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

FORM 10-Q

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended February 29, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-4304

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

Delaware	75-0725338
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

6565 N. MacArthur Blvd.
Irving, Texas 75039
(Address of Principal Executive Offices) (Zip Code)
(214) 689-4300
(Registrant's Telephone Number, Including Area Code)

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

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

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

The number of shares outstanding of common stock as of March 24, 2016 was 114,544,724.

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

(in thousands, except share data)	Three Months Ended February 29, 2016	Three Months Ended February 28, 2015	Six Months Ended February 29, 2016	Six Months Ended February 28, 2015
Net sales	$1,019,697	$1,391,117	$2,174,556	$3,071,107
Costs and expenses:				
Cost of goods sold	884,876	1,244,042	1,882,118	2,744,109
Selling, general and administrative expenses	93,918	109,602	195,826	222,985
Loss on debt extinguishment	11,365	—	11,365	—
Interest expense	16,625	19,252	34,929	38,309
	1,006,784	1,372,896	2,124,238	3,005,403
Earnings from continuing operations before income taxes	12,913	18,221	50,318	65,704
Income taxes	2,064	4,756	13,836	17,974
Earnings from continuing operations	10,849	13,465	36,482	47,730
Loss from discontinued operations before income taxes (benefit)	(446)	(7,268)	(1,018)	(9,370)
Income taxes (benefit)	(99)	—	(101)	(21)
Loss from discontinued operations	(347)	(7,268)	(917)	(9,349)
Net earnings	10,502	6,197	35,565	38,381
Less net earnings attributable to noncontrolling interests	—	—	—	—
Net earnings attributable to CMC	$10,502	$6,197	$35,565	$38,381
Basic earnings (loss) per share attributable to CMC:				
Earnings from continuing operations	$0.09	$0.12	$0.32	$0.41
Loss from discontinued operations	—	(0.06)	(0.01)	(0.08)
Net earnings	$0.09	$0.06	$0.31	$0.33
Diluted earnings (loss) per share attributable to CMC:				
Earnings from continuing operations	$0.09	$0.11	$0.31	$0.40
Loss from discontinued operations	—	(0.06)	(0.01)	(0.08)
Net earnings	$0.09	$0.05	$0.30	$0.32
Cash dividends per share	$0.12	$0.12	$0.24	$0.24
Average basic shares outstanding	115,429,550	116,688,162	115,725,896	117,244,406
Average diluted shares outstanding	116,507,591	117,683,476	117,002,822	118,395,844

See notes to unaudited condensed consolidated financial statements.

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

(in thousands)	Three Months Ended February 29, 2016	Three Months Ended February 28, 2015	Six Months Ended February 29, 2016	Six Months Ended February 28, 2015
Net earnings	$10,502	$6,197	$35,565	$38,381
Other comprehensive income (loss), net of income taxes:				
Foreign currency translation adjustment and other	4,211	(43,979)	(17,784)	(71,263)
Net unrealized gain (loss) on derivatives:				
Unrealized holding gain (loss), net of income taxes of $221, $(839), $74 and $(1,123)	494	(1,900)	485	(2,425)
Reclassification for loss (gain) included in net earnings, net of income taxes of $(28), $391, $(77) and $417	(56)	727	(174)	766
Net unrealized gain (loss) on derivatives, net of income taxes of $193, $(448), $(3) and $(706)	438	(1,173)	311	(1,659)
Defined benefit obligation:				
Net gain, net of income taxes of $0, $0, $0 and $4	—	—	—	8
Amortization of prior services, net of income taxes of $0, $(2), $(1) and $(1)	(2)	(2)	(3)	(6)
Defined benefit obligation, net of income taxes of $0, $(2), $(1) and $3	(2)	(2)	(3)	2
Other comprehensive income (loss)	4,647	(45,154)	(17,476)	(72,920)
Comprehensive income (loss)	$15,149	$(38,957)	$18,089	$(34,539)

See notes to unaudited condensed consolidated financial statements.

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

(in thousands, except share data)	February 29, 2016	August 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$381,678	$485,323
Accounts receivable (less allowance for doubtful accounts of $9,367 and $9,033)	685,553	900,619
Inventories, net	753,695	880,484
Current deferred tax assets	—	3,310
Other current assets	145,459	93,643
Assets of businesses held for sale	13,989	17,008
Total current assets	1,980,374	2,380,387
Property, plant and equipment:		
Land	74,982	75,086
Buildings and improvements	496,625	489,500
Equipment	1,660,236	1,670,755
Construction in process	87,166	59,241
	2,319,009	2,294,582
Less accumulated depreciation and amortization	(1,441,174)	(1,410,932)
	877,835	883,650
Goodwill	66,259	66,383
Other noncurrent assets	119,043	115,168
Total assets	$3,043,511	$3,445,588
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable-trade	$209,991	$260,984
Accounts payable-documentary letters of credit	15,658	41,473
Accrued expenses and other payables	210,670	290,677
Notes payable	—	20,090
Current maturities of long-term debt	10,845	10,110
Liabilities of businesses held for sale	4,091	5,276
Total current liabilities	451,255	628,610
Deferred income taxes	61,671	55,803
Other long-term liabilities	109,955	101,919
Long-term debt	1,071,832	1,277,882
Total liabilities	1,694,713	2,064,214
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Common stock, par value $0.01 per share; authorized 200,000,000 shares; issued 129,060,664 shares; outstanding 114,535,735 and 115,635,338 shares	1,290	1,290
Additional paid-in capital	351,653	365,863
Accumulated other comprehensive loss	(131,011)	(113,535)
Retained earnings	1,381,294	1,373,568
Less treasury stock, 14,524,929 and 13,425,326 shares at cost	(254,587)	(245,961)
Stockholders' equity attributable to CMC	1,348,639	1,381,225
Stockholders' equity attributable to noncontrolling interests	159	149
Total stockholders' equity	1,348,798	1,381,374
Total liabilities and stockholders' equity	$3,043,511	$3,445,588

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, 2016	Six Months Ended February 28, 2015
Cash flows from (used by) operating activities:		
Net earnings	$35,565	$38,381
Adjustments to reconcile net earnings to cash flows from (used by) operating activities:		
Depreciation and amortization	63,541	66,988
Provision for losses on receivables, net	2,740	1,271
Stock-based compensation	13,106	11,822
Amortization of interest rate swaps termination gain	(3,798)	(3,799)
Loss on debt extinguishment	11,365	—
Deferred income taxes	(4,614)	(8,946)
Tax benefit from stock plans	(55)	(46)
Net gain on sale of assets and other	(2,767)	(2,014)
Write-down of inventories	7,949	4,119
Asset impairment	—	149
Changes in operating assets and liabilities:		
Accounts receivable	190,622	138,132
Advance payments on sale of accounts receivable programs, net	11,504	(50,329)
Inventories	111,544	(174,990)
Other assets	2,681	5,019
Accounts payable, accrued expenses and other payables	(115,002)	(159,978)
Other long-term liabilities	8,429	(5,063)
Net cash flows from (used by) operating activities	332,810	(139,284)
Cash flows from (used by) investing activities:		
Capital expenditures	(62,437)	(49,498)
Increase in restricted cash	(49,145)	—
Proceeds from the sale of subsidiaries	—	2,354
Proceeds from the sale of property, plant and equipment and other	3,060	8,273
Net cash flows used by investing activities	(108,522)	(38,871)
Cash flows from (used by) financing activities:		
Repayments on long-term debt	(205,816)	(5,348)
Treasury stock acquired	(30,595)	(39,580)
Cash dividends	(27,839)	(28,184)
Increase (decrease) in documentary letters of credit, net	(25,815)	137,548
Short-term borrowings, net change	(20,090)	(7,146)
Debt extinguishment costs	(11,013)	—
Stock issued under incentive and purchase plans, net of forfeitures	(5,671)	(1,377)
Decrease in restricted cash	1	3,868
Contribution from noncontrolling interests	29	38
Tax benefit from stock plans	55	46
Net cash flows from (used by) financing activities	(326,754)	59,865
Effect of exchange rate changes on cash	(1,179)	(3,634)
Decrease in cash and cash equivalents	(103,645)	(121,924)
Cash and cash equivalents at beginning of year	485,323	434,925

Cash and cash equivalents at end of period	$381,678	$313,001
Supplemental information:		
Noncash activities:		
Change in liabilities related to purchases of property, plant, and equipment	$2,706	$7,519

See notes to unaudited condensed consolidated financial statements.

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

(in thousands, except share data)	Common Stock Number of Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock Number of Shares	Treasury Stock Amount	Non-controlling Interests	Total
Balance, September 1, 2014	129,060,664	$1,290	$359,338	$(19,509)	$1,350,070	(11,231,402)	$(218,494)	$111	$1,472,806
Net earnings					38,381				38,381
Other comprehensive loss				(72,920)					(72,920)
Cash dividends ($0.24 per share)					(28,184)				(28,184)
Treasury stock acquired						(2,762,835)	(39,580)		(39,580)
Issuance of stock under incentive and purchase plans, net of forfeitures			(14,824)			661,395	13,447		(1,377)
Stock-based compensation			10,173						10,173
Tax benefit from stock plans			46						46
Contribution of noncontrolling interest								38	38
Reclassification of share-based liability awards			3,948						3,948
Balance, February 28, 2015	129,060,664	$1,290	$358,681	$(92,429)	$1,360,267	(13,332,842)	$(244,627)	$149	$1,383,331

(in thousands, except share data)	Common Stock Number of Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock Number of Shares	Treasury Stock Amount	Non-controlling Interests	Total
Balance, September 1, 2015	129,060,664	$1,290	$365,863	$(113,535)	$1,373,568	(13,425,326)	$(245,961)	$149	$1,381,374
Net earnings					35,565				35,565
Other comprehensive loss				(17,476)					(17,476)
Cash dividends ($0.24 per share)					(27,839)				(27,839)
Treasury stock acquired						(2,255,069)	(30,595)		(30,595)

Issuance of stock under incentive and purchase plans, net of forfeitures			(27,640)			1,155,466	21,969		(5,671)
Stock-based compensation			10,321						10,321
Tax benefit from stock plans			55						55
Contribution of noncontrolling interest			19					10	29
Reclassification of share-based liability awards			3,035						3,035
Balance, February 29, 2016	129,060,664	$ 1,290	$ 351,653	$ (131,011)	$ 1,381,294	(14,524,929)	$ (254,587)	$ 159	$ 1,348,798

See notes to unaudited condensed consolidated financial statements.

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

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

Effective September 1, 2015, the Company elected to change its accounting method for valuing its U.S. inventories that used the last-in, first-out (“LIFO”) method to the weighted average cost method for the Americas Mills, Americas Recycling, and Americas Fabrication segments and to the specific identification method for its steel trading division headquartered in the U.S. in its International Marketing and Distribution segment. At September 1, 2015, 51% of the Company's total net inventories were valued using LIFO. The Company believes the changes are preferable because weighted average cost or specific identification (1) results in better matching of revenues and expenses and better reflects the current value of inventory in the Company’s consolidated balance sheet, (2) more closely aligns with the physical flow of these inventories, (3) are the methods the Company uses to monitor the financial results of these segments and this division for operational and financial planning, (4) eliminates the manual LIFO calculation and quarterly LIFO estimation process resulting in greater precision in determining quarterly cost of goods sold and inventory balances and reducing the administrative burden to report inventories because the information systems calculate inventory using the weighted average cost or the specific identification methods, and (5) improves comparability with the Company’s peers. Additionally, the Company believes that the change to using weighted average cost at its Americas Mills, Americas Recycling, and Americas Fabrication segments increases consistency in inventory costing as its International Mill segment currently uses the weighted average cost method. The Company applied this change in accounting principle retrospectively to all prior periods presented herein. The cumulative effect of these accounting changes resulted in a $124.2 million increase in retained earnings as of September 1, 2014.

Also effective September 1, 2015, the Company elected to change its accounting method for valuing its inventories in its International Marketing and Distribution segment, except for its steel trading division headquartered in the U.S., from the first-in, first-out (“FIFO”) method to the specific identification method. At September 1, 2015, 38% of the Company's total net inventories were valued using the FIFO method. The Company believes the change from FIFO to specific identification is preferable because it (1) results in better matching of revenues with expenses, (2) more closely aligns with the physical flow of these inventories, and (3) is the method the Company uses to monitor the financial results of the segment for operational and financial planning. Because this change in accounting principle was immaterial in all prior periods, it was not applied retrospectively. The change did not have a material impact on our condensed consolidated financial statements as of and for the three and six months ended February 29, 2016.

As a result of the retrospective application of the change in accounting principle from LIFO to weighted average cost or specific identification, certain financial statement line items in the Company’s condensed consolidated balance sheet as of August 31, 2015 and its condensed consolidated statements of earnings for the three and six months ended February 28, 2015 and condensed consolidated statement of cash flows for the six months ended February 28, 2015 were adjusted as presented below.

(in thousands, except share data)	As Originally Reported	Effect of Change	As Adjusted
Condensed Consolidated Statement of Earnings for the three months ended February 28, 2015:			
Cost of goods sold	$1,169,703	$74,339	$1,244,042
Income taxes	30,841	(26,085)	4,756
Earnings from continuing operations	61,719	(48,254)	13,465
Net earnings attributable to CMC	54,451	(48,254)	6,197
Basic earnings per share attributable to CMC:			
Earnings from continuing operations	$0.53	$(0.41)	$0.12
Net earnings	0.47	(0.41)	0.06
Diluted earnings per share attributable to CMC:			
Earnings from continuing operations	$0.52	$(0.41)	$0.11
Net earnings	0.46	(0.41)	0.05
Condensed Consolidated Statement of Earnings for the six months ended February 28, 2015:			
Cost of goods sold	$2,663,472	$80,637	$2,744,109
Income taxes	46,288	(28,314)	17,974
Earnings from continuing operations	100,053	(52,323)	47,730
Net earnings attributable to CMC	90,704	(52,323)	38,381
Basic earnings per share attributable to CMC:			
Earnings from continuing operations	$0.85	$(0.44)	$0.41
Net earnings	0.77	(0.44)	0.33
Diluted earnings per share attributable to CMC:			
Earnings from continuing operations	$0.85	$(0.45)	0.40
Net earnings	0.77	(0.45)	0.32
Condensed Consolidated Balance Sheet as of August 31, 2015:			
Inventories, net	$781,371	$99,113	$880,484
Current deferred tax assets	29,137	(25,827)	3,310
Accrued expenses and other payables	279,415	11,262	290,677
Retained earnings	1,311,544	62,024	1,373,568
Condensed Consolidated Statement of Cash Flows for the six months ended February 28, 2015:			
Net earnings	$90,704	$(52,323)	$38,381
Deferred income taxes	20,401	(29,347)	(8,946)
Inventories working capital change	(252,430)	77,440	(174,990)
Accounts payable, accrued expenses and other payables working capital change	(160,628)	650	(159,978)

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

The following table shows the effect of the change in accounting principle from LIFO to weighted average cost or specific identification on earnings from continuing operations, net earnings attributable to CMC and the related basic and diluted earnings per share attributable to CMC for the three and six months ended February 29, 2016:

(in thousands, except share data)	As Computed Under LIFO	As Reported Under New Inventory Costing Methodologies	Effect of Change
Condensed Consolidated Statement of Earnings for the three months ended February 29, 2016:			
Earnings from continuing operations	$27,625	$10,849	$(16,776)
Net earnings attributable to CMC	27,278		