

COMMERCIAL METALS CO

Form 10-Q

January 07, 2011

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 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 November 30, 2010**

**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  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 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 January 3, 2011 there were 114,474,266 shares of the Company's common stock issued and outstanding excluding 14,586,398 shares held in the Company's treasury.

**COMMERCIAL METALS COMPANY AND SUBSIDIARIES  
TABLE OF CONTENTS**

|   | <b>PAGE NO.</b> |
|---|-----------------|
| <b><u>PART I FINANCIAL INFORMATION</u></b>  |                 |
| <u>Item 1. Financial Statements</u>   |                 |
| <u>Consolidated Balance Sheets (Unaudited) November 30, 2010 and August 31, 2010</u>                            | 3               |
| <u>Consolidated Statements of Operations (Unaudited) Three months ended November 30, 2010 and 2009</u>          | 4               |
| <u>Consolidated Statements of Cash Flows (Unaudited) Three months ended November 30, 2010 and 2009</u>          | 5               |
| <u>Consolidated Statements of Stockholders Equity (Unaudited) Three months ended November 30, 2010 and 2009</u> | 6               |
| <u>Notes to Consolidated Financial Statements (Unaudited)</u>   | 7               |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>            | 18              |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>                                       | 27              |
| <u>Item 4. Controls and Procedures</u>  | 27              |
| <b><u>PART II OTHER INFORMATION</u></b>   |                 |
| <u>Items 1-6</u>  | 27              |
| <u>Signatures</u>   | 29              |
| <u>Index to Exhibits</u>  | 30              |
| <u>EX-31.1</u>  |                 |
| <u>EX-31.2</u>  |                 |
| <u>EX-32.1</u>  |                 |
| <u>EX-32.2</u>  |                 |
| <u>EX-101 INSTANCE DOCUMENT</u>   |                 |
| <u>EX-101 SCHEMA DOCUMENT</u>   |                 |
| <u>EX-101 CALCULATION LINKBASE DOCUMENT</u>   |                 |
| <u>EX-101 LABELS LINKBASE DOCUMENT</u>  |                 |
| <u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>  |                 |
| <u>EX-101 DEFINITION LINKBASE DOCUMENT</u>  |                 |

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

| <b>(in thousands, except share data)</b>  | <b>November<br/>30,<br/>2010</b> | <b>August 31,<br/>2010</b> |
|---|----------------------------------|----------------------------|
| Assets  |                                  |                            |
| Current assets:   |                                  |                            |
| Cash and cash equivalents   | \$ 382,800                       | \$ 399,313                 |
| Accounts receivable (less allowance for collection losses of \$28,550 and \$29,721) | 818,985                          | 824,339                    |
| Inventories   | 695,950                          | 674,680                    |
| Other   | 275,121                          | 276,874                    |
| Total current assets  | 2,172,856                        | 2,175,206                  |
| Property, plant and equipment:  |                                  |                            |
| Land  | 92,872                           | 94,426                     |
| Buildings and improvements  | 538,139                          | 540,285                    |
| Equipment   | 1,643,568                        | 1,649,723                  |
| Construction in process   | 42,054                           | 56,124                     |
|   | 2,316,633                        | 2,340,558                  |
| Less accumulated depreciation and amortization                                      | (1,118,400)                      | (1,108,290)                |
|   | 1,198,233                        | 1,232,268                  |
| Goodwill  | 71,859                           | 71,580                     |
| Other assets  | 186,666                          | 227,099                    |
| Total assets  | \$ 3,629,614                     | \$ 3,706,153               |
| Liabilities and stockholders' equity  |                                  |                            |
| Current liabilities:  |                                  |                            |
| Accounts payable-trade  | \$ 438,893                       | \$ 504,388                 |
| Accounts payable-documentary letters of credit                                      | 118,019                          | 226,633                    |
| Accrued expenses and other payables   | 350,685                          | 324,897                    |
| Notes payable   | 35,787                           | 6,453                      |
| Commercial paper  | 60,000                           | 10,000                     |
| Current maturities of long-term debt  | 31,131                           | 30,588                     |
| Total current liabilities   | 1,034,515                        | 1,102,959                  |
| Deferred income taxes   | 43,624                           | 43,668                     |
| Other long-term liabilities   | 110,249                          | 108,870                    |
| Long-term debt  | 1,180,901                        | 1,197,282                  |
| Total liabilities   | 2,369,289                        | 2,452,779                  |

Commitments and contingencies

CMC stockholders' equity:

Preferred stock

Common stock, par value \$0.01 per share; authorized 200,000,000 shares;

issued 129,060,664 shares; outstanding 114,375,664 and 114,325,349 shares

Additional paid-in capital

Accumulated other comprehensive income (loss)

Retained earnings

Treasury stock 14,685,000 and 14,735,315 shares at cost

Stockholders' equity attributable to CMC

Stockholders' equity attributable to noncontrolling interests

Total equity

Total liabilities and stockholders' equity

|  |              |              |
|--|--------------|--------------|
|  | 1,290        | 1,290        |
|  | 374,911      | 373,308      |
|  | 4,810        | (12,526)     |
|  | 1,165,301    | 1,178,372    |
|  | (288,716)    | (289,708)    |
|  | 1,257,596    | 1,250,736    |
|  | 2,729        | 2,638        |
|  | 1,260,325    | 1,253,374    |
|  | \$ 3,629,614 | \$ 3,706,153 |

See notes to unaudited consolidated financial statements.

**Table of Contents**

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

| <b>(in thousands, except share data)</b>                   | <b>Three Months Ended</b> |              |
|--|---------------------------|--------------|
|  | <b>November 30,</b>       |              |
|  | <b>2010</b>               | <b>2009</b>  |
| Net sales  | \$ 1,782,480              | \$ 1,402,258 |
| Costs and expenses:  |                           |              |
| Cost of goods sold   | 1,633,492                 | 1,294,495    |
| Selling, general and administrative expenses               | 123,600                   | 133,185      |
| Interest expense   | 18,325                    | 19,451       |
|  | 1,775,417                 | 1,447,131    |
| Earnings (loss) from continuing operations before taxes    | 7,063                     | (44,873)     |
| Income taxes (benefit)                                     | 6,730                     | (16,195)     |
| Earnings (loss) from continuing operations                 | 333                       | (28,678)     |
| Earnings (loss) from discontinued operations before taxes  | 668                       | (4,158)      |
| Income taxes (benefit)                                     | 259                       | (1,613)      |
| Earnings (loss) from discontinued operations               | 409                       | (2,545)      |
| Net earnings (loss)  | \$ 742                    | \$ (31,223)  |
| Less net earnings attributable to noncontrolling interests | 91                        | 6            |
| Net earnings (loss) attributable to CMC                    | \$ 651                    | \$ (31,229)  |
| Basic earnings (loss) per share attributable to CMC:       |                           |              |
| Earnings (loss) from continuing operations                 | \$ 0.01                   | \$ (0.26)    |
| Loss from discontinued operations                          |                           | (0.02)       |
| Net earnings (loss)  | \$ 0.01                   | \$ (0.28)    |
| Diluted earnings (loss) per share attributable to CMC:     |                           |              |
| Earnings (loss) from continuing operations                 | \$ 0.01                   | \$ (0.26)    |
| Loss from discontinued operations                          |                           | (0.02)       |
| Net earnings (loss)  | \$ 0.01                   | \$ (0.28)    |
| Cash dividends per share                                   | \$ 0.12                   | \$ 0.12      |
| Average basic shares outstanding                           | 114,319,017               | 112,495,297  |
| Average diluted shares outstanding                         | 115,223,693               | 112,495,297  |

See notes to unaudited consolidated financial statements.

**Table of Contents**

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

| <b>(in thousands)</b>   | <b>Three Months Ended</b> |             |
|---|---------------------------|-------------|
|   | <b>November 30,</b>       |             |
|   | <b>2010</b>               | <b>2009</b> |
| Cash flows from (used by) operating activities:   |                           |             |
| Net earnings (loss)   | \$ 742                    | \$ (31,223) |
| Adjustments to reconcile net earnings (loss) to cash from (used by) operating activities: |                           |             |
| Depreciation and amortization   | 40,643                    | 43,695      |
| Recoveries on receivables   | (522)                     | (2,526)     |
| Share-based compensation  | 2,135                     | 2,422       |
| Deferred income taxes   | 72                        | (8,933)     |
| Tax benefits from stock plans   | (71)                      | (705)       |
| Gain on sale of assets and other  | (1,527)                   |             |
| Write-down of inventory   | 3,815                     | 12,931      |
| Changes in operating assets and liabilities, net of acquisitions:                         |                           |             |
| Decrease (increase) in accounts receivable  | (16,233)                  | 58,328      |
| Accounts receivable sold (repurchased), net   | 21,994                    | (10,456)    |
| Decrease (increase) in inventories  | (22,428)                  | 15,010      |
| Decrease (increase) in other assets   | 291                       | (11,450)    |
| Decrease in accounts payable, accrued expenses, other payables and income taxes           | (35,710)                  | (37,242)    |
| Increase in other long-term liabilities   | 1,208                     | 2,040       |
| Net cash flows from (used by) operating activities  | (5,591)                   | 31,891      |
| Cash flows from (used by) investing activities:   |                           |             |
| Capital expenditures  | (11,904)                  | (46,514)    |
| Proceeds from the sale of property, plant and equipment and other                         | 51,518                    | 183         |
| Acquisitions, net of cash acquired  |                           | (2,448)     |
| Increase in deposit for letters of credit   | (1,523)                   |             |
| Net cash flows from (used by) investing activities  | 38,091                    | (48,779)    |
| Cash flows from (used by) financing activities:   |                           |             |
| Decrease in documentary letters of credit   | (108,614)                 | (37,850)    |
| Short-term borrowings, net change   | 79,127                    | 1,491       |
| Repayments on long-term debt  | (7,390)                   | (7,567)     |
| Proceeds from issuance of long-term debt  | 45                        | 694         |
| Stock issued under incentive and purchase plans   | 389                       | 960         |
| Cash dividends  | (13,722)                  | (13,515)    |
| Tax benefits from stock plans   | 71                        | 705         |
| Net cash flows used by financing activities   | (50,094)                  | (55,082)    |
| Effect of exchange rate changes on cash   | 1,081                     | 397         |

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|  |            |            |
|--|------------|------------|
| Decrease in cash and cash equivalents          | (16,513)   | (71,573)   |
| Cash and cash equivalents at beginning of year | 399,313    | 405,603    |
| Cash and cash equivalents at end of period     | \$ 382,800 | \$ 334,030 |

See notes to unaudited consolidated financial statements.

5

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Table of Contents

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

|  | CMC Stockholders' Equity |          |                            |                                   |                   |                |              |                |              |       |
|--|--------------------------|----------|----------------------------|-----------------------------------|-------------------|----------------|--------------|----------------|--------------|-------|
|  | Common Stock             |          | Accumulated                |                                   |                   | Treasury Stock |              | Noncontrolling |              | Total |
|  | Number of                | Amount   | Additional Paid-In Capital | Other Comprehensive Income (Loss) | Retained Earnings | Number of      | Amount       | Interests      |              |       |
| (in thousands, except share data)                            | Shares                   |          |                            |                                   |                   | Shares         |              |                |              |       |
| Balance, September 1, 2009                                   | 129,060,664              | \$ 1,290 | \$ 380,737                 | \$ 34,257                         | \$ 1,438,205      | (16,487,231)   | \$ (324,796) | \$ 2,371       | \$ 1,532,371 |       |
| Comprehensive income (loss):                                 |                          |          |                            |                                   |                   |                |              |                |              |       |
| Earnings (loss) for the three months ended November 30, 2009 |                          |          |                            |                                   | (31,229)          |                |              | 6              | (31,223)     |       |
| Other comprehensive income (loss):                           |                          |          |                            |                                   |                   |                |              |                |              |       |
| Foreign currency translation adjustment                      |                          |          |                            | 33,378                            |                   |                |              | 10             | 33,388       |       |
| Realized gain on derivatives, net of taxes (\$57)            |                          |          |                            | 329                               |                   |                |              |                | 329          |       |
| Defined benefit obligation, net of taxes (\$267)             |                          |          |                            | (508)                             |                   |                |              |                | (508)        |       |
| Other comprehensive income (loss)                            |                          |          |                            |                                   |                   |                |              |                |              |       |
| Dividends  |                          |          |                            |                                   | (13,515)          |                |              |                | (13,515)     |       |
| Exercise of stock under incentive-based compensation plans   |                          |          | (2,664)                    |                                   |                   | 182,770        | 3,624        |                |              |       |
| Share-based compensation benefits from stock plans           |                          |          | 2,422                      |                                   |                   |                |              |                | 2,422        |       |
|  |                          |          | 705                        |                                   |                   |                |              |                | 705          |       |
| Balance, November 30, 2009                                   | 129,060,664              | \$ 1,290 | \$ 381,200                 | \$ 67,456                         | \$ 1,393,461      | (16,304,461)   | \$ (321,172) | \$ 2,387       | \$ 1,524,272 |       |

|   | CMC Stockholders' Equity |          |                            |                                   |                   |                |              |                |              |       |
|---|--------------------------|----------|----------------------------|-----------------------------------|-------------------|----------------|--------------|----------------|--------------|-------|
|   | Common Stock             |          | Accumulated                |                                   |                   | Treasury Stock |              | Noncontrolling |              | Total |
|   | Number of                | Amount   | Additional Paid-In Capital | Other Comprehensive Income (Loss) | Retained Earnings | Number of      | Amount       | Interests      |              |       |
| (in thousands, except share data)                     | Shares                   |          |                            |                                   |                   | Shares         |              |                |              |       |
| Balance, September 1, 2010                            | 129,060,664              | \$ 1,290 | \$ 373,308                 | \$ (12,526)                       | \$ 1,178,372      | (14,735,315)   | \$ (289,708) | \$ 2,638       | \$ 1,252,847 |       |
| Comprehensive income (loss):                          |                          |          |                            |                                   |                   |                |              |                |              |       |
| Earnings for the three months ended November 30, 2010 |                          |          |                            |                                   | 651               |                |              | 91             | 742          |       |
| Other comprehensive income (loss):                    |                          |          |                            |                                   |                   |                |              |                |              |       |
| Foreign currency translation adjustment               |                          |          |                            | 17,417                            |                   |                |              |                | 17,417       |       |
| Realized loss on derivatives, net of taxes (\$26)     |                          |          |                            | (10)                              |                   |                |              |                | (10)         |       |
|   |                          |          |                            | (71)                              |                   |                |              |                | (71)         |       |

|  |             |          |            |    |       |              |              |              |          |          |
|--|-------------|----------|------------|----|-------|--------------|--------------|--------------|----------|----------|
| ed benefit obligation, net of<br>(\$16)      |             |          |            |    |       |              |              |              |          |          |
| prehensive income                            |             |          |            |    |       |              |              |              |          | 18       |
| ividends                                     |             |          |            |    |       | (13,722)     |              |              |          | (13      |
| ce of stock under incentive<br>urchase plans |             |          | (603)      |    |       |              | 50,315       | 992          |          |          |
| -based compensation                          |             |          | 2,135      |    |       |              |              |              |          | 2        |
| enefits from stock plans                     |             |          | 71         |    |       |              |              |              |          |          |
| ce, November 30, 2010                        | 129,060,664 | \$ 1,290 | \$ 374,911 | \$ | 4,810 | \$ 1,165,301 | (14,685,000) | \$ (288,716) | \$ 2,729 | \$ 1,260 |

See notes to unaudited consolidated financial statements.

6

**Table of Contents**

**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 Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ( SEC ) for the year ended August 31, 2010, and include all normal recurring adjustments necessary to present fairly the consolidated balance sheets and statements of operations, cash flows and stockholders' equity for the periods indicated. These notes should be read in conjunction with such Form 10-K. The results of operations for the three month period are not necessarily indicative of the results to be expected for a full year.

**NOTE 2 ACCOUNTING POLICIES****Recently Adopted Accounting Pronouncements**

In the first quarter of 2011, the Company adopted accounting guidance related to the accounting for transfers of financial assets. The guidance clarifies the determination of a transferor's continuing involvement in a transferred financial asset and limits the circumstances in which a financial asset should be removed from the balance sheet when the transferor has not transferred the entire original financial asset. As a result of the new guidance, sales of receivables under the Company's U.S. securitization program no longer qualify as sales and are recorded as a secured borrowing. The Company did not have any sales under the U.S. securitization program during the first quarter of 2011 or 2010. See Note 3, Sales of Accounts Receivable, for additional details.

In the first quarter of 2011, the Company adopted accounting guidance related to the accounting for variable interest entities ( VIE ). The guidance requires a qualitative analysis to determine whether the interest in a VIE gives it a controlling financial interest and requires ongoing reassessments of whether an entity is the primary beneficiary of a VIE. The adoption had no impact on the Company's consolidated financial statements.

**NOTE 3 SALES OF ACCOUNTS RECEIVABLE**

On November 29, 2010, the Company renegotiated an existing accounts receivable securitization agreement of \$100 million. The agreement extended the maturity date of the facility to January 31, 2011. The covenants contained in this agreement are consistent with the credit facility fully described in Note 7, Credit Arrangements. The Company's accounts receivable securitization program is used as a cost-effective, short-term financing alternative. Under this program, the Company and several of its subsidiaries periodically sell certain eligible trade accounts receivable to the Company's wholly-owned consolidated special purpose subsidiary ( 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. The Company, irrevocably and without recourse, transfers all eligible trade accounts receivable to CMCRV. Depending on the Company's level of financing needs, CMCRV may sell an undivided percentage ownership interest in the pool of receivables to affiliates of third party financial institutions. At November 30, 2010 and August 31, 2010, accounts receivable of \$212 million and \$190 million, respectively, had been sold to CMCRV. The Company's undivided interest in these receivables (representing the Company's retained interest) was 100% at November 30, 2010 and August 31, 2010, respectively. The U.S. securitization program contains certain cross-default provisions whereby a termination event could occur if the Company defaulted under one of its credit arrangements. In addition to the securitization 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 satisfy the Company's creditors in the event of bankruptcy. Uncollected accounts receivable sold under these arrangements and removed from the consolidated balance sheets were \$125.9 million and \$103.9 million at November 30, 2010

**Table of Contents**

and August 31, 2010, respectively. The Australian program contains financial covenants in which the subsidiary must meet certain coverage and tangible net worth levels, as defined. At November 30, 2010, the Australian subsidiary was in compliance with these covenants.

During the three months ended November 30, 2010 and 2009, proceeds from the sales of receivables were \$285.5 million and \$189.7 million, respectively, and cash payments to the owners of receivables were \$263.5 million and \$200.2 million, respectively. Discounts on domestic and international sales of accounts receivable were \$1.2 million and \$0.8 million for the three months ended November 30, 2010 and 2009, respectively. These discounts primarily represented the costs of funds and were included in selling, general and administrative expenses.

**NOTE 4 INVENTORIES**

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 \$236.0 million and \$230.3 million at November 30, 2010 and August 31, 2010, 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 November 30, 2010 and August 31, 2010, \$77.9 million and \$59.1 million, respectively, were in raw materials.

**NOTE 5 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 reporting units are aggregated based upon similar economic characteristics, nature of products and services, nature of production processes, type of customers and distribution methods. The Company has determined its operating units that have a significant amount of goodwill to be in the Americas Recycling and Americas Fabrication segments. The Company uses a discounted cash flow model to calculate the fair value of its reporting units. The model includes a number of significant assumptions and estimates regarding future cash flows including discount rates, volumes, prices, capital expenditures and the impact of current market conditions. These estimates could be materially impacted by adverse changes in market conditions. 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 total gross carrying amounts of the Company's intangible assets that were subject to amortization were \$73.2 million and \$73.9 million at November 30, 2010 and August 31, 2010, respectively, and are included in other noncurrent assets. Aggregate amortization expense for intangible assets for the three months ended November 30, 2010 and 2009 was \$2.5 million and \$3.0 million, respectively.

**NOTE 6 DISCONTINUED OPERATIONS AND DISPOSITIONS**

On February 26, 2010, the Company's Board of Directors 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. The joist and deck business was in the Americas Fabrication segment.

During the fourth quarter of 2010, the Company completed the sale of the majority of the deck assets. On September 27, 2010, the Company completed the sale of the majority of the joist assets resulting in a gain of \$1.9 million.

Various financial information for discontinued operations is as follows:

| <b>(in thousands)</b>  | <b>November<br/>30,<br/>2010</b> | <b>August 31,<br/>2010</b> |
|------------------------|----------------------------------|----------------------------|
| Current assets         | \$ 2,430                         | \$10,850                   |
| Noncurrent assets      | 12,133                           | 27,045                     |
| Current liabilities    | 10,489                           | 14,723                     |
| Noncurrent liabilities | 21                               | 22                         |



**Table of Contents**

|                              | <b>Three Months Ended<br/>November 30,</b> |             |
|------------------------------|--|-------------|
|                              | <b>2010</b>                                | <b>2009</b> |
| Revenue                      | 915  | 44,600      |
| Earnings (loss) before taxes | 668  | (4,158)     |

On November 23, 2010, CMC Construction Services, a subsidiary of the Company, completed the sale of heavy forming and shoring equipment for approximately \$35 million. The Company recorded a loss on sale of approximately \$0.5 million in connection with this transaction.

**NOTE 7 CREDIT ARRANGEMENTS**

The Company's revolving credit facility of \$400 million has a maturity date of November 24, 2012 and includes certain covenants. The Company is required to maintain a minimum interest coverage ratio of not less than 2.50 to 1.00 for the nine month cumulative period ended November 30, 2010, twelve month cumulative period ending February 28, 2011 and for each fiscal quarter on a rolling twelve month cumulative period thereafter. At November 30, 2010, the Company's interest coverage ratio was 3.54 to 1.00. The agreement required the Company to maintain liquidity of at least \$300 million (cash, short-term investments and accounts receivable securitization capacity combined) through November 30, 2010. At November 30, 2010, the Company had liquidity of \$482.8 million. The agreement requires the Company to maintain a debt to capitalization ratio covenant not greater than 0.60 to 1.00. At November 30, 2010, the Company's debt to capitalization ratio was 0.53 to 1.00. The agreement provides for interest based on LIBOR, Eurodollar or Bank of America's prime rate. The facility fee is 60 basis points per annum and no compensating balances are required.

It is the Company's policy to maintain contractual bank credit lines equal to 100% of the amount of the commercial paper program. At November 30, 2010 and August 31, 2010, \$60 million and \$10 million were outstanding under the commercial paper program, respectively. There were no amounts outstanding on the revolving credit facility at November 30, 2010 and August 31, 2010. The availability under the revolving credit agreement is reduced by the outstanding amount under the commercial paper program. At November 30, 2010, \$340 million was available under the revolving credit agreement.

The Company has numerous uncommitted credit facilities available from domestic and international banks. No commitment fees or compensating balances are required under these credit facilities. These credit facilities are used, in general, to support import letters of credit (including accounts payable settled under bankers' acceptances as described in Note 1, Summary of Significant Accounting Policies in the Company's consolidated financial statements in its Annual Report on Form 10-K for the year ended August 31, 2010), 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, is as follows:

| <b>(in thousands)</b>   | <b>November<br/>30,<br/>2010</b> | <b>August 31,<br/>2010</b> |
|---|----------------------------------|----------------------------|
| 5.625% notes due November 2013 (weighted average rate of 3.8% at November 30, 2010) | \$ 206,555                       | \$ 208,253                 |
| 6.50% notes due July 2017   | 400,000                          | 400,000                    |
| 7.35% notes due August 2018 (weighted average rate of 5.5% at November 30, 2010)    | 515,000                          | 524,185                    |
| CMCZ term note due May 2013   | 64,656                           | 69,716                     |
| CMCS financing agreement  | 19,514                           | 19,006                     |
| Other, including equipment notes  | 6,307                            | 6,710                      |
|   | 1,212,032                        | 1,227,870                  |
| Less current maturities   | 31,131                           | 30,588                     |

\$ 1,180,901      \$ 1,197,282

Interest on the notes, except for the CMC Zawiercie ( CMCZ ) note, is payable semiannually.

On March 23, 2010, the Company entered into two interest rate swap transactions ( Swap Transactions ). The Swap Transactions were designated as fair value hedges at inception and convert all fixed rate interest to floating rate interest on the Company's 5.625% notes due 2013 and \$300 million on its fixed rate 7.35% notes due 2018. Swap Transactions with regard to the 5.625% notes and the 7.35% notes have notional amounts of \$200 million and \$300 million and termination dates of November 15, 2013 and August 15, 2018, respectively. The Swap Transactions costs are based on the floating LIBOR plus 303 basis points with respect to the 5.625% notes and LIBOR plus 367 basis points with respect to the 7.35% notes. See Note 8, Derivatives and Risk Management, for additional details. CMCZ has a five year term note of PLN 200 million (\$64.7 million) with a group of four banks. The term note is used to finance operating expenses of CMCZ and the development of a rolling mill. The note has scheduled principal and interest payments in fifteen

**Table of Contents**

equal quarterly installments which began in November 2009 with the final installment in May 2013. The weighted average interest rate at November 30, 2010 was 6.4%. The term note contains four financial covenants for CMCZ. At November 30, 2010, CMCZ was not in compliance with two of the financial covenants which resulted in a guarantee by Commercial Metals Company continuing to be effective. As a result of the guarantee, the financial covenant requirements became void; however, all other terms of the loan remain in effect, including the payment schedule. The guarantee will cease to be effective when CMCZ is in compliance with the financial covenants for two consecutive quarters.

CMC Sisak ( CMCS ) has a five year financing agreement of EUR 40 million (\$52.0 million) which allows for disbursements as funds are needed. The loan is intended to be used for capital expenditures and other uses. At November 30, 2010, EUR 15.0 million (\$19.5 million) was outstanding under this note. The note has scheduled principal and interest payments in seven semiannual installments beginning in July 2011 and ending in July 2014. The weighted average interest rate at November 30, 2010 was 5.0%.

Interest of \$0.2 million and \$2.1 million was capitalized in the cost of property, plant and equipment constructed for the three months ended November 30, 2010 and 2009, respectively. Interest of \$5.0 million and \$8.6 million was paid for the three months ended November 30, 2010 and 2009, respectively.

**NOTE 8 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. The 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 minimize the effect of the volatility of ocean freight rates. The Company enters into interest rate swap contracts to maintain a portion 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. The Company's interest rate swap contract commitments were \$500 million as of November 30, 2010.

The following tables provide certain information regarding the foreign exchange and commodity financial instruments discussed above.

Gross foreign currency exchange contract commitments as of November 30, 2010 (in thousands):

| <b>Functional Currency</b> |               | <b>Contract Currency</b> |               |
|----------------------------|---------------|--------------------------|---------------|
| <b>Type</b>                | <b>Amount</b> | <b>Type</b>              | <b>Amount</b> |
| AUD                        | 378           | EUR                      | 268           |
| AUD                        | 125           | NZD                      | 161           |
| AUD                        | 77,299        | USD                      | 73,834        |
| EUR                        | 3,121         | HRK*                     | 22,988        |
| EUR                        | 328           | USD                      | 448           |
| GBP                        | 2,647         | EUR                      | 3,120         |
| GBP                        | 2,023         | USD                      | 3,204         |
| PLN                        | 251,816       | EUR                      | 63,333        |
| PLN                        | 104,579       | USD                      | 32,845        |
| PLN                        | 1,546         | SEK**                    | 3,626         |
| SGD                        | 8,812         | USD                      | 6,800         |
| USD                        | 24,295        | EUR                      | 18,353        |
| USD                        | 23,823        | GBP                      | 15,340        |
| USD                        | 3,052         | JPY                      | 256,422       |



|     |       |         |        |
|-----|-------|---------|--------|
| USD | 1,600 | SGD***  | 2,091  |
| USD | 2,400 | CNY**** | 15,914 |

\* Croatian kuna

\*\* Swedish krona

\*\*\* Singapore dollar

\*\*\*\* Chinese yuan

Commodity contract commitments as of November 30, 2010:

10

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**Table of Contents**

| <b>Commodity</b> | <b>Long/Short</b> | <b>Total</b> |
|------------------|-------------------|--------------|
| Aluminum         | Long              | 2,925 MT     |
| Aluminum         | Short             | 650 MT       |
| Copper           | Long              | 2,116 MT     |
| Copper           | Short             | 8,865 MT     |
| Zinc             | Long              | 29 MT        |
|                  | Long              | 80,000       |
| Natural Gas      |                   | 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. These hedges resulted in substantially no ineffectiveness in the statements of operations, and there were no components excluded from the assessment of hedge effectiveness for the three months ended November 30, 2010 and 2009. Certain of the foreign currency and commodity contracts were not designated as hedges for accounting purposes, although management believes they are essential economic hedges.

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

| <b>Derivatives Not Designated as Hedging<br/>Instruments</b> | <b>Location</b>    | <b>Three Months Ended<br/>November 30,</b> |             |
|--|--------------------|--|-------------|
|  |                    | <b>2010</b>                                | <b>2009</b> |
| Commodity  | Cost of goods sold | \$ (10,286)                                | \$ 1,176    |
| Foreign exchange   | Net sales          | (18)                                       | 264         |
| Foreign exchange   | Cost of goods sold | 580  | 84          |
| Foreign exchange   | SG&A expenses      | (3,324)                                    | (1,181)     |
| Gain (loss) before taxes                                     |                    | \$ (13,048)                                | \$ 343      |

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 November 30, 2010, fair value hedge accounting for interest rate swap contracts increased the carrying value of debt instruments by \$21.6 million.

| <b>Derivatives Designated as Fair Value Hedging<br/>Instruments</b> | <b>Location</b>  | <b>Three Months<br/>Ended<br/>November 30,</b> |             |
|---|------------------|--|-------------|
|   |                  | <b>2010</b>                                    | <b>2009</b> |
| Foreign exchange  | SG&A expenses    | \$ (7,887)                                     | \$ (8,687)  |
| Interest rate   | Interest expense | 21,555   |             |
| Gain (loss) before taxes  |                  | \$ 13,668                                      | \$ (8,687)  |

**Three Months  
Ended**

| <b>Hedged (Underlying) Items Designated as Fair Value</b> | <b>Hedging Instruments</b> | <b>Location</b>  | <b>November 30,</b> |             |
|---|----------------------------|------------------|---------------------|-------------|
|   |                            |                  | <b>2010</b>         | <b>2009</b> |
| Foreign exchange  |                            | Net sales        | \$ 38               | \$ 61       |
| Foreign exchange  |                            | SG&A expenses    | 7,848               | 8,622       |
| Interest rate   |                            | Interest expense | (21,555)            |             |
| Gain (loss) before taxes                                  |                            |                  | \$ (13,669)         | \$ 8,683    |

The Company recognizes the impact of actual and estimated net periodic settlements of current interest on our active interest rate swaps as adjustments to interest expense. The following table summarizes the impact of actual and estimated periodic settlements of active swap agreements on the results of operations:

| <b>Reductions to Interest Expense Due to</b>                         | <b>Hedge Accounting for Interest Rate Swaps</b> | <b>Three Months Ended</b> |             |
|--|---|---------------------------|-------------|
|  |   | <b>November 30,</b>       | <b>2009</b> |
|  |   | <b>2010</b>               | <b>2009</b> |
| Periodic estimated and actual settlements of active swap agreements* |   | \$(3,284)                 | \$          |

\* 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.

**Table of Contents**

|                    | <b>Effective Portion of Derivatives<br/>Designated as Cash Flow Hedging Instruments<br/>Recognized in<br/>Accumulated Other Comprehensive Income (Loss)</b> |  | <b>Three Months Ended<br/>November 30,</b> |             |
|--------------------|---|--|--|-------------|
|                    |   |  | <b>2010</b>                                | <b>2009</b> |
| Commodity          |   |  | \$ 37                                      | \$ 60       |
| Foreign exchange   |   |  | 17   | 325         |
| Gain, net of taxes |   |  | \$ 54                                      | \$ 385      |

|                    |                    | <b>Effective Portion of Derivatives<br/>Designated as Cash Flow Hedging Instruments<br/>Reclassified from<br/>Accumulated Other Comprehensive Income (Loss)</b> |             | <b>Three Months<br/>Ended<br/>November 30,</b> |             |
|--------------------|--------------------|---|-------------|--|-------------|
|                    |                    | <b>Location</b>   | <b>2010</b> | <b>2009</b>                                    | <b>2010</b> |
| Commodity          | Cost of goods sold |   | \$ (83)     |  | \$ (28)     |
| Foreign exchange   | SG&A expenses      |   | 33          |  | (30)        |
| Interest rate      | Interest expense   |   | 114         |  | 114         |
| Gain, net of taxes |                    |   | \$ 64       |  | \$ 56       |

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

|  | <b>November 30,<br/>2010</b> | <b>August 31,<br/>2010</b> |
|--|------------------------------|----------------------------|
| <b>Derivative Assets</b>                                   |                              |                            |
| Commodity designated                                       | \$ 116                       | \$ 80                      |
| Commodity not designated                                   | 2,323                        | 911                        |
| Foreign exchange designated                                | 620                          | 435                        |
| Foreign exchange not designated                            | 580                          | 1,188                      |
| Interest rate designated                                   | 11,515                       | 12,173                     |
| Long-term interest rate designated                         | 10,040                       | 20,265                     |
| Derivative assets (other current assets and other assets)* | \$ 25,194                    | \$ 35,052                  |

|   | <b>November 30,<br/>2010</b> | <b>August 31,<br/>2010</b> |
|---|------------------------------|----------------------------|
| <b>Derivative Liabilities</b>                                 |                              |                            |
| Commodity designated  | \$ 98                        | \$ 95                      |
| Commodity not designated                                      | 2,625                        | 2,817                      |
| Foreign exchange designated                                   | 713                          | 1,749                      |
| Foreign exchange not designated                               | 3,234                        | 1,097                      |
| Derivative liabilities (accrued expenses and other payables)* | \$ 6,670                     | \$ 5,758                   |

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

As of November 30, 2010, 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 none are entered into for trading purposes.

**Table of Contents****NOTE 9 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:

|   | <b>Fair Value Measurements at Reporting Date</b> |                    |                    |                     |
|---|--|--------------------|--------------------|---------------------|
|   |  | <b>Using</b>       |                    |                     |
|   |  | <b>Quoted</b>      | <b>Significant</b> | <b>Significant</b>  |
|   |  | <b>Prices in</b>   | <b>Other</b>       | <b>Unobservable</b> |
|   |  | <b>Active</b>      | <b>Observable</b>  | <b>Inputs</b>       |
|   |  | <b>Markets for</b> | <b>Inputs</b>      | <b>(Level 3)</b>    |
|   | <b>November</b>                                  | <b>Identical</b>   | <b>(Level 2)</b>   | <b>(Level 3)</b>    |
| <b>(in thousands)</b>                   | <b>30,</b>                                       | <b>Assets</b>      | <b>(Level 2)</b>   | <b>(Level 3)</b>    |
|   | <b>2010</b>                                      | <b>(Level 1)</b>   | <b>(Level 2)</b>   | <b>(Level 3)</b>    |
| Money market investments                | \$337,503  | \$ 337,503         | \$                 | \$                  |
| Derivative assets                       | 25,194   | 2,323              | 22,871             |                     |
| Nonqualified benefit plan assets *      | 49,850   | 49,850             |                    |                     |
| Derivative liabilities                  | 6,670  | 2,625              | 4,045              |                     |
| Nonqualified benefit plan liabilities * | 87,140   |                    | 87,140             |                     |
|   | <b>August 31,</b>                                |                    |                    |                     |
|   | <b>2010</b>                                      |                    |                    |                     |
| Money market investments                | \$352,881  | \$ 352,881         | \$                 | \$                  |
| Derivative assets                       | 35,052   | 911                | 34,141             |                     |
| Nonqualified benefit plan assets *      | 43,681   | 43,681             |                    |                     |
| Derivative liabilities                  | 5,758  | 2,817              | 2,941              |                     |
| Nonqualified benefit plan liabilities * | 86,043   |                    | 86,043             |                     |

\* 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.

The Company's long-term debt is predominantly publicly held. The fair value was approximately \$1.23 billion at November 30, 2010 and \$1.29 billion at August 31, 2010. Fair value was determined by indicated market values.

**NOTE 10 INCOME TAXES**

The Company had net refunds of \$1.9 million and paid \$6.3 million in income taxes during the three months ended November 30, 2010 and 2009, respectively.

Reconciliations of the United States statutory rates to the Company's effective tax rates from continuing operations were as follows:

|                           | <b>Three Months Ended</b> |             |
|---------------------------|---------------------------|-------------|
|                           | <b>November 30,</b>       | <b>2009</b> |
|                           | <b>2010</b>               | <b>2009</b> |
| Statutory rate            | 35.0%                     | 35.0%       |
| State and local taxes     | 2.8                       | 4.4         |
| Foreign rate differential | 1.3                       | (1.1)       |
|                           | 48.7                      |             |

|   |       |       |
|---|-------|-------|
| Increase in valuation allowance due to foreign losses without benefit (predominately Croatia) |       |       |
| Domestic production activity deduction  | (3.6) |       |
| Other   | 11.1  | (2.2) |
| Effective rate from continuing operations   | 95.3% | 36.1% |

The Company's effective tax rate from discontinued operations for the three months ended November 30, 2010 and 2009 was 38.8%.

As of November 30, 2010, the reserve for unrecognized tax benefits relating to the accounting for uncertainty in income taxes was \$20.4 million, exclusive of interest and penalties. During the three months ended November 30, 2010, the Company recorded no change to the liability.

The current Company 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 non-current reserve for uncertain income tax positions. For the three months ended November 30, 2010, before any tax benefits, the Company recorded immaterial amounts of accrued interest and penalties on unrecognized tax benefits.

**Table of Contents**

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 2006 and forward

U.S. States 2006 and forward

Foreign 2004 and forward

The Federal tax returns for fiscal years 2006 to 2008 are under examination by the Internal Revenue Service.

However, we believe our recorded tax liabilities as of November 30, 2010 sufficiently reflect the anticipated outcome of these examinations.

**NOTE 11 SHARE-BASED COMPENSATION**

See Note 10, Capital Stock, to the Company's consolidated financial statements for the year ended August 31, 2010 for a description of the Company's stock incentive plans.

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 \$2.4 million for the three months ended November 30, 2010 and 2009, respectively, as a component of selling, general and administrative expenses. At November 30, 2010, the Company had \$10.0 million of total unrecognized pre-tax compensation cost related to non-vested share-based compensation arrangements. This cost is expected to be recognized over the next 42 months. See Note 1, Summary of Significant Accounting Policies, to the Company's consolidated financial statements in its Annual Report on Form 10-K for the year ended August 31, 2010 for a description of the Company's assumptions used to calculate share-based compensation.

Combined information for shares subject to options and stock appreciation rights (SARs) for the three months ended November 30, 2010 were as follows:

|                   | Number    | Weighted<br>Average<br>Exercise<br>Price | Price<br>Range<br>Per Share |       |
|-------------------|-----------|--|-----------------------------|-------|
| September 1, 2010 |           |  |                             |       |
| Outstanding       | 3,922,016 | \$ 23.67                                 | \$ 7.53                     | 35.38 |
| Exercisable       | 3,503,681 | 23.38                                    | 7.53                        | 35.38 |
| Exercised         | (54,667)  | 8.03                                     | 7.53                        | 12.31 |
| Forfeited         | (30,700)  | 33.33                                    | 24.57                       | 35.38 |
| November 30, 2010 |           |  |                             |       |
| Outstanding       | 3,836,649 | \$ 23.82                                 | \$ 7.53                     | 35.38 |
| Exercisable       | 3,422,320 | 23.55                                    | 7.53                        | 35.38 |

Share information for options and SARs at November 30, 2010:

| Outstanding | Weighted<br>Average | Weighted | Exercisable | Weighted |
|-------------|---------------------|----------|-------------|----------|
|-------------|---------------------|----------|-------------|----------|



| <b>Range of<br/>Exercise<br/>Price</b> | <b>Number<br/>Outstanding</b> | <b>Remaining<br/>Contractual<br/>Life (Yrs.)</b> | <b>Average<br/>Exercise<br/>Price</b> | <b>Number<br/>Outstanding</b> | <b>Average<br/>Exercise<br/>Price</b> |
|--|-------------------------------|--|---------------------------------------|-------------------------------|---------------------------------------|
| \$ 7.53 7.78                           | 756,346                       | 0.3  | \$ 7.77                               | 756,346                       | \$ 7.77                               |
| 11.00 14.05                            | 761,225                       | 2.9  | 12.41                                 | 586,225                       | 12.17                                 |
| 21.81 24.71                            | 444,742                       | 2.2  | 24.51                                 | 444,742                       | 24.51                                 |
| 31.75 35.38                            | 1,874,336                     | 3.5  | 34.76                                 | 1,635,007                     | 34.67                                 |
| \$ 7.53 35.38                          | 3,836,649                     | 2.6  | \$ 23.82                              | 3,422,320                     | \$ 23.55                              |

Of the Company's previously granted restricted stock awards, 1,134 shares vested during the three months ended November 30, 2010. None of the Company's previously granted restricted stock awards vested during the three months ended November 30, 2009.

**Table of Contents****NOTE 12 STOCKHOLDERS EQUITY AND EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO CMC**

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

|  | <b>Three Months Ended</b> |             |
|--|---------------------------|-------------|
|  | <b>November 30,</b>       |             |
|  | <b>2010</b>               | <b>2009</b> |
| Shares outstanding for basic earnings (loss) per share   | 114,319,017               | 112,495,297 |
| Effect of dilutive securities:                           |                           |             |
| Stock based incentive/purchase plans                     | 904,676                   |             |
| Shares outstanding for diluted earnings (loss) per share | 115,223,693               | 112,495,297 |

For the three months ended November 30, 2010, SARs with total share commitments of 2.3 million were antidilutive and therefore excluded from the calculation of diluted earnings per share. For the three months ended November 30, 2009, 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 2017.

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 purchased no shares during the first quarter of 2011 and had remaining authorization to purchase 8,259,647 shares of its common stock at November 30, 2010.

**NOTE 13 COMMITMENTS AND CONTINGENCIES**

See Note 12, Commitments and Contingencies, to the consolidated financial statements in the Annual Report on Form 10-K for the year ended August 31, 2010 relating to environmental and other matters. There have been no significant changes to the matters noted therein. In the ordinary course of conducting its business, the Company becomes involved in litigation, administrative proceedings and governmental investigations, including environmental matters. Management believes that adequate provisions have been made in the consolidated financial statements for the potential impact of these issues, and that the outcomes will not significantly impact the results of operations or the financial position of the Company, although they may have a material impact on earnings (loss) for a particular quarter.

**NOTE 14 BUSINESS SEGMENTS**

The Company's reportable 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.

Effective September 1, 2010, the Company's scrap metal processing facilities which directly support the domestic mills are included as part of the Americas Mills segment. Prior to September 1, 2010, these facilities were included as part of the Americas Recycling segment. All prior period financial information has been recast to the current segment reporting structure.

The Company structures the business into the following five segments: Americas Recycling, Americas Mills, Americas Fabrication, International Mills 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 which directly support these mills, and the copper tube minimill. The copper tube minimill is aggregated with the Company's steel mills because it has similar economic characteristics. The Americas Fabrication segment consists of the Company's rebar fabrication operations, fence post manufacturing plants, construction-related and other products facilities. The International Mills segment includes the minimills in Poland and Croatia, 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 are different from

that of 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 two U.S. based trading and distribution divisions, CMC Cometals and CMC Cometals Steel (previously CMC Dallas Trading). The international distribution operations consist only of physical transactions and not positions taken for speculation. Corporate contains expenses of the Company's corporate headquarters, expenses related to its deployment of SAP software, and interest expense relating to its long-term public debt and commercial paper program.

**Table of Contents**

The financial information presented for the Americas Fabrication segment excludes its joist and deck fabrication operations. This operation has been classified as discontinued operations in the consolidated statements of operations. See Note 6, Discontinued Operations and Dispositions, for more detailed 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. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The following is a summary of certain financial information from continuing operations by reportable segment:

|                                  | <b>Three Months Ended November 30, 2010</b> |              |                    |                      |                     |                  |                      |             |
|----------------------------------|---|--------------|--------------------|----------------------|---------------------|------------------|----------------------|-------------|
|                                  | <b>Americas</b>                             |              |                    | <b>International</b> |                     |                  | <b>Marketing and</b> |             |
| <b>(in thousands)</b>            | <b>Recycling</b>                            | <b>Mills</b> | <b>Fabrication</b> | <b>Mills</b>         | <b>Distribution</b> | <b>Corporate</b> | <b>Eliminations</b>  |             |
| Net sales-unaffiliated customers | \$347,169                                   | \$280,781    | \$283,943          | \$223,921            | \$640,408           | \$ 6,258         | \$                   | \$1,782,480 |
| Intersegment sales               | 28,626                                      | 154,616      | 3,810              | 8,875                | 5,498               |                  | (201,425)            |             |
| Net sales                        | 375,795                                     | 435,397      | 287,753            | 232,796              | 645,906             | 6,258            | (201,425)            | 1,782,480   |
| Adjusted operating profit (loss) | 8,192                                       | 34,143       | (22,008)           | (7,666)              | 24,238              | (10,603)         | 303                  | 26,599      |
| Goodwill                         | 7,267                                       | 295          | 57,144             | 2,877                | 4,276               |                  |                      | 71,859      |
| Total assets                     | 251,332                                     | 612,574      | 593,596            | 726,837              | 716,498             | 1,075,944        | (347,167)            | 3,629,614   |

|                                  | <b>Three Months Ended November 30, 2009</b> |              |                    |                      |                     |                  |                      |             |
|----------------------------------|---|--------------|--------------------|----------------------|---------------------|------------------|----------------------|-------------|
|                                  | <b>Americas</b>                             |              |                    | <b>International</b> |                     |                  | <b>Marketing and</b> |             |
| <b>(in thousands)</b>            | <b>Recycling</b>                            | <b>Mills</b> | <b>Fabrication</b> | <b>Mills</b>         | <b>Distribution</b> | <b>Corporate</b> | <b>Eliminations</b>  |             |
| Net sales-unaffiliated customers | \$240,498                                   | \$179,616    | \$260,441          | \$152,122            | \$566,022           | \$ 3,559         | \$                   | \$1,402,258 |
| Intersegment sales               | 25,030                                      | 127,919      | 2,032              | 31,147               | 7,064               |                  | (193,192)            |             |
| Net sales                        | 265,528                                     | 307,535      | 262,473            | 183,269              | 573,086             | 3,559            | (193,192)            | 1,402,258   |
| Adjusted operating profit (loss) | (1,210)                                     | (19)         | (8,916)            | (19,092)             | 20,138              | (20,204)         | 4,666                | (24,637)    |
| Goodwill                         | 6,961                                       | 601          | 58,878             | 2,991                | 5,205               |                  |                      | 74,636      |
| Total assets                     | 212,479                                     | 608,203      | 789,085            | 753,862              | 632,881             | 895,084          | (271,812)            | 3,619,782   |

The following table provides a reconciliation of net loss from continuing operations attributable to CMC to adjusted operating profit (loss):

| <b>(in thousands)</b>  | <b>Three Months Ended</b> |             |
|--|---------------------------|-------------|
|  | <b>November 30, 2010</b>  | <b>2009</b> |
| Net earnings (loss) from continuing operations attributable to CMC | \$ 242                    | \$(28,684)  |

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|   |           |             |
|---|-----------|-------------|
| Noncontrolling interests                                      | 91        | 6           |
| Income taxes (benefit)  | 6,730     | (16,195)    |
| Interest expense  | 18,325    | 19,451      |
| Discounts on sales of accounts receivable                     | 1,211     | 785         |
| Adjusted operating profit (loss) from continuing operations   | \$ 26,599 | \$ (24,637) |
| Adjusted operating profit (loss) from discontinued operations | 668       | (4,155)     |
| Adjusted operating profit (loss)                              | \$ 27,267 | \$ (28,792) |

**Table of Contents**

The following represents the Company's external net sales from continuing operations by major product and geographic area:

| <b>(in thousands)</b>      | <b>Three Months Ended<br/>November 30,</b> |              |
|----------------------------|--|--------------|
|                            | <b>2010</b>                                | <b>2009</b>  |
| Major product information: |  |              |
| Steel products             | \$ 1,054,770                               | \$ 858,313   |
| Nonferrous scrap           | 220,273                                    | 150,609      |
| Industrial materials       | 213,845                                    | 184,625      |
| Ferrous scrap              | 160,418                                    | 100,101      |
| Construction materials     | 58,227                                     | 52,501       |
| Nonferrous products        | 45,067                                     | 34,023       |
| Other                      | 29,880                                     | 22,086       |
| Net sales                  | \$ 1,782,480                               | \$ 1,402,258 |

| <b>(in thousands)</b> | <b>Three Months Ended<br/>November 30,</b> |              |
|-----------------------|--|--------------|
|                       | <b>2010</b>                                | <b>2009</b>  |
| Geographic area:      |  |              |
| United States         | \$ 959,820                                 | \$ 645,566   |
| Europe                | 416,859                                    | 287,451      |
| Asia                  | 213,597                                    | 267,605      |
| Australia/New Zealand | 138,600                                    | 147,334      |
| Other                 | 53,604                                     | 54,302       |
| Net sales             | \$ 1,782,480                               | \$ 1,402,258 |

**NOTE 15 RELATED PARTY TRANSACTIONS**

One of the Company's international subsidiaries has a marketing and distribution agreement with a key supplier of which the Company owns an 11% interest. This marketing and distribution agreement expired on December 31, 2010.

The following presents related party transactions:

| <b>(in thousands)</b> | <b>Three Months Ended<br/>November 30,</b> |                   |
|-----------------------|--|-------------------|
|                       | <b>2010</b>                                | <b>2009</b>       |
| Sales                 | \$ 98,050                                  | \$76,300          |
| Purchases             | 106,962                                    | 81,733            |
|                       | <b>November</b>                            | <b>August 31,</b> |
|                       | <b>30,</b>                                 | <b>2010</b>       |
| <b>(in thousands)</b> | <b>2010</b>                                |                   |
| Accounts receivable   | \$ 43,785                                  | \$10,611          |
| Accounts payable      | 24,432                                     | 22,603            |

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Annual Report on Form 10-K filed with the SEC for the year ended August 31, 2010.

**CRITICAL ACCOUNTING POLICIES**

Our critical accounting policies are not different from the information set forth in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, included in our Annual Report on Form 10-K filed with the SEC for the year ended August 31, 2010 and are, therefore, not presented herein.

**CONSOLIDATED RESULTS OF OPERATIONS**

| (in millions)  | Three Months Ended |            | Increase<br>% |
|--|--------------------|------------|---------------|
|  | 2010               | 2009       |               |
| Net sales*   | \$ 1,782.5         | \$ 1,402.3 | 27%           |
| Net earnings (loss) from continuing operations attributable to CMC | 0.3                | (28.6)     | 101%          |
| Adjusted EBITDA  | 66.6               | 14.1       | 372%          |

\* Excludes divisions classified as discontinued operations.

In the table above, we have included a financial statement measure that was not derived in accordance with accounting principles generally accepted in the United States (GAAP). We use adjusted EBITDA (earnings before interest expense, income taxes, depreciation, amortization and impairment charges) as a non-GAAP performance measure. In calculating adjusted EBITDA, we exclude our largest recurring non-cash charge, depreciation, amortization and impairment charges. Adjusted EBITDA provides a core operational performance measurement that compares results without the need to adjust for Federal, state and local taxes which have considerable variation between domestic jurisdictions. Tax regulations in international operations add additional complexity. Also, we exclude interest cost in our calculation of adjusted EBITDA. The results are, therefore, without consideration of financing alternatives of capital employed. We use adjusted EBITDA as one guideline to assess our unleveraged performance return on our investments. Adjusted EBITDA is also the target benchmark for our long-term cash incentive performance plan for management and part of a debt compliance test for our revolving credit agreement and our accounts receivable securitization program. Reconciliations from net earnings (loss) from continuing operations attributable to CMC to adjusted EBITDA are provided below:

| (in millions)  | Three Months Ended |           | Increase<br>(Decrease)<br>% |
|--|--------------------|-----------|-----------------------------|
|  | 2010               | 2009      |                             |
| Net earnings (loss) from continuing operations attributable to CMC | \$ 0.3             | \$ (28.6) | 101%                        |
| Interest expense   | 18.3               | 19.5      | (6%)                        |
| Income taxes (benefit)   | 6.7                | (16.2)    | 141%                        |
| Depreciation, amortization and impairment charges                  | 40.6               | 41.6      | (2%)                        |
| Adjusted EBITDA from continuing operations                         | \$ 65.9            | \$ 16.3   | 304%                        |
| Adjusted EBITDA from discontinued operations                       | 0.7                | (2.2)     | 132%                        |
| Adjusted EBITDA  | \$ 66.6            | \$ 14.1   | 372%                        |

Our adjusted EBITDA does not include interest expense, income taxes, depreciation, amortization and impairment charges. Because we have borrowed money in order to finance our operations, interest expense is a necessary element of our costs and our ability to generate revenues. Because we use capital assets, depreciation, amortization and

impairment charges are also necessary elements of our costs. Also, the payment of income taxes is a necessary element of our operations. Therefore, any measures that exclude these elements have material limitations. To compensate for these limitations, we believe that it is appropriate to consider both net earnings



**Table of Contents**

(loss) determined under GAAP, as well as adjusted EBITDA, to evaluate our performance. Also, we separately analyze any significant fluctuations in interest expense, depreciation, amortization, impairment charges and income taxes.

The following events and performances had a significant impact during our first quarter of 2011 as compared to the same period of 2010 or are expected to be significant for our future operations:

Net sales of the Americas Recycling segment increased 42% and adjusted operating profit increased \$9.4 million during the first quarter of 2011 as compared to the prior year's first quarter primarily from improved demand which drove an increase in prices and volumes.

Net sales of the Americas Mills segment increased 42% and adjusted operating profit increased \$34.2 million from the prior year's first quarter primarily due to higher shipments and a 22% increase in metal margins.

Our Americas Fabrication segment showed a 10% increase in sales but a \$13.1 million increase in adjusted operating loss as compared to the first quarter of 2010 due to rising steel costs and weak commercial construction markets.

Our International Mills segment showed a 27% increase in net sales and an \$11.4 million decrease in adjusted operating loss as compared to the first quarter of 2010 from increased demand and pricing in construction markets in Poland offset by continuing losses in Croatia.

Our International Marketing and Distribution segment reported a 13% increase in net sales and a \$4.1 million increase in adjusted operating profit as compared to the first quarter of 2010, including approximately \$7 million in recoveries of prior year inventory contract claims.

We recorded consolidated pre-tax LIFO expense of \$5.7 million for the first quarter of 2011 compared to pre-tax LIFO income of \$17.3 million for the first quarter of 2010.

We commissioned a new ladle metallurgical station at CMCS (Croatia), which was the last component of the melt shop upgrade and began sequence casting trials.

We received approximately \$51 million from the sale of certain joist assets, included in discontinued operations, and the sale of forms from our heavy forms rental unit, included in the Americas Fabrication segment.

**SEGMENT OPERATING DATA**

Unless otherwise indicated, all dollar amounts below are calculated before income taxes. Financial results for our reportable segments are consistent with the basis and manner in which we internally disaggregate financial information for making operating decisions. See Note 14, Business Segments, to the consolidated financial statements. We use adjusted operating profit (loss) to compare and evaluate the financial performance of our segments. Adjusted operating profit (loss) is the sum of our earnings (loss) before income taxes and financing costs. The following tables show net sales and adjusted operating profit (loss) by business segment:

| (in thousands)       | Three Months Ended |                   |
|----------------------|--------------------|-------------------|
|                      | 2010               | November 30, 2009 |
| Net sales:           |                    |                   |
| Americas Recycling   | \$ 375,795         | \$ 265,528        |
| Americas Mills       | 435,397            | 307,535           |
| Americas Fabrication | 287,753            | 262,473           |
| International Mills  | 232,796            | 183,269           |

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|  |              |              |
|--|--------------|--------------|
| International Marketing and Distribution | 645,906      | 573,086      |
| Corporate                                | 6,258        | 3,559        |
| Eliminations                             | (201,425)    | (193,192)    |
|  | \$ 1,782,480 | \$ 1,402,258 |

**Table of Contents**

| (in thousands)                           | Three Months Ended<br>November 30, |            |
|--|------------------------------------|------------|
|  | 2010                               | 2009       |
| Adjusted operating profit (loss):        |                                    |            |
| Americas Recycling                       | \$ 8,192                           | \$ (1,210) |
| Americas Mills                           | 34,143                             | (19)       |
| Americas Fabrication                     | (22,008)                           | (8,916)    |
| International Mills                      | (7,666)                            | (19,092)   |
| International Marketing and Distribution | 24,238                             | 20,138     |
| Corporate                                | (10,603)                           | (20,204)   |
| Eliminations                             | 303                                | 4,666      |
| Discontinued Operations                  | 668                                | (4,155)    |

**LIFO Impact on Adjusted Operating Profit (Loss)** LIFO is an inventory costing method that assumes the most recent inventory purchases or goods manufactured are sold first. This results in current sales prices offset against current inventory costs. In periods of rising prices it has the effect of eliminating inflationary profits from operations. In periods of declining prices it has the effect of eliminating deflationary losses from operations. In either case the goal is to reflect economic profit. The table below reflects LIFO income or (expense) representing decreases or (increases) in the LIFO inventory reserve. International Mills is not included in this table as it uses FIFO valuation exclusively for its inventory:

| (in thousands)                             | Three Months Ended<br>November 30, |           |
|--|------------------------------------|-----------|
|  | 2010                               | 2009      |
| Americas Recycling                         | \$ (2,249)                         | \$ (18)   |
| Americas Mills                             | (12,083)                           | (2,985)   |
| Americas Fabrication                       | 6,161                              | 11,306    |
| International Marketing and Distribution   | 2,111                              | 4,694     |
| Discontinued Operations                    | 391                                | 4,272     |
| Consolidated pre-tax LIFO income (expense) | \$ (5,669)                         | \$ 17,269 |

**Americas Recycling** During the first quarter of 2011, this segment reported an increase in net sales and adjusted operating results. The improvement in adjusted operating results is primarily from higher volume as purchase prices moved in line with sales pricing. Metal margins were negatively impacted by LIFO expense of \$2.2 million in the first quarter of 2011 as compared to a negligible amount recorded in the first quarter of 2010. Ferrous pricing was stronger as export demand remained constant and domestic mills appeared to have underestimated steel demand, requiring more purchases late in the quarter as manufacturing activity in the U.S. stabilized. Nonferrous pricing continued to be driven by strong export demand from China and Europe. We exported 8% of our ferrous scrap tonnage and 37% of our nonferrous scrap tonnage during the quarter.

The following table reflects our Americas Recycling segment's average selling prices per ton and tons shipped (in thousands):

|                                | Three Months Ended<br>November 30, |         | Increase |     |
|--------------------------------|------------------------------------|---------|----------|-----|
|                                | 2010                               | 2009    | Amount   | %   |
| Average ferrous sales price    | \$ 284                             | \$ 216  | \$ 68    | 31% |
| Average nonferrous sales price | \$2,944                            | \$2,363 | \$581    | 25% |
| Ferrous tons shipped           | 495                                | 437     | 58       | 13% |

|                         |    |    |   |    |
|-------------------------|----|----|---|----|
| Nonferrous tons shipped | 63 | 58 | 5 | 9% |
|-------------------------|----|----|---|----|

**Americas Mills** We include our five domestic steel mills, including the scrap locations which directly support the steel mills, and our copper tube minimill in our Americas Mills segment.

Within the segment, adjusted operating profit for our five domestic steel mills was \$29.1 million for the first quarter of 2011 compared to an adjusted operating loss of \$3.4 million from the prior year's first quarter. The quarterly adjusted operating profit increased due to gains in shipments from our backlog of highway and other infrastructure projects. While there is some demand in education, healthcare and manufacturing, commercial work remains weak. The announcement of pending finished goods price increases based on rising ferrous scrap prices also pulled demand forward into this quarter. Additionally, last year's quarter included the absorption of \$11.3 million in start-up costs at the micromill in Arizona. We recorded LIFO expense of \$10.5 million in the first quarter of 2011 as compared to a minimal LIFO expense last year. Our mills ran at 72% of capacity in the first quarter of 2011, an increase from the 63% in the first quarter of 2010. Higher production volumes as well as price increases in alloy rates resulted in an overall increase of \$7.2 million in electrode, alloys and energy costs for the first quarter in 2011 as compared to the same period in the prior year. Shipments

**Table of Contents**

included 90 thousand tons of billets in the first quarter of 2011 as compared to 117 thousand tons of billets in the first quarter of the prior year.

The table below reflects steel and ferrous scrap prices per ton:

|  | <b>Three Months Ended</b> |             | <b>Increase</b> |          |
|--|---------------------------|-------------|-----------------|----------|
|  | <b>November 30,</b>       |             | <b>Amount</b>   | <b>%</b> |
|  | <b>2010</b>               | <b>2009</b> |                 |          |
| Average mill selling price (finished goods)* | \$627                     | \$552       | \$75            | 14%      |
| Average mill selling price (total sales)*    | 605                       | 507         | 98              | 19%      |
| Average cost of ferrous scrap consumed       | 312                       | 266         | 46              | 17%      |
| Average FIFO metal margin                    | 293                       | 241         | 52              | 22%      |
| Average ferrous scrap purchase price         | 280                       | 213         | 67              | 31%      |

\* Prior year domestic selling prices revised to eliminate net freight costs.

The table below reflects our domestic steel mills' operating statistics (short tons in thousands):

|              | <b>Three Months Ended</b> |             | <b>Increase</b> |          |
|--------------|---------------------------|-------------|-----------------|----------|
|              | <b>November 30,</b>       |             | <b>Amount</b>   | <b>%</b> |
|              | <b>2010</b>               | <b>2009</b> |                 |          |
| Tons melted  | 589                       | 479         | 110             | 23%      |
| Tons rolled  | 506                       | 355         | 151             | 43%      |
| Tons shipped | 572                       | 498         | 74              | 15%      |

Our copper tube minimill's adjusted operating profit for the first quarter of 2011 increased \$1.6 million to \$5.0 million compared to the first quarter of 2010 primarily due to a decrease in LIFO expense of \$1.4 million.

The table below reflects our copper tube minimill's operating statistics:

| <b>(pounds in millions)</b> | <b>Three Months Ended</b> |             | <b>Increase</b> |          |
|-----------------------------|---------------------------|-------------|-----------------|----------|
|                             | <b>November 30,</b>       |             | <b>Amount</b>   | <b>%</b> |
|                             | <b>2010</b>               | <b>2009</b> |                 |          |
| Pounds shipped              | 10.6                      | 9.9         | 0.7             | 7%       |
| Pounds produced             | 9.7                       | 8.7         | 1.0             | 11%      |

**Americas Fabrication** This segment continues to face unfavorable market conditions for downstream operations.

Anemic demand and rising steel costs have eroded this segment's profitability. Backlogs are building at higher prices, allowing our integrated supply chain in recycling and mill operations to benefit. The Western region of the U.S. remains the most problematic for this segment. During the quarter, we sold the forms from our heavy forms rental business, a non-core business, at near breakeven. Results were also negatively impacted by a decline in LIFO income of \$5.1 million in the first quarter of 2011 as compared to 2010. The composite average fabrication selling price was \$775 per ton, 2% lower than last year's first quarter price.

The tables below show our average fabrication selling prices per short ton and total fabrication plant shipments:

|                               | <b>Three Months Ended</b> |             | <b>Increase (Decrease)</b> |          |
|-------------------------------|---------------------------|-------------|----------------------------|----------|
|                               | <b>November 30,</b>       |             | <b>Amount</b>              | <b>%</b> |
|                               | <b>2010</b>               | <b>2009</b> |                            |          |
| <b>Average selling price*</b> |                           |             |                            |          |
| Rebar                         | \$ 728                    | \$ 752      | \$(24)                     | (3%)     |
| Structural                    | 1,799                     | 1,826       | (27)                       | (1%)     |
| Post                          | 910                       | 871         | 39                         | 4%       |

\* Excludes stock and buyout sales.



**Table of Contents**

| <b>Tons shipped (in thousands)</b> | <b>Three Months Ended</b> |             | <b>Increase</b> |          |
|------------------------------------|---------------------------|-------------|-----------------|----------|
|                                    | <b>November 30,</b>       |             | <b>Amount</b>   | <b>%</b> |
|                                    | <b>2010</b>               | <b>2009</b> |                 |          |
| Rebar                              | 213                       | 196         | 17              | 9%       |
| Structural                         | 14                        | 12          | 2               | 17%      |
| Post                               | 20                        | 20          |                 |          |

**International Mills** CMC Zawiercie ( CMCZ ) had adjusted operating profit of \$6.4 million in the first quarter of 2011 as compared to an adjusted operating loss of \$11.6 million in the first quarter of last year. Improvements in adjusted operating results were due to improved demand driving higher finished goods pricing and metal margin expansion aided by economic growth in Poland and EU funding of highway and public works projects. Shipments included 50 thousand tons of billets in the first quarter of 2011 as compared to 103 thousand tons of billets in the first quarter of the prior year.

The table below reflects CMCZ s operating statistics (in thousands) and average prices per short ton:

|  | <b>Three Months Ended</b> |             | <b>Increase (Decrease)</b> |          |
|--|---------------------------|-------------|----------------------------|----------|
|  | <b>November 30,</b>       |             | <b>Amount</b>              | <b>%</b> |
|  | <b>2010</b>               | <b>2009</b> |                            |          |
| Tons melted                              | 361                       | 399         | (38)                       | (10%)    |
| Tons rolled                              | 307                       | 266         | 41                         | 15%      |
| Tons shipped                             | 356                       | 355         | 1                          |          |
| Average mill selling price (total sales) | 1,650 PLN                 | 1,220 PLN   | 430 PLN                    | 35%      |
| Average ferrous scrap production cost    | 994 PLN                   | 782 PLN     | 212 PLN                    | 27%      |
| Average metal margin                     | 656 PLN                   | 438 PLN     | 218 PLN                    | 50%      |
| Average ferrous scrap purchase price     | 813 PLN                   | 633 PLN     | 180 PLN                    | 28%      |
| Average mill selling price (total sales) | \$ 565                    | \$ 431      | \$ 134                     | 31%      |
| Average ferrous scrap production cost    | \$ 340                    | \$ 276      | \$ 64                      | 23%      |
| Average metal margin                     | \$ 225                    | \$ 155      | \$ 70                      | 45%      |
| Average ferrous scrap purchase price     | \$ 278                    | \$ 223      | \$ 55                      | 25%      |

PLN Polish zlotys

CMC Sisak ( CMCS ) reported an adjusted operating loss of \$14.1 million for the first quarter of 2011 as compared to an adjusted operating loss of \$7.5 million in the first quarter of 2010. Performance benchmarks for CMCS have not been met, which has led to management changes and extended assignments by technical personnel from both the U.S. and Polish mills to improve business processes, lower our cost structure and better utilize new capital investments. CMCS commissioned its ladle metallurgical station during the quarter, which was the last piece of its melt shop upgrade and began sequence casting trials by quarter end. CMCS melted 38 thousand tons, rolled 19 thousand tons and sold 13 thousand tons during the first quarter as compared to 19 thousand tons melted, 17 thousand tons rolled and 9 thousand tons sold during the prior year s first quarter.

Our fabrication operations in Poland and Germany had an adjusted operating loss of \$1.3 million during the first quarter of 2011 compared to near breakeven in the first quarter of 2010. These results are included in the overall results of CMCZ discussed above.

**International Marketing and Distribution** This segment reported its fifth consecutive profitable quarter with an increase in sales and adjusted operating profit over last year s first quarter. During the quarter, the U.S. steel import business benefitted from recoveries on inventory contract claims of approximately \$7 million. Each major geographic operation was profitable, with the Asian and Australian operations performing particularly well and the raw materials division, including downstream processing, having a solid quarter. Results were negatively impacted by a decline in LIFO income of \$2.6 million in the first quarter of 2011 as compared to 2010.

**Consolidated Data** The LIFO method of inventory valuation decreased our net earnings from continuing operations by \$3.9 million for the first quarter of 2011 as compared to decreasing our net loss by \$8.4 million for the first quarter of 2010. Our overall selling, general and administrative ( SG&A ) expenses decreased by \$9.6 million, or 7%, for the first quarter of 2011 as compared to the first quarter of 2010. SG&A expenses primarily declined from our cost containment initiatives and lower information technology, or I.T., costs.



**Table of Contents**

Our interest expense decreased by \$1.1 million to \$18.3 million during the first quarter of 2011 as compared to the first quarter of 2010 from the favorable impact of interest rate swap transactions of \$3.3 million offset by less capitalized interest as a result of completed capital projects during 2010.

Our effective tax rate from continuing operations for the quarter ended November 30, 2010 was 95.3% as compared to 36.1% in the first quarter of 2010. Our effective tax rate for the first quarter of 2011 varies from our statutory rate primarily from losses in Croatia not being tax benefitted as we may not be able to utilize them in the allowed carryforward period.

**Discontinued Operations** Our division classified as a discontinued operation recorded an adjusted operating profit of \$0.7 million for the first quarter of 2011 as compared to an adjusted operating loss of \$4.2 million in the first quarter of 2010. During the first quarter of 2011, we recorded a gain on the sale of the joist business of \$1.9 million and all locations of this division had been sold or ceased operations. The results for the first quarter of 2010 include the operating losses of the division offset by LIFO income of \$4.3 million.

**OUTLOOK**

Due to seasonal factors, our second quarter is historically our weakest. Typically ferrous scrap prices would be relatively stable until the end of the quarter when spring construction buildup would begin. However, the trend appears to support higher prices early in the quarter, though a pullback by spring could be expected. Rebar price increases are already in effect, and increasing ferrous scrap pricing will continue to apply upward pressure. Fabrication backlogs normally decline during our second quarter; however, they are likely to trend upward at higher prices which should be positive longer term. Nonferrous metals, particularly copper, appear to be supply constrained and prices should remain historically high. Volumes are always weather dependent, with the largest weather impact in Poland. Absent LIFO considerations, we anticipate overall a small loss for the second quarter. We remain focused on a number of operational and strategic initiatives to both address near-term challenges and position us for improved performance when the markets further recover.

**LIQUIDITY AND CAPITAL RESOURCES**

See Note 7 Credit Arrangements, to the consolidated financial statements.

We believe we have adequate access to several sources of contractually committed borrowings and other available credit facilities, however, we could be adversely affected if our banks, the potential buyers of our commercial paper or other of the traditional sources supplying our short term borrowing requirements refuse to honor their contractual commitments, cease lending or declare bankruptcy. While we believe the lending institutions participating in our credit arrangements are financially capable, recent events in the global credit markets, including the failure, takeover or rescue by various government entities of major financial institutions, have created uncertainty of credit availability to an extent not experienced in recent decades.

The table below reflects our sources, facilities and availability of liquidity and capital resources as of November 30, 2010 (dollars in thousands):

|  | <b>Total<br/>Facility</b> | <b>Availability</b> |
|--|---------------------------|---------------------|
| Cash and cash equivalents                          | \$ 382,800                | \$ N/A              |
| Commercial paper program*                          | 400,000                   | 340,000             |
| Domestic accounts receivable securitization        | 100,000                   | 100,000             |
| International accounts receivable sales facilities | 185,066                   | 59,136              |
| Bank credit facilities uncommitted                 | 790,478                   | 547,768             |
| Notes due from 2013 to 2018                        | 1,100,000                 | **                  |
| CMCZ term note                                     | 64,656                    |                     |
| CMCS term facility                                 | 52,038                    | 32,524              |
| Trade financing arrangements                       | **                        | As required         |
| Equipment notes                                    | 6,307                     | **                  |

\*

The commercial paper program is supported by our \$400 million unsecured revolving credit agreement. The availability under the revolving credit agreement is reduced by \$60.0 million of commercial paper outstanding as of November 30, 2010.

\*\* With our investment grade credit ratings, we believe we have access to additional financing and refinancing, if needed.

We utilize uncommitted credit facilities to meet short-term working capital needs. Our uncommitted credit facilities primarily support import letters of credit (including accounts payable settled under bankers' acceptances), foreign exchange transactions and short term advances.

**Table of Contents**

Our 5.625% \$200 million notes due November 2013, 6.50% \$400 million notes due July 2017 and our 7.35% \$500 million notes due August 2018 require interest only payments until maturity. Our CMCZ note requires quarterly interest and principal payments and our CMCS facility requires quarterly interest and principal payments beginning in 2011. We expect cash from operations to be sufficient to meet all interest and principal payments due within the next twelve months and we believe we will be able to get additional financing or refinance these notes when they mature. Certain of our financing agreements include various financial covenants. The revolving credit facility and accounts receivable securitization agreement require us to maintain a minimum interest coverage ratio (Adjusted EBITDA to interest expense) of not less than 2.50 to 1.00 for the nine month cumulative period ended November 30, 2010, twelve month cumulative period ending February 28, 2011 and for each fiscal quarter on a rolling twelve month cumulative period thereafter. At November 30, 2010, our interest coverage ratio was 3.54 to 1.00. The agreement required us to maintain liquidity of at least \$300 million (cash, short-term investments, and accounts receivable securitization capacity combined) through November 30, 2010 and at November 30, 2010 we had liquidity of \$482.8 million. The debt to capitalization ratio covenant under the agreement requires us to maintain a ratio not greater than 0.60 to 1.00. At November 30, 2010, our debt to capitalization ratio was 0.53 to 1.00. Current market conditions, including volatility of metal prices, LIFO adjustments, mark to market adjustments on inventories, reserves for future job losses, the level of allowance for doubtful accounts, the amount of interest capitalized on capital projects and the effect of interest rate changes on our interest rate swaps could impact our ability to meet the interest coverage ratio for the second quarter of fiscal 2011. The revolving credit facility and accounts receivable securitization are used as alternative sources of liquidity. Our public debt does not contain these covenants.

The CMCZ term note contains certain financial covenants. The agreement requires a debt to equity ratio of not greater than 0.80 to 1.00 and a tangible net worth to exceed PLN 600 million (\$194 million). At November 30, 2010, CMCZ was in compliance with both of these covenants with the debt to equity ratio at 0.71 to 1.00 and tangible net worth of PLN 679 million (\$220 million). Additionally, the agreement requires a debt to EBITDA ratio not greater than 3.50 to 1.00 and an interest coverage ratio of not less than 1.20 to 1.00. At November 30, 2010, CMCZ was not in compliance with these covenants which resulted in a guarantee by the Company continuing to be effective. As a result of the guarantee, the financial covenant requirements became void; however, all other terms of the loan remain in effect, including the payment schedule. The guarantee will cease to be effective when CMCZ is in compliance with the financial covenants of the parent guarantee for two consecutive quarters.

We regularly maintain a substantial amount of accounts receivable. We actively monitor our accounts receivable and record allowances as soon as we believe they are uncollectible based on current market conditions and customers financial condition. Continued pressure on the liquidity of our customers could result in additional reserves as we make our assessments in the future. We use credit insurance both in the U.S. and internationally to mitigate the risk of customer insolvency. We estimate the amount of credit insured receivables (and those covered by export letters of credit) was approximately 60% of total receivables at November 30, 2010.

For added flexibility, we may secure financing through the securitization and sales of certain accounts receivable both in the U.S. and internationally. Our domestic securitization program expires on January 31, 2011 and we are currently evaluating other alternatives. See Note 3, Sales of Accounts Receivable, to the consolidated financial statements. Our domestic securitization program contains certain cross-default provisions whereby a termination event could occur should we default under another credit arrangement, and contains covenants that conform to the same requirements contained in our revolving credit agreement. Compliance with these covenants is discussed above.

**Cash Flows** Our cash flows from operating activities primarily result from sales of steel and related products, and to a lesser extent, sales of nonferrous metal products. We also sell and rent construction-related products and accessories. We have a diverse and generally stable customer base. We use futures or forward contracts as needed to mitigate the risks from fluctuations in foreign currency exchange rates and nonferrous metals commodity prices.

During the first quarter of 2011, we used \$5.6 million of net cash flows from operating activities as compared to generating \$31.9 million in the first quarter of 2010. During the first quarter of 2011, we generated less cash than the same period in 2010 from fluctuations in working capital. Significant fluctuations in working capital were as follows:

Accounts receivable    accounts receivable increased during the first quarter of 2011 as sales and prices began improving as compared to sales and prices significantly declining during the first three months of 2010 due to

the global recession;

Inventory more cash was used in the first quarter of 2011 as demand increased as compared to the same period in 2010 where inventory balances were reduced to meet declining demand.

**Table of Contents**

During the first quarter of 2011, we generated \$38.1 million of net cash flows from investing activities as compared to using \$48.8 million during the first quarter of 2010. We invested \$11.9 million in property, plant and equipment during the first quarter of 2011, a decrease of \$34.6 million over the first quarter of 2010. Additionally, we sold certain assets of our joist business and sold the forms of our heavy forms rental business, which resulted in proceeds of approximately \$51 million during the first quarter of 2011.

We expect our total capital budget for fiscal 2011 to be approximately \$150 million. We continually assess our capital spending and reevaluate our requirements based on current and expected results.

During the first quarter of 2011, we used \$50.1 million of net cash flows from financing activities as compared to \$55.1 million during the first quarter of 2010. The decrease in cash used was primarily due to increased net borrowings on short-term debt of \$77.6 million in the first quarter of 2011. This was offset by decreased documentary letters of credit which resulted in an increase in the use of cash of \$70.8 million as compared to the first quarter of 2010. Our cash dividends have remained consistent at approximately \$14 million for both periods.

Our contractual obligations for the next twelve months of approximately \$877 million are typically expenditures with normal revenue producing activities. We believe our cash flows from operating activities and debt facilities are adequate to fund our ongoing operations and planned capital expenditures.

**CONTRACTUAL OBLIGATIONS**

The following table represents our contractual obligations as of November 30, 2010 (dollars in thousands):

|                                    | Total        | Payments Due By Period* |            |            |                      |
|------------------------------------|--------------|-------------------------|------------|------------|----------------------|
|                                    |              | Less than<br>1 Year     | 1-3 Years  | 3-5 Years  | More than<br>5 Years |
| Contractual obligations:           |              |                         |            |            |                      |
| Long-term debt(1)                  | \$ 1,212,032 | \$ 31,131               | \$ 52,846  | \$ 213,037 | \$ 915,018           |
| Notes payable                      | 35,787       | 35,787                  |            |            |                      |
| Interest(2)                        | 415,388      | 65,491                  | 125,198    | 107,563    | 117,136              |
| Commercial paper                   | 60,000       | 60,000                  |            |            |                      |
| Operating leases(3)                | 149,267      | 39,782                  | 56,670     | 31,490     | 21,325               |
| Purchase obligations(4)            | 776,200      | 644,911                 | 80,839     | 42,433     | 8,017                |
| Total contractual cash obligations | \$ 2,648,674 | \$ 877,102              | \$ 315,553 | \$ 394,523 | \$ 1,061,496         |

\* We have not discounted the cash obligations in this table.

- (1) Total amounts are included in the November 30, 2010 consolidated balance sheet. See Note 7, Credit Arrangements, to the consolidated financial statements.
- (2) Interest payments related to our short-term debt are not included in the table as they do not represent a significant obligation as of November 30, 2010. Also, includes the effect of our interest rate swaps based on the LIBOR forward rate at November 30, 2010.
- (3) Includes minimum lease payment obligations for non-cancelable equipment and real estate leases in effect as of November 30, 2010.
- (4) Approximately 70% of these purchase obligations are for inventory items to be sold in the ordinary course of business. Purchase obligations include all enforceable, legally binding agreements to purchase goods or services that specify all significant terms, regardless of the duration of the agreement. Agreements with variable terms are excluded because we are unable to estimate the minimum amounts. Another significant obligation relates to capital expenditures.

**Other Commercial Commitments** We maintain stand-by letters of credit to provide support for certain transactions that our insurance providers and suppliers request. At November 30, 2010, we had committed \$41.0 million under these arrangements, of which \$28.5 million is cash collateralized. All of the commitments expire within one year.

**CONTINGENCIES**

See Note 13 Commitments and Contingencies, to the consolidated financial statements.

**Table of Contents**

In the ordinary course of conducting our business, we become involved in litigation, administrative proceedings and government investigations, including environmental matters. We may incur settlements, fines, penalties or judgments because of some of these matters. While we are unable to estimate precisely the ultimate dollar amount of exposure or loss in connection with these matters, we make accruals as warranted. The amounts we accrue could vary substantially from amounts we pay due to several factors including the following: evolving remediation technology, changing regulations, possible third-party contributions, the inherent shortcomings of the estimation process, and the uncertainties involved in litigation. Accordingly, we cannot always estimate a meaningful range of possible exposure. We believe that we have adequately provided in our consolidated financial statements for the potential impact of these contingencies. We also believe that the outcomes will not significantly affect the long-term results of operations or our financial position. However, they may have a material impact on operations for a particular quarter.

We are subject to Federal, state and local pollution control laws and regulations in all locations where we have operating facilities. We anticipate that compliance with these laws and regulations will involve continuing capital expenditures and operating costs.

**FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and the Private Securities Litigation Reform Act of 1995, with respect to our financial condition, results of operations, cash flows and business, and our expectations or beliefs concerning future events, including net earnings (loss), economic conditions, credit availability, product pricing and demand, currency valuation, production rates, energy expense, interest rates, inventory levels, acquisitions, construction and operation of new facilities and general market conditions. These forward-looking statements can generally be identified by phrases such as we or our management expects, anticipates, believes, estimates, intends, plans to, ought, could, will, should, projects, forecasts, outlook or other similar words or phrases. There are inherent risks and uncertainties in any forward-looking statements. Variances will occur and some could be materially different from our current opinion.

Developments that could impact our 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 debt problems in Greece and other countries within the eurozone;

- customer non-compliance with contracts;

- construction activity;

- 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;

- unsuccessful implementation of new technology;

- metals pricing over which we exert 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;



**Table of Contents**

court decisions;

industry consolidation or changes in production capacity or utilization;

global factors including political and military uncertainties;

currency fluctuations;

interest rate changes;

scrap metal, energy, insurance and supply prices;

passage of new, or interpretation of existing, environmental laws and regulations;

severe weather, especially in Poland; and

the pace of overall economic activity, particularly in China.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information required hereunder for the Company is not materially different from the information set forth in Item 7a. Quantitative and Qualitative Disclosures about Market Risk included in the Company's Annual Report on Form 10-K for the year ended August 31, 2010, filed with the SEC and is, therefore, not presented herein. Additionally, see Note 8 Derivatives and Risk Management, to the consolidated financial statements.

**ITEM 4. CONTROLS AND PROCEDURES**

The term disclosure controls and procedures is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods, including controls and disclosures designed to ensure that this information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our Chief Executive Officer and our Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report, and they have concluded that as of that date, our disclosure controls and procedures were effective.

No change to our internal control over financial reporting occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

Reference is made to the information incorporated by reference from Item 3. Legal Proceedings in the Company's Annual Report on Form 10-K filed with the SEC for the year ended August 31, 2010.

**ITEM 1A. RISK FACTORS**

There have been no material changes from the risk factors previously disclosed in Item 1A. Risk Factors in the Company's Annual Report on Form 10-K filed with the SEC for the fiscal year ended August 31, 2010.

**Table of Contents**

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Not Applicable.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not Applicable.

**ITEM 4. (REMOVED AND RESERVED)**

**ITEM 5. OTHER INFORMATION**

Not Applicable.

**ITEM 6. EXHIBITS**

Exhibits required by Item 601 of Regulation S-K:

- 10.1 Amendment to Second Amended and Restated Receivables Purchase Agreement, dated November 24, 2010 (filed as Exhibit 10.1 to Commercial Metals Company's Form 8-K filed November 29, 2010 and incorporated herein by reference).
- 31.1 Certification of Murray R. McClean, Chairman of the Board, President and Chief Executive Officer of Commercial Metals Company, pursuant to Section 302 to the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.2 Certification of William B. Larson, Senior Vice President and Chief Financial Officer of Commercial Metals Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.1 Certification of Murray R. McClean, Chairman of the Board, President and Chief Executive Officer of Commercial Metals Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.2 Certification of William B. Larson, Senior Vice President and Chief Financial Officer of Commercial Metals Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 101\* Financial statements from the quarterly report on Form 10-Q of Commercial Metals Company for the quarter ended November 30, 2010, filed on January 7, 2011, formatted in XBRL: (i) the Consolidated Balance Sheets (Unaudited), (ii) the Consolidated Statements of Operations (Unaudited), (iii) the Consolidated Statements of Cash Flows (Unaudited), (iv) the Consolidated Statements of Stockholders Equity (Unaudited) and (v) the Notes to Consolidated Financial Statements tagged as blocks of text (submitted electronically herewith).

\* In accordance with Rule 406T of Regulation S-T, the XBRL information in Exhibit 101 to this quarterly report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

**Table of Contents**

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMMERCIAL METALS COMPANY

January 7, 2011

/s/ William B. Larson

William B. Larson  
Senior Vice President &  
Chief Financial Officer

January 7, 2011

/s/ Leon K. Rusch

Leon K. Rusch  
Vice President & Controller

29

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**Table of Contents**

INDEX TO EXHIBITS

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