WORTHINGTON INDUSTRIES INC
Form 10-Q
April 11, 2016
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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 29, 2016

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, 2016, the number of Common Shares, without par value, issued and outstanding was 62,450,297.

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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;*
- *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;*
- *pricing trends for raw materials and finished goods and the impact of pricing changes;*
- *demand trends for us or our markets;*
- *additions to product lines and opportunities to participate in new markets;*
- *expected benefits from Transformation efforts;*
- *anticipated capital expenditures and asset sales;*
- *anticipated improvements and efficiencies in costs, operations, sales, inventory management, sourcing and the supply chain and the results thereof;*
- *projected profitability potential, capacity and working capital needs;*
- *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, customer initiatives, new businesses, new products and new markets;*
- *expectations for Company and customer inventories, jobs and orders;*
- *expectations for the economy and markets or improvements therein;*
- *expectations for increasing volatility or improving and sustainable 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;*
- *lower oil prices as a factor in demand for products;*
- *product demand and pricing;*
- *changes in product mix, product substitution and market acceptance of our products;*
- *fluctuations in the pricing, quality or availability of raw materials (particularly steel), supplies, transportation, utilities and other items required by operations;*
- *effects of facility closures and the consolidation of operations;*
- *the effect of financial difficulties, consolidation and other changes within the steel, automotive, construction, oil and gas, and other industries in which we participate;*
- *failure to maintain appropriate levels of inventories;*
- *financial difficulties (including bankruptcy filings) of original equipment manufacturers, end-users and customers, suppliers, joint venture partners and others with whom we do business;*
- *the ability to realize targeted expense reductions from headcount reductions, facility closures and other cost reduction efforts;*
- *the ability to realize 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 industries as a whole;*
- *the effect of disruption in the business of suppliers, customers, facilities and shipping operations due to adverse weather, casualty events, equipment breakdowns, 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 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 operations and financial results; 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, 2015.*

*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 29, 2016 | May 31, 2015 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 25,432 | $ 31,067 |
| Receivables, less allowances of $3,313 and $3,085 at February 29, 2016 and May 31, 2015, respectively | 399,138 | 474,292 |
| Inventories: | | |
| Raw materials | 159,183 | 181,975 |
| Work in process | 82,334 | 107,069 |
| Finished products | 79,710 | 85,931 |
| Total inventories | 321,227 | 374,975 |
| Income taxes receivable | 11,934 | 12,119 |
| Assets held for sale | 11,441 | 23,412 |
| Deferred income taxes | 22,709 | 22,034 |
| Prepaid expenses and other current assets | 55,777 | 54,294 |
| Total current assets | 847,658 | 992,193 |
| Investments in unconsolidated affiliates | 208,898 | 196,776 |
| Goodwill | 244,144 | 238,999 |
| Other intangible assets, net of accumulated amortization of $46,219 and $47,547 at February 29, 2016 and May 31, 2015, respectively | 94,605 | 119,117 |
| Other assets | 25,603 | 24,867 |
| Property, plant & equipment: | | |
| Land | 16,067 | 16,017 |
| Buildings and improvements | 239,342 | 218,182 |
| Machinery and equipment | 928,648 | 872,986 |
| Construction in progress | 35,235 | 40,753 |
| Total property, plant & equipment | 1,219,292 | 1,147,938 |
| Less: accumulated depreciation | 680,272 | 634,748 |
| Property, plant and equipment, net | 539,020 | 513,190 |
| **Total assets** | $ 1,959,928 | $ 2,085,142 |
| **Liabilities and equity** | | |
| Current liabilities: | | |

| | | |
|---|---|---|
| Accounts payable | $ 262,405 | $ 294,129 |
| Short-term borrowings | 30,766 | 90,550 |
| Accrued compensation, contributions to employee benefit plans and related taxes | 65,475 | 66,252 |
| Dividends payable | 13,243 | 12,862 |
| Other accrued items | 52,985 | 56,913 |
| Income taxes payable | 1,917 | 2,845 |
| Current maturities of long-term debt | 857 | 841 |
| Total current liabilities | 427,648 | 524,392 |
| Other liabilities | 62,006 | 58,269 |
| Distributions in excess of investment in unconsolidated affiliate | 58,430 | 61,585 |
| Long-term debt | 579,515 | 579,352 |
| Deferred income taxes | 18,515 | 21,495 |
| Total liabilities | 1,146,114 | 1,245,093 |
| Shareholders equity - controlling interest | 719,776 | 749,112 |
| Noncontrolling interests | 94,038 | 90,937 |
| Total equity | 813,814 | 840,049 |
| **Total liabilities and equity** | $ 1,959,928 | $ 2,085,142 |

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 | | Nine Months Ended | |
|---|---|---|---|---|
| | February 29, 2016 | February 28, 2015 | February 29, 2016 | February 28, 2015 |
| Net sales | $ 647,080 | $ 804,785 | $ 2,105,043 | $ 2,538,211 |
| Cost of goods sold | 551,157 | 706,294 | 1,786,925 | 2,184,990 |
| Gross margin | 95,923 | 98,491 | 318,118 | 353,221 |
| Selling, general and administrative expense | 70,149 | 66,764 | 218,822 | 219,327 |
| Impairment of goodwill and long-lived assets | | 81,600 | 25,962 | 97,785 |
| Restructuring and other expense | 702 | 2,177 | 5,294 | 2,765 |
| Operating income (loss) | 25,072 | (52,050) | 68,040 | 33,344 |
| Other income (expense): | | | | |
| Miscellaneous income, net | 3,305 | 213 | 3,723 | 1,756 |
| Interest expense | (7,886) | (8,381) | (23,539) | (27,573) |
| Equity in net income of unconsolidated affiliates | 24,994 | 18,800 | 80,822 | 69,043 |
| Earnings (loss) before income taxes | 45,485 | (41,418) | 129,046 | 76,570 |
| Income tax expense (benefit) | 11,613 | (18,173) | 35,121 | 19,540 |
| Net earnings (loss) | 33,872 | (23,245) | 93,925 | 57,030 |
| Net earnings attributable to noncontrolling interests | 4,296 | 2,465 | 9,698 | 9,110 |
| **Net earnings (loss) attributable to controlling interest** | $ 29,576 | $ (25,710) | $ 84,227 | $ 47,920 |
| **Basic** | | | | |
| Average common shares outstanding | 61,747 | 66,359 | 62,810 | 67,013 |
| **Earnings (loss) per share attributable to controlling interest** | $ 0.48 | $ (0.39) | $ 1.34 | $ 0.72 |
| **Diluted** | | | | |
| Average common shares outstanding | 63,727 | 66,359 | 64,583 | 69,301 |
| **Earnings (loss) per share attributable to controlling interest** | $ 0.46 | $ (0.39) | $ 1.30 | $ 0.69 |
| Common shares outstanding at end of period | 61,285 | 65,078 | 61,285 | 65,078 |
| Cash dividends declared per share | $ 0.19 | $ 0.18 | $ 0.57 | $ 0.54 |

See notes to consolidated financial statements

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**WORTHINGTON INDUSTRIES, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

**(In thousands)**

**(Unaudited)**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | February 29, 2016 | February 28, 2015 | February 29, 2016 | February 28, 2015 |
| Net earnings (loss) | $ 33,872 | $ (23,245) | $ 93,925 | $ 57,030 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation | 8,646 | (14,873) | 1,255 | (31,735) |
| Pension liability adjustment, net of tax | (90) | (701) | (98) | (701) |
| Cash flow hedges, net of tax | 5,430 | (9,538) | 3,537 | (10,458) |
| Other comprehensive income (loss) | 13,986 | (25,112) | 4,694 | (42,894) |
| **Comprehensive income (loss)** | 47,858 | (48,357) | 98,619 | 14,136 |
| Comprehensive income attributable to noncontrolling interests | 7,476 | 1,626 | 12,207 | 6,657 |
| **Comprehensive income (loss) attributable to controlling interest** | $ 40,382 | $ (49,983) | $ 86,412 | $ 7,479 |

See notes to consolidated financial statements.

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**WORTHINGTON INDUSTRIES, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In thousands)**

**(Unaudited)**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | February 29, 2016 | February 28, 2015 | February 29, 2016 | February 28, 2015 |
| **Operating activities** | | | | |
| Net earnings (loss) | $ 33,872 | $ (23,245) | $ 93,925 | $ 57,030 |
| Adjustments to reconcile net earnings (loss) to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 20,761 | 21,762 | 62,748 | 63,329 |
| Impairment of goodwill and long-lived assets | - | 81,600 | 25,962 | 97,785 |
| Provision for (benefit from) deferred income taxes | 9,322 | (35,334) | (6,069) | (41,361) |
| Bad debt expense (income) | 187 | (46) | 195 | (106) |
| Equity in net income of unconsolidated affiliates, net of distributions | (622) | (571) | (16,524) | (8,374) |
| Net (gain) loss on sale of assets | (3,385) | 3,047 | (7,633) | 3,481 |
| Stock-based compensation | 3,627 | 4,058 | 11,284 | 12,911 |
| Excess tax benefits - stock-based compensation | (431) | (663) | (1,689) | (6,416) |
| Changes in assets and liabilities, net of impact of acquisitions: | | | | |
| Receivables | 10,688 | 5,078 | 76,791 | 10,914 |
| Inventories | 37,211 | (8,795) | 61,032 | (43,925) |
| Prepaid expenses and other current assets | (19,309) | (3,078) | 9,324 | (11,182) |
| Other assets | (1,216) | 2,415 | (4,019) | 5,631 |
| Accounts payable and accrued expenses | 14,027 | 40,260 | (16,500) | 10,055 |
| Other liabilities | 1,052 | (3,612) | 5,352 | (10,108) |
| **Net cash provided by operating activities** | 105,784 | 82,876 | 294,179 | 139,664 |
| **Investing activities** | | | | |
| Investment in property, plant and equipment | (14,973) | (26,119) | (75,465) | (73,265) |
| Investment in notes receivable | - | - | - | (7,300) |
| Acquisitions, net of cash acquired | (31,256) | (54,389) | (34,206) | (105,482) |
| Investments in unconsolidated affiliates, net of distributions | (3,683) | (4,559) | (5,596) | (8,230) |
| Proceeds from sale of assets and insurance | 431 | 3,521 | 9,887 | 3,813 |
| **Net cash used by investing activities** | (49,481) | (81,546) | (105,380) | (190,464) |
| **Financing activities** | | | | |
| Net proceeds from (repayments of) short-term borrowings | (16,716) | 112,285 | (57,728) | 112,644 |
| Proceeds from long-term debt | - | 5,916 | 921 | 26,396 |
| Principal payments on long-term debt | (216) | (101,832) | (644) | (102,645) |
| Proceeds from issuance of common shares | 2,747 | 2,081 | 5,811 | 1,627 |
| Excess tax benefits - stock-based compensation | 431 | 663 | 1,689 | 6,416 |
| Payments to noncontrolling interests | (4,206) | (9,200) | (9,106) | (12,067) |
| Repurchase of common shares | (28,352) | (52,795) | (99,848) | (94,415) |
| Dividends paid | (11,913) | (12,517) | (35,529) | (34,767) |
| **Net cash used by financing activities** | (58,225) | (55,399) | (194,434) | (96,811) |

| | | | | |
|---|---|---|---|---|
| Decrease in cash and cash equivalents | (1,922) | (54,069) | (5,635) | (147,611) |
| Cash and cash equivalents at beginning of period | 27,354 | 96,537 | 31,067 | 190,079 |
| **Cash and cash equivalents at end of period** | $ 25,432 | $ 42,468 | $ 25,432 | $ 42,468 |

See notes to consolidated financial statements.

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**WORTHINGTON INDUSTRIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE A Basis of Presentation**

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

dHybrid Systems, LLC ( dHybrid ), Spartan Steel Coating, LLC ( Spartan ), TWB Company, L.L.C. ( TWB ), Worthington Arıtaş Basınçlı Kapl Sanayi ( Worthington Aritas ), and Worthington Energy Innovations, LLC ( WEI ) in which we own controlling interests of 79.59%, 52%, 55%, 75%, and 75%, respectively, are consolidated with the equity owned by the other joint venture members shown as noncontrolling interests 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 (loss) attributable to noncontrolling interests 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 consolidated financial statements for these interim periods, have been included. Operating results for the three and nine months ended February 29, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending May 31, 2016 ( fiscal 2016 ). 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, 2015 ( fiscal 2015 ) of Worthington Industries, Inc. (the 2015 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 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, 2017, including interim periods within that reporting period. 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.

In April 2015, amended accounting guidance was issued to simplify the presentation of debt issuance costs by requiring that such costs be presented in the balance sheet as a direct deduction from the carrying amount of the corresponding debt liability itself. For public business entities, the amended guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Early application is permitted for financial statements that have not been issued. The revised guidance is to be applied on a retrospective basis, and entities are to comply with the applicable disclosures for a change in an accounting principle accordingly. The adoption of this guidance will not have a significant impact on our consolidated financial position and results of operations.

In July 2015, amended accounting guidance was issued regarding the measurement of inventory. The amended guidance requires that inventory accounted for under the first-in, first-out (FIFO) or average cost methods be measured at the lower of cost and net realizable value, where net realizable value represents the estimated selling price of inventory in the ordinary course of business, less reasonably predictable costs of completion, disposal, and

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transportation. The amended guidance has no impact on inventory accounted for under the last-in, first-out (LIFO) or retail inventory methods. For public business entities, the amended guidance is effective prospectively for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early application is permitted as of the beginning of an interim or annual reporting period. We are in the process of evaluating the effect this guidance will have on our consolidated financial position and results of operations, and we have not determined the effect of the amended guidance on our ongoing financial reporting.

In September 2015, amended accounting guidance was issued regarding adjustments to provisional amounts reported in conjunction with a business combination. The amended guidance requires that an acquirer in a business combination recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendment also requires that the acquirer record, in the same period s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change, calculated as if the accounting had been completed at the acquisition date. Additionally, the amendment requires the acquirer to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the amended guidance is effective prospectively for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Early application is permitted for financial statements that have not been issued. We are in the process of evaluating the effect this guidance will have on our consolidated financial position and results of operations, and we have not determined the effect of the amended guidance on our ongoing financial reporting.

In November 2015, amended accounting guidance was issued that simplifies the presentation of deferred income taxes. The amended guidance requires that all deferred income tax assets and liabilities be classified as noncurrent on a classified statement of financial position. For public business entities, the amended guidance is effective for financial statements issued for annual periods beginning after December 15, 2016, including interim periods within those annual periods. Early application is permitted as of the beginning of an interim or annual reporting period, and the change may be applied either prospectively or retrospectively. We are in the process of evaluating the effect this guidance will have on our consolidated financial position and results of operations, and we have not determined the effect of the amended guidance on our ongoing financial reporting.

In February 2016, amended accounting guidance was issued that replaces most existing lease accounting guidance under U.S. GAAP. Among other changes, the amended guidance requires that lease assets and liabilities be recognized on the balance sheet by lessees for those leases classified as operating leases under previous guidance. For public business entities, the amended guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted, and the change is to be applied using a modified retrospective approach as of the beginning of the earliest period presented. We are in the process of evaluating the effect this guidance will have on our consolidated financial position and results of operations, and we have not determined the effect of the amended guidance on our ongoing financial reporting.

**NOTE B 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 has been considered to be jointly controlled and not consolidated due to substantive participating rights of the minority partner. However, on March 1, 2016, the Company obtained formal control over the operations of the WSP joint venture with United States Steel Corporation ( U.S. Steel ). Our ownership interest will remain at 51%. WSP s financial statements will be consolidated within the Steel Processing operating segment beginning March 1, 2016. Refer to NOTE Q Subsequent Events for additional detail.

We received distributions from unconsolidated affiliates totaling $65,318,000 during the nine months ended February 29, 2016. We have received cumulative distributions from WAVE in excess of our investment balance totaling $58,430,000 at February 29, 2016. 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.

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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.

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

| (in thousands) | February 29, 2016 | May 31, 2015 |
|---|---|---|
| Cash | $ 132,893 | $ 101,011 |
| Receivable from member (1) | 6,902 | 11,092 |
| Other current assets | 434,533 | 491,507 |
| Noncurrent assets | 376,416 | 318,939 |
| Total assets | $ 950,744 | $ 922,549 |
| Current liabilities | $ 131,308 | $ 184,028 |
| Short-term borrowings | 16,684 | - |
| Current maturities of long-term debt | 3,721 | 4,489 |
| Long-term debt | 269,261 | 272,861 |
| Other noncurrent liabilities | 21,133 | 20,471 |
| Equity | 508,637 | 440,700 |
| Total liabilities and equity | $ 950,744 | $ 922,549 |

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | February 29, 2016 | February 28, 2015 | February 29, 2016 | February 28, 2015 |
| Net sales | $ 376,448 | $ 356,604 | $ 1,170,096 | $ 1,137,866 |
| Gross margin | 83,251 | 67,636 | 257,036 | 232,580 |
| Operating income | 54,801 | 41,335 | 171,857 | 154,678 |
| Depreciation and amortization | 7,905 | 8,827 | 24,070 | 26,932 |
| Interest expense | 2,038 | 2,157 | 6,333 | 6,492 |
| Other income (expense) (2) | (59) | (79) | 23,505 | (208) |
| Income tax expense | 2,625 | 2,555 | 7,348 | 8,107 |
| Net earnings | 51,994 | 37,859 | 186,063 | 141,789 |

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

(2) The increase in other income for the nine months ended February 29, 2016, as compared to the comparable period in the prior year is primarily attributable to the impact of ClarkDietrich s legal settlement related to successful disparagement litigation brought against several competitors in an industry trade association.

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

We review the carrying value of our long-lived assets, including intangible assets with definite 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 of long-lived assets with definite useful lives 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 statement of earnings.

Fiscal 2016: Due to the decline in oil prices and resulting reduced demand for products, management determined that an impairment indicator was present for the long-lived assets in the Oil & Gas Equipment business within Pressure Cylinders. The Company had tested the five asset groups in its Oil & Gas Equipment business for impairment during the fourth quarter of fiscal 2015 and again in the first quarter of fiscal 2016. In each of these tests, the Company s estimate of the undiscounted future cash flows for each asset group indicated that the carrying amounts were expected to be recovered as of those measurement dates.

During the second quarter of fiscal 2016, the continued decline of oil prices further reduced the demand for Oil & Gas Equipment products, causing a significant decrease in the long-term cash flow projections of that business. Based on these revised cash flow projections, the Company determined that long-lived assets of two of the facilities with a combined carrying amount of $59,895,000 were impaired and wrote them down to their estimated fair value of $36,933,000, resulting in an impairment charge of $22,962,000. Fair value was based on expected future cash flows using Level 3 inputs under Accounting Standard Codification ( ASC ) 820. The cash flows are those expected to be generated by market participants, discounted at an appropriate rate for the risks inherent in those cash flow projections, or 13%. Because of deteriorating market conditions (i.e., rising interest rates and declining marketplace demand), it is reasonably possible that our estimate of discounted cash flows may change resulting in the need to adjust our determination of fair value.

As a result of the impairment of the Oil & Gas Equipment assets noted above, the Company also performed an impairment review of the goodwill of the Pressure Cylinders reporting unit during the second quarter of fiscal 2016. The Company first assessed the reporting unit structure and determined that it was no longer appropriate to aggregate the Oil & Gas Equipment component with the rest of the Pressure Cylinders for purposes of goodwill impairment testing. This determination was driven by changes in the economic characteristics of the Oil & Gas Equipment business as a result of sustained low oil prices, which now indicate that the risk profile and prospects for growth and profitability of the Oil & Gas Equipment component are no longer similar to the other components of our Pressure Cylinders businesses. In accordance with the applicable accounting guidance, the Company allocated a portion of Pressure Cylinders goodwill totaling $25,982,000 to the Oil & Gas Equipment reporting unit using a relative fair value approach. A subsequent comparison of the fair values of the Oil & Gas Equipment and Pressure Cylinders reporting units, determined using discounted cash flows, to their respective carrying values indicated that a step 2 calculation to quantify a potential impairment was not required. The key assumptions that drive the fair value calculations are projected cash flows and the discount rate. Prior to the allocation of goodwill, the Company tested the goodwill of the old Pressure Cylinders reporting unit for impairment and determined that fair value exceeded carrying value by a significant amount.

During the first quarter of fiscal 2016, management finalized its plan to close the Engineered Cabs facility in Florence, South Carolina and transfer the majority of the business to the Engineered Cabs facility in Greeneville, Tennessee. Under the plan, certain machinery and equipment was transferred to the Greeneville facility to support higher volume requirements. Management reevaluated the recoverability of the remaining assets and determined that long-lived assets with a carrying value of $4,059,000 were impaired. As a result, these long-lived assets were written down to their estimated fair value of $1,059,000 resulting in an impairment charge of $3,000,000 during the first quarter of fiscal 2016. The Company ceased production at the Florence facility on September 30, 2015.

Fiscal 2015: 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.

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 of the Florence, South Carolina 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, an additional impairment charge related to the Florence asset group was later recognized during the nine months ended February 29, 2016.

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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 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, accordingly, the entire $44,933,000 goodwill balance was written-off during the third quarter of fiscal 2015. The key assumptions used in the fair value calculations were 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 these assets and recognized a gain of $313,000.

Also 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, and at the Company s military construction business due to current and projected operating losses. Recoverability of the identified asset groups 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 was less than the net book value of the asset groups. In accordance with the applicable accounting guidance, the net assets were written down to their fair values, resulting in impairment charges of $3,221,000 and $1,179,000, respectively.

During the fourth quarter of fiscal 2014, the Company committed to a plan to sell its 60% ownership interest in Worthington Nitin Cylinders, a consolidated joint venture in India, and Precision Specialty Metals ( PSM ), a stainless steel business. Accordingly, at May 31, 2014, the net assets of these businesses were recorded as assets held for sale at the lower of their fair values or net book values, less selling costs. During the first half of fiscal 2015, changes in facts and circumstances related to these businesses indicated that the Company needed to reassess the fair value of these assets. As a result, additional impairment charges of $6,346,000 and $3,050,000, respectively, were recorded.

**NOTE D Restructuring and Other Expense**

We consider restructuring activities to be programs whereby we fundamentally change our operations such as closing and consolidating manufacturing facilities, moving manufacturing of a product to another location, and rationalizing headcount.

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 29, 2016 is summarized as follows:

| (in thousands) | Beginning Balance | Expense | Payments | Adjustments | Ending Balance |
|---|---|---|---|---|---|
| Early retirement and severance | $ 2,170 | $ 5,365 | $ (4,639) | $ 26 | $ 2,922 |
| Facility exit and other costs | 371 | 6,576 | (5,760) | (23) | 1,164 |
| | $ 2,541 | 11,941 | $ (10,399) | $ 3 | $ 4,086 |
| Net gain on sale of assets | | (6,647) | | | |
| Restructuring and other expense | | $ 5,294 | | | |

During fiscal 2016, the following activities were taken related to the Company s restructuring activities:

In connection with the closure of the Engineered Cabs facility in Florence, South Carolina the Company recognized severance expense of $2,171,000 and facility exit costs of $888,000.

The Company recognized severance expense of $1,496,000 related to workforce reductions in our Oil & Gas Equipment business within Pressure Cylinders.

In connection with the closure of the Company s stainless steel business, PSM, the Company recognized $5,184,000 of facility exit costs and severance expense of $1,122,000.

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In connection with the pending closure of the steel packaging facility in York, Pennsylvania, the Company recognized severance expense of $556,000.

The Company recognized a gain of $2,978,000 in connection with the sale of the remaining fixed assets of its legacy Baltimore steel processing facility. The Company also recorded a $240,000 credit to severance expense and recognized facility exit costs of $134,000 during fiscal 2016 related to this matter.

The Company recognized a gain of $1,484,000 in connection with the sale of the remaining land and building of its legacy metal framing business.

The Company recognized a gain of $1,928,000 in connection with the sale of its interest in Worthington Nitin Cylinders, the Company s alternative fuels joint venture in India. The sale was completed on January 28, 2016.

The Company incurred severance expense and facility costs totaling $260,000 and $370,000, respectively, related to other non-significant restructuring activities.

The total liability as of February 29, 2016 is expected to be paid in the next twelve months.

**NOTE E Contingent Liabilities and Commitments**

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

**NOTE F 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 29, 2016, 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 $10,820,000 at February 29, 2016. We have also guaranteed the repayment of a term loan entered into by our unconsolidated affiliate, ArtiFlex, which had $417,000 outstanding at February 29, 2016. 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 G Debt and Receivables Securitization**

We maintain a $500,000,000 multi-year revolving credit facility (the Credit Facility ) with a group of lenders that matures in April 2020. 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 29, 2016 was 1.538%. Borrowings outstanding under the Credit Facility totaled $22,710,000 at February 29, 2016, leaving $477,290,000 available for future use.

We also maintain a $100,000,000 revolving trade accounts receivable securitization facility (the AR Facility ) which expires in January 2018. The AR Facility has been available throughout fiscal 2016 to date, and was available throughout fiscal 2015. 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 29, 2016, the pool of eligible accounts receivable exceeded the $100,000,000 limit, and $5,000,000 of undivided interests in this pool of accounts receivable had been sold.

The remaining balance of short-term borrowings at February 29, 2016 consisted of an aggregate of $3,056,000 outstanding under various credit facilities maintained by our consolidated affiliate, Worthington Aritas.

We also have letters of credit totaling $16,650,000 outstanding as of February 29, 2016. These letters of credit are issued to third-party service providers and had no amounts drawn against them at February 29, 2016.

**NOTE H Comprehensive Income (Loss)**

The following table summarizes the tax effects on each component of other comprehensive income (loss) for the three months ended:

| | February 29, 2016 | | | February 28, 2015 | | |
|---|---|---|---|---|---|---|
| **(in thousands)** | **Before-Tax** | **Tax** | **Net-of-Tax** | **Before-Tax** | **Tax** | **Net-of-Tax** |
| Foreign currency translation | $ 8,646 | $ - | $ 8,646 | $ (14,873) | $ - | $ (14,873) |
| Pension liability adjustment | (90) | - | (90) | (1,072) | 371 | (701) |
| Cash flow hedges | 8,505 | (3,075) | 5,430 | (15,253) | 5,715 | (9,538) |
| **Other comprehensive income (loss)** | $ 17,061 | $ (3,075) | $ 13,986 | $ (31,198) | $ 6,086 | $ (25,112) |

The following table summarizes the tax effects on each component of other comprehensive income (loss) for the nine months ended:

| | February 29, 2016 | | | February 28, 2015 | | |
|---|---|---|---|---|---|---|
| **(in thousands)** | **Before-Tax** | **Tax** | **Net-of-Tax** | **Before-Tax** | **Tax** | **Net-of-Tax** |
| Foreign currency translation | $ 1,255 | $ - | $ 1,255 | $ (31,735) | $ - | $ (31,735) |
| Pension liability adjustment | (98) | - | (98) | (1,072) | 371 | (701) |
| Cash flow hedges | 5,938 | (2,401) | 3,537 | (16,683) | 6,225 | (10,458) |
| **Other comprehensive income (loss)** | $ 7,095 | $ (2,401) | $ 4,694 | $ (49,490) | $ 6,596 | $ (42,894) |

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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 interests for the nine months ended February 29, 2016:

| | Controlling Interest | | | | | |
|---|---|---|---|---|---|---|
| (in thousands) | Additional Paid-in Capital | Cumulative Other Comprehensive Loss, Net of Tax | Retained Earnings | Total | Non-controlling Interests | Total |
| **Balance at May 31, 2015** | $ 289,078 | $ (50,704) | $ 510,738 | $ 749,112 | $ 90,937 | $ 840,049 |
| Net earnings | - | - | 84,227 | 84,227 | 9,698 | 93,925 |
| Other comprehensive income | - | 2,185 | - | 2,185 | 2,509 | 4,694 |
| Common shares issued, net of withholding tax | 5,811 | - | - | 5,811 | - | 5,811 |
| Common shares in NQ plans | 881 | - | - | 881 | - | 881 |
| Stock-based compensation | 13,466 | - | - | 13,466 | - | 13,466 |
| Purchases and retirement of common shares | (16,296) | - | (83,552) | (99,848) | - | (99,848) |
| Cash dividends declared | - | - | (36,058) | (36,058) | - | (36,058) |
| Payments to noncontrolling interest | - | - | - | - | (9,106) | (9,106) |
| **Balance at February 29, 2016** | $ 292,940 | $ (48,519) | $ 475,355 | $ 719,776 | $ 94,038 | $ 813,814 |

The components of the changes in accumulated other comprehensive loss were as follows:

| (in thousands) | Foreign Currency Translation | Pension Liability Adjustment | Cash Flow Hedges | Accumulated Other Comprehensive Loss |
|---|---|---|---|---|
| Balance as of May 31, 2015 | $ (20,717) | $ (15,003) | $ (14,984) | $ (50,704) |
| Other comprehensive income (loss) before reclassifications | (1,254) | (98) | (17,903) | (19,255) |
| Reclassification adjustments to income (a) | - | - | 23,841 | 23,841 |
| Income taxes | - | - | (2,401) | (2,401) |
| Balance as of February 29, 2016 | $ (21,971) | $ (15,101) | $ (11,447) | $ (48,519) |

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

**NOTE J Stock-Based Compensation**

**Non-Qualified Stock Options**

During the nine months ended February 29, 2016, we granted non-qualified stock options covering a total of 153,500 common shares under our stock-based compensation plans. The option price of $30.92 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 $9.55 per share. The calculated pre-tax stock-based compensation expense for these stock options, after an estimate for forfeitures, is $1,305,000 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:

| | |
|---|---|
| Dividend yield | 2.33% |
| Expected volatility | 38.40% |
| Risk-free interest rate | 1.98% |
| 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.

**Service-Based Restricted Common Shares**

During the nine months ended February 29, 2016, we granted an aggregate of 210,200 service-based restricted common shares under our stock-based compensation plans. The fair value of these restricted common shares was equal to the closing market price of the underlying common shares on the date of grant, or $29.26 per share. The calculated pre-tax stock-based compensation expense for these restricted common shares, after an estimate for forfeitures, is $5,582,000 and will be recognized on a straight-line basis over the three-year service-based 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, 2016, 2017 and 2018. 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 29, 2016, we granted performance share awards covering an aggregate of 87,096 common shares (at target levels). The calculated pre-tax stock-based compensation expense for these performance shares is $2,623,000 and will be recognized over the three-year performance period.

**NOTE K Income Taxes**

Income tax expense for the nine months ended February 29, 2016 and February 28, 2015 reflected estimated annual effective income tax rates of 30.1% and 30.9%, respectively. The annual effective income tax rates exclude any impact from the inclusion of net earnings attributable to noncontrolling interests in our consolidated statements of earnings. Net earnings attributable to noncontrolling interests is primarily a result of our Spartan, Worthington Nitin Cylinders, Worthington Aritas, 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. The tax expense of Worthington Aritas and Worthington Nitin Cylinders (both foreign corporations), and TWB s wholly-owned foreign corporations, is reported in our consolidated tax expense. Management is required to estimate the annual effective income tax rate based upon its forecast of annual pre-tax income for domestic and foreign operations. Our actual effective income tax rate for fiscal 2016 could be materially different from the forecasted rate as of February 29, 2016.

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**NOTE L Earnings (Loss) per Share**

The following table sets forth the computation of basic and diluted earnings (loss) per share for the three and nine months ended February 29, 2016 and February 28, 2015:

| (in thousands, except per share amounts) | Three Months Ended February 29, 2016 | Three Months Ended February 28, 2015 | Nine Months Ended February 29, 2016 | Nine Months Ended February 28, 2015 |
|---|---|---|---|---|
| Numerator (basic & diluted): | | | | |
| Net earnings (loss) attributable to controlling interest income (loss) available to common shareholders | $ 29,576 | $ (25,710) | $ 84,227 | $ 47,920 |
| Denominator: | | | | |
| Denominator for basic earnings (loss) per share attributable to controlling interest weighted average common shares | 61,747 | 66,359 | 62,810 | 67,013 |
| Effect of dilutive securities | 1,980 | - | 1,773 | 2,288 |
| Denominator for diluted earnings (loss) per share attributable to controlling interest adjusted weighted average common shares | 63,727 | 66,359 | 64,583 | 69,301 |
| Basic earnings (loss) per share attributable to controlling interest | $ 0.48 | $ (0.39) | $ 1.34 | $ 0.72 |
| Diluted earnings (loss) per share attributable to controlling interest | $ 0.46 | $ (0.39) | $ 1.30 | $ 0.69 |

Stock options and restricted common shares covering 352,830 and 1,924,019 common shares for the three months ended February 29, 2016 and February 28, 2015, respectively, and 343,454 and 122,721 common shares for the nine months ended February 29, 2016 and February 28, 2015, 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**

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

| (in thousands) | Three Months Ended February 29, 2016 | Three Months Ended February 28, 2015 | Nine Months Ended February 29, 2016 | Nine Months Ended February 28, 2015 |
|---|---|---|---|---|
| **Net sales** | | | | |
| Steel Processing | $ 419,026 | $ 500,703 | $ 1,377,638 | $ 1,605,790 |
| Pressure Cylinders | 200,721 | 248,086 | 626,288 | 749,789 |
| Engineered Cabs | 25,553 | 45,390 | 92,869 | 146,484 |
| Other | 1,780 | 10,606 | 8,248 | 36,148 |
| **Total net sales** | $ 647,080 | $ 804,785 | $ 2,105,043 | $ 2,538,211 |
| **Operating income (loss)** | | | | |
| Steel Processing | $ 21,294 | $ 16,406 | $ 71,574 | $ 86,152 |
| Pressure Cylinders | 8,969 | 18,611 | 15,479 | 47,797 |
| Engineered Cabs | (4,053) | (85,780) | (17,634) | (93,534) |
| Other | (1,138) | (1,287) | (1,379) | (7,071) |
| **Total operating income (loss)** | $ 25,072 | $ (52,050) | $ 68,040 | $ 33,344 |
| **Impairment of goodwill and long-lived assets** | | | | |
| Steel Processing | $ - | $ - | $ - | $ 3,050 |
| Pressure Cylinders | - | - | 22,962 | 9,567 |
| Engineered Cabs | - | 81,600 | 3,000 | 83,989 |
| Other | - | - | - | 1,179 |
| **Total impairment of goodwill and long-lived assets** | $ - | $ 81,600 | $ 25,962 | $ 97,785 |
| **Restructuring and other expense (income)** | | | | |
| Steel Processing | $ 1,068 | $ (28) | $ 3,788 | $ (58) |
| Pressure Cylinders | (1,031) | 2,498 | (316) | 2,926 |
| Engineered Cabs | 416 | (313) | 3,059 | (313) |
| Other | 249 | 20 | (1,237) | 210 |
| **Total restructuring and other expense** | $ 702 | $ 2,177 | $ 5,294 | $ 2,765 |

| (in thousands) | February 29, 2016 | May 31, 2015 |
|---|---|---|
| **Total assets** | | |
| Steel Processing | $ 734,182 | $ 829,116 |
| Pressure Cylinders | 784,880 | 804,799 |
| Engineered Cabs | 75,603 | 94,506 |
| Other | 365,263 | 356,721 |
| **Total assets** | $ 1,959,928 | $ 2,085,142 |

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**NOTE N Acquisitions**

**The CryoScience business of Taylor Wharton**

On December 7, 2015, the Company acquired the net assets of the CryoScience business of Taylor Wharton ( Taylor Wharton CryoScience ), including a manufacturing facility in Theodore, Alabama. The Company also purchased certain intellectual property and manufacturing assets of Taylor Wharton focused on the cryogenic industrial and liquefied natural gas markets. The total purchase price was $30,287,000 after adjusting for an estimated working capital deficit of $1,069,000. The acquired 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, we identified and valued the following identifiable intangible assets:

| (in thousands) | | Useful Life |
|---|---|---|
| Category | Amount | (Years) |
| Technology | $ 2,800 | 20 |
| Customer relationships | 2,200 | 15 |
| Other | 260 | 1 |
| Total acquired identifiable intangible assets | $ 5,260 | |

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 and the fair value assigned to the assets acquired and liabilities assumed at the acquisition date:

| (in thousands) | |
|---|---|
| Accounts receivable | $ 2,271 |
| Inventories | 5,686 |
| Prepaid expenses | 211 |
| Intangible assets | 5,260 |
| Property, plant and equipment | 13,400 |
| Total identifiable assets | 26,828 |
| Accounts payable | (2,801) |
| Other accrued items | (310) |
| Net assets | 23,717 |
| Goodwill | 6,570 |
| Purchase price | $ 30,287 |
| Plus: estimated working capital deficit | 1,069 |
| Cash paid at closing | $ 31,356 |

Operating results of the acquired business have been included in our consolidated statement of earnings from the acquisition date, forward, and have been immaterial. Pro forma net sales and net earnings, including the acquired business since the beginning of fiscal 2015, would not be

materially different than reported results.

**NetBraze**

On January 15, 2016, the Company acquired the net assets of NetBraze, LLC, a manufacturer of brazing alloys, silver brazing filler metals, solders and fluxes. The total purchase price was $3,390,000, including contingent consideration with an estimated fair value of $540,000. This basis was allocated among the net assets acquired at

their acquisition-date fair values, with $1,565,000 to working capital and $1,825,000 to fixed assets. The purchase price is subject to change based on final working capital adjustments. The acquired assets became part of our Pressure Cylinders operating segment upon closing.

Operating results of the acquired business have been included in our consolidated statements of earnings from the acquisition date, forward, and have been immaterial. Pro forma results, including the acquired business since the beginning of fiscal 2015, would not be materially different than reported results.

**NOTE O Derivative Instruments and Hedging Activities**

We utilize derivative 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 contracts to manage the associated price risk.

We are exposed to counterparty credit risk on all of our derivative instruments. Accordingly, we have established and maintain strict counterparty credit guidelines 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 29, 2016, we had posted total cash collateral of $3,810,000 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 P Fair Value Measurements for additional information regarding the accounting treatment for our derivative instruments, as well as how fair value is determined.

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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 our consolidated balance sheet at February 29, 2016:

| (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:** | | | | |
| Commodity contracts | Receivables | $ - | Accounts payable | $ 12,334 |
| | Other assets | - | Other liabilities | 338 |
| | | - | | 12,672 |
| Interest rate contracts | Receivables | - | Accounts payable | 141 |
| | Other assets | - | Other liabilities | 327 |
| | | - | | 468 |
| Totals | | $ - | | $ 13,140 |
| **Derivatives not designated as hedging instruments:** | | | | |
| Commodity contracts | Receivables | $ - | Accounts payable | $ 2,247 |
| | Other assets | - | Other liabilities | 133 |
| | | - | | 2,380 |
| Foreign exchange contracts | Receivables | - | Accounts payable | 2 |
| | | - | | 2 |
| Totals | | $ - | | $ 2,382 |
| Total Derivative Instruments | | $ - | | $ 15,522 |

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 $995,000 increase in receivables with a corresponding increase in accounts payable.

The following table summarizes the fair value of our derivative instruments and the financial statement caption in which they were recorded in the consolidated balance sheet at May 31, 2015:

| (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:** | | | | |
| Commodity contracts | Receivables | $ - | Accounts payable | $ 17,241 |
| | Other assets | - | Other liabilities | 592 |
| | | - | | 17,833 |
| Interest rate contracts | Receivables | - | Accounts payable | 81 |
| Other assets | Other assets | - | Other liabilities | 113 |

| | | | | |
|---|---|---|---|---|
| | | - | | 194 |
| Foreign exchange contracts | Receivables | 75 | Accounts payable | - |
| Totals | | $ 75 | | $ 18,027 |
| **Derivatives not designated as hedging instruments:** | | | | |
| Commodity contracts | Receivables | $ 96 | Accounts payable | $ 4,104 |
| Totals | | $ 96 | | $ 4,104 |
| Total Derivative Instruments | | $ 171 | | $ 22,131 |

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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 $500,000 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 29, 2016:

| (in thousands) | Notional Amount | Maturity Date |
|---|---|---|
| Commodity contracts | $ 103,490 | March 2016 - December 2017 |
| Interest rate contracts | 16,635 | September 2019 |

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 29, 2016 and February 28, 2015:

| (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 29, 2016: | | | | | |
| Interest rate contracts | $ (107) | Interest expense | $ (130) | Interest expense | $ - |
| Commodity contracts | 707 | Cost of goods sold | (7,775) | Cost of goods sold | - |
| Totals | $ 600 | | $ (7,905) | | $ - |
| 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 | - |
| Totals | $ (14,864) | | $ 379 | | $ - |

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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 nine months ended February 29, 2016 and February 28, 2015:

| (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 29, 2016: | | | | | |
| Interest rate contracts | $ (274) | Interest expense | $ (415) | Interest expense | $ - |
| Commodity contracts | (17,629) | Cost of goods sold | (23,422) | Cost of goods sold | - |
| Foreign currency contracts | - | Miscellaneous income | (4) | Miscellaneous income | - |
| Totals | $ (17,903) | | $ (23,841) | | $ - |
| 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 | - |
| Totals | $ (19,742) | | $ (3,058) | | $ - |

The estimated net amount of the losses recognized in accumulated OCI at February 29, 2016 expected to be reclassified into net earnings within the succeeding twelve months is $9,382,000 (net of tax of $5,349,000). This amount was computed using the fair value of the cash flow hedges at February 29, 2016, and will change before actual reclassification from OCI to net earnings during the fiscal years ending May 31, 2016 and 2017.

**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 29, 2016:

| (in thousands) | Notional Amount | Maturity Date(s) |
|---|---|---|
| Commodity contracts | $ 36,996 | March 2016 - October 2017 |
| Foreign currency contracts | 6,806 | March 2016 - February 2017 |

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The following table summarizes the gain (loss) recognized in earnings for economic (non-designated) derivative financial instruments during the three months ended February 29, 2016 and February 28, 2015:

| (in thousands) | Location of Gain (Loss) Recognized in Earnings | Gain (Loss) Recognized in Earnings for the Three Months Ended February 29, 2016 | February 28, 2015 |
|---|---|---|---|
| Commodity contracts | Cost of goods sold | $ 173 | $ (4,105) |
| Foreign currency contracts | Miscellaneous income (expense) | 47 | |
| Total | | $ 220 | $ (4,105) |

The following table summarizes the gain (loss) recognized in earnings for economic (non-designated) derivative financial instruments during the nine months ended February 29, 2016 and February 28, 2015:

| (in thousands) | Location of Gain (Loss) Recognized in Earnings | Gain (Loss) Recognized in Earnings for the Nine Months Ended February 29, 2016 | February 28, 2015 |
|---|---|---|---|
| Commodity contracts | Cost of goods sold | $ (7,972) | $ (6,522) |
| Foreign currency contracts | Miscellaneous income (expense) | 117 | 43 |
| Total | | $ (7,855) | $ (6,479) |

The gain (loss) on the foreign currency 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 or similar 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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**Recurring Fair Value Measurements**

At February 29, 2016, our assets and liabilities measured at fair value on a recurring basis were as follows:

| (in thousands) | Quoted Price in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Totals |
|---|---|---|---|---|
| **Assets** | | | | |
| Derivative contracts (1) | $ - | $ - | $ - | $ - |
| Total assets | $ - | $ - | $ - | $ - |
| **Liabilities** | | | | |
| Derivative contracts (1) | $ - | $ 15,522 | $ - | $ 15,522 |
| Contingent consideration obligation (2) | - | - | 540 | 540 |
| Total liabilities | $ - | $ 15,522 | $ 540 | $ 16,062 |

At May 31, 2015, our assets and liabilities measured at fair value on a recurring basis were as follows:

| (in thousands) | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Totals |
|---|---|---|---|---|
| **Assets** | | | | |
| Derivative contracts (1) | $ - | $ 171 | $ - | $ 171 |
| Total assets | $ - | $ 171 | $ - | $ 171 |
| **Liabilities** | | | | |
| Derivative contracts (1) | $ - | $ 22,131 | $ - | $ 22,131 |
| Contingent consideration obligations (2) | - | - | 3,979 | 3,979 |
| Total liabilities | $ - | $ 22,131 | $ 3,979 | $ 26,110 |

(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 O Derivative Instruments and Hedging Activities for additional information regarding our use of derivative instruments.

(2) The fair value of the 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 measurement was based on Level 3 inputs not observable in the market.

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**Non-Recurring Fair Value Measurements**

At February 29, 2016, there were no assets or liabilities measured at fair value on a non-recurring basis on the Company s consolidated balance sheet.

At May 31, 2015, 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 |
|---|---|---|---|---|
| **Assets** | | | | |
| Long-lived assets held and used (1) | $ - | $ - | $ 12,403 | $ 12,403 |
| Total assets | $ - | $ - | $ 12,403 | $ 12,403 |

(1) During the fourth quarter of fiscal 2015, management reviewed certain intangible assets related to our CNG fuel systems joint venture, dHybrid, for impairment. In accordance with the applicable accounting guidance, the intangible assets were written down to their fair value of $600,000, resulting in an impairment charge of $2,344,000. The key assumptions that drove the fair value calculation were projected cash flows and the discount rate.

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, South Carolina 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. The fair value measurements were based on Level 3 inputs not observable in the market. The key assumptions that drove the fair value calculations were projected cash flows and the discount rate.

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 $602,511,000 and $610,028,000 at February 29, 2016 and May 31, 2015, respectively. The carrying amount of long-term debt, including current maturities, was $580,372,000 and $580,193,000 at February 29, 2016 and May 31, 2015, respectively.

**NOTE Q Subsequent Events**

As of March 1, 2016, the Company reached an agreement with U.S. Steel, its partner in the WSP joint venture, whereby it obtained a majority of the WSP Board of Directors, which gave the Company effective control over the operations of WSP. As a result, we began consolidating the results of WSP within our financial results as of March 1, 2016, the beginning of the Company s fiscal 2016 fourth quarter. The equity of United States Steel Corporation in the joint venture will be shown as noncontrolling interest in our consolidated balance sheets beginning March 1, 2016 and United States Steel Corporation s portion of net earnings will be included as net earnings attributable to noncontrolling interest in our consolidated statements of earnings beginning with the fourth quarter of fiscal 2016. The Company had been accounting for the results of WSP, through the third quarter of 2016, under the equity method. As a result of this change, and in accordance with U.S. GAAP, we will be required to write up the assets of WSP to fair market value which will result in a one-time, non-cash gain in the fourth quarter of fiscal 2016. The ownership percentages in WSP will remain 51% Worthington and 49% U.S. Steel.

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**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, 2015.*

***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 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, 2015 ( fiscal 2015 ) 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.

As of February 29, 2016, excluding our joint ventures, we operated 32 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 ( WEI ). The Company is in the process of exiting the businesses within Construction Services.

We also held equity positions in 12 active joint ventures, which operated 51 manufacturing facilities worldwide, as of February 29, 2016. Five of these joint ventures are consolidated with the equity owned by the other joint venture member(s), shown as noncontrolling interests in our consolidated balance sheets, and the other joint venture member(s) portion of net earnings and other comprehensive income (loss), shown as net earnings or comprehensive income attributable to noncontrolling interests 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***

The Company s performance was steady during the third quarter of fiscal 2016, despite continued weakness in the oil & gas equipment and agricultural end markets and the unfavorable impact of inventory holding losses in Steel Processing. Lower manufacturing costs across most of our businesses, improved profitability in the Industrial Products business and strong contributions from our unconsolidated joint ventures highlighted the quarter.

Pressure Cylinders operating income was down $9.6 million. Continued weakness in the Oil & Gas Equipment business combined with $3.9 million of expense related to indemnification, purchase accounting and transition services fees for recent acquisitions in the Cryogenics and Alternative Fuels businesses led to an overall decrease in gross margin. Sales in the Oil & Gas Equipment business were down 71% from the prior year quarter on lower volume. Demand in the Oil & Gas Equipment business continued to decline as oil prices dropped through much of the quarter. Lower commodity costs and improved profitability in the Industrial Products business helped mitigate the overall decrease in Pressure Cylinders operating income.

Steel Processing operating income was up $4.9 million from the prior year quarter to $21.3 million. Improved inventory management and some modest mark-to-market gains on several non-designated steel hedges compared to losses in the prior year period were partially offset by lower tolling volume at our Spartan joint venture.

Engineered Cabs net sales of $25.6 million were $19.8 million, or 44%, below the prior year quarter due to declines in market demand and the September 2015 closure of the Florence, South Carolina facility. Adjusting for impairment and restructuring charges, the operating loss improved $0.9 million from the prior year quarter.

Equity in net income of unconsolidated affiliates ( equity income ) was up $6.2 million, or 31%, from the prior year quarter. Higher contributions from WAVE, Serviacero and ClarkDietrich accounted for the majority of the increase in equity income. Strong automotive and construction markets in the Unites States (the U.S. ) and lower commodity costs are benefiting these businesses. We received dividends from unconsolidated joint ventures of $25.4 million during the quarter.

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***Recent Business Developments***

On December 7, 2015, the Company completed the acquisition of the global CryoScience business of Taylor Wharton, including a manufacturing facility in Theodore, Alabama, for $30.3 million. The asset purchase was made pursuant to the Chapter 11 bankruptcy proceedings of Taylor Wharton. The acquired net assets became part of the Pressure Cylinders operating segment upon closing.

On January 15, 2016, the Company acquired the net assets of NetBraze, LLC, a manufacturer of brazing alloys, silver brazing filler metals, solders and fluxes, for $3.4 million. The acquired net assets became part of the Pressure Cylinders operating segment upon closing.

During the quarter, the Company repurchased a total of 1,000,000 common shares for $28.4 million at an average price of $28.35.

As of March 1, 2016, the Company obtained effective control of the Worthington Specialty Processing ( WSP ) joint venture with United States Steel Corporation. Our ownership interest will remain at 51%. WSP s earnings will be consolidated within the Steel Processing operating segment beginning March 1, 2016. For additional financial information, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE Q Subsequent Events of this Quarterly Report on Form 10-Q.

On March 23, 2016, the Board of Directors of Worthington Industries, Inc. (the Board ) declared a quarterly dividend of $0.19 per share payable on June 29, 2016 to shareholders of record on June 15, 2016.

***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 each of fiscal 2016 and fiscal 2015 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 65% 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.

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Approximately 11% of the net sales of our Steel Processing operating segment, 50% 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 24% and 50% 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 these portions 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 | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| | Feb 29, 2016 | Feb 28, 2015 | Inc/(Dec) | Feb 29, 2016 | Feb 28, 2015 | Inc / (Dec) |
| U.S. GDP (% growth year-over-year) [1] | 1.1% | 2.4% | -1.3% | 1.2% | 2.7% | -1.5% |
| Hot-Rolled Steel ($ per ton) [2] | $ 383 | $ 578 | ($ 195) | $ 421 | $ 634 | ($ 213) |
| Detroit Three Auto Build (000 s vehicles) [3] | 2,174 | 2,053 | 121 | 6,987 | 6,694 | 293 |
| No. America Auto Build (000 s vehicles) [3] | 4,177 | 4,024 | 153 | 13,189 | 12,682 | 507 |
| Zinc ($ per pound) [4] | $ 0.80 | $ 0.93 | ($ 0.13) | $ 0.81 | $ 0.99 | ($ 0.18) |
| Natural Gas ($ per mcf) [5] | $ 1.84 | $ 3.09 | ($ 1.25) | $ 2.40 | $ 3.97 | ($ 1.57) |
| On-Highway Diesel Fuel Prices ($ per gallon) [6] | $ 2.15 | $ 3.09 | ($ 0.94) | $ 2.47 | $ 3.56 | ($ 1.09) |

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

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, 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 presents the average quarterly market price per ton of hot-rolled steel during fiscal 2016 (first, second and third quarters), fiscal 2015 and fiscal 2014:

| (Dollars per ton [1]) | Fiscal Year | | | Inc / (Dec) | | | |
|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2016 vs. 2015 | | 2015 vs. 2014 | |
| 1st Quarter | $ 461 | $ 671 | $ 627 | ($ 210) | -31.3% | $ 44 | 7.0% |
| 2nd Quarter | $ 419 | $ 651 | $ 651 | ($ 232) | -35.6% | $ 0 | 0.0% |
| 3rd Quarter | $ 383 | $ 578 | $ 669 | ($ 195) | -33.7% | ($ 91) | -13.6% |
| 4th Quarter | N/A | $ 464 | $ 655 | N/A | N/A | ($ 191) | -29.2% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Annual Avg. | N/A | $ 591 | $ 651 | N/A | N/A | ($ 60) | -9.2% |

[1] CRU Hot-Rolled Index, period average

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No single customer contributed more than 10% of our consolidated net sales during the third quarter of fiscal 2016. 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 2016, overall vehicle production for the Detroit Three automakers was up 6% and North American vehicle production as a whole increased 4%.

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.

***Results of Operations***

***Third Quarter - Fiscal 2016 Compared to Fiscal 2015***

***Consolidated Operations***

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

| | Three Months Ended | | | | |
|---|---|---|---|---|---|
| **(Dollars in millions)** | **Feb 29, 2016** | **% of Net sales** | **Feb 28, 2015** | **% of Net sales** | **Increase/ (Decrease)** |
| Net sales | $ 647.1 | 100.0% | $ 804.8 | 100.0% | $ (157.7) |
| Cost of goods sold | 551.2 | 85.2% | 706.3 | 87.8% | (155.1) |
| **Gross margin** | 95.9 | 14.8% | 98.5 | 12.2% | (2.6) |
| Selling, general and administrative expense | 70.1 | 10.8% | 66.8 | 8.3% | 3.3 |
| Impairment of goodwill and long-lived assets | | 0.0% | 81.6 | 10.1% | (81.6) |
| Restructuring and other expense | 0.7 | 0.1% | 2.2 | 0.3% | (1.5) |
| **Operating income (loss)** | 25.1 | 3.9% | (52.1) | -6.5% | 77.2 |
| Miscellaneous income, net | 3.3 | 0.5% | 0.2 | 0.0% | 3.1 |
| Interest expense | (7.9) | -1.2% | (8.4) | -1.0% | (0.5) |
| Equity in net income of unconsolidated affiliates (1) | 25.0 | 3.9% | 18.8 | 2.3% | 6.2 |
| Income tax benefit (expense) | (11.6) | -1.8% | 18.2 | 2.3% | 29.8 |
| **Net earnings (loss)** | 33.9 | 5.2% | (23.3) | -2.9% | 57.2 |
| Net earnings attributable to noncontrolling interests | 4.3 | 0.7% | 2.4 | 0.3% | 1.9 |
| **Net earnings (loss) attributable to controlling interest** | $ 29.6 | 4.6% | $ (25.7) | -3.2% | $ 55.3 |
| (1) Equity income by unconsolidated affiliate | | | | | |
| WAVE | $ 18.7 | | $ 15.6 | | $ 3.1 |
| ClarkDietrich | 1.3 | | 0.2 | | 1.1 |
| Serviacero | 1.7 | | (0.3) | | 2.0 |
| ArtiFlex | 3.0 | | 2.8 | | 0.2 |
| WSP | 0.2 | | 0.4 | | (0.2) |
| Other | 0.1 | | 0.1 | | (0.0) |
| **Total** | $ 25.0 | | $ 18.8 | | $ 6.2 |

Net earnings attributable to controlling interest for the three months ended February 29, 2016 increased $55.3 million from the comparable period in the prior year. Net sales and operating highlights were as follows:

Net sales decreased $157.7 million from the comparable period in the prior year. The decrease was the result of lower average selling prices in Steel Processing due to a decline in the market price of steel combined with lower volumes in Pressure Cylinders and Engineered Cabs.

Gross margin decreased $2.6 million from the comparable period in the prior year on lower volume. However, gross margin as a percent of sales actually increased due to an improved pricing spread and lower manufacturing expenses across many of our businesses.

SG&A expense increased $3.3 million over the comparable prior year period to $70.1 million. The increase was primarily due to the impact of acquisitions and higher profit sharing and bonus expense.

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Impairment charges of $81.6 million for the three months ended February 28, 2015, 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 C Impairment of Goodwill and Long-Lived Assets of this Quarterly Report on Form 10-Q.

Restructuring and other expense was $0.7 million in the current period. Expenses consisted of $1.1 million in net restructuring charges in Steel Processing primarily tied to the ongoing closure of Precision Specialty Metals ( PSM ), $0.8 million of employee severance related to workforce reduction in Oil & Gas Equipment and $0.4 million of facility exit costs related to the closure of the Florence, South Carolina facility in Engineered Cabs. A gain of $1.9 million related to the sale of the Worthington Nitin Cylinders joint venture in India, which was completed during the quarter, partially offset the impact the expenses. For additional financial information regarding the Company s restructuring activities, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE D Restructuring and Other Expense of this Quarterly Report on Form 10-Q.

Interest expense of $7.9 million was $0.5 million lower than the comparable period in the prior year. The decrease was driven by lower average debt levels as a result of a decrease in working capital requirements due to the lower market price of steel.

Equity income increased $6.2 million from the comparable period in the prior year to $25.0 million on net sales of $376.4 million. Higher contributions from WAVE, Serviacero and ClarkDietrich accounted for the majority of the increase. We received dividends from unconsolidated joint ventures of $25.4 million during the quarter. For additional financial information regarding our unconsolidated affiliates, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE B Investments in Unconsolidated Affiliates of this Quarterly Report on Form 10-Q.

Income tax expense was $11.6 million in the current period compared to an income tax benefit of $18.2 million in the comparable prior year period. The prior year tax benefit was due primarily to impairment charges recorded in Engineered Cabs. Excluding the impact of these impairment charges, prior year income tax expense was approximately $10.9 million. The current quarter expense was calculated using an estimated annual effective income tax rate of 30.1% versus 30.9% in the prior year quarter. Refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE K 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:

| | Three Months Ended | | | | |
|---|---|---|---|---|---|
| **(Dollars in millions)** | **Feb 29, 2016** | **% of Net sales** | **Feb 28, 2015** | **% of Net sales** | **Increase/ (Decrease)** |
| Net sales | $ 419.0 | 100.0% | $ 500.7 | 100.0% | $ (81.7) |
| Cost of goods sold | 366.6 | 87.5% | 457.0 | 91.3% | (90.4) |
| **Gross margin** | 52.4 | 12.5% | 43.7 | 8.7% | 8.7 |
| Selling, general and administrative expense | 30.0 | 7.2% | 27.3 | 5.5% | 2.7 |
| Restructuring and other expense | 1.1 | 0.3% | | 0.0% | 1.1 |
| **Operating income** | $ 21.3 | 5.1% | $ 16.4 | 3.3% | $ 4.9 |
| Material cost | $ 284.4 | | $ 375.6 | | $ (91.2) |
| Tons shipped (in thousands) | 801 | | 831 | | (30) |

Net sales and operating highlights were as follows:

Net sales decreased $81.7 million from the comparable period in the prior year as declining steel prices led to lower average selling prices, which reduced net sales by $75.9 million. Volume also declined in the current period reducing net sales by an additional $5.8 million as a result of declines at our Spartan joint venture. The mix of direct versus toll tons processed was 60% to 40% compared to 57% to 43% in the prior year quarter.

Operating income increased $4.9 million from the comparable period in the prior year driven by a higher spread between average selling prices and material cost and contributions from the January 2015 acquisition of the net assets of Rome Strip Steel. The favorable pricing spread was the result of improved inventory management and some modest mark-to-market gains on several non-designated steel hedges compared to losses in the prior year. Higher SG&A expense, driven by the impact of acquisitions and higher profit sharing and bonus expense, combined with current period restructuring activities partially offset the overall increase in operating income. Restructuring and other expense in the current quarter consisted primarily of costs related to the planned closure of PSM.

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***Pressure Cylinders***

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

| | Three Months Ended | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | Feb 29, 2016 | % of Net sales | Feb 28, 2015 | % of Net sales | Increase/ (Decrease) |
| Net sales | $ 200.7 | 100.0% | $ 248.1 | 100.0% | $ (47.4) |
| Cost of goods sold | 157.4 | 78.4% | 193.9 | 78.2% | (36.5) |
| **Gross margin** | 43.3 | 21.6% | 54.2 | 21.8% | (10.9) |
| Selling, general and administrative expense | 35.3 | 17.6% | 33.1 | 13.3% | 2.2 |
| Impairment of long-lived assets | - | 0.0% | - | 0.0% | - |
| Restructuring and other expense (income) | (1.0) | -0.5% | 2.5 | 1.0% | (3.5) |
| **Operating income** | $ 9.0 | 4.5% | $ 18.6 | 7.5% | $ (9.6) |
| Material cost | $ 84.9 | | $ 117.2 | | $ (32.3) |
| Net sales by principal class of products: | | | | | |
| Consumer Products | $ 51.1 | | $ 53.9 | | $ (2.8) |
| Industrial Products* | 100.4 | | 98.4 | | 2.0 |
| Mississippi* | - | | 8.5 | | (8.5) |
| Alternative Fuels | 22.3 | | 23.7 | | (1.4) |
| Oil & Gas Equipment | 17.2 | | 60.2 | | (43.0) |
| Cryogenics | 9.7 | | 3.4 | | 6.3 |
| Total Pressure Cylinders | $ 200.7 | | $ 248.1 | | $ (47.4) |
| Units shipped by principal class of products: | | | | | |
| Consumer Products | 10,478,006 | | 11,826,910 | | (1,348,904) |
| Industrial Products* | 6,414,484 | | 6,236,914 | | 177,570 |
| Mississippi* | - | | 1,397,658 | | (1,397,658) |
| Alternative Fuels | 96,123 | | 105,460 | | (9,337) |
| Oil & Gas Equipment | 640 | | 2,548 | | (1,908) |
| Cryogenics | 3,770 | | 95 | | 3,675 |
| Total Pressure Cylinders | 16,993,023 | | 19,569,585 | | (2,576,562) |

* Mississippi, an industrial gas facility, was sold in May 2015. It has been broken out so as not to distort the Industrial Products comparisons as the products previously produced at the Mississippi facility have been discontinued.

Net sales and operating highlights were as follows:

Net sales decreased $47.4 million from the comparable period in the prior year on lower volume, particularly in the Oil & Gas Equipment business where volumes decreased 75%. Volumes in the current quarter were also negatively impacted by the May 2015 disposition of our high-pressure cylinders business in Mississippi, which generated sales of $8.5 million in the comparable period in the prior year.

Operating income decreased $9.6 million from the comparable period in the prior year. Continued weakness in the Oil & Gas Equipment business combined with $3.9 million of expense related to indemnification, purchase accounting and transition services fees for recent acquisitions in the Cryogenics and Alternative Fuels businesses led to an overall decrease in gross margin. Lower commodity costs and improved profitability in Industrial Products business helped mitigate the overall decrease in operating income. Restructuring and other income in the current quarter consisted of a $1.9 million gain related to the sale of the Worthington Nitin Cylinders joint venture in India, partially offset by $796,000 of employee severance related to workforce reduction in Oil & Gas Equipment.

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*Engineered Cabs*

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

| | Three Months Ended | | | | |
|---|---|---|---|---|---|
| (In millions) | Feb 29, 2016 | % of Net sales | Feb 28, 2015 | % of Net sales | Increase/ (Decrease) |
| Net sales | $ 25.6 | 100.0% | $ 45.4 | 100.0% | $ (19.8) |
| Cost of goods sold | 25.2 | 98.4% | 43.6 | 96.0% | (18.4) |
| **Gross margin** | 0.4 | 1.6% | 1.8 | 4.0% | (1.4) |
| Selling, general and administrative expense | 4.1 | 16.0% | 6.3 | 13.9% | (2.2) |
| Impairment of goodwill and long-lived assets | - | 0.0% | 81.6 | 179.7% | (81.6) |
| Restructuring and other (income) expense | 0.4 | 1.6% | (0.3) | -0.7% | 0.7 |
| **Operating loss** | $ (4.1) | -16.0% | $ (85.8) | -189.0% | $ 81.7 |
| Material cost | $ 12.3 | | $ 20.8 | | $ (8.5) |

Net sales and operating highlights were as follows:

Net sales decreased $19.8 million from the comparable period in the prior year due to declines in market demand and the September 2015 closure of the Florence, South Carolina facility.

Operating loss improved $81.7 million to $4.1 million, primarily due to lower impairment and restructuring charges. Excluding the impact of impairment and restructuring charges, the operating loss improved $0.8 million as a result of lower SG&A expense, partially offset by a decrease in gross margin.

*Other*

The Other category includes the Construction Services and WEI operating segments, which 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 captive insurance company. The following table presents a summary of operating results for the Other category for the periods indicated:

| | Three Months Ended | | | | |
|---|---|---|---|---|---|
| (In millions) | Feb 29, 2016 | % of Net sales | Feb 28, 2015 | % of Net sales | Increase/ (Decrease) |
| Net sales | $ 1.7 | 100.0% | $ 10.6 | 100.0% | $ (8.9) |
| Cost of goods sold | 1.9 | 111.8% | 11.9 | 112.3% | (10.0) |
| **Gross margin** | (0.2) | -11.8% | (1.3) | -12.3% | 1.1 |
| Selling, general and administrative expense | 0.7 | 41.2% | - | 0.0% | 0.7 |
| Restructuring and other expense | 0.2 | 11.8% | - | 0.0% | 0.2 |
| Operating loss | $ (1.1) | -64.7% | $ (1.3) | -12.3% | $ 0.2 |

Net sales and operating highlights were as follows:

Net sales decreased $8.9 million from the comparable period in the prior year on lower volume in Construction Services, which the Company is exiting.

Operating loss of $1.1 million in the current period was driven primarily by losses within Construction Services.

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***Nine Months Year-to-Date - Fiscal 2016 Compared to Fiscal 2015***

***Consolidated Operations***

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

| | Nine Months Ended | | | | |
|---|---|---|---|---|---|
| **(Dollars in millions)** | **Feb 29, 2016** | **% of Net sales** | **Feb 28, 2015** | **% of Net sales** | **Increase/ (Decrease)** |
| Net sales | $ 2,105.0 | 100.0% | $ 2,538.2 | 100.0% | $ (433.2) |
| Cost of goods sold | 1,786.9 | 84.9% | 2,185.0 | 86.1% | (398.1) |
| **Gross margin** | 318.1 | 15.1% | 353.2 | 13.9% | (35.1) |
| Selling, general and administrative expense | 218.8 | 10.4% | 219.3 | 8.6% | (0.5) |
| Impairment of goodwill and long-lived assets | 26.0 | 1.2% | 97.8 | 3.9% | (71.8) |
| Restructuring and other expense | 5.3 | 0.3% | 2.8 | 0.1% | 2.5 |
| **Operating income** | 68.0 | 3.2% | 33.3 | 1.3% | 34.7 |
| Miscellaneous income, net | 3.7 | 0.2% | 1.8 | 0.1% | 1.9 |
| Interest expense | (23.5) | -1.1% | (27.6) | -1.1% | (4.1) |
| Equity in net income of unconsolidated affiliates (1) | 80.8 | 3.8% | 69.0 | 2.7% | 11.8 |
| Income tax expense | (35.1) | -1.7% | (19.5) | -0.8% | 15.6 |
| **Net earnings** | 93.9 | 4.5% | 57.0 | 2.2% | 36.9 |
| Net earnings attributable to noncontrolling interests | 9.7 | 0.5% | 9.1 | 0.4% | 0.6 |
| **Net earnings attributable to controlling interest** | $ 84.2 | 4.0% | $ 47.9 | 1.9% | $ 36.3 |
| (1) Equity income by unconsolidated affiliate | | | | | |
| WAVE | $ 59.8 | | $ 54.3 | | $ 5.5 |
| ClarkDietrich | 10.3 | | 2.4 | | 7.9 |
| Serviacero | 2.9 | | 3.3 | | (0.4) |
| ArtiFlex | 7.2 | | 6.0 | | 1.2 |
| WSP | 1.7 | | 2.5 | | (0.8) |
| Other | (1.1) | | 0.5 | | (1.6) |
| **Total** | $ 80.8 | | $ 69.0 | | $ 11.8 |

Net earnings attributable to controlling interest for the nine months ended February 29, 2016 increased $36.3 million from the comparable period in the prior year. Net sales and operating highlights were as follows:

Net sales decreased $433.2 million from the comparable period in the prior year. The decrease was driven by lower average selling prices in Steel Processing due to a decline in the market price of steel combined with lower volume in all business segments and an unfavorable change in product mix in Engineered Cabs.

Gross margin decreased $35.1 million from the comparable period in the prior year on lower volume and higher inventory holding losses in Steel Processing.

SG&A expense decreased $0.5 million from the comparable period in the prior year on lower profit sharing and bonus expense, which partially offset the impact of acquisitions.

Impairment charges in the current year period of $26.0 million consisted of $23.0 million related to the impairment of certain long-lived assets in our Oil & Gas Equipment business and $3.0 million related to the September 30, 2015 closure of the Engineered Cabs facility in Florence, South Carolina. Impairment charges in the prior year period related primarily 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 C Impairment of Goodwill and Long-Lived Assets of this Quarterly Report on Form 10-Q.

Restructuring and other expense of $5.3 million in the current period consisted of $6.2 million in net restructuring charges related to the ongoing closure of PSM, $1.5 million of employee severance related to workforce reduction in Oil & Gas Equipment and $3.1 million of facility exit costs related to the closure of the Florence, South Carolina facility in Engineered Cabs. A net gain of $6.1 million on asset disposals partially offset the impact of these items. The net gain was related primarily to the disposal of the remaining fixed assets of our legacy Baltimore steel processing facility ($3.0 million), the sale of the

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Worthington Nitin Cylinders joint venture in India ($1.9 million), and the sale of real estate in our legacy metal framing business ($1.5 million). For additional financial information regarding the Company s restructuring activities, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE D Restructuring and Other Expense of this Quarterly Report on Form 10-Q.

Interest expense of $23.5 million was $4.1 million lower than the comparable period in the prior year. The decrease was driven by lower average debt levels as a result of a decrease in working capital requirements due to the lower market price of steel.

Equity income increased $11.8 million over the prior year period to $80.8 million on net sales of $1.2 billion. The equity portion of income from WAVE, ClarkDietrich and ArtiFlex exceeded the prior year period by $5.5 million, $7.9 million and $1.2 million, respectively. These increases were partially offset by $1.7 million of product development expenses related to the Alternative Fuels business. For additional financial information regarding our unconsolidated affiliates, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE B Investments in Unconsolidated Affiliates of this Quarterly Report on Form 10-Q.

Income tax expense increased $15.6 million from the comparable period in the prior year due to higher earnings resulting primarily from the impact of prior year impairment charges recorded in Engineered Cabs. The increase in tax expense was partially offset by the impact of impairment charges recorded in the current year. Tax expense of $35.1 million for the nine months was calculated using an estimated annual effective rate of 30.1% versus 30.9% in the prior year comparable period. See Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE K 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:

| | Nine Months Ended | | | | |
|---|---|---|---|---|---|
| **(Dollars in millions)** | **Feb 29, 2016** | **% of Net sales** | **Feb 28, 2015** | **% of Net sales** | **Increase/ (Decrease)** |
| Net sales | $ 1,377.6 | 100.0% | $ 1,605.8 | 100.0% | $ (228.2) |
| Cost of goods sold | 1,206.4 | 87.6% | 1,427.2 | 88.9% | (220.8) |
| **Gross margin** | 171.2 | 12.4% | 178.6 | 11.1% | (7.4) |
| Selling, general and administrative expense | 95.8 | 7.0% | 89.5 | 5.6% | 6.3 |
| Impairment of long-lived assets | - | 0.0% | 3.1 | 0.2% | (3.1) |
| Restructuring and other (income) expense | 3.8 | 0.3% | (0.1) | 0.0% | 3.9 |
| **Operating income** | $ 71.6 | 5.2% | $ 86.1 | 5.4% | $ (14.5) |
| Material cost | $ 955.2 | | $ 1,171.2 | | $ (216.0) |
| Tons shipped (in thousands) | 2,495 | | 2,635 | | (140) |

Net sales and operating highlights were as follows:

Net sales decreased $228.2 million from the comparable period in the prior year as declining steel prices led to lower average selling prices, which reduced net sales by $200.0 million. Volume also declined in the current period reducing net sales by an additional $28.2 million as lower tolling volume more than offset contributions from the recent acquisition of the net assets of Rome Strip Steel. The mix of direct versus toll tons processed was 61% to 39% compared to 58% to 42% in the comparable period of fiscal

2015.

Operating income decreased $14.5 million from the comparable period in the prior year due primarily to the combined impact of lower volume and the unfavorable impact of higher inventory holding losses, partially offset by an improved pricing spread as a result of improved inventory management and some mark-to-market gains on several non-designated steel hedges compared to losses in the prior year. Higher SG&A expense, driven by the impact of acquisitions and higher profit sharing and bonus expense, combined with current period restructuring activities partially offset the overall increase in operating income. Restructuring and other

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expense in the current period consisted primarily of costs related to the ongoing closure of PSM ($6.2 million), which were partially offset by a net gain related to the disposal of the remaining fixed assets of our legacy Baltimore steel processing facility ($3.0 million). The $3.1 million impairment charge in the prior year period related to the ongoing closure of the PSM facility.

***Pressure Cylinders***

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

| | Nine Months Ended | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | Feb 29, 2016 | % of Net sales | Feb 28, 2015 | % of Net sales | Increase/ (Decrease) |
| Net sales | $ 626.3 | 100.0% | $ 749.8 | 100.0% | $ (123.5) |
| Cost of goods sold | 482.0 | 77.0% | 585.4 | 78.1% | (103.4) |
| **Gross margin** | 144.3 | 23.0% | 164.4 | 21.9% | (20.1) |
| Selling, general and administrative expense | 106.1 | 16.9% | 104.1 | 13.9% | 2.0 |
| Impairment of long-lived assets | 23.0 | 3.7% | 9.6 | 1.3% | 13.4 |
| Restructuring and other expense (income) | (0.3) | 0.0% | 2.9 | 0.4% | (3.2) |
| **Operating income** | $ 15.5 | 2.5% | $ 47.8 | 6.4% | $ (32.3) |
| Material cost | $ 269.4 | | $ 351.5 | | $ (82.1) |
| Net sales by principal class of products: | | | | | |
| Consumer Products | $ 155.5 | | $ 160.8 | | $ (5.3) |
| Industrial Products* | 303.2 | | 299.7 | | 3.5 |
| Mississippi* | - | | 21.7 | | (21.7) |
| Alternative Fuels | 71.1 | | 68.3 | | 2.8 |
| Oil & Gas Equipment | 75.1 | | 184.5 | | (109.4) |
| Cryogenics | 21.4 | | 14.8 | | 6.6 |
| Total Pressure Cylinders | $ 626.3 | | $ 749.8 | | $ (123.5) |
| Units shipped by principal class of products: | | | | | |
| Consumer Products | 32,979,643 | | 35,413,635 | | (2,433,992) |
| Industrial Products* | 19,489,175 | | 18,905,475 | | 583,700 |
| Mississippi* | - | | 4,385,065 | | (4,385,065) |
| Alternative Fuels | 295,200 | | 316,849 | | (21,649) |
| Oil & Gas Equipment | 3,004 | | 8,529 | | (5,525) |
| Cryogenics | 4,234 | | 443 | | 3,791 |
| Total Pressure Cylinders | 52,771,256 | | 59,029,996 | | (6,258,740) |

* Mississippi, an industrial gas facility, was sold in May 2015. It has been broken out so as not to distort the Industrial Products comparisons as the products previously produced at the Mississippi facility have been discontinued.

Net sales and operating highlights were as follows:

Net sales decreased $123.5 million from the comparable period in the prior year on lower volume, particularly in the Oil & Gas Equipment business where volumes decreased 65%. Volumes in the current period were also negatively

impacted by the May 2015 disposition of our high-pressure cylinders business in Mississippi, which generated sales of $21.7 million in the comparable period in the prior year.

Operating income decreased $32.3 million from the comparable period in the prior year as declines in Oil & Gas Equipment more than offset improvements in the Industrial Products and Consumer Products businesses resulting from lower manufacturing costs and an improved product mix. Impairment charges in the current period related to the partial write-off of certain long-lived assets in the Oil & Gas Equipment business.

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***Engineered Cabs***

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

| | Nine Months Ended | | | | |
|---|---|---|---|---|---|
| (In millions) | Feb 29, 2016 | % of Net sales | Feb 28, 2015 | % of Net sales | Increase/ (Decrease) |
| Net sales | $ 92.9 | 100.0% | $ 146.5 | 100.0% | $ (53.6) |
| Cost of goods sold | 90.2 | 97.1% | 136.1 | 92.9% | (45.9) |
| **Gross margin** | 2.7 | 2.9% | 10.4 | 7.1% | (7.7) |
| Selling, general and administrative expense | 14.2 | 15.3% | 20.2 | 13.8% | (6.0) |
| Impairment of goodwill and long-lived assets | 3.0 | 3.2% | 84.0 | 57.3% | (81.0) |
| Restructuring and other (income) expense | 3.1 | 3.3% | (0.3) | -0.2% | 3.4 |
| **Operating loss** | $ (17.6) | -18.9% | $ (93.5) | -63.8% | $ 75.9 |
| Material cost | $ 43.7 | | $ 66.5 | | $ (22.8) |

Net sales and operating highlights were as follows:

Net sales decreased $53.6 million over the comparable period in the prior year due to declines in market demand in most lines of business combined with the impact of the January 2015 sale of the assets of Advanced Component Technologies, Inc and the September 2015 closure of the Florence, South Carolina facility.

Operating loss improved $75.9 million to $17.6 million due to the combined impact of lower impairment and restructuring charges. Impairment and restructuring charges totaled $6.1 million in the current period and related to the closure of the Florence, South Carolina facility. Excluding the impact of impairment and restructuring charges, the operating loss increased $1.7 million as a result of an unfavorable change in product mix.

***Other***

The Other category includes the Construction Services and WEI operating segments, which 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 captive insurance company. The following table presents a summary of operating results for the Other category for the periods indicated:

| | Nine Months Ended | | | | |
|---|---|---|---|---|---|
| (In millions) | Feb 29, 2016 | % of Net sales | Feb 28, 2015 | % of Net sales | Increase/ (Decrease) |
| Net sales | $ 8.2 | 100.0% | $ 36.1 | 100.0% | $ (27.9) |
| Cost of goods sold | 8.3 | 101.2% | 36.2 | 100.3% | (27.9) |
| **Gross margin** | (0.1) | -1.2% | (0.1) | -0.3% | - |
| Selling, general and administrative expense | 2.5 | 30.5% | 5.6 | 15.5% | (3.1) |
| Impairment of long-lived assets | - | 0.0% | 1.2 | 3.3% | (1.2) |
| Restructuring and other expense (income) | (1.2) | -14.6% | 0.2 | 0.6% | (1.4) |
| **Operating loss** | $ (1.4) | -17.1% | $ (7.1) | -19.7% | $ 5.7 |

Net sales and operating highlights were as follows:

Net sales decreased $27.9 million from the comparable period in the prior year on lower volume in Construction Services, which the Company is exiting.

Operating loss of $1.4 million in the current period was driven primarily by losses within Construction Services.

***Liquidity and Capital Resources***

During the nine months ended February 29, 2016, we generated $294.2 million of cash from operating activities, invested $75.5 million in property, plant and equipment, spent $34.2 million on acquisitions and paid dividends of $35.5 million on our common shares. Additionally, we paid $99.8 million to repurchase 3,500,000 of our common shares. The following table summarizes our consolidated cash flows for the nine months ended February 29, 2016 and February 28, 2015:

| | Nine Months Ended | |
|---|---|---|
| **(in millions)** | **February 29, 2016** | **February 28, 2015** |
| Net cash provided by operating activities | $ 294.2 | $ 139.7 |
| Net cash used by investing activities | (105.4) | (190.5) |
| Net cash used by financing activities | (194.5) | (96.8) |
| Decrease in cash and cash equivalents | (5.7) | (147.6) |
| Cash and cash equivalents at beginning of period | 31.1 | 190.1 |
| **Cash and cash equivalents at end of period** | $ 25.4 | $ 42.5 |

We believe we have access to adequate resources to meet the needs of our existing businesses for normal operating costs, mandatory capital expenditures, debt redemptions, dividend payments, and working capital. 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, uncertainty and volatility in the financial markets may impact our ability to access capital and the terms under which we can do so.

***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 $294.2 million during the nine months ended February 29, 2016 compared to $139.7 million in the comparable period of fiscal 2015. The increase was driven primarily by declining working capital levels as a result of lower steel prices.

***Investing Activities***

Net cash used by investing activities was $105.4 million during the nine months ended February 29, 2016 compared to $190.5 million in the prior year period. The decrease from the prior year period was driven primarily by lower acquisition activity in the current year. During the nine months ended February 29, 2016, we spent a combined $34.2 million, net of cash acquired, for the net assets of the CryoScience business of Taylor Wharton and the net assets of NetBraze, LLC. Comparatively, during the nine months ended February 28, 2015, we spent a combined $105.5 million, net of cash acquired, for the net assets of Rome Strip Steel, Midstream Equipment Fabrication, LLC and James Russell Engineering Works, Inc. and our 79.59% interest in dHybrid Systems, LLC. We also made capital expenditures of $75.5 million and received $9.9 million in proceeds from asset sales during the first nine months of fiscal 2016.

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 $194.5 million during the nine months ended February 29, 2016 compared to $96.8 million in the comparable prior year period. During the first nine months of fiscal 2016, we paid $99.8 million to repurchase 3,500,000 of our common shares, reduced short-term borrowings by $57.7 million, and paid dividends of $35.5 million on our common shares.

As of February 29, 2016, 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 29, 2016 were unchanged from those reported as of May 31, 2015.

*Common shares* - The Board declared a quarterly dividend of $0.19 per common share during the first, second and third quarters of fiscal 2016 compared to $0.18 per common share during the comparable periods of fiscal 2015. Dividends paid on our common shares totaled $35.5 million and $34.8 million during the nine months ended February 29, 2016 and February 28, 2015, respectively. On March 22, 2016, the Board declared a quarterly dividend of $0.19 per common share payable on June 29, 2016 to shareholders of record on June 15, 2016.

On June 25, 2014, the Board authorized the repurchase of up to 10,000,000 of our outstanding common shares. A total of 5,953,855 common shares have been repurchased under this authorization, including 3,500,000 during the first nine months of fiscal 2016, leaving 4,046,145 common shares available for repurchase.

The common shares available for repurchase under 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, 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 2015 Form 10-K, other than the changes in borrowings, as described in Part I Item 1. Financial Statements - NOTE G 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 29, 2016, 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 $10.8 million at February 29, 2016. We have also guaranteed the repayment of a $0.4 million term loan held by ArtiFlex, an unconsolidated joint venture. 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 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, 2017, including interim periods within that reporting period. 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.

In April 2015, amended accounting guidance was issued to simplify the presentation of debt issuance costs by requiring that such costs be presented in the balance sheet as a direct deduction from the carrying amount of the corresponding debt liability itself. For public business entities, the amended guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Early application is permitted for financial statements that have not been issued. The revised guidance is to be applied on a retrospective basis, and entities are to comply with the applicable disclosures for a change in an accounting principle accordingly. The adoption of this guidance will not have a significant impact on our consolidated financial position and results of operations.

In July 2015, amended accounting guidance was issued regarding the measurement of inventory. The amended guidance requires that inventory accounted for under the first-in, first-out (FIFO) or average cost methods be measured at the lower of cost and net realizable value, where net realizable value represents the estimated selling price of inventory in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amended guidance has no impact on inventory accounted for under the last-in, first-out (LIFO) or retail inventory methods. For public business entities, the amended guidance is effective prospectively for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early application is permitted as of the beginning of an interim or annual reporting period. We are in the process of evaluating the effect this guidance will have on our consolidated financial position and results of operations, and we have not determined the effect of the amended guidance on our ongoing financial reporting.

In September 2015, amended accounting guidance was issued regarding adjustments to provisional amounts reported in conjunction with a business combination. The amended guidance requires that an acquirer in a business combination recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendment also requires that the acquirer record, in the same period s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change, calculated as if the accounting had been completed at the acquisition date. Additionally, the amendment requires the acquirer to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the amended guidance is effective prospectively for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Early application is permitted for financial statements that have not been issued. We are in the process of evaluating the effect this guidance will have on our consolidated financial position and results of operations, and we have not determined the effect of the amended guidance on our ongoing financial reporting.

In November 2015, amended accounting guidance was issued that simplifies the presentation of deferred income taxes. The amended guidance requires that all deferred income tax assets and liabilities be classified as noncurrent on a classified statement of financial position. For public business entities, the amended guidance is effective for financial statements issued for annual periods beginning after December 15, 2016, including interim periods within those annual periods. Early application is permitted as of the beginning of an interim or annual reporting period, and the change may be applied either prospectively or retrospectively. We are in the process of evaluating the effect this guidance will have on our consolidated financial position and results of operations, and we have not determined the effect of the amended guidance on our ongoing financial reporting.

In February 2016, amended accounting guidance was issued that replaces most existing lease accounting guidance under U.S. GAAP. Among other changes, the amended guidance requires that lease assets and liabilities be recognized on the balance sheet by lessees for those leases classified as operating leases under previous guidance. For public business entities, the amended guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted, and the change is to be applied

using a modified retrospective approach as of the beginning of the earliest period presented. We are in the process of evaluating the effect this guidance will have on our consolidated financial position and results of operations, and we have not 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 2015 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 definite 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 of long-lived assets with definite useful lives 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 statement of earnings.

Fiscal 2016: Due to the decline in oil prices and resulting reduced demand for products, management determined that an impairment indicator was present for the long-lived assets in the Oil & Gas Equipment business within Pressure Cylinders. The Company had tested the five asset groups in its Oil & Gas Equipment business for impairment during the fourth quarter of fiscal 2015 and again in the first quarter of fiscal 2016. In each of these tests, the Company s estimate of the undiscounted future cash flows for each asset group indicated that the carrying amounts were expected to be recovered as of those measurement dates.

During the second quarter of fiscal 2016, the continued decline of oil prices further reduced the demand for Oil & Gas Equipment products, causing a significant decrease in the long-term cash flow projections of that business. Based on these revised cash flow projections, the Company determined that long-lived assets of two of the facilities with a combined carrying amount of $59.9 million were impaired and wrote them down to their estimated fair value of $36.9 million, resulting in an impairment charge of $22.7 million. Fair value was based on expected future cash flows using Level 3 inputs under Accounting Standard Codification ( ASC ) 820. The cash flows are those expected to be generated by market participants, discounted at an appropriate rate for the risks inherent in those cash flow projections, or 13%. Because of deteriorating market conditions (i.e., rising interest rates and declining marketplace demand), it is reasonably possible that our estimate of discounted cash flows may change resulting in the need to adjust our determination of fair value.

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As a result of the impairment of the Oil & Gas Equipment assets noted above, the Company also performed an impairment review of the goodwill of the Pressure Cylinders reporting unit during the second quarter of fiscal 2016. The Company first assessed the reporting unit structure and determined that it was no longer appropriate to aggregate the Oil & Gas Equipment component with the rest of the Pressure Cylinders for purposes of goodwill impairment testing. This determination was driven by changes in the economic characteristics of the Oil & Gas Equipment business as a result of sustained low oil prices, which now indicate that the risk profile and prospects for growth and profitability of the Oil & Gas Equipment component are no longer similar to the other components of our Pressure Cylinders businesses. In accordance with the applicable accounting guidance, the Company allocated a portion of Pressure Cylinders goodwill totaling $26.0 million to the Oil & Gas Equipment reporting unit using a relative fair value approach. A subsequent comparison of the fair values of the Oil & Gas Equipment and Pressure Cylinders reporting units, determined using discounted cash flows, to their respective carrying values indicated that a step 2 calculation to quantify a potential impairment was not required. The key assumptions that drive the fair value calculations are projected cash flows and the discount rate. Prior to the allocation of goodwill, the Company tested the goodwill of the old Pressure Cylinders reporting unit for impairment and determined that fair value exceeded carrying value by a significant amount.

During the first quarter of fiscal 2016, management finalized its plan to close the Engineered Cabs facility in Florence, South Carolina and transfer the majority of the business to the Engineered Cabs facility in Greeneville, Tennessee. Under the plan, certain machinery and equipment was transferred to the Greeneville facility to support higher volume requirements. Management reevaluated the recoverability of the remaining assets and determined that long-lived assets with a carrying value of $4.1 million were impaired. As a result, these long-lived assets were written down to their estimated fair value of $1.1 million resulting in an impairment charge of $3.0 million during the first quarter of fiscal 2016. The Company ceased production at the Florence facility on September 30, 2015.

Fiscal 2015: 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.

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 of the Florence, South Carolina 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. As noted above, an additional impairment charge related to the Florence asset group was later recognized during the nine months ended February 29, 2016.

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 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, accordingly, the entire $44.9 million goodwill balance was written-off during the third quarter of fiscal 2015. The key assumptions used in the fair value calculations were 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 $2.4 million. During the third quarter of fiscal 2015, the Company completed the sale of these assets and recognized a gain of $0.3 million.

Also 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, and at the Company s military construction business due to current and projected operating losses. Recoverability of the identified asset groups 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 was less than the net book value of the asset groups. In accordance with the applicable accounting guidance, the net assets were written down to their fair values, resulting in impairment charges of $3.2 million and $1.2 million, respectively.

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During the fourth quarter of fiscal 2014, the Company committed to a plan to sell its 60% ownership interest in Worthington Nitin Cylinders, a consolidated joint venture in India, and PSM, a stainless steel business. Accordingly, at May 31, 2014, the net assets of these businesses were recorded as assets held for sale at the lower of their fair values or net book values, less selling costs. During the first half of fiscal 2015, changes in facts and circumstances related to these businesses indicated that the Company needed to reassess the fair value of these assets. As a result, additional impairment charges of $6.3 million and $3.1 million, respectively, were recorded.

**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 2015 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 29, 2016). 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***

During the fiscal quarter ended August 31, 2015, the Company implemented a new enterprise performance management system. This system was implemented to increase the overall efficiency of the consolidation and financial reporting processes and not in response to any deficiency or material weakness in internal control over financial reporting. While the Company has not completed the testing of the operating effectiveness of all key controls in the new system, we believe that effective internal control over financial reporting was maintained during and after the conversion. There were no other changes that occurred during the periods covered by this Quarterly Report on Form 10-Q (the three-month and nine-month periods ended February 29, 2016) 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, 2015 (the 2015 Form 10-K ), as filed with the Securities and Exchange Commission on July 30, 2015, and available at www.sec.gov or at www.worthingtonindustries.com, we included a detailed discussion of our risk factors. Our risk factors have not changed significantly from those

disclosed in our 2015 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 2015 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 2015 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.

**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 Securities Exchange Act of 1934, as amended) of common shares of Worthington Industries, Inc. during each month of the fiscal quarter ended February 29, 2016:

| Period | Total Number of Common Shares Purchased | Average Price Paid per Common Share | Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Common Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|---|---|---|---|---|
| December 1-31, 2015 (2) | 4,471 | $ 29.44 | - | 5,046,145 |
| January 1-31, 2016 (2) | 761,140 | $ 28.00 | 750,000 | 4,296,145 |
| February 1-29, 2016 | 250,000 | $ 29.51 | 250,000 | 4,046,145 |
| Total | 1,015,611 | $ 28.38 | 1,000,000 | |

(1) The number shown represents, as of the end of each period, the maximum number of common shares that could be purchased under the publicly announced repurchase authorization then in effect. On June 25, 2014, Worthington Industries, Inc. announced that the Board authorized the repurchase of up to 10,000,000 of Worthington Industries outstanding common shares. A total of 4,046,145 common shares were available under this repurchase authorization at February 29, 2016.

The common shares available for repurchase under 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, general economic conditions and other appropriate factors. Repurchases may be made on the open market or through privately negotiated transactions.

(2) Includes an aggregate of 15,611 common shares surrendered by employees in December 2015 and January 2016 to satisfy tax withholding obligations upon exercise of stock options. These common shares were not counted against the share repurchase authorization in effect throughout the third quarter of fiscal 2016 and discussed in footnote (1) above.

**Item 3. Defaults Upon Senior Securities**

Not applicable

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

Not applicable

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**Item 6. Exhibits**

| | |
|---|---|
| 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 29, 2016 and May 31, 2015;
(ii) Consolidated Statements of Earnings for the three months and nine months ended February 29, 2016 and February 28, 2015;
(iii) Consolidated Statements of Comprehensive Income (Loss) for the three months and nine months ended February 29, 2016 and February 28, 2015;
(iv) Consolidated Statements of Cash Flows for the three months and nine months ended February 29, 2016 and February 28, 2015; and
(v) Notes to Consolidated Financial Statements.

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## 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 11, 2016

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)

**INDEX TO EXHIBITS**

| Exhibit No. | Description | Location |
|---|---|---|
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| 101.SCH | XBRL Taxonomy Extension Schema Document | Submitted electronically herewith # |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | Submitted electronically herewith # |
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(v) Notes to Consolidated Financial Statements.