WORTHINGTON INDUSTRIES INC
Form 10-Q
April 10, 2017
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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 February 28, 2017

OR

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

Commission File Number 001-08399

WORTHINGTON INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

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

(614) 438-3210

(Registrant s telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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

YES NO

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

YES NO

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

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

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

YES NO

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the Issuer s classes of common stock, as of the latest practicable date. On March 31, 2017, the number of Common Shares, without par value, issued and outstanding was 63,680,574.

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SAFE HARBOR STATEMENT

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

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

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

- *the effect of national, regional and global economic conditions generally and within major product markets, including an economic downturn;*
- *the effect of conditions in national and worldwide financial markets;*
- *lower oil prices as a factor in demand for products;*
- *product demand and pricing;*
- *changes in product mix, product substitution and market acceptance of our products;*
- *fluctuations in the pricing, quality or availability of raw materials (particularly steel), supplies, transportation, utilities and other items required by operations;*
- *effects of facility closures and the consolidation of operations;*
- *the effect of financial difficulties, consolidation and other changes within the steel, automotive, construction, oil and gas, and other industries in which we participate;*
- *failure to maintain appropriate levels of inventories;*
- *financial difficulties (including bankruptcy filings) of original equipment manufacturers, end-users and customers, suppliers, joint venture partners and others with whom we do business;*
- *the ability to realize targeted expense reductions from headcount reductions, facility closures and other cost reduction efforts;*

the ability to realize other cost savings and operational, sales and sourcing improvements and efficiencies, and other expected benefits from Transformation initiatives, on a timely basis;

the overall success of, and the ability to integrate, newly-acquired businesses and joint ventures, maintain and develop their customers, and achieve synergies and other expected benefits and cost savings therefrom;

capacity levels and efficiencies, within facilities, within major product markets and within the industries as a whole;

the effect of disruption in the business of suppliers, customers, facilities and shipping operations due to adverse weather, casualty events, equipment breakdowns, civil unrest, international conflicts, 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 markets;

the ability to improve and maintain processes and business practices to keep pace with the economic, competitive and technological environment;

the outcome of adverse claims experience with respect to workers compensation, product recalls or product liability, casualty events or other matters;

deviation of actual results from estimates and/or assumptions used by us in the application of our significant accounting policies;

level of imports and import prices in our markets;

the impact of judicial rulings and governmental regulations, both in the United States and abroad, including those adopted by the United States Securities and Exchange Commission and other governmental agencies as contemplated by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010;

the effect of changes to healthcare laws in the United States, which may increase our healthcare and other costs and negatively impact our operations and financial results;

cyber security risks; 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, 2016.

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

WORTHINGTON INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	February 28, 2017	May 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 227,281	$ 84,188
Receivables, less allowances of $3,134 and $4,579 at February 28, 2017 and May 31, 2016, respectively	466,689	439,688
Inventories:		
Raw materials	164,295	162,427
Work in process	98,683	86,892
Finished products	77,226	70,016
Total inventories	340,204	319,335
Income taxes receivable	15,554	10,535
Assets held for sale	13,617	10,079
Prepaid expenses and other current assets	53,596	51,290
Total current assets	1,116,941	915,115
Investments in unconsolidated affiliates	205,008	191,826
Goodwill	244,941	246,067
Other intangible assets, net of accumulated amortization of $59,577 and $49,532 at February 28, 2017 and May 31, 2016, respectively	85,289	96,164
Other assets	24,976	29,254
Property, plant and equipment:		
Land	16,543	18,537
Buildings and improvements	257,190	256,973
Machinery and equipment	1,001,232	945,951
Construction in progress	26,403	48,156
Total property, plant and equipment	1,301,368	1,269,617
Less: accumulated depreciation	731,348	686,779
Total property, plant and equipment, net	570,020	582,838

Total assets	$ 2,247,175	$ 2,061,264
Liabilities and equity		
Current liabilities:		
Accounts payable	$ 351,998	$ 290,432
Short-term borrowings	167	2,651
Accrued compensation, contributions to employee benefit plans and related taxes	75,618	75,105
Dividends payable	13,557	13,471
Other accrued items	45,054	45,056
Income taxes payable	2,508	2,501
Current maturities of long-term debt	878	862
Total current liabilities	489,780	430,078
Other liabilities	64,441	63,487
Distributions in excess of investment in unconsolidated affiliate	67,722	52,983
Long-term debt	576,002	577,491
Deferred income taxes, net	27,183	17,379
Total liabilities	1,225,128	1,141,418
Shareholders equity controlling interest	898,468	793,371
Noncontrolling interests	123,579	126,475
Total equity	1,022,047	919,846
Total liabilities and equity	$ 2,247,175	$ 2,061,264

See notes to consolidated financial statements.

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WORTHINGTON INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Net sales	$ 703,436	$ 647,080	$ 2,168,765	$ 2,105,043
Cost of goods sold	592,446	551,157	1,787,690	1,786,925
Gross margin	110,990	95,923	381,075	318,118
Selling, general and administrative expense	75,276	70,149	232,819	218,822
Impairment of long-lived assets				25,962
Restructuring and other expense	1,394	702	5,994	5,294
Operating income	34,320	25,072	142,262	68,040
Other income (expense):				
Miscellaneous income, net	749	3,305	2,484	3,723
Interest expense	(7,674)	(7,886)	(23,202)	(23,539)
Equity in net income of unconsolidated affiliates	22,697	24,994	84,365	80,822
Earnings before income taxes	50,092	45,485	205,909	129,046
Income tax expense	11,141	11,342	48,555	34,157
Net earnings	38,951	34,143	157,354	94,889
Net earnings attributable to noncontrolling interests	3,062	4,296	9,333	9,698
Net earnings attributable to controlling interest	$ 35,889	$ 29,847	$ 148,021	$ 85,191
Basic				
Average common shares outstanding	62,750	61,747	62,325	62,810
Earnings per share attributable to controlling interest	$ 0.57	$ 0.48	$ 2.37	$ 1.36
Diluted				
Average common shares outstanding	64,977	63,871	64,758	64,923
Earnings per share attributable to controlling interest	$ 0.55	$ 0.47	$ 2.29	$ 1.31

Common shares outstanding at end of period	62,776	61,285	62,776	61,285
Cash dividends declared per share	$ 0.20	$ 0.19	$ 0.60	$ 0.57

See notes to consolidated financial statements.

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WORTHINGTON INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	February 28, 2017	**February 29, 2016**	**February 28, 2017**	**February 29, 2016**
Net earnings	$ 38,951	$ 34,143	$ 157,354	$ 94,889
Other comprehensive income (loss):				
Foreign currency translation	905	8,646	(7,277)	1,255
Pension liability adjustment, net of tax	(35)	(90)	(35)	(98)
Cash flow hedges, net of tax	(921)	5,430	1,356	3,537
Other comprehensive income (loss)	(51)	13,986	(5,956)	4,694
Comprehensive income	38,900	48,129	151,398	99,583
Comprehensive income attributable to noncontrolling interests	3,071	7,476	9,198	12,207
Comprehensive income attributable to controlling interest	$ 35,829	$ 40,653	$ 142,200	$ 87,376

See notes to consolidated financial statements.

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WORTHINGTON INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	February 28, 2017	**February 29, 2016**	**February 28, 2017**	**February 29, 2016**
Operating activities:				
Net earnings	$ 38,951	$ 34,143	$ 157,354	$ 94,889
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation and amortization	21,677	20,761	65,154	62,748
Impairment of long-lived assets				25,962
Provision for (benefit from) deferred income taxes	7,609	9,322	9,946	(6,069)
Bad debt (income) expense	(41)	187	110	195
Equity in net income of unconsolidated affiliates, net of distributions	(1,256)	(622)	(182)	(16,524)
Net (gain) loss on sale of assets	1,875	(3,385)	3,358	(7,633)
Stock-based compensation	4,304	3,627	11,264	11,284
Changes in assets and liabilities, net of impact of acquisitions:				
Receivables	(44,719)	10,688	(34,920)	76,791
Inventories	(2,346)	37,211	(20,869)	61,032
Prepaid expenses and other current assets	(13,379)	(19,309)	(7,954)	9,324
Other assets	(423)	(1,216)	1,987	(4,019)
Accounts payable and accrued expenses	89,736	13,756	66,849	(17,464)
Other liabilities	718	1,052	2,813	5,352
Net cash provided by operating activities	102,706	106,215	254,910	295,868
Investing activities:				
Investment in property, plant and equipment	(21,128)	(14,973)	(52,174)	(75,465)
Acquisitions, net of cash acquired		(31,256)		(34,206)
Investments in unconsolidated affiliates		(3,683)		(5,596)
Proceeds from sale of assets	2	431	958	9,887
Net cash used by investing activities	(21,126)	(49,481)	(51,216)	(105,380)
Financing activities:				
Net repayments of short-term borrowings	(330)	(16,716)	(2,484)	(57,728)

Proceeds from long-term debt				921
Principal payments on long-term debt	(218)	(216)	(655)	(644)
Proceeds from issuance of common shares, net of tax withholdings	(12,197)	2,747	(9,225)	5,811
Payments to noncontrolling interests	(3,360)	(4,206)	(10,141)	(9,106)
Repurchase of common shares		(28,352)		(99,848)
Dividends paid	(13,374)	(11,913)	(38,096)	(35,529)
Net cash used by financing activities	(29,479)	(58,656)	(60,601)	(196,123)
Increase (decrease) in cash and cash equivalents	52,101	(1,922)	143,093	(5,635)
Cash and cash equivalents at beginning of period	175,180	27,354	84,188	31,067
Cash and cash equivalents at end of period	$ 227,281	$ 25,432	$ 227,281	$ 25,432

See notes to consolidated financial statements.

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WORTHINGTON INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE A Basis of Presentation

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

We own controlling interests in the following five joint ventures: Spartan Steel Coating, LLC (Spartan) (52%), TWB Company, L.L.C. (TWB) (55%), Worthington Ar1taş Bas1nçl1 Kaplar Sanayi (Worthington Aritas) (75%), Worthington Energy Innovations, LLC (WEI) (75%), and Worthington Specialty Processing (WSP) (51%). These joint ventures are consolidated with the equity owned by the other joint venture members shown as noncontrolling interests in our consolidated balance sheets, and their portions of net earnings and other comprehensive income (loss) (OCI) shown as net earnings or comprehensive income attributable to noncontrolling interests in our consolidated statements of earnings and consolidated statements of comprehensive income, respectively.

These unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments, which are of a normal and recurring nature, except those which have been disclosed elsewhere in this Quarterly Report on Form 10-Q, necessary for a fair presentation of the consolidated financial statements for these interim periods, have been included. Operating results for the three and nine months ended February 28, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending May 31, 2017 (fiscal 2017). 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, 2016 (fiscal 2016) of Worthington Industries, Inc. (the 2016 Form 10-K).

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

Recently Adopted Accounting Standards

In February 2015, amended accounting guidance was issued that revised consolidation requirements in order to provide financial statement users with a more useful presentation of an entity s economic and operational results. The amended guidance revises the consolidation requirements for limited partnerships, the considerations surrounding the primary beneficiary determination and the consolidation of certain investment funds. The Company adopted this amended guidance on a prospective basis effective June 1, 2016. The adoption of this guidance did not impact our consolidated financial position or results of operations.

In April 2015, amended accounting guidance was issued that requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of the corresponding debt liability itself. The amended guidance does not apply to line-of-credit arrangements. Accordingly, issuance costs related to line-of-credit arrangements will continue to be presented as an asset and amortized ratably over the term of the arrangement. The Company adopted this guidance on a retrospective basis effective June 1, 2016. As a result, debt issuance costs totaling $2,233,000 and $2,491,000 as of February 28, 2017 and May 31, 2016, respectively, have been presented as a component of the carrying amount of long-term debt reported in our consolidated balance sheets. Fiscal 2016 amounts were previously capitalized and reported within other assets.

In September 2015, amended accounting guidance was issued regarding adjustments to provisional amounts recorded in conjunction with a business combination. The amended guidance requires the acquirer to recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which such adjustments are identified, rather than retrospectively adjusting previously reported amounts. The Company adopted this amended guidance on a prospective basis effective June 1, 2016. The adoption of this guidance did not impact our consolidated financial position or results of operations.

In March 2016, amended accounting guidance was issued that simplifies the accounting for share-based payments. The amended guidance impacts several aspects of the accounting for share-based payment transactions, including the income tax consequences, forfeitures, statutory withholding requirements, and classification in the statement of cash flows. The Company early adopted this guidance during the fourth quarter of fiscal 2016. As required for early adoption in an interim period, all adjustments have been reflected as of the beginning of fiscal 2016. Accordingly, income tax expense for the three and nine months ended February 29, 2016 has been restated to reflect excess tax benefits associated with share-based payments totaling $271,000 and $965,000, respectively, in income tax expense, rather than in paid-in capital.

Recently Issued Accounting Standards

In May 2014, amended accounting guidance was issued that replaces most existing revenue recognition guidance under U.S. GAAP. The amended guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Subsequently, additional guidance was issued on several areas including guidance intended to improve the operability and understandability of the implementation of principal versus agent considerations and clarifications on the identification of performance obligations and implementation of guidance related to licensing. The amended guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The amended guidance permits the use of either the retrospective or cumulative effect transition method. We are in the process of evaluating the effect this guidance will have on the presentation of our consolidated financial statements and related disclosures. While we have not yet identified any material changes in the timing of revenue recognition, our evaluation is ongoing and not complete. We plan to adopt the amended guidance in the first quarter of fiscal 2019 and expect to make a determination as to the method of adoption by the end of fiscal 2017.

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

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

In March 2016, amended accounting guidance was issued regarding derivative instruments designated as hedging instruments. The amended guidance clarifies that a change in the counterparty to such a hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The amended guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, and the change may be applied either prospectively or retrospectively. We do not expect the adoption of this amended accounting guidance to have a material impact on our consolidated financial position or results of operations.

In June 2016, amended accounting guidance was issued related to the measurement of credit losses on financial instruments. The amended guidance changes the impairment model for most financial assets to require measurement and recognition of expected credit losses for financial assets held. The amended guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We are in the process of evaluating the effect this guidance will have on our consolidated financial position and results of operations, and we have not determined the effect of the amended guidance on our ongoing financial reporting.

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In August 2016, amended accounting guidance was issued to clarify the proper cash flow presentation of certain specific types of cash payments and cash receipts. The amended guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. We are in the process of evaluating the effect this guidance will have on our consolidated financial position, results of operations and cash flows, and we have not determined the effect of the amended guidance on our ongoing financial reporting.

In October 2016, amended accounting guidance was issued that requires the income tax consequences of an intra-entity transfer of an asset other than inventory to be recognized when the transfer occurs. The amended guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. We are in the process of evaluating the effect this guidance will have on our consolidated financial position, results of operations and cash flows, and have not determined the effect of the amended guidance on our ongoing financial reporting.

In November 2016, amended accounting guidance was issued that requires amounts generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amended guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. We do not expect the adoption of this amended guidance to have a material impact on our consolidated cash flows.

In January 2017, amended accounting guidance was issued to clarify the definition of a business to provide additional guidance to assist in evaluating whether transactions should be accounted for as an acquisition (or disposal) of either an asset or business. The amended guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. We do not expect the adoption of this amended guidance to have a material impact on our consolidated financial position or results of operations.

In January 2017, amended accounting guidance was issued to simplify the goodwill impairment calculation, by removing Step 2 of the goodwill impairment test. Goodwill impairment will now be the amount by which a reporting unit s carrying value exceeds its fair value, not to exceed the carrying amount of the goodwill. The amended guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. We are in the process of evaluating the effect this guidance will have on our consolidated financial position and results of operations, and have not determined the effect on our ongoing financial reporting.

NOTE B Investments in Unconsolidated Affiliates

Our investments in affiliated companies that we do not control, either through majority ownership or otherwise, are accounted for using the equity method. These include ArtiFlex Manufacturing, LLC (ArtiFlex) (50%), Clarkwestern Dietrich Building Systems LLC (ClarkDietrich) (25%), Samuel Steel Pickling Company (31.25%), Serviacero Planos, S. de R. L. de C.V. (Serviacero) (50%), Worthington Armstrong Venture (WAVE) (50%), and Zhejiang Nisshin Worthington Precision Specialty Steel Co., Ltd. (10%).

We received distributions from unconsolidated affiliates totaling $84,183,000 during the nine months ended February 28, 2017. We have received cumulative distributions from WAVE in excess of our investment balance totaling $67,722,000 at February 28, 2017. 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 received, less distributions received in prior periods that were determined to be returns of investment, 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.

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

(in thousands)	February 28, 2017	May 31, 2016
Cash	$ 62,723	$ 112,122
Other current assets	511,798	446,796
Noncurrent assets	365,343	352,370
Total assets	$ 939,864	$ 911,288
Current liabilities	$ 141,266	$ 112,491
Short-term borrowings	6,285	11,398
Current maturities of long-term debt	4,207	3,297
Long-term debt	268,032	266,942
Other noncurrent liabilities	20,558	21,034
Equity	499,516	496,126
Total liabilities and equity	$ 939,864	$ 911,288

	Three Months Ended		Nine Months Ended	
(in thousands)	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Net sales	$ 384,261	$ 376,448	$ 1,188,568	$ 1,170,096
Gross margin	84,645	83,251	305,383	257,036
Operating income	55,140	54,801	216,902	171,857
Depreciation and amortization	6,983	7,905	20,776	24,070
Interest expense	2,089	2,038	6,388	6,333
Income tax expense	5,065	2,625	16,128	7,348
Net earnings	49,098	51,994	198,609	186,063

The financial results of WSP have been included in the amounts presented in the tables above through March 1, 2016. Effective March 1, 2016, the Company obtained effective control over the operations of WSP. As a result, WSP s results have been consolidated within the financial results of Steel Processing since that date with the minority member s portion of net earnings eliminated within net earnings attributable to noncontrolling interests.

NOTE C Impairment of Long-Lived Assets

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

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

No impairment charges were recognized during the nine months ended February 28, 2017.

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Impairment charges during the nine months ended February 29, 2016, consisted of $3,000,000 related to the then remaining long-lived assets of the Company s Engineered Cabs facility in Florence, South Carolina, which ceased operations on September 30, 2015, and $22,962,000 for the impairment of the long-lived assets of two oil & gas equipment facilities triggered by a significant decrease in the long-term cash flow projections of that business. For further information, refer to the consolidated financial statements and notes thereto included in the Company s 2016 Form 10-K.

NOTE D Restructuring and Other Expense

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

A progression of the liabilities associated with our restructuring activities, combined with a reconciliation to the restructuring and other expense financial statement caption in our consolidated statement of earnings for the nine months ended February 28, 2017 is summarized as follows:

(in thousands)	Beginning Balance	Expense	Payments	Adjustments	Ending Balance (1)
Early retirement and severance	$ 1,831	$ 1,795	$ (3,071)	$ 58	$ 613
Facility exit and other costs	653	3,190	(3,369)	45	519
	$ 2,484	4,985	$ (6,440)	$ 103	$ 1,132
Net loss on sale of assets		1,009			
Restructuring and other expense		$ 5,994			

1) The total liability as of February 28, 2017 is expected to be paid in the next twelve months.

During the nine months ended February 28, 2017, the following activities were taken related to the Company s restructuring activities:

The Company announced certain organizational changes impacting its Pressure Cylinders operating segment, including the consolidation of the Cryogenics business unit into the Industrial Products business unit. In connection with this matter, the Company recognized severance expense of $1,356,000 related to permanent headcount reductions.

In connection with the closure of the Company s stainless steel business, Precision Specialty Metals, Inc. (PSM), the Company recognized $1,666,000 of facility exit costs and a credit to severance expense of $106,000.

In connection with the closure of the Engineered Cabs facility in Florence, South Carolina, the Company recognized facility exit costs of $459,000. The Company also recognized a net loss of $101,000 related to the disposal of assets.

In connection with the consolidation of the Company s existing cryogenics facility in Istanbul, Turkey, to its Greenfield facility in Bandirma, Turkey, the Company recognized facility exit costs of $1,113,000 and severance expense of $640,000. The consolidation is substantially complete.

The Company sold the remaining real estate of the legacy Advanced Component Technologies, Inc. (ACT) business within Engineered Cabs for cash proceeds of $700,000, resulting in a loss of $822,000.

In connection with other non-significant restructuring activities, the Company recognized a credit to severance expense of $95,000 and a credit to facility exit costs of $48,000. The Company also recognized a net loss on disposal of assets of $86,000.

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NOTE E Contingent Liabilities and Commitments

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

NOTE F Guarantees

We do not have guarantees that we believe are reasonably likely to have a material current or future effect on our consolidated financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. However, as of February 28, 2017, 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 $9,566,000 at February 28, 2017. Based on current facts and circumstances, we have estimated the likelihood of payment pursuant to this guarantee is not probable and, therefore, no amount has been recognized in our consolidated financial statements.

We also had in place $15,893,000 of outstanding stand-by letters of credit issued to third-party service providers at February 28, 2017. The fair value of these guarantee instruments, based on premiums paid, was not material and no amounts were drawn against them at February 28, 2017.

NOTE G Debt and Receivables Securitization

We maintain a $500,000,000 multi-year revolving credit facility (the Credit Facility) with a group of lenders that matures in April 2020. Borrowings under the Credit Facility typically have maturities of less than one year. However, we can extend the term of amounts borrowed by renewing these borrowings for the term of the Credit Facility. We have the option to borrow at rates equal to an applicable margin over the LIBOR, Prime rate or Fed Funds rate. The applicable margin is determined by our credit rating. There were no borrowings outstanding under the Credit Facility at February 28, 2017. As discussed in NOTE F Guarantees, we provided $15,893,000 in letters of credit for third-party beneficiaries as of February 28, 2017. While not drawn against at February 28, 2017, $13,600,000 of these letters of credit were issued against availability under the Credit Facility, leaving $486,400,000 available under the Credit Facility at February 28, 2017.

We also maintain a $100,000,000 revolving trade accounts receivable securitization facility (the AR Facility) which matures in January 2018. Pursuant to the terms of the AR Facility, certain of our subsidiaries sell their accounts receivable without recourse, on a revolving basis, to Worthington Receivables Corporation (WRC), a wholly-owned, consolidated, bankruptcy-remote subsidiary. In turn, WRC may sell without recourse, on a revolving basis, up to $100,000,000 of undivided ownership interests in this pool of accounts receivable to a 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. As of February 28, 2017, no undivided ownership interests in this pool of accounts receivable had been sold.

NOTE H Other Comprehensive Income

The following table summarizes the tax effects on each component of OCI for the three months ended:

	February 28, 2017			February 29, 2016		
(in thousands)	**Before-Tax**	**Tax**	**Net-of-Tax**	**Before-Tax**	**Tax**	**Net-of-Tax**
Foreign currency translation	$ 905	$ -	$ 905	$ 8,646	$ -	$ 8,646
Pension liability adjustment	(117)	82	(35)	(90)	-	(90)
Cash flow hedges	(1,299)	378	(921)	8,505	(3,075)	5,430
Other comprehensive income (loss)	$ (511)	$ 460	$ (51)	$ 17,061	$ (3,075)	$ 13,986

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The following table summarizes the tax effects on each component of OCI for the nine months ended:

	February 28, 2017			February 29, 2016		
(in thousands)	Before-Tax	Tax	Net-of-Tax	Before-Tax	Tax	Net-of-Tax
Foreign currency translation	$ (7,277)	$ -	$ (7,277)	$ 1,255	$ -	$ 1,255
Pension liability adjustment	(117)	82	(35)	(98)	-	(98)
Cash flow hedges	1,836	(480)	1,356	5,938	(2,401)	3,537
Other comprehensive income (loss)	$ (5,558)	$ (398)	$ (5,956)	$ 7,095	$ (2,401)	$ 4,694

NOTE I Changes in Equity

The following table provides a summary of the changes in total equity, shareholders equity attributable to controlling interest, and equity attributable to noncontrolling interests for the nine months ended February 28, 2017:

	Controlling Interest					
(in thousands)	Additional Paid-in Capital	Accumulated Other Comprehensive Loss, Net of Tax	Retained Earnings	Total	Non-controlling Interests	Total
Balance at May 31, 2016	$ 298,984	$ (28,565)	$ 522,952	$ 793,371	$ 126,475	$ 919,846
Net earnings	-	-	148,021	148,021	9,333	157,354
Other comprehensive loss	-	(5,821)	-	(5,821)	(135)	(5,956)
Common shares issued, net of withholding tax	(9,225)	-	-	(9,225)	-	(9,225)
Common shares in NQ plans	1,058	-	-	1,058	-	1,058
Stock-based compensation	10,599	-	-	10,599	-	10,599
Cash dividends declared	-	-	(38,600)	(38,600)	-	(38,600)
Dividends to noncontrolling interest	-	-	-	-	(10,141)	(10,141)
Purchase of noncontrolling interest in dHybrid (1)	(935)	-	-	(935)	(1,953)	(2,888)
Balance at February 28, 2017	$ 300,481	$ (34,386)	$ 632,373	$ 898,468	$ 123,579	$ 1,022,047

1) On January 1, 2017, the Company acquired the minority membership interests in dHybrid Systems, LLC (dHybrid) from the noncontrolling member in a non-cash transaction.

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

(in thousands)	Foreign Currency Translation	Pension Liability Adjustment	Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance as of May 31, 2016	$ (18,728)	$ (17,061)	$ 7,224	$ (28,565)
Other comprehensive income (loss) before reclassifications	(7,142)	(117)	10,112	2,853
Reclassification adjustments to income (a)	-	-	(8,276)	(8,276)
Income taxes	-	82	(480)	(398)
Balance as of February 28, 2017	$ (25,870)	$ (17,096)	$ 8,580	$ (34,386)

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

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NOTE J Stock-Based Compensation

Non-Qualified Stock Options

During the nine months ended February 28, 2017, we granted non-qualified stock options covering a total of 111,000 common shares under our stock-based compensation plans. The option price of $42.30 per share was equal to the market price of the underlying common shares at the grant date. The fair value of these stock options, based on the Black-Scholes option-pricing model, calculated at the grant date, was $11.60 per share. The calculated pre-tax stock-based compensation expense for these stock options, after an estimate for forfeitures, is $1,146,000 and will be recognized on a straight-line basis over the three-year vesting period. The following assumptions were used to value these stock options:

Dividend yield	2.59%
Expected volatility	36.86%
Risk-free interest rate	1.15%
Expected term (years)	6.0

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

Service-Based Restricted Common Shares

During the nine months ended February 28, 2017, we granted an aggregate of 520,850 service-based restricted common shares under our stock-based compensation plans. The fair value of these restricted common shares was equal to the weighted average closing market price of the underlying common shares on the date of grant, or $42.27 per share. The calculated pre-tax stock-based compensation expense for these restricted common shares, after an estimate for forfeitures, is $19,695,000 and will be recognized on a straight-line basis over the three-year service-based vesting period.

Performance Share Awards

We have awarded performance shares to certain key employees under our stock-based compensation plans. These performance shares are earned based on the level of achievement with respect to corporate targets for cumulative corporate economic value added, earnings per share growth and, in the case of business unit executives, business unit operating income targets for the three-year periods ending May 31, 2017, 2018 and 2019. These performance share awards will be paid, to the extent earned, in common shares of the Company in the fiscal quarter following the end of the applicable three-year performance period. The fair values of our performance shares are determined by the closing market prices of the underlying common shares at their respective grant dates and the pre-tax stock-based compensation expense is based on our periodic assessment of the probability of the targets being achieved and our estimate of the number of common shares that will ultimately be issued. During the nine months ended February 28, 2017, we granted performance share awards covering an aggregate of 66,200 common shares (at target levels). The calculated pre-tax stock-based compensation expense for these performance shares is $2,973,000 and will be recognized over the three-year performance period.

NOTE K Income Taxes

Income tax expense for the nine months ended February 28, 2017 and February 29, 2016 reflected estimated annual effective income tax rates of 27.2% and 29.6%, respectively. The annual effective income tax rates exclude any impact from the inclusion of net earnings attributable to noncontrolling interests in our consolidated statements of earnings. Net earnings attributable to noncontrolling interests are primarily a result of our WSP, Spartan, Worthington Aritas, and TWB consolidated joint ventures. The earnings attributable to the noncontrolling interests in WSP, Spartan and TWB s U.S. operations do not generate tax expense to Worthington since the investors in WSP, Spartan and TWB s U.S. operations are taxed directly based on the earnings attributable to them. The tax expense of Worthington Aritas (a foreign corporation), and TWB s wholly-owned foreign corporations, is reported in our consolidated tax expense. Management is required to estimate the annual effective income tax rate based upon its forecast of annual pre-tax income for domestic and foreign operations. Our actual effective income tax rate for fiscal 2017 could be materially different from the forecasted rate as of February 28, 2017.

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NOTE L Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share attributable to controlling interest for the three and nine months ended February 28, 2017 and February 29, 2016:

(in thousands, except per share amounts)	Three Months Ended February 28, 2017	Three Months Ended February 29, 2016	Nine Months Ended February 28, 2017	Nine Months Ended February 29, 2016
Numerator (basic & diluted):				
Net earnings attributable to controlling interest-income available to common shareholders	$ 35,889	$ 29,847	$ 148,021	$ 85,191
Denominator:				
Denominator for basic earnings per share attributable to controlling interest weighted average common shares	62,750	61,747	62,325	62,810
Effect of dilutive securities	2,227	2,124	2,433	2,113
Denominator for diluted earnings per share attributable to controlling interest adjusted weighted average common shares	64,977	63,871	64,758	64,923
Basic earnings per share attributable to controlling interest	$ 0.57	$ 0.48	$ 2.37	$ 1.36
Diluted earnings per share attributable to controlling interest	$ 0.55	$ 0.47	$ 2.29	$ 1.31

Stock options covering 107,224 and 352,830 common shares for the three months ended February 28, 2017 and February 29, 2016, respectively, and 97,638 and 343,454 common shares for the nine months ended February 28, 2017 and February 29, 2016, respectively, have been excluded from the computation of diluted earnings per share because the effect of their inclusion would have been anti-dilutive.

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NOTE M Segment Operations

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

(in thousands)	Three Months Ended February 28, 2017	Three Months Ended February 29, 2016	Nine Months Ended February 28, 2017	Nine Months Ended February 29, 2016
Net sales				
Steel Processing	$ 478,174	$ 419,026	$ 1,492,654	$ 1,377,638
Pressure Cylinders	198,433	200,721	598,303	626,288
Engineered Cabs	23,547	25,553	71,591	92,869
Other	3,282	1,780	6,217	8,248
Total net sales	$ 703,436	$ 647,080	$ 2,168,765	$ 2,105,043
Operating income (loss)				
Steel Processing	$ 26,026	$ 21,294	$ 116,256	$ 71,574
Pressure Cylinders	10,071	8,969	35,480	15,479
Engineered Cabs	(2,001)	(4,053)	(7,225)	(17,634)
Other	224	(1,138)	(2,249)	(1,379)
Total operating income	$ 34,320	$ 25,072	$ 142,262	$ 68,040
Impairment of long-lived assets				
Steel Processing	$ -	$ -	$ -	$ -
Pressure Cylinders	-	-	-	22,962
Engineered Cabs	-	-	-	3,000
Other	-	-	-	-
Total impairment of long-lived assets	$ -	$ -	$ -	$ 25,962
Restructuring and other expense (income)				
Steel Processing	$ 212	$ 1,068	$ 1,496	$ 3,788
Pressure Cylinders	1,056	(1,031)	3,165	(316)
Engineered Cabs	169	416	1,379	3,059
Other	(43)	249	(46)	(1,237)
Total restructuring and other expense	$ 1,394	$ 702	$ 5,994	$ 5,294

(in thousands)	February 28, 2017	May 31, 2016
Total assets		
Steel Processing	$ 885,244	$ 819,853

Pressure Cylinders	751,131	787,786
Engineered Cabs	65,633	75,124
Other	545,167	378,501
Total assets	$ 2,247,175	$ 2,061,264

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NOTE N Derivative Instruments and Hedging Activities

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

Foreign Currency Rate Risk Management We conduct business in several major international currencies and are therefore subject to risks associated with changing foreign currency exchange rates. We enter into various contracts that change in value as foreign currency 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 foreign currency exchange rates; however, derivative instruments are not used to manage this risk.

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

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

Refer to NOTE 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 February 28, 2017:

(in thousands)	Asset Derivatives Balance Sheet Location	Fair Value	Liability Derivatives Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Commodity contracts	Receivables	$ 14,053	Accounts payable	$ -
	Other assets	176	Other liabilities	-
		14,229		-
Interest rate contracts	Receivables	-	Accounts payable	83
	Other assets	-	Other liabilities	228
		-		311
Totals		$ 14,229		$ 311
Derivatives not designated as hedging instruments:				
Commodity contracts	Receivables	$ 2,964	Accounts payable	$ 233
	Other assets	-	Other liabilities	36
		2,964		269
Foreign currency contracts	Receivables	511	Accounts payable	-
Totals		$ 3,475		$ 269
Total derivative instruments		$ 17,704		$ 580

The amounts in the table above reflect the fair value of the Company s derivative instruments on a net basis. Had these amounts been recognized on a gross basis, the aggregate impact would have been a $91,000 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 financial statement caption in which they were recorded in the consolidated balance sheet at May 31, 2016:

(in thousands)	Asset Derivatives Balance Sheet Location	Asset Derivatives Fair Value	Liability Derivatives Balance Sheet Location	Liability Derivatives Fair Value
Derivatives designated as hedging instruments:				
Commodity contracts	Receivables	$ 13,224	Accounts payable	$ 696
	Other assets	3,589	Other liabilities	80
		16,813		776
Interest rate contracts	Receivables	-	Accounts payable	155
	Other assets	-	Other liabilities	306
		-		461
Totals		$ 16,813		$ 1,237
Derivatives not designated as hedging instruments:				
Commodity contracts	Receivables	$ 4,660	Accounts payable	$ 761
	Other assets	317	Other liabilities	-
		4,977		761
Foreign currency contracts	Receivables	-	Accounts payable	15
		-		15
Totals		$ 4,977		$ 776
Total derivative instruments		$ 21,790		$ 2,013

The amounts in the table above reflect the fair value of the Company s derivative instruments on a net basis. Had these amounts been recognized on a gross basis, the aggregate impact would have been a $300,000 decrease in receivables with a corresponding decrease in accounts payable.

Cash Flow Hedges

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

The following table summarizes our cash flow hedges outstanding at February 28, 2017:

(in thousands)	Notional Amount	Maturity Date
Commodity contracts	$ 40,570	March 2017 - December 2018
Interest rate contracts	16,183	September 2019

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The following table summarizes the gain (loss) recognized in OCI and the gain (loss) reclassified from accumulated OCI into earnings for derivative instruments designated as cash flow hedges during the three months ended February 28, 2017 and February 29, 2016:

(in thousands)	Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI (Effective Portion)	Gain (Loss) Reclassified from Accumulated OCI (Effective Portion)	Location of Gain (Ineffective Portion) and Excluded from Effectiveness Testing	Gain (Ineffective Portion) and Excluded from Effectiveness Testing
For the three months ended February 28, 2017:					
Commodity contracts	$ 2,037	Cost of goods sold	$ 3,397	Cost of goods sold	$ -
Interest rate contracts	25	Interest expense	(36)	Interest expense	-
Totals	$ 2,062		$ 3,361		$ -
For the three months ended February 29, 2016:					
Commodity contracts	$ 707	Cost of goods sold	$ (7,775)	Cost of goods sold	$ -
Interest rate contracts	(107)	Interest expense	(130)	Interest expense	-
Totals	600		(7,905)		-

The following table summarizes the gain (loss) recognized in OCI and the gain (loss) reclassified from accumulated OCI into earnings for derivative instruments designated as cash flow hedges during the nine months ended February 28, 2017 and February 29, 2016:

(in thousands)	Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI (Effective Portion)	Gain (Loss) Reclassified from Accumulated OCI (Effective Portion)	Location of Gain (Ineffective Portion) and Excluded from Effectiveness Testing	Gain (Ineffective Portion) and Excluded from Effectiveness Testing
For the nine months ended February 28, 2017:					
Commodity contracts	$ 9,963	Cost of goods sold	$ 8,882	Interest expense	$ -
Interest rate contracts	149	Interest expense	(606)	Cost of goods sold	-

Totals	$	10,112		$	8,276		$	-
For the nine months ended February 29, 2016:								
Commodity contracts	$	(17,629)	Cost of goods sold	$	(23,422)	Interest expense	$	-
Interest rate contracts		(274)	Interest expense		(415)	Cost of goods sold		-
Foreign currency contracts		-	Miscellaneous income, net		(4)	Miscellaneous income, net		-
Totals	$	(17,903)		$	(23,841)		$	-

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The estimated net amount of the losses recognized in accumulated OCI at February 28, 2017 expected to be reclassified into net earnings within the succeeding twelve months is $10,088,000 (net of tax of $5,725,000). This amount was computed using the fair value of the cash flow hedges at February 28, 2017, and will change before actual reclassification from OCI to net earnings during the fiscal years ending May 31, 2017 and 2018.

Economic (Non-designated) Hedges

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

The following table summarizes our economic (non-designated) derivative instruments outstanding at February 28, 2017:

(in thousands)	Notional Amount	Maturity Date(s)
Commodity contracts	$ 22,971	March 2017 - December 2018
Foreign currency contracts	15,450	March 2017 - August 2017

The following table summarizes the gain recognized in earnings for economic (non-designated) derivative financial instruments during the three months ended February 28, 2017 and February 29, 2016:

(in thousands)	Location of Gain (Loss) Recognized in Earnings	Gain (Loss) Recognized in Earnings for the Three Months Ended February 28, 2017	February 29, 2016
Commodity contracts	Cost of goods sold	$ 258	$ 173
Foreign currency contracts	Miscellaneous income, net	(172)	47
Total		$ 86	$ 220

The following table summarizes the gain (loss) recognized in earnings for economic (non-designated) derivative financial instruments during the nine months ended February 28, 2017 and February 29, 2016:

(in thousands)	Location of Gain (Loss) Recognized in Earnings	Gain (Loss) Recognized in Earnings for the Nine Months Ended February 28, 2017	February 29, 2016
Commodity contracts	Cost of goods sold	$ 5,169	$ (7,972)

Foreign currency contracts	Miscellaneous income, net	(837)	117
Total		$ 4,332	$ (7,855)

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

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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:

Level 1	Observable prices in active markets for identical assets and liabilities.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the assets and liabilities, either directly or indirectly.
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.

Recurring Fair Value Measurements

At February 28, 2017, our assets and liabilities measured at fair value on a recurring basis were as follows:

(in thousands)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Assets				
Derivative instruments (1)	$ -	$ 17,704	$ -	$ 17,704
Total assets	$ -	$ 17,704	$ -	$ 17,704
Liabilities				
Derivative instruments (1)	$ -	$ 580	$ -	$ 580
Contingent consideration obligations (2)	-	-	4,557	4,557
Total liabilities	$ -	$ 580	$ 4,557	$ 5,137

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At May 31, 2016, our assets and liabilities measured at fair value on a recurring basis were as follows:

(in thousands)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Assets				
Derivative instruments (1)	$ -	$ 21,790	$ -	$ 21,790
Total assets	$ -	$ 21,790	$ -	$ 21,790
Liabilities				
Derivative instruments (1)	$ -	$ 2,013	$ -	$ 2,013
Contingent consideration obligations (2)	-	-	4,519	4,519
Total liabilities	$ -	$ 2,013	$ 4,519	$ 6,532

(1) The fair value of our derivative instruments 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.

(2) The fair value of the contingent consideration obligations is determined using a probability weighted cash flow approach based on management s projections of future cash flows of the acquired businesses. The fair value measurement was based on Level 3 inputs not observable in the market.

The fair value of non-derivative financial instruments included in the carrying amounts of cash and cash equivalents, receivables, notes receivable, income taxes receivable, other assets, accounts payable, short-term borrowings, accrued compensation, contributions to employee benefit plans and related taxes, other accrued items, income taxes payable and other liabilities approximate carrying value due to their short-term nature. The fair value of long-term debt, including current maturities, based upon models utilizing market observable (Level 2) inputs and credit risk, was $602,907,000 and $609,245,000 at February 28, 2017 and May 31, 2016, respectively. The carrying amount of long-term debt, including current maturities, was $576,880,000 and $578,353,000 at February 28, 2017 and May 31, 2016, respectively.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Selected statements contained in this Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements as that term is used in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based, in whole or in part, on management s beliefs, estimates, assumptions and currently available information. For a more detailed discussion of what constitutes a forward-looking statement and of some of the factors that could cause actual results to differ materially from such forward-looking statements, please refer to the Safe Harbor Statement in the beginning of this Quarterly Report on Form 10-Q and Part I Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended May 31, 2016.

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, 2016 (fiscal 2016) includes additional information about Worthington, our operations and our consolidated financial position and should be read in conjunction with this Quarterly Report on Form 10-Q.

As of February 28, 2017, excluding our joint ventures, we operated 30 manufacturing facilities worldwide, principally in three operating segments, which correspond with our reportable business segments: Steel Processing, Pressure Cylinders and Engineered Cabs. Our remaining operating segment consists of Worthington Energy Innovations (WEI), which does not meet the applicable aggregation criteria or quantitative thresholds for separate disclosure, and therefore is combined and reported in the Other category.

We also held equity positions in 11 active joint ventures, which operated 50 manufacturing facilities worldwide, as of February 28, 2017. Five of these joint ventures are consolidated with the equity owned by the other joint venture member(s) shown as noncontrolling interests in our consolidated balance sheets, and their portions of net earnings and other comprehensive income (loss) shown as net earnings or comprehensive income attributable to noncontrolling interests in our consolidated statements of earnings and consolidated statements of comprehensive income, respectively. The remaining six of these joint ventures are accounted for using the equity method.

Overview

The Company s performance during the third quarter of fiscal 2017 was highlighted by near record earnings at Steel Processing, modest improvement at Pressure Cylinders and Engineered Cabs, and a modest decline at our unconsolidated joint ventures. The Company delivered overall sales growth of 9% on higher average direct selling prices in Steel Processing and contributions from the consolidation of the WSP joint venture effective March 1, 2016. Margins also improved during the quarter on a favorable pricing spread in Steel Processing, which benefited from lower inventory holding losses, and strength in the consumer products business within Pressure Cylinders. Demand continues to be soft in the oil & gas equipment market; however, volumes appear to have stabilized and certain geographic regions are beginning to show signs of improvement. We have reduced costs in an attempt to match demand in this market while maintaining capacity to respond to an eventual market upturn.

Equity in net income of unconsolidated affiliates (equity income) decreased $2.3 million from the prior year quarter, as lower contributions from ArtiFlex and Serviacero more than offset improvements at ClarkDietrich, where equity income more than doubled to $2.8 million on strong demand. Strong automotive and construction markets in the U.S. are benefiting these businesses. We received distributions from unconsolidated joint ventures of $21.4 million during the third quarter of fiscal 2017.

Recent Business Developments

- The Company completed the exit of the businesses within its former Construction Services operating segment during the first quarter of fiscal 2017.

- The Company s laser blanking joint venture, TWB, commissioned two new production lines in Mexico during the second quarter of fiscal 2017.

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During the second quarter of fiscal 2017, the Company announced certain organizational changes impacting its Pressure Cylinders operating segment, including the consolidation of the Cryogenics business unit into the Industrial Products business unit.

On March 29, 2017, the Board of Directors of Worthington Industries, Inc. (the Board) declared a quarterly dividend of $0.20 per share payable on June 29, 2017, to shareholders of record on June 15, 2017.

Market & Industry Overview

We sell our products and services to a diverse customer base and a broad range of end markets. The breakdown of our net sales by end market for the third quarter of each of fiscal 2017 and fiscal 2016 is illustrated in the following chart: