

WORTHINGTON INDUSTRIES INC  
Form 10-Q  
January 09, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended November 30, 2013

OR

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

Commission File Number 001-08399

**WORTHINGTON INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

Ohio  
(State or other jurisdiction of incorporation or organization)

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

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

43085  
(Zip Code)

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

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

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

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YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

YES  NO

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the Issuer's classes of common stock, as of the latest practicable date. On December 31, 2013, the number of Common Shares, without par value, issued and outstanding was 70,412,341.

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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:*

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

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

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

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*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 new markets;*  
*the ability to improve and maintain processes and business practices to keep pace with the economic, competitive and technological environment;*  
*the outcome of adverse claims experience with respect to workers' compensation, product recalls or product liability, casualty events or other matters;*  
*deviation of actual results from estimates and/or assumptions used by us in the application of our significant accounting policies;*  
*level of imports and import prices in our markets;*  
*the impact of the outcome of judicial and governmental agency rulings as well as the impact of governmental regulations, both in the United States and abroad, including those adopted by the United States Securities and Exchange Commission and other governmental agencies as contemplated by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010;*  
*the effect of changes to healthcare laws in the United States, which may increase our healthcare and other costs and negatively impact our financial results and operations; and*  
*other risks described from time to time in our filings with the United States Securities and Exchange Commission, including those described in PART I Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended May 31, 2013.*

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

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

|   | <b>November 30,<br/>2013</b> | <b>May 31,<br/>2013</b> |
|---|------------------------------|-------------------------|
| <b>Assets</b>   |                              |                         |
| Current assets:   |                              |                         |
| Cash and cash equivalents   | \$ 109,055                   | \$ 51,385               |
| Receivables, less allowances of \$3,338 and \$3,408 at November 30, 2013 and May 31, 2013                               | 433,995                      | 394,327                 |
| Inventories:  |                              |                         |
| Raw materials   | 188,351                      | 175,093                 |
| Work in process   | 104,474                      | 103,861                 |
| Finished products   | 99,582                       | 77,814                  |
| Total inventories   | 392,407                      | 356,768                 |
| Income taxes receivable   | 2,619                        | 724                     |
| Assets held for sale  | 2,435                        | 3,040                   |
| Deferred income taxes   | 22,655                       | 21,928                  |
| Prepaid expenses and other current assets   | 41,449                       | 38,711                  |
| Total current assets  | 1,004,615                    | 866,883                 |
| Investments in unconsolidated affiliates  | 174,546                      | 246,125                 |
| Goodwill  | 212,622                      | 213,858                 |
| Other intangible assets, net of accumulated amortization of \$28,652 and \$26,669 at November 30, 2013 and May 31, 2013 | 128,026                      | 147,144                 |
| Other assets  | 16,584                       | 17,417                  |
| Property, plant & equipment:  |                              |                         |
| Property, plant & equipment at cost   | 1,111,765                    | 1,052,636               |
| Less: accumulated depreciation  | 606,757                      | 593,206                 |
| Property, plant and equipment, net  | 505,008                      | 459,430                 |
| <b>Total assets</b>   | <b>\$ 2,041,401</b>          | <b>\$ 1,950,857</b>     |
| <b>Liabilities and equity</b>   |                              |                         |
| Current liabilities:  |                              |                         |
| Accounts payable  | \$ 283,019                   | \$ 222,696              |
| Short-term borrowings   | 43,451                       | 113,728                 |
| Accrued compensation, contributions to employee benefit plans and related taxes   | 64,769                       | 68,043                  |
| Dividends payable   | 11,148                       | 551                     |
| Other accrued items   | 42,472                       | 36,536                  |
| Income taxes payable  | 5,486                        | 6,268                   |
| Current maturities of long-term debt  | 1,107                        | 1,092                   |

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|   |                     |                     |
|---|---------------------|---------------------|
| Total current liabilities   | 451,452             | 448,914             |
| Other liabilities   | 69,627              | 70,882              |
| Distributions in excess of investment in unconsolidated affiliate | 61,107              | 63,187              |
| Long-term debt  | 405,660             | 406,236             |
| Deferred income taxes   | 72,162              | 89,401              |
| <br>  |                     |                     |
| Total liabilities   | 1,060,008           | 1,078,620           |
| Shareholders' equity - controlling interest                       | 863,789             | 830,822             |
| Noncontrolling interest   | 117,604             | 41,415              |
| <br>  |                     |                     |
| Total equity  | 981,393             | 872,237             |
| <br>  |                     |                     |
| <b>Total liabilities and equity</b>                               | <b>\$ 2,041,401</b> | <b>\$ 1,950,857</b> |

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<br>November 30, |                  | Six Months Ended<br>November 30, |                  |
|--|------------------------------------|------------------|----------------------------------|------------------|
|  | 2013                               | 2012             | 2013                             | 2012             |
| Net sales  | \$ 769,900                         | \$ 622,622       | \$ 1,462,191                     | \$ 1,288,657     |
| Cost of goods sold   | 641,668                            | 527,766          | 1,222,995                        | 1,100,150        |
| Gross margin   | 128,232                            | 94,856           | 239,196                          | 188,507          |
| Selling, general and administrative expense                    | 78,395                             | 65,101           | 149,935                          | 124,523          |
| Impairment of long-lived assets                                | 30,734                             | (50)             | 35,375                           | 1,520            |
| Restructuring and other expense (income)                       | (1,182)                            | 1,262            | (5,179)                          | 1,665            |
| Joint venture transactions                                     | 786                                | (279)            | 928                              | (1,441)          |
| Operating income   | 19,499                             | 28,822           | 58,137                           | 62,240           |
| Other income (expense):  |                                    |                  |                                  |                  |
| Miscellaneous income   | 2,472                              | 303              | 13,409                           | 468              |
| Interest expense   | (6,258)                            | (6,334)          | (12,498)                         | (11,593)         |
| Equity in net income of unconsolidated affiliates              | 21,086                             | 25,221           | 48,037                           | 47,864           |
| Earnings before income taxes                                   | 36,799                             | 48,012           | 107,085                          | 98,979           |
| Income tax expense   | 8,459                              | 15,390           | 22,392                           | 31,492           |
| <b>Net earnings</b>  | <b>28,340</b>                      | <b>32,622</b>    | <b>84,693</b>                    | <b>67,487</b>    |
| Net earnings attributable to noncontrolling interest           | 5,363                              | 796              | 7,159                            | 1,699            |
| <b>Net earnings attributable to controlling interest</b>       | <b>\$ 22,977</b>                   | <b>\$ 31,826</b> | <b>\$ 77,534</b>                 | <b>\$ 65,788</b> |
| <b>Basic</b>   |                                    |                  |                                  |                  |
| Average common shares outstanding                              | 69,304                             | 68,934           | 69,454                           | 68,604           |
| <b>Earnings per share attributable to controlling interest</b> | <b>\$ 0.33</b>                     | <b>\$ 0.46</b>   | <b>\$ 1.12</b>                   | <b>\$ 0.96</b>   |
| <b>Diluted</b>   |                                    |                  |                                  |                  |
| Average common shares outstanding                              | 71,826                             | 70,411           | 72,089                           | 69,834           |
| <b>Earnings per share attributable to controlling interest</b> | <b>\$ 0.32</b>                     | <b>\$ 0.45</b>   | <b>\$ 1.08</b>                   | <b>\$ 0.94</b>   |
| Common shares outstanding at end of period                     | 69,138                             | 69,060           | 69,138                           | 69,060           |
| Cash dividends declared per share                              | \$ 0.15                            | \$ 0.13          | \$ 0.30                          | \$ 0.26          |

See notes to consolidated financial statements.





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

|  | <b>Three Months</b> |                  | <b>Six Months Ended</b> |                  |
|--|---------------------|------------------|-------------------------|------------------|
|  | <b>Ended</b>        |                  | <b>November 30,</b>     |                  |
|  | <b>2013</b>         | <b>2012</b>      | <b>2013</b>             | <b>2012</b>      |
| Net earnings   | \$ 28,340           | \$ 32,622        | \$ 84,693               | \$ 67,487        |
| Other comprehensive income (loss), net of tax:                   |                     |                  |                         |                  |
| Foreign currency translation                                     | 3,037               | 4,167            | 2,551                   | 8,075            |
| Pension liability adjustment                                     | -                   | -                | -                       | (172)            |
| Cash flow hedges   | 353                 | (329)            | 3,704                   | 655              |
| Other comprehensive income                                       | 3,390               | 3,838            | 6,255                   | 8,558            |
| <b>Comprehensive income</b>                                      | <b>31,730</b>       | <b>36,460</b>    | <b>90,948</b>           | <b>76,045</b>    |
| Comprehensive income attributable to noncontrolling interest     | 5,679               | 1,043            | 6,458                   | 2,057            |
| <b>Comprehensive income attributable to controlling interest</b> | <b>\$ 26,051</b>    | <b>\$ 35,417</b> | <b>\$ 84,490</b>        | <b>\$ 73,988</b> |

See notes to consolidated financial statements.

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

|   | <b>Three Months Ended</b> |                 | <b>Six Months Ended</b> |                 |
|---|---------------------------|-----------------|-------------------------|-----------------|
|   | <b>November 30,</b>       |                 | <b>November 30,</b>     |                 |
|   | <b>2013</b>               | <b>2012</b>     | <b>2013</b>             | <b>2012</b>     |
| <b>Operating activities</b>   |                           |                 |                         |                 |
| Net earnings  | \$ 28,340                 | \$ 32,622       | \$ 84,693               | \$ 67,487       |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                           |                 |                         |                 |
| Depreciation and amortization   | 20,095                    | 16,101          | 39,555                  | 31,088          |
| Impairment of long-lived assets   | 30,734                    | (50)            | 35,375                  | 1,520           |
| Provision for deferred income taxes   | (13,110)                  | (1,320)         | (21,534)                | 3,359           |
| Bad debt expense (income)   | 185                       | 492             | (296)                   | 499             |
| Equity in net income of unconsolidated affiliates, net of distributions             | (3,506)                   | (7,057)         | (9,421)                 | (14,415)        |
| Net gain on sale of assets  | (7,188)                   | (2,379)         | (11,850)                | (69)            |
| Stock-based compensation  | 4,722                     | 3,740           | 8,502                   | 6,933           |
| Excess tax benefits - stock-based compensation                                      | (1,534)                   | -               | (5,832)                 | -               |
| Gain on previously held interest in TWB   | -                         | -               | (11,000)                | -               |
| Changes in assets and liabilities, net of impact of acquisitions:                   |                           |                 |                         |                 |
| Receivables   | 7,574                     | 30,634          | 15,229                  | 68,750          |
| Inventories   | (21,838)                  | 40,883          | (21,323)                | 57,901          |
| Prepaid expenses and other current assets   | 4,072                     | 1,746           | 1,707                   | 1,602           |
| Other assets  | 139                       | 91              | 575                     | 2,937           |
| Accounts payable and accrued expenses   | (23,922)                  | (30,617)        | 16,700                  | (70,191)        |
| Other liabilities   | 4,556                     | 3,495           | 2,703                   | 1,978           |
| <b>Net cash provided by operating activities</b>                                    | <b>29,319</b>             | <b>88,381</b>   | <b>123,783</b>          | <b>159,379</b>  |
| <b>Investing activities</b>   |                           |                 |                         |                 |
| Investment in property, plant and equipment   | (17,060)                  | (7,911)         | (30,414)                | (24,616)        |
| Acquisitions, net of cash acquired  | 276                       | (62,110)        | 53,233                  | (62,110)        |
| Distributions from unconsolidated affiliates  | 3,668                     | -               | 9,223                   | -               |
| Proceeds from sale of assets  | 16,086                    | 9,090           | 23,733                  | 15,675          |
| <b>Net cash provided (used) by investing activities</b>                             | <b>2,970</b>              | <b>(60,931)</b> | <b>55,775</b>           | <b>(71,051)</b> |
| <b>Financing activities</b>   |                           |                 |                         |                 |
| Net payments of short-term borrowings   | (18,736)                  | (14,508)        | (70,277)                | (238,196)       |
| Proceeds from long-term debt  | -                         | -               | -                       | 150,000         |
| Principal payments on long-term debt  | (285)                     | (363)           | (569)                   | (805)           |
| Proceeds from issuance of common shares   | 4,286                     | 4,773           | 6,487                   | 15,628          |
| Excess tax benefits - stock-based compensation                                      | 1,534                     | -               | 5,832                   | -               |
| Payments to noncontrolling interest   | (875)                     | (5,990)         | (2,638)                 | (5,990)         |
| Repurchase of common shares   | (19,800)                  | -               | (50,316)                | -               |
| Dividends paid  | (10,407)                  | (8,954)         | (10,407)                | (17,104)        |
| <b>Net cash used by financing activities</b>  | <b>(44,283)</b>           | <b>(25,042)</b> | <b>(121,888)</b>        | <b>(96,467)</b> |

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|   |                   |                  |                   |                  |
|---|-------------------|------------------|-------------------|------------------|
| Increase (decrease) in cash and cash equivalents  | (11,994)          | 2,408            | 57,670            | (8,139)          |
| Cash and cash equivalents at beginning of period  | 121,049           | 30,481           | 51,385            | 41,028           |
| <b>Cash and cash equivalents at end of period</b> | <b>\$ 109,055</b> | <b>\$ 32,889</b> | <b>\$ 109,055</b> | <b>\$ 32,889</b> |

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

Spartan Steel Coating, LLC (Spartan), TWB Company, L.L.C. (TWB), Worthington Energy Innovations, LLC (WEI), and Worthington Nitin Cylinders Limited (WNCL) in which we own controlling interests of 52%, 55%, 75%, and 60%, respectively, are consolidated with the equity owned by the other joint venture members shown as noncontrolling interest in our consolidated balance sheets, and the other joint venture members' portion of net earnings shown as net earnings attributable to noncontrolling interest in our consolidated statements of earnings. As more fully described in NOTE M Acquisitions, on July 31, 2013, we purchased an additional 10% interest in TWB for \$17,869,000, increasing our ownership to a 55% controlling interest. As a result, TWB's results have been consolidated within the Steel Processing operating segment since the acquisition date.

These unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments, which are of a normal and recurring nature, except those which have been disclosed elsewhere in this Quarterly Report on Form 10-Q, necessary for a fair presentation of the results of operations of these interim periods, have been included. Operating results for the three and six months ended November 30, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending May 31, 2014 (fiscal 2014). For further information, refer to the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the fiscal year ended May 31, 2013 (fiscal 2013) of Worthington Industries, Inc. (the 2013 Form 10-K).

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

**Joint Venture Transactions**

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

We retained and continued to operate the remaining metal framing facilities (the retained facilities), on a short-term basis, to support the transition of the business into ClarkDietrich. The buildings and equipment associated with the majority of these facilities were sold during fiscal 2013 and fiscal 2012. The remaining facilities are expected to be sold during fiscal 2014 and actions to locate buyers are ongoing. As the other relevant criteria for classification as assets held for sale have been satisfied, the \$2,435,000 carrying value of these asset groups, which consist primarily of property, plant and equipment, is presented separately in our consolidated balance sheet as of November 30, 2013.

**Table of Contents****Recently Issued Accounting Standards**

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

In June 2011, new accounting guidance was issued regarding the presentation of comprehensive income in financial statements prepared in accordance with U.S. GAAP. This new guidance requires entities to present reclassification adjustments included in other comprehensive income on the face of the financial statements and allows entities to present total comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. It also eliminates the option for entities to present the components of other comprehensive income as part of the statement of equity. For public companies, this accounting guidance was effective for fiscal years (and interim periods within those fiscal years) beginning after December 15, 2011, with early adoption permitted. Retrospective application to prior periods is required. We adopted the effective provisions of this new accounting guidance on June 1, 2012 and have provided the required statements of comprehensive income for the three and six months ended November 30, 2013 and 2012. In December 2011, certain provisions of this new guidance related to the presentation of reclassification adjustments out of accumulated other comprehensive income were temporarily deferred. In February 2013, an effective date was established for the provisions that had been deferred. These provisions are effective prospectively for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2012. We adopted the deferred provisions, which relate to presentation only, on June 1, 2013 and have provided the required disclosures in NOTE G Comprehensive Income. There was no impact on our financial position or results of operations.

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

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

**NOTE B Investments in Unconsolidated Affiliates**

Our investments in affiliated companies that we do not control, either through majority ownership or otherwise, are accounted for using the equity method. At November 30, 2013, these equity investments and the percentage interests owned consisted of: ArtiFlex Manufacturing, LLC ( ArtiFlex ) (50%), ClarkDietrich (25%), Samuel Steel Pickling Company (31.25%), Serviacero Planos, S. de R. L. de C.V. (50%), Worthington Armstrong Venture ( WAVE ) (50%), Worthington Modern Steel Framing Manufacturing Co., Ltd. ( WMSFMCo. ) (40%), and Worthington Specialty Processing ( WSP ) (51%). WSP is considered to be jointly controlled and not consolidated due to substantive participating rights of the minority partner.

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

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

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

We received distributions from unconsolidated affiliates totaling \$47,839,000 during the six months ended November 30, 2013. We have received cumulative distributions from WAVE in excess of our investment balance totaling \$61,107,000 and \$63,187,000 at November 30, 2013 and May 31, 2013, respectively. In accordance with the applicable accounting guidance, these excess distributions are reclassified to the liabilities section of our consolidated balance sheet. We will continue to record our equity in the net income of WAVE as a debit to the investment account, and if it becomes positive, it will again be shown as an asset on our consolidated balance sheet. If it becomes obvious that any excess distribution may not be returned (upon joint venture liquidation or otherwise), we will recognize any balance classified as a liability as income immediately.

We use the cumulative earnings approach for determining cash flow presentation of distributions from our unconsolidated joint ventures. Distributions received are included in our consolidated statements of cash flows as operating activities, unless the cumulative distributions exceed our portion of the cumulative equity in the net earnings of the joint venture, in which case the excess distributions are deemed to be returns of the investment and are classified as investing activities in our consolidated statements of cash flows. During the three and six months ended November 30, 2013, we received excess distributions from ClarkDietrich of \$3,668,000 and \$9,223,000, respectively.

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

| (in thousands)                       | November 30,<br>2013 | May 31,<br>2013     |
|--------------------------------------|----------------------|---------------------|
| Cash                                 | \$ 47,835            | \$ 70,380           |
| Receivable from partner (1)          | 8,319                | 69,706              |
| Other current assets                 | 420,514              | 518,262             |
| Noncurrent assets                    | 299,238              | 350,681             |
| <b>Total assets</b>                  | <b>\$ 775,906</b>    | <b>\$ 1,009,029</b> |
| Current liabilities                  | \$ 123,255           | \$ 181,111          |
| Short-term borrowings                | 20,009               | 21,369              |
| Current maturities of long-term debt | 4,991                | 5,442               |
| Long-term debt                       | 271,490              | 274,750             |
| Other noncurrent liabilities         | 19,376               | 18,345              |
| Equity                               | 336,785              | 508,012             |
| <b>Total liabilities and equity</b>  | <b>\$ 775,906</b>    | <b>\$ 1,009,029</b> |

| (in thousands)                | Three Months Ended<br>November 30, |            | Six Months Ended<br>November 30, |            |
|-------------------------------|------------------------------------|------------|----------------------------------|------------|
|                               | 2013                               | 2012       | 2013                             | 2012       |
| Net sales                     | \$ 357,236                         | \$ 438,260 | \$ 780,717                       | \$ 885,113 |
| Gross margin                  | 76,068                             | 86,307     | 165,882                          | 164,226    |
| Operating income              | 51,532                             | 56,900     | 116,072                          | 108,610    |
| Depreciation and amortization | 9,104                              | 9,903      | 19,441                           | 19,109     |

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|                    |        |        |         |         |
|--------------------|--------|--------|---------|---------|
| Interest expense   | 2,233  | 2,208  | 4,456   | 4,469   |
| Income tax expense | 2,862  | 176    | 5,892   | 3,646   |
| Net earnings       | 46,149 | 54,864 | 105,783 | 101,149 |

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



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In fiscal 2008, we initiated a Transformation Plan (the Transformation Plan) with the overall goal to improve our sustainable earnings potential, asset utilization and operational performance. The Transformation Plan focuses on cost reduction, margin expansion and organizational capability improvements and, in the process, seeks to drive excellence in three core competencies: sales; operations; and supply chain management. The Transformation Plan is comprehensive in scope and includes aggressive diagnostic and implementation phases. When this process began, we retained a consulting firm to assist in the development and implementation of the Transformation Plan. As the Transformation Plan progressed, we formed internal teams dedicated to this effort, and they ultimately assumed full responsibility for executing the Transformation Plan. Although the consulting firm was again engaged as we rolled out the Transformation Plan in our Pressure Cylinders operating segment, most of the work is now being done by our internal teams. These internal teams are now an integral part of our business and constitute what we refer to as the Centers of Excellence (COE). The COE will continue to monitor the performance metrics and new processes instituted across our transformed operations and drive continuous improvements in all areas of our operations. The majority of the expenses related to the COE will be included in selling, general and administrative (SG&A) expense going forward, except where they relate to a first time diagnostics phase of the Transformation Plan.

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

A progression of the liabilities created as part of the Transformation Plan during the six months ended November 30, 2013, combined with a reconciliation to the restructuring and other expense (income) financial statement caption in our consolidated statement of earnings is summarized as follows:

| (in thousands)                   | Beginning<br>Balance | Expense    | Payments   | Adjustments | Ending<br>Balance |
|----------------------------------|----------------------|------------|------------|-------------|-------------------|
| Early retirement and severance   | \$ 5,029             | \$ 4,292   | \$ (1,135) | \$ 37       | \$ 8,223          |
| Facility exit and other costs    | 1,200                | 2,158      | (798)      | (37)        | 2,523             |
|                                  | \$ 6,229             | 6,450      | \$ (1,933) | \$ -        | \$ 10,746         |
| Net gain on sale of assets       |                      | (10,701)   |            |             |                   |
| Less: joint venture transactions |                      | (928)      |            |             |                   |
| Restructuring and other expense  |                      | \$ (5,179) |            |             |                   |

During the six months ended November 30, 2013, the following actions were taken in connection with the Transformation Plan:

In connection with the wind-down of our former Metal Framing operating segment, we recognized \$928,000 of facility exit and other costs. These costs were recognized within the joint venture transactions financial statement caption in our consolidated statements of earnings to correspond with amounts previously recognized in connection with the formation of ClarkDietrich and the subsequent wind-down of our former Metal Framing operating segment.

In connection with the closure of our commercial stairs business, we incurred facility exit charges of \$1,030,000.

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

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matter.

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

On November 12, 2013, the Company entered into an agreement to sell the operating assets related to its steel high pressure and acetylene cylinders business in North America, resulting in a gain of \$5,939,000. In connection with this transaction, the Company recognized a \$3,714,000 accrual for expected severance costs and incurred facility exit charges of \$200,000.

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Approximately \$8,863,000 of the total liability shown in the table above is expected to be paid in the next twelve months. The remaining liability, which consists of lease termination costs and certain severance benefits, will be paid through September 2016.

**NOTE D Contingent Liabilities**

On August 5, 2013, we tendered to our excess loss carrier, who accepted the tender, a wrongful death claim against the Company involving a MAPP gas cylinder. Pursuant to the tender and its acceptance, our overall exposure related to this matter is limited to \$2,000,000. As a result, a pre-tax charge of \$2,000,000 was recorded within SG&A expense during the six months ended November 20, 2013.

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

**Insurance Recoveries**

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

During the second quarter of fiscal 2014, the Company received proceeds of \$2,623,000 for the property portion of the claim, representing advance payments for the replacement value of the damaged property and equipment. These proceeds were in excess of the \$145,000 remaining book value of the assets, resulting in a gain of \$2,478,000. This gain was recorded within miscellaneous income in our consolidated statement of earnings for the six months ended November 30, 2013. We will continue to receive payments from the insurance company for the replacement value of the property and equipment throughout the rebuild process.

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

|                              | (in thousands) |
|------------------------------|----------------|
| Property and equipment       | \$ 2,623       |
| Business interruption        | 676            |
| Other expenses               | 267            |
| <br>Total insurance proceeds | <br>\$ 3,566   |

The proceeds for business interruption relate to the loss of profits from the date of the fire through October 31, 2013, and have been recorded as a reduction of manufacturing expense. The proceeds for other expenses represent reimbursement for incremental expenses related to the fire and were recorded as an offset to manufacturing expense.

**NOTE E Guarantees**

We do not have guarantees that we believe are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. However, as of November 30, 2013, we were party to an operating lease for an aircraft in which we have guaranteed a residual value at the termination of the lease. The maximum obligation under the terms of this guarantee was approximately \$13,459,000 at November 30, 2013. We have also guaranteed the repayment of a term loan entered into by one of our unconsolidated affiliates, ArtiFlex. As of November 30, 2013, the outstanding principal balance on the loan was \$4,167,000. Based on current facts and circumstances, we have estimated the likelihood of payment pursuant to these guarantees, and determined that the fair value of our obligation under each guarantee based on those likely outcomes is not material and therefore no amounts have been recognized in our consolidated financial statements.



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We also had in place \$11,732,000 of outstanding stand-by letters of credit for third-party beneficiaries as of November 30, 2013. These letters of credit were issued to third-party service providers and had no amounts drawn against them at November 30, 2013. The fair value of these guarantee instruments, based on premiums paid, was not material, and therefore no amounts have been recognized in our consolidated financial statements.

**NOTE F Debt and Receivables Securitization**

We have a \$425,000,000 multi-year revolving credit facility (the Credit Facility) with a group of lenders that matures in May 2017. Borrowings outstanding under the Credit Facility were \$8,440,000 at November 30, 2013. Additionally, as discussed in NOTE E Guarantees, we provided \$11,732,000 in stand-by letters of credit for third-party beneficiaries as of November 30, 2013. While not drawn against, these letters of credit are issued against availability under the Credit Facility, leaving \$404,828,000 available at November 30, 2013.

Current borrowings under this revolving Credit Facility have maturities of less than one year, and given that we intend to repay them within the next year, they have been classified as short-term borrowings in our consolidated balance sheet. However, we can extend the term of amounts borrowed by renewing these borrowings for the term of the Credit Facility. We have the option to borrow at rates equal to an applicable margin over the LIBOR, Prime or Fed Funds rates. The applicable margin is determined by our credit rating. At November 30, 2013, the applicable variable rate, based on LIBOR, was 1.22%.

We also maintain a \$100,000,000 revolving trade accounts receivable securitization facility (the AR Facility), which expires in January 2015. The AR Facility has been available throughout fiscal 2014 to date, and was available throughout fiscal 2013. Pursuant to the terms of the AR Facility, certain of our subsidiaries sell their accounts receivable without recourse, on a revolving basis, to Worthington Receivables Corporation (WRC), a wholly-owned, consolidated, bankruptcy-remote subsidiary. In turn, WRC may sell without recourse, on a revolving basis, up to \$100,000,000 of undivided ownership interests in this pool of accounts receivable to a third-party bank. We retain an undivided interest in this pool and are subject to risk of loss based on the collectability of the receivables from this retained interest. Because the amount eligible to be sold excludes receivables more than 90 days past due, receivables offset by an allowance for doubtful accounts due to bankruptcy or other cause, concentrations over certain limits with specific customers and certain reserve amounts, we believe additional risk of loss is minimal. The book value of the retained portion of the pool of accounts receivable approximates fair value. As of November 30, 2013, the pool of eligible accounts receivable exceeded the \$100,000,000 limit, and \$30,000,000 of undivided ownership interests in this pool of accounts receivable had been sold.

The remaining balance of short-term borrowings at November 30, 2013 consisted of \$5,011,000 outstanding under a \$9,500,000 credit facility maintained by our consolidated affiliate, WNCL. This credit facility matures in November 2014 and bears interest at a variable rate. The applicable variable rate was 2.25% at November 30, 2013.

**NOTE G Comprehensive Income**

The following table summarizes the tax effects of each component of other comprehensive income for the three months ended November 30, 2013 and 2012:

| (in thousands)                    | 2013            |                 | 2012            |                 |                 |                 |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                                   | Before-Tax      | Net-of-Tax      | Before-Tax      | Net-of-Tax      |                 |                 |
|                                   | Amount          | Tax Expense     | Amount          | Tax Expense     | Amount          | Amount          |
| Foreign currency translation      | \$ 3,037        | -               | \$ 3,037        | \$ 4,167        | \$ -            | \$ 4,167        |
| Pension liability adjustment      | -               | -               | -               | -               | -               | -               |
| Cash flow hedges                  | 661             | (308)           | 353             | 553             | (882)           | (329)           |
| <b>Other comprehensive income</b> | <b>\$ 3,698</b> | <b>\$ (308)</b> | <b>\$ 3,390</b> | <b>\$ 4,720</b> | <b>\$ (882)</b> | <b>\$ 3,838</b> |

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The following table summarizes the tax effects of each component of other comprehensive income for the six months ended November 30, 2013 and 2012:

| (in thousands)                    | 2013                 |                   | 2012                 |                      |                   |                      |
|-----------------------------------|----------------------|-------------------|----------------------|----------------------|-------------------|----------------------|
|                                   | Before-Tax<br>Amount | Tax Expense       | Net-of-Tax<br>Amount | Before-Tax<br>Amount | Tax Expense       | Net-of-Tax<br>Amount |
| Foreign currency translation      | \$ 2,551             | \$ -              | \$ 2,551             | \$ 8,075             | \$ -              | \$ 8,075             |
| Pension liability adjustment      | -                    | -                 | -                    | (255)                | 83                | (172)                |
| Cash flow hedges                  | 5,481                | (1,777)           | 3,704                | 1,777                | (1,122)           | 655                  |
| <b>Other comprehensive income</b> | <b>\$ 8,032</b>      | <b>\$ (1,777)</b> | <b>\$ 6,255</b>      | <b>\$ 9,597</b>      | <b>\$ (1,039)</b> | <b>\$ 8,558</b>      |

**NOTE H Changes in Equity**

The following table provides a summary of the changes in total equity, shareholders' equity attributable to controlling interest, and equity attributable to noncontrolling interest for the six months ended November 30, 2013:

| (in thousands)                            | Controlling Interest             |   |                      | Total             | Non-controlling   |                   |
|---|----------------------------------|---|----------------------|-------------------|-------------------|-------------------|
|   | Additional<br>Paid-in<br>Capital | Cumulative<br>Other<br>Comprehensive<br>Income<br>(Loss),<br>Net of Tax | Retained<br>Earnings |                   | Interest          | Total             |
| <b>Balance at May 31, 2013</b>            | \$ 244,864                       | \$ (12,036)   | \$ 597,994           | \$ 830,822        | \$ 41,415         | \$ 872,237        |
| Net earnings                              | -                                | -   | 77,534               | 77,534            | 7,159             | 84,693            |
| Other comprehensive income (loss)         | -                                | 6,956   | -                    | 6,956             | (701)             | 6,255             |
| Common shares issued                      | 6,487                            | -   | -                    | 6,487             | -                 | 6,487             |
| Stock-based compensation                  | 13,448                           | -   | -                    | 13,448            | -                 | 13,448            |
| Purchases and retirement of common shares | (4,890)                          | -   | (45,426)             | (50,316)          | -                 | (50,316)          |
| Cash dividends declared                   | -                                | -   | (21,142)             | (21,142)          | -                 | (21,142)          |
| Dividend paid to noncontrolling interest  | -                                | -   | -                    | -                 | (2,638)           | (2,638)           |
| Acquisition of TWB                        | -                                | -   | -                    | -                 | 72,369            | 72,369            |
| <b>Balance at November 30, 2013</b>       | <b>\$ 259,909</b>                | <b>\$ (5,080)</b>   | <b>\$ 608,960</b>    | <b>\$ 863,789</b> | <b>\$ 117,604</b> | <b>\$ 981,393</b> |

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

| (in thousands)                                      | Foreign<br>Currency<br>Translation | Pension<br>Liability<br>Adjustment | Cash<br>Flow<br>Hedges | Accumulated<br>Other<br>Comprehensive<br>Loss |
|---|------------------------------------|------------------------------------|------------------------|---|
| Balance as of May 31, 2013                          | \$ 4,025                           | \$ (10,221)                        | \$ (5,840)             | \$ (12,036)                                   |
| Other comprehensive income before reclassifications | 3,252                              | -                                  | 2,581                  | 5,833   |
| Reclassification adjustments to income (a)          | -                                  | -                                  | 2,900                  | 2,900   |
| Income taxes  | -                                  | -                                  | (1,777)                | (1,777)                                       |
| <b>Balance as of November 30, 2013</b>              | <b>\$ 7,277</b>                    | <b>\$ (10,221)</b>                 | <b>\$ (2,136)</b>      | <b>\$ (5,080)</b>                             |

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

**NOTE I Stock-Based Compensation**

**Non-Qualified Stock Options**

During the six months ended November 30, 2013, we granted non-qualified stock options covering a total of 125,200 common shares under our stock-based compensation plans. The weighted average option price of \$31.89 per share reflects the market price of the underlying common shares at the grant date. The weighted average fair value of these stock options, based on the Black-Scholes option-pricing model, calculated at the grant date, was \$12.92 per share. The calculated pre-tax stock-based compensation expense for these stock options, after an estimate for forfeitures, is \$1,482,000, which will be recognized on a straight-line basis over the three-year vesting period. The following assumptions were used to value these stock options:

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|                         |        |
|-------------------------|--------|
| Dividend yield          | 2.28%  |
| Expected volatility     | 52.23% |
| Risk-free interest rate | 1.69%  |
| 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.

**Restricted Common Shares**

During the six months ended November 30, 2013, we granted 369,140 restricted common shares under our stock-based compensation plans. The fair values of these restricted common shares were equal to the weighted average closing market prices of the underlying common shares on the date of grant, or \$32.96 per share. The calculated pre-tax stock-based compensation expense for these restricted common shares, after an estimate for forfeitures, is \$10,931,000 and will be recognized on a straight-line basis over the three-year vesting period.

**Market-Based Restricted Common Shares**

During the six months ended November 30, 2013, we granted 360,000 restricted common shares to certain key employees under our stock-based compensation plans. Vesting of these restricted common share awards is contingent upon the price of our common shares reaching \$50.00 per share and remaining at or above that price for 30 consecutive days and the completion of a three-year service vesting period. The grant-date fair value of these restricted common shares, as determined by a Monte Carlo simulation model, was \$24.19 per share. The Monte Carlo simulation model is a statistical technique that incorporates multiple assumptions to determine the probability that the market condition will be achieved. The following assumptions were used to determine the grant-date fair value and the derived service period for these restricted common shares:

|                         |        |
|-------------------------|--------|
| Dividend yield          | 2.28%  |
| Expected volatility     | 53.40% |
| Risk-free interest rate | 1.41%  |

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

**NOTE J Income Taxes**

Income tax expense for the six months ended November 30, 2013 and November 30, 2012 reflected estimated annual effective income tax rates of 27.8% and 32.7%, respectively. The annual effective income tax rates exclude any impact from the inclusion of net earnings attributable to non-controlling interests in our consolidated statements of earnings. Net earnings attributable to noncontrolling interest is primarily a result of our Spartan and TWB consolidated joint ventures. The earnings attributable to the noncontrolling interest in Spartan and TWB's U.S. operations do not generate tax expense to Worthington since the investors in Spartan and TWB's U.S. operations are taxed directly based on the earnings attributable to them. Since the consolidation of TWB on July 31, 2013, 100% of the tax expense of TWB's foreign operations has been included in the Company's reported income tax expense for financial reporting purposes, and is therefore included in the estimated annual effective income tax rate. For additional information regarding the consolidation of TWB, refer to NOTE M Acquisitions. Management is required to estimate the annual effective income tax rate based upon its forecast of annual pre-tax income for domestic and foreign operations. Our actual effective income tax rate for fiscal 2014 could be materially different from the forecasted rate as of November 30, 2013.



**Table of Contents****NOTE K Earnings Per Share**

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended November 30, 2013 and 2012:

| (in thousands, except per share amounts)  | Three Months                  |           | Six Months Ended     |           |
|---|-------------------------------|-----------|----------------------|-----------|
|   | Ended<br>November 30,<br>2013 | 2012      | November 30,<br>2013 | 2012      |
| Numerator (basic & diluted):  |                               |           |                      |           |
| Net earnings attributable to controlling interest income available to common shareholders                               | \$ 22,977                     | \$ 31,826 | \$ 77,534            | \$ 65,788 |
| Denominator:  |                               |           |                      |           |
| Denominator for basic earnings per share attributable to controlling interest weighted average common shares            | 69,304                        | 68,934    | 69,454               | 68,604    |
| Effect of dilutive securities   | 2,522                         | 1,477     | 2,635                | 1,230     |
| Denominator for diluted earnings per share attributable to controlling interest adjusted weighted average common shares | 71,826                        | 70,411    | 72,089               | 69,834    |
| Basic earnings per share attributable to controlling interest   | \$ 0.33                       | \$ 0.46   | \$ 1.12              | \$ 0.96   |
| Diluted earnings per share attributable to controlling interest   | \$ 0.32                       | \$ 0.45   | \$ 1.08              | \$ 0.94   |

Stock options covering common shares of 396 and 1,086,896 for the three months ended November 30, 2013 and 2012, respectively, and 197 and 1,101,973 for the six months ended November 30, 2013 and 2012, respectively, have been excluded from the computation of diluted earnings per share because the effect would have been anti-dilutive, as the exercise price of the stock options was greater than the average market price of the common shares during the periods.

**Table of Contents****NOTE L Segment Operations**

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

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

| (in thousands)   | Three Months Ended<br>November 30, |                   | Six Months Ended<br>November 30, |                     |
|--|------------------------------------|-------------------|----------------------------------|---------------------|
|  | 2013                               | 2012              | 2013                             | 2012                |
| <b>Net sales</b>   |                                    |                   |                                  |                     |
| Steel Processing   | \$ 492,134                         | \$ 344,107        | \$ 894,575                       | \$ 729,119          |
| Pressure Cylinders   | 214,022                            | 207,494           | 430,922                          | 401,730             |
| Engineered Cabs  | 47,868                             | 57,804            | 96,329                           | 122,299             |
| Other  | 15,876                             | 13,217            | 40,365                           | 35,509              |
| <b>Consolidated net sales</b>                                | <b>\$ 769,900</b>                  | <b>\$ 622,622</b> | <b>\$ 1,462,191</b>              | <b>\$ 1,288,657</b> |
| <b>Operating income (loss)</b>                               |                                    |                   |                                  |                     |
| Steel Processing   | \$ 34,786                          | \$ 13,807         | \$ 57,449                        | \$ 30,466           |
| Pressure Cylinders   | 8,275                              | 17,079            | 27,729                           | 32,105              |
| Engineered Cabs  | (20,892)                           | 565               | (21,196)                         | 5,259               |
| Other  | (2,670)                            | (2,629)           | (5,845)                          | (5,590)             |
| <b>Consolidated operating income</b>                         | <b>\$ 19,499</b>                   | <b>\$ 28,822</b>  | <b>\$ 58,137</b>                 | <b>\$ 62,240</b>    |
| <b>Restructuring and other expense (income)</b>              |                                    |                   |                                  |                     |
| Steel Processing   | \$ -                               | \$ (2)            | \$ (4,762)                       | \$ -                |
| Pressure Cylinders   | (1,849)                            | -                 | (1,447)                          | 6                   |
| Engineered Cabs  | -                                  | -                 | -                                | -                   |
| Other  | 667                                | 1,264             | 1,030                            | 1,659               |
| <b>Consolidated restructuring and other expense (income)</b> | <b>\$ (1,182)</b>                  | <b>\$ 1,262</b>   | <b>\$ (5,179)</b>                | <b>\$ 1,665</b>     |
| <b>Impairment of long-lived assets</b>                       |                                    |                   |                                  |                     |
| Steel Processing   | \$ -                               | \$ -              | \$ 4,641                         | \$ -                |
| Pressure Cylinders   | 11,634                             | (50)              | 11,634                           | 1,520               |
| Engineered Cabs  | 19,100                             | -                 | 19,100                           | -                   |
| Other  | -                                  | -                 | -                                | -                   |
| <b>Consolidated impairment of long-lived assets</b>          | <b>\$ 30,734</b>                   | <b>\$ (50)</b>    | <b>\$ 35,375</b>                 | <b>\$ 1,520</b>     |
| <b>Joint venture transactions</b>                            |                                    |                   |                                  |                     |
| Steel Processing   | \$ -                               | \$ -              | \$ -                             | \$ -                |
| Pressure Cylinders   | -                                  | -                 | -                                | -                   |
| Engineered Cabs  | -                                  | -                 | -                                | -                   |
| Other  | 786                                | (279)             | 928                              | (1,441)             |
| <b>Consolidated joint venture transactions</b>               | <b>\$ 786</b>                      | <b>\$ (279)</b>   | <b>\$ 928</b>                    | <b>\$ (1,441)</b>   |

| (in thousands)                   | November 30,<br>2013 | May 31,<br>2013     |
|----------------------------------|----------------------|---------------------|
| <b>Total assets</b>              |                      |                     |
| Steel Processing                 | \$ 827,376           | \$ 610,464          |
| Pressure Cylinders               | 704,901              | 742,686             |
| Engineered Cabs                  | 179,182              | 201,048             |
| Other                            | 329,942              | 396,659             |
| <b>Consolidated total assets</b> | <b>\$ 2,041,401</b>  | <b>\$ 1,950,857</b> |

**Table of Contents****NOTE M Acquisitions**

On July 31, 2013, we purchased an additional 10% interest in our laser welded blanks joint venture, TWB, for \$17,869,000, increasing our ownership to a 55% controlling interest. This transaction was accounted for as a step acquisition, which required that we re-measure our previously held 45% ownership interest to fair value and record the difference between fair value and carrying value as a gain in our consolidated statement of earnings. The re-measurement to fair value resulted in a non-cash pre-tax gain of \$11,000,000, which is included in miscellaneous income in our consolidated statement of earnings for the six months ended November 30, 2013. The acquired net assets became part of our Steel Processing operating segment upon closing.

The assets acquired and liabilities assumed were recognized at their acquisition-date fair values. In connection with the acquisition of TWB, we identified and valued the following identifiable intangible assets:

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

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

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

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

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

Operating results of TWB have been included in our consolidated statements of earnings from the acquisition date, forward. For periods prior to the acquisition date, our portion of the equity in the net income of TWB was included within equity in net income of unconsolidated affiliates in our consolidated statements of earnings. Pro forma results, including the acquired business since the beginning of fiscal 2013, would not be materially different than reported results.

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**NOTE N Derivative Instruments and Hedging Activities**

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

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

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

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

We are exposed to counterparty credit risk on all of our derivative instruments. Accordingly, we have established and maintain strict counterparty credit guidelines and enter into derivative instruments only with major financial institutions. We do not have significant exposure to any one counterparty and management believes the risk of loss is remote and, in any event, would not be material.

Refer to Note O Fair Value 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 November 30, 2013:

| (in thousands)  | Asset Derivatives<br>Balance |               | Liability Derivatives<br>Balance |               |
|---|------------------------------|---------------|----------------------------------|---------------|
|   | Sheet<br>Location            | Fair<br>Value | Sheet<br>Location                | Fair<br>Value |
| <b>Derivatives designated as hedging instruments:</b>     |                              |               |                                  |               |
| Interest rate contracts                                   | Receivables                  | \$ -          | Accounts payable                 | \$ 4,113      |
|   | Other assets                 | -             | Other liabilities                | 2,084         |
|   |                              | -             |                                  | 6,197         |
| Commodity contracts                                       | Receivables                  | 2,120         | Accounts payable                 | -             |
|   |                              | 2,120         |                                  | -             |
| Totals  |                              | \$ 2,120      |                                  | \$ 6,197      |
| <b>Derivatives not designated as hedging instruments:</b> |                              |               |                                  |               |
| Commodity contracts                                       | Receivables                  | \$ 1,055      | Accounts payable                 | \$ 249        |
| Totals  |                              | \$ 1,055      |                                  | \$ 249        |
| Total Derivative Instruments                              |                              | \$ 3,175      |                                  | \$ 6,446      |

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 \$220,000 increase in receivables with a corresponding increase in accounts payable.

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

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

The amounts in the table above reflect the fair value of the Company's derivative contracts on a net basis. Had these amounts been recognized on a gross basis, the impact would have been a \$740,000 increase in receivables with a corresponding increase in accounts payable.

**Cash Flow Hedges**

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

The following table summarizes our cash flow hedges outstanding at November 30, 2013:

| (in thousands)      | Notional<br>Amount | Maturity Date                |
|---------------------|--------------------|------------------------------|
| Commodity contracts | \$ 16,940          | December 2013 - October 2014 |



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Interest rate contracts

100,000

December 2013 - December 2014

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The following table summarizes the gain (loss) recognized in OCI and the gain (loss) reclassified from accumulated OCI into earnings for derivative instruments designated as cash flow hedges during the three months ended November 30, 2013 and 2012:

| (in thousands)                                | Income<br>(Loss)<br>Recognized<br>in OCI<br>(Effective<br>Portion) | Location of<br>Income (Loss)<br>Reclassified<br>from<br>Accumulated<br>OCI<br>(Effective<br>Portion) | Income<br>(Loss)<br>Reclassified<br>from<br>Accumulated<br>OCI<br>(Effective<br>Portion) | Location of<br>Income (Loss)<br>(Ineffective<br>Portion)<br>and Excluded<br>from<br>Effectiveness<br>Testing | Income<br>(Loss)<br>(Ineffective<br>Portion)<br>and<br>Excluded<br>from<br>Effectiveness<br>Testing |
|---|--|--|--|--|---|
| For the three months ended November 30, 2013: |  |  |  |  |   |
| Interest rate contracts                       | \$ (181)   | Interest expense   | \$ (1,057)   | Interest expense   | \$ -  |
| Commodity contracts                           | (1,047)  | Cost of goods sold   | (812)  | Cost of goods sold   | -   |
| Totals  | \$ (1,228)   |  | \$ (1,869)   |  | \$ -  |
| For the three months ended November 30, 2012: |  |  |  |  |   |
| Interest rate contracts                       | \$ 117   | Interest expense   | \$ (665)   | Interest expense   | \$ -  |
| Commodity contracts                           | 30   | Cost of goods sold   | 259  | Cost of goods sold   | -   |
| Totals  | \$ 147   |  | \$ (406)   |  | \$ -  |

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 six months ended November 30, 2013 and 2012:

| (in thousands)                              | Income<br>(Loss)<br>Recognized<br>in OCI<br>(Effective<br>Portion) | Location of<br>Income (Loss)<br>Reclassified<br>from<br>Accumulated<br>OCI<br>(Effective<br>Portion) | Income<br>(Loss)<br>Reclassified<br>from<br>Accumulated<br>OCI<br>(Effective<br>Portion) | Location of<br>Income (Loss)<br>(Ineffective<br>Portion)<br>and Excluded<br>from<br>Effectiveness<br>Testing | Income<br>(Loss)<br>(Ineffective<br>Portion)<br>and<br>Excluded<br>from<br>Effectiveness<br>Testing |
|---|--|--|--|--|---|
| For the six months ended November 30, 2013: |  |  |  |  |   |
| Interest rate contracts                     | \$ (384)   | Interest expense   | \$ (2,120)   | Interest expense   | \$ -  |
| Commodity contracts                         | 2,617  | Cost of goods sold   | (1,128)  | Cost of goods sold   | -   |
| Totals                                      | \$ 2,233   |  | \$ (3,248)   |  | \$ -  |
| For the six months ended November 30, 2012: |  |  |  |  |   |
| Interest rate contracts                     | \$ (489)   | Interest expense   | \$ (1,648)   | Interest expense   | \$ -  |
| Commodity contracts                         | 458  | Cost of goods sold   | (160)  | Cost of goods sold   | -   |

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|        |    |      |    |         |    |   |
|--------|----|------|----|---------|----|---|
| Totals | \$ | (31) | \$ | (1,808) | \$ | - |
|--------|----|------|----|---------|----|---|

The estimated net amount of the losses recognized in accumulated OCI at November 30, 2013 expected to be reclassified into net earnings within the succeeding twelve months is \$1,274,000 (net of tax of \$718,000). This amount was computed using the fair value of the cash flow hedges at November 30, 2013, and will change before actual reclassification from OCI to net earnings during the fiscal years ending May 31, 2014 and 2015.

**Table of Contents****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 November 30, 2013:

| (in thousands)      | Notional<br>Amount | Maturity Date(s)             |
|---------------------|--------------------|------------------------------|
| Commodity contracts | \$ 41,720          | December 2013 - January 2015 |

The following table summarizes the gain (loss) recognized in earnings for economic (non-designated) derivative financial instruments during the three months ended November 30, 2013 and 2012:

| (in thousands)             | Location of Income (Loss)<br>Recognized in Earnings | Income (Loss) Recognized<br>in Earnings for the<br>Three Months Ended<br>November 30, |                 |
|----------------------------|---|---|-----------------|
|                            |   | 2013  | 2012            |
| Commodity contracts        | Cost of good sold                                   | \$ (394)  | \$ 2,420        |
| Foreign exchange contracts | Miscellaneous expense                               | -   | 1,084           |
| <b>Total</b>               |   | <b>\$ (394)</b>   | <b>\$ 3,504</b> |

The following table summarizes the gain (loss) recognized in earnings for economic (non-designated) derivative financial instruments during the six months ended November 30, 2013 and 2012:

| (in thousands)             | Location of Income (Loss)<br>Recognized in Earnings | Income (Loss) Recognized<br>in Earnings for the<br>Six Months Ended<br>November 30, |                 |
|----------------------------|---|---|-----------------|
|                            |   | 2013  | 2012            |
| Commodity contracts        | Cost of good sold                                   | \$ 282  | \$ 4,233        |
| Foreign exchange contracts | Miscellaneous expense                               | (5)   | 221             |
| <b>Total</b>               |   | <b>\$ 277</b>   | <b>\$ 4,454</b> |

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

**NOTE O 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:

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

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

At November 30, 2013, our financial assets and liabilities measured at fair value on a recurring basis were as follows:

| (in thousands)            | Quoted Prices<br>in Active<br>Markets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Totals   |
|---------------------------|--|---|--|----------|
| <b><u>Assets</u></b>      |  |   |  |          |
| Derivative contracts      | \$ -   | \$ 3,175  | \$ -   | \$ 3,175 |
| Total assets              | \$ -   | \$ 3,175  | \$ -   | \$ 3,175 |
| <b><u>Liabilities</u></b> |  |   |  |          |
| Derivative contracts      | \$ -   | \$ 6,446  | \$ -   | \$ 6,446 |
| Total liabilities         | \$ -   | \$ 6,446  | \$ -   | \$ 6,446 |

At May 31, 2013, our financial assets and liabilities measured at fair value on a recurring basis were as follows:

| (in thousands)            | Quoted Prices<br>in Active<br>Markets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Totals   |
|---------------------------|--|---|--|----------|
| <b><u>Assets</u></b>      |  |   |  |          |
| Derivative contracts      | \$ -   | \$ 761  | \$ -   | \$ 761   |
| Total assets              | \$ -   | \$ 761  | \$ -   | \$ 761   |
| <b><u>Liabilities</u></b> |  |   |  |          |
| Derivative contracts      | \$ -   | \$ 9,774  | \$ -   | \$ 9,774 |
| Total liabilities         | \$ -   | \$ 9,774  | \$ -   | \$ 9,774 |

**Non-Recurring Fair Value Measurements**

At November 30, 2013, our financial assets and liabilities measured at fair value on a non-recurring basis were as follows:

| (in thousands) | Quoted Prices<br>in Active<br>Markets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Totals |
|----------------|--|---|--|--------|
|----------------|--|---|--|--------|

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| <b>Assets</b>                           |           |          |           |          |           |          |           |          |
|---|-----------|----------|-----------|----------|-----------|----------|-----------|----------|
| Long-lived assets held and used (1) (2) | \$        | -        | \$        | -        | \$        | -        | \$        | -        |
| <b>Total assets</b>                     | <b>\$</b> | <b>-</b> | <b>\$</b> | <b>-</b> | <b>\$</b> | <b>-</b> | <b>\$</b> | <b>-</b> |

- (1) During the first quarter of fiscal 2014, we determined that certain indicators of impairment were present with regard to certain non-core Steel Processing assets. Recoverability of the identified asset group was tested using future cash flow projections based on management's estimate of market conditions. The sum

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of these undiscounted future cash flows was less than the net book value of the asset group. The net book value was also determined to be in excess of fair value and, accordingly, the asset group was written down to its fair value of \$11,827,000, resulting in an impairment charge of \$4,641,000. Fair value was determined based on market prices for similar assets.

- (2) During the second quarter of fiscal 2014, we committed to a re-branding initiative. Under the re-branding initiative, we will re-brand substantially all of our businesses under the Worthington Industries name. In connection with the change in branding strategy, we plan to discontinue the use of all non-Worthington trade names except those related to products such as BernzOmatic® and Balloon Time® and those related to our joint ventures. As no future cash flows will be attributed to the impacted trade names, the entire book value was written-off, resulting in an impairment charge of \$30,734,000. Fair value was determined using unobservable (Level 3) inputs.

At May 31, 2013, our assets measured at fair value on a non-recurring basis were categorized as follows:

| (in thousands)                      | Quoted Prices<br>in Active<br>Markets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Totals   |
|-------------------------------------|--|---|--|----------|
| <b>Assets</b>                       |  |   |  |          |
| Long-lived assets held and used (1) | \$ -   | \$ 6,856  | \$ -   | \$ 6,856 |
| Total assets                        | \$ -   | \$ 6,856  | \$ -   | \$ 6,856 |

- (1) During the fourth quarter of fiscal 2013, the long-lived assets of our 60%-owned consolidated joint venture in India, WNCL, were written down to their fair value of \$6,856,000, resulting in an impairment charge of \$4,968,000. This impairment loss was recorded within impairment of long-lived assets in our consolidated statement of earnings. The portion of this impairment loss attributable to the noncontrolling interest, or \$1,987,000, is recorded within net earnings attributable to noncontrolling interest in our consolidated statement of earnings. Fair value was determined based on market prices for similar assets.

The fair value of our foreign currency contracts, commodity contracts and interest rate 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 N Derivative Instruments and Hedging Activities for additional information regarding our use of derivative instruments.

The fair value included in the carrying amounts of cash and cash equivalents, receivables, income taxes receivable, other assets, deferred income taxes, 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 \$394,003,000 and \$421,056,000 at November 30, 2013 and May 31, 2013, respectively. The carrying amount of long-term debt, including current maturities, was \$406,767,000 and \$407,328,000 at November 30, 2013 and May 31, 2013, respectively.

**NOTE P Subsequent Events**

On December 10, 2013, the Company announced to its employees that its Baltimore steel facility will be closing by the end of fiscal 2014. With the consolidation of the steel industry, many of the mills that previously supplied the Baltimore facility have closed, negatively impacting the supply chain there. The Company has concluded that it can more efficiently service its customers in the Mid-Atlantic Region from other Worthington facilities and processing partners, and believes it will retain most of the business.

Production at Baltimore will wind down over the coming months. Employees there will have the opportunity to apply for job openings at other Worthington facilities. For employees who will not continue with the Company, severance and outplacement services will be provided.





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The Company does not expect the net effect from the wind down and closure of the Baltimore facility to have a material impact on its financial position or results of operation.

On January 6, 2014, the Company announced that its Pressure Cylinders operating segment signed an agreement to acquire a 75% interest in ARITAS, one of Europe's leading liquefied natural gas (LNG) and cryogenic technology companies. ARITAS offers a broad portfolio of LNG products, cryogenic vessels, systems and services and is located in Istanbul, Turkey. The transaction is awaiting Turkish government approval, which is expected to be completed later this month.

### **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, 2013.*

#### ***Introduction***

The following discussion and analysis of market and industry trends, business developments, and the results of operations and financial position of Worthington Industries, Inc., together with its subsidiaries (collectively, we, our, Worthington, or our Company), should be read in conjunction with our consolidated financial statements and notes thereto included in Item 1. Financial Statements of this Quarterly Report on Form 10-Q. Our Annual Report on Form 10-K for the fiscal year ended May 31, 2013 (fiscal 2013) includes additional information about Worthington, our operations and our financial position and should be read in conjunction with this Quarterly Report on Form 10-Q.

We are primarily a diversified metals manufacturing company, focused on value-added steel processing and manufactured metal products. As of November 30, 2013, excluding our joint ventures, we operated 35 manufacturing facilities worldwide, principally in three 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 the Construction Services and Worthington Energy Innovations operating segments.

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

We also held equity positions in 11 joint ventures, which operated 47 manufacturing facilities worldwide, as of November 30, 2013.

#### ***Overview***

The Company's performance during the second quarter of fiscal 2014 was solid, driven by a strong performance in Steel Processing and modest growth in Pressure Cylinders and several joint ventures, partially offset by weakness in Engineered Cabs. Net earnings in the current quarter include non-cash, pre-tax impairment charges of \$30.7 million related to the write-off of certain trade name assets in connection with a branding initiative launched during the quarter to re-brand substantially all of the Company's businesses under the Worthington Industries name. Net earnings also include the impact of a pre-tax gain of \$2.5 million within miscellaneous income related to insurance proceeds received during the quarter for property damaged in a fire at the Company's Pressure Cylinders facility in Austria on August 19, 2013.

Volumes were mixed in the second quarter. Pressure Cylinders volumes were down 9%; however, a more favorable product mix due to a shift to higher priced, lower volume tanks led to a 3% increase in net sales. Steel Processing volumes were up over 30%, driven by contributions from the consolidation of TWB and improvements in the automotive, construction and agriculture markets. Excluding the impact of TWB, Steel Processing volumes were up 16%. Refer to **Recent Business Developments** below for additional information regarding the acquisition of an additional 10% interest in TWB.

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Engineered Cabs continues to experience soft demand due to lower volumes from key customers. We are responding to the current environment and are implementing a plan to adjust costs accordingly without sacrificing production capacity.

Equity in net income of unconsolidated affiliates ( equity income ) during the quarter was down 16% compared to the prior year period. The decrease was driven primarily by the consolidation of TWB on July 31, 2013. Since that date, TWB's results have been consolidated versus reported in equity income. All of our joint ventures operated at a profit during the quarter, led by WAVE, ClarkDietrich, and WSP, which contributed \$15.6 million, \$2.3 million, and \$1.5 million of equity income, respectively. The equity portion of income from WSP and WAVE exceeded the prior year quarter by \$1.0 million and \$0.8 million, respectively. We received \$21.2 million in distributions from our unconsolidated affiliates during the quarter.

The Company continues its strategy of optimizing existing operations through the Transformation, pursuing growth opportunities that add to our current businesses, and developing new products through innovation. Our Transformation efforts within Pressure Cylinders, which were initiated in the first quarter of fiscal 2012, continue to gain traction and increase in scope. The efforts in our industrial and retail segments in particular are helping to drive recent steady quarterly improvements in our operating margins. Additionally, during the first quarter of fiscal 2013, we initiated the diagnostics phase of the Transformation Plan in our Engineered Cabs operating segment, and these efforts are progressing through each facility.

### ***Recent Business Developments***

On July 31, 2013, we acquired an additional 10% interest in our laser welded blanks joint venture, TWB, increasing our ownership to a 55% controlling interest. As a result, TWB's results have been consolidated within Steel Processing since that date, with the minority member's portion of earnings eliminated within earnings attributable to noncontrolling interest. This transaction was accounted for as a step acquisition, which required that we re-measure our previously held 45% ownership interest to fair value and record the difference between fair value and carrying value as a gain in our consolidated statement of earnings. The re-measurement to fair value resulted in a non-cash pre-tax gain of \$11.0 million, which is included in miscellaneous income in our consolidated statement of earnings for the six months ended November 30, 2013.

During the second quarter of fiscal 2014, we repurchased a total of 500,000 common shares for \$19.8 million at an average price of \$39.60.

During the second quarter of fiscal 2014, we committed to a re-branding initiative to brand substantially all of our businesses under the Worthington Industries name. In connection with the branding strategy, the Company plans to discontinue the use of non-Worthington trade names except for retail brand names including BernzOmatic® and Balloon Time® and those related to our joint ventures. As a result, the Company recognized an impairment charge of \$30.7 million during the quarter ended November 30, 2013.

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

On November 12, 2013, we entered into an agreement to sell the operating assets related to our steel high pressure and acetylene cylinders business in North America. The Company recognized a net gain of \$2.0 million in connection with this transaction.

On December 10, 2013, the Company announced to its employees that its Baltimore steel facility will be closing by the end of fiscal 2014. With the consolidation of the steel industry, many of the mills that previously supplied the Baltimore facility have closed, negatively impacting the supply chain there. The Company has concluded that it can more efficiently service its customers in the Mid-Atlantic Region from other Worthington facilities and processing partners, and believes it will retain most of the business.



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On December 18, 2013, the board of directors declared a quarterly dividend of \$0.15 per share payable on March 28, 2014 to shareholders of record at March 14, 2014.

On January 6, 2014, the Company announced that its Pressure Cylinders operating segment signed an agreement to acquire a 75% interest in ARITAS, one of Europe's leading liquefied natural gas (LNG) and cryogenic technology companies. ARITAS offers a broad portfolio of LNG products, cryogenic vessels, systems and services and is located in Istanbul, Turkey. The transaction is awaiting Turkish government approval, which is expected to be completed later this month.

### ***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 second quarter of fiscal 2014 and fiscal 2013 is illustrated in the following chart:

The automotive industry is one of the largest consumers of flat-rolled steel, and thus the largest end market for our Steel Processing operating segment. Approximately 60% of the net sales of our Steel Processing operating segment are to the automotive market. North American vehicle production, primarily by Chrysler, Ford and General Motors (the Detroit Three automakers), has a considerable impact on the activity within this operating segment. The majority of the net sales of four of our unconsolidated joint ventures are also to the automotive end market. The increase in the portion of total net sales made to the automotive market shown in the table above was driven primarily by the consolidation of TWB on July 31, 2013.

Approximately 9% of the net sales of our Steel Processing operating segment, 55% 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 three of our unconsolidated joint ventures: WAVE, ClarkDietrich and WMSFMCo. 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 trends in the relative price of framing lumber and steel.

Substantially all of the net sales of our Pressure Cylinders operating segment, and approximately 31% and 45% of the net sales of our Steel Processing and Engineered Cabs operating segments, respectively, are to other markets such as retail, industrial, lawn and garden, agriculture, energy, heavy truck, mining, forestry and appliance. Given the many different products that make up these net sales and the wide variety of end markets, it is very difficult to detail the key market indicators that drive this portion of our business. However, we believe that the trend in U.S. GDP growth is a good economic indicator for analyzing these operating segments.

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

|  | Three Months Ended<br>November 30, |         |                | Six Months Ended<br>November 30, |         |                |
|--|------------------------------------|---------|----------------|----------------------------------|---------|----------------|
|  | 2013                               | 2012    | Inc /<br>(Dec) | 2013                             | 2012    | Inc /<br>(Dec) |
| U.S. GDP (% growth year-over-year) <sup>1</sup>            | 1.8%                               | 2.6%    | -0.8%          | 1.7%                             | 2.8%    | -1.1%          |
| Hot-Rolled Steel (\$ per ton) <sup>2</sup>                 | \$ 651                             | \$ 622  | \$ 29          | \$ 639                           | \$ 619  | \$ 20          |
| Detroit Three Auto Build (000 s vehicles) <sup>3</sup>     | 2,455                              | 2,211   | 244            | 4,555                            | 4,280   | 275            |
| No. America Auto Build (000 s vehicles) <sup>3</sup>       | 4,350                              | 4,032   | 318            | 8,213                            | 7,834   | 379            |
| Zinc (\$ per pound) <sup>4</sup>                           | \$ 0.85                            | \$ 0.91 | (\$ 0.06)      | \$ 0.85                          | \$ 0.87 | (\$ 0.02)      |
| Natural Gas (\$ per mcf) <sup>5</sup>                      | \$ 3.63                            | \$ 3.26 | \$ 0.37        | \$ 3.63                          | \$ 3.00 | \$ 0.63        |
| On-Highway Diesel Fuel Prices (\$ per gallon) <sup>6</sup> | \$ 3.89                            | \$ 4.07 | (\$ 0.18)      | \$ 3.88                          | \$ 3.95 | (\$ 0.07)      |

<sup>1</sup> 2012 figures based on revised actuals <sup>2</sup> CRU Index; period average <sup>3</sup> IHS Global <sup>4</sup> LME Zinc; period average <sup>5</sup> NYMEX Henry Hub Natural Gas; period average <sup>6</sup> Energy Information Administration; period average

U.S. GDP growth rate trends are generally indicative of the strength in demand for our products. A year-over-year increase in U.S. GDP growth rates is indicative of an improving economy, which generally increases demand for our products. Conversely, decreasing U.S. GDP growth rates generally have the opposite effect. Changes in U.S. GDP growth rates can also signal changes in conversion costs related to production and in 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 to cover current replacement costs.

The following table presents the average quarterly market price per ton of hot-rolled steel during fiscal 2014 (first and second quarters), fiscal 2013, and fiscal 2012:

| (Dollars per ton <sup>1</sup> ) | Fiscal Year |        |        | Increase / (Decrease) |               |         |        |
|---------------------------------|-------------|--------|--------|-----------------------|---------------|---------|--------|
|                                 | 2014        | 2013   | 2012   | 2014 vs. 2013         | 2013 vs. 2012 |         |        |
| 1st Quarter                     | \$ 627      | \$ 616 | \$ 709 | \$ 11                 | 1.8%          | (\$ 93) | -13.1% |
| 2nd Quarter                     | \$ 651      | \$ 622 | \$ 660 | \$ 29                 | 4.7%          | (\$ 38) | -5.8%  |
| 3rd Quarter                     | N/A         | \$ 629 | \$ 718 | N/A                   | N/A           | (\$ 89) | -12.4% |
| 4th Quarter                     | N/A         | \$ 595 | \$ 684 | N/A                   | N/A           | (\$ 89) | -13.0% |
| Annual Avg.                     | N/A         | \$ 616 | \$ 693 | N/A                   | N/A           | (\$ 77) | -11.1% |

<sup>1</sup> CRU Hot-Rolled Index Average

No single customer contributed more than 10% of our consolidated net sales during the second quarter of fiscal 2014. 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 second quarter of fiscal 2014, vehicle production for the Detroit Three automakers was up 11% over the comparable period in the prior year. Additionally, North American vehicle production during the second quarter of fiscal 2014 increased 8% over the comparable period in the prior year.

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

**Table of Contents****Results of Operations****Second Quarter Fiscal 2014 Compared to Fiscal 2013****Consolidated Operations**

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

| (Dollars in millions)                                    | Three Months Ended November 30, |                   |          |                   |                         |
|--|---------------------------------|-------------------|----------|-------------------|-------------------------|
|  | 2013                            | % of<br>Net sales | 2012     | % of<br>Net sales | Increase/<br>(Decrease) |
| Net sales  | \$ 769.9                        | 100.0%            | \$ 622.6 | 100.0%            | \$ 147.3                |
| Cost of goods sold                                       | 641.7                           | 83.3%             | 527.8    | 84.8%             | 113.9                   |
| <b>Gross margin</b>                                      | 128.2                           | 16.7%             | 94.8     | 15.2%             | 33.4                    |
| Selling, general and administrative expense              | 78.4                            | 10.2%             | 65.1     | 10.5%             | 13.3                    |
| Impairment of long-lived assets                          | 30.7                            | 4.0%              | (0.1)    | 0.0%              | 30.8                    |
| Restructuring and other expense (income)                 | (1.2)                           | -0.2%             | 1.3      | 0.2%              | (2.5)                   |
| Joint venture transactions                               | 0.8                             | 0.1%              | (0.3)    | 0.0%              | 1.1                     |
| <b>Operating income</b>                                  | 19.5                            | 2.5%              | 28.8     | 4.6%              | (9.3)                   |
| Miscellaneous income                                     | 2.5                             | 0.3%              | 0.3      | 0.0%              | 2.2                     |
| Interest expense   | (6.3)                           | -0.8%             | (6.3)    | -1.0%             | -                       |
| Equity in net income of unconsolidated affiliates        | 21.1                            | 2.7%              | 25.2     | 4.0%              | (4.1)                   |
| Income tax expense                                       | (8.5)                           | -1.1%             | (15.4)   | -2.5%             | (6.9)                   |
| <b>Net earnings</b>                                      | 28.3                            | 3.7%              | 32.6     | 5.2%              | (4.3)                   |
| Net earnings attributable to noncontrolling interest     | (5.3)                           | -0.7%             | (0.8)    | -0.1%             | 4.5                     |
| <b>Net earnings attributable to controlling interest</b> | \$ 23.0                         | 3.0%              | \$ 31.8  | 5.1%              | \$ (8.8)                |

Net earnings attributable to controlling interest for the three months ended November 30, 2013 decreased \$8.8 million from the comparable period in the prior year. Net sales and operating highlights were as follows:

Net sales increased \$147.3 million from the comparable period in the prior year. Higher overall volumes, aided by the impact of acquisitions, favorably impacted net sales by \$160.0 million. The impact of higher overall volumes was partially offset by lower average selling prices, which negatively impacted net sales by \$12.7 million.

Gross margin increased \$33.4 million from the comparable period in the prior year. The increase was primarily the result of higher overall volumes and the favorable impact of inventory holding gains in Steel Processing in the current quarter, compared to inventory holding losses in the prior year quarter.

SG&A expense increased \$13.3 million from the comparable period in the prior year, primarily due to the impact of acquisitions and higher profit sharing and bonus expense.

Impairment charges of \$30.7 million related to the write-off of certain trade name intangible assets in connection with the branding initiative committed to during the quarter, as more fully described under **Recent Business Developments** above. For additional



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information, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE O Fair Value of this Quarterly Report on Form 10-Q.

Restructuring income of \$1.2 million was driven by a \$2.0 million net gain on the sale of our North American steel high pressure and acetylene cylinders business, partially offset by \$0.7 million of facility exit costs incurred in connection with the wind-down of our commercial stairs business. For additional information regarding our restructuring activities, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE C Restructuring and Other Expense (Income) of this Quarterly Report on Form 10-Q.

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In connection with the wind-down of our metal framing business, we recognized net charges of \$0.8 million within the joint venture transactions financial statement caption. This amount consisted primarily of facility exit costs. For additional information, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE A Basis of Presentation and NOTE C Restructuring and Other Expense (Income) of this Quarterly Report on Form 10-Q.

Interest expense of \$6.3 million was flat relative to the comparable period in the prior year, as average debt levels and average interest rates were relatively consistent.

Miscellaneous income of \$2.5 million was driven almost entirely by a gain related to insurance proceeds received during the quarter for property and equipment damaged in a fire at our Pressure Cylinders facility in Austria on August 19, 2013.

Equity income decreased \$4.1 million from the comparable period in the prior year. The decrease was driven primarily by the consolidation of TWB on July 31, 2013. Since that date, TWB's results have been consolidated versus reported in equity income. TWB contributed \$3.8 million to equity income during the prior year period. All joint ventures posted positive results, led by WAVE, ClarkDietrich, and WSP, which contributed \$15.6 million, \$2.3 million, and \$1.5 million of equity income, respectively. The equity portion of income from WSP and WAVE exceeded the prior year quarter by \$1.0 million and \$0.8 million, respectively. 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 decreased \$6.9 million from the comparable period in the prior year due to lower earnings, primarily resulting from the trade name impairment charges recorded in the current quarter. Refer to Item 1. Financial Statements Notes to Consolidated Financial Statements Note O - Fair Value for additional information. The current quarter expense of \$8.5 million was calculated using an estimated annual effective rate of 27.8% versus 32.7% in the prior year quarter. See Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE J Income Taxes of this Quarterly Report on Form 10-Q for more information on our tax rates.

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

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

| (Dollars in millions)                       | Three Months Ended November 30, |                   |          |                   |                         |
|---|---------------------------------|-------------------|----------|-------------------|-------------------------|
|   | 2013                            | % of<br>Net sales | 2012     | % of<br>Net sales | Increase/<br>(Decrease) |
| Net sales                                   | \$ 492.1                        | 100.0%            | \$ 344.1 | 100.0%            | \$ 148.0                |
| Cost of goods sold                          | 422.7                           | 85.9%             | 302.8    | 88.0%             | 119.9                   |
| <b>Gross margin</b>                         | 69.4                            | 14.1%             | 41.3     | 12.0%             | 28.1                    |
| Selling, general and administrative expense | 34.6                            | 7.0%              | 27.5     | 8.0%              | 7.1                     |
| <b>Operating income</b>                     | \$ 34.8                         | 7.1%              | \$ 13.8  | 4.0%              | \$ 21.0                 |
| Material cost                               | \$ 349.8                        |                   | \$ 243.1 |                   | \$ 106.7                |
| Tons shipped (in thousands)                 | 817                             |                   | 626      |                   | 191                     |

Net sales and operating highlights were as follows:

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Net sales increased \$148.0 million from the comparable period in the prior year. Higher volumes resulting from the consolidation of TWB and increased sales in the automotive, construction and agriculture markets favorably impacted net sales by \$155.8 million. Excluding the impact of TWB, overall volumes were up 16% and the mix of direct versus toll tons processed was 57% to 43%, compared to 55% to 45% in the comparable quarter of the prior year.

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Operating income increased by \$21.0 million from the prior year quarter due primarily to higher overall volumes and the positive impact of inventory holding gains in the current quarter compared to inventory holding losses in the prior year quarter.

**Pressure Cylinders**

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

| (Dollars in millions)                       | Three Months Ended November 30, |                   |          |                   |                         |
|---|---------------------------------|-------------------|----------|-------------------|-------------------------|
|   | 2013                            | % of<br>Net sales | 2012     | % of<br>Net sales | Increase/<br>(Decrease) |
| Net sales                                   | \$ 214.0                        | 100.0%            | \$ 207.5 | 100.0%            | \$ 6.5                  |
| Cost of goods sold                          | 163.3                           | 76.3%             | 164.4    | 79.2%             | (1.1)                   |
| <b>Gross margin</b>                         | 50.7                            | 23.7%             | 43.1     | 20.8%             | 7.6                     |
| Selling, general and administrative expense | 32.6                            | 15.2%             | 25.9     | 12.5%             | 6.7                     |
| Impairment of long-lived assets             | 11.6                            | 5.4%              | 0.1      | 0.0%              | 11.5                    |
| Restructuring and other income              | (1.8)                           | -0.9%             | -        | 0.0%              | (1.8)                   |
| <b>Operating income</b>                     | \$ 8.3                          | 3.9%              | \$ 17.1  | 8.2%              | \$ (8.8)                |
| Material cost                               | \$ 95.2                         |                   | \$ 97.6  |                   | \$ (2.4)                |
| Units shipped (in thousands)                | 17,694                          |                   | 19,496   |                   | (1,802)                 |

Net sales and operating highlights were as follows:

Net sales increased \$6.5 million from the comparable period in the prior year, as the favorable impact of recent acquisitions was partially offset by softness in the retail market segment and our European cylinder operations.

Operating income decreased \$8.8 million from the prior year quarter, as the improvement in gross margin was more than offset by trade name impairment charges of \$11.6 million and an increase in SG&A expense due to the impact of acquisitions and an increase in corporate allocated expenses. The improvement in gross margin was driven by contributions from recent acquisitions, which resulted in a more favorable product mix. Operating income in the current period was also favorably impacted by a \$2.0 million net gain on the sale of the Company's North American steel high pressure and acetylene cylinders business. For additional information regarding the trade name impairment charges, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE O Fair Value of this Quarterly Report on Form 10-Q.

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

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

| (Dollars in millions)                       | Three Months Ended November 30, |                   |         |                   |                         |
|---|---------------------------------|-------------------|---------|-------------------|-------------------------|
|   | 2013                            | % of<br>Net sales | 2012    | % of<br>Net sales | Increase/<br>(Decrease) |
| Net sales                                   | \$ 47.9                         | 100.0%            | \$ 57.8 | 100.0%            | \$ (9.9)                |
| Cost of goods sold                          | 41.6                            | 86.8%             | 49.7    | 86.0%             | (8.1)                   |
| <b>Gross margin</b>                         | 6.3                             | 13.2%             | 8.1     | 14.0%             | (1.8)                   |
| Selling, general and administrative expense | 8.1                             | 16.9%             | 7.5     | 13.0%             | 0.6                     |
| Impairment of long-lived assets             | 19.1                            | 39.9%             | -       | 0.0%              | 19.1                    |
| <b>Operating income (loss)</b>              | \$ (20.9)                       | -43.6%            | \$ 0.6  | 1.0%              | \$ (21.5)               |
| <b>Material cost</b>                        | \$ 21.5                         |                   | \$ 29.9 |                   | \$ (8.4)                |

Net sales and operating highlights were as follows:

Net sales decreased \$9.9 million from the comparable period in the prior year driven by lower volumes and the impact of lower average selling prices.

Operating loss of \$20.9 million represents a \$21.5 million decrease from the operating income of \$0.6 million in the prior year. The decrease was driven primarily by a \$19.1 million impairment charge related to trade names impacted by the re-branding strategy. Lower volumes and higher SG&A expense drove the remainder of the decrease. For additional information regarding the trade name impairment charge, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE O Fair Value of this Quarterly Report on Form 10-Q.

**Other**

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

| (Dollars in millions)                       | Three Months Ended November 30, |                   |          |                   |                         |
|---|---------------------------------|-------------------|----------|-------------------|-------------------------|
|   | 2013                            | % of<br>Net sales | 2012     | % of<br>Net sales | Increase/<br>(Decrease) |
| Net sales                                   | \$ 15.9                         | 100.0%            | \$ 13.2  | 100.0%            | \$ 2.7                  |
| Cost of goods sold                          | 14.1                            | 88.7%             | 10.9     | 82.6%             | 3.2                     |
| <b>Gross margin</b>                         | 1.8                             | 11.3%             | 2.3      | 17.4%             | (0.5)                   |
| Selling, general and administrative expense | 3.0                             | 18.9%             | 3.9      | 29.5%             | (0.9)                   |
| Restructuring and other expense             | 0.7                             | 4.4%              | 1.3      | 9.8%              | (0.6)                   |
| Joint venture transactions                  | 0.8                             | 5.0%              | (0.3)    | -2.3%             | 1.1                     |
| <b>Operating loss</b>                       | \$ (2.7)                        | -17.0%            | \$ (2.6) | -19.7%            | \$ (0.1)                |

Net sales and operating highlights were as follows:

Net sales increased \$2.7 million from the comparable period in the prior year, due primarily to improvement in the Energy Innovations business.

Operating loss increased slightly from the comparable period in the prior year, as the improvement in the Energy Innovations business was offset by higher restructuring charges resulting from the wind down of the commercial stairs and metal framing businesses.

**Table of Contents****Six Months Year-to-Date Fiscal 2014 Compared to Fiscal 2013****Consolidated Operations**

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

| (Dollars in millions)                                    | Six Months Ended November 30, |                   |                |                   |                         |
|--|-------------------------------|-------------------|----------------|-------------------|-------------------------|
|  | 2013                          | % of<br>Net sales | 2012           | % of<br>Net sales | Increase/<br>(Decrease) |
| Net sales  | \$ 1,462.2                    | 100.0%            | \$ 1,288.7     | 100.0%            | \$ 173.5                |
| Cost of goods sold                                       | 1,223.0                       | 83.6%             | 1,100.2        | 85.4%             | 122.8                   |
| <b>Gross margin</b>                                      | <b>239.2</b>                  | <b>16.4%</b>      | <b>188.5</b>   | <b>14.6%</b>      | <b>50.7</b>             |
| Selling, general and administrative expense              | 149.9                         | 10.3%             | 124.5          | 9.7%              | 25.4                    |
| Impairment of long-lived assets                          | 35.4                          | 2.4%              | 1.5            | -                 | 33.9                    |
| Restructuring and other expense (income)                 | (5.1)                         | -0.3%             | 1.7            | 0.1%              | (6.8)                   |
| Joint venture transactions                               | 0.9                           | 0.1%              | (1.4)          | -0.1%             | 2.3                     |
| <b>Operating income</b>                                  | <b>58.1</b>                   | <b>4.0%</b>       | <b>62.2</b>    | <b>4.8%</b>       | <b>(4.1)</b>            |
| Miscellaneous income                                     | 13.4                          | 0.9%              | 0.5            | 0.0%              | 12.9                    |
| Interest expense   | (12.5)                        | -0.9%             | (11.6)         | -0.9%             | 0.9                     |
| Equity in net income of unconsolidated affiliates        | 48.0                          | 3.3%              | 47.9           | 3.7%              | 0.1                     |
| Income tax expense                                       | (22.4)                        | -1.5%             | (31.5)         | -2.4%             | (9.1)                   |
| <b>Net earnings</b>                                      | <b>84.6</b>                   | <b>5.8%</b>       | <b>67.5</b>    | <b>5.2%</b>       | <b>17.1</b>             |
| Net earnings attributable to noncontrolling interest     | (7.1)                         | -0.5%             | (1.7)          | -0.1%             | 5.4                     |
| <b>Net earnings attributable to controlling interest</b> | <b>\$ 77.5</b>                | <b>5.3%</b>       | <b>\$ 65.8</b> | <b>5.1%</b>       | <b>\$ 11.7</b>          |

Net earnings attributable to controlling interest for the six months ended November 30, 2013 increased \$11.7 million over the comparable period in the prior year. Net sales and operating highlights were as follows:

Net sales increased \$173.5 million from the comparable period in the prior year. Higher overall volumes, aided by the impact of acquisitions, favorably impacted net sales by \$214.5 million. The impact of higher overall volumes was partially offset by lower average selling prices, which negatively impacted net sales by \$41.0 million.

Gross margin increased \$50.7 million from the comparable period in the prior year due to the aforementioned increase in volumes and a higher spread between average selling prices and material costs due in part to the favorable impact of inventory holding gains in Steel Processing in the current year period, compared to inventory holding losses in the prior year period.

SG&A expense increased \$25.4 million from the comparable period in the prior year due primarily to the impact of acquisitions, higher profit sharing and bonus expense and a \$2.0 million legal accrual related to a product liability matter within Pressure Cylinders. For additional information, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE D Contingent Liabilities of this Quarterly Report on Form 10-Q.

Impairment charges of \$35.4 million consisted of \$30.7 million related to the write-off of certain trade name intangible assets in connection with the branding initiative committed to during the second quarter of fiscal 2014 and \$4.7 million related to certain

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non-core assets within Steel Processing. For additional information, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE O Fair Value of this Quarterly Report on Form 10-Q.

Restructuring income of \$5.1 million was driven by \$6.8 million of net gains on the sale of assets, including \$4.8 million related to the sale of our Integrated Terminals warehouse facility in Detroit, Michigan, and \$2.0 million related to the sale of our North American steel high pressure and acetylene cylinders business. The impact of these items was partially offset by \$0.6 million of accrued severance costs associated with the consolidation of our BernzOmatic hand torch manufacturing operation in Medina, New York into our facility in Chilton, Wisconsin, and \$1.0 million of facility exit costs related to the wind-down of our commercial stairs business. For additional information regarding our restructuring activities, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE C Restructuring and Other Expense (Income) of this Quarterly Report on Form 10-Q.



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In connection with the wind-down of our former Metal Framing operating segment, we recognized net charges of \$0.9 million within the joint venture transactions financial statement caption. This amount consisted primarily of facility exit costs. For additional information, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE A Basis of Presentation and NOTE C Restructuring and Other Expense (Income) of this Quarterly Report on Form 10-Q.

Interest expense of \$12.5 million was \$0.9 million higher than the comparable period in the prior year, primarily due to the impact of higher average interest rates.

Equity income was essentially flat relative to the comparable period in the prior year, as the impact of the consolidation of TWB substantially offset the overall improvement from our other joint ventures. All joint ventures posted positive results, led by WAVE, ClarkDietrich, and WSP, which contributed \$35.3 million, \$5.1 million, and \$2.3 million of equity income, respectively. The equity portion of income from ClarkDietrich, WAVE and WSP exceeded the prior year period by \$2.3 million, \$2.1 million and \$1.4 million, respectively. TWB's contribution to equity income decreased \$4.6 million, as only two months of activity are reflected in the current year-to-date period due to our acquisition of an additional 10% ownership interest on July 31, 2013. Since that date, TWB's results have been consolidated versus reported in equity income. 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 decreased \$9.1 million from the comparable period in the prior year due primarily to higher forecasted tax credits, a higher forecasted deduction for qualified production activities income, and the impact of several discrete tax adjustments recorded in the current period. The significant discrete tax adjustments recorded in the current period included: (i) a \$11.2 million favorable adjustment associated with trade name impairment charges (refer to Item 1. Financial Statements Notes to Consolidated Financial Statements Note O - Fair Value for additional information), (ii) a \$1.2 million favorable adjustment for the difference between the actual tax credit earned by one of the Company's joint ventures and the original amount estimated in the prior year, (iii) a \$4.5 million reduction in the estimated U.S. deferred tax liability primarily associated with the unremitted earnings of foreign corporations owned by TWB resulting from acquiring control of TWB (refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE M - Acquisitions for additional information), and (iv) a \$1.4 million deferred tax liability associated with the gain recorded in the TWB transaction. Tax expense of \$22.4 million for the six months was calculated using an estimated annual effective rate of 27.8% versus 32.7% in the prior year comparable period. See Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE J Income Taxes of this Quarterly Report on Form 10-Q for more information on our tax rates.

**Table of Contents****Segment Operations****Steel Processing**

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

| (Dollars in millions)                       | Six Months Ended November 30, |                   |          |                   |                         |
|---|-------------------------------|-------------------|----------|-------------------|-------------------------|
|   | 2013                          | % of<br>Net sales | 2012     | % of<br>Net sales | Increase/<br>(Decrease) |
| Net sales                                   | \$ 894.6                      | 100.0%            | \$ 729.1 | 100.0%            | \$ 165.5                |
| Cost of goods sold                          | 773.8                         | 86.5%             | 644.6    | 88.4%             | 129.2                   |
| <b>Gross margin</b>                         | 120.8                         | 13.5%             | 84.5     | 11.6%             | 36.3                    |
| Selling, general and administrative expense | 63.5                          | 7.1%              | 54.0     | 7.4%              | 9.5                     |
| Restructuring and other income              | (0.1)                         | 0.0%              | -        | 0.0%              | (0.1)                   |
| <b>Operating income</b>                     | \$ 57.4                       | 6.4%              | \$ 30.5  | 4.2%              | \$ 26.9                 |
| Material cost                               | \$ 637.6                      |                   | \$ 525.2 |                   | \$ 112.4                |
| Tons shipped (in thousands)                 | 1,536                         |                   | 1,321    |                   | 215                     |

Net sales and operating highlights were as follows:

Net sales increased \$165.5 million from the comparable period in the prior year. Higher volumes resulting from the consolidation of TWB and increased sales in the automotive, construction and agriculture markets favorably impacted net sales by \$200.6 million, while lower base material prices in the first six months of fiscal 2014 led to decreased pricing for our products, negatively impacting net sales by \$35.1 million. Excluding the impact of TWB, overall volumes were up 8% and the mix of direct versus toll tons processed was 57% to 43%, compared to 55% to 45% in the comparable prior year period.

Operating income increased \$26.9 million from the comparable period in the prior year due primarily to higher overall volumes and the positive impact of inventory holding gains in the current period compared to inventory holding losses in the prior year period.

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

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

| (Dollars in millions)                       | Six Months Ended November 30, |                   |          |                   |                         |
|---|-------------------------------|-------------------|----------|-------------------|-------------------------|
|   | 2013                          | % of<br>Net sales | 2012     | % of<br>Net sales | Increase/<br>(Decrease) |
| Net sales                                   | \$ 430.9                      | 100.0%            | \$ 401.7 | 100.0%            | \$ 29.2                 |
| Cost of goods sold                          | 329.7                         | 76.5%             | 319.9    | 79.6%             | 9.8                     |
| <b>Gross margin</b>                         | 101.2                         | 23.5%             | 81.8     | 20.4%             | 19.4                    |
| Selling, general and administrative expense | 63.3                          | 14.7%             | 48.2     | 12.0%             | 15.1                    |
| Impairment of long-lived assets             | 11.6                          | 2.7%              | 1.5      | -                 | 10.1                    |
| Restructuring and other income              | (1.4)                         | -0.3%             | -        | -                 | (1.4)                   |
| <b>Operating income</b>                     | \$ 27.7                       | 6.4%              | \$ 32.1  | 8.0%              | \$ (4.4)                |
| Material cost                               | \$ 196.8                      |                   | \$ 189.6 |                   | \$ 7.2                  |
| Units shipped (in thousands)                | 38,541                        |                   | 40,965   |                   | (2,424)                 |

Net sales and operating highlights were as follows:

Net sales increased \$29.2 million from the comparable period in the prior year, as the favorable impact of recent acquisitions was partially offset by softness in the retail market segment and our European cylinder operations.

Operating income decreased \$4.4 million from prior year, as the improvement in gross margin was more than offset by trade name impairment charges of \$11.6 million and an increase in SG&A expense due to the impact of acquisitions and an increase in corporate allocated expenses. The improvement in gross margin was driven by contributions from recent acquisitions, which resulted in a more favorable product mix. The overall decrease in operating income in the current period was also partially offset by a \$2.0 million net gain on the sale of the Company's North American steel high pressure and acetylene cylinders business. For additional information regarding the trade name impairment charges, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE O Fair Value of this Quarterly Report on Form 10-Q.

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

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

| (Dollars in millions)                       | Six Months Ended November 30, |                   |          |                   |                         |
|---|-------------------------------|-------------------|----------|-------------------|-------------------------|
|   | 2013                          | % of<br>Net sales | 2012     | % of<br>Net sales | Increase/<br>(Decrease) |
| Net sales                                   | \$ 96.3                       | 100.0%            | \$ 122.3 | 100.0%            | \$ (26.0)               |
| Cost of goods sold                          | 83.4                          | 86.6%             | 102.5    | 83.8%             | (19.1)                  |
| <b>Gross margin</b>                         | 12.9                          | 13.4%             | 19.8     | 16.2%             | (6.9)                   |
| Selling, general and administrative expense | 15.0                          | 15.6%             | 14.5     | 11.9%             | 0.5                     |
| Impairment of long-lived assets             | 19.1                          | 19.8%             | -        | 0.0%              | 19.1                    |
| <b>Operating income (loss)</b>              | \$ (21.2)                     | -22.0%            | \$ 5.3   | 4.3%              | \$ (26.5)               |
| <b>Material cost</b>                        | \$ 43.6                       |                   | \$ 62.1  |                   | \$ (18.5)               |

Net sales and operating highlights were as follows:

Net sales decreased \$26.0 million from the comparable period in the prior year driven by lower volumes and the impact of lower average selling prices.

Operating loss of \$21.2 million represents a \$26.5 million decrease from the operating income of \$5.3 million in the prior year. The decrease was driven primarily by a \$19.1 million impairment charge related to trade names impacted by the re-branding strategy. Lower volumes and higher SG&A expense drove the remainder of the decrease. For additional information regarding the trade name impairment charge, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE O Fair Value of this Quarterly Report on Form 10-Q.

**Other**

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

| (Dollars in millions)                       | Six Months Ended November 30, |                   |          |                   |                         |
|---|-------------------------------|-------------------|----------|-------------------|-------------------------|
|   | 2013                          | % of<br>Net sales | 2012     | % of<br>Net sales | Increase/<br>(Decrease) |
| Net sales                                   | \$ 40.4                       | 100.0%            | \$ 35.5  | 100.0%            | \$ 4.9                  |
| Cost of goods sold                          | 36.1                          | 89.6%             | 33.1     | 93.2%             | 3.0                     |
| <b>Gross margin</b>                         | \$ 4.3                        | 10.6%             | \$ 2.4   | 6.8%              | 1.9                     |
| Selling, general and administrative expense | 8.2                           | 20.4%             | 7.8      | 22.0%             | 0.4                     |
| Restructuring and other expense             | 1.0                           | 2.4%              | 1.7      | 4.8%              | (0.7)                   |
| Joint venture transactions                  | 0.9                           | 2.1%              | (1.4)    | -3.9%             | 2.3                     |
| <b>Operating loss</b>                       | \$ (5.8)                      | -14.4%            | \$ (5.7) | -16.1%            | \$ (0.1)                |

Net sales and operating highlights were as follows:

Net sales increased \$4.9 million from the comparable period in the prior year, due primarily to improvement in the Energy Innovations business.

Operating loss increased slightly from the comparable period in the prior year to \$5.8 million, as the increase in gross margin was more than offset by higher restructuring charges and an increase in expenses related to the joint venture transactions. Restructuring charges in the current period consisted primarily of facility exit costs associated with the wind down of our commercial stairs business.

**Table of Contents*****Liquidity and Capital Resources***

During the six months ended November 30, 2013, we generated \$123.8 million of cash from operating activities, invested \$30.4 million in property, plant and equipment and received proceeds of \$23.7 million from the sale of assets. Additionally, we repurchased 1,380,500 of our common shares for \$50.3 million and repaid \$70.2 million of short-term borrowings. The following table summarizes our consolidated cash flows for the six months ended November 30, 2013 and 2012:

| (in millions)                                     | Six Months Ended<br>November 30, |                |
|---|----------------------------------|----------------|
|   | 2013                             | 2012           |
| Net cash provided by operating activities         | \$ 123.8                         | \$ 159.4       |
| Net cash provided (used) by investing activities  | 55.8                             | (71.1)         |
| Net cash used by financing activities             | (121.9)                          | (96.4)         |
| Increase (decrease) in cash and cash equivalents  | 57.7                             | (8.1)          |
| Cash and cash equivalents at beginning of period  | 51.4                             | 41.0           |
| <b>Cash and cash equivalents at end of period</b> | <b>\$ 109.1</b>                  | <b>\$ 32.9</b> |

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

The cash and cash equivalents balance at November 30, 2013 included \$57.4 million of cash held by subsidiaries outside of the United States that the Company intends to indefinitely reinvest. Although the majority of this cash is available for repatriation, bringing the money into the United States could trigger federal, state and local income tax obligations.

***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 \$123.8 million during the six months ended November 30, 2013 compared to \$159.4 million in the comparable period of fiscal 2013. The difference was driven largely by changes in working capital needs partially offset by the improvement in net earnings over the comparable period in the prior year.

***Investing Activities***

Net cash provided by investing activities was \$55.8 million during the six months ended November 30, 2013 compared to net cash used of \$71.1 million in the comparable period of fiscal 2013. The increase was primarily driven by acquisition activity, as the current year acquisition of an additional 10% interest in TWB increased the Company's consolidated cash balance by \$53.0 million, as the cash balance at the time of acquisition exceeded the \$17.9 million we paid for our additional 10% interest. This compares to \$62.1 million paid for Westerman, Inc. in the comparable period in the prior year. Other factors contributing to the overall increase include \$9.2 million of excess distributions from ClarkDietrich and higher proceeds from the sale of assets, which increased \$8.1 million. The overall increase was partially offset by higher capital expenditures, which increased \$5.8 million over the comparable period in the prior year.



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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 \$121.9 million during the six months ended November 30, 2013. During the first six months of fiscal 2014, we repaid \$70.2 million of short-term borrowings and paid \$50.3 million to repurchase 1,380,500 of our common shares.

As of November 30, 2013, we were in compliance with our short-term and long-term debt covenants. Our debt agreements do not include credit rating triggers or material adverse change provisions. Our credit ratings at November 30, 2013 were unchanged from those reported as of May 31, 2013.

*Common shares* The Board declared quarterly dividends of \$0.15 per common share during the first and second quarters of fiscal 2014 compared to \$0.13 per common share during the comparable quarters of fiscal 2013. Dividends paid on our common shares totaled \$10.1 million and \$17.1 million, respectively, during the six months ended November 30, 2013 and 2012. The decrease was due to an accelerated cash dividend for the third and fourth quarters of fiscal 2013 totaling \$0.26 per common share. The dividend was paid on December 28, 2012 to shareholders of record as of December 21, 2012. As a result, no dividends were paid on our common shares during the first quarter of fiscal 2014. The dividend declared during the first quarter of fiscal 2014 was paid on September 27, 2013 to shareholders of record as of September 13, 2013.

On June 29, 2011, the Board authorized the repurchase of up to 10,000,000 of our outstanding common shares of which 3,722,332 remained available for repurchase at November 30, 2013. During the first six months of fiscal 2014, a total of 1,380,500 of our common shares were repurchased under this authorization.

The common shares available for repurchase under the June 29, 2011 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 declared a dividend for 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 2013 Form 10-K, other than the changes in borrowings, as described in Part I - Item 1. Financial Statements - NOTE F 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 financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. However, as of November 30, 2013, we were party to an operating lease for an aircraft in which we have guaranteed a residual value at the termination of the lease. The maximum obligation under the terms of this guarantee was approximately \$13.5



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million at November 30, 2013. We have also guaranteed the repayment of a term loan entered into by one of our unconsolidated affiliates, ArtiFlex. As of November 30, 2013, the outstanding principal balance on the loan was \$4.2 million. In addition, we had in place \$11.7 million of outstanding stand-by letters of credit for third-party beneficiaries as of November 30, 2013. These letters of credit were issued to third-party service providers and had no amounts drawn against them at November 30, 2013. 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 December 2011, new accounting guidance was issued that establishes certain additional disclosure requirements about financial instruments and derivatives instruments that are subject to netting arrangements. The new disclosures are required for annual reporting periods beginning on or after January 1, 2013, and interim periods within those periods. We adopted this new guidance on June 1, 2013, and have provided the required disclosures in NOTE N Derivative Instruments and Hedging Activities.

In June 2011, new accounting guidance was issued regarding the presentation of comprehensive income in financial statements prepared in accordance with U.S. GAAP. This new guidance requires entities to present reclassification adjustments included in other comprehensive income on the face of the financial statements and allows entities to present total comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. It also eliminates the option for entities to present the components of other comprehensive income as part of the statement of equity. For public companies, this accounting guidance was effective for fiscal years (and interim periods within those fiscal years) beginning after December 15, 2011, with early adoption permitted. Retrospective application to prior periods is required. We adopted the effective provisions of this new accounting guidance on June 1, 2012 and have provided the required statements of comprehensive income for the three and six months ended November 30, 2013 and 2012. In December 2011, certain provisions of this new guidance related to the presentation of reclassification adjustments out of accumulated other comprehensive income were temporarily deferred. In February 2013, an effective date was established for the provisions that had been deferred. These provisions are effective prospectively for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2012. We adopted the deferred provisions, which relate to presentation only, on June 1, 2013 and have provided the required disclosures in NOTE G Comprehensive Income. There was no impact on our financial position or results of operations.

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

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

### ***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

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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 2013 Form 10-K.

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

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

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

During the first quarter of fiscal 2014, we determined that certain indicators of impairment were present with regard to certain non-core Steel Processing assets. Recoverability of the identified asset group was tested using future cash flow projections based on management's estimate of market conditions. The sum of these undiscounted future cash flows was less than the net book value of the asset group. The net book value was also determined to be in excess of fair value and, accordingly, the asset group was written down to its fair value of \$11.8 million, resulting in an impairment charge of \$4.6 million.

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

The goodwill impairment test consists of comparing the fair value of each operating segment, determined using discounted cash flows, to each operating segment's respective carrying value. If the estimated fair value of an operating segment exceeds its carrying value, there is no impairment. If the carrying amount of the operating segment exceeds its estimated fair value, a goodwill impairment is indicated. The amount of the impairment is determined by comparing the fair value of the net assets of the operating segment, excluding goodwill, to its estimated fair value, with the difference representing the implied fair value of the goodwill. If the implied fair value of the goodwill is lower than its carrying value, the difference is recorded as an impairment charge in the consolidated statements of earnings.

No impairment indicators were present with regard to goodwill during the six months ended November 30, 2013. However, impairment indicators were present with regard to certain trade name intangible assets impacted by the re-branding initiative committed to during the second quarter of fiscal 2014, as more fully described under **Recent Business Developments** above. In connection with the change in branding strategy, we plan to discontinue the use of all non-Worthington trade names except those related to products such as BernzOmatic® and Balloon Time® and those related to our joint ventures. As no future cash flows will be attributed to the impacted trade names, the entire book value was written-off, resulting in an impairment charge of \$30.7 million.

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### **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 2013 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 November 30, 2013). Based on that evaluation, our principal executive officer and our principal financial officer have concluded that such disclosure controls and procedures were effective at a reasonable assurance level as of the end of the period covered by this Quarterly Report on Form 10-Q.

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

There were no changes that occurred during the period covered by this Quarterly Report on Form 10-Q (the fiscal quarter ended November 30, 2013) 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, 2013 (our 2013 Form 10-K), as filed with the Securities and Exchange Commission on July 30, 2013, and available at [www.sec.gov](http://www.sec.gov) or at [www.worthingtonindustries.com](http://www.worthingtonindustries.com), we included a detailed discussion of our risk factors. Our risk factors have not changed significantly from those disclosed in our 2013 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 2013 Form 10-K could materially affect our business, 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 2013 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.

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

The following table provides information about purchases made by, or on behalf of, Worthington Industries, Inc. or any affiliated purchaser (as defined in Rule 10b-18(a) (3) under the Securities Exchange Act of 1934, as amended) of common shares of Worthington Industries, Inc. during each month of the fiscal quarter ended November 30, 2013:

| <b>Period</b>        | <b>Total Number of Common Shares Purchased</b> | <b>Average Price Paid per Common Share</b> | <b>Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs</b> | <b>Maximum Number of Common Shares that May Yet Be Purchased Under the Plans or Programs (1)</b> |
|----------------------|--|--|--|--|
| September 1-30, 2013 | 2,234(2)                                       | \$ 33.16                                   | -  | 4,222,332  |
| October 1-31, 2013   | 427,785(2)                                     | \$ 39.34                                   | 425,000  | 3,797,332  |
| November 1-30, 2013  | 75,000   | \$ 40.90                                   | 75,000   | 3,722,332  |
| Total                | 505,019  | \$ 39.55                                   | 500,000  |  |

- (1) On June 29, 2011, Worthington Industries, Inc. announced that the Board of Directors authorized the repurchase of up to 10,000,000 of our outstanding common shares. At November 30, 2013, 3,722,332 common shares remained available for repurchase under this authorization. The common shares available for repurchase may be purchased from time to time, with consideration given to the market price of the common shares, the nature of other investment opportunities, cash flows from operations and general economic conditions. Repurchases may be made on the open market or through privately negotiated transactions.
- (2) Includes an aggregate of 2,234 common shares and 2,785 common shares surrendered by employees in September 2013 and October 2013, respectively, to satisfy tax withholding obligations upon exercise of stock options. These common shares were not counted against the 10,000,000 share repurchase authorization in effect during the second quarter of fiscal 2014 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

**Item 6. Exhibits**

- 10.1 First Amendment to the Worthington Industries, Inc. Amended and Restated 1997 Long-Term Incentive Plan (First Amendment effective as of June 26, 2013; performance goals approved by shareholders on September 26, 2013) (incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8-K of Worthington Industries, Inc. dated and filed October 1, 2013 (SEC File No. 001-08399))

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- 10.2 Second Amendment to the Worthington Industries, Inc. Amended and Restated 1997 Long-Term Incentive Plan (Second Amendment approved by shareholders and effective September 26, 2013) (incorporated herein by reference to Exhibit 10.3 to the Current Report on Form 8-K of Worthington Industries, Inc. dated and filed October 1, 2013 (SEC File No. 001-08399))

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|         |   |
|---------|---|
| 10.3    | First Amendment to the Worthington Industries, Inc. Annual Incentive Plan for Executives (First Amendment approved by shareholders and effective on September 26, 2013) (incorporated herein by reference to Exhibit 10.5 to the Current Report on Form 8-K of Worthington Industries, Inc. dated and filed October 1, 2013 (SEC File No. 001-08399)) |
| 10.4    | First Amendment to the Worthington Industries, Inc. Amended and Restated 2003 Stock Option Plan (First Amendment effective September 26, 2013) (incorporated herein by reference to Exhibit 10.6 to the Current Report on Form 8-K of Worthington Industries, Inc. dated and filed October 1, 2013 (SEC File No. 001-08399))                          |
| 10.5    | First Amendment to the Worthington Industries, Inc. 2010 Stock Option Plan (First Amendment effective September 26, 2013) (incorporated herein by reference to Exhibit 10.7 to the Current Report on Form 8-K of Worthington Industries, Inc. dated and filed October 1, 2013 (SEC File No. 001-08399))   |
| 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 November 30, 2013 and May 31, 2013;
- (ii) Consolidated Statements of Earnings for the three and six months ended November 30, 2013 and November 30, 2012;
- (iii) Consolidated Statements of Comprehensive Income for the three and six months ended November 30, 2013 and November 30, 2012;
- (iv) Consolidated Statements of Cash Flows for the three and six months ended November 30, 2013 and November 30, 2012; 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: January 9, 2014

By: /s/ B. Andrew Rose  
B. Andrew Rose,  
Vice President and Chief Financial Officer

(On behalf of the Registrant and as Principal

Financial Officer)

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

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