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,		Nine Months Ended February 28,	
	2010	**2009**	**2010**	**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.

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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