

COMMERCIAL METALS CO  
Form 10-Q  
June 29, 2016  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

---

FORM 10-Q

---

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

For the quarterly period ended May 31, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-4304

---

COMMERCIAL METALS COMPANY  
(Exact Name of Registrant as Specified in Its Charter)

---

Delaware 75-0725338  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification Number)  
6565 N. MacArthur Blvd.  
Irving, Texas 75039  
(Address of Principal Executive Offices) (Zip Code)  
(214) 689-4300  
(Registrant's Telephone Number, Including Area Code)

---

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

The number of shares outstanding of common stock as of June 24, 2016 was 114,628,588.

COMMERCIAL METALS COMPANY AND SUBSIDIARIES  
TABLE OF CONTENTS

<u>PART I — FINANCIAL INFORMATION</u>	<u>3</u>
<u>Item 1. Financial Statements (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Earnings - Three and nine months ended May 31, 2016 and 2015</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) - Three and nine months ended May 31, 2016 and 2015</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets - May 31, 2016 and August 31, 2015</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows - Nine months ended May 31, 2016 and 2015</u>	<u>6</u>
<u>Condensed Consolidated Statements of Stockholders' Equity - Nine months ended May 31, 2016 and 2015</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>30</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>43</u>
<u>Item 4. Controls and Procedures</u>	<u>44</u>
<u>PART II — OTHER INFORMATION</u>	<u>45</u>
<u>Item 1. Legal Proceedings</u>	<u>45</u>
<u>Item 1A. Risk Factors</u>	<u>45</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>45</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>45</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>45</u>
<u>Item 5. Other Information</u>	<u>45</u>
<u>Item 6. Exhibits</u>	<u>46</u>
<u>Signature</u>	<u>47</u>
<u>Index to Exhibits</u>	<u>48</u>

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## COMMERCIAL METALS COMPANY AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

(in thousands, except share data)	Three Months Ended May 31,		Nine Months Ended May 31,	
	2016	2015	2016	2015
Net sales	\$1,227,390	\$1,506,002	\$3,401,946	\$4,577,109
Costs and expenses:				
Cost of goods sold	1,051,910	1,313,854	2,934,028	4,057,963
Selling, general and administrative expenses	114,841	110,347	310,667	333,332
Loss on debt extinguishment	115	—	11,480	—
Interest expense	14,737	20,519	49,666	58,828
	1,181,603	1,444,720	3,305,841	4,450,123
Earnings from continuing operations before income taxes	45,787	61,282	96,105	126,986
Income taxes	10,676	22,126	24,512	40,100
Earnings from continuing operations	35,111	39,156	71,593	86,886
Loss from discontinued operations before income tax benefit	(15,785	) (10,871	) (16,803	) (20,241
Income tax benefit	(2	) (424	) (103	) (445
Loss from discontinued operations	(15,783	) (10,447	) (16,700	) (19,796
Net earnings	19,328	28,709	54,893	67,090
Less net earnings attributable to noncontrolling interests	—	—	—	—
Net earnings attributable to CMC	\$19,328	\$28,709	\$54,893	\$67,090
Basic earnings (loss) per share attributable to CMC:				
Earnings from continuing operations	\$0.31	\$0.34	\$0.62	\$0.74
Loss from discontinued operations	(0.14	) (0.09	) (0.14	) (0.17
Net earnings	\$0.17	\$0.25	\$0.48	\$0.57
Diluted earnings (loss) per share attributable to CMC:				
Earnings from continuing operations	\$0.30	\$0.34	\$0.61	\$0.74
Loss from discontinued operations	(0.13	) (0.09	) (0.14	) (0.17
Net earnings	\$0.17	\$0.25	\$0.47	\$0.57
Cash dividends per share	\$0.12	\$0.12	\$0.36	\$0.36
Average basic shares outstanding	114,677,109	115,742,534	115,373,736	116,807,469
Average diluted shares outstanding	115,995,515	116,759,215	116,758,716	117,871,228

See notes to unaudited condensed consolidated financial statements.

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

(in thousands)	Three Months		Nine Months	
	Ended May 31,		Ended May 31,	
	2016	2015	2016	2015
Net earnings	\$19,328	\$28,709	\$54,893	\$67,090
Other comprehensive income (loss), net of income taxes:				
Foreign currency translation adjustment and other	3,817	(4,588)	(13,967)	(75,851)
Net unrealized gain (loss) on derivatives:				
Unrealized holding gain (loss), net of income taxes of \$0, \$(55), \$74, and \$(1,178)	(16)	)54	469	(2,371)
Reclassification for (gain) loss included in net earnings, net of income taxes of \$(11), \$469, \$(88), and \$886	32	804	(142)	)1,570
Net unrealized gain (loss) on derivatives, net of income taxes of \$(11), \$414, \$(14), and \$(292)	16	858	327	(801)
Defined benefit obligation:				
Net gain, net of income taxes of \$0, \$0, \$0, and \$4	—	—	—	8
Amortization of prior services, net of income taxes of \$0, \$(1), \$(1), and \$(2)	(2)	)(3	)(5	)(9
Defined benefit obligation, net of income taxes of \$0, \$(1), \$(1), and \$2	(2)	)(3	)(5	)(1
Other comprehensive income (loss)	3,831	(3,733)	(13,645)	(76,653)
Comprehensive income (loss)	\$23,159	\$24,976	\$41,248	\$(9,563)

See notes to unaudited condensed consolidated financial statements.

COMMERCIAL METALS COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except share data)	May 31, 2016	August 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$483,855	\$485,323
Accounts receivable (less allowance for doubtful accounts of \$7,544 and \$9,033)	740,283	900,619
Inventories, net	661,563	880,484
Current deferred tax assets	—	3,310
Other current assets	144,967	93,643
Assets of businesses held for sale	587	17,008
Total current assets	2,031,255	2,380,387
Property, plant and equipment:		
Land	74,999	75,086
Buildings and improvements	504,712	489,500
Equipment	1,680,657	1,670,755
Construction in process	82,532	59,241
	2,342,900	2,294,582
Less accumulated depreciation and amortization	(1,452,815 )	(1,410,932 )
Goodwill	890,085	883,650
Other noncurrent assets	66,333	66,383
Other noncurrent assets	123,013	115,168
Total assets	\$3,110,686	\$3,445,588
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable-trade	\$235,385	\$260,984
Accounts payable-documentary letters of credit	1,327	41,473
Accrued expenses and other payables	236,009	290,677
Notes payable	—	20,090
Current maturities of long-term debt	10,929	10,110
Liabilities of businesses held for sale	3,704	5,276
Total current liabilities	487,354	628,610
Deferred income taxes	76,340	55,803
Other long-term liabilities	115,837	101,919
Long-term debt	1,067,693	1,277,882
Total liabilities	1,747,224	2,064,214
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Common stock, par value \$0.01 per share; authorized 200,000,000 shares; issued 129,060,664 shares; outstanding 114,626,598 and 115,635,338 shares	1,290	1,290
Additional paid-in capital	355,311	365,863
Accumulated other comprehensive loss	(127,180 )	(113,535 )
Retained earnings	1,386,875	1,373,568
Less treasury stock, 14,434,066 and 13,425,326 shares at cost	(252,993 )	(245,961 )
Stockholders' equity attributable to CMC	1,363,303	1,381,225
Stockholders' equity attributable to noncontrolling interests	159	149
Total stockholders' equity	1,363,462	1,381,374
Total liabilities and stockholders' equity	\$3,110,686	\$3,445,588
See notes to unaudited condensed consolidated financial statements.		



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

	Nine Months Ended May 31,	
(in thousands)	2016	2015
Cash flows from (used by) operating activities:		
Net earnings	\$54,893	\$67,090
Adjustments to reconcile net earnings to cash flows from (used by) operating activities:		
Depreciation and amortization	95,423	99,829
Provision for losses on receivables, net	3,748	2,525
Stock-based compensation	19,889	18,288
Amortization of interest rate swaps termination gain	(5,698 )	(5,698 )
Loss on debt extinguishment	11,480	—
Deferred income taxes	9,744	(19,594 )
Tax benefit from stock plans	(666 )	(122 )
Net gain on sale of assets and other	(1,802 )	(1,737 )
Write-down of inventories	9,567	21,535
Asset impairment	15,842	3,390
Changes in operating assets and liabilities:		
Accounts receivable	146,166	90,412
Advance payments on sale of accounts receivable program, net	1,473	(98,033 )
Inventories	205,717	2,934
Other assets	(6,729 )	11,636
Accounts payable, accrued expenses and other payables	(64,676 )	(128,065 )
Other long-term liabilities	12,497	(5,601 )
Net cash flows from operating activities	506,868	58,789
Cash flows from (used by) investing activities:		
Capital expenditures	(104,481 )	(75,976 )
Increase in restricted cash	(49,094 )	—
Proceeds from the sale of property, plant and equipment and other	3,470	10,143
Proceeds from the sale of subsidiaries	—	2,354
Net cash flows used by investing activities	(150,105 )	(63,479 )
Cash flows from (used by) financing activities:		
Repayments on long-term debt	(208,605 )	(8,038 )
Cash dividends	(41,586 )	(42,073 )
Increase (decrease) in documentary letters of credit, net	(40,145 )	51,722
Treasury stock acquired	(30,595 )	(41,806 )
Short-term borrowings, net change	(20,090 )	(7,492 )
Debt extinguishment costs	(11,127 )	—
Stock issued under incentive and purchase plans, net of forfeitures	(6,036 )	(1,389 )
Decrease in restricted cash	1	3,630
Contribution from noncontrolling interests	29	38
Tax benefit from stock plans	666	122
Net cash flows used by financing activities	(357,488 )	(45,286 )
Effect of exchange rate changes on cash	(743 )	(3,943 )
Decrease in cash and cash equivalents	(1,468 )	(53,919 )
Cash and cash equivalents at beginning of year	485,323	434,925
Cash and cash equivalents at end of period	\$483,855	\$381,006

Supplemental information:

Noncash activities:

Liabilities related to additions of property, plant and equipment	\$ 18,066	\$ 11,882
---	-----------	-----------

See notes to unaudited condensed consolidated financial statements.

6

---



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

(in thousands, except share data)	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock		Non-	
	Number of Shares	Amount				Number of Shares	Amount	controlling Interests	Total
Balance, September 1, 2014	129,060,664	\$ 1,290	\$ 359,338	\$ (19,509 )	\$ 1,350,070	(11,231,402)	\$ (218,494)	\$ 111	\$ 1,472,806
Net earnings					67,090				67,090
Other comprehensive loss				(76,653 )					(76,653 )
Cash dividends (\$0.36 per share)					(42,073 )				(42,073 )
Treasury stock acquired						(2,902,218 )	(41,806 )		(41,806 )
Issuance of stock under incentive and purchase plans, net of forfeitures			(15,077 )			673,993	13,688		(1,389 )
Stock-based compensation			15,127						15,127
Tax benefit from stock plans			122						122
Contribution of noncontrolling interest								38	38
Reclassification of share-based liability awards			3,948						3,948
Balance, May 31, 2015	129,060,664	\$ 1,290	\$ 363,458	\$ (96,162 )	\$ 1,375,087	(13,459,627)	\$ (246,612)	\$ 149	\$ 1,397,210

(in thousands, except share data)	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock		Non-	
	Number of Shares	Amount				Number of Shares	Amount	controlling Interests	Total
Balance, September 1, 2015	129,060,664	\$ 1,290	\$ 365,863	\$ (113,535 )	\$ 1,373,568	(13,425,326)	\$ (245,961)	\$ 149	\$ 1,381,374
Net earnings					54,893				54,893
Other comprehensive loss				(13,645 )					(13,645 )
Cash dividends (\$0.36 per share)					(41,586 )				(41,586 )
Treasury stock acquired						(2,255,069 )	(30,595 )		(30,595 )

Edgar Filing: COMMERCIAL METALS CO - Form 10-Q

Issuance of stock under incentive and purchase plans, net of forfeitures	(29,599 )		1,246,329	23,563	(6,036 )
Stock-based compensation	15,327				15,327
Tax benefit from stock plans	666				666
Contribution of noncontrolling interest	19			10	29
Reclassification of share-based liability awards	3,035				3,035
Balance, May 31, 2016	129,060,664	\$1,290	\$355,311	\$(127,180)	\$1,386,875
			(14,434,066)	\$(252,993)	\$159
					\$1,363,462

See notes to unaudited condensed consolidated financial statements.

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

Accounting Principles

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") on a basis consistent with that used in the Annual Report on Form 10-K for the fiscal year ended August 31, 2015 filed by Commercial Metals Company ("CMC," and together with its consolidated subsidiaries, the "Company") with the Securities and Exchange Commission ("SEC") and include all normal recurring adjustments necessary to present fairly the condensed consolidated balance sheets and the condensed consolidated statements of earnings, comprehensive income (loss), cash flows and stockholders' equity for the periods indicated. These notes should be read in conjunction with the audited consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended August 31, 2015. The results of operations for the three and nine month periods are not necessarily indicative of the results to be expected for the full year.

As discussed in Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2015, the Company evaluates the carrying value of property, plant and equipment and finite-lived intangible assets whenever a change in circumstances indicates that the carrying value may not be recoverable from the undiscounted future cash flows from operations, also known as a triggering event. Based on margin and volume pressure in the Americas Recycling segment, during the third quarter of fiscal 2016, the Company considered a triggering event to have occurred. As a result, the Company reviewed the undiscounted future cash flows for certain Americas Recycling long-lived asset groups. The results of the undiscounted future cash flow analyses indicated the carrying amounts for all long-lived asset groups subject to testing were expected to be recovered, with the exception of two long-lived asset groups. Fair value for these two long-lived asset groups was then estimated and compared to the carrying values of the long-lived asset groups, which resulted in no impairment for the current fiscal quarter. However, it is reasonably possible that market conditions could remain flat or deteriorate further, resulting in impairment of the carrying values of certain Americas Recycling long-lived assets. The primary factors that may affect estimates of future cash flows are (i) management's scrap price outlook, (ii) scrap demand, (iii) working capital changes, (iv) capital expenditures and (v) selling, general and administrative expenses.

In the first quarter of fiscal 2016, the Company elected to change its accounting method for valuing its U.S. inventories that used the last-in, first-out ("LIFO") method to the weighted average cost method for its Americas Mills, Americas Recycling, and Americas Fabrication segments and to the specific identification method for its steel trading division headquartered in the U.S. in its International Marketing and Distribution segment. At September 1, 2015, 51% of the Company's total net inventories were valued using LIFO. The Company believes the changes are preferable because weighted average cost or specific identification (1) results in better matching of revenues and expenses and better reflects the current value of inventory in the Company's consolidated balance sheet, (2) more closely aligns with the physical flow of these inventories, (3) are the methods the Company uses to monitor the financial results of these segments and this division for operational and financial planning, (4) eliminates the manual LIFO calculation and quarterly LIFO estimation process resulting in greater precision in determining quarterly cost of goods sold and inventory balances and reducing the administrative burden to report inventories because the information systems calculate inventory using the weighted average cost or the specific identification methods, and (5) improves comparability with the Company's peers. Additionally, the Company believes that the change to using weighted average cost at its Americas Mills, Americas Recycling, and Americas Fabrication segments increases consistency in inventory costing as its International Mill segment currently uses the weighted average cost method. The Company applied this change in accounting principle retrospectively to all prior periods presented herein. The cumulative effect of these accounting changes resulted in a \$124.2 million increase in retained earnings as of

September 1, 2014.

Additionally, in the first quarter of fiscal 2016, the Company elected to change its accounting method for valuing its inventories in its International Marketing and Distribution segment, except for its steel trading division headquartered in the U.S., from the first-in, first-out ("FIFO") method to the specific identification method. At September 1, 2015, 38% of the Company's total net inventories were valued using the FIFO method. The Company believes the change from FIFO to specific identification is preferable because it (1) results in better matching of revenues with expenses, (2) more closely aligns with the physical flow of these inventories, and (3) is the method the Company uses to monitor the financial results of the segment for operational and financial planning. Because this change in accounting principle was immaterial in all prior periods, it was not applied retrospectively. The change did not have a material impact on our condensed consolidated financial statements as of and for the three and nine months ended May 31, 2016.

8

---

As a result of the retrospective application of the change in accounting principle from LIFO to weighted average cost or specific identification, certain financial statement line items in the Company's condensed consolidated balance sheet as of August 31, 2015 and its condensed consolidated statements of earnings for the three and nine months ended May 31, 2015 and condensed consolidated statement of cash flows for the nine months ended May 31, 2015 were adjusted as presented below.

(in thousands, except share data)	As Originally Reported	Effect of Change	As Adjusted
<b>Condensed Consolidated Statement of Earnings for the three months ended May 31, 2015:</b>			
Cost of goods sold	\$1,270,044	\$43,810	\$1,313,854
Income taxes	37,964	(15,838 )	22,126
Earnings from continuing operations	67,128	(27,972 )	39,156
Net earnings attributable to CMC	56,681	(27,972 )	28,709
<b>Basic earnings per share attributable to CMC:</b>			
Earnings from continuing operations	\$0.58	\$(0.24 )	\$0.34
Net earnings	0.49	(0.24 )	0.25
<b>Diluted earnings per share attributable to CMC:</b>			
Earnings from continuing operations	\$0.58	\$(0.24 )	\$0.34
Net earnings	0.49	(0.24 )	0.25
<b>Condensed Consolidated Statement of Earnings for the nine months ended May 31, 2015:</b>			
Cost of goods sold	\$3,933,516	\$124,447	\$4,057,963
Income taxes	84,252	(44,152 )	40,100
Earnings from continuing operations	167,181	(80,295 )	86,886
Net earnings attributable to CMC	147,385	(80,295 )	67,090
<b>Basic earnings per share attributable to CMC:</b>			
Earnings from continuing operations	\$1.43	\$(0.69 )	\$0.74
Net earnings	1.26	(0.69 )	0.57
<b>Diluted earnings per share attributable to CMC:</b>			
Earnings from continuing operations	\$1.42	\$(0.68 )	\$0.74
Net earnings	1.25	(0.68 )	0.57

Condensed Consolidated Balance Sheet as of August 31, 2015:

Inventories, net	\$781,371	\$99,113	\$880,484
Current deferred tax assets	29,137	(25,827 )	3,310
Accrued expenses and other payables	279,415	11,262	290,677
Retained earnings	1,311,544	62,024	1,373,568

Condensed Consolidated Statement of Cash Flows for the nine months ended May 31, 2015:

Net earnings	\$147,385	\$(80,295 )	\$67,090
Deferred income taxes	26,396	(45,990 )	(19,594 )
Inventories working capital change	(111,675 )	114,609	2,934
Accounts payable, accrued expenses and other payables working capital change	(129,322 )	1,257	(128,065 )

The effect of the change in accounting principle is net of the effect of lower of cost or market adjustments.

The following table shows the effect of the change in accounting principle from LIFO to weighted average cost or specific identification on earnings from continuing operations, net earnings attributable to CMC and the related basic and diluted earnings per share attributable to CMC for the three and nine months ended May 31, 2016.

(in thousands, except share data)	As Computed Under LIFO	As Reported Under New Inventory Costing Methodologies	Effect of Change
Condensed Consolidated Statement of Earnings for the three months ended May 31, 2016:			
Earnings from continuing operations	\$ 34,121	\$ 35,111	\$990
Net earnings attributable to CMC	18,338	19,328	990
Basic earnings per share attributable to CMC:			
Earnings from continuing operations	\$ 0.30	\$ 0.31	\$0.01
Net earnings	0.16	0.17	0.01
Diluted earnings per share attributable to CMC:			
Earnings from continuing operations	\$ 0.29	\$ 0.30	\$0.01
Net earnings	0.16	0.17	0.01
Condensed Consolidated Statement of Earnings for the nine months ended May 31, 2016:			
Earnings from continuing operations	\$ 99,843	\$ 71,593	\$(28,250)
Net earnings attributable to CMC	83,143	54,893	(28,250 )
Basic earnings per share attributable to CMC:			
Earnings from continuing operations	\$ 0.86	\$ 0.62	\$(0.24 )
Net earnings	0.72	0.48	(0.24 )
Diluted earnings per share attributable to CMC:			
Earnings from continuing operations	\$ 0.85	\$ 0.61	\$(0.24 )
Net earnings	0.71	0.47	(0.24 )

#### Recently Adopted Accounting Pronouncements

In the second quarter of fiscal 2016, the Company adopted guidance issued by the Financial Accounting Standards Board ("FASB") requiring deferred tax liabilities and assets to be classified as noncurrent in a classified statement of financial position. This change in accounting principle simplifies the presentation of deferred income taxes. This change was applied prospectively and prior periods presented were not adjusted.

In the first quarter of fiscal 2016, the Company adopted guidance issued by the FASB changing the requirements for reporting discontinued operations if the disposal of a component of an entity, or a group of components of an entity, represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. The guidance requires expanded disclosures for discontinued operations and also requires entities to disclose the pre-tax profit or loss of an individually significant component of an entity that does not qualify for discontinued operations reporting. The guidance changed the Company's practice of assessing discontinued operations and the presentation and disclosure in the Company's condensed consolidated financial statements. The guidance was adopted on a prospective basis.

In the first quarter of fiscal 2016, the Company adopted guidance issued by the FASB requiring entities to measure inventory, other than that measured using LIFO or the retail inventory method, at the lower of cost or net realizable value, which is defined as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The guidance changes the Company's practice of measuring inventory at the lower of cost or market, which included net realizable value, replacement cost and net realizable value plus normal profit margin. The guidance was adopted on a prospective basis.

10

---



## Recently Issued Accounting Pronouncements

In March 2016, the FASB issued guidance simplifying several aspects of accounting for share-based payment transactions, including recognizing excess tax benefits and deficiencies as income tax expense or benefit in the statement of earnings, classifying excess tax benefits and expenses as an operating activity within the statement of cash flows, and an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur. The provisions of this guidance related to excess tax benefits and deficiencies are to be applied on a prospective basis. If elected, the provisions of this guidance related to forfeitures are to be applied using a modified retrospective approach. This guidance is effective for fiscal years, and interim periods therein, beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements.

In February 2016, the FASB issued guidance requiring a lessee to recognize a right-of-use asset and a lease liability on its balance sheet for all leases with terms of twelve months or greater. This guidance is effective for fiscal years, and interim reporting periods therein, beginning after December 15, 2018 with early adoption permitted. The provisions of this guidance are to be applied using a modified retrospective approach, with elective reliefs, which requires application of the guidance for all periods presented. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In January 2016, the FASB issued guidance to improve the accounting models for financial instruments. Specifically, the new guidance (i) requires equity investments be measured at fair value, or at cost adjusted for changes in observable prices less impairment for equity investments without readily determinable fair values, with changes in fair value recognized in net income; (ii) requires a qualitative assessment to identify impairment for equity investments without readily determinable fair values; (iii) eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet; (iv) requires use of the exit price notion when measuring the fair value of financial instruments; (v) requires entities that elect the fair value option for financial liabilities to recognize changes in fair value related to instrument-specific credit risk in other comprehensive income; (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; and (vii) clarifies that entities must assess valuation allowances for deferred taxes related to available-for-sale debt securities in combination with their other deferred tax assets. This guidance is effective for fiscal years, and interim reporting periods therein, beginning after December 15, 2017. Early adoption is permissible, but limited in application. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In September 2015, the FASB issued guidance requiring the acquirer in a business combination to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. Additionally, the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of the change to the provisional amounts, must be calculated as if the accounting had been completed at the acquisition date. This guidance is effective for fiscal years, and interim reporting periods therein, beginning after December 15, 2015 with early adoption permitted. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued guidance clarifying the circumstances under which an entity would account for fees paid in a cloud computing arrangement as a license of internal-use software. This guidance is effective for fiscal years, and interim reporting periods therein, beginning after December 15, 2015. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued guidance requiring an entity to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This

guidance is effective for fiscal years, and interim reporting periods therein, beginning after December 15, 2015 with early adoption permitted. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In February 2015, the FASB issued guidance modifying the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities. This guidance also eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that are involved with variable interest entities, particularly those that have fee arrangements and related party relationships. This guidance is effective for fiscal years, and interim reporting periods therein, beginning after December 15, 2015 with early adoption permitted. Entities may elect to apply this guidance either on a retrospective or a modified retrospective basis. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In January 2015, the FASB issued guidance eliminating the concept of extraordinary items. Under this guidance an entity will no longer be allowed to separately disclose extraordinary items, net of tax, in the income statement after income from continuing operations if an event or transaction is unusual in nature and occurs infrequently. This guidance is effective for fiscal years, and

interim reporting periods therein, beginning after December 15, 2015 with early adoption permitted. The Company plans to adopt this guidance prospectively. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In August 2014, the FASB issued guidance requiring management to evaluate whether there are conditions and events that raise substantial doubt about the entity's ability to continue as a going concern and to provide disclosures in certain circumstances. The new guidance was issued to reduce diversity in the timing and content of footnote disclosures. This guidance is effective for fiscal years ending after December 15, 2016, and all annual and interim periods thereafter. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In August 2014, the FASB issued guidance providing a measurement alternative to the existing fair value measurement guidance for reporting entities that consolidate a collateralized financing entity in which (1) the financial assets and financial liabilities are measured at fair value except for those incidental financial assets and financial liabilities with their carrying values that approximate fair values and (2) the changes in the fair values of those financial assets and financial liabilities are reflected in earnings. When the measurement alternative is elected, the financial assets and liabilities of a collateralized financing entity will be measured using the more observable of the fair value of the financial assets and the fair value of the financial liabilities. This guidance is effective for public business entities for annual periods, and for interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted as of the beginning of an annual period. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In June 2014, the FASB issued guidance requiring entities to account for a performance target as a performance condition if the target affects vesting and could be achieved after the requisite service period. The new guidance did not introduce additional disclosure requirements and was issued to resolve diversity in practice. This guidance is effective for fiscal years, and interim reporting periods therein, beginning after December 15, 2015. The Company currently accounts for such performance targets in a manner consistent with the new guidance and does not expect this guidance to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued guidance requiring entities to recognize revenue from contracts with customers by applying a five-step model in accordance with the core principle to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, this guidance specifies the accounting for some costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognition. In August 2015, the FASB issued guidance deferring the effective date of this guidance to annual periods beginning after December 15, 2017, including interim reporting periods therein. Entities have the option to adopt this guidance either retrospectively or through a modified retrospective transition method. This new standard will supersede existing revenue guidance and affect the Company's revenue recognition process and the presentations or disclosures of the Company's consolidated financial statements and footnotes. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements.

## NOTE 2. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables reflect the changes in accumulated other comprehensive income (loss) ("AOCI"), net of income taxes:

(in thousands)	Three Months Ended May 31, 2016			
	Foreign Currency Translation	Unrealized Gain (Loss) on Derivatives	Defined Benefit Obligation	Total AOCI
Balance, February 29, 2016	\$ (130,865)	\$ 2,616	\$ (2,762)	\$ (131,011)
Other comprehensive income (loss) before reclassifications	3,817	(16)	—	3,801
Amounts reclassified from AOCI	—	32	(2)	30
Net other comprehensive income (loss)	3,817	16	(2)	3,831
Balance, May 31, 2016	\$ (127,048)	\$ 2,632	\$ (2,764)	\$ (127,180)

(in thousands)	Nine Months Ended May 31, 2016			
	Foreign Currency Translation	Unrealized Gain (Loss) on Derivatives	Defined Benefit Obligation	Total AOCI
Balance at August 31, 2015	\$ (113,081)	\$ 2,305	\$ (2,759)	\$ (113,535)
Other comprehensive income (loss) before reclassifications	(13,967)	469	—	(13,498)
Amounts reclassified from AOCI	—	(142)	(5)	(147)
Net other comprehensive income (loss)	(13,967)	327	(5)	(13,645)
Balance, May 31, 2016	\$ (127,048)	\$ 2,632	\$ (2,764)	\$ (127,180)

(in thousands)	Three Months Ended May 31, 2015			
	Foreign Currency Translation	Unrealized Gain (Loss) on Derivatives	Defined Benefit Obligation	Total AOCI
Balance, February 28, 2015	\$ (91,154)	\$ 1,355	\$ (2,630)	\$ (92,429)
Other comprehensive income (loss) before reclassifications	(4,588)	54	—	(4,534)
Amounts reclassified from AOCI	—	804	(3)	801
Net other comprehensive income (loss)	(4,588)	858	(3)	(3,733)
Balance, May 31, 2015	\$ (95,742)	\$ 2,213	\$ (2,633)	\$ (96,162)

(in thousands)	Nine Months Ended May 31, 2015			
	Foreign Currency Translation	Unrealized Gain (Loss) on Derivatives	Defined Benefit Obligation	Total AOCI
Balance at August 31, 2014	\$ (19,891)	\$ 3,014	\$ (2,632)	\$ (19,509)
Other comprehensive income (loss) before reclassifications	(75,851)	(2,371)	8	(78,214)
Amounts reclassified from AOCI	—	1,570	(9)	1,561
Net other comprehensive loss	(75,851)	(801)	(1)	(76,653)
Balance, May 31, 2015	\$ (95,742)	\$ 2,213	\$ (2,633)	\$ (96,162)



The significant items reclassified out of AOCI and the corresponding line items in the condensed consolidated statements of earnings to which the items were reclassified were as follows:

Components of AOCI (in thousands)	Location	Three Months		Nine Months	
		Ended May 31, 2016	2015	Ended May 31, 2016	2015
Unrealized gain (loss) on derivatives:					
Commodity	Cost of goods sold	\$(263)	\$(269)	\$(373)	\$(429 )
Foreign exchange	Net sales	(168 )	(111 )	(561 )	(37 )
Foreign exchange	Cost of goods sold	223	(1,044)	641	(2,447 )
Foreign exchange	SG&A expenses	53	17	123	57
Interest rate	Interest expense	134	134	400	400
		(21 )	(1,273)	230	(2,456 )
Income tax effect	Income taxes benefit (expense)	(11 )	469	(88 )	886
Net of income taxes		\$(32 )	\$(804)	\$142	\$(1,570)
Defined benefit obligation:					
Amortization of prior services	SG&A expenses	\$2	\$4	\$6	\$11
Income tax effect	Income taxes expense	—	(1 )	(1 )	(2 )
Net of income taxes		\$2	\$3	\$5	\$9

Amounts in parentheses reduce earnings.

## NOTE 3. SALES OF ACCOUNTS RECEIVABLE

During the fourth quarter of fiscal 2014, the Company entered into a third amended \$200.0 million U.S. sale of accounts receivable program which expires on August 15, 2017. Under the program, CMC contributes, and several of its subsidiaries sell without recourse, certain eligible accounts receivable to CMC Receivables, Inc. ("CMCRV"), a wholly owned subsidiary of CMC. CMCRV is structured to be a bankruptcy-remote entity and was formed for the sole purpose of buying and selling accounts receivable generated by the Company. CMCRV sells the accounts receivable in their entirety to three financial institutions. Under the amended U.S. sales of accounts receivable program, with the consent of both CMCRV and the program's administrative agent, the amount advanced by the financial institutions can be increased to a maximum of \$300.0 million for all accounts receivable sold. The remaining portion of the purchase price of the accounts receivable takes the form of subordinated notes from the respective financial institutions. These notes will be satisfied from the ultimate collection of the accounts receivable after payment of certain fees and other costs. The Company accounts for sales of the accounts receivable as true sales, and the accounts receivable balances that are sold are removed from the condensed consolidated balance sheets. The cash advances received are reflected as cash provided by operating activities on the Company's condensed consolidated statements of cash flows. Additionally, the U.S. sale of accounts receivable program contains certain cross-default provisions whereby a termination event could occur if the Company defaulted under certain of its credit arrangements. The covenants contained in the receivables purchase agreement are consistent with the credit facility described in Note 7, Credit Arrangements.

At May 31, 2016 and August 31, 2015, under its U.S. sale of accounts receivable program, the Company had sold \$211.6 million and \$274.3 million of accounts receivable, respectively, to the financial institutions. At May 31, 2016 and August 31, 2015, the Company had no advance payments outstanding on the sale of its accounts receivable.

In addition to the U.S. sale of accounts receivable program described above, the Company's international subsidiaries in Europe and Australia sell accounts receivable to financial institutions without recourse. These arrangements constitute true sales, and once the accounts receivable are sold, they are no longer available to the Company's creditors in the event of bankruptcy. In the third quarter of fiscal 2015, the Company phased out its existing European program and entered into a two year renewable accounts receivable sales program with a different financial institution. The new agreement increased the facility limit from PLN 200.0 million to PLN 220.0 million. The European program allows the Company's European subsidiaries to obtain an advance of up to 90% of eligible accounts receivable sold under the terms of the arrangement. During the first quarter of fiscal 2014, the Company phased out its existing Australian program and entered into a one year renewable accounts receivable sales program with a different financial institution. During the first quarter of fiscal 2015, the Company entered into a first amendment to its Australian program, which extended the maturity date to October 2016. Under the new Australian program, accounts receivable balances are sold to a special purpose vehicle, which in turn sells 100% of the eligible accounts receivable of Commercial Metals Pty. Ltd., CMC Steel Distribution Pty. Ltd. and G.A.M. Steel Pty. Ltd. to the financial institution. During the fourth quarter of fiscal 2015, the Company entered into a second amendment to its Australian program, which reduced the facility limit from A\$75.0 million to A\$40.0 million. The financial institution will fund up to the facility limit for all accounts receivable sold, and the remaining portion of the purchase price of the accounts receivable is in the form of a subordinated note from the financial institution. This note will be satisfied from the ultimate collection of the accounts receivable after payment of certain fees and other costs. The Company accounts for sales of the accounts receivable as true sales, and the accounts receivable balances that are sold are removed from the condensed consolidated balance sheets. The cash advances received are reflected as cash provided by operating activities on the Company's condensed consolidated statements of cash flows.

At May 31, 2016 and August 31, 2015, under its European and Australian programs, the Company had sold \$82.3 million and \$97.9 million of accounts receivable, respectively, to third-party financial institutions and received advance payments of \$29.2 million and \$27.7 million, respectively.

During the nine months ended May 31, 2016 and 2015, cash proceeds from the U.S. and international sale of accounts receivable programs were \$280.7 million and \$441.6 million, respectively, and cash payments to the owners of accounts receivable were \$279.2 million and \$539.6 million, respectively. For a nominal servicing fee, the Company is responsible for servicing the accounts receivable for the U.S. and Australian programs. Discounts on U.S. and international sales of accounts receivable were \$0.4 million and \$1.2 million for the three and nine months ended May 31, 2016, respectively, and \$0.4 million and \$1.2 million for the three and nine months ended May 31, 2015, respectively, and are included in selling, general and administrative expenses in the Company's condensed consolidated statements of earnings.

As of May 31, 2016, the deferred purchase price on the Company's U.S., European and Commercial Metals Pty. Ltd. sale of accounts receivable programs was included in accounts receivable on the Company's condensed consolidated balance sheets. As of August 31, 2015, the deferred purchase price on the Company's U.S., European, Commercial Metals Pty. Ltd. and CMC Steel Distribution Pty. Ltd. sale of accounts receivable programs was included in accounts receivable on the Company's condensed consolidated balance sheets. As of May 31, 2016 and August 31, 2015, the deferred purchase price on the G.A.M. Steel Pty. Ltd.



sale of accounts receivable program was included in assets of businesses held for sale on the Company's condensed consolidated balance sheets.

The following tables summarize the activity of the deferred purchase price receivables for the U.S. and international sale of accounts receivable programs:

(in thousands)	Three Months Ended May 31, 2016			
	Total	U.S.	Australia*	Europe
Beginning balance	\$231,874	\$193,035	\$13,383	\$25,456
Transfers of accounts receivable	636,929	513,169	47,110	76,650
Collections	(608,292 )	(498,529 )	(41,522 )	(68,241 )
Ending balance	\$260,511	\$207,675	\$18,971	\$33,865

\* Includes the sales of accounts receivable activities related to businesses held for sale (transfers of accounts receivable of \$13.6 million and collections of \$12.3 million for the three months ended May 31, 2016).

(in thousands)	Nine Months Ended May 31, 2016			
	Total	U.S.	Australia*	Europe
Beginning balance	\$339,547	\$269,778	\$18,038	\$51,731
Transfers of accounts receivable	1,763,122	1,432,592	130,440	200,090
Collections	(1,842,158 )	(1,494,695 )	(129,507 )	(217,956 )
Ending balance	\$260,511	\$207,675	\$18,971	\$33,865

\* Includes the sales of accounts receivable activities related to discontinued operations and businesses held for sale (transfers of accounts receivable of \$37.0 million and collections of \$49.1 million for the nine months ended May 31, 2016).

(in thousands)	Three Months Ended May 31, 2015			
	Total	U.S.	Australia**	Europe
Beginning balance	\$386,447	\$327,009	\$21,680	\$37,758
Transfers of accounts receivable	892,387	724,309	79,173	88,905
Collections	(871,953 )	(727,077 )	(75,210 )	(69,666 )
Ending balance	\$406,881	\$324,241	\$25,643	\$56,997

(in thousands)	Nine Months Ended May 31, 2015			
	Total	U.S.	Australia**	Europe
Beginning balance	\$385,169	\$329,797	\$34,071	\$21,301
Transfers of accounts receivable	2,908,695	2,426,691	233,237	248,767
Collections	(2,886,983 )	(2,432,247 )	(241,665 )	(213,071 )
Ending balance	\$406,881	\$324,241	\$25,643	\$56,997

\*\* Includes the sales of accounts receivable activities related to businesses held for sale (transfers of accounts receivable of \$46.2 million and \$148.3 million and collections of \$47.5 million and \$164.0 million for the three and nine months ended May 31, 2015, respectively).

#### NOTE 4. INVENTORIES, NET

As of May 31, 2016, inventories were stated at the lower of cost or net realizable value. As of August 31, 2015, inventories were stated at the lower of cost or market. See Note 1, Accounting Policies, for further discussion of the adoption of the new accounting pronouncement.

Effective September 1, 2015, the Company elected to change its accounting method for valuing all of its inventories that used the LIFO method to either the weighted average or specific identification methods. The Company applied this change in accounting



principle retrospectively to all prior periods presented. See Note 1, Accounting Policies, for further disclosures regarding this change in accounting principle.

Additionally, effective September 1, 2015, the Company elected to change its accounting method for valuing all of its inventories in its International Marketing and Distribution segment, except for its steel trading division headquartered in the U.S., from the FIFO method to the specification identification method. Because this change in accounting principle was immaterial in all prior periods, it was not applied retrospectively. The change did not have a material impact on our condensed consolidated financial statements as of and for the three and nine months ended May 31, 2016. See Note 1, Accounting Policies, for further disclosures regarding this change in accounting principle.

The Company determines the inventory cost for its International Mill segment using the weighted average cost method.

At May 31, 2016, 59% of the Company's total net inventories were valued using the weighted average cost method and 41% of the Company's total net inventories were valued using the specification identification method.

The majority of the Company's inventories are in the form of finished goods. At May 31, 2016 and August 31, 2015, \$82.0 million and \$61.5 million, respectively, of the Company's inventories were in the form of raw materials. Work in process inventories were \$32.6 million at May 31, 2016 and were minimal at August 31, 2015.

During the three and nine months ended May 31, 2016, inventory write-downs were \$1.6 million and \$9.6 million, respectively, and were \$17.4 million and \$21.5 million during the three and nine months ended May 31, 2015.

#### NOTE 5. GOODWILL AND OTHER INTANGIBLE ASSETS

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

(in thousands)	Americas		International		Consolidated	
	Recycling Mills	Fabrication	Mill	Marketing and Distribution		
Balance at August 31, 2015						
Goodwill	\$9,751	\$4,970	\$57,637	\$2,517	\$1,912	\$76,787
Accumulated impairment losses	(9,751)	—	(493)	(160)	—	(10,404)
	—	4,970	57,144	2,357	1,912	66,383
Foreign currency translation	—	—	—	(98)	48	(50)
Balance at May 31, 2016						
Goodwill	9,751	4,970	57,637	2,412	1,960	76,730
Accumulated impairment losses	(9,751)	—	(493)	(153)	—	(10,397)
	\$—	\$4,970	\$57,144	\$2,259	\$1,960	\$66,333

The total gross carrying amounts of the Company's intangible assets that are subject to amortization were \$40.3 million and \$47.8 million at May 31, 2016 and August 31, 2015, respectively, and are included in other noncurrent assets on the Company's condensed consolidated balance sheets. Intangible amortization expense from continuing operations was \$1.0 million and \$3.1 million for the three and nine months ended May 31, 2016, respectively, and \$1.6 million and \$5.2 million for the three and nine months ended May 31, 2015, respectively. Excluding goodwill, there are no significant intangible assets with indefinite lives.



## NOTE 6. BUSINESSES HELD FOR SALE, DISCONTINUED OPERATIONS AND DISPOSITIONS

## Businesses Held for Sale

As of May 31, 2016 and August 31, 2015, one component of the Australian steel distribution business remained for sale and continued to be classified as held for sale. The components of assets and liabilities of businesses held for sale on the Company's condensed consolidated balance sheets were as follows:

(in thousands)	May 31, August 31, 2016 2015	
Assets:		
Accounts receivable	\$5,133	\$ 3,244
Inventories, net	9,807	12,514
Other current assets	—	41
Property, plant and equipment, net of accumulated depreciation and amortization	1,412	1,209
Impairment of businesses held for sale <sup>(1)</sup>	(15,765)	—
Assets of businesses held for sale	\$587	\$ 17,008
Liabilities:		
Accounts payable-trade	\$1,293	\$ 3,011
Accrued expenses and other payables	2,411	2,265
Liabilities of businesses held for sale	\$3,704	\$ 5,276

(1) See Note 10, Fair Value, for further discussion of the impairment of businesses held for sale.

## Discontinued Operations

Despite focused efforts and substantial progress to stabilize and improve the results of the Australian steel distribution business, the Company determined that achieving acceptable financial returns would take additional time and investment. During the first quarter of fiscal 2015, the Company decided to exit and sell its steel distribution business in Australia and determined that this decision met the definition of a discontinued operation. As a result, this business has been presented as a discontinued operation for all periods presented. During the third quarter of fiscal 2016, the Company recorded an impairment charge of \$15.8 million, including the impact of an approximate \$13.5 million accumulated foreign currency translation loss, on its remaining component of the Australian steel distribution business that was classified as held for sale at May 31, 2016 and as discontinued operations during the three and nine months ended May 31, 2016. See Note 10, Fair Value, for further discussion of this impairment charge. Other expenses associated with exiting this business were not material for the three and nine months ended May 31, 2016 and May 31, 2015. The Australian steel distribution business was previously an operating segment included in the International Marketing and Distribution reporting segment.

Financial information for discontinued operations was as follows:

(in thousands)	Three Months Ended May 31,		Nine Months Ended May 31,	
	2016	2015	2016	2015
Net sales	\$12,321	\$43,307	\$33,828	\$143,644
Loss from discontinued operations before income taxes	(15,785 )	(10,871 )	(16,803 )	(20,241 )

## Dispositions

There were no material dispositions during the first nine months of fiscal 2016 or 2015.

During the first quarter of fiscal 2014, the Company sold all of the outstanding capital stock of our wholly owned copper tube manufacturing operation, Howell Metal Company for \$58.5 million, \$3.2 million of which was held in escrow as of August 31, 2015. The full balance of escrow was released to the Company in the second quarter of fiscal 2016.



## NOTE 7. CREDIT ARRANGEMENTS

On June 26, 2014, the Company entered into a fourth amended and restated credit agreement (the "Credit Agreement") for a revolving credit facility of \$350.0 million with a maturity date of June 26, 2019. The maximum availability under the Credit Agreement can be increased to \$500.0 million with bank approval. The Company's obligation under its Credit Agreement is collateralized by its U.S. inventory. The Credit Agreement's capacity includes \$50.0 million for the issuance of stand-by letters of credit and was reduced by outstanding stand-by letters of credit which totaled \$1.7 million and \$23.4 million at May 31, 2016 and August 31, 2015, respectively.

Under the Credit Agreement, the Company is required to comply with certain financial and non-financial covenants, including covenants to maintain: (i) an interest coverage ratio (consolidated EBITDA to consolidated interest expense, as each is defined in the Credit Agreement) of not less than 2.50 to 1.00 and (ii) a debt to capitalization ratio (consolidated funded debt to total capitalization, as each is defined in the Credit Agreement) that does not exceed 0.60 to 1.00. In addition, beginning on the date three months prior to each maturity date of the Company's 2017 Notes and 2018 Notes, as defined below, and each day thereafter that the 2017 Notes and the 2018 Notes are outstanding, the Company will be required to maintain liquidity of at least \$150.0 million in excess of each of the outstanding aggregate principal amounts of the 2017 Notes and 2018 Notes. Loans under the Credit Agreement bear interest based on the Eurocurrency rate, a base rate, or the LIBOR rate.

At May 31, 2016, the Company's interest coverage ratio was 4.70 to 1.00, and the Company's debt to capitalization ratio was 0.44 to 1.00. The Company had no amount drawn under the Credit Agreement at May 31, 2016 and August 31, 2015.

In May 2013, the Company issued \$330.0 million of 4.875% Senior Notes due May 2023 (the "2023 Notes"). Interest on the 2023 Notes is payable semi-annually.

In August 2008, the Company issued \$500.0 million of 7.35% senior unsecured notes due in August 2018 (the "2018 Notes"). During the third quarter of fiscal 2010, the Company entered into hedge transactions which reduced the Company's effective interest rate on these notes to 6.40% per annum. Interest on these notes is payable semiannually. In February 2016, the Company accepted for purchase approximately \$100.2 million of the outstanding principal amount of its 2018 Notes through a cash tender offer. The Company recognized expenses of approximately \$6.1 million related to the early extinguishment of this debt, which are included in loss on debt extinguishment in the unaudited condensed consolidated statements of earnings for the nine months ended May 31, 2016.

In July 2007, the Company issued \$400.0 million of 6.50% senior unsecured notes due in July 2017 (the "2017 Notes"). During the third quarter of fiscal 2011, the Company entered into hedge transactions which reduced the Company's effective interest rate on these notes to 5.74% per annum. Interest on these notes is payable semiannually. In February 2016, the Company accepted for purchase \$100.0 million of the outstanding principal amount of its 2017 Notes through a cash tender offer. The Company recognized expenses of approximately \$5.4 million related to the early extinguishment of this debt, which are included in loss on debt extinguishment in the unaudited condensed consolidated statements of earnings for the nine months ended May 31, 2016.

At May 31, 2016, the Company was in compliance with all covenants contained in its debt agreements.

During fiscal 2012, the Company terminated its existing interest rate swap transactions and received cash proceeds of approximately \$52.7 million, net of customary finance charges. The resulting gain was deferred and is being amortized as a reduction to interest expense over the remaining term of the respective debt tranches. At May 31, 2016 and August 31, 2015, the unamortized amounts were \$13.6 million and \$19.2 million, respectively. Amortization of the deferred gain for each of the three and nine months ended May 31, 2016 and 2015 was \$1.9 million and \$5.7 million, respectively.

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



Long-term debt, including the deferred gain from the termination of the interest rate swaps, was as follows:

(in thousands)	Weighted Average Interest Rate as of May 31, 2016	May 31, 2016	August 31, 2015
2023 Notes	4.875%	\$ 330,000	\$ 330,000
2018 Notes	6.40%	410,030	513,680
2017 Notes	5.74%	303,344	405,573
Other, including equipment notes		35,248	38,739
		1,078,622	1,287,992
Less current maturities		10,929	10,110
		\$ 1,067,693	\$ 1,277,882

At May 31, 2016 and August 31, 2015, CMC Poland Sp. z.o.o. ("CMCP") had uncommitted credit facilities with several banks of PLN 175 million (\$44.4 million) and PLN 215 million (\$56.9 million), respectively. The uncommitted credit facilities as of May 31, 2016 have expiration dates ranging from November 2016 to March 2017, which CMCP intends to renew upon expiration. At May 31, 2016 and August 31, 2015, no material amounts were outstanding under these facilities. During the nine months ended May 31, 2016, CMCP had no borrowings and no repayments under its uncommitted credit facilities. During the nine months ended May 31, 2015, CMCP had total borrowings of \$49.6 million and total repayments of \$49.6 million under its uncommitted credit facilities.

The Company had no material amounts of interest capitalized in the cost of property, plant and equipment during the three and nine months ended May 31, 2016 and 2015, respectively. Cash paid for interest during the three and nine months ended May 31, 2016 was \$9.1 million and \$50.0 million, respectively, and \$10.6 million and \$53.5 million during the three and nine months ended May 31, 2015, respectively.

#### NOTE 8. NEW MARKETS TAX CREDIT TRANSACTIONS

In the second quarter of fiscal 2016, the Company entered into a financing transaction with U.S. Bancorp Community Development Corporation, a Minnesota corporation ("USBCDC"), related to the development, construction and equipping of a steel micro-mill in Durant, Oklahoma. To effect the transaction, USBCDC made a capital contribution to USBCDC Investment Fund 156, LLC, a Missouri limited liability company (the "Investment Fund"). Additionally, Commonwealth Acquisitions Holdings, Inc., a wholly owned subsidiary of CMC ("Commonwealth"), made a loan to the Investment Fund. The transaction qualified under the New Markets Tax Credit Program ("NMTC Program"), provided for in the Community Renewal Tax Relief Act of 2000 (the "Act"). The NMTC Program is intended to induce capital investment in qualified low-income communities. The Act permits taxpayers to claim credits against federal income taxes for up to 39% of qualified investments in certain community development entities ("CDEs"). CDEs are privately managed entities that are certified to make qualified low-income community investments to qualified projects.

Commonwealth loaned \$35.3 million to the Investment Fund at an interest rate of approximately 1.08% per year and with a maturity date of December 24, 2045 (the "Commonwealth Loan"). The Investment Fund also received capital contributions from USBCDC in the aggregate amount of \$17.7 million (the "USBCDC Equity"). The Investment Fund used \$51.5 million of the proceeds received from the Commonwealth Loan and the USBCDC Equity to make qualified equity investments ("QEIs") into certain CDEs, which, in turn, used \$50.7 million of the QEIs to make loans to CMC Steel Oklahoma, LLC, a wholly owned subsidiary of CMC, with terms similar to the Commonwealth Loan and as partial financing for the construction, development and equipping of a new steel micro-mill in Durant, Oklahoma. The proceeds of the loans from the CDEs (including the portion of the loans representing the capital contribution made by USBCDC, net of syndication fees) were included in other current assets in the accompanying condensed consolidated balance sheet and will be used to partially fund the new steel micro-mill in Durant, Oklahoma.

By virtue of its capital contribution to the Investment Fund, USB CDC is entitled to substantially all of the benefits derived from the new markets tax credits ("NMTCs"). This transaction includes a put/call provision whereby the Company may be obligated or entitled to repurchase USB CDC's interest in the Investment Fund. The Company believes USB CDC will exercise the put option in December 2022 at the end of the recapture period. The value attributed to the put/call is de minimis. The NMTC is subject to 100% recapture for a period of seven years as provided in the Internal Revenue Code. The Company is required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangement. Non-compliance with applicable requirements could result in projected tax benefits not being realized and, therefore, could require the Company to indemnify

20

---

USBCDC for any loss or recapture of NMTCs related to the financing until such time as the Company's obligation to deliver tax benefits is relieved. The Company does not anticipate any credit recaptures will be required in connection with this arrangement.

The Company has determined that the Investment Fund is a variable interest entity ("VIE"), of which the Company is the primary beneficiary and has consolidated it in accordance with the accounting standard for consolidation. USBCDC's contribution is included in other long-term liabilities in the accompanying condensed consolidated balance sheet. Direct costs incurred in structuring the financing arrangement are deferred and will be recognized as expense over the seven year recapture period. Incremental costs to maintain the structure during the compliance period are recognized as incurred.

#### NOTE 9. DERIVATIVES AND RISK MANAGEMENT

The Company's global operations and product lines expose it to risks from fluctuations in metal commodity prices, foreign currency exchange rates, natural gas prices and interest rates. One objective of the Company's risk management program is to mitigate these risks using derivative instruments. The Company enters into (i) metal commodity futures and forward contracts to mitigate the risk of unanticipated changes in gross margin due to the volatility of the commodities' prices, (ii) foreign currency forward contracts that match the expected settlements for purchases and sales denominated in foreign currencies and (iii) natural gas forward contracts to mitigate the risk of unanticipated changes in operating cost due to the volatility of natural gas prices. When sales commitments to customers include a fixed price freight component, the Company occasionally enters into freight forward contracts to reduce the effects of the volatility of ocean freight rates.

At May 31, 2016, the notional values of the Company's foreign currency contract commitments and its commodity contract commitments were \$290.0 million and \$23.0 million, respectively. At May 31, 2015, the notional values of the Company's foreign currency contract commitments and its commodity contract commitments were \$399.8 million and \$46.5 million, respectively.

The following table provides information regarding the Company's commodity contract commitments as of May 31, 2016:

Commodity	Long/Short	Total
Aluminum	Long	3,429 MT
Aluminum	Short	175 MT
Copper	Long	238 MT
Copper	Short	3,425 MT

MT = Metric Ton

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 Company's condensed consolidated statements of earnings, and there were no components excluded from the assessment of hedge effectiveness for the three and nine months ended May 31, 2016 and 2015. Certain 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 items recognized in the condensed consolidated statements of earnings:

Derivatives Not Designated as Hedging Instruments (in thousands)	Location	Three Months Ended May 31,		Nine Months Ended May 31,	
		2016	2015	2016	2015

Edgar Filing: COMMERCIAL METALS CO - Form 10-Q

Commodity	Cost of goods sold	\$224	\$(354 )	\$2,172	\$4,947
Foreign exchange	Net sales	—	—	(4 )	3,005
Foreign exchange	Cost of goods sold	(9 )	562	72	4,913
Foreign exchange	SG&A expenses	(6,304 )	2,405	9,410	22,479
Gain (loss) before income taxes		\$(6,089)	\$2,613	\$11,650	\$35,344

21

---

The Company's fair value hedges are designated for accounting purposes with the gains or losses on the hedged items offsetting the gains or losses on the related derivative transactions. Hedged items relate to firm commitments on commercial sales and purchases.

Derivatives Designated as Fair Value Hedging Instruments (in thousands)	Location	Three Months Ended May 31,		Nine Months Ended May 31,	
		2016	2015	2016	2015
Foreign exchange	Net sales	\$(122)	\$207	\$(39)	\$566
Foreign exchange	Cost of goods sold	901	(283)	90	642
Gain (loss) before income taxes		\$779	\$(76)	\$51	\$1,208
Hedged Items Designated as Fair Value Hedging Instruments (in thousands)	Location	Three Months Ended May 31,		Nine Months Ended May 31,	
		2016	2015	2016	2015
Foreign exchange	Net sales	\$122	\$(207)	\$39	\$(565)
Foreign exchange	Cost of goods sold	(901)	283	(90)	(642)
Gain (loss) before income taxes		\$(779)	\$76	\$(51)	\$(1,207)
Effective Portion of Derivatives Designated as Cash Flow Hedging Instruments Recognized in Accumulated Other Comprehensive Income (Loss) (in thousands)		Three Months Ended May 31,		Nine Months Ended May 31,	
		2016	2015	2016	2015
Commodity		\$(56)	\$(76)	\$(280)	\$(492)
Foreign exchange		40	130	749	(1,879)
Gain (loss), net of income taxes		\$(16)	\$54	\$469	\$(2,371)
Effective Portion of Derivatives Designated as Cash Flow Hedging Instruments Reclassified from Accumulated Other Comprehensive Income (Loss) (in thousands)	Location	Three Months Ended May 31,		Nine Months Ended May 31,	
		2016	2015	2016	2015
Commodity	Cost of goods sold	\$(263)	\$(269)	\$(373)	\$(429)
Foreign exchange	Net sales	(168)	(111)	(561)	(37)
Foreign exchange	Cost of goods sold	223	(1,044)	641	(2,447)
Foreign exchange	SG&A expenses	53	17	123	57
Interest rate	Interest expense	134	134	400	400
Gain (loss) before income taxes		(21)	(1,273)	230	(2,456)
Income tax (expense) benefit		(11)	469	(88)	886
Gain (loss), net of income taxes		\$(32)	\$(804)	\$142	\$(1,570)

The Company enters into derivative agreements that include provisions to allow the set-off of certain amounts. Derivative instruments are presented on a gross basis on the Company's condensed consolidated balance sheets. The asset and liability balances in the tables below reflect the gross amounts of derivative instruments at May 31, 2016 and August 31, 2015. The fair value of the Company's derivative instruments on the condensed consolidated balance sheets was as follows:

Derivative Assets (in thousands)	May 31, August 31,	
	2016	2015
Commodity — designated for hedge accounting	\$ 8	\$ 19
Commodity — not designated for hedge accounting	447	846
Foreign exchange — designated for hedge accounting	1,719	1,500
Foreign exchange — not designated for hedge accounting	1,245	3,088
Derivative assets (other current assets)*	\$ 3,419	\$ 5,453

  

Derivative Liabilities (in thousands)	May 31, August 31,	
	2016	2015
Commodity — designated for hedge accounting	\$ 88	\$ 129
Commodity — not designated for hedge accounting	66	537
Foreign exchange — designated for hedge accounting	342	874
Foreign exchange — not designated for hedge accounting	987	1,263
Derivative liabilities (accrued expenses and other payables)*	\$ 1,483	\$ 2,803

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

As of May 31, 2016, most 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 were not entered into for trading purposes.

## NOTE 10. FAIR VALUE

The Company has established a fair value hierarchy which prioritizes the inputs to the 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. Levels within the hierarchy are defined as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets and liabilities;

Level 2 - Quoted prices for similar assets and liabilities in active markets (other than those included in Level 1) which are observable, either directly or indirectly; and

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

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

(in thousands)	May 31, 2016	Fair Value Measurements at Reporting Date Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:					
Money market investments <sup>(1)</sup>	\$393,777	\$393,777	\$	—\$	—
Commodity derivative assets <sup>(2)</sup>	455	447	8	—	—
Foreign exchange derivative assets <sup>(2)</sup>	2,964	—	2,964	—	—
Liabilities:					
Commodity derivative liabilities <sup>(2)</sup>	154	66	88	—	—
Foreign exchange derivative liabilities <sup>(2)</sup>	1,329	—	1,329	—	—

(in thousands)	August 31, 2015	Fair Value Measurements at Reporting Date Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:					
Money market investments <sup>(1)</sup>	\$271,840	\$271,840	\$	—\$	—
Commodity derivative assets <sup>(2)</sup>	865	846	19	—	—
Foreign exchange derivative assets <sup>(2)</sup>	4,588	—	4,588	—	—
Liabilities:					
Commodity derivative liabilities <sup>(2)</sup>	666	537	129	—	—
Foreign exchange derivative liabilities <sup>(2)</sup>	2,137	—	2,137	—	—

(1) Money market investments are short-term in nature, and the value is determined by broker quoted prices in active markets. The investment portfolio mix can change each period based on the Company's assessment of investment

options.

(2) Derivative assets and liabilities classified as Level 1 are commodity futures contracts valued based on quoted market prices in the London Metal Exchange or Commodity Exchange, Inc. Amounts in Level 2 are based on broker quotes in the over-the-counter market. Further discussion regarding the Company's use of derivative instruments and the classification of the assets and liabilities is included in Note 9, Derivatives and Risk Management.

On June 10, 2016, the Company, through its wholly owned Australian subsidiary, G.A.M. Steel Pty. Ltd., signed a definitive asset sale agreement to sell its remaining steel distribution assets located in Australia. For the third quarter of fiscal 2016, the Company recorded an impairment charge of \$15.8 million, including the impact of an approximate \$13.5 million accumulated foreign currency translation loss, on this remaining component of the Australian steel distribution business that was classified as held for sale at May 31, 2016 and as discontinued operations during the three and nine months ended May 31, 2016. After consideration

24

---



of the impairment charge, the fair value, less costs to sell, of this component was \$10.4 million at May 31, 2016. The signed definitive asset sale agreement (Level 3) was the basis for the determination of fair value of this component. There were no other material non-recurring fair value measurements during the three and nine months ended May 31, 2016 and 2015.

The carrying values of the Company's short-term items, including the deferred purchase price of accounts receivable, documentary letters of credit and notes payable, approximate fair value due to their short-term nature.

The carrying values and estimated fair values of the Company's financial assets and liabilities that are not required to be measured at fair value on the condensed consolidated balance sheets were as follows:

(in thousands)	Fair Value Hierarchy	May 31, 2016		August 31, 2015	
		Carrying Value	Fair Value	Carrying Value	Fair Value
2023 Notes <sup>(1)</sup>	Level 2	\$330,000	\$315,150	\$330,000	\$300,630
2018 Notes <sup>(1)</sup>	Level 2	410,030	423,807	513,680	530,000
2017 Notes <sup>(1)</sup>	Level 2	303,344	309,735	405,573	419,400

(1) The fair values of the 2023 Notes, 2018 Notes and 2017 Notes are estimated based on readily available market prices of these notes at May 31, 2016 and August 31, 2015, or similar notes with the same maturities, rating and interest rates.

#### NOTE 11. INCOME TAX

The Company's effective income tax rate from continuing operations for the three and nine months ended May 31, 2016 was 23.3% and 25.5%, respectively, compared with 36.1% and 31.6% for the three and nine months ended May 31, 2015, respectively. The effective tax rate is determined by computing the estimated annual effective tax rate, adjusted for discrete items, if any, which are taken into account in the appropriate period. Several factors determine the Company's effective tax rate, including the mix and amount of global earnings, the impact of loss companies for which no tax benefit is available due to valuation allowances, audit related adjustments, and the impact of permanent tax adjustments. For the three months ended May 31, 2016, the tax rate was lower than the statutory income tax rate of 35%, in part due to income from operations earned in jurisdictions with lower statutory tax rates than the United States and a benefit under Section 199 of the Internal Revenue Code related to domestic production activity income. Discrete items recorded during the three months ended May 31, 2016 that impact the tax rate include (1) a benefit for a non-taxable gain on assets related to the Company's non-qualified benefit restoration plan and (2) a benefit associated with passage of the Protecting Americans from Tax Hikes Act of 2015 recognized upon filing of the Company's fiscal year 2015 U.S. federal tax return. For the nine months ended May 31, 2016, the tax rate was lower than the statutory income tax rate of 35% because the Company had income from operations in countries which have lower tax rates than the United States, a tax benefit under Section 199 of the Internal Revenue Code related to domestic production activity income, and discrete items benefiting the rate disclosed above and in prior periods, including favorable adjustments recognized during the second quarter of fiscal 2016 related to our current IRS exam.

The Company's effective income tax rate from discontinued operations for the three and nine months ended May 31, 2016 was 0.0% and 0.6%, respectively, compared with 3.9% and 2.2% for the three and nine months ended May 31, 2015, respectively. The Company's effective income tax rate from discontinued operations for the three and nine months ended May 31, 2016 reflected the fact that earnings from discontinued operations before income taxes included a loss in Australia, a jurisdiction in which all tax losses created a deferred tax asset that was subject to a full valuation allowance, and thus no tax benefit is recorded. The tax benefit related to discontinued operations was the result of nominal pre-tax losses from discontinued operations which are subject to U.S. tax.

The Company made net payments of \$36.0 million and \$46.7 million for income taxes during the nine months ended May 31, 2016 and 2015, respectively.

As of May 31, 2016 and August 31, 2015, the reserve for unrecognized income tax benefits related to the accounting for uncertainty in income taxes was \$17.8 million and \$27.3 million, respectively, exclusive of interest and penalties.

The Company's policy classifies interest recognized on an underpayment of income taxes and any statutory penalties recognized on a tax position as income tax expense, and the balances at the end of a reporting period are recorded as part of the current or noncurrent reserve for uncertain income tax positions. For the three and nine months ended May 31, 2016, before any income tax benefits, the Company recorded immaterial amounts of accrued interest and penalties on unrecognized income tax benefits.

During the twelve months ending May 31, 2017, it is reasonably possible that the statute of limitations pertaining to positions taken by the Company in prior year income tax returns may lapse or that income tax audits in various taxing jurisdictions could be finalized. As a result, the total amount of unrecognized income tax benefits may decrease by approximately \$8.3 million, which would reduce the provision for income taxes by \$2.5 million.

The Company files income tax returns in the United States and multiple foreign jurisdictions with varying statutes of limitations. In the normal course of business, CMC and its subsidiaries are subject to examination by various taxing authorities. The following is a summary of tax years subject to examination:

U.S. Federal — 2009 and forward

U.S. States — 2009 and forward

Foreign — 2009 and forward

The Company is currently under examination by the Internal Revenue Service and state revenue authorities from 2009 to 2011. Management believes the Company's recorded tax liabilities as of May 31, 2016 sufficiently reflect the anticipated outcome of these examinations.

#### NOTE 12. STOCK-BASED COMPENSATION PLANS

The Company's stock-based compensation plans are described, and informational disclosures provided, in Note 15, Stock-Based Compensation Plans, to the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2015. During the nine months ended May 31, 2016 and 2015, restricted stock units and performance stock units totaling 1.6 million and 1.1 million, respectively, were granted at a weighted-average fair value of \$15.83 and \$15.92, respectively.

During the nine months ended May 31, 2016 and 2015, the Company granted 464,782 and 392,517 equivalent shares, respectively, of performance stock units and restricted stock units accounted for as liability awards. The fair value of these liability awards is remeasured each reporting period and is recognized ratably over the service period. As of May 31, 2016, the Company had 914,215 equivalent shares in liability awards outstanding. The Company expects 870,224 equivalent shares to vest.

In general, the restricted stock units granted during fiscal 2016 and 2015 vest ratably over a period of three years. However, certain restricted stock units granted during fiscal 2015 either vest after a period of three years or vest after a specified service period. One-third of each such award vests on the second anniversary of the grant date, and the remaining two-thirds of each such award vest on the third anniversary of the grant date. In addition, certain restricted stock units granted during fiscal 2014 vest after a specified service period. For each such award, 25% vests on the second anniversary of the grant date; 25% vests on the third anniversary of the grant date and the remaining 50% vests on the fourth anniversary of the grant date. Subject to the achievement of performance targets established by the Compensation Committee of CMC's Board of Directors, the performance stock units granted during fiscal 2016 and fiscal 2015 will vest after a period of three years.

Stock-based compensation expense for the three and nine months ended May 31, 2016 of \$6.8 million and \$19.9 million, respectively, and \$6.5 million and \$18.3 million for the three and nine months ended May 31, 2015, respectively, was included in selling, general and administrative expenses on the Company's condensed consolidated statements of earnings.

## NOTE 13. STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE ATTRIBUTABLE TO CMC

The calculations of basic and diluted earnings per share from continuing operations for the three and nine months ended May 31, 2016 and 2015 were as follows:

(in thousands, except share data)	Three Months Ended		Nine Months Ended	
	May 31, 2016	2015	May 31, 2016	2015
Earnings from continuing operations attributable to CMC	\$ 35,111	\$ 39,156	\$ 71,593	\$ 86,886
Basic earnings per share:				
Shares outstanding for basic earnings per share	114,677,105	105,742,534	115,373,736	116,807,469
Basic earnings per share attributable to CMC:	\$ 0.31	\$ 0.34	\$ 0.62	\$ 0.74
Diluted earnings per share:				
Shares outstanding for basic earnings per share	114,677,105	105,742,534	115,373,736	116,807,469
Effect of dilutive securities:				
Stock-based incentive/purchase plans	1,318,406	1,016,681	1,384,980	1,063,759
Shares outstanding for diluted earnings per share	115,995,511	106,759,215	116,758,716	117,871,228
Diluted earnings per share attributable to CMC:	\$ 0.30	\$ 0.34	\$ 0.61	\$ 0.74
Anti-dilutive shares not included above	295,107	378,006	295,107	245,542

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

During the first quarter of fiscal 2015, CMC's Board of Directors authorized a new share repurchase program under which the Company may repurchase up to \$100.0 million of shares of CMC common stock. This new program replaced the existing program, which was terminated by CMC's Board of Directors in connection with the approval of the new program. The Company did not purchase any shares of CMC common stock during the three months ended May 31, 2016. During the nine months ended May 31, 2016, the Company purchased 2,255,069 shares of CMC common stock at an average purchase price of \$13.57 per share. During the three and nine months ended May 31, 2015, the Company purchased 139,383 and 2,902,218 shares of CMC common stock, respectively, at an average purchase price of \$15.97 and \$14.40 per share, respectively. The Company had remaining authorization to purchase \$27.6 million of common stock at May 31, 2016 pursuant to its share repurchase program.

## NOTE 14. COMMITMENTS AND CONTINGENCIES

In the ordinary course of conducting its business, the Company becomes involved in litigation, administrative proceedings and governmental investigations, including environmental matters. See Note 18, Commitments and Contingencies, to the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2015.

The Company has received notices from the U.S. Environmental Protection Agency ("EPA") or state agencies with similar responsibility that it is considered a potentially responsible party ("PRP") at several sites, none owned by the Company, and may be obligated under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 ("CERCLA") or similar state statute to conduct remedial investigations, feasibility studies, remediation and/or removal of alleged releases of hazardous substances or to reimburse the EPA for such activities. The Company is involved in litigation or administrative proceedings with regard to several of these sites in which the Company is contesting, or at the appropriate time may contest, its liability at the sites. In addition, the Company has received

information requests with regard to other sites which may be under consideration by the EPA as potential CERCLA sites. Some of these environmental matters or other proceedings may result in fines, penalties or judgments being assessed against the Company. At May 31, 2016 and August 31, 2015, the Company had \$0.8 million and \$1.0 million, respectively, accrued for cleanup and remediation costs in connection with CERCLA sites. The estimation process is based on currently available information, which is in many cases preliminary and incomplete. Total environmental liabilities, including CERCLA sites, were \$3.3 million and \$4.3 million as of May 31, 2016 and August 31, 2015, respectively, of which \$2.2 million and \$2.4 million were classified as other long-term liabilities as of May 31, 2016 and August 31, 2015. Due to evolving remediation technology, changing regulations, possible third-party contributions, the inherent shortcomings of the estimation

27

---

process and other factors, amounts accrued could vary significantly from amounts paid. Historically, the amounts the Company has ultimately paid for such remediation activities have not been material.

Management believes that adequate provisions have been made in the Company's unaudited condensed consolidated financial statements for the potential impact of these contingencies and that the outcomes of the suits and proceedings described above, and other miscellaneous litigation and proceedings now pending, will not have a material adverse effect on the business, results of operations or financial condition of the Company.

#### NOTE 15. BUSINESS SEGMENTS

The Company's operating segments engage in business activities from which they may earn revenues and incur expenses and for which discrete financial information is available. Operating results for the operating segments are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segments and to assess performance. The Company's chief operating decision maker is identified as the Chief Executive Officer. Operating segments are aggregated for reporting purposes when the operating segments are identified as similar in accordance with the basic principles and aggregation criteria in the accounting standards. The Company's reporting segments are based primarily on product lines and secondarily on geographic area. The reporting segments have different lines of management responsibility as each business requires different marketing strategies and management expertise.

The Company structures its business into the following five reporting segments: Americas Recycling, Americas Mills, Americas Fabrication, International Mill and International Marketing and Distribution. The Americas Recycling segment processes scrap metals for use as a raw material by manufacturers of new metal products. The Americas Mills segment manufactures finished long steel products including reinforcing bar ("rebar"), merchant bar, light structural, some special bar quality ("SBQ") and other special sections as well as semi-finished billets for re-rolling and forging applications. The Americas Fabrication segment consists of the Company's rebar and structural fabrication operations, fence post manufacturing plants, construction-related product facilities and plants that heat-treat steel to strengthen and provide flexibility. The International Mill segment includes the Company's minimill and the Company's recycling and fabrication operations in Poland. The International Marketing and Distribution segment includes international operations for the sale, distribution and processing of steel products, ferrous and nonferrous metals and other industrial products. Additionally, this segment includes the Company's marketing and distribution divisions headquartered in the U.S. and also operates a recycling facility in Singapore. Corporate contains expenses of the Company's corporate headquarters and interest expense related to its long-term debt.

The financial information presented for the International Marketing and Distribution segment excludes the steel distribution business in Australia. This operation has been classified as discontinued operations in the condensed consolidated statements of earnings. See Note 6, Businesses Held for Sale, Discontinued Operations and Dispositions, for more information.

The Company uses adjusted operating profit (loss), a non-GAAP financial measure, to compare and to evaluate the financial performance of its segments. Adjusted operating profit (loss) is the sum of the Company's earnings from continuing operations before income taxes, interest expense and discounts on sales of accounts receivable. Intersegment sales are generally priced at prevailing market prices. Certain corporate administrative expenses are allocated to the segments based upon the nature of the expense. The accounting policies of the segments are the same as those described in Note 2, Summary of Significant Accounting Policies, of the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2015.



Edgar Filing: COMMERCIAL METALS CO - Form 10-Q

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

Three Months Ended May 31, 2016

(in thousands)	Americas			International		Corporate	Eliminations	Continuing Operations
	Recycling	Mills	Fabrication	Mill	Marketing and Distribution			
Net sales-unaffiliated customers	\$ 156,352	\$ 227,736	\$ 382,607	\$ 141,043	\$ 315,067	\$ 4,585	\$ —	\$ 1,227,390
Intersegment sales	26,125	168,745	2,473	395	4,537	—	(202,275)	—
Net sales	182,477	396,481	385,080	141,438	319,604	4,585	(202,275)	1,227,390
Adjusted operating profit (loss)	(1,978 )	54,976	22,794	5,467	892	(22,542 )	1,331	60,940

Three Months Ended May 31, 2015

(in thousands)	Americas			International		Corporate	Eliminations	Continuing Operations
	Recycling	Mills	Fabrication	Mill	Marketing and Distribution			
Net sales-unaffiliated customers	\$ 194,081	\$ 244,632	\$ 415,763	\$ 156,286	\$ 494,639	\$ 601	\$ —	\$ 1,506,002
Intersegment sales	31,015	202,189	2,132	32	23,605	—	(258,973)	—
Net sales	225,096	446,821	417,895	156,318	518,244	601	(258,973)	1,506,002
Adjusted operating profit (loss)	(3,651 )	63,320	13,720	6,146	25,615	(19,502 )	(3,480)	82,168

Nine Months Ended May 31, 2016

(in thousands)	Americas			International		Corporate	Eliminations	Continuing Operations
	Recycling	Mills	Fabrication	Mill	Marketing and Distribution			
Net sales-unaffiliated customers	\$ 430,829	\$ 634,926	\$ 1,096,049	\$ 368,949	\$ 867,084	\$ 4,109	\$ —	\$ 3,401,946
Intersegment sales	79,201	482,516	7,489	395	12,433	—	(582,034)	—
Net sales	510,030	1,117,442	1,103,538	369,344	879,517	4,109	(582,034)	3,401,946
Adjusted operating profit (loss)	(16,171 )	164,739	58,964	10,189	(3,570 )	(69,415 )	2,233	146,969
Total assets at May 31, 2016*	229,557	758,336	656,055	360,734	591,105	1,015,991	(504,018)	3,107,760

Nine Months Ended May 31, 2015

(in thousands)	Americas			International		Corporate	Eliminations	Continuing Operations
	Recycling	Mills	Fabrication	Mill	Marketing and Distribution			
Net sales-unaffiliated customers	\$ 691,382	\$ 796,218	\$ 1,165,679	\$ 472,364	\$ 1,447,316	\$ 4,150	\$ —	\$ 4,577,109
Intersegment sales	108,852	604,299	9,114	32	73,972	—	(796,269)	—
Net sales	800,234	1,400,517	1,174,793	472,396	1,521,288	4,150	(796,269)	4,577,109
Adjusted operating profit (loss)	(15,260 )	195,438	3,770	11,188	49,669	(55,513 )	(2,248)	187,044



Total assets at August 31, 2015*	261,676	738,669	713,860	403,706	798,914	1,049,815	(552,577)	3,414,063
----------------------------------	---------	---------	---------	---------	---------	-----------	-----------	-----------

\* Excludes total assets from discontinued operations of \$2.9 million at May 31, 2016 and \$31.5 million at August 31, 2015.

Reconciliations of earnings from continuing operations to adjusted operating profit are provided below:

(in thousands)	Three Months		Nine Months Ended	
	Ended May 31, 2016	2015	May 31, 2016	2015
Earnings from continuing operations	\$35,111	\$39,156	\$71,593	\$86,886
Income taxes	10,676	22,126	24,512	40,100
Interest expense	14,737	20,519	49,666	58,828
Discounts on sales of accounts receivable	416	367	1,198	1,230
Adjusted operating profit	\$60,940	\$82,168	\$146,969	\$187,044

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In the following discussion, references to "we," "us," "our" or the "Company" mean Commercial Metals Company and its consolidated subsidiaries, unless the context otherwise requires. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto, which are included in this Quarterly Report on Form 10-Q, and our audited consolidated financial statements and the notes thereto, which are included in our Annual Report on Form 10-K for the fiscal year ended August 31, 2015. This discussion contains or incorporates by reference "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not historical facts, but rather are based on expectations, estimates, assumptions and projections about our industry, business and future financial results, based on information available at the time this Quarterly Report on Form 10-Q is filed with the Securities and Exchange Commission ("SEC") or, with respect to any document incorporated by reference, available at the time that such document was prepared. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those identified in the section entitled "Forward-Looking Statements" in Item 2 of this Quarterly Report on Form 10-Q and in the section entitled "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the fiscal year ended August 31, 2015. We do not undertake any obligation to update, amend or clarify any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, new information or circumstances or otherwise, except as required by law.

### CRITICAL ACCOUNTING POLICIES

As discussed in the "Critical Accounting Policies and Estimates" section of Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the fiscal year ended August 31, 2015, we evaluate the carrying value of property, plant and equipment and finite-lived intangible assets whenever a change in circumstances indicates that the carrying value may not be recoverable from the undiscounted future cash flows from operations, also known as a triggering event. Based on margin and volume pressure in our Americas Recycling segment, during the third quarter of fiscal 2016, management considered a triggering event to have occurred. As a result, we reviewed the undiscounted future cash flows for certain Americas Recycling long-lived asset groups. The results of the undiscounted future cash flow analyses indicated the carrying amounts for all long-lived asset groups subject to testing were expected to be recovered, with the exception of two long-lived asset groups. Fair value for these two long-lived asset groups was then estimated and compared to the carrying values of the long-lived asset groups, which resulted in no impairment for the current fiscal quarter. However, it is reasonably possible that market conditions could remain flat or deteriorate further, resulting in impairment of the carrying values of certain Americas Recycling long-lived assets. The primary factors that may affect estimates of future cash flows are (i) management's scrap price outlook, (ii) scrap demand, (iii) working capital changes, (iv) capital expenditures and (v) selling, general and administrative expenses.

In the second quarter of fiscal 2016, we entered into a financing transaction related to the development, construction and equipping of a steel micro-mill in Durant, Oklahoma, which qualified under the New Markets Tax Credit Program ("NMTC Program") provided for in the Community Renewal Tax Relief Act of 2000 (the "Act"). The NMTC Program is intended to induce capital investment in qualified low-income communities. The Act permits taxpayers to claim credits (tax credit investors) against federal income taxes for up to 39% of qualified investments in certain community development entities ("CDEs"). CDEs are privately managed entities that are certified to make qualified low-income community investments to qualified projects. This transaction includes a put/call provision whereby we may be obligated or entitled to repurchase the tax credit investor's interest in the entities established to claim the tax credits related to their investments in the Durant, Oklahoma steel micro-mill project. We have concluded that these entities are variable interest entities ("VIEs"), of which we are the primary beneficiary and have consolidated the entities

30

---

in accordance with the accounting standard for consolidation. The tax credit investor's contribution, net of fees, is included in other long-term liabilities on the unaudited condensed consolidated balance sheet included in this Quarterly Report on Form 10-Q. See Note 8, New Markets Tax Credit Transactions, to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for further details.

In the second quarter of fiscal 2016, we adopted guidance issued by the Financial Accounting Standards Board ("FASB") requiring deferred tax liabilities and assets to be classified as noncurrent in a classified statement of financial position. This change in accounting principle simplifies the presentation of deferred income taxes. This change was applied prospectively and prior periods presented were not adjusted.

In the first quarter of fiscal 2016, we elected to change the accounting method by which we value our U.S. inventories from the last-in, first-out ("LIFO") method of accounting to the weighted average cost method for our Americas Mills, Americas Recycling and Americas Fabrication segments and to the specific identification method for our steel trading division headquartered in the U.S. in our International Marketing and Distribution segment. This change affected 51% of our inventories which were valued using the LIFO method as of September 1, 2015, and we applied these changes in accounting principle retrospectively to all prior periods presented. As a result of the retrospective application of this change in accounting principle, certain financial statement line items in our condensed consolidated balance sheet as of August 31, 2015 and our condensed consolidated statements of earnings for the three and nine months ended May 31, 2015 and condensed consolidated statement of cash flows for the nine months ended May 31, 2015 were adjusted.

Additionally, in the first quarter of fiscal 2016, we elected to change the accounting method by which we value our inventories in our International Marketing and Distribution segment, except for those of our steel trading division headquartered in the U.S., from the first-in, first-out ("FIFO") method to the specific identification method. At September 1, 2015, 38% of our inventories were valued using the FIFO method. This change did not have a material impact on our condensed consolidated financial statements in any prior period. As such, this change in accounting principle was not applied retrospectively.

In the first quarter of fiscal 2016, we adopted guidance issued by the FASB requiring entities to measure inventory, other than inventory measured using LIFO or the retail inventory method, at the lower of cost and net realizable value, which is defined as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The guidance was adopted on a prospective basis.

There have been no other material changes to our critical accounting policies as 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 for the fiscal year ended August 31, 2015.

#### CONSOLIDATED RESULTS OF OPERATIONS

The following discussion of our results of operations is based on our continuing operations and excludes any results of our discontinued operations.

(in thousands)	Three Months Ended		Nine Months Ended	
	May 31, 2016	2015	May 31, 2016	2015
Net sales*	\$1,227,390	\$1,506,002	\$3,401,946	\$4,577,109
Earnings from continuing operations	35,111	39,156	71,593	86,886
Adjusted operating profit*+	60,940	82,168	146,969	187,044
Adjusted EBITDA*+	92,483	114,680	241,271	285,555
Diluted net earnings per share attributable to CMC	0.17	0.25	0.47	0.57
Adjusted earnings per share +	0.17	0.25	0.53	0.57

\* Excludes divisions classified as discontinued operations.

+ Non-GAAP financial measure.

31

---

## Adjusted Operating Profit

In the table above, we have included financial statement measures that were not derived in accordance with accounting principles generally accepted in the United States ("GAAP"). We use adjusted operating profit to compare and to evaluate the financial performance of our segments. Adjusted operating profit is the sum of our earnings from continuing operations before income taxes, interest expense and discounts on sales of accounts receivable. The payment of income taxes is a necessary element of our operations. Additionally, 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. For added flexibility, we may sell certain accounts receivable both in the U.S. and internationally. We consider sales of accounts receivable as an alternative source of liquidity to finance our operations, and we believe that removing these costs provides a clearer perspective of our operating performance. Adjusted operating profit may be inconsistent with similar measures presented by other companies.

Reconciliations of earnings from continuing operations to adjusted operating profit are provided below:

(in thousands)	Three Months		Nine Months Ended	
	Ended May 31,		May 31,	
	2016	2015	2016	2015
Earnings from continuing operations	\$35,111	\$39,156	\$71,593	\$86,886
Income taxes	10,676	22,126	24,512	40,100
Interest expense	14,737	20,519	49,666	58,828
Discounts on sales of accounts receivable	416	367	1,198	1,230
Adjusted operating profit	\$60,940	\$82,168	\$146,969	\$187,044

## Adjusted EBITDA

Adjusted EBITDA (earnings from continuing operations before net earnings attributable to noncontrolling interests, interest expense, income taxes, depreciation, amortization and impairment charges) is another non-GAAP financial measure included in the table above. We use adjusted EBITDA as a non-GAAP financial measure. There were no net earnings attributable to noncontrolling interests during the three and nine months ended May 31, 2016 and May 31, 2015. Adjusted EBITDA should not be considered as an alternative to net earnings or as a better measure of liquidity than net cash flows from operating activities, as determined by GAAP. However, we believe that adjusted EBITDA provides relevant and useful information, which is often used by analysts, creditors and other interested parties in our industry. In calculating adjusted EBITDA, we exclude our largest recurring non-cash charge, depreciation and amortization, as well as impairment charges, which are also non-cash. 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 U.S. jurisdictions. Tax regulations in international operations add additional complexity. We also exclude interest cost in our calculation of adjusted EBITDA. The results are, therefore, without consideration of financing alternatives of capital employed. Adjusted EBITDA is part of a debt compliance test in certain of our debt agreements and is the target benchmark for our annual and long-term cash incentive performance plans for management. Adjusted EBITDA may be inconsistent with similar measures presented by other companies.

Reconciliations of earnings from continuing operations to adjusted EBITDA are provided below:

(in thousands)	Three Months		Nine Months Ended	
	Ended May 31,		May 31,	
	2016	2015	2016	2015
Earnings from continuing operations	\$35,111	\$39,156	\$71,593	\$86,886
Interest expense	14,737	20,519	49,666	58,828
Income taxes	10,676	22,126	24,512	40,100
Depreciation and amortization	31,883	32,840	95,424	99,553
Impairment charges	76	39	76	188

Adjusted EBITDA \$92,483 \$114,680 \$241,271 \$285,555

As noted above, our adjusted EBITDA does not include net earnings attributable to noncontrolling interests, 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. Additionally, the payment of income taxes is a necessary element of our operations. Because we use capital assets, depreciation and amortization are also necessary elements of our costs. Impairment charges, when necessary, accelerate the write-off of fixed assets that otherwise would have been accomplished by periodic depreciation charges. Therefore, any measures that exclude these elements have material

32

---

limitations. To compensate for these limitations, we believe that it is appropriate to consider both net earnings determined in accordance with GAAP, as well as adjusted EBITDA, to evaluate our performance. Further, we separately analyze any significant fluctuations in interest expense, income taxes, depreciation, amortization and impairment charges.

### Adjusted Earnings per Share

Adjusted earnings per share is a non-GAAP financial measure. Management believes excluding the costs associated with the senior note tender offers closed on February 17, 2016 provides investors with a clearer perspective of the current underlying operating performance. Adjusted earnings per share may be inconsistent with similar measures presented by other companies.

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2016	2015	2016	2015
Diluted net earnings per share attributable to CMC	\$0.17	\$0.25	\$0.47	\$0.57
Impact of cost of debt extinguishment	—	—	0.10	—
Income tax effect	—	—	(0.04 )	—
Adjusted earnings per share	\$0.17	\$0.25	\$0.53	\$0.57

### Summary

Net sales for the three and nine months ended May 31, 2016 decreased \$278.6 million, or 19%, and \$1.2 billion, or 26%, respectively, compared to the corresponding periods in fiscal 2015. In general, the strong U.S. dollar, continued import pressure in the U.S. and global steel production overcapacity during the three and nine months ended May 31, 2016 adversely impacted our net sales compared to the three and nine months ended May 31, 2015. The decrease in net sales for the three and nine months ended May 31, 2016 was primarily attributed to decreases in the average selling prices throughout all of our segments coupled with decreases in nonferrous volumes for our Americas Recycling segment and volumes for our International Marketing and Distribution segment, in each case compared to the corresponding period in fiscal 2015. Volumes and average selling prices for our International Marketing and Distribution segment declined during the three and nine months ended May 31, 2016 primarily due to the continued weakening of global energy markets as compared to the corresponding periods in fiscal 2015. Additionally, net sales during the three and nine months ended May 31, 2015 included a \$45.5 million benefit as a result of a termination of a contract with a customer for our International Marketing and Distribution segment. Net sales for the three and nine months ended May 31, 2016 reflect unfavorable foreign currency translation impacts of approximately \$7.6 million and \$53.7 million, respectively.

Earnings from continuing operations for the three and nine months ended May 31, 2016 decreased \$4.0 million and \$15.3 million, respectively, compared to the corresponding periods in fiscal 2015. Adjusted operating profit for the three and nine months ended May 31, 2016 decreased \$21.2 million and \$40.1 million, respectively, compared to the corresponding periods in fiscal 2015. The decrease in adjusted operating profit for the three and nine months ended May 31, 2016 was primarily driven by our International Marketing and Distribution and Americas Mills segments. Adjusted operating profit for our International Marketing and Distribution segment included a \$28.9 million net benefit as a result of a termination of a contract with a customer, partially offset by inventory write-downs, during the three and nine months ended May 31, 2015. Our International Marketing and Distribution segment was also impacted by a decrease in volumes and margins within its raw materials and steel trading divisions headquartered in the U.S. during the three and nine months ended May 31, 2016 and a decrease in margins for its operations in Europe during the nine months ended May 31, 2016, in each case, compared to the corresponding periods in fiscal 2015. Our



Americas Mills segment was adversely impacted by a 22% and 9% decrease in average metal margin during the three and nine months ended May 31, 2016, respectively, in each case compared to the corresponding period in fiscal 2015. In contrast, our Americas Fabrication segment benefited from a 4% and 15% increase in average composite metal margins during the three and nine months ended May 31, 2016, in each case, compared to the corresponding period in fiscal 2015. Cost of goods sold for the three and nine months ended May 31, 2016 reflect favorable foreign currency translation impacts of approximately \$8.8 million and \$52.5 million, respectively.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses from continuing operations for the three and nine months ended May 31, 2016 increased \$4.5 million and decreased \$22.7 million, respectively, compared to the corresponding periods in fiscal 2015. The increase in selling, general and administrative expenses during the three months ended May 31, 2016 was primarily due to a \$3.6 million increase in non-qualified benefit restoration plan expenses compared to the three months ended May 31, 2015. The decrease in selling, general and administrative expenses during the nine months ended May 31, 2016 was primarily due to an \$11.7 million

decrease in employee-related expenses and a \$9.1 million net positive impact from foreign currency transactions and foreign exchange derivative activities compared to the nine months ended May 31, 2015.

#### Interest Expense

Interest expense for the three and nine months ended May 31, 2016 decreased \$5.8 million and \$9.2 million, respectively, compared to the three and nine months ended May 31, 2015. The decrease in interest expense was primarily due to the repayment of long-term notes in the second quarter of fiscal 2016 which lowered interest expense by \$3.7 million and \$4.0 million for the three and nine months ended May 31, 2016, respectively, compared to the corresponding periods in the prior fiscal year. Additionally, the decrease in usage of documentary letters of credit for our International Marketing and Distribution segment lowered interest expense by \$1.3 million and \$3.3 million for the three and nine months ended May 31, 2016, respectively, compared to the corresponding periods in the prior fiscal year. See Note 7, Credit Arrangements, to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information regarding the repayment of long-term notes.

#### Income Taxes

Our effective income tax rate from continuing operations for the three and nine months ended May 31, 2016 was 23.3% and 25.5%, respectively, compared with 36.1% and 31.6%, respectively, for the three and nine months ended May 31, 2015. The decrease in our effective income tax rate from continuing operations for the three and nine months ended May 31, 2016 was largely attributed to favorable adjustments related to our current IRS audit. Our effective income tax rates can also be impacted by state and local taxes as well as by earnings or losses from foreign jurisdictions. State and local taxes are generally consistent while the composition of domestic and foreign earnings can create larger fluctuations in our effective tax rate.

We intend to indefinitely reinvest all undistributed earnings of our non-U.S. subsidiaries. While not expected, if a repatriation occurs in the future, we would be required to provide for income taxes on repatriated earnings from our non-U.S. subsidiaries. Determination of the unrecognized deferred income tax liability related to the undistributed earnings of our non-U.S. subsidiaries is a complex, hypothetical calculation and is therefore impracticable.

#### 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 the purpose of making operating decisions. See Note 15, Business Segments, to the unaudited condensed consolidated financial statements included in this report.

#### Americas Recycling

	Three Months Ended		Nine Months Ended	
	May 31,		May 31,	
(in thousands)	2016	2015	2016	2015
Net sales	\$182,477	\$225,096	\$510,030	\$800,234
Adjusted operating loss	(1,978 )	(3,651 )	(16,171 )	(15,260 )
Average selling price (per short ton)				
Average ferrous selling price	\$210	\$218	\$182	\$264
Average nonferrous selling price	1,708	2,211	1,710	2,373
Short tons shipped (in thousands)				
Ferrous tons shipped	423	416	1,191	1,361
Nonferrous tons shipped	49	55	149	170
Total tons shipped	472	471	1,340	1,531



Net sales for the three and nine months ended May 31, 2016 decreased \$42.6 million, or 19%, and \$290.2 million, or 36%, respectively, compared to the corresponding periods in fiscal 2015. The decrease in net sales for the three months ended May 31, 2016 was due to a decrease in average nonferrous selling prices of \$503 per short ton, coupled with a decrease in nonferrous tons shipped of 11%. For the nine months ended May 31, 2016, the decrease in net sales was due to decreases in average ferrous and nonferrous selling prices of \$82 and \$663 per short ton, respectively, coupled with decreases in ferrous and nonferrous tons shipped of 12% each. Global steel production overcapacity, specifically in China, continued to weigh on global steel pricing. Additionally, a strong U.S. dollar, historically low iron ore pricing, and weak oil prices continued to negatively affect the market.

Adjusted operating loss decreased \$1.7 million for the three months ended May 31, 2016 and increased \$0.9 million for the nine months ended May 31, 2016, in each case compared to the corresponding periods in fiscal 2015. During the third quarter of fiscal 2016, the decreases in selling prices and volumes discussed above for nonferrous products were outweighed by a decrease in nonferrous material cost, which increased nonferrous metal margins by 12%, thereby lowering the adjusted operating loss compared to the third quarter of fiscal 2015. Additionally, freight expenses decreased 16% per short ton compared to the third quarter of fiscal 2015 due to reduced fuel costs. The increase in adjusted operating loss for the nine months ended May 31, 2016 was a result of the decreases in both average ferrous and nonferrous selling prices discussed above, which outweighed decreases in both average ferrous and nonferrous material cost and compressed segment average metal margins by 1%, compared to the corresponding period in fiscal 2015.

#### Americas Mills

	Three Months Ended May 31,		Nine Months Ended May 31,	
(in thousands)	2016	2015	2016	2015
Net sales	\$396,481	\$446,821	\$1,117,442	\$1,400,517
Adjusted operating profit	54,976	63,320	164,739	195,438
Average price (per short ton)				
Finished goods selling price	\$510	\$621	\$532	\$664
Total sales	501	612	522	653
Cost of ferrous scrap consumed	213	244	197	294
Metal margin	288	368	325	359
Ferrous scrap purchase price	194	204	170	249
Short tons (in thousands)				
Tons melted	628	655	1,845	1,952
Tons rolled	627	626	1,758	1,805
Tons shipped	724	673	1,972	2,002

We include our five domestic steel minimills and the recycling locations which directly support the steel minimills in our Americas Mills segment.

Net sales for the three and nine months ended May 31, 2016 decreased \$50.3 million, or 11%, and \$283.1 million, or 20%, respectively, compared to the corresponding periods in fiscal 2015. The decrease in net sales for the three months ended May 31, 2016 was due to a decrease in average selling price of \$111 per short ton that outweighed an 8% increase in tons shipped when compared to the corresponding period in fiscal 2015. The decrease in net sales for the nine months ended May 31, 2016 was primarily due to a decrease in average selling price of \$131 per short ton while volumes remained consistent when compared to the corresponding period in fiscal 2015. Average selling prices decreased as a result of continued import pressures in the U.S. compared to the three and nine months ended May 31, 2015. During the three and nine months ended May 31, 2016, shipments of our finished products increased approximately 42 thousand short tons and 4 thousand short tons, respectively, due to increased non-residential construction demand. However, during the first nine months of fiscal 2016, shipments of our semi-finished products

decreased approximately 33 thousand short tons due to slowing demand from the oil and gas industry.

Adjusted operating profit for the three and nine months ended May 31, 2016 decreased \$8.3 million and \$30.7 million, respectively, compared to the corresponding periods in fiscal 2015. During the three and nine months ended May 31, 2016, the decreases in average selling prices discussed above more than offset a \$31 per short ton and \$97 per short ton decrease, respectively, in the average cost of ferrous scrap consumed and decreased average metal margins by 22% and 9%, respectively, compared to the three and nine months ended May 31, 2015. Partially offsetting the compression of margins were utilities expenses, which decreased

35

---

12% per short ton for each of the three and nine months ended May 31, 2016, due to lower utility rates and reduced consumption, and freight expenses, which decreased 2% and 5% per short ton, respectively, from the comparable periods in the prior fiscal year due to reduced fuel costs. Furthermore, repairs and maintenance expense decreased \$3.4 million and \$9.1 million for the three and nine months ended May 31, 2016, respectively, compared to the corresponding periods in fiscal 2015 due to variances in the timing and amounts of routine maintenance and equipment enhancements conducted in the normal course of business.

## Americas Fabrication

(in thousands)	Three Months Ended May 31,		Nine Months Ended May 31,	
	2016	2015	2016	2015
Net sales	\$385,080	\$417,895	\$1,103,538	\$1,174,793
Adjusted operating profit	22,794	13,720	58,964	3,770
Average selling price (excluding stock and buyout sales) (per short ton)				
Rebar			\$789	\$923
Structural			\$819	\$921
Post			2,136	2,413
			2,244	2,496
Short tons shipped (in thousands)				
Rebar	270	260	744	732
Structural	10	8	24	29
Post	30	26	73	74

Net sales for the three and nine months ended May 31, 2016 decreased \$32.8 million, or 8%, and \$71.3 million, or 6%, respectively, compared to the corresponding periods in fiscal 2015. The decrease in net sales for the three and nine months ended May 31, 2016 was primarily due to decreases in the average composite selling price of 13% and 10%, respectively, as a result of falling steel commodity prices over the preceding twelve months. The decrease in net sales was partially offset by a 5% and 1% increase in shipments for the three and nine months ended May 31, 2016, respectively, due to increases in non-residential construction spending over the corresponding periods in fiscal 2015.

Adjusted operating profit for the three and nine months ended May 31, 2016 increased \$9.1 million and \$55.2 million, respectively, compared to the corresponding periods in fiscal 2015. The increase in adjusted operating profit for the third quarter of fiscal 2016 was primarily due to a 5% increase in total shipments and a 4% improvement in average composite metal margin as the average composite material cost decreased faster than the average composite selling price, in each case as compared to the corresponding period in fiscal 2015. For the nine months ended May 31, 2016, the increase in adjusted operating profit was mostly due to a 15% improvement in average composite metal margin as the average composite material cost declined 18%, while the average composite selling price declined 10%, in all cases as compared to the corresponding period in fiscal 2015. Additionally, for the three and nine months ended May 31, 2016, labor and employee benefit expenses decreased 9% and 2% per short ton, respectively, as a result of cost controls coupled with higher shipments.

## International Mill

(in thousands)	Three Months Ended May 31,		Nine Months Ended May 31,	
	2016	2015	2016	2015
Net sales	\$141,438	\$156,318	\$369,344	\$472,396
Adjusted operating profit	5,467	6,146	10,189	11,188
Average price (per short ton)				
Total sales	\$378	\$455	\$382	\$493
Cost of ferrous scrap consumed	187	258	190	283
Metal margin	191	197	192	210
Ferrous scrap purchase price	164	219	159	237
Short tons (in thousands)				
Tons melted	289	348	970	969
Tons rolled	296	301	895	849
Tons shipped	353	323	913	898

Net sales for the three and nine months ended May 31, 2016 decreased \$14.9 million, or 10%, and \$103.1 million, or 22%, respectively, compared to the corresponding periods in fiscal 2015. The decrease in net sales for the three and nine months ended May 31, 2016 reflected decreases in selling prices of 17% and 23%, respectively, due to global steel production overcapacity, which continued to depress global steel prices. This was partially mitigated by increases in shipments of 9% and 2% for the three and nine months ended May 31, 2016, respectively, compared to the corresponding periods in fiscal 2015. For the three and nine months ended May 31, 2016, this segment's net sales reflected unfavorable foreign currency translation impacts of \$4.6 million and \$34.9 million, respectively.

Adjusted operating profit for the three and nine months ended May 31, 2016 decreased \$0.7 million and \$1.0 million, respectively, compared to the corresponding periods in fiscal 2015. The decrease in adjusted operating profit for the third quarter of fiscal 2016 was the result of a \$6 per short ton decrease in average metal margin and a 13% increase in freight expense per short ton, partially offset by higher shipping volumes. The decrease in adjusted operating profit for the nine months ended May 31, 2016 was the result of an \$18 per short ton decline in average metal margin, partially offset by reductions in utilities and repairs and maintenance expense of \$9.4 million and \$1.7 million, respectively. For the three and nine months ended May 31, 2016, this segment's cost of goods sold reflected favorable foreign currency translation impacts of approximately \$4.2 million and \$32.9 million, respectively.

## International Marketing and Distribution

(in thousands)	Three Months Ended May 31,		Nine Months Ended May 31,	
	2016	2015	2016	2015
Net sales	\$319,604	\$518,244	\$879,517	\$1,521,288
Adjusted operating profit (loss)	892	25,615	(3,570)	49,669

Net sales for the three and nine months ended May 31, 2016 decreased \$198.6 million, or 38%, and \$641.8 million, or 42%, respectively, compared to the corresponding periods in fiscal 2015. The decrease in net sales for the three and nine months ended May 31, 2016 was primarily due to a decrease in volumes for our raw materials and steel trading divisions headquartered in the U.S. and our operations in Europe coupled with a decline in average selling prices throughout our operations within this segment, in each case, compared to the corresponding period in fiscal 2015 due to the continued economic slowdown in China and weakness in global energy markets weighing on global steel and commodity pricing. In addition, this segment recorded a \$45.5 million benefit as a result of a termination of a contract with a customer during the three and nine months ended May 31, 2015. Net sales for the three and nine months ended May 31, 2016 included unfavorable foreign currency translation impacts of approximately \$3.0 million and \$18.8 million, respectively.

Adjusted operating profit for the three months ended May 31, 2016 decreased \$24.7 million compared to the corresponding period in fiscal 2015 and adjusted operating profit for the nine months ended May 31, 2015 decreased \$53.2 million, resulting in adjusted operating loss of \$3.6 million for the nine months ended May 31, 2016 primarily due to a \$28.9 million net benefit as a result of the termination of a contract discussed above, partially offset by inventory write-downs, in the third quarter of fiscal 2015. During

37

---



the three and nine months ended May 31, 2016, volumes and average margins for our raw materials and steel trading divisions headquartered in the U.S. decreased compared to the corresponding period in fiscal 2015, which contributed to the decrease in adjusted operating profit. The decrease in adjusted operating profit for the nine months ended May 31, 2016 was also impacted by a decline in margins for our operations in Europe compared to the nine months ended May 31, 2015. Additionally, the decline in average margins for our operations in Australia and Asia outweighed increases in volumes for these operations. The decrease in adjusted operating profit during the three months ended May 31, 2016 was partially offset by a 39% per short ton decrease in employee-related expenses compared to the three months ended May 31, 2015. The decrease in adjusted operating profit for the nine months ended May 31, 2016 was partially offset by a \$7.8 million net positive impact from foreign currency transactions and foreign exchange derivative activities coupled with a 21% per short ton decrease in employee-related expenses, in each case, compared to the nine months ended May 31, 2015. For the three and nine months ended May 31, 2016, this segment's cost of goods sold included favorable currency translation impacts of approximately \$4.6 million and \$19.6 million, respectively.

#### Corporate

Our corporate expenses for the three and nine months ended May 31, 2016 increased \$3.0 million and \$13.9 million, respectively, compared to the corresponding periods in fiscal 2015. The increase in corporate expenses for three months ended May 31, 2016 was primarily due to an increase in employee-related expenses. The increase in corporate expenses for the nine months ended May 31, 2016 was primarily due to an increase in employee-related expenses and the loss on debt extinguishment of \$11.5 million in the second quarter of fiscal 2016. See Note 7, Credit Arrangements, to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for further information.

#### DISCONTINUED OPERATIONS DATA

In the first quarter of fiscal 2015, we made the decision to exit our steel distribution business in Australia. Despite focused efforts and substantial progress to stabilize and improve the results of the Australian steel distribution business, we determined that achieving acceptable financial returns would take additional time and investment. In the first quarter of fiscal 2015, we determined that the decision to exit this business met the definition of a discontinued operation. As a result, this business has been presented as a discontinued operation for all periods. During the third quarter of fiscal 2016, we recorded an impairment charge of \$15.8 million, including the impact of an approximate \$13.5 million accumulated foreign currency translation loss, on our remaining component of the Australian steel distribution business that was classified as held for sale at May 31, 2016 and as discontinued operations during the three and nine months ended May 31, 2016. See Note 10, Fair Value, for further discussion of this impairment charge. Other expenses associated with exiting this business were not material for the three and nine months ended May 31, 2016 or May 31, 2015. The Australian steel distribution business was previously an operating segment in the International Marketing and Distribution reporting segment.

#### OUTLOOK

We expect the results of our fiscal fourth quarter to remain strong, consistent with the results of our fiscal third quarter. Our key market indicators continue to point toward strong demand in the U.S. construction markets. Non-residential construction spending, which is our primary end use market in the U.S., was up 5% year over year in April 2016 per the U.S. Census Bureau. The Architecture Billings Index (ABI) remained above 50 for 24 of the 27 months ended May 2016, which has historically been a leading indicator of improved non-residential construction. We expect to begin realizing productivity and cost improvements in the fourth quarter of fiscal 2016 from key capital projects. Our balance sheet remains a key strength of our Company, and we expect to finish fiscal 2016 well positioned to continue the positive momentum into fiscal 2017.

#### LIQUIDITY AND CAPITAL RESOURCES

See Note 7, Credit Arrangements, to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information.

While we believe the lending institutions participating in our credit arrangements are financially capable, it is important to note that the banking and capital markets periodically experience volatility that may limit our ability to raise capital. Additionally, changes to our credit rating by any rating agency may negatively impact our ability to raise capital and our financing costs.

The table below reflects our sources, facilities and availability of liquidity as of May 31, 2016:

(in thousands)	Total Facility	Availability
Cash and cash equivalents	\$483,855	N/A
Revolving credit facility	350,000	\$ 348,337
U.S. receivables sale facility	200,000	136,811
International accounts receivable sales facilities	79,712	47,990
Bank credit facilities — uncommitted	44,429	42,544
Notes due from 2017 to 2023	1,029,818	*
Equipment notes	35,248	*

\* We believe we have access to additional financing and refinancing, if needed.

In February 2016, we accepted for purchase approximately \$100.0 million and \$100.2 million of the outstanding principal amount of our 2017 Notes (as defined below) and 2018 Notes (as defined below), respectively, through a cash tender offer. As of May 31, 2016, we have \$300.0 million of 6.50% Senior Notes due July 2017 (the "2017 Notes"), \$399.8 million of 7.35% Senior Notes due August 2018 (the "2018 Notes") and \$330.0 million of 4.875% Senior Notes due May 2023 (the "2023 Notes" and together with the 2017 Notes and the 2018 Notes, the "Notes"). The Notes require interest only payments until maturity. 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 obtain additional financing or to refinance these notes when they mature.

At May 31, 2016 and August 31, 2015, CMC Poland Sp. z.o.o. ("CMCP") had uncommitted credit facilities with several banks of PLN 175 million (\$44.4 million) and PLN 215 million (\$56.9 million), respectively. The uncommitted credit facilities as of May 31, 2016 have expiration dates ranging from November 2016 to March 2017, which we intend to renew upon expiration. At May 31, 2016 and August 31, 2015, no material amounts were outstanding under these facilities. During the nine months ended May 31, 2016, CMCP had no borrowings and no repayments under its uncommitted credit facilities. During the nine months ended May 31, 2015, CMCP had total borrowings of \$49.6 million and total repayments of \$49.6 under its uncommitted credit facilities.

The maximum availability under our \$350.0 million revolving credit facility (the "credit facility") can be increased to \$500.0 million. Our obligation under the credit facility is collateralized by our U.S. inventory. The credit facility's capacity includes \$50.0 million for the issuance of stand-by letters of credit and was reduced by outstanding stand-by letters of credit that totaled \$1.7 million at May 31, 2016.

Under the credit facility, we are required to comply with certain financial and non-financial covenants, including covenants to maintain: (i) an interest coverage ratio (consolidated EBITDA to consolidated interest expense, as each is defined in the credit agreement governing our credit facility) of not less than 2.50 to 1.00 and (ii) a debt to capitalization ratio (consolidated funded debt to total capitalization, as each is defined in the credit agreement governing our credit facility) that does not exceed 0.60 to 1.00. In addition, beginning on the date three months prior to each maturity date of the 2017 Notes and the 2018 Notes and each day thereafter that the 2017 Notes and the 2018 Notes are outstanding, we will be required to maintain liquidity of at least \$150.0 million in excess of each of the outstanding aggregate principal amounts of the 2017 Notes and 2018 Notes. Loans under the credit facility bear interest based on the Eurocurrency rate, a base rate, or the LIBOR rate. At May 31, 2016, our interest coverage ratio was 4.70 to 1.00 and our debt to capitalization ratio was 0.44 to 1.00.

Our foreign operations generated approximately 24% of our net sales during the third quarter of fiscal 2016, and as a result, our foreign operations had cash and cash equivalents of approximately \$156.2 million at May 31, 2016. Historically, our domestic operations have generated the majority of our cash, which has been used to fund the cash needs of our domestic operations as well as our foreign operations. Additionally, our U.S. operations have access to

the \$350.0 million credit facility described above and the \$200.0 million sale of accounts receivable program described below. We intend to indefinitely reinvest all undistributed earnings of our non-U.S. subsidiaries. While not expected, if a repatriation occurs in the future, we would be required to provide for income taxes on repatriated earnings from our non-U.S. subsidiaries. Determination of the unrecognized deferred income tax liability related to the undistributed earnings of our non-U.S. subsidiaries is not practicable because of the complexities with its hypothetical calculation.

We regularly maintain a substantial amount of accounts receivable. We actively monitor our accounts receivable and, based on market conditions and customers' financial condition, we record allowances as soon as we believe accounts are uncollectible. Continued pressure on the liquidity of our customers could result in additional allowances 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 that

39

---

the amount of credit insured receivables (and those covered by export letters of credit) was approximately 32% of total receivables at May 31, 2016.

For added flexibility, we may sell certain accounts receivable both in the U.S. and internationally. See Note 3, Sales of Accounts Receivable, to the unaudited condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q. Our U.S. sale of accounts receivable program contains certain cross-default provisions whereby a termination event could occur if we default under certain of our credit arrangements. Additionally, our sales of accounts receivable program contains covenants that are consistent with the covenants contained in the credit facility.

We utilize documentary letter of credit programs whereby we assign certain trade accounts payable associated with trading transactions entered into by our marketing and distribution divisions. These letters of credit allow for payment at a future date and are used as an additional source of working capital financing. These letters of credit are issued under uncommitted lines of credit, which are in addition to and separate from our contractually committed credit facility and are not included in our overall liquidity analysis. We had \$1.3 million and \$41.5 million of documentary letters of credit outstanding at May 31, 2016 and August 31, 2015, respectively. The decrease in use of documentary letters of credit during the nine months ended May 31, 2016, resulted in an increase of \$40.1 million in cash used by financing activities. The amount of documentary letters of credit outstanding during the period can fluctuate as a result of the level of activity and volume of materials purchased during the period as well as a result of their length and timing to maturity.

During the first quarter of fiscal 2015, CMC's Board of Directors authorized a new share repurchase program under which we may repurchase up to \$100.0 million of shares of CMC common stock. This new program replaced the existing program, which was terminated by CMC's Board of Directors in connection with the approval of the new program. We intend to repurchase shares from time to time for cash in open market transactions or in privately-negotiated transactions in accordance with applicable federal securities laws. The timing and the amount of repurchases, if any, are determined by management based on an evaluation of market conditions, capital allocation alternatives and other factors. The new share repurchase program does not require us to purchase any dollar amount or number of shares of CMC common stock and may be modified, suspended, extended or terminated at any time without prior notice. During the three months ended May 31, 2016, we purchased no shares of CMC common stock. During the nine months ended May 31, 2016, we purchased 2,255,069 shares of CMC common stock at an average purchase price of \$13.57 per share.

## Cash Flows

### Operating Activities

Our cash flows from operating activities result primarily from the sale of steel and related products, and to a lesser extent, sales of nonferrous metal products and other raw materials used in steel manufacturing. We have a diverse and generally stable customer base. From time to time, we use futures or forward contracts to mitigate the risks from fluctuations in metal commodity prices, foreign currency exchange rates, natural gas prices and interest rates. See Note 9, Derivatives and Risk Management, to the unaudited condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q.

Net cash flows from operating activities were \$506.9 million during the first nine months of fiscal 2016 compared to \$58.8 million during the first nine months of fiscal 2015. Net earnings decreased \$12.2 million during the first nine months of fiscal 2016 compared to the same period in the prior fiscal year. Net earnings in the first nine months of fiscal 2016 were impacted by non-cash items including an \$11.5 million loss on debt extinguishment, a \$9.7 million increase in deferred income taxes and a \$9.6 million write-down of inventories compared to no debt extinguishment, a \$19.6 million decrease in deferred income taxes, and a \$21.5 million write-down of inventories, respectively, during the first nine months of fiscal 2015. Furthermore, net earnings were negatively impacted by a \$15.8 million asset impairment during the first nine months of fiscal 2016 compared to a \$3.4 million asset impairment during the first

nine months of fiscal 2015.

Cash from operating assets and liabilities was \$294.4 million during the first nine months of fiscal 2016 compared to cash used by operating assets and liabilities of \$126.7 million in the same period in the prior fiscal year. The significant components of change within operating assets and liabilities were as follows:

Accounts receivable - Cash generated from accounts receivable increased \$55.8 million during the first nine months of fiscal 2016 compared to the same period of fiscal 2015. The increase in cash from accounts receivable primarily relates to improved collections by the Company as days sales outstanding during the first nine months of fiscal 2016 improved three days while days sales outstanding during the first nine months of fiscal 2015 deteriorated nine days. However, the improved collections were partially offset by the change in consolidated net sales period over period as consolidated net sales from the fourth quarter of fiscal 2015 to the third quarter of fiscal 2016 decreased \$201.2 million, and consolidated net sales from the fourth quarter of fiscal 2014 to the third quarter of fiscal 2015 decreased \$353.9 million.

40

---

Advance payments on sale of accounts receivable programs, net - Cash generated from advance payments on sale of accounts receivable programs, net during the first nine months of fiscal 2016 was \$1.5 million from our international sale of accounts receivable programs. This compared to cash used by advance payments on sale of accounts receivable programs, net of \$40.0 million on our U.S. sale of accounts receivable program and \$58.0 million on our international sale of accounts receivable programs during the first nine months of fiscal 2015.

Inventories - Cash generated from inventories increased \$202.8 million during the first nine months of fiscal 2016 compared to the first nine months of fiscal 2015. Cash generated from inventories increased as a result of a greater decline in consolidated inventories compared to the first nine months of fiscal 2015, primarily in our Americas Mills, Americas Fabrication, and International Marketing and Distribution segments. These declines were primarily a result of lower commodity pricing due to increased import pressure in the U.S and global steel production overcapacity. Furthermore, days sales in inventories during the first nine months of fiscal 2016 improved six days while days sales in inventories during the first nine months of fiscal 2015 deteriorated eight days.

Accounts payable, accrued expenses and other payables - Cash used by accounts payable, accrued expenses and other payables decreased \$63.4 million during the first nine months of fiscal 2016 compared to the first nine months of fiscal 2015. The decrease was primarily due to the fluctuation in commodity prices period over period as the prices paid per ton of metal fell at a greater rate during the first nine months of fiscal 2015 when compared to the first nine months of fiscal 2016.

#### Investing Activities

Net cash flows used by investing activities increased \$86.6 million during the first nine months of fiscal 2016 compared to the same period in the prior fiscal year. The largest factor contributing to the use of cash was an increase in restricted cash of \$49.1 million to be used for the construction of a new steel micro-mill in Durant, Oklahoma. Additionally, during the first nine months of fiscal 2016 there was a \$28.5 million increase in capital expenditures compared to the first nine months of fiscal 2015, primarily related to key capital projects within our Americas Mills segment.

We expect our total capital expenditures for fiscal 2016 to be between \$185 million and \$195 million. We regularly assess our capital spending and reevaluate our requirements based on current and expected results.

#### Financing Activities

Net cash flows used by financing activities increased \$312.2 million during the first nine months of fiscal 2016 compared to the same period in the prior fiscal year. The increase primarily resulted from increases in repayments of long-term debt and debt extinguishment costs of \$200.6 million and \$11.1 million, respectively. Additionally, the change in the level of usage of documentary letters of credit accounted for \$91.9 million of the increase. The amount of documentary letters of credit outstanding during the period can fluctuate as a result of the level of activity and volume of materials purchased during the period as well as a result of their length and timing to maturity. Also contributing to the increase was an increase in repayments of short-term borrowings of \$12.6 million and an increase in stock issued under incentive and purchase plans of \$4.6 million compared to the same period of the prior fiscal year. The increase was partially offset by an \$11.2 million decrease in purchases of CMC common stock compared to the same period in the prior fiscal year.

We anticipate our current cash balances, cash flows from operations and our available credit sources will be sufficient to meet our cash needs, make scheduled payments for our contractual obligations, capital expenditures, working capital, share repurchases, dividends and other prudent deployment of our capital. However, in the event of sustained market deterioration, we may need additional liquidity, which would require us to evaluate available alternative and take appropriate steps to obtain sufficient additional funds.

## CONTRACTUAL OBLIGATIONS

Our contractual obligations decreased approximately \$400 million to \$2.3 billion at May 31, 2016 from \$2.7 billion at August 31, 2015. This decrease was primarily related to a reduction in long-term debt and related interest as well as a reduction in unconditional purchase obligations. See Note 7, Credit Arrangements, to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for further information. Our estimated contractual obligations for the twelve months ending May 31, 2017 are approximately \$775 million and primarily constitute expenditures incurred in connection with normal revenue producing activities as well as interest due on our debt. We believe our current liquidity is adequate to fund our ongoing operations and planned 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 May 31, 2016, we had committed \$23.7 million under these arrangements.

## OFF-BALANCE SHEET ARRANGEMENTS

For added flexibility, we may sell certain accounts receivable both in the U.S. and internationally. We utilize proceeds from the sales of the accounts receivables as an alternative to short-term borrowings, effectively managing our overall borrowing costs and providing an additional source of working capital. We account for sales of the accounts receivables as true sales and the accounts receivable balances that are sold are removed from the condensed consolidated balance sheets. The cash advances received are reflected as cash provided by operating activities on our condensed consolidated statements of cash flows.

## CONTINGENCIES

See Note 14, Commitments and Contingencies, to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q report.

In the ordinary course of conducting our business, we become involved in litigation, administrative proceedings and governmental investigations, including with respect to environmental matters. We may incur settlements, fines, penalties or judgments in connection with these matters. Liabilities and costs associated with litigation-related loss contingencies require estimates and judgments based on our knowledge of the facts and circumstances surrounding each matter and the advice of our legal counsel. We record liabilities for litigation-related losses when a loss is probable and we can reasonably estimate the amount of the loss. We evaluate the measurement of recorded liabilities each reporting period based on the current facts and circumstances specific to each matter. The ultimate losses incurred upon final resolution of litigation-related loss contingencies may differ materially from the estimated liability recorded at a particular balance sheet date. Changes in estimates are recorded in earnings in the period in which such changes occur. We do not believe that any currently pending legal proceedings to which we are a party will have a material adverse effect, individually or in the aggregate, on our results of operations, cash flows or financial condition.

## FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the federal securities laws, with respect to U.S. construction activity, demand for our products, share repurchases, legal proceedings, economic conditions, including with respect to prices, and our financial condition, results of operations, capital projects, cash flows, liquidity and business, and our expectations or beliefs concerning future events and financial results. 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," "likely," "appears," "projects," "forecasts," "outlook" or other similar words or phrases. There are inherent risks and uncertainties in any forward-looking statements. We caution readers not to place undue reliance on any forward-looking statements.

Our forward-looking statements are based on management's expectations and beliefs as of the time this Quarterly Report on Form 10-Q is filed with the SEC or, with respect to any document incorporated by reference, as of the time such document was prepared. Although we believe that our expectations are reasonable, we can give no assurance that these expectations will prove to have been correct, and actual results may vary materially. Except as required by law, we undertake no obligation to update, amend or clarify any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, new information or circumstances or otherwise. Some of the important factors that could cause actual results to differ materially from our expectations include the following:

-

the completion, if at all, or timing of potential transactions, including the sale of our remaining steel distribution assets located in Australia;

the impact, if any, on our other businesses of the non-cash impairment charge in our results from discontinued operations;

any potential gain or loss resulting from the closure of the sale of our remaining steel distribution assets located in Australia;

non-cash impairment charges in our results from continuing operations;

global economic conditions, including the ongoing recovery from the last recession and construction activity or lack thereof, and their impact in a highly cyclical industry;

rapid and significant changes in the price of metals;

excess capacity in our industry, particularly in China, and product availability from competing steel minimills and other steel suppliers including import quantities and pricing;

currency fluctuations;

- compliance with and changes in environmental laws and regulations, including increased regulation associated with climate change and greenhouse gas emissions;

potential limitations in our or our customers' ability to access credit and non-compliance by our customers with our contracts;

financial covenants and restrictions on the operation of our business contained in agreements governing our debt;

global factors including political uncertainties and military conflicts;

availability of electricity and natural gas for minimill operations;

information technology interruptions and breaches in security data;

ability to retain key executives;

ability to make necessary capital expenditures;

availability and pricing of raw materials over which we exert little influence, including scrap metal, energy, insurance and supply prices;

unexpected equipment failures;

competition from other materials or from competitors that have a lower cost structure or access to greater financial resources;

losses or limited potential gains due to hedging transactions;

litigation claims and settlements, court decisions, regulatory rulings and legal compliance risks;

risk of injury or death to employees, customers or other visitors to our operations;

increased costs related to health care reform legislation; and

those factors listed under Part I, Item 1A, Risk Factors, included in our Annual Report filed on Form 10-K for the fiscal year ended August 31, 2015.

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

Compared to 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 fiscal year ended August 31, 2015, the U.S. dollar

equivalent of the Company's total gross foreign currency exchange contract commitments decreased \$100.7 million, or 26%, of which 55% was related to forward contracts denominated in the U.S. dollar and hedged in entities with a British pound functional currency. In addition, forward contracts hedged in entities with a U.S. dollar functional currency and denominated in the British pound and euro made up 93% and 14% of the decrease, respectively, offset by 46% increase of forward contracts hedged in entities with a Polish zloty functional currency and denominated in euro. There have been no other material changes.

43

---

#### 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 other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within required time periods, and includes controls and procedures designed to ensure that such information is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, 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 on Form 10-Q, and they have concluded that as of that date, our disclosure controls and procedures were effective. There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during our fiscal quarter ended May 31, 2016 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

The Company is a defendant in lawsuits associated with the normal conduct of its businesses and operations. It is not possible to predict the outcome of the pending actions, and, as with any litigation, it is possible that these actions could be decided unfavorably to the Company. We believe that there are meritorious defenses to these actions and that these actions will not have a material adverse effect upon our results of operations, cash flows or financial condition, and, where appropriate, these actions are being vigorously contested.

We are subject to laws and regulations relating to protection of the environment. It is not possible to quantify with certainty the potential impact of actions relating to environmental matters, particularly remediation and other compliance efforts that our subsidiaries may undertake in the future. We believe, however, compliance with current environmental protection laws (before taking into account estimated recoveries from third parties) will not have a material adverse effect upon our results of operations, cash flows or financial condition.

## ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed in Part I, Item 1A, Risk Factors, of the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2015.

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

## Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides information about purchases by the Company during the quarter ended May 31, 2016 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act.

## Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup>
March 1, 2016 - March 31, 2016	—	—	—	\$27,598,706
April 1, 2016 - April 30, 2016	—	—	—	27,598,706
May 1, 2016 - May 31, 2016	—	—	—	27,598,706
Total	—	—	—	

During the first quarter of fiscal 2015, the Company announced that CMC's Board of Directors had authorized a new share repurchase program under which the Company may repurchase up to \$100.0 million of shares of CMC (1) common stock. The share repurchase program does not require the Company to purchase any dollar amount or number of shares of CMC common stock and may be modified, suspended, extended or terminated by the Company at any time without prior notice.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

45

---

ITEM 6. EXHIBITS

Restated Certificate of Incorporation dated August 29, 1946 (filed as Exhibit 3(i) to Commercial Metals Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2009 and incorporated herein by reference).

3.1(a) Certificate of Amendment of Restated Certificate of Incorporation dated February 1, 1994 (filed as Exhibit 3(i)(a) to Commercial Metals Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2009 and incorporated herein by reference).

3.1(b) Certificate of Amendment of Restated Certificate of Incorporation dated February 17, 1995 (filed as Exhibit 3(i)(b) to Commercial Metals Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2009 and incorporated herein by reference).

3.1(c) Certificate of Amendment of Restated Certificate of Incorporation dated January 30, 2004 (filed as Exhibit 3(i)(d) to Commercial Metals Company's Quarterly Report on Form 10-Q for the quarter ended February 29, 2004 and incorporated herein by reference).

3.1(d) Certificate of Amendment of Restated Certificate of Incorporation dated January 26, 2006 (filed as Exhibit 3(i)(e) to Commercial Metals Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 2006 and incorporated herein by reference).

3.1(e) Certificate of Designations, Preferences and Rights of Series A Preferred Stock (filed as Exhibit 2 to Commercial Metals Company's Form 8-A filed August 3, 1999 and incorporated herein by reference).

3.1(f) Third Amended and Restated Bylaws (filed as Exhibit 3(ii) to Commercial Metals Company's Annual Report on Form 10-K for the year ended August 31, 2015 and incorporated herein by reference).

3.2 Certification of Joseph Alvarado, President and Chief Executive Officer of Commercial Metals Company, pursuant to Section 302 to the Sarbanes-Oxley Act of 2002 (filed herewith).

3.1.1 Certification of Mary Lindsey, Vice President and Chief Financial Officer of Commercial Metals Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

3.1.2 Certification of Joseph Alvarado, 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 (furnished herewith).

3.2.1 Certification of Mary Lindsey, 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 (furnished herewith).

101 The following financial information from Commercial Metals Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statements of Earnings (Unaudited), (ii) the Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited) (iii) the Condensed Consolidated Balance Sheets (Unaudited), (iv) the Condensed Consolidated Statements of Cash Flows (Unaudited), (v) the Condensed Consolidated Statements of Stockholders' Equity (Unaudited) and (vi) the Notes to Condensed Consolidated Financial Statements (Unaudited) (submitted electronically herewith).





SIGNATURE

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

June 29, 2016 /s/ Mary Lindsey

Mary Lindsey

Vice President and Chief Financial Officer

(Duly authorized officer and principal financial officer of the registrant)

INDEX TO EXHIBITS

- Restated Certificate of Incorporation dated August 29, 1946 (filed as Exhibit 3(i) to Commercial Metals Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2009 and incorporated herein by reference).
- 3.1(a) Restated Certificate of Incorporation dated August 29, 1946 (filed as Exhibit 3(i) to Commercial Metals Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2009 and incorporated herein by reference).
- Certificate of Amendment of Restated Certificate of Incorporation dated February 1, 1994 (filed as Exhibit 3.1(b)3(i)(a) to Commercial Metals Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2009 and incorporated herein by reference).
- 3.1(b)3(i)(a) Certificate of Amendment of Restated Certificate of Incorporation dated February 1, 1994 (filed as Exhibit 3.1(b)3(i)(a) to Commercial Metals Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2009 and incorporated herein by reference).
- Certificate of Amendment of Restated Certificate of Incorporation dated February 17, 1995 (filed as Exhibit 3.1(c)3(i)(b) to Commercial Metals Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2009 and incorporated herein by reference).
- 3.1(c)3(i)(b) Certificate of Amendment of Restated Certificate of Incorporation dated February 17, 1995 (filed as Exhibit 3.1(c)3(i)(b) to Commercial Metals Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2009 and incorporated herein by reference).
- Certificate of Amendment of Restated Certificate of Incorporation dated January 30, 2004 (filed as Exhibit 3.1(d)3(i)(d) to Commercial Metals Company's Quarterly Report on Form 10-Q for the quarter ended February 29, 2004 and incorporated herein by reference).
- 3.1(d)3(i)(d) Certificate of Amendment of Restated Certificate of Incorporation dated January 30, 2004 (filed as Exhibit 3.1(d)3(i)(d) to Commercial Metals Company's Quarterly Report on Form 10-Q for the quarter ended February 29, 2004 and incorporated herein by reference).
- Certificate of Amendment of Restated Certificate of Incorporation dated January 26, 2006 (filed as Exhibit 3(i)3.1(e) to Commercial Metals Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 2006 and incorporated herein by reference).
- 3.1(e) Certificate of Amendment of Restated Certificate of Incorporation dated January 26, 2006 (filed as Exhibit 3(i)3.1(e) to Commercial Metals Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 2006 and incorporated herein by reference).
- 3.1(f) Certificate of Designations, Preferences and Rights of Series A Preferred Stock (filed as Exhibit 2 to Commercial Metals Company's Form 8-A filed August 3, 1999 and incorporated herein by reference).
- 3.1(f) Certificate of Designations, Preferences and Rights of Series A Preferred Stock (filed as Exhibit 2 to Commercial Metals Company's Form 8-A filed August 3, 1999 and incorporated herein by reference).
- 3.2 Third Amended and Restated Bylaws (filed as Exhibit 3(ii) to Commercial Metals Company's Annual Report on Form 10-K for the year ended August 31, 2015 and incorporated herein by reference).
- 3.2 Third Amended and Restated Bylaws (filed as Exhibit 3(ii) to Commercial Metals Company's Annual Report on Form 10-K for the year ended August 31, 2015 and incorporated herein by reference).
- 31.1 Certification of Joseph Alvarado, President and Chief Executive Officer of Commercial Metals Company, pursuant to Section 302 to the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.1 Certification of Joseph Alvarado, 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 Mary Lindsey, Vice President and Chief Financial Officer of Commercial Metals Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.2 Certification of Mary Lindsey, 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 Joseph Alvarado, 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 (furnished herewith).
- 32.1 Certification of Joseph Alvarado, 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 (furnished herewith).
- 32.2 Certification of Mary Lindsey, 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 (furnished herewith).
- 32.2 Certification of Mary Lindsey, 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 (furnished herewith).
- 101 The following financial information from Commercial Metals Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statements of Earnings (Unaudited), (ii) the Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited) (iii) the Condensed Consolidated Balance Sheets (Unaudited), (iv) the Condensed Consolidated Statements of Cash Flows (Unaudited), (v) the Condensed Consolidated Statements of Stockholders' Equity (Unaudited) and (vi) the Notes to Condensed Consolidated Financial Statements (Unaudited) (submitted electronically herewith).

