COMMERCIAL METALS CO
Form DEFA14A
January 06, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement

x Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

COMMERCIAL METALS COMPANY

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

COMMERCIAL METALS COMPANY REPORTS IMPROVED FIRST QUARTER EARNINGS AND ANNOUNCES QUARTERLY DIVIDEND

Irving, TX January 6, 2012 Commercial Metals Company (NYSE: CMC) today reported net earnings of $107.7 million or $0.93 per diluted share on net sales of $2.0 billion for the first quarter ended November 30, 2011. The earnings represent a substantial improvement over net earnings of $0.7 million or $0.01 per diluted share reported in last year s first quarter. Net earnings from continuing operations increased significantly to $125.0 million or $1.07 per diluted share as compared to net earnings of $14.9 million or $0.13 per diluted share for last year s first quarter. In addition to operating improvements, continuing operations for this year s first quarter benefited from a tax benefit of $102.0 million ($0.87 per share) related to ordinary worthless stock and bad debt deductions from the investment in the Company s Croatian subsidiary. Continuing operations also had after-tax LIFO income of $15.5 million in the first quarter of fiscal 2012 as compared to $3.9 million of after-tax LIFO expense in the first quarter of 2011.

CMC s discontinued operations, which consist primarily of the Croatian pipe mill, had a net loss of $17.3 million ($0.14 per share) for this year s first quarter as compared to a net loss of $14.1 million ($0.12 per share) in the same period last year. On October 7, 2011, CMC announced its decision to exit the Croatian pipe mill business by closure of the facility and sale of the assets. At the end of the first quarter of fiscal 2012, production in the melt shop and rolling mill ceased. Final shipments will be made in the second quarter of fiscal 2012. Severance costs of approximately $18 million were recognized by the Croatian mill in this year s first quarter and the Company forecasts costs associated with this facility to be greatly reduced in the following months.

Joe Alvarado, President and Chief Executive Officer, said, We achieved another quarter of profitability, reflecting the continued effective execution of our business plan and the fact that this plan is beginning to yield positive results. Our mill segments, including our Polish mill, achieved profitability with higher volume, selling prices and metal margins as compared to the first quarter of 2011. Although ferrous scrap prices started to fall near the end of the quarter, our Americas Recycling segment still achieved higher adjusted operating profit than last year s first quarter. We are also encouraged to see our backlog at levels higher than last quarter.

Cash and short-term investments totaled $228.1 million as of November 30, 2011. Cash flow from operating activities for this quarter was $38 million with adjusted EBITDA of $55.5 million. There were no outstanding borrowings against the $400 million revolving credit facility. Coverage tests under the Company s unused revolver and public debt were met. On December 27, 2011, CMC entered into a new five year credit revolver with a borrowing capacity of $300 million plus the option to increase up to $400 million. On December 28, 2011, CMC increased its domestic receivable sales facility capacity by $100 million to $200 million.

The CMC board declared a quarterly dividend of $0.12 on January 5, 2012 for shareholders of record on January 20, 2012. The dividend will be paid on February 3, 2012.

Our Americas Mills, Americas Recycling and International Mills segments led the first quarter s profitability with adjusted operating profit increasing over last year s first quarter. Americas Mills had an adjusted operating profit of $57.9 million, $23.8 million higher than last year s first quarter. Our new Arizona mill within this segment also had another quarter of profitability. Americas Recycling had adjusted operating profit of $20.8 million, compared to $8.2 million in the first quarter of 2011. The International Mills segment, consisting of our mill and other operations in Poland, had an adjusted operating profit of $9.8 million in this year s first quarter, compared to $6.4 million in the same period last year. Our Polish mill achieved this level of profitability despite incurring the downtime and costs of a major, scheduled maintenance in this year s first quarter.

The Americas Fabrication segment continues to be affected by an overall difficult rebar fabricated steel market. Recent restructuring actions helped reduce the quarterly adjusted operating loss to $7.4 million, a significant improvement over last year s first quarter adjusted operating loss of $22.0 million. The backlog for this segment grew slightly over last quarter s backlog with the average sales price increasing $30 per ton over last quarter and $136 per ton over last year s first quarter.

Although our International Marketing and Distribution segment has been profitable for the nine previous quarters, it incurred an adjusted operating loss of $4.1 million this quarter, primarily due to a charge incurred on long positions CMC held on iron ore purchase contracts. During October 2011, iron ore prices dropped 31% before beginning to recover at the end of the first quarter.

Outlook

Alvarado concluded, Our second quarter is historically our slowest quarter due to weather-related slowdowns in construction and holiday seasons around the world. That said, we expect scrap prices to rise in the second quarter of 2012, which should benefit our recycling operations; however, our mills and fabrication operations could temporarily experience metal margin compression. Moreover, as previously mentioned, our backlog remains somewhat higher than the last quarter with improved prices. We also remain focused on and continue to make good progress in improving our operating cost structure and cash flows. Despite the anticipated seasonal slowdown in the second quarter, we look forward to continuing to build on our momentum in 2012 and beyond.

Conference Call

CMC invites you to listen to a live broadcast of its first quarter 2012 conference call today, Friday, January 6, 2012, at 11:00 a.m. ET. The call will be hosted by Joe Alvarado, President and CEO, and Barbara Smith, Senior Vice President and CFO, and can be accessed via our website at www.cmc.com or at www.streetevents.com. In the event you are unable to listen to the live broadcast, the call will be archived and available for replay on the webcast on the next business day. Financial and statistical information presented in the broadcast can be found on CMC s website under Investor Relations.

Commercial Metals Company and subsidiaries manufacture, recycle and market steel and metal products, related materials and services through a network including steel minimills, steel fabrication and processing plants, construction- related product warehouses, a copper tube mill, metal recycling facilities and marketing and distribution offices in the United States and in strategic international markets.

Forward-Looking Statements

Certain statements contained in this news release are forward-looking statements regarding the outlook for the Company s financial results, including net earnings (loss), economic conditions, credit availability, product pricing and demand, production rates, the date of final shipment from the Croatian pipe mill and general market conditions. These forward-looking statements can generally be identified by words such as expects, anticipates, believes, estimates, intends, plans to, ought, could, will, should, likely, appears, projects, forec phrases. There are inherent risks and uncertainties in any forward-looking statements. Although the Company believes that its expectations are reasonable, it can give no assurance that these expectations will prove to have been correct, and actual results may vary materially. Except as required by law, the Company undertakes no obligation to update, amend or clarify any forward-looking statements to reflect events, new information or otherwise.

Developments that could impact the Company s expectations include the following: absence of global economic recovery or possible recession relapse; solvency of financial institutions and their ability or willingness to lend; success or failure of governmental efforts to stimulate the economy, including restoring credit availability and confidence in a recovery; continued sovereign debt problems in Greece and other countries within the euro zone and other foreign zones; customer non-compliance with contracts; construction activity or lack thereof; decisions by governments affecting the level of steel imports, including tariffs and duties; litigation claims and settlements; difficulties or delays in the execution of construction contracts resulting in cost overruns or contract disputes; metals pricing over which the Company exerts little influence; increased capacity and product availability from competing steel minimills and other steel suppliers, including import quantities and pricing; execution of cost minimization strategies; ability to retain key executives; court decisions and regulatory rulings; industry consolidation or changes in production capacity or utilization; global factors, including political and military uncertainties; currency fluctuations; interest rate changes; availability and pricing of raw materials, including scrap metal, energy, insurance and supply prices; passage of new, or interpretation of existing, environmental laws and regulations; severe weather, especially in Poland; the pace of overall economic activity, particularly in China; and business disruptions, costs and future events related to the tender offer and proxy contest initiated by Carl C. Icahn and affiliated entities.

(CMC First Quarter Fiscal 2012 Page 4)

(Short Tons in Thousands)	Three months ended 11/30/11	11/30/10
Americas Steel Mill Rebar Shipments	**324**	302
Americas Steel Mill Structural and Other Shipments	**317**	270
CMCZ Shipments	**378**	356
Total Mill Tons Shipped	**1,019**	928
Americas Steel Mill Average FOB Selling Price (Total Sales)	**$ 707**	$ 605
Americas Steel Mill Average Cost Ferrous Scrap Utilized	**$ 385**	$ 312
Americas Steel Mill Metal Margin	**$ 322**	$ 293
Americas Steel Mill Average Ferrous Scrap Purchase Price	**$ 344**	$ 280
CMCZ Mill Average FOB Selling Price (Total Sales)	**$ 603**	$ 565
CMCZ Mill Average Cost Ferrous Scrap Utilized	**$ 375**	$ 340
CMCZ Mill Metal Margin	**$ 228**	$ 225
CMCZ Mill Average Ferrous Scrap Purchase Price	**$ 310**	$ 278
Americas Fabrication Rebar Shipments	**213**	213
Americas Fabrication Structural and Post Shipments	**32**	34
Total Americas Fabrication Tons Shipped	**245**	247
Americas Fabrication Avg. Selling Price (Excluding Stock and Buyout Sales)	**$ 880**	$ 775
Americas Recycling Tons Shipped	**598**	558

BUSINESS SEGMENTS

(in thousands)

	Three months ended 11/30/11	11/30/10
Net Sales:		
Americas Recycling	**$ 414,805**	$ 375,795
Americas Mills	**525,496**	435,397
Americas Fabrication	**319,768**	287,753
International Mills	**296,181**	217,186
International Marketing and Distribution	**710,071**	645,906
Corporate and Eliminations	**(279,501)**	(186,945)
Total Net Sales	**$ 1,986,820**	$ 1,775,092
Adjusted Operating Profit (Loss):		
Americas Recycling	**$ 20,816**	$ 8,192
Americas Mills	**57,931**	34,143
Americas Fabrication	**(7,380)**	(22,008)
International Mills	**9,822**	6,433
International Marketing and Distribution	**(4,101)**	24,238
Corporate and Eliminations	**(29,413)**	(10,300)
Adjusted Operating Profit from Continuing Operations	**$ 47,675**	$ 40,698

(CMC First Quarter Fiscal 2012 Page 5)

COMMERCIAL METALS COMPANY

Condensed Consolidated Statements of Earnings (Unaudited)

(in thousands except share and per share data)

	Three months ended 11/30/11	11/30/10
Net Sales	**$ 1,986,820**	$ 1,775,092
Costs and Expenses:		
Cost of Goods Sold	**1,814,284**	1,614,875
Selling, General and Administrative Expenses	**126,521**	120,730
Interest Expense	**16,297**	17,871
	1,957,102	1,753,476
Earnings from Continuing Operations Before Taxes	**29,718**	21,616
Income Taxes (Benefit)	**(95,327)**	6,730
Earnings from Continuing Operations	**125,045**	14,886
Loss from Discontinued Operations Before Taxes	**(27,003)**	(13,885)
Income Taxes (Benefit)	**(9,694)**	259
Loss from Discontinued Operations	**$ (17,309)**	$ (14,144)
Net Earnings	**107,736**	742
Less Net Earnings Attributable to Noncontrolling Interests	**2**	91
Net Earnings Attributable to CMC	**$ 107,734**	$ 651
Basic Earnings (Loss) per Share Attributable to CMC		
Earnings from Continuing Operations	**$ 1.08**	$ 0.13
Loss from Discontinued Operations	**(0.15)**	(0.12)
Net Earnings	**$ 0.93**	$ 0.01
Diluted Earnings (Loss) per Share Attributable to CMC		
Earnings from Continuing Operations	**$ 1.07**	$ 0.13
Loss from Discontinued Operations	**(0.14)**	(0.12)
Net Earnings	**$ 0.93**	$ 0.01
Cash Dividends per Share	**$ 0.12**	$ 0.12
Average Basic Shares Outstanding	**115,530,545**	114,319,017
Average Diluted Shares Outstanding	**116,449,483**	115,223,693

(CMC First Quarter Fiscal 2012 Page 6)

COMMERCIAL METALS COMPANY

Condensed Consolidated Balance Sheets (Unaudited)

(in thousands)

	November 30, 2011	August 31, 2011
Assets:		
Current Assets:		
Cash and cash equivalents	**$ 228,103**	$ 222,390
Accounts receivable, net	**787,968**	956,852
Inventories	**894,555**	908,338
Other	**351,781**	238,673
Total Current Assets	**2,262,407**	2,326,253
Net Property, Plant and Equipment	**1,005,491**	1,112,015
Goodwill	**76,764**	77,638
Other Assets	**161,991**	167,225
	$ 3,506,653	$ 3,683,131
Liabilities and Stockholders Equity:		
Current Liabilities:		
Accounts payable trade	**$ 457,130**	$ 585,289
Accounts payable documentary letters of credit	**183,763**	170,683
Accrued expenses and other payables	**374,078**	377,774
Notes payable	**48,624**	6,200
Current maturities of long-term debt	**3,697**	58,908
Total Current Liabilities	**1,067,292**	1,198,854
Deferred Income Taxes	**1,375**	49,572
Other Long-Term Liabilities	**102,956**	106,560
Long-Term Debt	**1,152,869**	1,167,497
Stockholders Equity Attributable to CMC	**1,181,980**	1,160,425
Stockholders Equity Attributable to Noncontrolling Interests	**181**	223
	$ 3,506,653	$ 3,683,131

(CMC First Quarter Fiscal 2012 Page 7)

COMMERCIAL METALS COMPANY

Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

	Three months ended	
	11/30/11	11/30/10
Cash Flows From (Used by) Operating Activities:		
Net earnings	**$ 107,736**	$ 742
Adjustments to reconcile net earnings to cash from (used by) operating activities:		
Depreciation and amortization	**35,028**	40,643
Provision for losses (recoveries) on receivables, net	**239**	(522)
Share-based compensation	**3,881**	2,135
Deferred income taxes	**(112,237)**	72
Tax benefits from stock plans		(71)
Net (gain) loss on sale of assets and other	**374**	(1,527)
Write-down of inventory	**5,907**	3,815
Asset impairment	**1,044**	
Changes in Operating Assets and Liabilities, Net of Acquisitions:		
Decrease (increase) in accounts receivable	**94,061**	(16,233)
Accounts receivable sold, net	**47,785**	21,994
Increase in inventories	**(24,786)**	(22,428)
Decrease in other assets	**2,978**	291
Decrease in accounts payable, accrued expenses, other payables and income taxes	**(121,167)**	(35,710)
Increase (decrease) in other long-term liabilities	**(2,704)**	1,208
Net Cash Flows From (Used By) Operating Activities	**38,139**	(5,591)
Cash Flows From (Used by) Investing Activities:		
Capital expenditures	**(29,925)**	(11,904)
Proceeds from the sale of property, plant and equipment, and other .	**7,014**	51,518
Increase in deposit for letters of credit	**(865)**	(1,523)
Net Cash Flows From (Used By) Investing Activities	**(23,776)**	38,091
Cash Flows From (Used by) Financing Activities:		
Increase (decrease) in documentary letters of credit	**13,080**	(108,614)
Short-term borrowings, net change	**44,432**	79,127
Repayments on long-term debt	**(44,584)**	(7,390)
Proceeds from issuance of long-term debt		45
Stock issued under incentive and purchase plans	**(27)**	389
Cash dividends	**(13,863)**	(13,722)
Purchase of noncontrolling interests	**(30)**	
Tax benefits from stock plans		71
Net Cash Flows Used By Financing Activities	**(992)**	(50,094)
Effect of Exchange Rate Changes on Cash	**(7,658)**	1,081
Increase (Decrease) in Cash and Cash Equivalents	**5,713**	(16,513)
Cash and Cash Equivalents at Beginning of Year	**222,390**	399,313

Cash and Cash Equivalents at End of Period	**$ 228,103**	$ 382,800

(CMC First Quarter Fiscal 2012 Page 8)

COMMERCIAL METALS COMPANY

Non-GAAP Financial Measures (Unaudited)

(dollars in thousands except per share data)

This press release uses financial measures not derived in accordance with generally accepted accounting principles (GAAP). Reconciliations to the most comparable GAAP measures are provided below.

Adjusted Operating Profit from Continuing Operations is a non-GAAP financial measure. Adjusted operating profit is used to compare and evaluate the financial performance of the Company. Adjusted operating profit is the sum of our earnings before income taxes, outside financing costs and discounts on sales of accounts receivable. For added flexibility, we may sell certain accounts receivable both in the U.S. and internationally. We consider sales of receivables as an alternative source of liquidity to finance our operations and believe that removing these costs provides a clearer perspective of the current operating performance.

	Three months ended	
	11/30/11	**11/30/10**
Earnings from continuing operations	$ 125,045	$ 14,886
Interest expense	16,297	17,871
Income taxes (benefit)	(95,327)	6,730
Operating income from continuing operations	46,015	39,487
Discounts on sales of accounts receivable	1,660	1,211
Adjusted operating profit from continuing operations	$ 47,675	$ 40,698

Adjusted EBITDA is a non-GAAP liquidity measure. It excludes Commercial Metals Company s largest recurring non-cash charge, depreciation and amortization, including impairment charges. As a measure of cash flow before interest expense, it is one guideline used to assess the Company s ability to pay its current debt obligations as they mature and a tool to calculate possible future levels of leverage capacity. Adjusted EBITDA to interest is a covenant test in certain of the Company s note agreements.

	Three months ended	
	11/30/11	**11/30/10**
Net earnings attributable to CMC	$ 107,734	$ 651
Interest expense	16,748	18,325
Income taxes (benefit)	(105,021)	6,989
Depreciation, amortization and impairment charges	36,072	40,643
Adjusted EBITDA	$ 55,533	$ 66,608

Adjusted EBITDA to interest coverage for the quarter ended November 30, 2011:

$55,533 / 16,748 = 3.3

Total Capitalization:

Total capitalization is the sum of long-term debt, deferred income taxes, and stockholders equity. The ratio of debt to total capitalization is a measure of current debt leverage. The following reconciles total capitalization at November 30, 2011 to the nearest GAAP measure, stockholders equity:

Stockholders equity attributable to CMC	$ 1,181,980
Long-term debt	1,152,869
Deferred income taxes	1,375
Total capitalization	$ 2,336,224

Other Financial Information

Long-term debt to capitalization ratio as of November 30, 2011:

Debt divided by capitalization

$1,152,869 / 2,336,224 = 49.3%

Total debt to capitalization plus short-term debt plus notes payable ratio as of November 30, 2011:

($1,152,869 + 3,697 + 48,624) / (2,336,224 + 3,697 + 48,624) = 50.5%

Current ratio as of November 30, 2011:

Current assets divided by current liabilities

$2,262,407 / 1,067,292 = 2.1

Contact: Barbara Smith

Chief Financial Officer

214.689.4300