

COMMERCIAL METALS CO

Form 10-Q

April 09, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q**

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

**For the quarterly period ended February 29, 2008
Commission File Number 1-4304
COMMERCIAL METALS COMPANY**

(Exact Name of registrant as specified in its charter)

Delaware

75-0725338

(State or other Jurisdiction of
incorporation of organization)

(I.R.S. Employer
Identification Number)

6565 N. MacArthur Blvd.
Irving, Texas 75039

(Address of principal executive offices)

(Zip Code)

(214) 689-4300

(Registrant's telephone number, including area code)

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

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

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

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

As of April 4, 2008, there were 114,115,445 shares of the Company's common stock issued and outstanding excluding 14,945,219 shares held in the Company's treasury.

**COMMERCIAL METALS COMPANY AND SUBSIDIARIES
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Table of Contents**PART 1. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

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

| (in thousands) | February 29, 2008 | August 31, 2007 |
|---|------------------------------|----------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 75,435 | \$ 419,275 |
| Accounts receivable (less allowance for collection losses of \$19,323 and \$16,495) | 1,173,078 | 1,082,713 |
| Inventories | 986,782 | 874,104 |
| Other | 134,142 | 82,760 |
| Total current assets | 2,369,437 | 2,458,852 |
| Property, plant and equipment: | | |
| Land | 70,346 | 54,387 |
| Buildings and improvements | 386,874 | 321,967 |
| Equipment | 1,195,077 | 1,095,672 |
| Construction in process | 182,958 | 118,298 |
| | 1,835,255 | 1,590,324 |
| Less accumulated depreciation and amortization | (893,121) | (822,971) |
| | 942,134 | 767,353 |
| Goodwill | 41,509 | 37,843 |
| Other assets | 244,032 | 208,615 |
| | \$3,597,112 | \$3,472,663 |

See notes to unaudited condensed consolidated financial statements.

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

| (in thousands except share data) | February 29, 2008 | August 31, 2007 |
|--|------------------------------|----------------------------|
| Current liabilities: | | |
| Accounts payable-trade | \$ 573,786 | \$ 484,650 |
| Accounts payable-documentary letters of credit | 144,039 | 153,431 |
| Accrued expenses and other payables | 365,656 | 425,410 |
| Deferred income taxes | 4,369 | 4,372 |
| Commercial paper | 39,990 | |
| Notes payable | 29,613 | |
| Current maturities of long-term debt | 104,429 | 4,726 |
| Total current liabilities | 1,261,882 | 1,072,589 |
| Deferred income taxes | 36,641 | 31,977 |
| Other long-term liabilities | 122,130 | 109,813 |
| Long-term debt | 606,623 | 706,817 |
| Total liabilities | 2,027,276 | 1,921,196 |
| Minority interests | 4,780 | 2,900 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Capital stock: | | |
| Preferred stock | | |
| Common stock, par value \$0.01 per share: | | |
| authorized 200,000,000 shares; | | |
| issued 129,060,664 shares; | | |
| outstanding 114,060,280 and 118,566,381 shares | 1,290 | 1,290 |
| Additional paid-in capital | 367,196 | 356,983 |
| Accumulated other comprehensive income | 127,178 | 64,452 |
| Retained earnings | 1,375,947 | 1,296,631 |
| | 1,871,611 | 1,719,356 |
| Less treasury stock: | | |
| 15,000,384 and 10,494,283 shares at cost | (306,555) | (170,789) |
| Total stockholders' equity | 1,565,056 | 1,548,567 |
| | \$ 3,597,112 | \$ 3,472,663 |

See notes to unaudited condensed consolidated financial statements.

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

| (in thousands, except share data) | Three Months Ended | | Six Months Ended | |
|--|----------------------|----------------------|----------------------|----------------------|
| | February 29, 2008 | February 28, 2007 | February 29, 2008 | February 28, 2007 |
| Net sales | \$ 2,254,168 | \$ 1,908,314 | \$ 4,370,172 | \$ 3,801,033 |
| Costs and expenses: | | | | |
| Cost of goods sold | 2,016,397 | 1,656,237 | 3,871,777 | 3,261,419 |
| Selling, general and administrative expenses | 157,411 | 137,370 | 307,410 | 268,789 |
| Interest expense | 14,033 | 8,545 | 26,458 | 16,604 |
| | 2,187,841 | 1,802,152 | 4,205,645 | 3,546,812 |
| Earnings from continuing operations before income taxes and minority interests | 66,327 | 106,162 | 164,527 | 254,221 |
| Income taxes | 22,923 | 37,353 | 56,280 | 90,065 |
| Earnings from continuing operations before minority interests | 43,404 | 68,809 | 108,247 | 164,156 |
| Minority interests | 391 | 4,648 | 263 | 9,276 |
| Net earnings from continuing operations | 43,013 | 64,161 | 107,984 | 154,880 |
| Earnings (loss) from discontinued operations before taxes | (4,229) | 2,193 | 2,221 | (6,119) |
| Income taxes (benefit) | (991) | 433 | 1,266 | (2,510) |
| Net earnings (loss) from discontinued operations | (3,238) | 1,760 | 955 | (3,609) |
| Net earnings | \$ 39,775 | \$ 65,921 | \$ 108,939 | \$ 151,271 |
| Basic earnings per share | | | | |
| Earnings from continuing operations | \$ 0.37 | \$ 0.55 | \$ 0.93 | \$ 1.32 |
| Earnings (loss) from discontinued operations | (0.02) | 0.01 | 0.01 | (0.03) |
| Net earnings | \$ 0.35 | \$ 0.56 | \$ 0.94 | \$ 1.29 |
| Diluted earnings per share | | | | |
| Earnings from continuing operations | \$ 0.36 | \$ 0.53 | \$ 0.90 | \$ 1.28 |
| Earnings (loss) from discontinued operations | (0.02) | 0.01 | 0.01 | (0.03) |

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| | | | | | | | | |
|------------------------------------|----|-------------|----|-------------|----|-------------|----|-------------|
| Net earnings | \$ | 0.34 | \$ | 0.54 | \$ | 0.91 | \$ | 1.25 |
| Cash dividends per share | \$ | 0.12 | \$ | 0.09 | \$ | 0.21 | \$ | 0.15 |
| Average basic shares outstanding | | 115,139,693 | | 117,266,573 | | 116,354,030 | | 117,348,716 |
| Average diluted shares outstanding | | 118,028,571 | | 121,807,414 | | 119,200,422 | | 121,422,373 |

See notes to unaudited condensed consolidated financial statements.

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

| (in thousands) | Six Months Ended | |
|--|------------------------------|------------------------------|
| | February 29, 2008 | February 28, 2007 |
| Cash Flows From (Used By) Operating Activities: | | |
| Net earnings | \$ 108,939 | \$ 151,271 |
| Adjustments to reconcile net earnings to cash from (used by) operating activities: | | |
| Depreciation and amortization | 63,873 | 49,021 |
| Minority interests | 263 | 9,276 |
| Provision for losses on receivables | 1,424 | 41 |
| Share-based compensation | 9,068 | 5,358 |
| Net loss (gain) on sale of assets and other | 102 | (28) |
| Asset impairment | 409 | 1,390 |
| Changes in operating assets and liabilities, net of effect of acquisitions: | | |
| Accounts receivable | (89,404) | 42,145 |
| Accounts receivable sold | 37,369 | 95,255 |
| Inventories | (48,403) | (92,453) |
| Other assets | (70,486) | (57,958) |
| Accounts payable, accrued expenses, other payables and income taxes | (59,406) | (133,079) |
| Deferred income taxes | (8,051) | (2,136) |
| Other long-term liabilities | 4,772 | 19,673 |
| Net Cash Flows From (Used By) Operating Activities | (49,531) | 87,776 |
| Cash Flows From (Used By) Investing Activities: | | |
| Purchases of property, plant and equipment | (144,446) | (75,100) |
| Purchase of minority interests in CMC Zawiercie | (130) | (61) |
| Sales of property, plant and equipment | 663 | 467 |
| Acquisitions, net of cash acquired | (21,040) | (10,633) |
| Net Cash Flows Used By Investing Activities | (164,953) | (85,327) |
| Cash Flows From (Used By) Financing Activities: | | |
| Decrease in documentary letters of credit | (9,392) | (12,191) |
| Short-term borrowings, net change | 38,309 | (60,000) |
| Payments on long-term debt | (1,201) | (18,787) |
| Stock issued under incentive and purchase plans | 12,808 | 14,024 |
| Treasury stock acquired | (151,530) | (17,744) |
| Dividends paid | (24,629) | (17,748) |
| Tax benefits from stock plans | 4,101 | 5,068 |
| Net Cash Flows Used By Financing Activities | (131,534) | (107,378) |
| Effect of Exchange Rate Changes on Cash | 2,178 | 375 |
| Decrease in Cash and Cash Equivalents | (343,840) | (104,554) |

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| | | |
|--|-----------|-----------|
| Cash and Cash Equivalents at Beginning of Year | 419,275 | 180,719 |
| Cash and Cash Equivalents at End of Period | \$ 75,435 | \$ 76,165 |

See notes to unaudited condensed consolidated financial statements.

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

| (in thousands, except share data) | Common Stock | | Accumulated | | | Treasury Stock | | Total |
|---|---------------------|----------|----------------------------------|----------------------------------|----------------------|---------------------|-------------|--------------|
| | Number of Shares | Amount | Additional Paid-In Capital | Other Comprehensive Income | Retained Earnings | Number of Shares | Amount | |
| Balance, September 1, 2007 | 129,060,664 | \$ 1,290 | \$ 356,983 | \$ 64,452 | \$ 1,296,631 | (10,494,283) | \$(170,789) | \$ 1,548,567 |
| FIN 48 adjustment (Note H) | | | | | (4,994) | | | (4,994) |
| Comprehensive income: | | | | | | | | |
| Net earnings for six months ended February 29, 2008 | | | | | 108,939 | | | 108,939 |
| Other comprehensive income (loss): | | | | | | | | |
| Foreign currency translation adjustment, net of taxes of \$1,874 | | | | 68,611 | | | | 68,611 |
| Unrealized loss on derivatives, net of taxes of \$1,767 | | | | (5,885) | | | | (5,885) |
| Comprehensive income | | | | | | | | 171,665 |
| Cash dividends | | | | | (24,629) | | | (24,629) |
| Treasury stock acquired | | | | | | (5,412,238) | (151,530) | (151,530) |
| Stock issued under incentive and purchase plans | | | (2,356) | | | 880,731 | 15,164 | 12,800 |
| Restricted stock | | | (700) | | | 36,000 | 700 | |
| Amortization of share-based compensation | | | 9,168 | | | (10,594) | (100) | 9,068 |
| Tax benefits from stock plans | | | 4,101 | | | | | 4,101 |
| Balance, February 29, 2008 | 129,060,664 | \$ 1,290 | \$ 367,196 | \$ 127,178 | \$ 1,375,947 | (15,000,384) | \$(306,555) | \$ 1,565,056 |

See notes to unaudited condensed consolidated financial statements.

Table of Contents**COMMERCIAL METALS COMPANY AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****NOTE A QUARTERLY FINANCIAL DATA**

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 Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) for the year ended August 31, 2007, and include all normal recurring adjustments necessary to present fairly the condensed consolidated balance sheets and statements of earnings, cash flows and stockholders' equity for the periods indicated. These Notes should be read in conjunction with such Form 10-K. The results of operations for the three and six month periods are not necessarily indicative of the results to be expected for a full year.

NOTE B ACCOUNTING POLICIES**Stock-Based Compensation**

See Note 9, Capital Stock, to the Company's consolidated financial statements for the year ended August 31, 2007 on Form 10-K for a description of the Company's stock incentive plans.

The Company recognized share-based compensation expense of \$4.9 million and \$3.1 million (\$0.03 and \$0.02 per diluted share, respectively) for the three months ended February 29, 2008 and February 28, 2007, respectively, and \$9.1 million and \$5.4 million (\$0.05 and \$0.03 per diluted share, respectively) for the six months ended February 29, 2008 and February 28, 2007, respectively, as a component of selling, general and administrative expenses. The Black-Scholes pricing model was used to calculate total compensation cost which is amortized on a straight-line basis over the vesting period. At February 29, 2008, the Company had \$12.1 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements. This cost is expected to be recognized over the next 28 months. See Note 1, Summary of Significant Accounting Policies, to the Company's consolidated financial statements for the year ended August 31, 2007 on Form 10-K for a description of the Company's assumptions used to calculate share-based compensation.

Combined information for shares subject to options and SARs for the six months ended February 29, 2008 was as follows:

| | Number | Weighted Average Exercise Price | Price Range Per Share |
|-------------------|---------------|--|--------------------------------------|
| August 31, 2007 | | | |
| Outstanding | 6,480,908 | \$ 14.74 | \$ 2.94 34.28 |
| Exercisable | 4,333,089 | 7.65 | 2.94 24.71 |
| Granted | | | |
| Exercised | (565,492) | 6.17 | 2.94 24.57 |
| Forfeited | (53,964) | 28.98 | 12.31 34.28 |
| February 29, 2008 | | | |
| Outstanding | 5,861,452 | 15.43 | 3.64 34.28 |
| Exercisable | 3,769,598 | 7.88 | 3.64 34.28 |

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Share information for options and SARs at February 29, 2008:

| Range of Exercise Price | Outstanding | | | Exercisable | | |
|-------------------------|--------------------|--|---------------------------------|--------------------|---------------------------------|--|
| | Number Outstanding | Weighted Average Remaining Contractual Life (Yrs.) | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price | |
| \$3.64 - 3.78 | 810,492 | 1.9 | \$ 3.64 | 810,492 | \$ 3.64 | |
| 4.29 - 5.36 | 602,963 | 0.9 | 4.34 | 602,963 | 4.34 | |
| 7.53 - 7.78 | 1,593,192 | 3.0 | 7.77 | 1,593,192 | 7.77 | |
| 12.31 - 13.58 | 889,864 | 4.4 | 12.33 | 570,922 | 12.35 | |
| 21.81 - 24.71 | 596,051 | 5.2 | 24.52 | 190,429 | 24.52 | |
| 31.75 - 34.28 | 1,368,890 | 6.3 | 34.28 | 1,600 | 34.28 | |
| \$3.64 - 34.28 | 5,861,452 | 3.8 | \$15.43 | 3,769,598 | \$ 7.88 | |

Of the Company's previously granted restricted stock awards, 33,986 and 32,000 shares vested during the six months ended February 29, 2008 and February 28, 2007, respectively.

Intangible Assets

The total gross carrying amounts of the Company's intangible assets that were subject to amortization were \$36.9 million and \$32.9 million at February 29, 2008 and August 31, 2007, respectively. Aggregate amortization expense for the three months ended February 29, 2008 and February 28, 2007 was \$1.7 million and \$0.7 million, respectively. Aggregate amortization expense for each of the six months ended February 29, 2008 and February 28, 2007 was \$4.0 million and \$1.5 million, respectively.

Recent Accounting Pronouncements

In December 2007, The FASB issued Statement of Financial Accounting Standards No. 141(R), Business Combinations (SFAS 141(R)). SFAS 141(R) establishes principles for recognizing and measuring the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquired business and goodwill acquired in a business combination. The Company is required to adopt the provisions of this statement in the first quarter of fiscal 2010. This standard will impact our accounting treatment for future business combinations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB 51 (SFAS 160). SFAS 160 requires minority interests to be reported as equity on the balance sheet, changes the reporting of net earnings to include both the amounts attributable to the affiliate's parent and the noncontrolling interest and clarifies the accounting for changes in the parent's interest in an affiliate. The Company is required to adopt the provisions of this statement in the first quarter of fiscal 2010. The adoption is not expected to have a material impact on the Company's consolidated financial statements.

NOTE C ACQUISITIONS

On September 19, 2007, the Company acquired all of the outstanding shares of Valjaonica Cijevi Sisak (VCS) from the Croatian Privatization Fund and Croatian government. VCS's name has been changed to CMC Sisak d.o.o. (CMC Sisak). CMC Sisak is an electric arc furnace based steel pipe manufacturer located in Sisak, Croatia with annual capacity estimated at about 300,000 metric tons. The acquisition will expand the Company's production capacity into tubular and other products in the key markets of Central and Eastern Europe.

On September 19, 2007, the Company acquired the operating assets of Economy Steel, Inc. of Las Vegas, Nevada. The acquired assets will operate under the new name of CMC Economy Steel. This operation is a rebar fabricator, placer, construction-related products supplier and steel service center. The acquisition fits the Company's initiative for growth and expansion into a new geographic market. The acquisition will also support the development and success of the Company's future mill in Arizona.

On December 30, 2007, the Company acquired a 70% interest in a newly incorporated business, CMC Albedo Metals which acquired an existing metals recycling business in Singapore.

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The purchase price of these acquisitions was approximately \$23.1 million (\$21.4 million in cash and \$1.7 million in installments payable). The Company also has committed to spend not less than \$38 million over five years in capital expenditures for CMC Sisak and increase working capital by approximately \$39 million. The following is a summary of the allocation of the purchase price as of the date of the respective acquisitions, subject to change following management's final determination of fair value:

(in thousands)

| | |
|-------------------------------|-----------|
| Accounts receivable | \$ 5,127 |
| Inventories | 17,663 |
| Other current assets | 6,877 |
| Property, plant and equipment | 50,239 |
| Goodwill | 3,313 |
| Intangible assets | 5,369 |
| Other assets | 13,270 |
| Liabilities | (77,781) |
| Minority interest | (979) |
| Net assets acquired | \$ 23,098 |

The intangible assets acquired include customer base, trade name and non-compete agreements which will be amortized between 4 and 8 years.

NOTE D SALES OF ACCOUNTS RECEIVABLE

The Company has an accounts receivable securitization program which it utilizes as a cost-effective, short-term financing alternative. Under this program, the Company and several of its subsidiaries periodically sell certain eligible trade accounts receivable to the Company's wholly-owned consolidated special purpose subsidiary (CMCRV). CMCRV is structured to be a bankruptcy-remote entity and was formed for the sole purpose of buying and selling receivables generated by the Company. The Company, irrevocably and without recourse, transfers all applicable trade accounts receivable to CMCRV. CMCRV, in turn, sells an undivided percentage ownership interest in the pool of receivables to affiliates of two third party financial institutions. On April 12, 2007, the agreement with the financial institution affiliates was extended to April 10, 2008. CMCRV may sell undivided interests of up to \$200 million, depending on the Company's level of financing needs.

At February 29, 2008 and August 31, 2007, accounts receivable of \$353 million and \$378 million, respectively, had been sold to CMCRV. The Company's undivided interest in these receivables (representing the Company's retained interest) was 100% at February 29, 2008 and August 31, 2007, respectively. The Company did not sell any undivided interests in the pool of receivables to the financial institution buyers during the six months ended February 29, 2008 and February 28, 2007, respectively.

In addition to the securitization program described above, the Company's subsidiaries in Australia, Europe, Poland and a domestic subsidiary periodically sell accounts receivable. These arrangements also constitute true sales and, once the accounts are sold, they are no longer available to satisfy the Company's creditors in the event of bankruptcy. The Company's Australian subsidiary entered into an agreement with a financial institution to periodically sell certain trade accounts receivable up to a maximum of 97 million AUD (\$91 million). The Australian program contains covenants in which our Australian subsidiary must meet certain coverage and tangible net worth levels. At February 29, 2008, our Australian subsidiary was in compliance with these covenants. Uncollected accounts receivable that had been sold under these arrangements and removed from the condensed consolidated balance sheets were \$214.9 million and \$151.7 million at February 29, 2008 and August 31, 2007, respectively. The average monthly amounts of these outstanding accounts receivable sold were \$191.8 million and \$72.7 million for the six months ended February 29, 2008 and February 28, 2007, respectively.

Discounts (losses) on domestic and international sales of accounts receivable were \$2.7 million and \$1.4 million for the three months ended February 29, 2008 and February 28, 2007, respectively. For the six months ended February 29, 2008 and February 28, 2007, these discounts were \$5.5 million and \$2.3 million, respectively. These losses primarily represented the costs of funds and were included in selling, general and administrative expenses.

NOTE E INVENTORIES

Before deduction of last-in, first-out (LIFO) inventory valuation reserves of \$295.2 million and \$240.5 million at February 29, 2008 and August 31, 2007, respectively, inventories valued under the first-in, first-out method approximated replacement cost. The majority

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of the Company's inventories are in finished goods, with minimal work in process. Approximately \$68.9 million and \$66.4 million were in raw materials at February 29, 2008 and August 31, 2007, respectively.

NOTE F DISCONTINUED OPERATIONS

During the fourth quarter of 2007, the Company's Board approved the plan to offer to sell a division (Division) which is involved with the buying, selling and distribution of nonferrous metals, namely copper, aluminum and stainless steel semifinished products. The Company anticipates the sale will occur in fiscal 2008. The Division is presented as a discontinued operation in the condensed consolidated statements of earnings. During the three and six months ended February 29, 2008, the Division recorded LIFO expense of \$0.6 million and LIFO income of \$5.9 million, respectively, as compared to LIFO income of \$1.1 million and LIFO expense of \$6.3 million for the three and six months ended February 28, 2007.

The Division is in the International Fabrication and Distribution segment. Various financial information for the Division is as follows:

| | February 29, 2008 | August 31, 2007 |
|------------------------|----------------------------------|----------------------------|
| Current assets | \$ 82,993 | \$ 93,385 |
| Noncurrent assets | 2,519 | 1,795 |
| Current liabilities | 25,816 | 34,889 |
| Noncurrent liabilities | 592 | 874 |

| | Three Months Ended February | | Six Months Ended | |
|------------------------------|--|-----------------------------|-----------------------------|-----------------------------|
| | 29 2008 | February 28 2007 | February 29 2008 | February 28 2007 |
| Revenue | \$83,284 | \$107,461 | \$170,147 | \$201,286 |
| Earnings (loss) before taxes | (4,229) | 2,193 | 2,221 | (6,119) |

NOTE G CREDIT ARRANGEMENTS

Borrowings outstanding under the Company's commercial paper program were \$40 million at February 29, 2008 and none at August 31, 2007. No borrowings were outstanding under the related revolving credit agreement at February 29, 2008 and August 31, 2007. The Company was in compliance with all covenants at February 29, 2008. The Company has numerous informal credit facilities available from domestic and international banks. These credit facilities are available to support documentary letters of credit (including those with extended terms), foreign exchange transactions and, in certain instances, short-term working capital loans and are priced at bankers' acceptance rates or on a cost of funds basis. Amounts outstanding on these facilities relate to accounts payable settled under documentary letters of credit.

Long-term debt was as follows:

| (in thousands) | February 29, 2008 | August 31, 2007 |
|----------------------------------|------------------------------|----------------------------|
| 6.75% notes due February 2009 | \$100,000 | \$100,000 |
| 5.625% notes due November 2013 | 200,000 | 200,000 |
| 6.50% notes due July 2017 | 400,000 | 400,000 |
| Other, including equipment notes | 11,052 | 11,543 |
| | 711,052 | 711,543 |

| | | |
|-------------------------|-----------|-----------|
| Less current maturities | 104,429 | 4,726 |
| | \$606,623 | \$706,817 |

As of February 29, 2008, the Company was in compliance with all debt requirements for these notes. Interest on these notes is payable semiannually.

CMC Zawiercie (CMCZ) has a revolving credit facility with maximum borrowings of 100 million PLN (\$43.1 million) bearing interest at the Warsaw Interbank Offered Rate (WIBOR) plus 0.5% and collateralized by CMCZ's accounts receivable. This facility expires May 9, 2008. At February 29, 2008, no amounts were outstanding under this facility. The revolving credit facility contains

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certain financial covenants for CMCZ. CMCZ was in compliance with these covenants at February 29, 2008. There are no guarantees by the Company or any of its subsidiaries for any of CMCZ's debt.

CMC Poland, a wholly-owned subsidiary of the Company, owns and operates equipment at the CMCZ mill site. In connection with the equipment purchase, CMC Poland issued equipment notes under a term agreement dated September 2005 with 13.9 million PLN (\$6.0 million) outstanding at February 29, 2008. Installment payments under these notes are due through 2010. Interest rates are variable based on the Poland Monetary Policy Council's rediscount rate, plus any applicable margin. The weighted average rate as of February 29, 2008 was 5.8%. The notes are secured by the shredder equipment.

In September, 2007, CMC Sisak issued notes to banks with maximum borrowings of 140 million HRK (\$29.3 million) due on September 5, 2008. As of February 29, 2008, the notes had an outstanding balance of 136.4 million HRK (\$28.5 million). The interest is based on the weighted average value of the reported annual yield in respect to the uniform price for 91 day treasury bills issued by the Ministry of Finance of the Republic of Croatia, currently at 4.99%. The notes are not collateralized and do not contain any financial covenants. The notes are guaranteed by CMC International.

Interest of \$27.5 million and \$17.2 million was paid in the six months ended February 29, 2008 and February 28, 2007, respectively. The Company capitalized interest of \$1.9 million and \$0.3 million for the six months ended February 29, 2008 and February 28, 2007, respectively.

NOTE H INCOME TAXES

The Company paid \$74.7 million and \$87.6 million in income taxes during the six months ended February 29, 2008 and February 28, 2007, respectively.

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

| | Three Months Ended | | Six Months Ended | |
|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | February 29, 2008 | February 28, 2007 | February 29, 2008 | February 28, 2007 |
| Statutory rate | 35.0% | 35.0% | 35.0% | 35.0% |
| State and local taxes | 3.5 | 1.4 | 2.3 | 1.9 |
| Dividend received deduction and other | | 2.9 | | 1.5 |
| Extraterritorial Income Exclusion (ETI) | | (0.1) | | (0.1) |
| Foreign rate differential | (2.6) | (4.0) | (2.0) | (2.5) |
| Domestic production activity deduction | (0.8) | (0.3) | (1.0) | (0.5) |
| Other | 0.2 | | 0.2 | |
| Effective rate | 35.3% | 34.9% | 34.5% | 35.3% |

On September 1, 2007, the Company adopted FIN 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement 109, *Accounting for Uncertainty in Income Taxes* recognized in our financial statements. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As a result of the adoption of FIN 48, the Company recognized an asset of \$0.8 million and an increase to reserves of \$5.8 million related to uncertain tax positions, including \$1.6 million in interest and penalties, which were accounted for as a net reduction of \$5.0 million to the September 1, 2007 balance of retained earnings. The current Company policy classifies any interest recognized on an underpayment of income taxes as interest expense and classifies any statutory penalties recognized on a tax position taken as selling, general and administrative expense. If these uncertain tax positions were recognized, the impact on the effective tax rate would not be significant. The Company does not expect the total amounts of unrecognized benefits to significantly increase or decrease within the next 12 months.

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

U.S Federal 2005 and forward

U.S. States 2003 and forward

Foreign 2001 and forward

The Internal Revenue Service (IRS) is examining our federal tax returns for fiscal years 2005 and 2006. We believe our recorded tax liabilities as of February 29, 2008 are sufficient, and we do not anticipate any additional adjustments to be made by the IRS upon the completion of their examination.

Table of Contents**NOTE I STOCKHOLDERS EQUITY AND EARNINGS PER SHARE**

In calculating earnings per share, there were no adjustments to net earnings to arrive at earnings for the three or six months ended February 29, 2008 or February 28, 2007. The reconciliation of the denominators of the earnings per share calculations is as follows:

| | Three Months Ended | | Six Months Ended | |
|--|------------------------------|------------------------------|------------------------------|------------------------------|
| | February 29, 2008 | February 28, 2007 | February 29, 2008 | February 28, 2007 |
| Average shares outstanding for basic earnings per share | 115,139,693 | 117,266,573 | 116,354,030 | 117,348,716 |
| Effect of dilutive securities-stock based incentive/purchase plans | 2,888,878 | 4,540,841 | 2,846,392 | 4,073,657 |
| Average shares outstanding for diluted earnings per share | 118,028,571 | 121,807,414 | 119,200,422 | 121,422,373 |

Stock Appreciation Rights (SARs) with total share commitments of 1,368,890 were antidilutive at February 29, 2008 based on the average share price for the quarter of \$29.80. The Company's remaining outstanding stock options, restricted stock and SARs with total share commitments of 5,038,406 were dilutive at February 29, 2008. All of the Company's outstanding stock options, restricted stock and SARs with total share commitments of 6,986,817 at February 28, 2007 were dilutive based on the average share price for the quarter of \$27.38. All stock options and SARs expire by 2014.

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

On November 5, 2007, the Company's board of directors authorized the purchase of an additional 5,000,000 shares of the Company's common stock. During the six months ended February 29, 2008, the Company purchased 5,412,238 shares of the Company's common stock, at an average purchase price of \$28.00 per share, and had authorization to purchase 812,547 shares at February 29, 2008.

NOTE J DERIVATIVES AND RISK MANAGEMENT

The Company's worldwide operations and product lines expose it to risks from fluctuations in foreign currency exchange rates and metals commodity prices. The objective of the Company's risk management program is to mitigate these risks using futures or forward contracts (derivative instruments). The Company enters into metal commodity forward contracts to mitigate the risk of unanticipated changes in gross margin due to the volatility of the commodities prices, and enters into foreign currency forward contracts, which match the expected settlements for purchases and sales denominated in foreign currencies. Also, when its sales commitments to customers include a fixed price freight component, the Company occasionally enters into freight forward contracts to minimize the effect of the volatility of ocean freight rates. Forward contracts on natural gas may also be entered into to reduce the price volatility of gas used in production. The Company designates only those contracts which closely match the terms of the underlying transaction as hedges for accounting purposes. These hedges resulted in an immaterial amount of ineffectiveness in the statements of earnings and there were no components excluded from the assessment of hedge effectiveness for the three or six months ended February 29, 2008 and February 28, 2007. Certain of the foreign currency and commodity contracts were not designated as hedges for accounting purposes, although management believes they are essential economic hedges.

The following table shows the impact on the condensed consolidated statements of earnings of the changes in fair value of these economic hedges:

| | Three Months Ended | Six Months Ended |
|--|---------------------------|-------------------------|
|--|---------------------------|-------------------------|

| (in thousands) | February 29, 2008 | February 28, 2007 | February 29, 2008 | February 28, 2007 |
|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | Earnings (Expense) | | Earnings (Expense) | |
| Net sales (foreign currency instruments) | \$ (639) | \$ (242) | \$ (427) | \$ (131) |
| Cost of goods sold (commodity instruments) | (5,457) | (1,518) | (9,173) | (3,724) |

The Company's derivative instruments were recorded as follows on the condensed consolidated balance sheets:

| (in thousands) | February 29, 2008 | August 31, 2007 |
|--|----------------------------------|----------------------------|
| Derivative assets (other current assets) | \$10,810 | \$7,484 |
| Derivative liabilities (other payables) | 19,321 | 4,878 |

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The following table summarizes activities in other comprehensive income (losses) related to derivatives classified as cash flow hedges held by the Company during the six months ended February 29, 2008 (in thousands):

| | |
|--|-----------|
| Change in market value (net of taxes) | \$(5,508) |
| Gain reclassified into net earnings, net | (377) |
| Other comprehensive loss unrealized loss on derivatives | \$(5,885) |

During the twelve months following February 29, 2008, \$0.5 million in losses related to commodity hedges and capital expenditures are anticipated to be reclassified into net earnings as the related transactions mature and the assets are placed into service, respectively. Also, an additional \$0.2 million in gains will be reclassified as interest expense related to an interest rate lock.

All of the instruments are highly liquid, and none are entered into for trading purposes.

NOTE K CONTINGENCIES

See Note 11, Commitments and Contingencies, to the consolidated financial statements for the year ended August 31, 2007 on Form 10-K relating to environmental and other matters. There have been no significant changes to the matters noted therein. In the ordinary course of conducting its business, the Company becomes involved in litigation, administrative proceedings and governmental investigations, including environmental matters. Management believes that adequate provision has been made in the condensed consolidated financial statements for the potential impact of these issues, and that the outcomes will not significantly impact the results of operations or the financial position of the Company, although they may have a material impact on earnings for a particular quarter.

Guarantees The Company has entered into guarantee agreements with certain banks in connection with credit facilities granted by the banks to various suppliers of the Company. The fair value of the guarantees are negligible. All of the guarantees listed in the table below reflect the Company's exposure as of February 29, 2008 and are required to be completed within 2 years.

| Origination Date | Guarantee With | Maximum Credit Facility | Maximum Company Exposure |
|---------------------|-------------------|-------------------------------|--------------------------------|
| May 2006 | Bank | \$15 million | \$0.4 million |
| February 2007 | Bank | 80 million | 8.0 million |

NOTE L BUSINESS SEGMENTS

The Company's reportable segments are based on strategic business areas, which offer different products and services. These segments have different lines of management responsibility as each business requires different marketing strategies and management expertise.

Prior to September 1, 2007, the Company structured the business into the following five reportable segments: domestic mills, CMCZ, domestic fabrication, recycling and marketing and distribution. However, during the first quarter of 2008, the Company implemented a new organization structure. As a result, the Company now structures the business into the following five segments: Americas Recycling, Americas Mills, Americas Fabrication and Distribution, International Mills and International Fabrication and Distribution.

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

| (in thousands) | Three Months Ended February 29, 2008 | | | | | | | |
|----------------------------------|---|---------------------------|---|--------------------------------|---|------------------|--|---------------------|
| | Recycling | Americas Mills | Fabrication & Distribution | International Mills | Fabrication & Distribution | Corporate | Eliminations/ Discontinued Operations | Consolidated |
| Net sales-unaffiliated customers | \$400,108 | \$326,486 | \$634,446 | \$233,520 | \$749,142 | \$ (6,250) | \$ (83,284) | \$2,254,168 |
| Intersegment sales | 77,922 | 141,304 | 2,456 | 12,366 | 3,391 | | (237,439) | |
| Net sales | 478,030 | 467,790 | 636,902 | 245,886 | 752,533 | (6,250) | (320,723) | 2,254,168 |
| Adjusted operating profit (loss) | 25,634 | 55,263 | (7,638) | 9,651 | 21,708 | (31,360) | 5,567 | 78,825 |

| (in thousands) | Three Months Ended February 28, 2007 | | | | | | | |
|----------------------------------|---|---------------------------|---|--------------------------------|---|------------------|--|---------------------|
| | Recycling | Americas Mills | Fabrication & Distribution | International Mills | Fabrication & Distribution | Corporate | Eliminations/ Discontinued Operations | Consolidated |
| Net sales-unaffiliated customers | \$318,355 | \$258,974 | \$598,920 | \$187,317 | \$649,980 | \$ 2,229 | \$(107,461) | \$1,908,314 |
| Intersegment sales | 74,164 | 93,438 | 463 | 7,926 | 8,461 | | (184,452) | |
| Net sales | 392,519 | 352,412 | 599,383 | 195,243 | 658,441 | 2,229 | (291,913) | 1,908,314 |
| Adjusted operating profit (loss) | 26,399 | 56,185 | 11,656 | 25,985 | 17,260 | (17,641) | (1,253) | 118,591 |

| (in thousands) | Six Months Ended February 29, 2008 | | | | | | | |
|----------------------------------|---|---------------------------|---|--------------------------------|---|------------------|--|---------------------|
| | Recycling | Americas Mills | Fabrication & Distribution | International Mills | Fabrication & Distribution | Corporate | Eliminations/ Discontinued Operations | Consolidated |
| Net sales-unaffiliated customers | \$769,370 | \$607,575 | \$1,272,246 | \$400,257 | \$1,490,955 | \$ (84) | \$(170,147) | \$4,370,172 |
| Intersegment sales | 134,025 | 263,025 | 5,944 | 13,807 | 18,970 | | (435,771) | |

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| | | | | | | | | |
|----------------------------------|---------|---------|-----------|---------|-----------|----------|-----------|-----------|
| Net sales | 903,395 | 870,600 | 1,278,190 | 414,064 | 1,509,925 | (84) | (605,918) | 4,370,172 |
| Adjusted operating profit (loss) | 42,511 | 124,476 | 22,798 | 9,074 | 48,267 | (45,641) | (2,863) | 198,622 |
| Goodwill February 29, 2008 | 7,467 | | 28,623 | | 5,419 | | | 41,509 |
| Total Assets February 29, 2008 | 340,682 | 549,584 | 1,097,517 | 524,087 | 868,070 | 217,172 | | 3,597,112 |

Six Months Ended February 28, 2007

| (in thousands) | Americas | | International | | Eliminations/ | | Consolidated | |
|----------------------------------|-----------|-----------|----------------------------|-----------|----------------------------|-------------------------|--------------|-------------|
| | Recycling | Mills | Fabrication & Distribution | Mills | Fabrication & Distribution | Discontinued Operations | | |
| Net sales-unaffiliated customers | \$680,178 | \$507,163 | \$1,213,132 | \$343,675 | \$1,251,350 | \$ 6,821 | \$(201,286) | \$3,801,033 |
| Intersegment sales | 129,875 | 190,475 | 1,566 | 13,695 | 21,579 | | (357,190) | |
| Net sales | 810,053 | 697,638 | 1,214,698 | 357,370 | 1,272,929 | 6,821 | (558,476) | 3,801,033 |
| Adjusted operating profit (loss) | 48,383 | 128,398 | 40,555 | 51,872 | 27,672 | (25,426) | (3,929) | 267,525 |
| Goodwill February 28, 2007 | 6,986 | | 27,006 | | 1,823 | | | 35,815 |
| Total Assets February 28, 2007 | 272,554 | 494,179 | 943,833 | 344,033 | 687,843 | 120,280 | | 2,862,722 |

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The following table provides a reconciliation of consolidated adjusted operating profit to net earnings:

| (in thousands) | Three Months Ended | | Six Months Ended | |
|---|---------------------------|--------------------------|--------------------------|--------------------------|
| | February 29, 2008 | February 28, 2007 | February 29, 2008 | February 28, 2007 |
| Net earnings | \$39,775 | \$ 65,921 | \$108,939 | \$151,271 |
| Minority interests | 391 | 4,648 | 263 | 9,276 |
| Income taxes | 21,932 | 37,786 | 57,546 | 87,555 |
| Interest expense | 13,990 | 8,852 | 26,368 | 17,080 |
| Discounts on sales of accounts receivable | 2,737 | 1,384 | 5,506 | 2,343 |
| Adjusted operating profit | \$78,825 | \$118,591 | \$198,622 | \$267,525 |
| Adjusted operating profit (loss) from discontinued operations | (3,972) | (2,477) | 2,829 | (5,504) |
| Adjusted operating profit from continuing operations | \$82,797 | \$121,068 | \$195,793 | \$273,029 |

The following presents external net sales by major product and geographic area for the Company:

| (in thousands) | Three Months Ended | | Six Months Ended | |
|----------------------------|---------------------------|--------------------------|--------------------------|--------------------------|
| | February 29, 2008 | February 28, 2007 | February 29, 2008 | February 28, 2007 |
| Major product information: | | | | |
| Steel products | \$1,440,186 | \$1,272,154 | \$2,768,939 | \$2,444,503 |
| Industrial materials | 257,310 | 184,735 | 494,947 | 379,055 |
| Nonferrous scrap | 234,155 | 229,059 | 441,811 | 497,074 |
| Ferrous scrap | 171,393 | 91,559 | 334,503 | 190,994 |
| Nonferrous products | 69,339 | 89,490 | 147,458 | 162,887 |
| Construction materials | 67,039 | 26,001 | 140,656 | 87,791 |
| Other | 14,746 | 15,316 | 41,858 | 38,729 |
| Net sales* | \$2,254,168 | \$1,908,314 | \$4,370,172 | \$3,801,033 |

| (in thousands) | Three Months Ended | | Six Months Ended | |
|-----------------------|---------------------------|--------------------------|--------------------------|--------------------------|
| | February 29, 2008 | February 28, 2007 | February 29, 2008 | February 28, 2007 |
| Geographic area: | | | | |
| United States | \$1,300,568 | \$1,099,542 | \$2,549,760 | \$2,207,733 |
| Europe | 534,914 | 404,964 | 976,029 | 802,818 |
| Asia | 207,486 | 229,525 | 389,573 | 430,800 |
| Australia/New Zealand | 124,091 | 111,935 | 272,899 | 220,605 |
| Other | 87,109 | 62,348 | 181,911 | 139,077 |

| | | | | |
|------------|-------------|-------------|-------------|-------------|
| Net sales* | \$2,254,168 | \$1,908,314 | \$4,370,172 | \$3,801,033 |
|------------|-------------|-------------|-------------|-------------|

* Excludes a division classified as discontinued operations. See Note F.

NOTE M RELATED PARTY TRANSACTIONS

One of the Company's international subsidiaries has an agreement for steel purchases with a key supplier of which the Company owns an 11% interest. Net sales to this related party were \$172 million and \$132 million for the six months ended February 29, 2008 and February 28, 2007, respectively. The total amounts of purchases from this supplier were \$184 million and \$170 million for the six months ended February 29, 2008 and February 28, 2007, respectively. Accounts receivable from the affiliated company were \$52 million and \$47 million at February 29, 2008 and February 28, 2007 respectively. Accounts payable to the affiliated company were \$33 million and \$26 million at February 29, 2008 and February 28, 2007, respectively.

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

This Management's Discussion and Analysis should be read in conjunction with our Form 10-K for the year ended August 31, 2007.

CRITICAL ACCOUNTING POLICIES

Our critical accounting policies are consistent with the information set forth in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, included in our Form 10-K for the year ended August 31, 2007 and are, therefore, not presented herein.

CONSOLIDATED RESULTS OF OPERATIONS

| (in millions) | Three Months Ended | | | Six Months Ended | | |
|---------------|-------------------------|-------------------------|-------------|-------------------------|-------------------------|-------------|
| | February 29, 2008 | February 28, 2007 | % Change | February 29, 2008 | February 28, 2007 | % Change |
| Net sales* | \$2,254.2 | \$1,908.3 | 18.1% | \$4,370.2 | \$3,801.0 | 15.0% |
| Net earnings | 39.8 | 65.9 | (39.6)% | 108.9 | 151.2 | (28.0)% |
| EBITDA | 108.0 | 136.4 | (20.8)% | 256.7 | 304.9 | (15.8)% |

* Excludes a division classified as discontinued operations.

In the table above, we have included a financial statement measure that was not derived in accordance with GAAP. We use EBITDA (earnings before interest expense, income taxes, depreciation and amortization) as a non-GAAP performance measure. In calculating EBITDA, we exclude our largest recurring non-cash charge, depreciation and amortization. EBITDA provides a core operational performance measurement that compares results without the need to adjust for federal, state and local taxes which have considerable variation between domestic jurisdictions. Tax regulations in international operations add additional complexity. Also, we exclude interest cost in our calculation of EBITDA. The results are, therefore, without consideration of financing alternatives of capital employed. We use EBITDA as one guideline to assess our unleveraged performance return on our investments. EBITDA is also the target benchmark for our long-term cash incentive performance plan for management. Reconciliations to net earnings are provided below:

| (in millions) | Three Months Ended | | | Six Months Ended | | |
|--|-------------------------|-------------------------|-------------|-------------------------|-------------------------|-------------|
| | February 29, 2008 | February 28, 2007 | % Change | February 29, 2008 | February 28, 2007 | % Change |
| Net earnings | \$ 39.8 | \$ 65.9 | (39.6)% | \$ 108.9 | \$ 151.2 | (28.0)% |
| Interest expense | 14.0 | 8.9 | 57.3% | 26.4 | 17.1 | 54.4% |
| Income taxes | 21.9 | 37.7 | (41.9)% | 57.5 | 87.6 | (34.4)% |
| Depreciation and amortization | 32.3 | 23.9 | 35.1% | 63.9 | 49.0 | 30.4% |
| EBITDA | \$ 108.0 | \$ 136.4 | (20.8)% | \$ 256.7 | \$ 304.9 | (15.8)% |
| EBITDA (loss) from discontinued operations | (4.0) | 2.5 | (260.0)% | 2.9 | (5.4) | 153.7% |

| | | | | | | |
|--------------------------------------|----------|----------|---------|----------|----------|---------|
| EBITDA from continuing operations | \$ 112.0 | \$ 133.9 | (16.4)% | \$ 253.8 | \$ 310.3 | (18.2)% |
|--------------------------------------|----------|----------|---------|----------|----------|---------|

Our EBITDA does not include interest expense, income taxes and depreciation and amortization. Because we have borrowed money in order to finance our operations, interest expense is a necessary element of our costs and our ability to generate revenues. Because we use capital assets, depreciation and amortization are also necessary elements of our costs. Also, the payment of income taxes is a necessary element of our operations. Therefore, any measures that exclude these elements have material limitations. To compensate for these limitations, we believe that it is appropriate to consider both net earnings determined under GAAP, as well as EBITDA, to evaluate our performance. Also, we separately analyze any significant fluctuations in interest expense, depreciation and amortization and income taxes.

Overview Reported net earnings and EBITDA decreased by 40% to \$39.8 million and 21% to \$108.0 million, respectively, for the three months ended February 29, 2008 as compared to the same period last year. For the six months ended February 29, 2008, net earnings decreased by 28% to \$108.9 million and EBITDA decreased by 16% to \$256.7 million as compared to the same period last year. The following financial events were significant during our second quarter of 2008:

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We reported our highest net sales ever for the second quarter.

We recorded pre-tax LIFO expense of \$59.0 million (\$0.32 per diluted share) as compared with expense of \$18.9 million (\$0.10 per diluted share) in last year's second quarter.

We experienced favorable foreign exchange rates during the second quarter of 2008 as compared to 2007 which resulted in an increase in net sales of approximately 4%.

Net sales of the Americas Recycling segment increased 22% but adjusted operating income decreased 3% primarily due to LIFO expense of \$5.0 million recorded during the second quarter of 2008 as compared to income of \$1.8 million during the second quarter of 2007.

Net sales of the Americas Mills segment increased 33% but adjusted operating income remained consistent with prior year. This was mainly caused by LIFO expense of \$18.2 million during the second quarter of 2008 as compared to expense of \$7.7 million during the second quarter of 2007.

Our Americas Fabrication and Distribution segment's results were impacted by escalating steel prices which resulted in an adjusted operating loss of \$7.6 million primarily due to LIFO expense of \$35.2 million as compared to expense of \$14.1 million in last year's second quarter.

Our International Mills segment reported adjusted operating income of \$9.7 million in the second quarter of 2008 as compared to \$26.0 million in prior year. Our Polish mill experienced improved pricing beginning in mid-quarter and our mill in Croatia continued to be saddled with start-up costs.

Our International Fabrication and Distribution segment had a strong quarter and generated an adjusted operating profit of \$21.7 million, a 26% increase from prior quarter, driven by strong international demand coupled with supply interruptions in China and South Africa.

Expense of \$14.7 million and capital expenditures of \$9.2 million were recorded during the second quarter of 2008 as compared to expense of \$9.9 million and capital expenditures of \$0.9 million recorded during the second quarter of 2007 related to the global implementation of SAP.

SEGMENT OPERATING DATA

See Note L – Business Segments, to the condensed consolidated financial statements.

We use adjusted operating profit (loss) to compare and evaluate the financial performance of our segments. Adjusted operating profit is the sum of our earnings before income taxes, minority interests and financing costs. The following tables show our net sales and adjusted operating profit (loss) by business segment:

| (in thousands) | Three Months Ended | | | Six Months Ended | | |
|--|----------------------|----------------------|-------------|----------------------|----------------------|-------------|
| | February 29, 2008 | February 28, 2007 | % Change | February 29, 2008 | February 28, 2007 | % Change |
| NET SALES: | | | | | | |
| Americas Recycling | \$ 478,030 | \$ 392,519 | 21.8% | \$ 903,395 | \$ 810,053 | 11.5% |
| Americas Mills | 467,790 | 352,412 | 32.7% | 870,600 | 697,638 | 24.8% |
| Americas Fabrication and Distribution | 636,902 | 599,383 | 6.3% | 1,278,190 | 1,214,698 | 5.2% |
| International Mills* | 245,886 | 195,243 | 25.9% | 414,064 | 357,370 | 15.9% |
| International Fabrication and | 752,533 | 658,441 | 14.3% | 1,509,925 | 1,272,929 | 18.6% |

| | | | | | | |
|---------------|-------------|-------------|---------|-------------|-------------|---------|
| Distribution | | | | | | |
| Corporate and | | | | | | |
| Eliminations | (243,689) | (182,223) | (33.7)% | (435,855) | (350,369) | (24.4)% |
| Discontinued | | | | | | |
| Operations | (83,284) | (107,461) | 22.5% | (170,147) | (201,286) | 15.5% |
| | \$2,254,168 | \$1,908,314 | 18.1% | \$4,370,172 | \$3,801,033 | 15.0% |

* Dollars are before minority interests.

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| (in thousands) | Three Months Ended | | | Six Months Ended | | |
|--|--------------------|-------------------|----------|-------------------|-------------------|----------|
| | February 29, 2008 | February 28, 2007 | % Change | February 29, 2008 | February 28, 2007 | % Change |
| ADJUSTED OPERATING PROFIT (LOSS): | | | | | | |
| Americas Recycling | \$ 25,634 | \$ 26,399 | (2.9)% | \$ 42,511 | \$ 48,383 | (12.1)% |
| Americas Mills | 55,263 | 56,185 | (1.6)% | 124,476 | 128,398 | (3.1)% |
| Americas Fabrication and Distribution | (7,638) | 11,656 | (165.5)% | 22,798 | 40,555 | (43.8)% |
| International Mills* | 9,651 | 25,985 | (62.9)% | 9,074 | 51,872 | (82.5)% |
| International Fabrication and Distribution | 21,708 | 17,260 | 25.8% | 48,267 | 27,672 | 74.4% |
| Corporate and Eliminations | (25,793) | (18,894) | (36.5)% | (48,504) | (29,355) | (65.2)% |
| Discontinued Operations | (3,972) | (2,477) | (60.4)% | 2,829 | (5,504) | 151.4% |

* Dollars are before minority interests.

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

| (in thousands) | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | February 29, 2008 | February 28, 2007 | February 29, 2008 | February 28, 2007 |
| Americas Recycling | \$ (4,969) | \$ 1,774 | \$ (6,801) | \$ 577 |
| Americas Mills | (18,193) | (7,683) | (14,330) | (11,654) |
| Americas Fabrication and Distribution | (35,160) | (14,139) | (39,467) | (11,692) |
| International Fabrication and Distribution* | (632) | 1,149 | 5,906 | (6,277) |
| Consolidated increase (decrease) to adjusted profit before tax | \$(58,954) | \$(18,899) | \$(54,692) | \$(29,046) |

* LIFO income (expense) includes

a division
classified as
discontinued
operations.

Americas Recycling For the three and six months ended February 29, 2008 net sales for the Recycling segment increased 22% to \$478 million and 12% to \$903 million, respectively. Adjusted operating profit for the three and six months ended February 29, 2008 decreased 3% to \$25.6 million and 12% to \$42.5 million, respectively. The average ferrous scrap sales price for the second quarter of 2008 as compared to last year's second quarter increased \$73 per ton to \$287 per ton, while shipments increased 17% to 754 thousand tons. As a result of rising prices, we recorded LIFO expense of \$5.0 million in the second quarter of 2008 as compared to income of \$1.8 million in last year's second quarter. The average nonferrous scrap sales price for the quarter was \$2,780 per ton, 2% higher than last year's second quarter. Nonferrous shipments decreased 12% to 72 thousand tons as compared to the second quarter of 2007 due to weak residential construction, lower manufacturing input, and Chinese consumers opening warehouses in the U.S. Due to strong international demand for scrap and other products, we exported 37% of our nonferrous scrap and 7% of our ferrous scrap during the quarter.

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

| | Three Months Ended | | Increase | | Six Months Ended | | Increase | |
|------------------------------------|--------------------|-------------------|-------------------|-------|-------------------|-------------------|-------------------|-------|
| | February 29, 2008 | February 28, 2007 | (Decrease) Amount | % | February 29, 2008 | February 28, 2007 | (Decrease) Amount | % |
| Ferrous sales price | \$ 287 | \$ 214 | \$ 73 | 34% | \$ 261 | \$ 201 | \$ 60 | 30% |
| Nonferrous sales price | \$2,780 | \$ 2,717 | \$ 63 | 2% | \$2,842 | \$ 2,808 | \$ 34 | 1% |
| Ferrous tons shipped | 754 | 645 | 109 | 17% | 1,460 | 1,349 | 111 | 8% |
| Nonferrous tons shipped | 72 | 82 | (10) | (12)% | 148 | 169 | (21) | (12)% |
| Total volume processed and shipped | 833 | 733 | 100 | 14% | 1,620 | 1,531 | 89 | 6% |

Americas Mills We include our four domestic steel and our copper tube minimills in our Americas Mills segment. For the three and six months ended February 29, 2008, net sales increased 33% to \$467.8 million and 25% to \$870.6 million, respectively. Adjusted operating profit for the three and six months ended February 29, 2008 of \$55.3 million and \$124.5 million, respectively, remained relatively flat as compared to the prior year's comparable periods despite a significant increase in LIFO expense due to spiking ferrous scrap prices. For the three and six months ended February 29, 2008, this segment recorded LIFO expense of \$18.2 million and \$14.3 million, respectively, as compared to expense of \$7.7 million and \$11.7 million, respectively, in the prior year.

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

| | Three Months Ended | | Increase | | Six Months Ended | | Increase | |
|---|--------------------|-------------------|-------------------|------|-------------------|-------------------|-------------------|------|
| | February 29, 2008 | February 28, 2007 | (Decrease) Amount | % | February 29, 2008 | February 28, 2007 | (Decrease) Amount | % |
| Average mill selling price (finished goods) | \$657 | \$ 556 | \$101 | 18% | \$636 | \$ 563 | \$73 | 13% |
| Average mill selling price (total sales) | 617 | 541 | 76 | 14% | 601 | 549 | 52 | 9% |
| Average ferrous scrap production cost | 292 | 215 | 77 | 36% | 269 | 211 | 58 | 27% |
| Average metal margin | 324 | 326 | (2) | (1)% | 332 | 337 | (5) | (1)% |
| | 275 | 200 | 75 | 38% | 254 | 192 | 62 | 32% |

Average ferrous
scrap purchase
price

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

| | Three Months Ended | | Increase | | Six Months Ended | | Increase | |
|--------------|---------------------------|-----------------|-------------------|----------|-------------------------|-----------------|-------------------|----------|
| | February | February | (Decrease) | | February | February | (Decrease) | |
| | 29, | 28, | (Decrease) | | 29, | 28, | (Decrease) | |
| | 2008 | 2007 | Amount | % | 2008 | 2007 | Amount | % |
| Tons melted | 578 | 531 | 47 | 9% | 1,144 | 1,063 | 81 | 8% |
| Tons rolled | 504 | 515 | (11) | (2)% | 991 | 1,046 | (55) | (5)% |
| Tons shipped | 630 | 563 | 67 | 12% | 1,224 | 1,089 | 135 | 12% |

Our domestic steel mills adjusted operating profit decreased 6% due to LIFO expense of \$19 million this quarter as compared to \$13.1 million in last year's second quarter. Metal margins were slightly lower at \$324 per ton due to timing differences between the increase in sales price which came late in the quarter and the rising ferrous scrap cost which was spread throughout the quarter. The price of ferrous scrap consumed rose 36% compared to last year's second quarter. Our average selling price was up \$76 per ton to \$617 per ton while the average selling price for finished goods was up \$101 per ton to \$657 per ton. Margins were also impacted by a 100% increase in alloys, a 21% increase in electrodes, and a 17% increase in energy costs during the second quarter of 2008 as compared to 2007. Combined, these three costs accounted for an increase of approximately \$11.5 million during the second quarter of

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2008 over the second quarter of 2007. Tons shipped increased 12% to 630 thousand tons of which rebar shipments increased 6% and merchant shipments increased 17% during the second quarter of 2008.

The table below reflects our copper tube minimill s prices per pound and operating statistics:

| | Three Months Ended | | Increase | | Six Months Ended | | Increase | |
|--|-------------------------|-------------------------|----------------------|------|-------------------------|-------------------------|----------------------|-----|
| | February 29, 2008 | February 28, 2007 | (Decrease) Amount | % | February 29, 2008 | February 28, 2007 | (Decrease) Amount | % |
| Pounds shipped (in millions) | 14.5 | 11.5 | 3.0 | 26% | 26.2 | 21.9 | 4.30 | 20% |
| Pounds produced (in millions) | 12.8 | 10.4 | 2.4 | 23% | 24.4 | 20.5 | 3.90 | 19% |
| Average selling price | \$3.83 | \$ 3.50 | \$ 0.33 | 9% | \$4.03 | \$ 3.82 | \$0.21 | 5% |
| Average copper scrap production cost | \$2.97 | \$ 3.05 | \$(0.08) | (3)% | \$3.10 | \$ 3.07 | \$0.03 | 1% |
| Average metal margin | \$0.86 | \$ 0.45 | \$ 0.41 | 91% | \$0.94 | \$ 0.75 | \$0.19 | 25% |
| Average copper scrap purchase price | \$3.08 | \$ 2.78 | \$ 0.30 | 11% | \$3.17 | \$ 2.96 | \$0.21 | 7% |

Our copper tube minimill s adjusted operating profit for the three and six months ended February 29, 2008 increased 100% to \$4.4 million and 36% to \$7.6 million, respectively. The increase in adjusted operating income for the quarter was driven by a 38% increase in net sales offset by a \$4.6 million swing in LIFO expense quarter over quarter. LIFO income for the quarter was \$0.8 million as compared to income of \$5.4 million for the prior year s quarter. Pounds shipped increased 26% to 14.5 million on the strength of commercial markets, additional orders from buying groups and the pullback from a market competitor. The average selling price increased 33 cents to \$3.83 per pounds and the metal margin increased 41 cents to 86 cents overcoming copper scrap price increases of 30 cents to \$3.08 per pound. Copper tube production increased 23% to 12.8 million pounds compared to prior year s second quarter.

Americas Fabrication and Distribution Net sales for the three and six months ended February 29, 2008 were \$636.9 million and \$1,278.2 million, respectively, compared to the prior year s comparable periods of \$599.4 million and \$1,214.7 million, respectively. During the second quarter of 2008, this segment reported adjusted operating loss of \$7.6 million as compared to adjusted operating income of \$11.7 million in the prior year which resulted from LIFO expense of \$35.2 million for the second quarter of 2008 as compared to \$14.1 million in the prior year s second quarter caused by escalating steel prices. The composite average selling price increased 9% to \$1,022 per ton. While average pricing was up across all product areas as compared to prior year, margins were temporarily squeezed until jobs currently bid at higher prices reach production. Shipments were flat as compared to prior quarter.

Our domestic steel import and distribution operations continue to feel the pressure of a weak U.S. dollar, high international prices and elevated freight rates.

Our domestic fabrication plants s shipments and average selling prices per ton were as follows:

| | Three Months Ended | | Increase | | Six Months Ended | | Increase | |
|--|-------------------------|-------------------------|----------------------|---|-------------------------|-------------------------|----------------------|---|
| | February 29, 2008 | February 28, 2007 | (Decrease) Amount | % | February 29, 2008 | February 28, 2007 | (Decrease) Amount | % |

Average selling
price*

| | | | | | | | | |
|------------|--------|--------|-------|------|--------|--------|-------|------|
| Rebar | \$ 871 | \$ 817 | \$ 54 | 7% | \$ 859 | \$ 806 | \$ 53 | 7% |
| Joist | 1,310 | 1,160 | 150 | 13% | 1,302 | 1,147 | 155 | 14% |
| Structural | 2,662 | 2,459 | 203 | 8% | 2,408 | 2,409 | (1) | 0% |
| Post | 742 | 713 | 29 | 4% | 737 | 713 | 24 | 3% |
| Deck | 1,226 | | 1,226 | 100% | 1,264 | | 1,264 | 100% |

* Excluding stock
and buyout
sales.

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| | Three Months Ended | | Increase | | Six Months Ended | | Increase | |
|--------------------------------|---------------------------|-----------------|-------------------|----------|-------------------------|-----------------|-------------------|----------|
| | February | February | (Decrease) | | February | February | (Decrease) | |
| | 29, | 28, | Amount | % | 29, | 28, | Amount | % |
| | 2008 | 2007 | | | 2008 | 2007 | | |
| Tons shipped (in thousands) | | | | | | | | |
| Rebar | 226 | 247 | (21) | (9)% | 488 | 531 | (43) | (8)% |
| Joist | 47 | 79 | (32) | (41)% | 128 | 158 | (30) | (19)% |
| Structural | 19 | 16 | 3 | 19% | 37 | 34 | 3 | 9% |
| Post | 26 | 24 | 2 | 8% | 45 | 47 | (2) | (4)% |
| Deck | 58 | | 58 | 100% | 106 | | 106 | 100% |

International Mills Net sales for the three and six months ended February 29, 2008 increased 26% to \$245.9 million and 16% to \$414.1 million, respectively. Our sales were positively impacted by favorable foreign exchange rates which resulted in an increase in net sales of approximately 16% for both the three and six months ended February 29, 2008. Adjusted operating profit for the three and six months ended February 29, 2008 decreased 63% to \$9.7 million and 83% to \$9.1 million, respectively. The decrease in adjusted operating profit was mainly due to continued start-up costs at our mill in Croatia (CMC Sisak) which was acquired in the first quarter of 2008. Our mill in Poland saw an improved pricing environment from mid-quarter after experiencing a country-wide inventory overhang in the first quarter of 2008. Shipments increased 34 thousand to 403 thousand tons due to a mild winter, low inventory levels at the end of 2007, the reduction of Turkish and Chinese imports in the region and a strong Middle East construction market. Average mill selling price decreased 5% to PLN 1,414 per ton from PLN 1,486 per ton. The average ferrous scrap purchase price increased 5% to PLN 782 per ton from PLN 742 per ton. The average metal margin decreased 11% to PLN 589 per ton from PLN 660 per ton.

CMC Sisak reported an adjusted operating loss of \$6.4 million during the second quarter of 2008 due to start-up costs and regaining customer acceptance. We rolled 12,100 tons and sold 9,200 tons during the quarter.

The following table reflects operating statistics and average prices per short ton of our Polish minimill operations:

| | Three Months Ended | | Increase | | Six Months Ended | | Increase | |
|--|---------------------------|-----------------|-------------------|----------|-------------------------|-----------------|-------------------|----------|
| | February | February | (Decrease) | | February | February | (Decrease) | |
| | 29, | 28, | Amount | % | 29, | 28, | Amount | % |
| | 2008 | 2007 | | | 2008 | 2007 | | |
| Tons melted (thousands) | 385 | 378 | 7 | 2% | 679 | 736 | (57) | (8)% |
| Tons rolled (thousands) | 308 | 292 | 16 | 5% | 550 | 588 | (38) | (6)% |
| Tons shipped (thousands) | 403 | 369 | 34 | 9% | 671 | 681 | (10) | (1)% |
| Average mill selling price (total sales) | 1,414 PLN | 1,486 PLN | (72) PLN | (5)% | 1,444 PLN | 1,506 PLN | (62) PLN | (4)% |
| Average ferrous scrap production cost | 825 PLN | 826 PLN | (1) PLN | 0% | 841 PLN | 821 PLN | 20 PLN | 2% |
| Average metal margin | 589 PLN | 660 PLN | (71) PLN | (11)% | 603 PLN | 685 PLN | (82) PLN | (12)% |

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| | | | | | | | | |
|--|---------|---------|--------|-----|---------|---------|--------|-----|
| Average ferrous scrap purchase price | 782 PLN | 742 PLN | 40 PLN | 5% | 768 PLN | 734 PLN | 34 PLN | 5% |
| Average mill selling price (total sales) | \$576 | \$ 507 | \$69 | 14% | \$574 | \$ 502 | \$ 72 | 14% |
| Average ferrous scrap production cost | \$336 | \$ 282 | \$54 | 19% | \$333 | \$ 274 | \$ 59 | 22% |
| Average metal margin | \$240 | \$ 225 | \$15 | 7% | \$241 | \$ 228 | \$ 13 | 6% |
| Average ferrous scrap purchase price | \$319 | \$ 253 | \$66 | 26% | \$305 | \$ 244 | \$ 61 | 25% |

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International Fabrication and Distribution Our International Fabrication and Distribution Segment reported net sales for the three and six months ended February 29, 2008 of \$752.5 million, an increase of 14%, and \$1,509.9 million, an increase of 19%. Our sales were positively impacted by favorable foreign exchange rates which resulted in an increase in net sales of approximately 5% for both the three and six months ended February 29, 2008. Adjusted operating income increased 26% to \$21.7 million and 74% to \$48.3 million. These results were fueled by strong international demand coupled with supply interruptions in China and South Africa. Additionally, the segment's raw materials division set all-time quarterly sales records and posted its best second quarter profit ever. European operations were again profitable and the decline in Chinese steel exports supported higher prices and good profitability in inter-Asian markets. Australian marketing and distribution operations both remained profitable, and the combined operations of our fabrication operations returned profitable after a slight loss in the first quarter.

Corporate and Eliminations Corporate expenses for the three and six months ended February 29, 2008 increased \$6.9 million and \$19.1 million, respectively, primarily due to costs incurred for our investment in the global installment of SAP. The incremental cost for SAP for the three and six months ended February 29, 2008 was \$4.8 million and \$14.3 million. The increase in total assets is primarily due to the capitalization of \$59.4 million of software development costs since the SAP project's inception.

Discontinued Operations The change in our division classified as a discontinued operation primarily resulted from LIFO expense of \$0.6 million recorded during the second quarter of 2008 as compared to income of \$1.1 million during the second quarter of 2007. For the six months ended February 29, 2008, the division recorded LIFO income of \$5.9 million compared to expense of \$6.3 million for the comparable period in prior year.

CONSOLIDATED DATA

On a consolidated basis, for the quarter ended February 29, 2008, the LIFO method of inventory valuation decreased our earnings on a pre-tax basis by \$59.0 million or 32 cents per diluted share as compared to a decrease of \$18.9 million or 10 cents per diluted share for the same period last year. For the six months ended February 29, 2008 and February 28, 2007, LIFO decreased our net earnings on a pre-tax basis by \$54.7 million or 30 cents per diluted share and \$29.0 million or 16 cents per diluted share, respectively.

Our overall selling, general and administrative (SG&A) expenses increased by \$20.0 million and \$38.6 million for the three and six months ended February 29, 2008, respectively, because of salary and other compensation related costs due to growth and expenses related to the implementation of SAP.

During the three and six months ended February 29, 2008, our interest expense increased by \$5.5 million and \$9.9 million, respectively, as compared to 2007, primarily due to higher average debt balances outstanding from our \$400 million debt issuance in July 2007.

Our overall effective tax rate for the three and six months ended February 29, 2008 was 35.3% and 34.5%, respectively as compared to 34.9% and 35.3% for the same periods in 2007.

CONTINGENCIES

See Note K Contingencies, to the condensed consolidated financial statements.

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

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

Table of Contents**OUTLOOK**

Our third quarter should be strong. Global infrastructure growth will continue to create solid demand for rebar and other steel long products in emerging countries. In the U.S., nonresidential construction growth should be flat. Supply of rebar is likely to be impacted by the reduced level of rebar imports. Supply of steel products in global markets is likely to be significantly impacted by the Chinese cut back in steel exports. The contract iron ore prices for 2008 (up 65% plus) should support higher pig iron and ferrous scrap prices in global markets.

Higher prices globally and in the U.S. for raw materials, ferrous scrap and steel long products should be positive for four of our five segments. The Americas Fabrication and Distribution segment is likely to be impacted by a margin squeeze due to higher steel prices. We anticipate a significant LIFO expense for the third quarter of 2008.

LIQUIDITY AND CAPITAL RESOURCES

See Note G Credit Arrangements, to the condensed consolidated financial statements.

Our sources, facilities and availability of liquidity and capital resources as of February 29, 2008 (dollars in thousands):

| Source | Total Facility | Availability |
|--|---------------------------|---------------------|
| Commercial paper program* | \$ 400,000 | \$332,435 |
| Domestic accounts receivable securitization | 200,000 | 200,000 |
| International accounts receivable sales facilities | 354,170 | 139,224 |
| Bank credit facilities uncommitted | 1,125,125 | 569,057 |
| Notes due from 2008 to 2013 | 700,000 | ** |
| Trade financing arrangements | ** | As required |
| CMCZ revolving credit facility | 43,103 | 43,103 |
| CMC Sisak notes | 29,289 | 749 |
| CMCZ & CMC Poland equipment notes | 9,927 | |

* The commercial paper program is supported by our \$400 million unsecured revolving credit agreement. The availability under the revolving credit agreement is reduced by \$27.6 million of stand-by letters of credit issued as of February 29, 2008.

** With our investment grade credit ratings and

current industry
conditions we
believe we have
access to
cost-effective
public markets
for potential
refinancing or
the issuance of
additional
long-term debt.

Certain of our financing agreements, both domestically and at CMCZ, include various covenants, of which we were in compliance at February 29, 2008. There are no guarantees by the Company or any of its subsidiaries for any of CMCZ's debt. The CMC Sisak notes are guaranteed by CMC International.

Off-Balance Sheet Arrangements For added flexibility, we may secure financing through securitization and sales of certain accounts receivable both in the U.S. and internationally. See Note D Sales of Accounts Receivable, to the condensed consolidated financial statements. We may continually sell accounts receivable on an ongoing basis to replace those receivables that have been collected from our customers. Our domestic securitization program contains certain cross-default provisions whereby a termination event could occur should we default under another credit arrangement, and contains covenants that conform to the same requirements contained in our revolving credit agreement.

Cash Flows Our cash flows from operating activities primarily result from sales of steel and related products, and to a lesser extent, sales of nonferrous metal products. We have a diverse and generally stable customer base.

During the first six months of 2008, we used \$50 million of net cash flows by operating activities as compared to generating \$88 million in the first six months of 2007. This change is primarily the result of a decrease in net earnings adjusted for non-cash items of \$32 million and an increase in cash used for working capital of \$105 million. The increase in cash used for working capital mainly relates to an increase in accounts receivable. Additionally, we sold \$37.4 million of accounts receivable as part of our international accounts receivable securitization program during the first six months of 2008 compared to \$95.3 million for the comparative period in the prior year.

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We expect our current approved total capital spending for fiscal year 2008 to be approximately \$494 million, including \$96 million on the construction of the micro mill in Phoenix, Arizona, \$94 million on SAP implementation and \$20 million on the installation of a new flexible section mill in CMCZ. We invested \$144 million in property, plant and equipment during the first six months of 2008. We continuously assess our capital spending and reevaluate our requirements based upon current and expected results.

During the six months ended February 29, 2008, we purchased 5.4 million shares of our common stock as part of our stock repurchase program at an average price of \$28.00 per share for a total of \$152 million. Our contractual obligations for the next twelve months of \$1.6 billion are typically expenditures with normal revenue processing activities. We believe our cash flows from operating activities and debt facilities are adequate to fund our ongoing operations and planned capital expenditures.

CONTRACTUAL OBLIGATIONS

The following table represents our contractual obligations as of February 29, 2008:

| (dollars in thousands) | Total | Payments Due By Period* | | | More than 5 Years |
|-------------------------------------|-------------|-------------------------|-----------|-----------|----------------------|
| | | Less than 1 Year | 1-3 Years | 3-5 Years | |
| Contractual Obligations: | | | | | |
| Long-term debt ⁽¹⁾ | \$ 711,052 | \$ 104,429 | \$ 6,568 | \$ 16 | \$ 600,039 |
| Commercial paper | 39,990 | 39,990 | | | |
| Notes payable | 29,613 | 29,613 | | | |
| Interest ⁽²⁾ | 315,299 | 44,188 | 74,874 | 74,509 | 121,728 |
| Operating leases ⁽³⁾ | 161,792 | 38,961 | 55,772 | 32,133 | 34,926 |
| Purchase obligations ⁽⁴⁾ | 1,702,067 | 1,332,860 | 325,626 | 25,472 | 18,109 |
| Total contractual cash obligations | \$2,959,813 | \$1,590,041 | \$462,840 | \$132,130 | \$774,802 |

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

(1) Total amounts are included in the February 29, 2008 condensed consolidated balance sheet. See Note G, Credit Arrangements, to the condensed consolidated financial statements.

(2)

Interest payments related to our short-term debt are not included in the table as they do not represent a significant obligation as of February 29, 2008.

(3) Includes minimum lease payment obligations for non-cancelable equipment and real-estate leases in effect as of February 29, 2008.

(4) About 73% of these purchase obligations are for inventory items to be sold in the ordinary course of business. Purchase obligations include all enforceable, legally binding agreements to purchase goods or services that specify all significant terms, regardless of the duration of the agreement. Agreements with variable terms are excluded

because we are
unable to
estimate the
minimum
amounts.

Other Commercial Commitments We maintain stand-by letters of credit to provide support for certain transactions that our insurance providers and suppliers request. At February 29, 2008, we had committed \$33.0 million under these arrangements. All of the commitments expire within one year.

See Note K Contingencies, to the condensed consolidated financial statements regarding our guarantees.

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FORWARD-LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements regarding the outlook for our financial results including net earnings, product pricing and demand, currency valuation, production rates, inventory levels, new capital investments, software implementation costs, and general market conditions. These forward-looking statements generally can be identified by phrases such as we expect, anticipate believe, ought, should, likely, appear, , project, fore similar words or phrases of similar impact. There is inherent risk and uncertainty in any forward-looking statements. Variances will occur and some could be materially different from our current opinion. Developments that could impact our expectations include the following:

interest rate changes,

construction activity,

metals pricing over which we exert little influence,

increased capacity and product availability from competing steel minimills and other steel suppliers including import quantities and pricing,

court decisions,

industry consolidation or changes in production capacity or utilization,

global factors including political and military uncertainties,

credit availability,

currency fluctuations,

energy prices,

cost of construction,

successful implementation of new technology,

successful integration of acquisitions,

decisions by governments impacting the level of steel imports, and

pace of overall economic activity, particularly China.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required hereunder for the Company is consistent with the information set forth in Item 7a. Quantitative and Qualitative Disclosures about Market Risk included in the Company's Annual Report on Form 10-K for the year ended August 31, 2007, filed with the Securities Exchange Commission and is, therefore, not presented herein.

Also, see Note J Derivatives and Risk Management, to the condensed consolidated financial statements.

ITEM 4. CONTROLS AND PROCEDURES

The term disclosure controls and procedures is defined in Rules 13a-15(e) of the Securities Exchange Act of 1934, or the Exchange Act. This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods, including controls and disclosures designed to ensure that this information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our Chief Executive Officer and our Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report, and they have concluded that as of that date, our disclosure controls and procedures were effective.

During the second quarter of 2008, we initiated the eventual Company-wide rollout of SAP. The Company implemented SAP at its corporate headquarters, all payroll functions in the United States and at one of its domestic steel mills. The implementation resulted in modifications to internal controls over the related accounting and operating processes at these locations and for these functions. We evaluated the control environment as affected by the implementation and believe our controls remained effective. We intend to implement SAP globally to most business segments within the next two years. Other than the changes mentioned above, no other change to our internal control over financial reporting occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, internal control over our financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not Applicable.

ITEM 1A. RISK FACTORS

Not Applicable.

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

Issuer Purchases of Equity Securities

| | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|--------------------------------|---|------------------------------------|--|---|
| As of December 1, 2007 | | | | 4,479,640 (1) |
| December 1 - December 31, 2007 | 0 | 0 | 0 | 4,479,640 |
| January 1 - January 31, 2008 | 36,188 (2) | \$26.97 | 2,487,093 | 1,992,547 |
| February 1 - February 29, 2008 | 0 (2) | \$28.13 | 1,180,000 | 812,547 |
| As of February 29, 2008 | 36,188 (2) | \$27.33 | 3,667,093 | 812,547 (1) |

(1) Shares available to be purchased under the Company's Share Repurchase Program publicly announced November 5, 2007.

(2) Shares tendered to the Company by employee stock option holders in payment of the option purchase price due upon exercise.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the registrant's annual meeting of stockholders held January 24, 2008, the four nominees named in the Proxy Statement dated December 18, 2007, were elected to serve as directors until the 2011 annual meeting. There was no

solicitation in opposition to the nominees for directors. The proposal to ratify the appointment of Deloitte & Touche LLP as auditors of the registrant for the fiscal year ending August 31, 2008 was approved. No stockholder was present to present the stockholder proposal described in the Proxy Statement. Therefore the shareholder proposal was not properly before the meeting and not voted upon.

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Of the 116,921,377 shares outstanding on the record date, 102,771,169 were present in person or by proxy constituting approximately 87.9% of the total shares entitled to vote. Information as to the vote on each director standing for election, all matters voted on at the meeting and directors continuing in office are provided below:

Proposal 1 Election of Directors.

| Nominee | For | Withheld | Not Voted |
|------------------|-------------|-----------|-----------|
| Robert L. Guido | 101,633,969 | 1,137,200 | -0- |
| Dorothy G. Owen | 101,195,802 | 1,575,367 | -0- |
| J. David Smith | 101,537,496 | 1,233,673 | -0- |
| Robert R. Womack | 101,285,774 | 1,485,395 | -0- |

Directors continuing in office are:

Harold L. Adams

Moses Feldman

Ralph E. Loewenberg

Anthony A. Massaro

Murray R. McClean

Robert D. Neary

Stanley A. Rabin

Proposal 2 Ratification of appointment of Deloitte & Touche LLP as independent auditors for the fiscal year ending August 31, 2008.

For: 102,059,727

Against: 420,615

Abstain: 290,827

No shareholder presented the proposal therefore it was not properly before the meeting for vote.

ITEM 5. OTHER INFORMATION

Not Applicable

ITEM 6. EXHIBITS

Exhibits required by Item 601 of Regulation S-K.

- 31.1 Certification of Murray R. McClean, President and Chief Executive Officer of Commercial Metals Company, pursuant to Section 302 to the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.2 Certification of William B. Larson, Senior Vice President and Chief Financial Officer of Commercial Metals Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.1 Certification of Murray R. McClean, President and Chief Executive Officer of Commercial Metals Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.2 Certification of William B. Larson, Senior Vice President and Chief Financial Officer of Commercial Metals Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

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SIGNATURES

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

COMMERCIAL METALS
COMPANY

/s/ William B. Larson

April 9, 2008

William B. Larson
Senior Vice President
& Chief Financial Officer

/s/ Leon K. Rusch

April 9, 2008

Leon K. Rusch
Controller

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