. The net impact of these items of $1,520,000 is presented within the impairment of long-lived assets financial statement caption in our consolidated statement of earnings for the nine months ended February 28, 2013.

NOTE D Restructuring and Other Expense (Income)

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. The Transformation Plan is comprehensive in scope and includes aggressive diagnostic and implementation phases. When this process began, we retained a consulting firm to assist in the development and implementation of the Transformation Plan. As the Transformation Plan progressed, we formed internal teams dedicated to this effort, and they ultimately assumed full responsibility for executing the Transformation Plan. Although the consulting firm was again engaged as we rolled out the Transformation Plan in our Pressure Cylinders operating segment, most of the work is now being done by our internal teams. These internal teams are now an integral part of our business and constitute what we refer to as the Centers of Excellence (COE). The COE will continue to monitor the performance metrics and new processes instituted across our transformed operations and drive continuous improvements in all areas of our operations. The expenses related to the COE will be included in selling, general and administrative (SG&A) expense going forward.

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.

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A progression of the liabilities created as part of the Transformation Plan during the nine months ended February 28, 2014, combined with a reconciliation to the restructuring and other expense (income) financial statement caption in our consolidated statement of earnings is summarized as follows:

(in thousands)	Beginning Balance	Expense	Payments	Adjustments	Ending Balance
Early retirement and severance	$ 5,029	$ 5,672	$ (3,331)	$ (81)	$ 7,289
Facility exit and other costs	1,200	2,182	(2,522)	(126)	734
	$ 6,229	7,854	$ (5,853)	$ (207)	$ 8,023
Net gain on sale of assets		(10,587)			
Less: joint venture transactions		(1,048)			
Restructuring and other expense		$ (3,781)			

During the nine months ended February 28, 2014, the following actions were taken in connection with the Transformation Plan:

In connection with the wind-down of our former Metal Framing operating segment, we recognized $934,000 of facility exit and other costs and a loss of $114,000 related to the sale of certain retained assets. These costs were recognized within the joint venture transactions financial statement caption in our consolidated statements of earnings to correspond with amounts previously recognized in connection with the formation of ClarkDietrich and the subsequent wind-down of our former Metal Framing operating segment.

In connection with the closure of our commercial stairs business, we incurred facility exit charges of $636,000.

In connection with the consolidation of the BernzOmatic hand torch manufacturing operation in Medina, New York into the existing Pressure Cylinders facility in Chilton, Wisconsin, we recognized an additional accrual of $578,000 for expected employee severance costs and $370,000 of facility exit costs. During the fourth quarter of fiscal 2013, we recognized a $2,488,000 accrual for expected severance costs related to this matter.

On June 30, 2013, the Company completed the sale of Integrated Terminals, its warehouse facility in Detroit, Michigan, for cash proceeds of $7,457,000, resulting in a gain of $4,762,000.

On November 12, 2013, the Company entered into an agreement to sell the operating assets related to its steel high pressure and acetylene cylinders business in North America, resulting in a gain of $5,939,000. In connection with this transaction, the Company recognized a $3,714,000 accrual for expected severance costs and incurred facility exit charges of $242,000.

On December 10, 2013, the Company announced the closure of its Baltimore steel facility by the end of fiscal 2014. In connection with this matter, the Company recognized a $1,380,000 accrual for expected severance costs.

Approximately $7,238,000 of the total liability shown in the table above is expected to be paid in the next twelve months. The remaining liability, which consists of certain severance benefits, will be paid through September 2016.

NOTE E Contingent Liabilities

On August 5, 2013, we tendered to our excess loss carrier, who accepted the tender, a wrongful death claim against the Company involving a MAPP gas cylinder. Pursuant to the tender and its acceptance, our overall exposure related to this matter is limited to $2,000,000. As a result, a pre-tax charge of $2,000,000 was recorded within SG&A expense during the nine months ended February 28, 2014.

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 building sustained extensive damage and was rendered inoperable. We have incurred losses related to the destruction of assets caused by the fire. Additionally, we have incurred and will continue to incur 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 financial results.

The Company has received proceeds of $2,900,000 for the property portion of the claim, representing advance payments for the replacement value of the damaged property and equipment. These proceeds were in excess of the $145,000 remaining book value of the assets, resulting in a gain of $2,755,000. This gain was recorded within miscellaneous income in our consolidated statement of earnings for the nine months ended February 28, 2014. We will continue to receive payments from the insurance company for the replacement value of the property and equipment throughout the rebuild process.

Total proceeds received related to the insurance claim since the date of loss were as follows:

(in thousands)	
Property and equipment	$ 2,900
Business interruption	1,628
Other expenses	673
Total insurance proceeds	$ 5,201

The proceeds for business interruption relate to the loss of profits from the date of the fire through December 31, 2013, and have been recorded as a reduction of manufacturing expense. The proceeds for other expenses represent reimbursement for incremental expenses related to the fire and were recorded as an offset to manufacturing expense. Prior to quarter end, the Company received written confirmation of the amount of proceeds for estimated loss of profits from January 1, 2014 through February 28, 2014 from its insurer. Accordingly, the Company recognized an insurance recovery of $417,000 as a reduction of manufacturing expense.

NOTE F Guarantees

We do not have guarantees that we believe are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. However, as of February 28, 2014, 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 $13,199,000 at February 28, 2014. We have also guaranteed the repayment of a term loan entered into by one of our unconsolidated affiliates, ArtiFlex. As of February 28, 2014, the outstanding principal balance on the loan was $3,750,000. 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.

We also had in place $14,254,000 of outstanding stand-by letters of credit for third-party beneficiaries as of February 28, 2014. These letters of credit were issued to third-party service providers and had no amounts drawn against them at February 28, 2014. The fair value of these guarantee instruments, based on premiums paid, was not material, and therefore no amounts have been recognized in our consolidated financial statements.

NOTE G Debt and Receivables Securitization

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 outstanding under the Credit Facility were $9,730,000 at February 28, 2014. Additionally, as discussed in NOTE F Guarantees, we provided $14,254,000 in stand-by letters of credit for third-party beneficiaries as of February 28, 2014. While not drawn against, certain of these letters of credit totaling $11,732,000 are issued against availability under the Credit Facility, leaving $403,538,000 available at February 28, 2014.

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Current borrowings under this revolving Credit Facility have maturities of less than one year, and given that we intend to repay them within the next year, they have been classified as short-term borrowings in our consolidated balance sheet. 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. At February 28, 2014, the applicable variable rate, based on LIBOR, was 1.21%.

We also maintain a $100,000,000 revolving trade accounts receivable securitization facility (the AR Facility), which expires in January 2015. The AR Facility has been available throughout fiscal 2014 to date, and was available throughout fiscal 2013. 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 third-party bank. We retain an undivided interest in this pool and are subject to risk of loss based on the collectability of the receivables from this retained interest. Because the amount eligible to be sold excludes receivables more than 90 days past due, receivables offset by an allowance for doubtful accounts due to bankruptcy or other cause, concentrations over certain limits with specific customers and certain reserve amounts, we believe additional risk of loss is minimal. The book value of the retained portion of the pool of accounts receivable approximates fair value. As of February 28, 2014, the pool of eligible accounts receivable exceeded the $100,000,000 limit, and $20,000,000 of undivided ownership interests in this pool of accounts receivable had been sold.

The remaining balance of short-term borrowings at February 28, 2014 consisted of $554,000 outstanding under a $2,900,000 credit facility maintained by our consolidated affiliate, Worthington Aritas, that matures in April 2014 and bears interest at a fixed rate of 5.75%, and $5,072,000 outstanding under a $9,500,000 credit facility maintained by our consolidated affiliate, WNCL, that matures in November 2014 and bears interest at a variable rate. The applicable variable rate was 2.25% at February 28, 2014.

NOTE H Comprehensive Income

The following table summarizes the tax effects of each component of other comprehensive income for the three months ended February 28, 2014 and 2013:

	2014			2013		
(in thousands)	**Before-Tax Amount**	**Tax Expense**	**Net-of-Tax Amount**	**Before-Tax Amount**	**Tax Expense**	**Net-of-Tax Amount**
Foreign currency translation	$ 3,043	-	$ 3,043	$ (1,675)	$ -	$ (1,675)
Pension liability adjustment	691	(241)	450	(43)	15	(28)
Cash flow hedges	(62)	(32)	(94)	724	113	837
Other comprehensive income (loss)	$ 3,672	$ (273)	$ 3,399	$ (994)	$ 128	$ (866)

The following table summarizes the tax effects of each component of other comprehensive income for the nine months ended February 28, 2014 and 2013:

	2014			2013		
(in thousands)	**Before-Tax Amount**	**Tax Expense**	**Net-of-Tax Amount**	**Before-Tax Amount**	**Tax Expense**	**Net-of-Tax Amount**
Foreign currency translation	$ 5,594	$ -	$ 5,594	$ 6,400	$ -	$ 6,400
Pension liability adjustment	691	(241)	450	(298)	97	(201)
Cash flow hedges	5,419	(1,809)	3,610	2,501	(1,008)	1,493
Other comprehensive income	$ 11,704	$ (2,050)	$ 9,654	$ 8,603	$ (911)	$ 7,692

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NOTE I 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, 2014:

	Controlling Interest					
(in thousands)	Additional Paid-in Capital	Accumulated Other Comprehensive Loss, Net of Tax	Retained Earnings	Total	Non-controlling Interest	Total
Balance at May 31, 2013	$ 244,864	$ (12,036)	$ 597,994	$ 830,822	$ 41,415	$ 872,237
Net earnings	-	-	118,137	118,137	10,767	128,904
Other comprehensive income (loss)	-	9,906	-	9,906	(252)	9,654
Common shares issued	5,246	-	-	5,246	-	5,246
Stock-based compensation	19,536	-	-	19,536	-	19,536
Purchases and retirement of common shares	(8,661)	-	(82,417)	(91,078)	-	(91,078)
Cash dividends declared	-	-	(31,549)	(31,549)	-	(31,549)
Dividends paid to noncontrolling interest	-	-	-	-	(39,150)	(39,150)
Acquisition of ARITAS	-	-	-	-	11,744	11,744
Acquisition of TWB	-	-	-	-	72,369	72,369
Balance at February 28, 2014	$ 260,985	$ (2,130)	$ 602,165	$ 861,020	$ 96,893	$ 957,913

The components of the changes in other comprehensive income (loss) were as follows:

(in thousands)	Foreign Currency Translation	Pension Liability Adjustment	Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance as of May 31, 2013	$ 4,025	$ (10,221)	$ (5,840)	$ (12,036)
Other comprehensive income before reclassifications	5,846	691	(1,407)	5,130
Reclassification adjustments to income (a)	-	-	6,826	6,826
Income taxes	-	(241)	(1,809)	(2,050)
Balance as of February 28, 2014	$ 9,871	$ (9,771)	$ (2,230)	$ (2,130)

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

NOTE J Stock-Based Compensation

Non-Qualified Stock Options

During the nine months ended February 28, 2014, we granted non-qualified stock options covering a total of 125,200 common shares under our stock-based compensation plans. The weighted average option price of $31.89 per share reflects the market price of the underlying common shares at the respective grant dates. The weighted average fair value of these stock options, based on the Black-Scholes option-pricing model, calculated at the grant date, was $12.92 per share. The calculated pre-tax stock-based compensation expense for these stock options, after an estimate for forfeitures, is $1,482,000, which will be recognized on a straight-line basis over the three-year vesting period. The following

assumptions were used to value these stock options:

Dividend yield	2.28%
Expected volatility	52.23%
Risk-free interest rate	1.69%
Expected term (years)	6.0

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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.

Restricted Common Shares

During the nine months ended February 28, 2014, we granted 370,340 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 dates of grant, or $32.99 per share. The calculated pre-tax stock-based compensation expense for these restricted common shares, after an estimate for forfeitures, is $10,971,000 and will be recognized on a straight-line basis over the three-year vesting period.

Market-Based Restricted Common Shares

During the nine months ended February 28, 2014, we granted 360,000 restricted common shares to certain key employees under our stock-based compensation plans. Vesting of these restricted common share awards is contingent upon the price of our common shares reaching $50.00 per share and remaining at or above that price for 30 consecutive days and the completion of a three-year service vesting period. The grant-date fair value of these restricted common shares, as determined by a Monte Carlo simulation model, was $24.19 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	2.28%
Expected volatility	53.40%
Risk-free interest rate	1.41%

The calculated pre-tax stock-based compensation expense for these restricted common shares was determined to be $8,708,000 and will be recognized on a straight-line basis over the three-year service vesting period.

NOTE K Income Taxes

Income tax expense for the nine months ended February 28, 2014 and February 28, 2013 reflected estimated annual effective income tax rates of 27.3% and 31.8%, respectively. The annual effective income tax rates exclude any impact from the inclusion of net earnings attributable to non-controlling interests in our consolidated statements of earnings. Net earnings attributable to noncontrolling interest is primarily a result of our Spartan and TWB consolidated joint ventures. The earnings attributable to the noncontrolling interest in Spartan and TWB s U.S. operations do not generate tax expense to Worthington since the investors in Spartan and TWB s U.S. operations are taxed directly based on the earnings attributable to them. Since the consolidation of TWB on July 31, 2013, 100% of the tax expense of TWB s foreign operations has been included in the Company s reported income tax expense for financial reporting purposes, and is therefore included in the estimated annual effective income tax rate. For additional information regarding the consolidation of TWB, refer to NOTE N Acquisitions. 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 2014 could be materially different from the forecasted rate as of February 28, 2014.

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NOTE L Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended February 28, 2014 and 2013:

(in thousands, except per share amounts)	Three Months Ended February 28, 2014	Three Months Ended February 28, 2013	Nine Months Ended February 28, 2014	Nine Months Ended February 28, 2013
Numerator (basic & diluted):				
Net earnings attributable to controlling interest income available to common shareholders	$ 40,603	$ 37,131	$ 118,137	$ 102,919
Denominator:				
Denominator for basic earnings per share attributable to controlling interest weighted average common shares	68,895	69,791	69,268	68,998
Effect of dilutive securities	2,633	2,123	2,642	1,503
Denominator for diluted earnings per share attributable to controlling interest adjusted weighted average common shares	71,528	71,914	71,910	70,501
Basic earnings per share attributable to controlling interest	$ 0.59	$ 0.53	$ 1.71	$ 1.49
Diluted earnings per share attributable to controlling interest	$ 0.57	$ 0.52	$ 1.64	$ 1.46

Stock options covering common shares of 9,922 for the three months ended February 28, 2014 and 8,048 and 673,789 for the nine months ended February 28, 2014 and 2013, respectively, have been excluded from the computation of diluted earnings per share because the effect would have been anti-dilutive.

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NOTE M Segment Operations

During the first quarter of fiscal 2014, we made certain organizational changes impacting the internal reporting and management structure of our Steel Packaging operating segment. As a result of these organizational changes, management responsibilities and internal reporting were realigned under our Steel Processing operating segment. Segment information reported in previous periods has been restated to conform to this new presentation.

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

(in thousands)	Three Months Ended February 28, 2014	Three Months Ended February 28, 2013	Nine Months Ended February 28, 2014	Nine Months Ended February 28, 2013
Net sales				
Steel Processing	$ 477,983	$ 353,879	$ 1,372,558	$ 1,082,998
Pressure Cylinders	233,290	205,206	664,212	606,936
Engineered Cabs	51,485	48,628	147,814	170,927
Other	10,472	11,814	50,837	47,323
Consolidated net sales	$ 773,230	$ 619,527	$ 2,235,421	$ 1,908,184
Operating income (loss)				
Steel Processing	$ 28,264	$ 17,701	$ 85,713	$ 48,166
Pressure Cylinders	21,278	17,860	49,007	49,965
Engineered Cabs	(1,088)	108	(22,284)	5,367
Other	(3,165)	(2,263)	(9,010)	(7,852)
Consolidated operating income	$ 45,289	$ 33,406	$ 103,426	$ 95,646
Restructuring and other expense (income)				
Steel Processing	$ 1,380	$ -	$ (3,382)	$ -
Pressure Cylinders	412	177	(1,035)	183
Engineered Cabs	-	-	-	-
Other	(394)	(31)	636	1,628
Consolidated restructuring and other expense (income)	$ 1,398	$ 146	$ (3,781)	$ 1,811
Impairment of long-lived assets				
Steel Processing	$ -	$ -	$ 4,641	$ -
Pressure Cylinders	-	-	11,634	1,520
Engineered Cabs	-	-	19,100	-
Other	-	-	-	-
Consolidated impairment of long-lived assets	$ -	$ -	$ 35,375	$ 1,520
Joint venture transactions				
Steel Processing	$ -	$ -	$ -	$ -
Pressure Cylinders	-	-	-	-
Engineered Cabs	-	-	-	-
Other	120	253	1,048	(1,188)
Consolidated joint venture transactions	$ 120	$ 253	$ 1,048	$ (1,188)

(in thousands)	February 28, 2014	May 31, 2013
Total assets		
Steel Processing	$ 856,119	$ 610,464
Pressure Cylinders	780,191	742,686
Engineered Cabs	176,620	201,048
Other	312,977	396,659
Consolidated total assets	$ 2,125,907	$ 1,950,857

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NOTE N Acquisitions

TWB Company, LLC

On July 31, 2013, we purchased an additional 10% interest in our laser welded blanks joint venture, TWB, for $17,869,000, increasing our ownership to a 55% controlling interest. This transaction was accounted for as a step acquisition, which required that we re-measure our previously held 45% ownership interest to fair value and record the difference between fair value and carrying value as a gain in our consolidated statement of earnings. The re-measurement to fair value resulted in a non-cash pre-tax gain of $11,000,000, which is included in miscellaneous income in our consolidated statement of earnings for the nine months ended February 28, 2014. 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. In connection with the acquisition of TWB, we identified and valued the following identifiable intangible assets:

(in thousands) Category	Amount	Useful Life (Years)
Customer relationships	$ 17,438	5-6
Trade names	4,120	Indefinite
Non-compete agreement	470	5
Total acquired identifiable intangible assets	$ 22,028	

The estimated fair value of the assets acquired and liabilities assumed approximated the purchase price and therefore no goodwill was recognized.

The following table summarizes the consideration transferred for our 55% controlling interest in TWB and the fair value assigned to the assets acquired and liabilities assumed at the acquisition date:

(in thousands)	
Consideration Transferred:	
Cash consideration	$ 17,869
Fair value of previously held interest in TWB	72,369
Total consideration	$ 90,238
Estimated Fair Value of Assets Acquired and Liabilities Assumed:	
Cash and cash equivalents	$ 70,826
Accounts receivable	52,012
Inventories	20,403
Prepaid expenses and other current assets	4,027
Intangible assets	22,028
Other noncurrent assets	103
Property, plant and equipment	52,390
Total identifiable assets	221,789
Accounts payable	(50,642)
Accrued liabilities	(6,431)
Deferred taxes	(2,109)
Net assets	162,607
Noncontrolling interest	(72,369)

Total consideration	$ 90,238

The fair value of our previously held equity interest and the noncontrolling interest was derived using a market approach, and included a minority discount of 10% to reflect management s estimate of the control premium.

Net sales of $213,252,000 and earnings before income taxes of $14,488,000 have been included in the Company s consolidated statement of earnings from the acquisition date through the period ended February 28, 2014.

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Proforma net sales of the combined entity had the acquisition occurred at the beginning of fiscal 2013 were $2,289,424,000 and $2,161,147,000 for the nine months ended February 28, 2014 and 2013, respectively. Pro forma earnings would not be materially different than reported results due to our 45% noncontrolling interest in TWB prior to the acquisition date

Aritas Basincli Kaplar Sanayi A.S.

On January 24, 2014, we acquired a 75% interest in Worthington Aritas, one of Europe s leading LNG (liquefied natural gas) and cryogenic technology companies. The remaining 25% stake was retained by the prior owners. The total purchase price, after an adjustment for estimated final working capital, was $35,231,000. The purchase price also includes contingent consideration with an estimated fair value of $310,000. The acquired net assets became part of our Pressure Cylinders operating segment upon closing. While the Company does not anticipate any changes to the initial accounting for this transaction, the allocation of the purchase price is not yet finalized and is subject to adjustment as we complete the valuation analysis.

The contingent consideration arrangement requires the Company to pay $2,000,000 of additional consideration to the former owners if earnings before interest, taxes, depreciation and amortization (EBITDA) exceed $5,000,000 during any 12 consecutive months during the first 14 month period following the closing date. We determined the acquisition date fair value of the contingent consideration obligation using a Monte Carlo simulation model based on management s projections of future EBITDA levels. Refer to Note P Fair Value for additional information regarding the fair value measurement of the contingent consideration obligation.

The assets acquired and liabilities assumed were recognized at their estimated acquisition-date fair values based on a preliminary valuation analysis, with goodwill representing the excess of the purchase price over the fair value of the net identifiable assets acquired. Based on the preliminary valuation analysis, we identified and valued the following identifiable intangible assets:

(in thousands) Category	Amount	Useful Life (Years)
Customer relationships	$ 8,400	20
Technological know-how	8,100	20
Trade name	180	2
Non-compete agreements	120	3
Total acquired identifiable intangible assets	$ 16,800	

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 not expected to be deductible for income tax purposes.

The following table summarizes the consideration transferred for Worthington Aritas and the estimated fair value assigned to the assets acquired and liabilities assumed at the acquisition date:

(in thousands)	
Cash and cash equivalents	$ 1,037
Accounts receivable	3,326
Inventories	10,678
Prepaid expenses and other current assets	1,317
Intangible assets	16,800
Other noncurrent assets	1,099
Property, plant and equipment	5,467
Total identifiable assets	39,724
Accounts payable	(5,587)
Short-term borrowings	(251)
Accrued liabilities	(2,756)
Other liabilities	(4,954)
Deferred taxes	(2,787)
Net identifiable assets	23,389
Goodwill	23,586
Net assets	46,975
Noncontrolling interest	(11,744)
Total consideration	$ 35,231

Operating results of Worthington Aritas have been included in our consolidated statements of earnings from the acquisition date, forward. Pro forma results, including the acquired business since the beginning of fiscal 2013, would not be materially different than reported results.

NOTE O Derivative Instruments and Hedging Activities

We utilize derivative financial instruments to manage exposure to certain risks related to our ongoing operations. The primary risks managed through the use of derivative instruments include interest rate risk, 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.

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 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.

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

The following table summarizes the fair value of our derivative instruments and the respective financial statement caption in which they were recorded in our consolidated balance sheet at February 28, 2014:

(in thousands)	Asset Derivatives Balance Sheet Location	Fair Value	Liability Derivatives Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate contracts	Receivables	$ -	Accounts payable	$ 4,166
	Other assets	-	Other liabilities	-
		-		4,166
Commodity contracts	Receivables	968	Accounts payable	-
		968		-
Totals		$ 968		$ 4,166
Derivatives not designated as hedging instruments:				
Commodity contracts	Receivables	$ 871	Accounts payable	$ 283
		871		283
Foreign exchange contracts	Receivables	-	Accounts payable	205
Totals		$ 871		$ 488
Total Derivative Instruments		$ 1,839		$ 4,654

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 $230,000 increase in receivables with a corresponding increase in accounts payable.

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The following table summarizes the fair value of our derivative instruments and the respective financial statement caption in which they were recorded in the consolidated balance sheet at May 31, 2013:

(in thousands)	Asset Derivatives Balance Sheet Location	Asset Derivatives Fair Value	Liability Derivatives Balance Sheet Location	Liability Derivatives Fair Value
Derivatives designated as hedging instruments:				
Interest rate contracts	Receivables	$ -	Accounts payable	$ 4,032
	Other assets	-	Other liabilities	3,863
		-		7,895
Commodity contracts	Receivables	425	Accounts payable	1,352
		425		1,352
Totals		$ 425		$ 9,247
Derivatives not designated as hedging instruments:				
Commodity contracts	Receivables	$ 331	Accounts payable	$ 527
		331		527
Foreign exchange contracts	Receivables	5	Accounts payable	-
		5		-
Totals		$ 336		$ 527
Total Derivative Instruments		$ 761		$ 9,774

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 $740,000 increase in receivables with a corresponding increase in accounts payable.

Cash Flow Hedges

We enter into derivative instruments to hedge our exposure to changes in cash flows attributable to interest rate and commodity price fluctuations associated with certain forecasted transactions. These derivative instruments are designated and qualify as cash flow hedges. Accordingly, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (OCI) and reclassified into earnings in the same line item 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, 2014:

(in thousands)	Notional Amount	Maturity Date
Commodity contracts	$ 28,265	March 2014 - December 2014

Interest rate contracts	$ 100,000	June 2014 - December 2014

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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, 2014 and 2013:

(in thousands)	Income (Loss) Recognized in OCI (Effective Portion)	Location of Income (Loss) Reclassified from Accumulated OCI (Effective Portion)	Income (Loss) Reclassified from Accumulated OCI (Effective Portion)	Location of Income (Loss) (Ineffective Portion) and Excluded from Effectiveness Testing	Income (Loss) (Ineffective Portion) and Excluded from Effectiveness Testing
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	-
Totals	$ (3,640)		$ (3,578)		$ -
For the three months ended February 28, 2013:					
Interest rate contracts	$ (389)	Interest expense	$ (1,320)	Interest expense	$ -
Commodity contracts	313	Cost of goods sold	520	Cost of goods sold	-
Totals	$ (76)		$ (800)		$ -

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, 2014 and 2013:

(in thousands)	Income (Loss) Recognized in OCI (Effective Portion)	Location of Income (Loss) Reclassified from Accumulated OCI (Effective Portion)	Income (Loss) Reclassified from Accumulated OCI (Effective Portion)	Location of Income (Loss) (Ineffective Portion) and Excluded from Effectiveness Testing	Income (Loss) (Ineffective Portion) and Excluded from Effectiveness Testing
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	-
Totals	$ (1,407)		$ (6,826)		$ -
For the nine months ended February 28, 2013:					
Interest rate contracts	$ (878)	Interest expense	$ (2,968)	Interest expense	$ -
Commodity contracts	771	Cost of goods sold	360	Cost of goods sold	-
Totals	$ (107)		$ (2,608)		$ -

The estimated net amount of the losses recognized in accumulated OCI at February 28, 2014 expected to be reclassified into net earnings within the succeeding twelve months is $2,077,000 (net of tax of $1,121,000). This amount was computed using the fair value of the cash flow hedges at February 28, 2014, and will change before actual reclassification from OCI to net earnings during the fiscal years ending May 31, 2014 and 2015.

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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, 2014:

(in thousands)	Notional Amount	Maturity Date(s)
Commodity contracts	$ 24,330	March 2014 - December 2015
Foreign currency contracts	$ 10,000	May 2014

The following table summarizes the gain (loss) recognized in earnings for economic (non-designated) derivative financial instruments during the three months ended February 28, 2014 and 2013:

(in thousands)	Location of Income (Loss) Recognized in Earnings	Income (Loss) Recognized in Earnings for the Three Months Ended February 28, 2014	2013
Commodity contracts	Cost of goods sold	$ (1,241)	$ 3,611
Foreign exchange contracts	Miscellaneous expense	(205)	1,142
Total		$ (1,446)	$ 4,753

The following table summarizes the gain (loss) recognized in earnings for economic (non-designated) derivative financial instruments during the nine months ended February 28, 2014 and 2013:

(in thousands)	Location of Income (Loss) Recognized in Earnings	Income (Loss) Recognized in Earnings for the Nine Months Ended February 28, 2014	2013
Commodity contracts	Cost of goods sold	$ (959)	$ 7,844
Foreign exchange contracts	Miscellaneous expense	(210)	1,363
Total		$ (1,169)	$ 9,207

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

NOTE P Fair Value

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

Level 1	Observable prices in active markets for identical assets and liabilities.
Level 2	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.

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At February 28, 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
Assets				
Derivative contracts (1)	$ -	$ 1,839	$ -	$ 1,839
Total assets	$ -	$ 1,839	$ -	