

COMMERCIAL METALS CO  
Form 10-Q  
April 06, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended February 29, 2012**

**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 1-4304**

**COMMERCIAL METALS COMPANY**

**(Exact name of registrant as specified in its charter)**

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**75-0725338**  
(I.R.S. Employer

Identification Number)

**6565 N. MacArthur Blvd.**

**Irving, Texas 75039**

(Address of principal executive offices)(Zip Code)

**(214) 689-4300**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of March 26, 2012 there were 115,963,765 shares of the Company's common stock outstanding.

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**COMMERCIAL METALS COMPANY AND SUBSIDIARIES**

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**Table of Contents****PART 1. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****COMMERCIAL METALS COMPANY AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

(in thousands, except share and per share data)	February 29, 2012	August 31, 2011
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 216,182	\$ 222,390
Accounts receivable (less allowance for doubtful accounts of \$11,290 and \$16,095)	862,942	956,852
Inventories	880,288	908,338
Other	290,066	238,673
<b>Total current assets</b>	<b>2,249,478</b>	<b>2,326,253</b>
Property, plant and equipment:		
Land	81,975	93,496
Buildings and improvements	483,795	507,797
Equipment	1,639,602	1,666,682
Construction in process	49,103	42,499
	2,254,475	2,310,474
Less accumulated depreciation and amortization	(1,230,380)	(1,198,459)
	1,024,095	1,112,015
Goodwill	77,410	77,638
Other assets	174,385	167,225
<b>Total assets</b>	<b>\$ 3,525,368</b>	<b>\$ 3,683,131</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable-trade	\$ 450,878	\$ 585,289
Accounts payable-documentary letters of credit	176,804	170,683
Accrued expenses and other payables	329,993	377,774
Notes payable	48,871	6,200
Current maturities of long-term debt	3,870	58,908
<b>Total current liabilities</b>	<b>1,010,416</b>	<b>1,198,854</b>
Deferred income taxes	1,412	49,572
Other long-term liabilities	107,174	106,560
Long-term debt	1,164,249	1,167,497
<b>Total liabilities</b>	<b>2,283,251</b>	<b>2,522,483</b>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock		
Common stock, par value \$0.01 per share; authorized 200,000,000 shares; issued 129,060,664 shares; outstanding 115,963,047 and 115,533,763 shares	1,290	1,290
Additional paid-in capital	369,326	371,616

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Accumulated other comprehensive income	25,548	59,473
Retained earnings	1,102,413	993,578
Less treasury stock 13,097,617 and 13,526,901 shares at cost	(256,618)	(265,532)
Stockholders' equity attributable to CMC	1,241,959	1,160,425
Stockholders' equity attributable to noncontrolling interests	158	223
Total equity	1,242,117	1,160,648
Total liabilities and stockholders' equity	\$ 3,525,368	\$ 3,683,131

See notes to unaudited consolidated financial statements.

**Table of Contents****COMMERCIAL METALS COMPANY AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

(in thousands, except share and per share data)	Three Months Ended		Six Months Ended	
	February 29, 2012	February 28, 2011	February 29, 2012	February 28, 2011
Net sales	\$ 1,956,744	\$ 1,781,650	\$ 3,943,564	\$ 3,556,742
Costs and expenses:				
Cost of goods sold	1,773,966	1,693,047	3,588,250	3,307,922
Selling, general and administrative expenses	123,891	117,653	250,412	238,383
Interest expense	16,043	17,862	32,340	35,733
	1,913,900	1,828,562	3,871,002	3,582,038
Earnings (loss) from continuing operations before taxes	42,844	(46,912)	72,562	(25,296)
Income taxes (benefit)	15,015	(12,535)	(80,312)	(5,805)
Earnings (loss) from continuing operations	27,829	(34,377)	152,874	(19,491)
Earnings (loss) from discontinued operations before taxes	1,794	(11,776)	(25,209)	(25,661)
Income taxes (benefit)	770	(8)	(8,924)	251
Earnings (loss) from discontinued operations	1,024	(11,768)	(16,285)	(25,912)
Net earnings (loss)	28,853	(46,145)	136,589	(45,403)
Less net earnings attributable to noncontrolling interests		17	2	108
Net earnings (loss) attributable to CMC	\$ 28,853	\$ (46,162)	\$ 136,587	\$ (45,511)
Basic earnings (loss) per share attributable to CMC:				
Earnings (loss) from continuing operations	\$ 0.24	\$ (0.30)	\$ 1.32	\$ (0.17)
Earnings (loss) from discontinued operations	0.01	(0.10)	(0.14)	(0.23)
Net earnings (loss)	\$ 0.25	\$ (0.40)	\$ 1.18	\$ (0.40)
Diluted earnings (loss) per share attributable to CMC:				
Earnings (loss) from continuing operations	\$ 0.24	\$ (0.30)	\$ 1.31	\$ (0.17)
Earnings (loss) from discontinued operations	0.01	(0.10)	(0.14)	(0.23)
Net earnings (loss)	\$ 0.25	\$ (0.40)	\$ 1.17	\$ (0.40)
Cash dividends per share	\$ 0.12	\$ 0.12	\$ 0.24	\$ 0.24
Average basic shares outstanding	115,703,142	114,736,984	115,616,844	114,528,001
Average diluted shares outstanding	116,843,456	114,736,984	116,646,469	114,528,001

See notes to unaudited consolidated financial statements.

**Table of Contents****COMMERCIAL METALS COMPANY AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

	<b>Six Months Ended</b>	
	<b>February 29, 2012</b>	<b>February 28, 2011</b>
<b>(in thousands)</b>		
Cash flows from (used by) operating activities:		
Net earnings (loss)	\$ 136,589	\$ (45,403)
Adjustments to reconcile net earnings (loss) to cash flows from (used by) operating activities:		
Depreciation and amortization	69,064	81,631
Provision for losses (recoveries) on receivables, net	(616)	197
Share-based compensation	5,973	6,026
Deferred income taxes	(107,818)	(727)
Tax benefits from stock plans	(32)	(2,302)
Net (gain) loss on sale of assets and other	104	(1,498)
Write-down of inventory	8,460	5,224
Asset impairment	1,028	
Changes in operating assets and liabilities, net of acquisitions:		
Increase in accounts receivable	(25,620)	(41,780)
Accounts receivable sold	104,495	35,088
Decrease (increase) in inventories	7,939	(129,245)
Decrease in other assets	22,441	40,742
Increase (decrease) in accounts payable, accrued expenses, other payables and income taxes	(184,090)	26,060
Increase in other long-term liabilities	1,157	10,573
Net cash flows from (used by) operating activities	39,074	(15,414)
Cash flows from (used by) investing activities:		
Capital expenditures	(53,373)	(23,067)
Proceeds from the sale of property, plant and equipment and other	8,097	51,872
Proceeds from the sale of equity method investments		4,224
Decrease (increase) in deposit for letters of credit	30,404	(2,393)
Net cash flows from (used by) investing activities	(14,872)	30,636
Cash flows from (used by) financing activities:		
Increase (decrease) in documentary letters of credit	6,121	(120,024)
Short-term borrowings, net change	40,270	603
Repayments on long-term debt	(48,202)	(14,987)
Proceeds from issuance of long-term debt		639
Stock issued under incentive and purchase plans	1,559	9,957
Cash dividends	(27,752)	(27,460)
Purchase of noncontrolling interests	(41)	(3,573)
Tax benefits from stock plans	32	2,302
Net cash flows used by financing activities	(28,013)	(152,543)
Effect of exchange rate changes on cash	(2,397)	3,029
Decrease in cash and cash equivalents	(6,208)	(134,292)
Cash and cash equivalents at beginning of year	222,390	399,313
Cash and cash equivalents at end of period	\$ 216,182	\$ 265,021

See notes to unaudited consolidated financial statements.



**Table of Contents****COMMERCIAL METALS COMPANY AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)**

(in thousands, except share data)	CMC Stockholders' Equity Accumulated								
	Common Stock		Additional Paid-In Capital	Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock		Noncontrolling Interests	Total
	Number of Shares	Amount				Number of Shares	Amount		
Balance, September 1, 2010	129,060,664	\$ 1,290	\$ 373,308	\$ (12,526)	\$ 1,178,372	(14,735,315)	\$ (289,708)	\$ 2,638	\$ 1,253,374
Comprehensive income (loss):									
Net earnings (loss) for the six months ended February 28, 2011					(45,511)			108	(45,403)
Other comprehensive income:									
Foreign currency translation adjustment				62,266					62,266
Unrealized gain on derivatives, net of taxes (\$159)				298					298
Comprehensive income									17,161
Cash dividends					(27,460)				(27,460)
Issuance of stock under incentive and purchase plans, net of forfeitures			(11,541)			1,082,760	21,498		9,957
Share-based compensation			6,026						6,026
Purchase of noncontrolling interests			(1,521)					(2,052)	(3,573)
Tax benefits from stock plans			2,302						2,302
Balance, February 28, 2011	129,060,664	\$ 1,290	\$ 368,574	\$ 50,038	\$ 1,105,401	(13,652,555)	\$ (268,210)	\$ 694	\$ 1,257,787

(in thousands, except share data)	CMC Stockholders' Equity Accumulated								
	Common Stock		Additional Paid-In Capital	Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock		Noncontrolling Interests	Total
	Number of Shares	Amount				Number of Shares	Amount		
Balance, September 1, 2011	129,060,664	\$ 1,290	\$ 371,616	\$ 59,473	\$ 993,578	(13,526,901)	\$ (265,532)	\$ 223	\$ 1,160,648
Comprehensive income (loss):									
Net earnings for the six months ended February 29, 2012					136,587			2	136,589
Other comprehensive loss:									
Foreign currency translation adjustment				(33,452)					(33,452)
Unrealized loss on derivatives, net of taxes \$297				(473)					(473)
Comprehensive income									102,664
Cash dividends					(27,752)				(27,752)
Issuance of stock under incentive and purchase plans, net of forfeitures			(7,355)			429,284	8,914		1,559
Share-based compensation			5,007						5,007
Purchase of noncontrolling interests			26					(67)	(41)
Tax benefits from stock plans			32						32
Balance, February 29, 2012	129,060,664	\$ 1,290	\$ 369,326	\$ 25,548	\$ 1,102,413	(13,097,617)	\$ (256,618)	\$ 158	\$ 1,242,117

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See notes to unaudited consolidated financial statements.

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**COMMERCIAL METALS COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTE 1 QUARTERLY FINANCIAL DATA**

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States on a basis consistent with that used in the Annual Report on Form 10-K filed by Commercial Metals Company (the Company) with the Securities and Exchange Commission (SEC) for the year ended August 31, 2011, and include all normal recurring adjustments necessary to present fairly the consolidated balance sheets and statements of earnings, cash flows and stockholders' equity for the periods indicated. The accompanying unaudited financial statements should be read in conjunction with the Company's audited financial statements and notes thereto contained in such Form 10-K. The results of operations for the three and six month periods are not necessarily indicative of the results expected for the full year.

**NOTE 2 SALES OF ACCOUNTS RECEIVABLE**

The Company has a sale of accounts receivable program which expires on December 26, 2014. Under the program, the Company periodically contributes, and several of its subsidiaries periodically sell without recourse, certain eligible trade accounts receivable to the Company's wholly-owned consolidated special purpose subsidiary, CMC Receivables, Inc. (CMCRV). CMCRV is structured to be a bankruptcy-remote entity and was formed for the sole purpose of buying and selling receivables generated by the Company. Depending on the Company's level of financing needs, CMCRV sells the trade accounts receivable in their entirety to a third party financial institution. The third party financial institution advances up to a maximum of \$200 million for all receivables and the remaining portion due to the Company is deferred until the ultimate collection of the underlying receivables. The Company accounts for sales to the financial institution as true sales and the cash advances for receivables are removed from the consolidated balance sheets and reflected as cash provided by operating activities. Additionally, the receivables program contains certain cross-default provisions whereby a termination event could occur if the Company defaulted under certain of its credit arrangements. The covenants contained in the receivables purchase agreement are consistent with the credit facility described in Note 8, Credit Arrangements.

At February 29, 2012 and August 31, 2011, the Company sold \$502.5 million and \$557.0 million of receivables, respectively, to the third party financial institution, and received \$130.0 million and \$50.0 million, respectively, as advance payments. The remaining amounts of \$372.5 million and \$507.0 million, respectively, are the deferred purchase prices. The fair value of the deferred purchase prices at February 29, 2012 and August 31, 2011 were \$363.2 million and \$494.7 million, respectively, and are included as trade receivables on the consolidated balance sheets. The carrying value of the deferred purchase price approximates fair value due to the short-term nature of the underlying financial assets.

In addition to the domestic sale of accounts receivable program described above, the Company's international subsidiaries in Europe and Australia periodically sell accounts receivable without recourse. These arrangements constitute true sales, and once the accounts are sold, they are no longer available to the Company's creditors in the event of bankruptcy. Uncollected accounts receivable sold under these arrangements and removed from the consolidated balance sheets were \$156.7 million and \$132.2 million as of February 29, 2012 and August 31, 2011, respectively. The Australian program contains financial covenants in which the subsidiary must meet certain coverage and tangible net worth levels, as defined. At February 29, 2012, the Australian subsidiary was not in compliance with these covenants. The Company provided a guarantee of the Australian subsidiary's performance resulting in the financial covenants being waived at February 29, 2012. The guarantee will cease to be effective when the Australian subsidiary is in compliance with the financial covenants for two consecutive quarters.

During the six months ended February 29, 2012 and February 28, 2011, proceeds from the domestic and international sales of receivables were \$988.7 million and \$499.8 million, respectively, and cash payments to the owners of receivables were \$884.2 million and \$464.7 million, respectively. The Company is responsible for servicing the receivables for a nominal servicing fee. Discounts on domestic and international sales of accounts receivable were \$1.8 million and \$0.9 million for the three months ended February 29, 2012 and February 28, 2011, respectively, and \$3.5 million and \$2.1 million for the six months ended February 29, 2012 and February 28, 2011, respectively. These discounts primarily represented the costs of funds and were included in selling, general and administrative expenses.

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Inventories are stated at the lower of cost or market. Inventory cost for most domestic inventories is determined by the last-in, first-out method ( LIFO ). LIFO inventory reserves were \$285.4 million and \$307.3 million at February 29, 2012 and August 31, 2011, respectively. Inventory cost for international inventories and the remaining domestic inventories are determined by the first-in, first-out method ( FIFO ). The majority of the Company's inventories are in the form of finished goods, with minimal work in process. At February 29, 2012 and August 31, 2011, \$95.0 million and \$107.7 million, respectively, were in raw materials.

**NOTE 4 GOODWILL AND OTHER INTANGIBLE ASSETS**

The Company tests for impairment of goodwill by estimating the fair value of each reporting unit compared to its carrying value. The Company's reporting units are based on its internal reporting structure and represent an operating segment or a reporting level below an operating segment. Additionally, the Company has aggregated several components under the Americas Fabrication operating segment into two reporting units based upon similar economic characteristics, nature of products and services, nature of production processes, type of customers and distribution methods. The Company performs the goodwill impairment test in the fourth quarter each fiscal year and when changes in circumstances indicate an impairment event may have occurred.

The following table details the changes in the carrying amount of goodwill by reportable segment:

	Americas			International Marketing and Distribution		Consolidated
(in thousands)	Recycling	Mills	Fabrication	Mill		
Balance at August 31, 2011	\$ 7,267	\$ 295	\$ 57,144	\$ 3,092	\$ 9,840	\$ 77,638
Translation				(209)	(19)	(228)
Balance at February 29, 2012	\$ 7,267	\$ 295	\$ 57,144	\$ 2,883	\$ 9,821	\$ 77,410

The total gross carrying amounts of the Company's intangible assets that were subject to amortization were \$48.6 million and \$49.7 million at February 29, 2012 and August 31, 2011, respectively, and are included in other noncurrent assets. Aggregate amortization expense for intangible assets for the three months ended February 29, 2012 and February 28, 2011 was \$1.5 million and \$2.5 million, respectively. Aggregate amortization expense for intangible assets for the six months ended February 29, 2012 and February 28, 2011 was \$3.0 million and \$5.0 million, respectively.

**NOTE 5 SEVERANCE**

During the three and six months ended February 29, 2012, the Company recorded severance costs of \$2.5 million and \$22.3 million, respectively. During the three and six months ended February 28, 2011, the Company recorded severance costs of \$0.9 million and \$1.3 million, respectively. The severance costs recorded during the six months ended February 29, 2012 primarily relate to the Company's discontinued operations. See Note 7, Discontinued Operations, for additional information. As of February 29, 2012 and August 31, 2011, the remaining liability to be paid in the future related to termination benefits was \$15.3 million and \$5.4 million, respectively. There have been no material adjustments to the liability and the changes in the liability primarily relate to costs charged to expense reduced by payments.

**NOTE 6 DISPOSITIONS**

During the first quarter of 2012, the Company completed the sale of two properties which were previously joist and deck locations. During the first quarter of 2011, CMC Construction Services, a division of a subsidiary of the Company, completed the sale of heavy

forming and shoring equipment for approximately \$35 million. Additionally, during the first quarter of 2011, the Company completed the sale of the majority of the joist assets. These transactions resulted in minimal gain or losses on sale.

**NOTE 7 DISCONTINUED OPERATIONS**

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During the first quarter of 2012, the Company announced its decision to exit its steel pipe manufacturing operations in Croatia ( CMCS ) by closure of the facility and sale of the assets. The Company determined that the decision to exit this business met the definition of a discontinued operation. As a result, this business has been presented as a discontinued operation for all periods. During the first quarter of 2012, this division recorded severance costs of \$18.0 million associated with exiting the business. During the second quarter of 2012, the Company shipped all production orders and expects to liquidate all remaining inventory in the third quarter of 2012. This business was in the International Mill segment.

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During the second quarter of 2010, the Company's Board approved a plan to exit the joist and deck business through the sale of those facilities. The Company determined that the decision to exit this business met the definition of a discontinued operation. As a result, this business has been presented as a discontinued operation for all periods. At February 29, 2012, the remaining assets consist of real property for three locations. The joist and deck business was in the Americas Fabrication segment.

As of February 29, 2012, the assets and liabilities of discontinued operations have been presented as held for sale and included in other current assets and accrued expenses and other payables on the consolidated balance sheets. Financial information for discontinued operations is as follows:

(in thousands)	February 29, 2012	August 31, 2011
Current assets	\$ 51,346	\$ 52,272
Noncurrent assets		51,659
Current liabilities	32,958	41,115
Noncurrent liabilities		13,653

(in thousands)	Three Months Ended		Six Months Ended	
	February 29, 2012	February 28, 2011	February 29, 2012	February 28, 2011
Revenue	9,858	10,320	24,002	18,623
Earnings (loss) before taxes	1,794	(11,776)	(25,209)	(25,661)

**NOTE 8 CREDIT ARRANGEMENTS**

On December 27, 2011, the Company entered into a third amended and restated credit agreement which reduced the revolving credit facility from \$400 million to \$300 million and extended the maturity date to December 27, 2016. The maximum facility can be increased to \$400 million with the consent of all parties. The program's capacity is reduced by outstanding stand-by letters of credit which totaled \$26.6 million at February 29, 2012. Under the credit facility, the Company is required to maintain a minimum interest coverage ratio of not less than 2.50 to 1.00 for the twelve month cumulative period ended February 29, 2012 and for each fiscal quarter on a rolling twelve month basis through August 31, 2012 and 3.00 to 1.00 for the twelve month cumulative period ending November 30, 2012 and for each fiscal quarter on a rolling twelve month cumulative period thereafter. At February 29, 2012, the Company's interest coverage ratio was 4.75 to 1.00. The agreement also requires the Company to maintain a debt to capitalization ratio not greater than 0.60 to 1.00. At February 29, 2012, the Company's debt to capitalization ratio was 0.52 to 1.00. The agreement provides for interest based on the LIBOR, the Eurodollar rate or the Bank of America's prime rate. The Company had no borrowings outstanding on the revolving credit facility at February 29, 2012 or August 31, 2011.

The Company has numerous uncommitted credit facilities available from domestic and international banks. These credit facilities are used, in general, to support import letters of credit (including accounts payable settled under bankers' acceptances), foreign exchange transactions and short-term advances which are priced at market rates.

Long-term debt, including the net effect of interest rate swap revaluation adjustments, was as follows:

(in thousands)	Weighted Average Interest Rate at February 29, 2012	February 29, 2012	August 31, 2011
5.625% notes due November 2013	3.7%	\$ 205,985	\$ 207,752
6.50% notes due July 2017	4.9%	417,436	414,198
7.35% notes due August 2018	5.5%	531,657	526,699
Other, including equipment notes		13,041	10,632
CMCZ term note			48,648
CMCS financing agreement			18,476

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	1,168,119	1,226,405
Less current maturities	3,870	58,908
	\$ 1,164,249	\$ 1,167,497

Interest on the notes is payable semiannually.

During the third quarter of 2011, the Company entered into an interest rate swap transaction to hedge the fair value changes on its 6.50% notes due July 2017 ( 2017 Notes ). During the third quarter of 2010, the Company entered into interest rate swap transactions on its 5.625% notes due November 2013 ( 2013 Notes ) and 7.35% notes due August 2018 ( 2018 Notes ). The swap transactions

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were designated as fair value hedges at inception and effectively convert all fixed-rate interest to floating rate interest on the Company's 2013 Notes, and effectively convert fixed-rate interest to floating rate interest with respect to \$300 million in principal amount on each of the 2017 Notes and the 2018 Notes and have termination dates of November 15, 2013, July 15, 2017 and August 15, 2018, respectively. Under the terms of the swaps, the Company pays the floating LIBOR plus 303 basis points with respect to the 2013 Notes, LIBOR plus 374 basis points with respect to the 2017 Notes and LIBOR plus 367 basis points with respect to the 2018 Notes and receives payments identical to the hedged item fixed rates.

The CMCS financing agreement was used for capital expenditures and other uses. The note has scheduled principal and interest payments in semiannual installments. During the first quarter of 2012, the Company presented CMCS as a discontinued operation. As a result, the CMCS financing agreement was classified as held for sale and included in accrued expenses and other payables on the consolidated balance sheet. The outstanding balance at February 29, 2012 was \$14.3 million which will be repaid in the third quarter of 2012. See Note 7, Discontinued Operations, for additional information.

The CMC Zawiercie (CMCZ) term note was repaid on October 20, 2011. Subsequently, CMCZ entered into current uncommitted credit facilities of \$82.6 million with several banks, which expire in the first quarter of 2013. At February 29, 2012, \$45.1 million was outstanding under these facilities and included in notes payable on the consolidated balance sheets. The weighted average interest rate on these facilities was approximately 5.2% at February 29, 2012.

Interest of \$30.2 million and \$34.6 million was paid during the three and six months ended February 29, 2012, respectively, and interest of \$31.6 million and \$36.6 million was paid during the three and six months ended February 28, 2011, respectively. The Company had no material amounts of interest capitalized in the cost of property, plant and equipment during the periods presented.

**NOTE 9 DERIVATIVES AND RISK MANAGEMENT**

The Company's worldwide operations and product lines expose it to risks from fluctuations in metals commodity prices, foreign currency exchange rates, natural gas prices and interest rates. One objective of the Company's risk management program is to mitigate these risks using derivative instruments. The Company enters into metal commodity futures and forward contracts to mitigate the risk of unanticipated declines in gross margin due to the volatility of the commodities' prices, enters into foreign currency forward contracts which match the expected settlements for purchases and sales denominated in foreign currencies and enters into natural gas forward contracts to mitigate the risk of unanticipated changes in operating cost due to the volatility of natural gas prices. When sales commitments to customers include a fixed price freight component, the Company occasionally enters into freight forward contracts to reduce the effects of the volatility of ocean freight rates. The Company enters into interest rate swap contracts to maintain the majority of the Company's debt obligations at variable interest rates. These interest rate swap contracts, under which the Company has agreed to pay variable rates of interest and receive fixed rates of interest, are designated as fair value hedges of fixed-rate debt.

At February 29, 2012, the Company's notional values of its foreign currency contract commitments was \$280 million and interest rate swap contract commitments was \$800 million.

The following table provides commodity contract commitments as of February 29, 2012:

Commodity	Long/Short	Total
Aluminum	Long	3,225 MT
Aluminum	Short	150 MT
Copper	Long	645 MT
Copper	Short	6,690 MT
Zinc	Long	29 MT
Natural Gas	Long	80,000 MMBtu

MT = Metric Ton

MMBtu = One million British thermal units

The Company designates only those contracts which closely match the terms of the underlying transaction as hedges for accounting purposes. For the three and six months ended February 29, 2012 and February 28, 2011, these hedges resulted in substantially no ineffectiveness in the statements of operations, and there were no components excluded from the assessment of hedge effectiveness. Certain of the foreign currency



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and commodity contracts were not designated as hedges for accounting purposes, although management believes they are essential economic hedges.

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The following tables summarize activities related to the Company's derivative instruments and hedged (underlying) items recognized within the statements of operations (in thousands):

Derivatives Not Designated as Hedging Instruments	Location	Three Months Ended		Six Months Ended	
		February 29, 2012	February 28, 2011	February 29, 2012	February 28, 2011
Commodity	Cost of goods sold	\$ (3,336)	\$ (5,754)	\$ 241	\$ (16,040)
Foreign exchange	Net sales	(73)	14	(181)	(4)
Foreign exchange	Cost of goods sold	(304)	289	(537)	869
Foreign exchange	SG&A expenses	6,465	2,485	(694)	(839)
Gain (loss) before taxes		\$ 2,752	\$ (2,966)	\$ (1,171)	\$ (16,014)

The Company's fair value hedges are designated for accounting purposes with gains and losses on the hedged (underlying) items offsetting the gain or loss on the related derivative transaction. Hedged (underlying) items relate to firm commitments on commercial sales and purchases, capital expenditures and fixed rate debt obligations. As of February 29, 2012, fair value hedge accounting for interest rate swap contracts increased the carrying value of debt instruments by \$55.1 million.

Derivatives Designated as Fair Value Hedging Instruments	Location	Three Months Ended		Six Months Ended	
		February 29, 2012	February 28, 2011	February 29, 2012	February 28, 2011
Foreign exchange	SG&A expenses	\$ (4,120)	\$ (888)	\$ (1,550)	\$ (8,775)
Interest rate	Interest expense	15,969	(15,315)	17,174	6,240
Gain (loss) before taxes		\$ 11,849	\$ (16,203)	\$ 15,624	\$ (2,535)

Hedged (Underlying) Items Designated as Fair Value Hedging Instruments	Location	Three Months Ended		Six Months Ended	
		February 29, 2012	February 28, 2011	February 29, 2012	February 28, 2011
Foreign exchange	Net sales	\$ 11	\$ 49	\$ 11	\$ 49
Foreign exchange	SG&A expenses	4,120	884	1,550	8,732
Interest rate	Interest expense	(15,969)	15,314	(17,174)	(6,241)
Gain (loss) before taxes		\$ (11,849)	\$ 16,209	\$ (15,624)	\$ 2,540

The Company recognizes the impact of actual and estimated net periodic settlements of current interest on active interest rate swaps as adjustments to interest expense. The Company recorded reductions to interest expense related to interest rate swaps of \$4.4 million and \$3.5 million for the three months ended February 29, 2012 and February 28, 2011, respectively, and of \$8.6 million and \$6.8 million for the six months ended February 29, 2012 and February 28, 2011, respectively. These amounts represent the net of the Company's periodic variable-rate interest obligations and the swap counterparty's fixed-rate interest obligations. The Company's variable-rate obligations are based on a spread from the six-month LIBOR.

Effective Portion of Derivatives Designated as Cash Flow Hedging Instruments Recognized in Accumulated Other Comprehensive Income (Loss)	Location	Three Months Ended		Six Months Ended	
		February 29, 2012	February 28, 2011	February 29, 2012	February 28, 2011
Commodity		\$ 44	\$ 355	\$ 19	\$ 392
Foreign exchange		(467)	154	(1,628)	171

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Gain (loss), net of taxes	\$ (423)	\$ 509	\$ (1,609)	\$ 563
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Effective Portion of Derivatives Designated as Cash Flow Hedging Instruments Reclassified from Accumulated Other Comprehensive Income (Loss)	Location	Three Months Ended		Six Months Ended	
		February 29, 2012	February 28, 2011	February 29, 2012	February 28, 2011
Commodity	Cost of goods sold	\$ 28	\$ 53	\$ 15	\$ (30)
Foreign exchange	Net sales	(36)		(1,193)	
Foreign exchange	SG&A expenses	(97)	33	(161)	66
Interest rate	Interest expense	102	115	203	229
Gain (loss), net of taxes		\$ (3)	\$ 201	\$ (1,136)	\$ 265

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The Company's derivative instruments were recorded at their respective fair values as follows on the consolidated balance sheets (in thousands):

Derivative Assets	February 29, 2012	August 31, 2011
Commodity designated	\$ 46	\$ 17
Commodity not designated	2,285	2,329
Foreign exchange designated	275	893
Foreign exchange not designated	5,013	970
Current interest rate designated	18,266	19,134
Long-term interest rate designated	36,812	29,515
Derivative assets (other current assets and other assets)*	\$ 62,697	\$ 52,858

Derivative Liabilities	February 29, 2012	August 31, 2011
Commodity not designated	\$ 3,751	\$ 2,625
Foreign exchange designated	2,567	805
Foreign exchange not designated	1,621	2,258
Derivative liabilities (accrued expenses, other payables and long-term liabilities)*	\$ 7,939	\$ 5,688

\* Derivative assets and liabilities do not include the hedged (underlying) items designated as fair value hedges.

As of February 29, 2012, all of the Company's derivative instruments designated to hedge exposure to the variability in future cash flows of the forecasted transactions will mature within twelve months.

All of the instruments are highly liquid, and not entered into for trading purposes.

## NOTE 10 FAIR VALUE

The Company has established a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three levels. These levels are determined based on the lowest level input that is significant to the fair value measurement.

The following table summarizes information regarding the Company's financial assets and financial liabilities that were measured at fair value on a recurring basis:

(in thousands)	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for			
	February 29, 2012	Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market investments	\$ 138,041	\$ 138,041	\$	\$
Derivative assets	62,697	2,285	60,412	
Nonqualified benefit plan assets *	52,815	52,815		
Derivative liabilities	7,939	3,679	4,260	
Nonqualified benefit plan liabilities *	82,887		82,887	

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(in thousands)	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in			
	Active Markets for			
	August 31,	Identical	Significant Other	Significant
	2011	Assets	Observable Inputs	Unobservable Inputs
		(Level 1)	(Level 2)	(Level 3)
Money market investments	\$ 153,839	\$ 153,839	\$	\$
Derivative assets	52,858	2,329	50,529	
Nonqualified benefit plan assets *	49,357	49,357		
Derivative liabilities	5,688	2,625	3,063	
Nonqualified benefit plan liabilities *	81,167		81,167	

\* The Company provides a nonqualified benefit restoration plan to certain eligible executives equal to amounts that would have been available under tax qualified ERISA plans but for limitations of ERISA, tax laws and regulations. Though under no obligation to fund this plan, the Company has segregated assets in a trust. The plan assets and liabilities consist of securities included in various mutual funds.

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The Company's long-term debt is predominantly publicly held. The fair value was approximately \$1.20 billion at February 29, 2012 and \$1.24 billion at August 31, 2011. Fair value was determined by indicated market values.

### **NOTE 11 INCOME TAXES**

The Company's effective income tax rate for continuing operations for the three and six months ended February 29, 2012 was 35.0% and (110.7)%, respectively, and for the three and six months ended February 28, 2011 was 26.7% and 22.9%, respectively. The effective tax rate from discontinued operations for the three and six months ended February 29, 2012 was 42.9% and 35.4%, respectively, and for the three and six months ended February 28, 2011 was 0.1% and (1.0)%, respectively.

During the six months ended February 29, 2012, the Company recognized a tax loss in the amount of \$291 million related to its investments in its Croatian subsidiary. As a result, a tax benefit of \$102 million was recorded from these losses in the six month period ended February 29, 2012 in continuing operations which is the primary reason for the variance in the tax rate from continuing operations for the six month period ended February 28, 2011. The Company will report and disclose the losses on these investments on its U.S. tax return as ordinary worthless stock and bad debt deductions.

The Company made net payments of \$13.7 million and had net refunds of \$75.7 million for income taxes during the six months ended February 29, 2012 and February 28, 2011, respectively.

The reserve for unrecognized tax benefits relating to the accounting for uncertainty in income taxes was \$12.4 million and \$10.8 million, exclusive of interest and penalties, as of February 29, 2012 and August 31, 2011, respectively.

The Company's policy classifies interest recognized on an underpayment of income taxes and any statutory penalties recognized on a tax position as tax expense and the balances at the end of a reporting period are recorded as part of the current or noncurrent reserve for uncertain income tax positions. For the three and six months ended February 29, 2012, before any tax benefits, the Company recorded immaterial amounts of accrued interest and penalties on unrecognized tax benefits.

During the next twelve months, it is reasonably possible that the statute of limitations may lapse pertaining to positions taken by the Company in prior year tax returns or that income tax audits in various taxing jurisdictions could be finalized. As a result, the total amount of unrecognized tax benefits may decrease, which would reduce the provision for taxes on earnings by an immaterial amount.

The following is a summary of tax years subject to examination:

U.S. Federal - 2009 and forward

U.S. States - 2006 and forward

Foreign - 2005 and forward

The Company is currently under examination by the Internal Revenue Service and several U.S. states. We believe our recorded tax liabilities as of February 29, 2012 sufficiently reflect the anticipated outcome of these examinations.

### **NOTE 12 SHARE-BASED COMPENSATION**

The Company recognizes share-based compensation at fair value in the financial statements. The fair value of each share-based award is estimated at the date of grant using either the Black-Scholes pricing model or a binomial model. Total compensation cost is amortized over the requisite service period using the accelerated method of amortization for grants with graded vesting or using the straight-line method for grants with cliff vesting. The Company recognized share-based compensation of \$2.1 million and \$6.0 million for the three and six months ended February 29, 2012, respectively, and \$3.9 million and \$6.0 million for the three and six months ended February 28, 2011, as a component of selling, general and administrative expenses. At February 29, 2012, the Company had \$30.8 million of total unrecognized pre-tax compensation cost related to non-vested share-based compensation arrangements. The change in total unrecognized pre-tax compensation from August 31, 2011 relates to \$24.0 million of grants during the year reduced by amortization and an adjustment for lower expected achievement of performance awards. This cost is expected to be recognized over three years.



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Combined information for shares subject to options and stock appreciation rights ( SARs ), excluding the cash component, for the six months ended February 29, 2012 was as follows:

	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Outstanding at September 1, 2011	2,807,498	\$ 27.45	
Granted	828,463	11.63	
Exercised	(50,610)	12.50	
Forfeited/Expired	(71,413)	28.68	
Outstanding at February 29, 2012	3,513,938	\$ 23.91	3.3
Exercisable at February 29, 2012	2,641,060	\$ 27.88	2.3

Information for restricted stock awards and performance-based restricted units ( PSUs ), excluding the cash component, for the six months ended February 29, 2012 was as follows:

	Number	Weighted Average Grant-Date Fair Value
Outstanding at September 1, 2011	2,394,140	\$ 13.44
Granted	467,118	10.64
Vested	(275,146)	14.69
Forfeited	(97,961)	14.37
Outstanding at February 29, 2012	2,488,151	\$ 12.74

During the first quarter of 2012, the Compensation Committee (the Committee ) of the Company's Board of Directors approved a grant of restricted stock units ( RSUs ), SARs and PSUs to employees. The PSUs will vest upon the achievement of certain target levels of the performance goals and objectives of the Company over the performance period of approximately three years. The actual number of PSUs granted will be based on the level of achievement. Upon achievement of any of the performance goals, the awards will be paid out in cash. Additionally, a portion of the RSUs and SARs will be settled in cash. The Company accounts for the cash component of stock awards as a liability award and the liability is adjusted at each reporting period based on the share price of Company's common stock.

**NOTE 13 STOCKHOLDERS EQUITY AND EARNINGS PER SHARE ATTRIBUTABLE TO CMC**

In calculating earnings per share, there were no adjustments to net earnings to arrive at earnings for any periods presented. The reconciliation of the denominators of the earnings per share calculations was as follows:

	Three Months Ended		Six Months Ended	
	February 29, 2012	February 28, 2011	February 29, 2012	February 28, 2011
Shares outstanding for basic earnings per share	115,703,142	114,736,984	115,616,844	114,528,001
Effect of dilutive securities:				
Stock based incentive/purchase plans	1,140,314		1,029,625	
Shares outstanding for diluted earnings per share	116,843,456	114,736,984	116,646,469	114,528,001



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For the three and six months ended February 29, 2012, SARs with total share commitments of 2.2 million were antidilutive and therefore excluded from the calculation of diluted earnings per share. For the three and six months ended February 28, 2011, no stock options, restricted stock or SARs were included in the calculation of dilutive shares because the Company reported a loss from continuing operations. All stock options and SARs expire by 2019.

The Company's restricted stock is included in the number of shares of common stock issued and outstanding, but omitted from the basic earnings (loss) per share calculation until the shares vest.

The Company did not purchase any shares during the first six months of 2012 and had remaining authorization to purchase 8,259,647 shares of its common stock at February 29, 2012.

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### **NOTE 14 COMMITMENTS AND CONTINGENCIES**

See Note 16, Commitments and Contingencies, to the consolidated financial statements in the Annual Report on Form 10-K for the year ended August 31, 2011 relating to environmental and other matters. There have been no significant changes to the matters noted therein.

On September 18, 2008, the Company was served with a class action antitrust lawsuit alleging violations of Section 1 of the Sherman Act, brought by Standard Iron Works of Scranton, Pennsylvania, against nine steel manufacturing companies, including Commercial Metals Company. The lawsuit, filed in the United States District Court for the Northern District of Illinois, alleges that the defendants conspired to fix, raise, maintain and stabilize the price at which steel products were sold in the United States by artificially restricting the supply of such steel products. The lawsuit, which purports to be brought on behalf of a class consisting of all purchasers of steel products directly from the defendants between January 1, 2005 and September 2008, seeks treble damages and costs, including reasonable attorney fees and pre- and post-judgment interest. Document discovery has taken place but motions for class certification are not yet pending nor have any depositions been taken. The Company believes the case is without merit and intends to defend it vigorously.

Since the filing of the direct purchaser lawsuit, a case has been filed in federal court in the Northern District of Illinois on behalf of a class of indirect purchasers in approximately 28 states naming the same defendants and containing allegations substantially identical to those of the Standard Iron Works complaint. That case has in effect been stayed. Another indirect purchaser action was filed in Tennessee state court, again naming the same defendants but contending that the conspiracy continued through 2010. The case has been removed to federal court and plaintiffs have moved to remand. The motion to remand has not yet been decided and no motion practice or discovery has taken place. The Company believes that the lawsuits are without merit and plans to defend them vigorously. Due to the uncertainty and the available information at this time, we cannot reasonably estimate a range of loss relating to these cases.

In the ordinary course of conducting its business, the Company becomes involved in litigation, administrative proceedings and governmental investigations, including litigation, proceedings and investigations relating to environmental matters. Management believes that adequate provisions have been made in the consolidated financial statements for the potential impact of these contingencies, and that the outcomes will not materially impact the results of operations, financial position or cash flows of the Company.

### **NOTE 15 BUSINESS SEGMENTS**

The Company's reporting segments are based on strategic business areas, which offer different products and services. These segments have different lines of management responsibility as each business requires different marketing strategies and management expertise. The reporting segments are the Company's operating segments except for the Americas Mills reporting segment which includes the domestic steel mills operating segment and the domestic copper tube minimill operating segment. The domestic copper tube minimill is aggregated with the domestic steel mills because of similar economic characteristics, products, production processes, customers and distribution methods.

The Company structures the business into the following five segments: Americas Recycling, Americas Mills, Americas Fabrication, International Mill and International Marketing and Distribution. The Americas Recycling segment consists of the scrap metal processing and sales operations primarily in Texas, Florida and the southern United States. The Americas Mills segment includes the Company's domestic steel mills, including the scrap processing facilities that directly support these mills, and the domestic copper tube minimill. The Americas Fabrication segment consists of the Company's rebar fabrication operations, fence post manufacturing plants and construction-related and other products facilities. The International Mill segment includes the minimill and recycling operations in Poland and fabrication operations in Europe, which have been presented as a separate segment because the economic characteristics of their markets and the regulatory environment in which they operate differ from the Company's domestic mills and rebar fabrication operations. International Marketing and Distribution includes international operations for the sales, distribution and processing of steel products, ferrous and nonferrous metals and other industrial products. Additionally, the International Marketing and Distribution segment includes the Company's U.S.-based trading and distribution divisions, CMC Cometals and CMC Cometals Steel. The international distribution operations consist only of physical transactions and not positions taken for speculation. Corporate contains expenses of the Company's corporate headquarters and interest expense relating to its long-term public debt and commercial paper program.

The financial information presented for the International Mill segment excludes CMCS and the financial information presented for the Americas Fabrication segment excludes its joist and deck fabrication operations. These operations have been classified as discontinued operations in the consolidated statements of operations. See Note 7, Discontinued Operations, for more information.

The Company uses adjusted operating profit (loss) to measure segment performance. Intersegment sales are generally priced at prevailing market prices. Certain corporate administrative expenses are allocated to segments based upon the nature of the expense.



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The following is a summary of certain financial information from continuing operations by reportable segment:

(in thousands)	Three Months Ended February 29, 2012							Continuing Operations
	Americas	International						
	Recycling	Mills	Fabrication	Mill	Marketing and Distribution	Corporate	Eliminations	
Net sales-unaffiliated customers	\$ 376,597	\$ 344,625	\$ 298,226	\$ 216,177	\$ 715,828	\$ 5,291	\$	\$ 1,956,744
Intersegment sales	43,047	181,260	3,367	913	7,527		(236,114)	
Net sales	419,644	525,885	301,593	217,090	723,355	5,291	(236,114)	1,956,744
Adjusted operating profit (loss)	6,389	54,401	(9,969)	6,592	26,554	(20,936)	(2,346)	60,685

(in thousands)	Three Months Ended February 28, 2011							Continuing Operations
	Americas	International						
	Recycling	Mills	Fabrication	Mill	Marketing and Distribution	Corporate	Eliminations	
Net sales-unaffiliated customers	\$ 411,979	\$ 303,460	\$ 248,410	\$ 201,620	\$ 610,772	\$ 5,409	\$	\$ 1,781,650
Intersegment sales	38,583	174,461	3,560	2,297	11,903		(230,804)	
Net sales	450,562	477,921	251,970	203,917	622,675	5,409	(230,804)	1,781,650
Adjusted operating profit (loss)	10,865	10,945	(49,566)	3,961	12,372	(16,468)	(232)	(28,123)

(in thousands)	Six Months Ended February 29, 2012							Continuing Operations
	Americas	International						
	Recycling	Mills	Fabrication	Mill	Marketing and Distribution	Corporate	Eliminations	
Net sales-unaffiliated customers	\$ 749,990	\$ 689,191	\$ 613,743	\$ 469,098	\$ 1,416,191	\$ 5,351	\$	\$ 3,943,564
Intersegment sales	84,459	362,190	7,618	44,173	17,235		(515,675)	
Net sales	834,449	1,051,381	621,361	513,271	1,433,426	5,351	(515,675)	3,943,564
Adjusted operating profit (loss)	27,205	112,332	(17,349)	16,414	22,453	(44,204)	(8,491)	108,360
Total assets*	264,378	645,877	582,080	606,958	920,770	1,201,987	(748,028)	3,474,022

(in thousands)	Six Months Ended February 28, 2011							Continuing Operations
	Americas	International						
	Recycling	Mills	Fabrication	Mill	Marketing and Distribution	Corporate	Eliminations	
Net sales-unaffiliated customers	\$ 759,148	\$ 584,241	\$ 532,353	\$ 418,153	\$ 1,251,180	\$ 11,667	\$	\$ 3,556,742
Intersegment sales	67,209	329,077	7,370	2,950	17,401		(424,007)	
Net sales	826,357	913,318	539,723	421,103	1,268,581	11,667	(424,007)	3,556,742
	19,057	45,088	(71,574)	10,394	36,610	(27,071)		

Adjusted operating profit  
(loss)