WORTHINGTON INDUSTRIES INC
Form 10-Q
April 08, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended February 28, 2010

OR

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

Commission File Number 001-08399

WORTHINGTON INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

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

(614) 438-3210

(Registrant s telephone number, including area code)

Not applicable

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

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

YES x NO ¨

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

YES ¨ NO ¨

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

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

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

YES ¨ NO x

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the Issuer's classes of common stock, as of the latest practicable date. On March 31, 2010, the number of Common Shares issued and outstanding was 79,254,092.

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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, anticipated, 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 strength, debt, financial condition or other financial measures;*
- *projected working capital needs;*
- *demand trends for the Company or its 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;*
- *projected timing, results, benefits, costs, charges and expenditures related to acquisitions, head count 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 capture and maintain margins and market share and to develop or take advantage of future opportunities, new products and markets;*
- *expectations for Company and customer inventories, jobs and orders;*
- *expectations for the economy and markets or improvements in the economy or markets;*
- *expected benefits from transformation plans, cost reduction efforts and other new initiatives;*
- *expectations for improving earnings, 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 the Company s products;*
- *fluctuations in 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 the Company participates;*
- *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 the Company does business;*
- *the ability to realize targeted expense reductions from head count 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 achieve synergies therefrom;*
- *capacity levels and efficiencies, within facilities and within the industry as a whole;*
- *the effect of disruption in the business of suppliers, customers, facilities and shipping operations due to adverse weather, casualty events, equipment breakdowns, labor issues, acts of war or terrorist activities or other causes;*

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- *changes in customer demand, inventories, spending patterns, product choices, and supplier choices;*
- *risks associated with doing business internationally, including economic, political and social instability, and foreign currency exposure;*
- *the ability to improve and maintain processes and business practices to keep pace with the economic, competitive and technological environment;*
- *adverse claims experience with respect to workers compensation, product recalls or liability, casualty events or other matters;*
- *deviation of actual results from estimates and/or assumptions used by the Company in the application of its significant accounting policies;*
- *level of imports and import prices in the Company s markets;*
- *the impact of judicial rulings and governmental regulations, both in the United States and abroad; and*
- *other risks described from time to time in the Company s filings with the Securities and Exchange Commission, including those described in PART I Item 1A. Risk Factors of the Company s Annual Report on Form 10-K for the fiscal year ended May 31, 2009.*

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 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)

	February 28, 2010 (unaudited)	May 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 54,693	$ 56,319
Receivables, less allowances of $8,013 and $12,470 at February 28, 2010 and May 31, 2009	200,149	182,881
Inventories:		
Raw materials	145,297	141,082
Work in process	87,263	57,612
Finished products	89,312	71,878
Total inventories	321,872	270,572
Income taxes receivable	15,459	29,749
Assets held for sale	2,652	707
Deferred income taxes	26,715	24,868
Prepaid expenses and other current assets	31,437	33,839
Total current assets	652,977	598,935
Investments in unconsolidated affiliates	109,126	100,395
Goodwill	81,721	101,343
Other intangible assets, net of accumulated amortization of $16,803 and $15,328 at February 28, 2010 and May 31, 2009	24,013	23,642
Other assets	13,832	18,009
Property, plant and equipment, net	521,304	521,505
Total assets	$ 1,402,973	$ 1,363,829
Liabilities and equity		
Current liabilities:		
Accounts payable	$ 216,829	$ 136,215
Notes payable	120,000	980
Accrued compensation, contributions to employee benefit plans and related taxes	41,130	34,503
Dividends payable	7,926	7,916
Other accrued items	41,408	49,488
Income taxes payable	-	4,965
Current maturities of long-term debt	3	138,013
Total current liabilities	427,296	372,080
Other liabilities	68,709	65,400
Long-term debt	100,400	100,400
Deferred income taxes	73,098	82,986

Total liabilities	669,503	620,866
Shareholders equity - controlling interest	697,185	706,069
Noncontrolling interest	36,285	36,894
Total equity	733,470	742,963
Total liabilities and equity	$ 1,402,973	$ 1,363,829

See notes to consolidated financial statements.

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WORTHINGTON INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(In thousands, except per share)

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2010	**2009**	**2010**	**2009**
Net sales	$ 451,113	$ 501,125	$ 1,316,621	$ 2,159,697
Cost of goods sold	393,399	461,204	1,142,474	2,022,293
Gross margin	57,714	39,921	174,147	137,404
Selling, general and administrative expense	57,519	47,778	155,642	159,520
Impairment of long-lived assets	32,706	-	35,409	96,943
Restructuring and other expense	2,775	16,309	3,740	36,997
Operating loss	(35,286)	(24,166)	(20,644)	(156,056)
Other income (expense):				
Miscellaneous income (expense)	(134)	(1,146)	1,236	(1,336)
Gain on sale of investment in Aegis	-	8,331	-	8,331
Interest expense	(1,889)	(4,289)	(6,448)	(16,408)
Equity in net income of unconsolidated affiliates	14,560	3,814	45,842	39,857
Earnings (loss) before income taxes	(22,749)	(17,456)	19,986	(125,612)
Income tax expense (benefit)	(6,650)	(21,191)	3,872	(34,879)
Net earnings (loss)	(16,099)	3,735	16,114	(90,733)
Net earnings attributable to noncontrolling interest	1,641	2,181	3,930	3,743
Net earnings (loss) attributable to controlling interest	$ (17,740)	$ 1,554	$ 12,184	$ (94,476)
Average common shares outstanding - basic	79,146	78,856	79,102	78,892
Earnings (loss) per share attributable to controlling interest - basic	$ (0.22)	$ 0.02	$ 0.15	$ (1.20)
Average common shares outstanding - diluted	79,146	78,856	79,116	78,892
Earnings (loss) per share attributable to controlling interest - diluted	$ (0.22)	$ 0.02	$ 0.15	$ (1.20)
Common shares outstanding at end of period	79,175	78,892	79,175	78,892
Cash dividends declared per share	$ 0.10	$ 0.17	$ 0.30	$ 0.51

See notes to consolidated financial statements.

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WORTHINGTON INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Three Months Ended February 28, 2010	Three Months Ended February 28, 2009	Nine Months Ended February 28, 2010	Nine Months Ended February 28, 2009
Operating activities				
Net earnings (loss) attributable to controlling interest	$ (17,740)	$ 1,554	$ 12,184	$ (94,476)
Adjustments to reconcile net earnings (loss) attributable to controlling interest to net cash provided (used) by operating activities:				
Depreciation and amortization	16,103	15,848	48,431	48,227
Impairment of long-lived assets	32,706	-	35,409	96,943
Restructuring charges, non-cash	147	4,665	3,247	7,611
Provision for deferred income taxes	(4,870)	26,876	(6,173)	(23,296)
Equity in net income of unconsolidated affiliates, net of distributions	(2,090)	29,085	(6,248)	21,543
Net earnings attributable to noncontrolling interest	1,641	2,181	3,930	3,743
Net loss (gain) on sale of assets	(115)	502	(4,407)	512
Stock-based compensation	1,254	1,448	3,404	4,051
Excess tax benefits - stock-based compensation	-	-	-	(355)
Gain on acquisitions and sales of subsidiary investments	-	(8,331)	(891)	(8,331)
Changes in assets and liabilities:				
Receivables	(16,114)	122,679	(13,793)	202,125
Inventories	(31,438)	94,334	(22,040)	234,620
Prepaid expenses and other current assets	(2,536)	(22,821)	17,399	(28,558)
Other assets	112	244	296	899
Accounts payable and accrued expenses	8,053	(132,011)	47,109	(245,202)
Other liabilities	767	(11,567)	2,124	(16,375)
Net cash provided (used) by operating activities	(14,120)	124,686	119,981	203,681
Investing activities				
Investment in property, plant and equipment, net	(5,638)	(19,256)	(26,592)	(49,495)
Acquisitions, net of cash acquired	(30,100)	(150)	(64,164)	(40,375)
Distributions from (investments in) unconsolidated affiliates, net	(568)	6,680	(304)	3,542
Proceeds from sale of assets	185	2,101	14,663	5,559
Proceeds from sale of investments in unconsolidated affiliates	-	22,195	-	24,045
Net cash provided (used) by investing activities	(36,121)	11,570	(76,397)	(56,724)
Financing activities				
Net proceeds from (payments on) short-term borrowings	63,779	(118,139)	119,020	(135,525)
Principal payments on long-term debt	(19,459)	(4)	(138,010)	(252)
Proceeds from issuance of common shares	720	785	2,060	2,528
Excess tax benefits - stock-based compensation	-	-	-	355
Dividends paid to noncontrolling interest	(1,619)	-	(4,539)	(3,216)
Repurchase of common shares	-	-	-	(12,402)
Dividends paid	(7,928)	(13,398)	(23,741)	(40,274)
Net cash provided (used) by financing activities	35,493	(130,756)	(45,210)	(188,786)

Increase (decrease) in cash and cash equivalents	(14,748)	5,500	(1,626)	(41,829)
Cash and cash equivalents at beginning of period	69,441	26,443	56,319	73,772
Cash and cash equivalents at end of period	$ 54,693	$ 31,943	$ 54,693	$ 31,943

See notes to consolidated financial statements.

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WORTHINGTON INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and Nine Month Periods Ended February 28, 2010 and February 28, 2009

(Unaudited)

NOTE A Basis of Presentation

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

Spartan Steel Coating, LLC, in which the Company owns a 52% controlling interest, is fully consolidated with the equity owned by the other joint venture member shown as noncontrolling interest on the consolidated balance sheets, and the other joint venture member s portion of net earnings included as net earnings attributable to noncontrolling interest in the consolidated statements of earnings. Effective June 1, 2009, we adopted new accounting guidance concerning the treatment of noncontrolling interests in consolidated financial statements. The new guidance changed the accounting and reporting for minority interests, which have been recharacterized as noncontrolling interests, as discussed above. Prior period financial statements and disclosures for existing minority interests have been restated in accordance with the new guidance. All other requirements of the new guidance will be applied prospectively. Refer to NOTE C Comprehensive Income and NOTE D Changes in Equity for additional information and revised disclosures required by the adoption of that guidance.

These unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (the United States) 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 accounting principles generally accepted in the United States 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 statement of the results of operations of these interim periods, have been included. Operating results for the three and nine months ended February 28, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending May 31, 2010 (fiscal 2010). Certain prior year amounts have been reclassified to conform to the fiscal 2010 presentation. 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, 2009 (fiscal 2009) of Worthington Industries, Inc.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Recently Issued Accounting Standards: On September 15, 2009, the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification) became the single source of authoritative generally accepted accounting principles in the United States (U.S. GAAP). The Codification changed the referencing of financial standards but did not change or alter existing U.S. GAAP. The Codification became effective for the Company in the second quarter of fiscal 2010.

In December 2008, the FASB issued new accounting guidance on employers disclosures about postretirement benefit plan assets. This guidance requires enhanced disclosures about plan assets in an employer s defined benefit pension or other postretirement plan. Companies will be required to disclose information about how investment allocation decisions are made, the fair value of each major category of plan assets, the basis used to determine the overall expected long-term rate of return on assets assumption, a description of the inputs and valuation techniques used to develop fair value measurements of plan assets and significant concentrations of credit risk. This guidance is effective for fiscal years ending after December 15, 2009. The adoption of this standard in the fourth quarter of fiscal 2010 will require expanded disclosure in the notes to the Company s consolidated financial statements but will not impact amounts within our consolidated financial statements.

In June 2009, the FASB issued an amendment to the accounting and disclosure requirements for transfers of financial assets. This amendment removes the concept of a qualifying special-purpose entity and requires that a transferor recognize and initially measure at fair value all assets obtained and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. This amendment also requires additional disclosures about any transfers of financial assets and a transferor s continuing involvement with transferred financial assets. This amendment is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. While we believe, based on current terms and conditions of related agreements, that the adoption of this amendment will result in recognition on the consolidated balance sheets of our trade accounts receivable securitization facility (see NOTE M Debt and Receivables Securitization for details regarding this facility), we continue to evaluate our options and the full impact of adopting this amendment effective June 1, 2010.

In June 2009, the FASB issued an amendment to the accounting and disclosure requirements for variable interest entities. This amendment changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the purpose and design of the other entity and the reporting entity s ability to direct the activities of the other entity that most significantly impact its economic performance. The amendment also requires additional disclosures about a reporting entity s involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity will be required to disclose how its involvement with a variable interest entity affects the reporting entity s financial statements. This amendment is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. We are currently evaluating the impact of adopting this amendment effective June 1, 2010.

Effective August 31, 2009, we adopted guidance issued in May 2009 by the FASB, which established general standards of accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued. That guidance requires disclosure of the date through which subsequent events are evaluated and whether the date corresponds with the time at which the financial statements were available for issue (as defined) or were issued. During February 2010, and effective immediately upon issuance, the FASB amended that guidance. As a result, the Company is no longer required to, and does not, disclose the date through which subsequent events have been evaluated.

NOTE B Segment Operations

During the fiscal quarter ended February 28, 2010, we made certain organizational changes that impacted the internal reporting and management structure of our previously reported Construction Services operating segment. This operating segment consisted of the Worthington Integrated Building Systems (WIBS) business unit, which included the Mid-Rise Construction, Military Construction and Stairs businesses. As a result of continued challenges facing those businesses, the interaction between those businesses and other operations within the Company and other industry factors, management responsibilities and internal reporting were re-aligned and separated for those entities within WIBS. Operational strategies have also been modified for these businesses, in order to reduce redundancy and competition within the consolidated Company. While the composition of the Company s reportable segments is unchanged from this development (see description within Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Note H Segment Data of the Annual Report on Form 10-K for fiscal 2009 of Worthington Industries, Inc. for a full description of the reportable segments), the level of aggregation within the *Other* category for segment reporting purposes is impacted, as are the identified reporting units used for testing of potential goodwill impairment. Subsequent to this change, and as of February 28, 2010, the *Other* category, for purposes of reporting segment financial information, continues to include Mid-Rise Construction, Military Construction and Stairs. However, those operating units are no longer combined together as the Construction Services operating segment, but are each separate and distinct operating segments, as well as separate reporting units.

During the quarter ended February 28, 2010, prior to the separation of those businesses formerly comprising the Construction Services operating segment and as a result of many of the same factors leading to that change, as described above, we again tested the value of the goodwill balances in the then Construction Services operating segment, after having tested the long-lived assets, including intangible assets with finite useful lives, for impairment. See NOTE I Goodwill and Other Long-Lived Assets for additional details of that testing and the resulting impairments, which are included within the *Other* category in the tables below.

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

(in thousands)	Three Months Ended February 28, 2010	Three Months Ended February 28, 2009	Nine Months Ended February 28, 2010	Nine Months Ended February 28, 2009
Net sales				
Steel Processing	$ 232,219	$ 192,471	$ 639,362	$ 1,003,950
Metal Framing	67,517	137,210	243,529	550,495
Pressure Cylinders	116,538	117,531	322,771	408,330
Other	34,839	53,913	110,959	196,922
Consolidated	$ 451,113	$ 501,125	$ 1,316,621	$ 2,159,697
Operating income (loss)				
Steel Processing	$ 7,465	$ (18,643)	$ 23,008	$ (46,097)
Metal Framing	(9,087)	(6,049)	(10,565)	(139,071)
Pressure Cylinders	4,095	13,136	14,072	51,958
Other	(37,759)	(12,610)	(47,159)	(22,846)
Consolidated	$ (35,286)	$ (24,166)	$ (20,644)	$ (156,056)
Pre-tax impairment of long-lived assets and restructuring and other expense				
Steel Processing	$ 286	$ 2,606	$ 461	$ 3,079
Metal Framing	2,014	5,854	2,995	108,447
Pressure Cylinders	12	-	307	7
Other	33,169	7,849	35,386	22,407
Consolidated	$ 35,481	$ 16,309	$ 39,149	$ 133,940

(in thousands)	February 28, 2010	May 31, 2009
Total assets		
Steel Processing	$ 601,876	$ 469,701
Metal Framing	186,923	226,285
Pressure Cylinders	403,210	355,717
Other	210,964	312,126
Consolidated	$ 1,402,973	$ 1,363,829

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NOTE C Comprehensive Income

The following table summarizes the allocation of total comprehensive income (loss) between controlling and noncontrolling interests for the three and nine month periods ended February 28, 2010:

(in thousands)	Three Months Ended February 28, 2010 Controlling Interest	Noncontrolling Interest	Total	Nine Months Ended February 28, 2010 Controlling Interest	Noncontrolling Interest	Total
Net earnings (loss)	$ (17,740)	$ 1,641	$ (16,099)	$ 12,184	$ 3,930	$ 16,114
Other comprehensive income (loss):						
Foreign currency translation	(10,269)	-	(10,269)	(4,465)	-	(4,465)
Cash flow hedges	1,230	-	1,230	(438)	-	(438)
Pension liability adjustment	265	-	265	2,277	-	2,277
Total comprehensive income (loss)	$ (26,514)	$ 1,641	$ (24,873)	$ 9,558	$ 3,930	$ 13,488

The following table summarizes the allocation of total comprehensive income (loss) between controlling and noncontrolling interests for the three and nine month periods ended February 28, 2009:

(in thousands)	Three Months Ended February 28, 2009 Controlling Interest	Noncontrolling Interest	Total	Nine Months Ended February 28, 2009 Controlling Interest	Noncontrolling Interest	Total
Net earnings (loss)	$ 1,554	$ 2,181	$ 3,735	$ (94,476)	$ 3,743	$ (90,733)
Other comprehensive income (loss):						
Foreign currency translation	(2,281)	-	(2,281)	(25,424)	(1,874)	(27,298)
Cash flow hedges	593	(29)	564	(5,450)	(772)	(6,222)
Pension liability adjustment	(1,109)	-	(1,109)	(1,109)	-	(1,109)
Total comprehensive income (loss)	$ (1,243)	$ 2,152	$ 909	$ (126,459)	$ 1,097	$ (125,362)

NOTE D Changes in Equity

The following table provides a summary of the changes in total equity, shareholders equity attributable to controlling interest, and equity attributable to noncontrolling interest for the nine months ended February 28, 2010:

(in thousands)	Controlling Interest Additional Paid-in Capital	Cumulative Other Comprehensive Income, Net of Tax	Retained Earnings	Total	Noncontrolling Interest	Total
Balance at May 31, 2009	$ 183,051	$ 4,457	$ 518,561	$ 706,069	$ 36,894	$ 742,963
Comprehensive income (loss)*	-	(2,626)	12,184	9,558	3,930	13,488
Common shares issued	1,905	-	-	1,905	-	1,905
Stock-based compensation	3,404	-	-	3,404	-	3,404
Dividends paid to noncontrolling interest	-	-	-	-	(4,539)	(4,539)
Cash dividends declared	-	-	(23,751)	(23,751)	-	(23,751)

Balance at February 28, 2010	$ 188,360	$	1,831	$ 506,994	$ 697,185	$ 36,285	$ 733,470

* The allocation of the components of comprehensive income (loss) attributable to controlling and noncontrolling interests is disclosed in NOTE C Comprehensive Income.

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NOTE E Stock-Based Compensation

During the nine months ended February 28, 2010, we granted non-qualified stock options covering an aggregate of 982,875 common shares under our stock-based compensation plans. The weighted average option price of $13.33 per share reflects the weighted average market price of the underlying common shares at the respective grant dates. The weighted average fair value of these stock options, based on the Black-Scholes option-pricing model, calculated at the respective grant dates, was $4.85 per share. The calculated, pre-tax, stock-based compensation expense for these stock options, after an estimate for forfeitures, is $3,929,000, which will be recognized on a straight-line basis over the vesting period of the stock options. The following weighted average assumptions were used to value the stock options:

Dividend yield	3.1%
Expected term (years)	6.0
Expected volatility	47.9%
Risk-free interest rate	2.9%

The expected volatility is based on the historical volatility of the common shares of the Company, 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 the historical exercise experience.

NOTE F Employee Pension Plans

The following table summarizes the components of net periodic pension cost for our defined benefit plans for the periods indicated:

	Three Months Ended February 28,		Nine Months Ended February 28,	
(in thousands)	**2010**	**2009**	**2010**	**2009**
Defined benefit plans:				
Service cost	$ 208	$ 218	$ 625	$ 669
Interest cost	354	326	1,065	991
Expected return on plan assets	(222)	(306)	(665)	(917)
Net amortization and deferral	63	55	190	165
Net pension cost of defined benefit plans	$ 403	$ 293	$ 1,215	$ 908

We anticipate total contributions of approximately $982,000 to our defined benefit plans in fiscal 2010, of which approximately $855,000 had been made as of February 28, 2010.

NOTE G Income Taxes

The effective income tax rates reflected in the consolidated statements of earnings for the three and nine months ended February 28, 2010 were 29.2% and 19.4%, respectively. The effective income tax rate associated with the loss for the three months ended February 28, 2010 was different than the United States federal statutory income tax rate as a result of impacts that include, but are not limited to, having results from foreign operations taxed at lower foreign income tax rates, the cumulative impact of adjusting the expected annual effective income tax rate (excluding discrete items) and the nature of the income attributable to noncontrolling interests as not taxable to Worthington. The effective income tax rate associated with the earnings for the nine months ended February 28, 2010 also differed from the United States federal statutory income tax rate as a result of the items discussed above, in addition to the impact from the realization of a non-taxable gain on the sale of our Metal Framing operations in Canada.

The effective income tax rates reflected in the consolidated statements of earnings for the three and nine months ended February 28, 2009 were 121.4% and 27.8%, respectively. The effective income tax rate associated with the loss for the three months ended February 28, 2009 was different than the United States federal statutory income tax rate as a result of impacts that include, but are not limited to, having results from foreign operations taxed at lower foreign income tax rates, the cumulative impact of adjusting the expected annual effective income tax rate (excluding discrete items) and the nature of the income attributable to noncontrolling interests as not taxable to Worthington. The effective income tax rate associated with the loss for the nine months ended February 28, 2009 also differed from the United States federal statutory income tax rate as a result of the items discussed above, in addition to the impact from the non-deductible portion of the impairment of the goodwill of the Metal Framing segment.

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NOTE H Investments in Unconsolidated Affiliates

Our investments in affiliated companies that are not controlled, either through majority ownership or otherwise, are accounted for using the equity method. At February 28, 2010, these equity investments, and the percentage interest owned, consisted of: Worthington Armstrong Venture (WAVE) (50%), TWB Company, L.L.C. (45%), Worthington Specialty Processing (WSP) (51%), Serviacero Planos, S.A. de C.V. (50%), LEFCO Worthington, LLC (49%), DMFCWBS, LLC (the Clark JV) (50%), and Samuel Steel Pickling Company (31%). WSP is considered to be jointly controlled and not consolidated due to substantive participating rights of the minority partner.

On August 12, 2009, we joined with ClarkWestern Building Systems, Inc., to create the Clark JV. We contributed certain intangible assets and committed to pay a portion of certain costs and expenses in return for 50% of the units and voting power of the joint venture. The purpose of the joint venture is to develop, test and obtain approvals for metal framing stud designs, as well as to develop, own and license intellectual property related to such designs. The Clark JV will not manufacture or sell any products, but will license its designs to its members and possibly to third parties. The joint venture is accounted for using the equity method of accounting, as both parties have equal voting rights and control.

As further discussed in NOTE K Acquisitions, Worthington acquired certain assets from Gibraltar Industries, Inc. and subsidiaries (Gibraltar) on February 1, 2010. Included in the assets acquired was a 31.25% partnership interest in Samuel Steel Pickling Company, a joint venture which operates a steel pickling facility in Twinsburg, Ohio. The joint venture is accounted for using the equity method of accounting, as the Company does not have a controlling financial interest in the joint venture.

We received distributions from unconsolidated affiliates totaling $39,970,000 during the nine months ended February 28, 2010. We have received cumulative distributions from WAVE in excess of our investment balance, which resulted in an amount within other liabilities on the consolidated balance sheet of $18,686,000 at February 28, 2010. During the nine months ended February 28, 2010 and 2009, the distributions received from WAVE in excess of the Company s cumulative equity in the earnings of that joint venture were $375,000 and $6,680,000, respectively. Those cash flows are included in investing activities in the consolidated statements of cash flows due to the nature of the distributions as returns of investment, rather than returns on investment.

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Combined financial information for the unconsolidated affiliates is summarized in the following table:

(in thousands)	February 28, 2010	May 31, 2009
Cash	$ 73,615	$ 72,103
Other current assets	175,927	165,615
Noncurrent assets	173,244	167,779
Total assets	$ 422,786	$ 405,497
Current liabilities	$ 69,155	$ 57,995
Long-term debt	151,976	150,596
Other noncurrent liabilities	10,821	24,373
Equity	190,834	172,533
Total liabilities and equity	$ 422,786	$ 405,497

(in thousands)	Three Months Ended February 28, 2010	2009	Nine Months Ended February 28, 2010	2009
Net sales	$ 169,569	$ 134,315	$ 505,065	$ 574,960
Gross margin	41,222	23,052	131,756	143,169
Depreciation and amortization	2,556	2,976	7,968	11,056
Interest expense	356	955	1,088	2,957
Income tax expense (benefit)	1,264	(2,855)	2,225	7,330
Net earnings	29,727	5,533	89,636	85,252

NOTE I Goodwill and Other Long-Lived Assets

We review the carrying value of our long-lived assets, including intangible assets with finite useful lives, whenever events or changes in circumstances indicate that the carrying value of an asset or a group of assets may not be recoverable. When a potential impairment is indicated, accounting standards require a charge to be recognized in the consolidated financial statements if the carrying amount of an asset or group of assets exceeds the fair value of that asset or group of assets. The loss recognized would be the difference between the fair value and the carrying amount of the asset or group of assets.

Due to continued deterioration in business and market conditions impacting the Steel Packaging operating segment during the second quarter of fiscal 2010, we determined that certain indicators of potential impairment were present for certain long-lived assets. Therefore, those long-lived assets were tested for impairment during the quarter ended November 30, 2009. Recoverability of the identified asset groups was tested using future cash flow projections based on management s long range estimates of market conditions.

The sum of the undiscounted future cash flows related to the Steel Packaging asset group was less than the net book value for the asset group. Therefore, an impairment loss was recognized at November 30, 2009 in the amount of $2,703,000. The impairment loss was recorded within impairment of long-lived assets in our consolidated statement of earnings for the nine months ended February 28, 2010, and was based on the excess of the assets carrying amounts over their respective fair values at November 30, 2009.

Due to continued deterioration in business and market conditions impacting our Metal Framing operating segment and the then Construction Services operating segment during the third quarter of fiscal 2010, we determined that certain indicators of potential impairment were present for long-lived assets. Therefore, long-lived assets, including intangible assets with finite useful lives, were tested for impairment during the quarter ended February 28, 2010. Recoverability of the identified asset groups was tested using future cash flow projections based on management s long range estimates of market conditions.

The sum of the undiscounted future cash flows related to the Metal Framing asset group was more than the net book value for the asset group. Therefore, there was no impairment loss at February 28, 2010 in the Metal Framing operating segment, other than that described at NOTE L Fair Value.

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The sum of the undiscounted future cash flows related to an identified asset group within the Construction Services operating segment (as previously reported and discussed within NOTE B Segment Operations) was less than the net book value for the asset group. Therefore, an impairment loss was recognized during the fiscal quarter ended February 28, 2010 in the amount of $8,055,000. The impairment loss was recorded within impairment of long-lived assets in our consolidated statements of earnings, and was based on the excess of the assets carrying amounts over their respective fair values at February 28, 2010.

We test our goodwill balances for impairment annually, during the fourth quarter, and more frequently if events or changes in circumstances indicate that goodwill may be impaired. We test goodwill at the operating segment level as we have determined that the characteristics of the components within each operating segment are similar and allow for their aggregation to the operating segment level for testing purposes. The test consists of determining the fair value of the operating segments, using discounted cash flows, and comparing the result to the carrying values of the operating segments. 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, an impairment of the goodwill is indicated. The amount of the impairment would be determined by establishing the fair value of all assets and liabilities of the operating segment, excluding the goodwill, and comparing the total to the estimated fair value of the operating segment. The difference would represent the fair value of the goodwill; and, if it is lower than the book value of the goodwill, the difference would be recorded as a loss in the consolidated statements of earnings.

The results of the Construction Services operating segment (as previously reported and discussed within NOTE B Segment Operations) have continued to deteriorate as the anticipated economic recovery in the commercial construction industry has been pushed further into the future. As a result, management determined that impairment indicators existed in the recent past and the assets (long-lived assets as well as goodwill) of the Construction Services operating segment have been reviewed for potential impairment on a quarterly basis during fiscal 2010. These tests were performed in earlier periods with no impairment resulting. However, each successive test yielded a result closer to the point at which an impairment would be indicated. During the fiscal quarter ended February 28, 2010, we again tested the value of the goodwill balances in the Construction Services operating segment. Based upon the continued depression of the industry and the future uncertainty of the market, we revised the forecasted cash flows used in our previous valuations of this operating segment downward. After reviewing the revised valuation and the fair value estimates of the remaining net assets, it was determined that the value of the business no longer supported its $24,651,000 goodwill balance. As a result, the full amount was written-off in the third fiscal quarter ended February 28, 2010. The impairment loss was recorded within impairment of long-lived assets in our consolidated statements of earnings for the three and nine months ended February 28, 2010. Management continues to assess these business units, as well as market and industry factors impacting the business units, in order to determine the appropriate course of action going forward.

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Changes in the carrying amount of goodwill for the nine months ended February 28, 2010, by reportable segment, are as follows:

(in thousands)	Metal Framing	Pressure Cylinders	Other	Total
Balance at May 31, 2009				
Goodwill	$ 96,943	$ 76,692	$ 24,651	$ 198,286
Accumulated impairment losses	(96,943)	-	-	(96,943)
	-	76,692	24,651	101,343
Acquisitions and purchase accounting adjustments	-	5,625	-	5,625
Translation adjustments	-	(596)	-	(596)
Impairment losses	-	-	(24,651)	(24,651)
Balance at February 28, 2010				
Goodwill	96,943	81,721	24,651	203,315
Accumulated impairment losses	(96,943)	-	(24,651)	(121,594)
	$ -	$ 81,721	$ -	$ 81,721

We will continue to test goodwill and other long-lived assets for impairment in each reporting period in which indicators, or potential indicators, of impairment are present. We will also perform the required annual test of impairment for the goodwill balances related to the Pressure Cylinders operating segment during the fourth fiscal quarter ending May 31, 2010.

NOTE J Restructuring

In the first quarter of fiscal 2008, we announced the initiation of a Transformation Plan (the Plan) with the overall goal to increase the Company s sustainable earnings potential, asset utilization and operational performance. The Plan is being implemented over a three-year period and focuses on cost reduction, margin expansion and organizational capability improvements and, in the process, drives excellence in three core competencies: sales, operations and supply chain management. The Plan is comprehensive in scope and includes aggressive diagnostic and implementation phases in the Steel Processing and Metal Framing operating segments. As a result of the Plan and its related efforts, we have incurred certain asset impairments which have been included within restructuring and other expense in the consolidated statements of earnings. Asset impairment charges which are not a result of these efforts have been included within impairment of long-lived assets in the consolidated statements of earnings.

To date, the following have taken place:

During the first quarter of fiscal 2008, an initial head count reduction plan was put into place, utilizing a combination of voluntary retirement and severance packages. A total of 63 individuals, across the Company, were impacted.

On September 25, 2007, we announced the closure or downsizing of five locations in our Metal Framing operating segment. These actions were completed as of May 31, 2008 and included head count reductions of approximately 165.

During the first quarter of fiscal 2009, the Metal Framing corporate offices were moved from Pittsburgh and Blairsville, Pennsylvania to Columbus, Ohio. Head count was reduced by 33.

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On October 23, 2008, we announced the closure of two facilities, one Steel Processing (Louisville, Kentucky) and one Metal Framing (Renton, Washington), as well as head count reductions of 282. The Louisville facility was closed on February 28, 2009, and the Renton facility closed on December 31, 2008. During the second quarter of fiscal 2010, the remaining assets of the Louisville facility were sold, resulting in a gain of $1,003,000. That gain has been classified within restructuring and other expense in the consolidated statements of earnings, and is included in the gains on dispositions of $4,776,000 noted in the table below.

On December 5, 2008, we announced the closure and/or suspension of operations at three Metal Framing facilities and head count reductions in Steel Processing of 186. The Lunenburg, Massachusetts facility closed and operations suspended in Miami, Florida and Phoenix, Arizona on February 28, 2009. The associated head count impact for Metal Framing was a reduction of 125.

In August 2009, the Lunenburg, Massachusetts facility met the held for sale classification criteria under applicable accounting guidance. After an immaterial adjustment to fair value, the $1,235,000 carrying value of that facility has been included within assets held for sale in the consolidated balance sheet as of February 28, 2010.

The decision was made during the first quarter of fiscal 2010 to close the Joliet, Illinois Metal Framing facility. A majority of the roll forming operation located at that facility was moved to the Hammond, Indiana facility during the third quarter of fiscal 2010. Approximately $1,717,000 of impairment was recognized during the nine months ended February 28, 2010 related to this closure.

During the third quarter of fiscal 2010, additional head count reductions took place across locations within Metal Framing, Military Construction and Mid-Rise Construction. A total of 113 individuals were impacted.

In February 2010, the Rock Hill, South Carolina Steel Processing facility met the held for sale classification criteria under applicable accounting guidance. The $1,311,000 carrying value of that facility, which was determined to be below fair value, has been included within assets held for sale in the consolidated balance sheet as of February 28, 2010.

A total of $64,892,000 has been recorded to date as restructuring and other expense in the consolidated statements of earnings: $18,111,000 and $43,041,000 were incurred in fiscal 2008 and fiscal 2009, respectively, and $3,740,000 was incurred during the first nine months of fiscal 2010. Restructuring and other expense for the first nine months of fiscal 2010 is summarized as follows:

(in thousands)	5/31/2009 Liability	Expense	Payments	Adjustments	2/28/2010 Liability
Early retirement and severance	$ 3,201	$ 3,299	$ (4,568)	$ (15)	$ 1,917
Other costs	999	1,970	(2,470)	-	499
	$ 4,200	5,269	$ (7,038)	$ (15)	$ 2,416
Non-cash restructuring charges		3,247			
Gains on dispositions		(4,776)			
Total		$ 3,740			

To assist in the development and implementation of the Plan, a consulting firm was retained. The services provided by this firm included assistance through diagnostic tools, performance improvement technologies, project management techniques, benchmarking information and insights that directly related to the Plan. Accordingly, the firm s fees were included in restructuring charges. Those services began at the onset of the Plan and concluded in fiscal 2009. Though decreasing in level and amount, continued restructuring charges are expected to be incurred under the Plan during the remainder of fiscal 2010 and into the early periods of the next fiscal year. Recent charges have been, and future charges are expected to be, largely comprised of continued severance, retirement and internal transformation team expense, as well as non-cash impairment losses and accelerated depreciation expense for impacted assets.

Included in the $4,776,000 gains on dispositions above is a gain of $3,773,000 on the sale of our Metal Framing operations in Canada. The sale included two manufacturing facilities located in Burnaby, British Columbia and Mississauga, Ontario and two sales and distribution centers located in LaSalle, Quebec and Edmonton, Alberta. Because the sale did not meet the criteria for classification as discontinued operations, the resulting gain has been included within operating income in the Company s consolidated statements of earnings.

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NOTE K Acquisitions

Effective June 1, 2009, we adopted updated accounting standards aimed at improving the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. As a result, transaction costs associated with the acquisitions of the steel processing assets of Gibraltar, assets related to the businesses of Piper Metal Forming Corporation, U.S. Respiratory, Inc. and Pacific Cylinders, Inc. (collectively, Piper) and the membership interests of Structural Composites Industries, LLC (SCI) were expensed, and recorded within selling, general and administrative expense in the consolidated statements of earnings, and a gain on the Piper acquisition was recorded, as discussed below.

On June 1, 2009, Worthington purchased substantially all of the assets of Piper for cash of $9,713,000. Piper is a manufacturer of aluminum high pressure cylinders and impact extruded steel and aluminum parts, serving the medical, automotive, defense, oil services and other commercial markets, with one manufacturing location in New Albany, Mississippi. It operates as part of Worthington s Pressure Cylinders operating segment. Piper s aluminum products increase our line of industrial gas product offerings and present an opportunity to increase our participation in the growing medical market.

The acquired assets and assumed liabilities in the Piper acquisition were measured and recognized based on their estimated fair values at the date of acquisition, with the gain on the acquisition of $891,000 representing the excess of the fair value of identifiable net assets over the purchase price. The Company was able to realize a gain on this transaction as a result of the then current market conditions and the seller s desire to exit the business. The gain on this transaction was recorded in miscellaneous income (expense) on the consolidated statements of earnings.

The assets acquired and liabilities assumed in the Piper acquisition were as follows:

(in thousands)	
Accounts receivable	$ 3,935
Inventory	4,142
Other current assets	296
Property, plant and equipment, net	4,300
Total assets	12,673
Accounts payable	(1,711)
Accrued liabilities	(358)
Identifiable net assets	10,604
Gain on acquisition	(891)
Total purchase price	$ 9,713

On September 3, 2009, the Company acquired the membership interests of SCI for cash of $24,351,000. SCI is a manufacturer of U.S. Department of Transportation-approved lightweight, aluminum-lined, composite-wrapped high pressure cylinders used in commercial, military, marine and aerospace applications. Product lines include cylinders for alternative fuel vehicles using compressed natural gas or hydrogen, self-contained breathing apparatuses, aviation oxygen and escape slides, military applications, home oxygen therapy and advanced and cryogenic structures. SCI operates as part of Worthington s Pressure Cylinders operating segment. The acquisition of SCI allows the Company to continue to grow the Pressure Cylinders business and provides an entry into weight critical applications, further broadening the portfolio beyond the operating segment s original, core markets.

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The acquired assets and assumed liabilities in the SCI acquisition were measured and recognized based on their estimated fair values at the date of acquisition, with goodwill representing the excess of the purchase price over the fair value of the identifiable net assets. Intangible assets, consisting mostly of customer list, trade name and technology, will be amortized over a weighted average life of 13.5 years on a straight-line basis. While the Company does not anticipate any significant changes to the initial accounting for this transaction, final review of the purchased net assets and related fair value determinations remains in process and could result in future adjustments within the measurement period, as defined within applicable accounting guidance.

Cash flows used to determine the purchase price included strategic and synergistic benefits (investment value) specific to us, which resulted in a purchase price in excess of the fair value of identifiable net assets. Since the fair values assigned to the acquired assets could only assume strategies and synergies of market participants, that additional investment value specific to us was included in goodwill. The purchase price included fair values of other assets that were not identifiable, not separately recognizable under accounting rules (e.g., assembled workforce), or of immaterial value. Goodwill of $5,625,000 is expected to be deductible for income tax purposes.

The assets acquired and liabilities assumed in the SCI acquisition were as follows:

(in thousands)	
Accounts receivable	$ 2,897
Inventory	4,929
Other current assets	116
Intangible assets	7,800
Property, plant and equipment, net	6,117
Total assets	21,859
Accounts payable	(1,535)
Accrued liabilities	(1,576)
Other liabilities	(22)
Identifiable net assets	18,726
Goodwill	5,625
Total purchase price	$ 24,351

On February 1, 2010, the Company acquired the steel processing assets of Gibraltar for cash of $29,030,000. Those assets are now operated within the Steel Processing operating segment of Worthington. The acquisition will expand the capabilities of the Company s cold-rolled strip business and its ability to service the needs of new and existing customers. The assets acquired were Gibraltar s Cleveland, Ohio facility, equipment and inventory of Gibraltar s Buffalo, New York facility and a warehouse in Detroit, Michigan. Also acquired was the stock of Cleveland Pickling, Inc., whose only asset is a 31.25% interest in Samuel Steel Pickling Company, a joint venture which operates a steel pickling facility in Twinsburg, Ohio.

The acquired assets and assumed liabilities in the Gibraltar acquisition were measured and recognized based on their estimated fair values at the date of acquisition. Intangible assets, consisting mostly of customer list, will be amortized over a weighted average life of 9.7 years on a straight-line basis. The purchase price included fair values of other assets that were not identifiable, not separately recognizable under accounting rules (e.g., assembled workforce), or of immaterial value. The estimated fair value of assets acquired and liabilities assumed approximated the purchase price, and therefore no goodwill, nor any bargain purchase gain, was generated. While the Company does not anticipate any changes to the initial accounting for this transaction, final review of the purchased net assets and related fair value determinations remains in process and could result in future adjustments within the measurement period, as defined within applicable accounting guidance. The $29,030,000 purchase price includes a final working capital adjustment of $(1,070,000). That amount was not yet received by the Company as of February 28, 2010 and is reflected as a receivable in the consolidated balance sheet as of that date.

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The assets acquired and liabilities assumed in the Giraltar acquisition were as follows:

(in thousands)	
Accounts receivable	$ 274
Inventory	24,059
Other current assets	143
Intangible assets	3,784
Property, plant and equipment, net	19,227
Investment in affiliate	2,500
Total assets	49,987
Accounts payable	(19,870)
Accrued liabilities	(1,087)
Identifiable net assets	29,030
Goodwill	-
Total purchase price	$ 29,030

Operating results of Piper have been included in the consolidated statements of earnings from the acquisition date, which was the first day of fiscal 2010, forward. Operating results of SCI have been included in the consolidated statements of earnings from the acquisition date of September 3, 2009, forward. Operating results generated from the steel processing assets acquired from Gibraltar have been included in the consolidated statements of earnings from the acquisition date of February 1, 2010, forward. Pro forma results, including the acquired businesses described above since the beginning of fiscal 2009, would not be materially different than the actual results reported.

NOTE L Fair Value

Effective June 1, 2008, we adopted accounting guidance that established a framework for measuring fair value and expanded disclosures about fair value measurements. This guidance was effective for our financial assets and liabilities after May 31, 2008, and was effective for our non-financial assets and liabilities after May 31, 2009. The adoption of this fair value guidance did not have a material impact on amounts within our consolidated financial statements.

Fair value is an exit price, representing the amount that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. Fair value is to be determined based on assumptions that market participants would use in pricing an asset or liability. Current authoritative accounting guidance uses a three-tier hierarchy that classifies assets and liabilities based on the inputs used in the valuation methodologies. In accordance with this guidance, we measured our derivative contracts at fair value. We classified these as level 2 assets and liabilities, as they are based upon models utilizing market observable inputs and credit risk. Derivative instruments are executed only with highly rated financial institutions. No credit loss is anticipated on existing instruments, and no material credit losses have been experienced to date. The Company continues to monitor its positions, as well as the credit ratings of counterparties to those positions.

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At February 28, 2010, our financial assets and liabilities measured at fair value on a recurring basis were as follows:

(in thousands)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Assets				
Commodity derivative contracts	$ -	$ 833	$ -	$ 833
Liabilities				
Foreign currency derivative contracts	$ -	$ 359	$ -	$ 359
Interest rate derivative contracts	-	9,112	-	9,112
Commodity derivative contracts	-	98	-	98
Total liabilities	$ -	$ 9,569	$ -	$ 9,569

Refer to NOTE N Derivative Instruments and Hedging Activities for additional information regarding the location within the consolidated balance sheets and the risk classification of the Company s derivative instruments.

At February 28, 2010, the fair values of the Company s assets measured on a non-recurring basis are categorized as follows:

(in thousands)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Assets				
Long-lived assets held for sale	$ -	$ 1,235	$ -	$ 1,235
Long-lived assets held and used	-	4,420	1,628	6,048
Total assets	$ -	$ 5,655	$ 1,628	$ 7,283

Certain assets of the Lunenburg, Massachusetts Metal Framing facility were written down to their fair value of $1,235,000, resulting in an impairment charge of $311,000, which was included in net earnings, within restructuring and other expense, for the nine months ended February 28, 2010. The assets fair values were determined based on market prices for similar assets, as well as indications of value from a potential sale transaction specific to these assets. See NOTE J Restructuring for additional details.

Certain assets of the Joliet, Illinois Metal Framing facility were written down to their fair value of $3,848,000, resulting in an impairment charge of $1,717,000, which was included in net earnings, within restructuring and other expense, for the nine months ended February 28, 2010. The assets fair values were determined based on market prices for similar assets. See NOTE J Restructuring for additional details.

Certain assets of the Steel Packaging operating segment were written down to their fair value of $572,000, resulting in an impairment charge of $2,703,000, which was included in net earnings, within impairment of long-lived assets, for the nine months ended February 28, 2010. The assets fair values were determined based on market prices for similar assets. See NOTE I Goodwill and Other Long-Lived Assets for additional details.

Certain assets within Construction Services (as previously reported and discussed within NOTE B Segment Operations) were written down to their fair value of $1,628,000, resulting in an impairment charge of $8,055,000, which was included in net earnings, within impairment of long-lived assets, for the nine months ended February 28, 2010. The assets fair values were determined based on discounted cash flow models utilizing market observable inputs, as well as certain unobservable inputs. In determining the fair values of these assets, management was required to make certain assumptions regarding the expected cash flows and the discount rates used to determine the present values of those cash flows. Due to the weight of the unobservable inputs used, we have classified the values of these impaired assets as Level 3 within the fair value hierarchy. See NOTE I Goodwill and Other Long-Lived Assets for additional details.

Effective August 31, 2009, we adopted an accounting standard that updated guidance concerning interim disclosures about fair values of financial instruments. That standard requires disclosures about fair values of financial instruments in all interim financial statements as well as in annual financial statements.

The non-derivative financial instruments included in the carrying amounts of cash and cash equivalents, receivables, income tax receivables, other assets, accounts and notes payable, accrued expenses, income taxes payable and other liabilities approximate fair values. The fair value of long-term debt, including current maturities, based upon models utilizing market observable inputs and credit risk, was $96,629,000 and $242,136,000 at February 28, 2010 and May 31, 2009, respectively. See NOTE M Debt and Receivables Securitization for a description of the repurchase transaction and subsequent maturity that caused a substantial decrease in the outstanding amounts of both the carrying and fair values of our long-term debt during the nine months ended February 28, 2010.

NOTE M Debt and Receivables Securitization

On June 12, 2009, we redeemed $118,545,000 of the then $138,000,000 outstanding 6.70% senior notes due December 1, 2009 (the Notes). The consideration paid for the Notes was $1,025 per $1,000 principal amount of the Notes, plus accrued and unpaid interest. The remainder of the Notes became due and was redeemed, at face amount, on December 1, 2009. The redemptions were funded by a combination of cash on hand and borrowings under existing credit facilities.

We have a $435,000,000 multi-year revolving credit facility (the Facility) with a group of lenders. The Facility matures in May 2013, except for a $35,000,000 commitment by one lender, which expires in September 2010. The outstanding balance under the Facility at February 28, 2010 was $120,000,000. Additionally, and as discussed in NOTE O Guarantees and Warranties, we provided $8,260,000 in letters of credit for third-party beneficiaries as of February 28, 2010. While not drawn against at February 28, 2010, these letters of credit are issued against availability under the Facility, leaving $306,740,000 available under the Facility at February 28, 2010. Additionally, at February 28, 2010, we had $100,000,000 floating rate senior notes outstanding, which are due on December 17, 2014 (the 2014 Notes) and bear interest at a variable rate equal to six-month LIBOR plus 80 basis points. However, we entered into an interest rate swap agreement whereby we receive interest on the $100,000,000 notional amount at the six-month LIBOR rate and we pay interest on the same notional amount at a fixed rate of 4.46%, effectively fixing the interest rate at 5.26%. See NOTE N Derivative Instruments and Hedging Activities for additional information regarding the Company s derivative instruments.

We maintain a $100,000,000 revolving trade accounts receivable securitization facility, which expires in January 2011 (the AR Facility). The AR Facility has been available throughout fiscal 2010 to date, and was available throughout fiscal 2009. Transactions under the AR Facility have been accounted for as sales. Pursuant to the terms of the AR Facility, certain of our subsidiaries sell their accounts receivable without recourse, on a revolving basis, to Worthington Receivables Corporation (WRC), a wholly-owned, consolidated, bankruptcy-remote subsidiary. In turn, WRC may sell without recourse, on a revolving basis, up to $100,000,000 of undivided ownership interests in this pool of accounts receivable to a multi-sell, asset-backed commercial paper conduit (the Conduit). Purchases by the Conduit are financed with the sale of A1/P1 commercial paper. We retain an undivided interest in this pool and are subject to risk of loss based on the collectability of the receivables from this retained interest. Because the amount eligible to be sold excludes receivables more than 90 days past due, receivables offset by an allowance for doubtful accounts due to bankruptcy or other cause, receivables from certain foreign customers, 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. Accounts receivable sold under the AR Facility are excluded from accounts receivable in the consolidated financial statements. As of February 28, 2010, the pool of eligible accounts receivable exceeded the $100,000,000 limit, and $90,000,000 of undivided ownership interests in this pool of accounts receivable had been sold.

NOTE N Derivative Instruments and Hedging Activities

Interest Rate Risk We entered into an interest rate swap in October 2004, which was amended December 17, 2004. The swap has a notional amount of $100,000,000 to hedge changes in cash flows attributable to changes in the LIBOR rate associated with the December 17, 2004 issuance of the 2014 Notes (see NOTE M Debt and Receivables Securitization). We pay a fixed rate of 4.46% and receive a variable rate based on six-month LIBOR. The interest rate derivative is classified as a cash flow hedge. The effective portion of the changes in the fair value of the derivative is recorded in other comprehensive income and is reclassified to interest expense in the period in which earnings are impacted by the hedged item or in the period that the transaction no longer qualifies as a cash flow hedge.

Foreign Currency Risk The translation of foreign currencies into United States Dollars subjects the Company to exposure related to fluctuating exchange rates. Derivative instruments are not used to manage this risk; however, the Company does make use of forward contracts to manage exposure to certain inter-company loans with our foreign affiliates. Such contracts limit exposure to both favorable and unfavorable currency fluctuations. At February 28, 2010, the difference between the contract and book value was not material to the Company s consolidated financial position, results of operations or cash flows. The changes in the fair value of the derivative instruments are recorded either in the consolidated balance sheets under foreign currency translation or in net earnings in the same period in which foreign currency translation or net earnings are impacted by the hedged items.

Commodity Price Risk The Company attempts to negotiate the best prices for commodities and to competitively price products and services to reflect the fluctuations in market prices. To further manage its exposure to fluctuations in the cost of steel, natural gas, zinc and other raw materials and utility requirements, the Company has used derivative instruments to cover periods commensurate with known or expected exposures. No derivative instruments are held for trading purposes. When qualified for derivative accounting, the effective portion of the changes in the fair value of cash flow derivatives is recorded in other comprehensive income (OCI) and reclassified to cost of goods sold in the period in which earnings are impacted by the hedged items or in the period that the transaction no longer qualifies as a cash flow hedge. If the derivative instruments do not qualify for hedge accounting, changes in their fair value are recorded directly in cost of goods sold.

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Refer to NOTE L Fair Value for additional information regarding the accounting treatment and Company policy for derivative instruments, as well as how fair value is determined for the Company s derivative instruments. The fair value of derivative instruments at February 28, 2010 is summarized in the following table:

	Asset Derivatives		Liability Derivatives	
(in thousands)	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives designated as hedging instruments:				
Interest rate contracts	Receivables	$ -	Accounts payable	$ 2,026
	Other assets	-	Other liabilities	7,086
		-		9,112
Commodity contracts	Receivables	726	Accounts payable	-
	Other assets	-	Other liabilities	-
		726		-
Totals		$ 726		$ 9,112
Derivatives not designated as hedging instruments:				
Commodity contracts	Receivables	$ 107	Accounts payable	$ 98
	Other assets	-	Other accrued items	-
		107		98
Foreign exchange contracts	Receivables	-	Accounts payable	-
	Other assets	-	Other accrued items	359
		-		359
Totals		$ 107		$ 457

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The effect of derivative instruments on the consolidated statements of earnings is summarized in the following tables:

Derivatives designated as cash flow hedging instruments:

(in thousands)	Income (Loss) Recognized in OCI (Effective Portion)	Location of Loss Reclassified from Accumulated OCI (Effective Portion)	Loss Reclassified from Accumulated OCI (Effective Portion)	Location of Income (Ineffective Portion) and Excluded from Effectiveness Testing	Income (Ineffective Portion) and Excluded from Effectiveness Testing
For the three months ended February 28, 2010:					
Interest rate contracts	$ 181	Interest expense	$ (971)	Interest expense	$ -
Commodity contracts	674	Cost of goods sold	-	Cost of goods sold	95
Totals	$ 855		$ (971)		$ 95
For the nine months ended February 28, 2010:					
Interest rate contracts	$ (4,027)	Interest expense	$ (2,597)	Interest expense	$ -
Commodity contracts	674	Cost of goods sold	-	Cost of goods sold	95
Totals	$ (3,353)		$ (2,597)		$ 95

The estimated net amount of the existing losses in accumulated other comprehensive income at February 28, 2010 expected to be reclassified into net earnings within the succeeding twelve months was $1,345,000 (net of tax of $681,000). This amount was computed using the fair value of the cash flow hedges at February 28, 2010, and will change before actual reclassification from other comprehensive income to net earnings during the fiscal years ending May 31, 2010 and 2011.

Derivatives not designated as hedging instruments:

		Income Recognized in Earnings	
(in thousands)	Location of Income Recognized in Earnings	Three Months Ended February 28, 2010	Nine Months Ended February 28, 2010
Commodity contracts	Cost of goods sold	$ 24	$ 24
Foreign exchange contracts	Miscellaneous income (expense)	4,524	1,478
Total		$ 4,548	$ 1,502

The gain on the foreign currency derivatives significantly offsets the loss on the hedged items.

NOTE O Guarantees and Warranties

The Company does not have guarantees that it believes are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources. However, as of February 28, 2010, the Company was party to an operating lease for an aircraft in which the Company has guaranteed a residual value at the termination of the lease. The maximum obligation under the terms of this guarantee was approximately $15,501,000 at February 28, 2010. Based on current facts and circumstances, the Company has estimated the likelihood of payment pursuant to this guarantee, and determined that the fair value of the obligation based on those likely outcomes is not material.

The Company also had in place $8,260,000 of outstanding stand-by letters of credit as of February 28, 2010. These letters of credit were issued to third-party service providers and had no amounts drawn against them at February 28, 2010. Fair value of these guarantee instruments, based on premiums paid, was not material at February 28, 2010.

We have established reserves for anticipated sales returns and allowances, including limited warranties on certain products. The liability for sales returns and allowances is primarily based on historical experience and current information. The liability amounts related to warranties were immaterial at February 28, 2010 and May 31, 2009.

NOTE P Contingent Liabilities

The Company has been involved in a dispute with a customer, Irwin Industrial Tool Company (d/b/a BernzOmatic), a subsidiary of Newell Rubbermaid, Inc. (BernzOmatic), relating to a three-year supply contract (the Contract) that took effect January 1, 2006, and which the Company terminated effective March 1, 2007. The dispute relates primarily to the Company s early termination of the Contract as a result of certain actions of BernzOmatic which the Company believed breached the Contract, and the resulting price increases charged to BernzOmatic after such early termination. As required by U.S. GAAP, the Company deferred $9,304,000 of revenue relating to cash received for the price increases, which effectively created a reserve in that amount relating to this dispute.

The dispute was litigated in Federal District Court in Charlotte, North Carolina. On February 26, 2010, the jury awarded contract damages relating to the price increases and other items to BernzOmatic of approximately $13,002,000, which is $3,698,000 in excess of the revenue recognition reserve. The Company recorded this $3,698,000 pre-tax charge in net earnings, within selling, general and administrative expense, for the nine months ended February 28, 2010.

The Company believes that it has numerous grounds to appeal the jury s verdict, and intends to pursue such an appeal.

The Company expects that payment of the jury award will be stayed pending appeal and will post any bond necessary to effect such a stay.

We are defendants in certain other 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.

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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, 2009.

Introduction

The following discussion and analysis of market and industry trends, business strategy, 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 conjunctio with our consolidated financial statements 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, 2009 (fiscal 2009) includes additional information about our Company, 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 metal processing company, focused on value-added steel processing and manufactured metal products. As of February 28, 2010, we operated 64 manufacturing facilities worldwide, including our joint ventures, principally in three reportable segments: Steel Processing, Metal Framing and Pressure Cylinders. Other operating segments, which are immaterial for purposes of separate disclosure, include Automotive Body Panels, Steel Packaging, Mid-Rise Construction, Military Construction and Stairs. We also held equity positions in eight joint ventures, which operated 23 manufacturing facilities worldwide.

Overview

During the third quarter of the fiscal year ending May 31, 2010 (fiscal 2010), the Company continued to persevere through the weak economic conditions. While there has been some stabilization in the economy and some indications that the recession has ended, the economy has yet to recover. The construction market, in particular, continues to struggle. Because of this market weakness, management revised its strategy and reorganized the businesses which had previously made up the Construction Services segment. In the current quarter, we recorded $32.7 million in total charges related to the then Construction Services operating segment. These charges included a write-off of goodwill of $24.7 million and impairment of certain other long-lived assets of $8.0 million. See Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE I Goodwill and Other Long-Lived Assets for more information on the charges, and Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE B Segment Operations for more information on the reorganization of the Construction Services segment.

The Transformation Plan (the Plan), which began in the first quarter of fiscal 2008, has continued through the current quarter. In our Steel Processing segment, we have completed the diagnostic and implementation phases (the Transformation Study) at five of our facilities. In our Metal Framing segment, we have completed the diagnostic phase at six facilities and the implementation phase at five of those facilities. We anticipate that we will have substantially completed the Transformation Study at an additional six Metal Framing and three Steel Processing facilities by the end of calendar 2010. As a result, we will continue to incur restructuring expenses relating to the Transformation Study through that period, but they should continue to diminish. The need for other restructuring charges will depend largely on recommendations developed from the Transformation Study. We believe that the Plan has lowered, and will continue to lower, the break-even points of our facilities and has positioned us to respond more quickly to current and future opportunities and challenges.

Market & Industry Overview

For the three months ended February 28, 2010, our consolidated net sales breakdown by end user market is illustrated by the following chart. Substantially all of the net sales of our Metal Framing, Mid-Rise Construction, Military Construction, and Stairs segments, as well as approximately 15% of the net sales of our Steel Processing segment, are to the construction market, both residential and non-residential. We estimate that approximately 3% of our consolidated net sales, or 11% of our construction market net sales, are to the residential market. While the market price of steel significantly impacts this business, there are other key indicators that are meaningful in analyzing construction market demand including the United States of America gross domestic product (U.S. GDP), the Dodge Index of construction contracts and trends in the relative price of framing lumber and steel. Construction is also the predominant end market for our joint venture, Worthington Armstrong Venture (WAVE). The net sales of WAVE are not consolidated in our results; however, adding our ownership percentage of joint venture net sales to our reported net sales would not materially change the consolidated net sales breakdown in the following chart.

The automotive industry is the largest consumer of flat-rolled steel and thus the largest end market for our Steel Processing segment. Approximately 50% of the net sales of our Steel Processing segment, and substantially all of the net sales of our Automotive Body Panels 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 these two segments. These segments are also impacted by the market price of steel. The majority of the net sales from two of our unconsolidated joint ventures are also to the automotive end market. These net sales are not consolidated in our results; however, adding our ownership percentage of joint venture net sales to our reported net sales would not materially change the consolidated net sales breakdown in the previous chart.

The net sales of our Pressure Cylinders and Steel Packaging segments, and approximately 35% of the net sales of our Steel Processing segment, are to other markets such as leisure and recreation, industrial gas, HVAC, lawn and garden, agriculture and appliance. Given the many different product lines 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 is generally a good economic indicator for analyzing this activity.

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

	Three Months Ended February 28, 2010	2009	Inc / (Dec)	Nine Months Ended February 28, 2010	2009	Inc / (Dec)
U.S. GDP (% growth year-over-year)	1.3%	(2.8%)	3.3%	(0.9%)	(1.2%)	0.3%
Hot-Rolled Steel ($ per ton) [1]	$ 549	$ 527	$ 22	$ 509	$ 822	($ 313)
Detroit Three Auto Build (000's vehicles) [2]	1,429	956	473	3,976	4,504	(529)
No. America Auto Build (000's vehicles) [2]	2,621	1,725	895	7,544	7,955	(411)
Dodge Index	90	88	2	88	103	(15)
Framing Lumber ($ per 1,000 board ft) [3]	$ 277	$ 203	$ 74	$ 250	$ 239	$ 11
Zinc ($ per pound) [4]	$ 1.06	$ 0.51	$ 0.55	$ 0.92	$ 0.66	$ 0.26
Natural Gas ($ per mcf) [5]	$ 5.26	$ 5.44	($ 0.18)	$ 4.36	$ 8.10	($ 3.74)
Retail Diesel Prices, All Types ($ per gallon) [6]	$ 2.61	$ 2.80	($ 0.19)	$ 2.63	$ 3.57	($ 0.94)

[1] CRU Index; period average [2] CSM Autobase [3] Random Lengths; period average [4] LME Zinc; period average [5] NYMEX Henry Hub Natural Gas; period average [6] Energy Information Administration; period average

U.S. GDP growth rate trends are generally indicative of the strength in demand and, in many cases, pricing for our products. Historically, we have seen that year-over-year decreasing U.S. GDP growth rates can signal, or be indicative of, negative trends in our results, as a weaker economy generally reduces demand and pricing for our products. Conversely, the opposite is also generally true. Changes in U.S. GDP growth rates can also signal changes in conversion costs related to production and in selling, general and administrative expenses (SG&A expenses).

In recent quarters, the market price of hot-rolled steel has been one of the most significant factors impacting selling prices and has materially impacted earnings. In a rising price environment, our results are generally favorably impacted as lower-priced material, purchased in previous periods, flows through cost of goods sold, while our selling prices increase at a faster pace to cover current replacement costs. On the other hand, 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.

No single customer contributed more than 5% of our consolidated net sales for the quarter. While our automotive business is largely driven by the production schedules of the Detroit Three automakers, our customer base is much broader and includes many of their suppliers as well. Automotive production from the Detroit Three automakers has been low in fiscal 2010 when compared to historical production. However, production in the current quarter has rebounded slightly, helping to increase volumes in the Steel Processing business. We continue to pursue customer diversification beyond the Detroit Three automakers and their suppliers, and, in recent quarters, we have increased our business in other markets such as agriculture and appliance.

The Dodge Index represents the value of total construction contracts, including residential and non-residential building construction. This overall index serves as a broad indicator of the construction markets in which we participate, as it tracks actual construction starts. The relative price of framing lumber, an alternative construction material against which we compete, can also affect our Metal Framing segment, as certain applications may permit the use of this alternative building material.

The market trends of certain other commodities such as zinc, natural gas and diesel fuel can be important to us as they represent a significant portion of our cost of goods sold, both directly through our plant operations and indirectly through transportation and freight expense.

Recent Developments

On February 1, 2010, Worthington Steel acquired the steel processing assets of Gibraltar Industries, Inc. and its subsidiaries (the Gibraltar Assets). The acquisition expands the capabilities of our existing cold-rolled strip business and our ability to service the needs of new and existing customers. See Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE K Acquisitions for more information.

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Results of Operations

Third Quarter Fiscal 2010 Compared to Fiscal 2009

Consolidated Operations

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

	Three Months Ended February 28,				
Dollars in millions	**2010**	**% of Net sales**	**2009**	**% of Net sales**	**Increase/ (Decrease)**
Net sales	$ 451.1	100.0%	$ 501.1	100.0%	$ (50.0)
Cost of goods sold	393.4	87.2%	461.2	92.0%	(67.8)
Gross margin	57.7	12.8%	39.9	8.0%	17.8
Selling, general and administrative expense	57.5	12.7%	47.8	9.5%	9.7
Impairment of long-lived assets	32.7	7.2%	-	0.0%	32.7
Restructuring and other expense	2.8	0.6%	16.3	3.3%	(13.5)
Operating loss	(35.3)	-7.8%	(24.2)	-4.8%	(11.1)
Miscellaneous expense	(0.2)	-0.1%	(1.1)	-0.2%	0.9
Gain on sale of investment in Aegis	-	0.0%	8.3	1.7%	(8.3)
Interest expense	(1.9)	-0.4%	(4.3)	-0.9%	2.4
Equity in net income of unconsolidated affiliates	14.6	3.2%	3.8	0.8%	10.8
Income tax benefit	6.7	1.5%	21.2	4.2%	(14.5)
Net earnings (loss)	(16.1)	-3.6%	3.7	0.7%	(19.8)
Net earnings attributable to noncontrolling interest	(1.6)	-0.4%	(2.2)	-0.4%	0.6
Net earnings (loss) attributable to controlling interest	$ (17.7)	-3.9%	$ 1.5	0.3%	$ (19.2)

Net earnings (loss) represents the results of our consolidated operations, including 100% of our consolidated joint venture, Spartan Steel Coating, LLC (Spartan), of which we own 52%. The noncontrolling interest, or 48% of Spartan, is subtracted to arrive at net earnings (loss) attributable to controlling interest. For the third quarter of fiscal 2010, the Company had a net loss attributable to controlling interest of $17.7 million versus net earnings attributable to controlling interest of $1.5 million for the same quarter in the prior year.

Net sales decreased $50.0 million, or 10%, from the prior year to $451.1 million. Lower average selling prices decreased net sales by $58.0 million from the prior year; while higher volumes in Steel Processing and Pressure Cylinders, boosted net sales by $8.0 million. Although the third quarter of fiscal 2010 average market price of steel is slightly higher than the year ago period, our average selling prices last year were higher since they included some higher fixed contract pricing that was in place when the market price of steel was at record highs.

Gross margin increased $17.8 million from the prior year, largely as a result of the improved spread between average selling prices and material costs ($20.9 million), primarily in Steel Processing and Pressure Cylinders, offset by volume declines in Metal Framing and the former Construction Services operating segment.

SG&A expense increased $9.7 million due to $2.3 million of additional expenses resulting from the acquisitions of assets related to the businesses of Piper Metal Forming Corporation, U.S. Respiratory, Inc. and Pacific Cylinders, Inc. (collectively, Piper), the membership interests of Structural Composites Industries, LLC (SCI) and the Gibraltar Assets and $4.9 million in charges and legal fees related to the litigation with Irwin Industrial Tool Company (d/b/a BernzOmatic), a subsidiary of Newell Rubbermaid, Inc. (BernzOmatic), in which contract damages were awarded to BernzOmatic. See Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE P Contingent Liabilities for more information concerning the BernzOmatic litigation. In addition, higher profit sharing and bonus expenses were partially offset by lower bad debt expense.

Restructuring and impairment charges totaled $35.5 million versus $16.3 million in the prior year. The current quarter includes a $24.7 million write-off of goodwill and an $8.0 million impairment of other long-lived assets associated with the former Construction Services operating segment. All restructuring charges for this quarter and the prior year quarter related to efforts under the ongoing Plan.

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Interest expense decreased $2.4 million from the prior year due to lower average borrowings and lower interest rates. We redeemed $118.5 million of 6.7% senior notes in June 2009, and the remaining $19.5 million of those notes upon maturity in December 2009. The redemptions were funded by a combination of cash on hand and borrowings under existing credit facilities, which carry a much lower interest rate than the 6.7% senior notes.

Equity in net income from the seven unconsolidated affiliates of $14.6 million increased $10.8 million from the third quarter of fiscal 2009. The vast majority of the equity in net income was from WAVE, where our equity in net income of $11.6 million increased 52% from last year s third quarter. Three other joint ventures, TWB Company with ThyssenKrupp (TWB), Worthington Specialty Processing with U.S. Steel (WSP) and Serviacero Planos, S.A. de C.V. (Serviacero), experienced significant turnarounds from their prior year losses, and together accounted for a $6.6 million increase in equity in net income over the prior year quarter. See Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE H Investments in Unconsolidated Affiliates for more financial information on our unconsolidated affiliates.

Income tax benefit of $6.7 million is lower than the benefit of $21.2 million recognized in fiscal 2009. The current quarter benefit represents an estimated annual effective income tax rate of 34.9%, versus 59.5% in the prior year quarter, prior to the impact of discrete tax adjustments. These rates are applicable only to net earnings or loss attributable to controlling interest, as reflected in our consolidated statements of earnings. The change in the estimated annual effective income tax rate is primarily due to the change in the mix of income or loss among the jurisdictions in which we do business. See Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE G Income Taxes for more information on our income tax rates.

Segment Operations

Steel Processing

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

	Three Months Ended February 28,				
Dollars in millions	**2010**	**% of Net sales**	**2009**	**% of Net sales**	**Increase/ (Decrease)**
Net sales	$ 232.2	100.0%	$ 192.5	100.0%	$ 39.7
Cost of goods sold	203.4	87.6%	191.7	99.6%	11.7
Gross margin	28.8	12.4%	0.8	0.4%	28.0
Selling, general and administrative expense	21.0	9.0%	16.9	8.8%	4.1
Restructuring and other expense	0.3	0.1%	2.6	1.4%	(2.3)
Operating income (loss)	$ 7.5	3.2%	$ (18.7)	-9.7%	$ 26.2
Material cost	$ 164.6		$ 161.1		$ 3.5
Tons shipped (in thousands)	512		344		168

Net sales and operating income (loss) highlights were as follows:

Net sales increased $39.7 million from the prior year to $232.2 million. Higher volumes increased net sales by $69.4 million, while lower average selling prices decreased sales by $29.7 million. Due to recent improvements in the automotive market, and the February addition of the Gibraltar Assets, direct volume was up 31%, and toll volumes increased 73% in comparison to the prior year quarter.

SG&A expenses increased $4.1 million from the prior year quarter due to increased profit sharing and bonus expenses and additional expenses related to the addition of the Gibraltar Assets, partially offset by lower bad debt reserve requirements.

Operating income was $7.5 million for the quarter, compared to the $18.7 million operating loss reported last year. Improved spreads boosted operating income by $19.0 million, and higher volumes, partially offset by increased variable manufacturing expenses, contributed an additional $9.0 million compared to the prior year quarter.

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Metal Framing

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

	Three Months Ended February 28,				
Dollars in millions	**2010**	**% of Net sales**	**2009**	**% of Net sales**	**Increase/ (Decrease)**
Net sales	$ 67.5	100.0%	$ 137.2	100.0%	$ (69.7)
Cost of goods sold	65.1	96.4%	125.5	91.5%	(60.4)
Gross margin	2.4	3.6%	11.7	8.5%	(9.3)
Selling, general and administrative expense	9.5	14.1%	11.9	8.7%	(2.4)
Restructuring and other expense	2.0	3.0%	5.9	4.3%	(3.9)
Operating loss	$ (9.1)	-13.5%	$ (6.1)	-4.4%	$ (3.0)
Material cost	$ 43.5		$ 94.3		$ (50.8)
Tons shipped (in thousands)	58		97		(39)

Net sales and operating loss highlights were as follows:

Net sales decreased $69.7 million from the prior year to $67.5 million, as a 40% decline in volume and lower average selling prices reduced net sales by $55.8 million and $13.9 million, respectively. The declines were primarily due to the economic downturn and the weak construction market.

The operating loss of $9.1 million compared unfavorably to the operating loss of $6.1 million reported last year due to the lower volumes and a decline in the spread between average selling prices and material costs. These declines were partially offset by lower SG&A and restructuring expenses.

Pressure Cylinders

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

	Three Months Ended February 28,				
Dollars in millions	**2010**	**% of Net sales**	**2009**	**% of Net sales**	**Increase/ (Decrease)**
Net sales	$ 116.5	100.0%	$ 117.5	100.0%	$ (1.0)
Cost of goods sold	93.9	80.6%	94.5	80.4%	(0.6)
Gross margin	22.6	19.4%	23.0	19.6%	(0.4)
Selling, general and administrative expense	18.5	15.9%	9.8	8.3%	8.7
Operating income	$ 4.1	3.5%	$ 13.2	11.2%	$ (9.1)
Material cost	$ 50.7		$ 55.6		$ (4.9)
Units shipped (in thousands)	14,000		10,968		3,032

Net sales and operating income highlights were as follows:

Net sales of $116.5 million were down $1.0 million from the prior year third quarter. A 30% increase in net sales in North American operations was offset by a 58% decrease in European operations. The North American operations experienced volume increases in camping, refrigerant, and propane cylinders. The acquisitions of Piper and SCI increased sales by $11.8 million.

Operating income decreased $9.1 million from last year, to $4.1 million, while gross margin remained relatively flat. SG&A expense increases of $8.7 million drove the impact to operating income, and resulted from $3.9 million in charges resulting from the BernzOmatic litigation, $1.7 million due to recently acquired businesses and an increased share of corporate profit sharing, bonus and other expenses.

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Other

The Other category includes our Automotive Body Panels, Steel Packaging, Mid-Rise Construction, Military Construction and Stairs operating segments, which are immaterial for purposes of separate disclosure, along with income and expense items not allocated to the operating segments. The following table presents a summary of operating results for the periods indicated:

	Three Months Ended February 28,				
Dollars in millions	**2010**	**% of Net sales**	**2009**	**% of Net sales**	**Increase/ (Decrease)**
Net sales	$ 34.8	100.0%	$ 53.9	100.0%	$ (19.1)
Cost of goods sold	30.9	88.8%	49.4	91.7%	(18.5)
Gross margin	3.9	11.2%	4.5	8.3%	(0.6)
Selling, general and administrative expense	8.5	24.4%	9.2	17.1%	(0.7)
Impairment of long-lived assets	32.7	94.0%	-	0.0%	32.7
Restructuring and other expense	0.5	1.4%	7.8	14.5%	(7.3)
Operating loss	$ (37.8)	-108.6%	$ (12.5)	-23.2%	$ (25.3)

Net sales and operating loss highlights were as follows:

Net sales fell $19.1 million from the third quarter of fiscal 2009 to $34.8 million for the third quarter of fiscal 2010. While all of the Other operating segments reported lower net sales, the majority of the decrease was attributable to weaker volumes in Mid-Rise Construction, Military Construction and Stairs, which were previously reported as our Construction Services operating segment. All of these businesses sell into the construction market and have been negatively affected by the economic downturn and its impact on the construction market.

The operating loss of $37.8 million was $25.3 million worse than last year s operating loss of $12.5 million. This was largely due to a $24.7 million write-off of goodwill and an $8.0 million impairment of other long-lived assets associated with the former Construction Services operating segment, offset by a reduction in restructuring expenses. Restructuring expenses in the prior year related to professional fees incurred as part of the Plan. In the current year, the outside consulting fees associated with this effort have ceased.

Nine Months Year-to-Date Fiscal 2010 Compared to Fiscal 2009

Consolidated Operations

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

	Nine Months Ended February 28,				
Dollars in millions	**2010**	**% of Net sales**	**2009**	**% of Net sales**	**Increase/ (Decrease)**
Net sales	$ 1,316.6	100.0%	$ 2,159.7	100.0%	$ (843.1)
Cost of goods sold	1,142.5	86.8%	2,022.3	93.6%	(879.8)
Gross margin	174.1	13.2%	137.4	6.4%	36.7
Selling, general and administrative expense	155.6	11.8%	159.5	7.4%	(3.9)
Impairment of long-lived assets	35.4	2.7%	96.9	4.5%	(61.5)

Restructuring and other expense	3.7	0.3%	37.0	1.7%	(33.3)
Operating loss	(20.6)	-1.6%	(156.1)	-7.2%	135.5
Miscellaneous income (expense)	1.2	0.1%	(1.3)	-0.1%	2.6
Gain on sale of investment in Aegis	-	0.0%	8.3	0.4%	(8.3)
Interest expense	(6.4)	-0.5%	(16.4)	-0.8%	10.0
Equity in net income of unconsolidated affiliates	45.8	3.5%	39.9	1.8%	5.9
Income tax (expense) benefit	(3.9)	-0.3%	34.9	1.6%	(38.8)
Net earnings (loss)	16.1	1.2%	(90.7)	-4.2%	106.8
Net earnings attributable to noncontrolling interest	(3.9)	-0.3%	(3.7)	-0.2%	(0.2)
Net earnings (loss) attributable to controlling interest	$ 12.2	0.9%	$ (94.4)	-4.4%	$ 106.6

Net earnings (loss) represents the results of our consolidated operations, including 100% of our consolidated joint venture, Spartan, of which we own 52%. The noncontrolling interest, or 48% of Spartan, is subtracted to arrive at net earnings attributable to controlling interest. For the first nine months of fiscal 2010, the net earnings attributable to controlling interest were $12.2 million, compared to a net loss attributable to controlling interest of $94.4 million for the prior year nine-month period.

Net sales decreased $843.1 million from the prior year to $1,316.6 million. Lower volumes decreased net sales by $517.7 million, most notably in our Metal Framing and Steel Processing segments, as demand declined dramatically in the construction and automotive sectors. Average selling prices decreased from the prior year due to the lower cost of steel, resulting in a decrease in net sales of $325.3 million. The average market price of steel decreased 38% from $822 per ton in the first nine months of fiscal 2009 to $509 per ton in the first nine months of the current fiscal year.

Gross margin increased $36.7 million from the prior year to $174.1 million. Lower sales volumes decreased gross margin by $108.6 million. The spread between average selling prices and material costs increased gross margin by $78.7 million from the prior year, largely as a result of rising steel prices. Lower manufacturing expense throughout the operating segments further increased gross margin.

SG&A expense decreased $3.9 million from the prior year, primarily due to reduced compensation expense, resulting from head count reductions, and lower bad debt expense partially offset by charges and legal fees related to the BernzOmatic litigation, increased profit sharing and bonus expenses and expenses due to current year acquisitions.

Restructuring charges and impairment of long-lived assets totaled $39.1 million compared to $133.9 million in the prior year. The current year included a $24.7 million write-off of goodwill and an $8.0 million impairment of other long-lived assets related to the former Construction Services business segment, as well as a $2.7 million impairment of long-lived assets in the Steel Packaging business segment. The prior year included a $96.9 million write-off of the goodwill associated with the Metal Framing segment. The restructuring charges related to actions taken under the Plan and included charges related to facility closures, early retirements, severances, and other associated expenses. In the current year, restructuring charges were significantly reduced, as the outside consulting fees associated with this effort have ceased. Restructuring and other expense in fiscal 2010 was also reduced by a $3.8 million gain on the sale of our Metal Framing operations in Canada and a $1.0 million gain on the sale of assets from a Steel Processing facility in Louisville, Kentucky.

Interest expense decreased $10.0 million from the prior year due to lower interest rates and the redemption of the $145.0 million of 6.7% senior notes which were outstanding at February 28, 2009. We redeemed $7.0 million of 6.7% senior notes in April 2009, an additional $118.5 million in June 2009, and the remaining $19.5 million upon maturity in December 2009. The redemptions were funded by a combination of cash on hand and borrowings under existing credit facilities, which carry a much lower interest rate than the 6.7% senior notes.

Equity in net income of unconsolidated affiliates of $45.8 million improved $5.9 million from the first nine months of fiscal 2009. The vast majority of the equity in net income was from WAVE, where our equity in net income of $38.8 million declined 4%, or $1.5 million, from the prior year. Most other unconsolidated joint ventures experienced improved results, most notably TWB, where our equity in net income was up $4.0 million. See Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE H Investments in Unconsolidated Affiliates for more financial information on our unconsolidated affiliates.

Income tax expense of $3.9 million increased from a tax benefit of $34.9 million recognized in fiscal 2009 due to the net loss for the nine months ended February 28, 2009. The fiscal 2010 expense represents an estimated annual effective income tax rate of 34.9%, versus 59.5% in the prior year. These rates are prior to the impact of discrete tax adjustments, and are applicable only to net earnings or loss attributable to controlling interest, as reflected in our consolidated statements of earnings. The change in the estimated annual effective income tax rate is primarily due to the change in the mix of income or loss among the jurisdictions in which we do business. More specifically, the significantly higher estimated annual effective income tax rate for the first nine months of fiscal 2009 occurred because the Company s losses in the United States of America (the U.S.) resulted in an income tax benefit tied to higher domestic income tax rates, while its foreign income was taxed at lower income tax rates. The first nine months of fiscal 2010 reflected an effective income tax rate closer to the U.S. federal rate because the income was derived largely from U.S. operations.

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Segment Operations

Steel Processing

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

	Nine Months Ended February 28,				
Dollars in millions	**2010**	**% of Net sales**	**2009**	**% of Net sales**	**Increase/ (Decrease)**
Net sales	$ 639.4	100.0%	$ 1,004.0	100.0%	$ (364.6)
Cost of goods sold	559.2	87.5%	984.4	98.0%	(425.2)
Gross margin	80.2	12.5%	19.6	2.0%	60.6
Selling, general and administrative expense	56.7	8.9%	62.6	6.2%	(5.9)
Restructuring and other expense	0.5	0.1%	3.1	0.3%	(2.6)
Operating income (loss)	$ 23.0	3.6%	$ (46.1)	-4.6%	$ 69.1
Material cost	$ 446.9		$ 841.9		$ (395.0)
Tons shipped (in thousands)	1,410		1,641		(231)

Net sales and operating income (loss) highlights were as follows:

Net sales decreased $364.6 million from the prior year to $639.4 million. Unfavorable economic conditions which began in the second quarter of fiscal 2009 continued to affect demand in all customer groups, causing a 14% reduction in volume from the prior year and a $151.9 million decrease in net sales. Lower average selling prices reduced net sales by $212.7 million.

Operating income of $23.0 million for the first nine months of fiscal 2010 compared favorably to the $46.1 million loss reported for the same period last year. The prior year period included a $56.9 million write-down of inventories to the lower of cost or market, reflected in cost of goods sold. A higher spread between average selling prices and material costs increased operating income by $47.7 million. SG&A expenses were $5.9 million lower than the prior year period due to lower bad debt expense and lower compensation expense resulting from reduced head count. The reduction in other expenses within SG&A was partially offset by the costs associated with the acquisition of the Gibraltar Assets.

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Metal Framing

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

	Nine Months Ended February 28,				
Dollars in millions	**2010**	**% of Net sales**	**2009**	**% of Net sales**	**Increase/ (Decrease)**
Net sales	$ 243.5	100.0%	$ 550.5	100.0%	$ (307.0)
Cost of goods sold	218.6	89.8%	539.6	98.0%	(321.0)
Gross margin	24.9	10.2%	10.9	2.0%	14.0
Selling, general and administrative expense	32.5	13.3%	41.5	7.5%	(9.0)
Goodwill impairment	-	0.0%	96.9	17.6%	(96.9)
Restructuring and other expense	3.0	1.2%	11.5	2.1%	(8.5)
Operating loss	$ (10.6)	-4.4%	$ (139.0)	-25.2%	$ 128.4
Material cost	$ 146.3		$ 432.6		$ (286.3)
Tons shipped (in thousands)	211		369		(158)

Net sales and operating loss highlights were as follows:

Net sales decreased $307.0 million from the prior year to $243.5 million, as a 43% decline in volume and lower average selling prices reduced net sales by $233.2 million and $73.8 million, respectively. The decline in volume was primarily due to the effect of the economic downturn on construction markets.

The operating loss of $10.6 million improved from the operating loss of $139.0 million reported last year. The prior year included a $37.9 million write-down of inventory to the lower of cost or market reflected in cost of goods sold, and a $96.9 million write-off of goodwill. The spread between average selling prices and material costs for the first nine months of fiscal 2010 increased $26.0 million compared to the first nine months of fiscal 2009. SG&A expense decreased $9.0 million from the prior year due to head count reductions and lower advertising and travel expenses. Restructuring and other expense for the current nine-month period includes a $3.8 million gain on the sale of our Metal Framing operations in Canada.

Pressure Cylinders

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

	Nine Months Ended February 28,				
Dollars in millions	**2010**	**% of Net sales**	**2009**	**% of Net sales**	**Increase/ (Decrease)**
Net sales	$ 322.8	100.0%	$ 408.3	100.0%	$ (85.5)
Cost of goods sold	262.8	81.4%	323.7	79.3%	(60.9)
Gross margin	60.0	18.6%	84.6	20.7%	(24.6)
Selling, general and administrative expense	45.7	14.2%	32.6	8.0	