COMMERCIAL METALS CO
Form 10-Q
March 31, 2014

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, 2014
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)

Delaware	75-0725338
(State or Other Jurisdiction of Incorporation or Organization)	(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 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 x 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 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

The number of shares outstanding of common stock as of March 21, 2014 was 117,742,434.

COMMERCIAL METALS COMPANY AND SUBSIDIARIES
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COMMERCIAL METALS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended February 28,		Six Months Ended February 28,	
(in thousands, except share data)	2014	2013	2014	2013
Net sales	$1,649,098	$1,688,657	$3,331,989	$3,438,172
Costs and expenses:				
Cost of goods sold	1,503,908	1,549,291	3,005,706	3,112,141
Selling, general and administrative expenses	111,086	114,635	225,549	239,244
Interest expense	19,179	16,490	38,757	33,514
Gain on sale of cost method investment	—	—	—	(26,088)
	1,634,173	1,680,416	3,270,012	3,358,811
Earnings from continuing operations before income taxes	14,925	8,241	61,977	79,361
Income taxes	3,866	4,308	18,957	26,497
Earnings from continuing operations	11,059	3,933	43,020	52,864
Earnings from discontinued operations before income taxes	101	1,037	22,946	2,287
Income taxes	16	393	8,903	855
Earnings from discontinued operations	85	644	14,043	1,432
Net earnings	11,144	4,577	57,063	54,296
Less net earnings attributable to noncontrolling interests	1	—	1	2
Net earnings attributable to CMC	$11,143	$4,577	$57,062	$54,294
Basic earnings per share attributable to CMC:				
Earnings from continuing operations	$0.09	$0.03	$0.37	$0.46
Earnings from discontinued operations	—	0.01	0.12	0.01
Net earnings	$0.09	$0.04	$0.49	$0.47
Diluted earnings per share attributable to CMC:				
Earnings from continuing operations	$0.09	$0.03	$0.36	$0.45
Earnings from discontinued operations	—	0.01	0.12	0.01
Net earnings	$0.09	$0.04	$0.48	$0.46
Cash dividends per share	$0.12	$0.12	$0.24	$0.24
Average basic shares outstanding	117,424,962	116,586,100	117,247,731	116,461,302
Average diluted shares outstanding	118,639,161	117,573,052	118,397,886	117,333,339

See notes to unaudited consolidated financial statements.

COMMERCIAL METALS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	Three Months Ended February 28,		Six Months Ended February 28,	
(in thousands)	2014	2013	2014	2013
Net earnings	$11,144	$4,577	$57,063	$54,296
Other comprehensive income (loss), net of income taxes:				
Foreign currency translation adjustment and other, net of income taxes of $953, $(3,396), $3,030 and $8,396	8,743	(6,308)	28,185	15,592
Net unrealized gain (loss) on derivatives:				
Unrealized holding gain (loss), net of income taxes of $(95), $1, $(544) and $89	(426)	57	(2,043)	374
Reclassification for loss (gain) included in net earnings, net of income taxes of $127, $(125), $308 and $(174)	382	(274)	1,362	(396)
Net unrealized gain (loss) on derivatives, net of income taxes of $32, $(124), $(236) and $(85)	(44)	(217)	(681)	(22)
Defined benefit obligation:				
Net gain, net of income taxes of $0, $0, $296 and $0	—	—	550	—
Amortization of prior services, net of income taxes of $0, $1, $(1) and $1	(2)	2	(4)	4
Adjustment from plan changes, net of income taxes of $0, $0, $0 and $308	—	—	—	1,315
Defined benefit obligation, net of income taxes of $0, $1, $295 and $309	(2)	2	546	1,319
Other comprehensive income (loss)	8,697	(6,523)	28,050	16,889
Comprehensive income (loss)	$19,841	$(1,946)	$85,113	$71,185

See notes to unaudited consolidated financial statements.

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COMMERCIAL METALS COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except share data)	February 28, 2014	August 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$431,754	$378,770
Accounts receivable (less allowance for doubtful accounts of $6,219 and $10,042)	838,597	989,694
Inventories, net	980,643	757,417
Other	167,498	240,314
Total current assets	2,418,492	2,366,195
Property, plant and equipment:		
Land	80,813	80,764
Buildings and improvements	499,794	486,494
Equipment	1,707,624	1,666,250
Construction in process	31,869	18,476
	2,320,100	2,251,984
Less accumulated depreciation and amortization	(1,385,571)	(1,311,747)
	934,529	940,237
Goodwill	69,790	69,579
Other assets	121,666	118,790
Total assets	$3,544,477	$3,494,801
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable-trade	$383,958	$342,678
Accounts payable-documentary letters of credit	117,222	112,281
Accrued expenses and other payables	250,013	314,949
Notes payable	8,538	5,973
Current maturities of long-term debt	6,776	5,228
Total current liabilities	766,507	781,109
Deferred income taxes	49,071	46,558
Other long-term liabilities	116,221	118,165
Long-term debt	1,276,759	1,278,814
Total liabilities	2,208,558	2,224,646
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $0.01 per share; authorized 200,000,000 shares; issued 129,060,664 shares; outstanding 117,742,215 and 117,010,990 shares	1,290	1,290
Additional paid-in capital	358,293	363,772
Accumulated other comprehensive income (loss)	874	(27,176)
Retained earnings	1,195,634	1,166,732
Less treasury stock, 11,318,449 and 12,049,674 shares at cost	(220,261)	(234,619)
Stockholders' equity attributable to CMC	1,335,830	1,269,999
Stockholders' equity attributable to noncontrolling interests	89	156
Total stockholders' equity	1,335,919	1,270,155
Total liabilities and stockholders' equity	$3,544,477	$3,494,801

See notes to unaudited consolidated financial statements.

COMMERCIAL METALS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended February 28,	
(in thousands)	2014	2013
Cash flows from (used by) operating activities:		
Net earnings	$57,063	$54,296
Adjustments to reconcile net earnings to cash flows from (used by) operating activities:		
Depreciation and amortization	67,284	68,037
Provision for losses (recoveries) on receivables, net	(1,871)	2,463
Share-based compensation	10,788	7,185
Amortization of interest rate swaps termination gain	(3,799)	(5,815)
Deferred income taxes	18,550	29,362
Tax benefits from stock plans	(484)	(1)
Net gain on sale of a subsidiary, cost method investment and other	(28,046)	(26,522)
Asset impairment	1,227	3,028
Changes in operating assets and liabilities:		
Accounts receivable	20,195	4,785
Accounts receivable sold, net	149,832	(37,297)
Inventories	(214,318)	(83,056)
Other assets	(14,314)	11,461
Accounts payable, accrued expenses and other payables	(21,861)	(73,764)
Other long-term liabilities	(3,863)	(5,326)
Net cash flows from (used by) operating activities	36,383	(51,164)
Cash flows from (used by) investing activities:		
Capital expenditures	(36,223)	(41,849)
Proceeds from the sale of property, plant and equipment and other	6,381	6,897
Proceeds from the sale of a subsidiary	52,276	—
Proceeds from the sale of cost method investment	—	28,995
Net cash flows from (used by) investing activities	22,434	(5,957)
Cash flows from (used by) financing activities:		
Increase (decrease) in documentary letters of credit, net	4,767	(30,816)
Short-term borrowings, net change	2,565	21,870
Repayments on long-term debt	(3,143)	(2,402)
Payments for debt issuance costs	(430)	—
Decrease in restricted cash	18,305	—
Stock issued under incentive and purchase plans, net of forfeitures	(740)	2,353
Cash dividends	(28,160)	(27,963)
Tax benefits from stock plans	484	1
Contribution from (purchase of) noncontrolling interests	(37)	10
Net cash flows from (used by) financing activities	(6,389)	(36,947)
Effect of exchange rate changes on cash	556	1,743
Increase (decrease) in cash and cash equivalents	52,984	(92,325)
Cash and cash equivalents at beginning of year	378,770	262,422
Cash and cash equivalents at end of period	$431,754	$170,097

See notes to unaudited consolidated financial statements.

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COMMERCIAL METALS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

(in thousands, except share data)	Common Stock Number of Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock Number of Shares	Treasury Stock Amount	Non-controlling Interests	Total
Balance, September 1, 2012	129,060,664	$1,290	$365,778	$(18,136)	$1,145,445	(12,709,240)	$(248,009)	$139	$1,246,507
Net earnings					54,294			2	54,296
Other comprehensive income				16,889					16,889
Cash dividends					(27,963)				(27,963)
Issuance of stock under incentive and purchase plans, net of forfeitures			(8,291)			526,785	10,644		2,353
Share-based compensation			4,785						4,785
Tax benefits from stock plans			1						1
Contribution of noncontrolling interest								14	14
Balance, February 28, 2013	129,060,664	$1,290	$362,273	$(1,247)	$1,171,776	(12,182,455)	$(237,365)	$155	$1,296,882

(in thousands, except share data)	Common Stock Number of Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock Number of Shares	Treasury Stock Amount	Non-controlling Interests	Total
Balance, September 1, 2013	129,060,664	$1,290	$363,772	$(27,176)	$1,166,732	(12,049,674)	$(234,619)	$156	$1,270,155
Net earnings					57,062			1	57,063
Other comprehensive income				28,050					28,050
Cash dividends					(28,160)				(28,160)
Issuance of stock under incentive and purchase plans, net of forfeitures			(15,098)			731,225	14,358		(740)
Share-based compensation			9,104						9,104
Tax benefits from stock plans			484						484

Purchase of noncontrolling interests			31					(68)	(37)
Balance, February 28, 2014	129,060,664	$ 1,290	$ 358,293	$ 874	$ 1,195,634	(11,318,449)	$ (220,261)	$ 89	$ 1,335,919

See notes to unaudited consolidated financial statements.

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COMMERCIAL METALS COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
NOTE 1. ACCOUNTING POLICIES

Accounting Principles
The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") on a basis consistent with that used in the Annual Report on Form 10-K for the fiscal year ended August 31, 2013 filed by Commercial Metals Company ("CMC", and together with its consolidated subsidiaries, the "Company") with the Securities and Exchange Commission ("SEC") and include all normal recurring adjustments necessary to present fairly the consolidated balance sheets and the consolidated statements of operations, comprehensive income (loss), cash flows and stockholders' equity for the periods indicated. These notes should be read in conjunction with the audited consolidated financial statements and notes included in the Annual Report on Form 10-K for the fiscal year ended August 31, 2013. The results of operations for the three and six month periods are not necessarily indicative of the results to be expected for the full year.

In the accompanying consolidated statement of cash flows for the six months ended February 28, 2013, the Company corrected the classification of $25.5 million of changes in certain documentary letters of credit from cash flows used by operating activities to cash flows used by financing activities, which decreased cash flows used by operating activities and increased cash flows used by financing activities for that period. The Company considers accounts payable - documentary letters of credit a short-term financing activity and accordingly made this correction in order to properly present the changes in these certain documentary letters of credit as a financing activity in the consolidated statement of cash flows allowing users of its financial statements to better understand the level at which the Company uses documentary letters of credit. This correction did not have an impact on the Company’s consolidated results of operations, earnings per share, balance sheet or net cash flows used by investing activities in the consolidated statement of cash flows for the six months ended February 28, 2013.

Recent Accounting Pronouncements
In the first quarter of fiscal 2014, the Company adopted guidance issued by the Financial Accounting Standards Board ("FASB") requiring an entity to provide quantitative and qualitative disclosures about the nature of its rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The objective is to make financial statements that are prepared under GAAP more comparable to those prepared under International Financial Reporting Standards. The new disclosures will give financial statement users information about both gross and net exposures. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In July 2013, the FASB issued guidance requiring entities to net an unrecognized tax benefit with a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The new guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In April 2013, the FASB issued guidance requiring an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. In addition, the guidance provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting. The new guidance is effective prospectively for entities that determine liquidation is imminent during fiscal years, and interim reporting periods within those years, beginning after December 15, 2013. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In March 2013, the FASB issued guidance requiring an entity to release any related cumulative translation adjustment into net income when it either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. In addition, the guidance resolves the diversity in practice for the treatment of business combinations achieved in stages involving a foreign entity. The new guidance is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In February 2013, the FASB issued guidance requiring an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The guidance also requires entities to disclose the nature and amount of the obligation as well as other information about the obligation. The new guidance is effective retrospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

NOTE 2. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss), net of income taxes, is comprised of the following:

(in thousands)	Foreign Currency Translation	Unrealized Gain (Loss) on Derivatives	Defined Benefit Obligation	Total Accumulated Other Comprehensive Income (Loss)
Balance, August 31, 2013	$(27,477)	$3,594	$(3,293)	$(27,176)
Other comprehensive income (loss) before reclassifications	28,185	(2,043)	550	26,692
Amounts reclassified from AOCI	—	1,362	(4)	1,358
Net other comprehensive income (loss)	28,185	(681)	546	28,050
Balance, February 28, 2014	$708	$2,913	$(2,747)	$874

The significant items reclassified out of accumulated other comprehensive income (loss) and the corresponding line items in the consolidated statements of operations to which the items were reclassified were as follows:

Components of AOCI (in thousands)	Location	Three Months Ended February 28, 2014	Six Months Ended February 28, 2014
Unrealized gain (loss) on derivatives:			
Commodity	Cost of goods sold	$(117)	$(236)
Foreign exchange	Net sales	17	(233)
Foreign exchange	Cost of goods sold	(592)	(1,514)
Foreign exchange	SG&A expenses	33	47
Interest rate	Interest expense	150	266
		(509)	(1,670)
Income tax effect	Income taxes benefit	127	308
Net of income taxes		$(382)	$(1,362)
Defined benefit obligation:			
Amortization of prior services	SG&A expenses	$2	$5
Income tax effect	Income taxes expense	—	(1)
Net of income taxes		$2	$4

Amounts in parentheses reduce earnings.

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NOTE 3. SALES OF ACCOUNTS RECEIVABLE

The Company has a domestic sale of accounts receivable program which expires on December 26, 2014. Under the program, Commercial Metals Company contributes, and several of its subsidiaries sell without recourse, certain eligible trade accounts receivable to CMC Receivables, Inc. ("CMCRV"), a wholly owned subsidiary of CMC. CMCRV is structured to be a bankruptcy-remote entity and was formed for the sole purpose of buying and selling trade accounts receivable generated by the Company. CMCRV sells the trade accounts receivable in their entirety to two financial institutions. The financial institutions advance up to a maximum of $200.0 million for all trade accounts receivable sold, and the remaining portion of the purchase price of the trade accounts receivable will be paid to the Company from the ultimate collection of the trade accounts receivable after payment of certain fees and other costs. The Company accounts for sales of the trade accounts receivable as true sales and the trade accounts receivable balances that are sold are removed from the consolidated balance sheets. The cash advances received are reflected as cash provided by operating activities on the Company's consolidated statements of cash flows. Additionally, the sale of accounts receivable 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 7, Credit Arrangements.

At February 28, 2014 and August 31, 2013, under its domestic sale of accounts receivable program, the Company had sold $358.6 million and $358.8 million of trade accounts receivable, respectively, to the financial institutions and received $80.0 million of advance payments at February 28, 2014 and no advance payments at August 31, 2013.

In addition to the domestic sale of accounts receivable program described above, the Company's international subsidiaries in Europe and Australia sell trade accounts receivable to financial institutions without recourse. These arrangements constitute true sales, and once the trade accounts receivable are sold, they are no longer available to the Company's creditors in the event of bankruptcy. The European program allows the Company’s European subsidiaries to advance up to 90% of eligible trade accounts receivable sold under the terms of the arrangement. During the first quarter of fiscal 2014, the Company phased out its existing Australian program and entered into a new trade accounts receivable sales program with a different financial institution. Under the new Australian program, trade accounts receivable balances are sold to a special purpose vehicle, which in turn sells 100% of the eligible trade accounts receivable of Commercial Metals Pty. Ltd., CMC Steel Distribution Pty. Ltd. and G.A.M. Steel Pty. Ltd. to the financial institution. Under the new Australian program, the financial institution will fund up to A$75.0 million for all trade accounts receivable sold, and the remaining portion of the purchase price of the trade accounts receivable will be paid to the Company from the ultimate collection of the trade accounts receivable after payment of certain fees and other costs. The Company accounts for sales of the trade accounts receivable as true sales, and the trade accounts receivable balances that are sold are removed from the consolidated balance sheets. The cash advances received are reflected as cash provided by operating activities on the Company's consolidated statements of cash flows.

At February 28, 2014 and August 31, 2013, under its European and Australian programs, the Company had sold $135.6 million and $121.2 million of accounts receivable, respectively, to third-party financial institutions and received advance payments of $94.4 million and $24.5 million, respectively.

During the six months ended February 28, 2014 and 2013, cash proceeds from the domestic and international sale of accounts receivable programs were $364.7 million and $603.0 million, respectively, and cash payments to the owners of accounts receivable were $214.9 million and $640.3 million, respectively. For a nominal servicing fee, the Company is responsible for servicing the accounts receivable for the domestic and Australian programs. Discounts on domestic and international sales of accounts receivable were $0.9 million and $1.5 million for the three and six months ended February 28, 2014, respectively, and $0.9 million and $2.1 million for the three and six months ended February 28, 2013, respectively, and are included in selling, general and administrative expenses in the Company's consolidated statements of operations.

The deferred purchase price on the Company's domestic and international sale of accounts receivable programs are included in accounts receivable on the Company's consolidated balance sheets. The following tables summarize the activity of the deferred purchase price receivables for the domestic and international sale of accounts receivable programs:

	Three Months Ended February 28, 2014			
(in thousands)	Total	Domestic	Australia	Europe
Beginning balance	$375,223	$351,515	$—	$23,708
Transfers of accounts receivable	1,039,096	774,533	180,700	83,863
Collections	(1,101,202)	(852,334)	(151,065)	(97,803)
Ending balance	$313,117	$273,714	$29,635	$9,768

	Six Months Ended February 28, 2014			
(in thousands)	Total	Domestic	Australia	Europe
Beginning balance	$453,252	$358,822	$64,996	$29,434
Transfers of accounts receivable	2,076,301	1,615,104	253,820	207,377
Collections	(2,144,124)	(1,700,212)	(216,869)	(227,043)
Program termination	(72,312)	—	(72,312)	—
Ending balance	$313,117	$273,714	$29,635	$9,768

	Three Months Ended February 28, 2013		
(in thousands)	Total	Domestic	Australia