

COMMERCIAL METALS CO

Form 10-Q

July 08, 2011

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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 May 31, 2011

Commission File Number 1-4304

COMMERCIAL METALS COMPANY

(Exact name of registrant as specified in its charter)

Delaware

75-0725338

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

6565 N. MacArthur Blvd.
Irving, Texas 75039

(Address of principal executive offices)(Zip Code)

(214) 689-4300

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if a smaller reporting company)

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

As of July 1, 2011 there were 115,533,540 shares of the Company's common stock outstanding.

**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****CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

| (in thousands, except share and per share data) | May 31, 2011 | August 31, 2010 |
|---|-------------------------|----------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 243,562 | \$ 399,313 |
| Accounts receivable (less allowance for collection losses of \$25,964 and \$29,721) | 936,223 | 824,339 |
| Inventories | 889,464 | 674,680 |
| Other | 230,479 | 276,874 |
| Total current assets | 2,299,728 | 2,175,206 |
| Property, plant and equipment: | | |
| Land | 94,035 | 94,426 |
| Buildings and improvements | 563,099 | 540,285 |
| Equipment | 1,708,294 | 1,649,723 |
| Construction in process | 44,510 | 56,124 |
| | 2,409,938 | 2,340,558 |
| Less accumulated depreciation and amortization | (1,204,802) | (1,108,290) |
| | 1,205,136 | 1,232,268 |
| Goodwill | 72,603 | 71,580 |
| Other assets | 177,591 | 227,099 |
| Total assets | \$ 3,755,058 | \$ 3,706,153 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable-trade | \$ 519,643 | \$ 504,388 |
| Accounts payable-documentary letters of credit | 171,892 | 226,633 |
| Accrued expenses and other payables | 376,812 | 324,897 |
| Notes payable | 8,372 | 6,453 |
| Commercial paper | | 10,000 |
| Current maturities of long-term debt | 38,246 | 30,588 |
| Total current liabilities | 1,114,965 | 1,102,959 |
| Deferred income taxes | 43,688 | 43,668 |
| Other long-term liabilities | 118,378 | 108,870 |
| Long-term debt | 1,165,482 | 1,197,282 |
| Total liabilities | 2,442,513 | 2,452,779 |
| Commitments and contingencies | | |

Stockholders' equity:

Preferred stock

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

129,060,664 shares; outstanding 115,435,601 and 114,325,349 shares

1,290 1,290

Additional paid-in capital

370,786 373,308

Accumulated other comprehensive income (loss)

80,174 (12,526)

Retained earnings

1,127,713 1,178,372

Treasury stock 13,625,063 and 14,735,315 shares at cost

(267,638) (289,708)

Stockholders' equity attributable to CMC

1,312,325 1,250,736

Stockholders' equity attributable to noncontrolling interests

220 2,638

Total equity

1,312,545 1,253,374

Total liabilities and stockholders' equity

\$ 3,755,058 \$ 3,706,153

See notes to unaudited consolidated financial statements.

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

| (in thousands, except share and per share data) | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|--------------|--------------------------|--------------|
| | May 31, | | May 31, | |
| | 2011 | 2010 | 2011 | 2010 |
| Net sales | \$ 2,076,564 | \$ 1,765,154 | \$ 5,650,810 | \$ 4,489,855 |
| Costs and expenses: | | | | |
| Cost of goods sold | 1,861,125 | 1,645,250 | 5,205,197 | 4,253,574 |
| Selling, general and administrative expenses | 145,597 | 108,509 | 390,772 | 389,182 |
| Interest expense | 18,254 | 18,184 | 54,857 | 57,871 |
| | 2,024,976 | 1,771,943 | 5,650,826 | 4,700,627 |
| Earnings (loss) from continuing operations before income taxes | 51,588 | (6,789) | (16) | (210,772) |
| Income taxes (benefit) | 14,493 | 3,952 | 8,688 | (36,101) |
| Earnings (loss) from continuing operations | 37,095 | (10,741) | (8,704) | (174,671) |
| Earnings (loss) from discontinued operations before taxes | (1,429) | 4,001 | (782) | (62,513) |
| Income taxes (benefit) | (554) | 1,723 | (303) | (24,117) |
| Earnings (loss) from discontinued operations | (875) | 2,278 | (479) | (38,396) |
| Net earnings (loss) | \$ 36,220 | \$ (8,463) | \$ (9,183) | \$ (213,067) |
| Less net earnings attributable to noncontrolling interests | 55 | 363 | 163 | 278 |
| Net earnings (loss) attributable to CMC | \$ 36,165 | \$ (8,826) | \$ (9,346) | \$ (213,345) |
| Basic earnings (loss) per share attributable to CMC: | | | | |
| Earnings (loss) from continuing operations | \$ 0.32 | \$ (0.10) | \$ (0.08) | \$ (1.54) |
| Earnings (loss) from discontinued operations | (0.01) | 0.02 | | (0.34) |
| Net earnings (loss) | \$ 0.31 | \$ (0.08) | \$ (0.08) | \$ (1.88) |
| Diluted earnings (loss) per share attributable to CMC: | | | | |
| Earnings (loss) from continuing operations | \$ 0.32 | \$ (0.10) | \$ (0.08) | \$ (1.54) |
| Earnings (loss) from discontinued operations | (0.01) | 0.02 | | (0.34) |
| Net earnings (loss) | \$ 0.31 | \$ (0.08) | \$ (0.08) | \$ (1.88) |
| Cash dividends per share | \$ 0.12 | \$ 0.12 | \$ 0.36 | \$ 0.36 |

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| | | | | |
|------------------------------------|-------------|-------------|-------------|-------------|
| Average basic shares outstanding | 115,403,374 | 114,067,149 | 114,819,792 | 113,279,301 |
| Average diluted shares outstanding | 116,360,755 | 114,067,149 | 114,819,792 | 113,279,301 |

See notes to unaudited consolidated financial statements.

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

| (in thousands) | Nine Months Ended | |
|---|--------------------------|--------------|
| | May 31, | |
| | 2011 | 2010 |
| Cash flows from (used by) operating activities: | | |
| Net loss | \$ (9,183) | \$ (213,067) |
| Adjustments to reconcile net loss to cash from (used by) operating activities: | | |
| Depreciation and amortization | 120,810 | 128,393 |
| Recoveries on receivables, net | (2,922) | (1,831) |
| Share-based compensation | 9,240 | 5,590 |
| Deferred income taxes | 1,357 | (72,304) |
| Tax benefits from stock plans | (2,367) | (3,204) |
| Gain on sale of assets and other | (1,569) | (529) |
| Write-down of inventory | 7,593 | 44,680 |
| Asset impairment | | 32,613 |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Increase in accounts receivable | (141,636) | (107,275) |
| Accounts receivable sold, net | 49,890 | 29,322 |
| Increase in inventories | (202,995) | (41,880) |
| Decrease in other assets | 60,100 | 13,851 |
| Increase in accounts payable, accrued expenses, other payables and income taxes | 59,172 | 209,441 |
| Increase (decrease) in other long-term liabilities | 8,444 | (6,305) |
| Net cash flows from (used by) operating activities | (44,066) | 17,495 |
| Cash flows from (used by) investing activities: | | |
| Capital expenditures | (51,539) | (109,464) |
| Proceeds from the sale of property, plant and equipment and other | 52,253 | 5,287 |
| Proceeds from the sale of equity method investments | 4,224 | |
| Acquisitions, net of cash acquired | | (2,448) |
| Increase in deposit for letters of credit | (3,258) | (27,238) |
| Net cash flows from (used by) investing activities | 1,680 | (133,863) |
| Cash flows from (used by) financing activities: | | |
| Decrease in documentary letters of credit | (54,741) | (32,884) |
| Short-term borrowings, net change | (8,253) | 61,317 |
| Repayments on long-term debt | (23,473) | (19,914) |
| Proceeds from issuance of long-term debt | 1,463 | 22,437 |
| Stock issued under incentive and purchase plans | 10,062 | 10,355 |
| Cash dividends | (41,313) | (40,773) |
| Purchase of noncontrolling interests | (3,980) | |
| Tax benefits from stock plans | 2,367 | 3,204 |
| Net cash flows from (used by) financing activities | (117,868) | 3,742 |

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| | | |
|--|------------|------------|
| Effect of exchange rate changes on cash | 4,503 | (3,347) |
| Decrease in cash and cash equivalents | (155,751) | (115,973) |
| Cash and cash equivalents at beginning of year | 399,313 | 405,603 |
| Cash and cash equivalents at end of period | \$ 243,562 | \$ 289,630 |

See notes to unaudited consolidated financial statements.

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

| | CMC Stockholders' Equity | | | | | | | | |
|--|---------------------------|-----------------------|----------------------------------|----------------------|--------------|----------------|--------------|-----------|----------------|
| | Accumulated | | | | | Treasury Stock | | | |
| | Common Stock Number of | Additional Paid-In | Other Comprehensive Income | Retained Earnings | | Number of | Amount | Interests | Noncontrolling |
| (Thousands, except share data) | Shares | Amount | Capital | (Loss) | Earnings | Shares | Amount | Interests | Total |
| Balance, September 1, 2009 | 129,060,664 | \$ 1,290 | \$ 380,737 | \$ 34,257 | \$ 1,438,205 | (16,487,231) | \$ (324,796) | \$ 2,371 | \$ 1,532,000 |
| Comprehensive income (loss): | | | | | | | | | |
| Earnings (loss) for the nine months ended May 31, 2010 | | | | | (213,345) | | | 278 | (213,345) |
| Other comprehensive income | | | | | | | | | |
| Foreign currency translation adjustment | | | | (69,857) | | | | 31 | (69,857) |
| Realized gain on derivatives, net of taxes (\$97) | | | | 7 | | | | | |
| Defined benefit obligation, net of taxes (\$267) | | | | (508) | | | | | |
| Other comprehensive loss | | | | | | | | | (283,147) |
| Dividends | | | | | (40,773) | | | | (40,773) |
| Exercise of stock under incentive purchase plans, net | | | (23,979) | | | 1,717,832 | 34,334 | | 10,000 |
| Share-based compensation | | | 5,590 | | | | | | 5,590 |
| Benefits from stock plans | | | 3,204 | | | | | | 3,204 |
| Balance, May 31, 2010 | 129,060,664 | \$ 1,290 | \$ 365,552 | \$ (36,101) | \$ 1,184,087 | (14,769,399) | \$ (290,462) | \$ 2,680 | \$ 1,222,000 |

| | CMC Stockholders' Equity | | | | | | | | |
|--|---------------------------|-----------------------|----------------------------------|----------------------|--------------|----------------|--------------|-----------|----------------|
| | Accumulated | | | | | Treasury Stock | | | |
| | Common Stock Number of | Additional Paid-In | Other Comprehensive Income | Retained Earnings | | Number of | Amount | Interests | Noncontrolling |
| (Thousands, except share data) | Shares | Amount | Capital | (Loss) | Earnings | Shares | Amount | Interests | Total |
| Balance, September 1, 2010 | 129,060,664 | \$ 1,290 | \$ 373,308 | \$ (12,526) | \$ 1,178,372 | (14,735,315) | \$ (289,708) | \$ 2,638 | \$ 1,253,000 |
| Comprehensive income (loss): | | | | | | | | | |
| Earnings (loss) for the nine months ended May 31, 2011 | | | | | (9,346) | | | 163 | (9,346) |
| Other comprehensive income | | | | | | | | | |
| Foreign currency translation adjustment | | | | 92,807 | | | | | 92,807 |
| Realized loss on derivatives, net of taxes (\$57) | | | | (107) | | | | | |

| | | | | | | | | | | |
|-----------------------------------|-------------|----------|------------|-----------|--------------|--------------|--------------|---------|----------|-----|
| Comprehensive income | | | | | | | | | | 83 |
| Dividends | | | | | | (41,313) | | | | (4) |
| Change of stock under incentive | | | | | | | | | | |
| purchase plans, net | | | (12,008) | | | 1,110,252 | 22,070 | | | 10 |
| Equity-based compensation | | | 8,518 | | | | | | | 8 |
| Change of noncontrolling interest | | | (1,399) | | | | | (2,581) | | (3) |
| Benefits from stock plans | | | 2,367 | | | | | | | 2 |
| Balance, May 31, 2011 | 129,060,664 | \$ 1,290 | \$ 370,786 | \$ 80,174 | \$ 1,127,713 | (13,625,063) | \$ (267,638) | \$ 220 | \$ 1,312 | |

See notes to unaudited consolidated financial statements.

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COMMERCIAL METALS COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 QUARTERLY FINANCIAL DATA

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States on a basis consistent with that used in Commercial Metals Company's (the Company or CMC) Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) for the year ended August 31, 2010, and include all normal recurring adjustments necessary to present fairly the consolidated balance sheets and statements of operations, cash flows and stockholders' equity for the periods indicated. These notes should be read in conjunction with such Form 10-K. The results of operations for the three and nine month periods are not necessarily indicative of the results to be expected for a full year.

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

In the first quarter of 2011, the Company adopted accounting guidance related to the accounting for transfers of financial assets. The guidance clarifies the determination of a transferor's continuing involvement in a transferred financial asset and limits the circumstances in which a financial asset should be removed from the balance sheet when the transferor has not transferred the entire original financial asset. See Note 3, Sales of Accounts Receivable, for additional details.

NOTE 3 SALES OF ACCOUNTS RECEIVABLE

On April 5, 2011, the Company entered into a two year sale of accounts receivable program. The Company periodically contributes and several of its subsidiaries periodically sell without recourse certain eligible trade accounts receivable to the Company's wholly-owned consolidated special purpose subsidiary, CMC Receivables, Inc. (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. Depending on the Company's level of financing needs, CMCRV will sell the trade accounts receivable in their entirety to a third party financial institution. The third party financial institution will advance up to a maximum of \$100 million for all receivables and the remaining portion due to the Company will be deferred until the ultimate collection of the underlying receivables. The facility can be increased to a maximum of \$200 million with consent of the financial institution. The Company will account for sales to the financial institution as true sales and the receivables will be removed from the consolidated balance sheet and the proceeds from the sale will be reflected as cash provided by operating activities. Additionally, the receivables program contains certain cross-default provisions whereby a termination event could occur if the Company defaulted under one of its credit arrangements. As of May 31, 2011, no receivables had been sold to the third party financial institution. The Company's previous accounts receivable securitization agreement of \$100 million expired on January 31, 2011. As of August 31, 2010, no receivables had been sold under the expired program.

In addition to the domestic sale of accounts receivable program described above, the Company's international subsidiaries in Europe and Australia periodically sell accounts receivable without recourse. These arrangements constitute true sales, and once the accounts are sold, they are no longer available to satisfy the Company's creditors in the event of bankruptcy. Uncollected accounts receivable sold under these arrangements and removed from the consolidated balance sheets were \$153.8 million and \$103.9 million at May 31, 2011 and August 31, 2010, respectively. The Australian program contains financial covenants in which the subsidiary must meet certain coverage and tangible net worth levels, as defined. At May 31, 2011, the Australian subsidiary was in compliance with these covenants.

During the nine months ended May 31, 2011 and 2010, proceeds from the sales of receivables were \$892.6 million and \$604.3 million, respectively, and cash payments to the owners of receivables were \$842.7 million and \$575.0 million, respectively. The Company is responsible for servicing the receivables for a nominal servicing fee. Discounts on domestic and international sales of accounts receivable were \$3.6 million and \$2.8 million for the nine months ended May 31, 2011 and 2010, respectively. These discounts primarily represented the costs of funds and were included in selling, general and administrative expenses.

NOTE 4 INVENTORIES

Inventories are stated at the lower of cost or market. Inventory cost for most domestic inventories is determined by the last-in, first-out method (LIFO). LIFO inventory reserves were \$297.7 million and \$230.3 million at May 31, 2011 and August 31, 2010,

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respectively. Inventory cost for international inventories and the remaining domestic inventories are determined by the first-in, first-out method (FIFO). The majority of the Company's inventories are in the form of finished goods, with minimal work in process. At May 31, 2011 and August 31, 2010, \$114.4 million and \$59.1 million, respectively, were in raw materials.

NOTE 5 GOODWILL AND OTHER INTANGIBLE ASSETS

The Company tests for impairment of goodwill by estimating the fair value of each reporting unit compared to its carrying value. The Company's reporting units are based on its internal reporting structure and represent an operating segment or a reporting level below an operating segment. Additionally, the reporting units are aggregated based upon similar economic characteristics, nature of products and services, nature of production processes, type of customers and distribution methods. The Company has determined its operating units that have a significant amount of goodwill to be in the Americas Recycling and Americas Fabrication segments. The Company uses a discounted cash flow model to calculate the fair value of its reporting units. The model includes a number of significant assumptions and estimates regarding future cash flows including discount rates, volumes, prices, capital expenditures and the impact of current market conditions. These estimates could be materially impacted by adverse changes in market conditions. The Company performs the goodwill impairment test in the fourth quarter each fiscal year and when changes in circumstances indicate an impairment event may have occurred. There were no triggering events during the third quarter of 2011.

The total gross carrying amounts of the Company's intangible assets that were subject to amortization were \$70.1 million and \$73.9 million at May 31, 2011 and August 31, 2010, respectively, and are included in other noncurrent assets. Aggregate amortization expense for intangible assets for the three months ended May 31, 2011 and 2010 was \$2.4 million and \$2.7 million, respectively. Aggregate amortization expense for intangible assets for the nine months ended May 31, 2011 and 2010 was \$7.4 million and \$11.3 million, respectively.

NOTE 6 SEVERANCE

During the three and nine months ended May 31, 2011, the Company recorded severance costs of \$1.3 million and \$2.6 million, respectively. During the three and nine months ended May 31, 2010, the Company recorded severance costs of \$1.9 million and \$18.5 million, respectively. These severance costs relate to involuntary employee terminations initiated as part of the Company's focus on operating expense management and reductions in headcount. Additionally, during the second quarter of 2010, the Company incurred severance costs associated with exiting the joist and deck business.

NOTE 7 DISCONTINUED OPERATIONS AND DISPOSITIONS

On February 26, 2010, the Company's Board of Directors approved a plan to exit the joist and deck business through the sale of those facilities. The Company determined that the decision to exit this business met the definition of a discontinued operation. As a result, this business has been presented as a discontinued operation for all periods. The Company recorded \$26.8 million to impair plant, property and equipment, \$4.5 million to write-off intangible assets, and \$7.4 million of inventory valuation adjustments during the second quarter of 2010. During the nine months ended May 31, 2010, the Company recorded severance costs of \$9.2 million in connection with exiting the business. The joist and deck business was in the Americas Fabrication segment.

During the fourth quarter of 2010, the Company completed the sale of the majority of the deck assets and during the first quarter of 2011, the Company completed the sale of the majority of the joist assets resulting in a gain of \$1.9 million.

Various financial information for discontinued operations is as follows:

| (in thousands) | May 31, 2011 | August 31, 2010 |
|------------------------|-------------------------|----------------------------|
| Current assets | \$ 508 | \$10,850 |
| Noncurrent assets | 12,125 | 27,045 |
| Current liabilities | 8,283 | 14,723 |
| Noncurrent liabilities | | 22 |

| | Three Months Ended | | Nine Months Ended | |
|------------------------------|---------------------------|-------------|--------------------------|-------------|
| | May 31, | | May 31, | |
| | 2011 | 2010 | 2011 | 2010 |
| Revenue | 251 | 37,398 | 1,370 | 110,809 |
| Earnings (loss) before taxes | (1,429) | 4,001 | (782) | (62,513) |
| | 8 | | | |

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During the first quarter of 2011, CMC Construction Services, a subsidiary of the Company included in the Americas Fabrication segment, completed the sale of heavy forming and shoring equipment for approximately \$35 million. The Company recorded a loss on sale of approximately \$0.5 million in connection with this transaction.

NOTE 8 CREDIT ARRANGEMENTS

The Company's revolving credit facility of \$400 million has a maturity date of November 24, 2012 and includes certain covenants. The Company is required to maintain a minimum interest coverage ratio of not less than 2.50 to 1.00 for the twelve month cumulative period ended May 31, 2011 and for each fiscal quarter on a rolling twelve month cumulative period thereafter. At May 31, 2011, the Company's interest coverage ratio was 3.37 to 1.00. The agreement also requires the Company to maintain a debt to capitalization ratio covenant not greater than 0.60 to 1.00. At May 31, 2011, the Company's debt to capitalization ratio was 0.50 to 1.00. The agreement provides for interest based on LIBOR, Eurodollar or Bank of America's prime rate. The facility fee is 60 basis points per annum and no compensating balances are required.

It is the Company's policy to maintain contractual bank credit lines equal to 100% of the amount of the commercial paper program. There were no amounts outstanding at May 31, 2011 and \$10 million outstanding at August 31, 2010 under the commercial paper program. There were no amounts outstanding on the revolving credit facility at May 31, 2011 and August 31, 2010. The availability under the revolving credit agreement is reduced by any outstanding amount under the commercial paper program. At May 31, 2011, \$400 million was available under the revolving credit agreement.

The Company has numerous uncommitted credit facilities available from domestic and international banks. No commitment fees or compensating balances are required under these credit facilities. These credit facilities are used, in general, to support import letters of credit, foreign exchange transactions and short term advances which are priced at market rates.

Long-term debt, including the net effect of interest rate swap revaluation adjustments, is as follows:

| (in thousands) | May 31, 2011 | August 31, 2010 |
|--|-------------------------|----------------------------|
| 5.625% notes due November 2013 (weighted average rate of 3.5% at May 31, 2011) | \$ 205,966 | \$ 208,253 |
| 6.50% notes due July 2017 (weighted average rate of 4.8% at May 31, 2011) | 399,724 | 400,000 |
| 7.35% notes due August 2018 (weighted average rate of 5.4% at May 31, 2011) | 511,645 | 524,185 |
| CMCZ term note due May 2013 | 58,226 | 69,716 |
| CMCS financing agreement | 21,574 | 19,006 |
| Other, including equipment notes | 6,593 | 6,710 |
| | 1,203,728 | 1,227,870 |
| Less current maturities | 38,246 | 30,588 |
| | \$ 1,165,482 | \$ 1,197,282 |

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

Effective May 20, 2011, the Company entered into an interest rate swap transaction on its 6.50% notes due July 2017 (2017 Notes). On March 23, 2010, the Company entered into two interest rate swap transactions on its 5.625% notes due November 2013 (2013 Notes) and 7.35% notes due August 2018 (2018 Notes). The swap transactions were designated as fair value hedges at inception and convert all fixed rate interest to floating rate interest on the Company's 2013 Notes, \$300 million on the 2017 Notes and \$300 million on the 2018 Notes and have termination dates of November 15, 2013, July 15, 2017 and August 15, 2018, respectively. The swap transactions costs are based on the floating LIBOR plus 303 basis points with respect to the 2013 Notes, LIBOR plus 374 basis points with respect to the 2017 Notes and LIBOR plus 367 basis points with respect to the 2018 Notes.

CMCZ has a five year term note of PLN 160 million (\$58.2 million) with a group of four banks. The term note is used to finance operating expenses of CMCZ and the development of a rolling mill. The note has scheduled principal and interest payments in fifteen equal quarterly installments which began in November 2009 with the final installment in May 2013. The weighted average interest rate at May 31, 2011 was 6.5%. The term note contains four financial covenants for CMCZ. At May 31, 2011, CMCZ was not in compliance with one of the financial covenants which resulted in a guarantee by Commercial Metals Company continuing to be effective. As a result of the guarantee, the financial covenant requirements became void; however, all other terms of the loan remain in effect, including the payment schedule. The guarantee will cease to be effective when CMCZ is in compliance with the financial covenant for two consecutive quarters.

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CMC Sisak (CMCS) has a five year financing agreement of EUR 15.0 million (\$21.6 million). The loan is intended to be used for capital expenditures and other uses. The note has scheduled principal and interest payments in seven semiannual installments beginning in July 2011 and ending in July 2014. The weighted average interest rate at May 31, 2011 was 5.0%.

Interest of \$0.7 million and \$4.2 million was capitalized in the cost of property, plant and equipment constructed for the nine months ended May 31, 2011 and 2010, respectively. Interest of \$32.6 million and \$40.5 million was paid for the nine months ended May 31, 2011 and 2010, respectively.

NOTE 9 DERIVATIVES AND RISK MANAGEMENT

The Company's worldwide operations and product lines expose it to risks from fluctuations in metals commodity prices, foreign currency exchange rates, natural gas prices and interest rates. One objective of the Company's risk management program is to mitigate these risks using derivative instruments. The Company enters into metal commodity futures and forward contracts to mitigate the risk of unanticipated declines in gross margin due to the volatility of the commodities' prices, enters into foreign currency forward contracts which match the expected settlements for purchases and sales denominated in foreign currencies and enters into natural gas forward contracts to mitigate the risk of unanticipated changes in operating cost due to the volatility of natural gas prices. When sales commitments to customers include a fixed price freight component, the Company occasionally enters into freight forward contracts to minimize the effect of the volatility of ocean freight rates. The Company enters into interest rate swap contracts to maintain a portion of the Company's debt obligations at variable interest rates. These interest rate swap contracts, under which the Company has agreed to pay variable rates of interest and receive fixed rates of interest, are designated as fair value hedges of fixed rate debt.

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

Gross foreign currency exchange contract commitments as of May 31, 2011 (in thousands):

| Functional Currency | | Contract Currency | |
|---------------------|---------|-------------------|---------|
| Type | Amount | Type | Amount |
| AUD | 82 | EUR | 59 |
| AUD | 56 | GBP | 36 |
| AUD | 77 | NZD | 100 |
| AUD | 87,652 | USD | 90,955 |
| EUR | 3,718 | HRK* | 27,428 |
| EUR | 1,320 | USD | 1,898 |
| GBP | 13,680 | USD | 22,250 |
| PLN | 420,633 | EUR | 105,437 |
| PLN | 96,208 | USD | 32,752 |
| PLN | 413 | SEK** | 926 |
| SGD | 11,830 | USD | 9,585 |
| USD | 52,334 | EUR | 36,600 |
| USD | 39,465 | GBP | 23,930 |
| USD | 1,057 | JPY | 85,048 |
| USD | 21,000 | CNY*** | 133,959 |

* Croatian kuna

** Swedish krona

*** Chinese yuan

Commodity contract commitments as of May 31, 2011:

| Commodity | Long/Short | Total |
|------------------|-------------------|--------------|
| Aluminum | Long | 3,175 MT |
| Aluminum | Short | 75 MT |
| Copper | Long | 1,176 MT |
| Copper | Short | 6,418 MT |
| Zinc | Long | 7 MT |

MT = Metric Ton

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The Company designates only those contracts which closely match the terms of the underlying transaction as hedges for accounting purposes. These hedges resulted in substantially no ineffectiveness in the statements of operations, and there were no components excluded from the assessment of hedge effectiveness for the three months and nine months ended May 31, 2011 and 2010. Certain of the foreign currency and commodity contracts were not designated as hedges for accounting purposes, although management believes they are essential economic hedges.

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

| Derivatives Not Designated as Hedging Instruments | Location | Three Months Ended | | Nine Months Ended | |
|--|--------------------|---------------------------|-------------|--------------------------|-------------|
| | | May 31, | | May 31, | |
| | | 2011 | 2010 | 2011 | 2010 |
| Commodity | Cost of goods sold | \$ 4,296 | \$ 1,226 | \$ (11,744) | \$ (3,522) |
| Foreign exchange | Net sales | 39 | (870) | 35 | (910) |
| Foreign exchange | Cost of goods sold | 305 | (487) | 1,174 | (872) |
| Foreign exchange | SG&A expenses | (3,984) | (1,274) | (4,823) | (1,237) |
| Gain (loss) before taxes | | \$ 656 | \$ (1,405) | \$ (15,358) | \$ (6,541) |

The Company's fair value hedges are designated for accounting purposes with gains and losses on the hedged (underlying) items offsetting the gain or loss on the related derivative transaction. Hedged (underlying) items relate to firm commitments on commercial sales and purchases, capital expenditures and fixed rate debt obligations. As of May 31, 2011, fair value hedge accounting for interest rate swap contracts increased the carrying value of debt instruments by \$17.3 million.

| Derivatives Designated as Fair Value Hedging Instruments | Location | Three Months Ended | | Nine Months Ended | |
|---|------------------|---------------------------|-------------|--------------------------|-------------|
| | | May 31, | | May 31, | |
| | | 2011 | 2010 | 2011 | 2010 |
| Foreign exchange | SG&A expenses | \$ (5,382) | \$ 6,556 | \$ (14,157) | \$ 515 |
| Interest rate | Interest expense | 11,091 | 4,483 | 17,331 | 4,483 |
| Gain before taxes | | \$ 5,709 | \$ 11,039 | \$ 3,174 | \$ 4,998 |

| Hedged (Underlying) Items Designated as Fair Value Hedging Instruments | Location | Three Months Ended | | Nine Months Ended | |
|---|------------------|---------------------------|-------------|--------------------------|-------------|
| | | May 31, | | May 31, | |
| | | 2011 | 2010 | 2011 | 2010 |
| Foreign exchange | Net sales | \$ 77 | \$ (36) | \$ 126 | \$ (30) |
| Foreign exchange | SG&A expenses | 5,299 | (6,517) | 14,031 | (482) |
| Interest rate | Interest expense | (11,090) | (4,483) | (17,331) | (4,483) |

Loss before taxes \$ (5,714) \$ (11,036) \$ (3,174) \$ (4,995)

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

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|-------------|--------------------------|-------------|
| | May 31, | | May 31, | |
| Hedge Accounting for Interest Rate Swaps | 2011 | 2010 | 2011 | 2010 |
| Reductions to interest expense from periodic estimated and actual settlements of active swap agreements* | \$3,931 | \$2,109 | \$10,723 | \$2,109 |

* Amounts represent the net of the Company's periodic variable-rate interest obligations and the swap counterparty's fixed-rate interest obligations. The Company's variable-rate obligations are based on a spread from the six-month LIBOR in arrears.

| | Three | | Nine | |
|--|---------------|-------------|---------------|-------------|
| | Months | | Months | |
| Effective Portion of Derivatives Designated as Cash Flow | Ended | | Ended | |
| Hedging Instruments Recognized in Accumulated Other Comprehensive Income (Loss) | 2011 | 2010 | 2011 | 2010 |
| Commodity | \$ (266) | \$ (36) | \$ 126 | \$ 18 |
| Foreign exchange | 125 | (110) | 296 | 155 |
| Gain (loss), net of taxes | \$ (141) | \$ (146) | \$ 422 | \$ 173 |

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| Effective Portion of Derivatives Designated as Cash Flow Hedging Instruments Reclassified from Accumulated Other Comprehensive Income (Loss) | Location | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------------------|--------------|-------------------|--------------|
| | | May 31, 2011 | May 31, 2010 | May 31, 2011 | May 31, 2010 |
| Commodity | Cost of goods sold | \$ 133 | \$ 7 | \$ 103 | \$ (8) |
| Foreign exchange | SG&A expenses | 16 | (53) | 82 | (170) |
| Interest rate | Interest expense | 115 | 115 | 344 | 344 |
| Gain, net of taxes | | \$ 264 | \$ 69 | \$ 529 | \$ 166 |

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

| Derivative Assets | May 31, 2011 | August 31, 2010 |
|--|--------------|-----------------|
| Commodity designated | \$ 68 | \$ 80 |
| Commodity not designated | 1,967 | 911 |
| Foreign exchange designated | 529 | 435 |
| Foreign exchange not designated | 1,120 | 1,188 |
| Interest rate designated | 18,500 | 12,173 |
| Long-term interest rate designated | 5,164 | 20,265 |
| Derivative assets (other current assets and other assets)* | \$ 27,348 | \$ 35,052 |

| Derivative Liabilities | May 31, 2011 | August 31, 2010 |
|--|--------------|-----------------|
| Commodity designated | \$ 40 | \$ 95 |
| Commodity not designated | 2,353 | 2,817 |
| Foreign exchange designated | 2,311 | 1,749 |
| Foreign exchange not designated | 3,250 | 1,097 |
| Long-term interest rate designated | 6,331 | |
| Derivative liabilities (accrued expenses, other payables and long-term liabilities)* | \$ 14,285 | \$ 5,758 |

* Derivative assets and liabilities do not include the hedged (underlying) items designated as fair value hedges. As of May 31, 2011, all of the Company's derivative instruments designated to hedge exposure to the variability in future cash flows of the forecasted transactions will mature within twelve months. All of the instruments are highly liquid, and none are entered into for trading purposes.

NOTE 10 FAIR VALUE

The Company has established a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three levels. These levels are determined based on the lowest level input that is significant to the fair value measurement.

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

| | Fair Value Measurements at Reporting Date | | | |
|---|--|---|--|--|
| | | Using | | |
| (in thousands) | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | May 31, 2011 | | | |
| Money market investments | \$205,425 | \$ 205,425 | \$ | \$ |
| Derivative assets | 27,348 | 1,967 | 25,381 | |
| Nonqualified benefit plan assets * | 55,444 | 55,444 | | |
| Derivative liabilities | 14,285 | 2,353 | 11,932 | |
| Nonqualified benefit plan liabilities * | 87,859 | | 87,859 | |
| | August 31, 2010 | | | |
| Money market investments | \$352,881 | \$ 352,881 | \$ | \$ |
| Derivative assets | 35,052 | 911 | 34,141 | |
| Nonqualified benefit plan assets * | 43,681 | 43,681 | | |
| Derivative liabilities | 5,758 | 2,817 | 2,941 | |
| Nonqualified benefit plan liabilities * | 86,043 | | 86,043 | |

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* The Company provides a nonqualified benefit restoration plan to certain eligible executives equal to amounts that would have been available under tax qualified ERISA plans but for limitations of ERISA, tax laws and regulations. Though under no obligation to fund this plan, the Company has segregated assets in a trust. The plan assets and liabilities consist of securities included in various mutual funds.

The Company's long-term debt is predominantly publicly held. The fair value was approximately \$1.25 billion at May 31, 2011 and \$1.29 billion at August 31, 2010. Fair value was determined by indicated market values.

NOTE 11 INCOME TAXES

The Company had net refunds of \$72.9 million and \$0.7 million in income taxes during the nine months ended May 31, 2011 and 2010, respectively.

Reconciliations of the United States federal income tax expense (benefit) from continuing operations were as follows:

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------|-------------------|-------------|
| | May 31, | | May 31, | |
| | 2011 | 2010 | 2011 | 2010 |
| Tax expense (benefit) at statutory rate of 35% | \$ 18,056 | \$ (2,377) | \$ (6) | \$ (73,770) |
| State and local taxes | 213 | (1,130) | 82 | (6,589) |
| Foreign rate differential | (6,479) | 3,321 | 225 | 9,590 |
| Increase in valuation allowance due to foreign losses without benefit (predominately Croatia) | 1,466 | 2,474 | 7,427 | 31,097 |
| Domestic production activity deduction | (1,187) | | (693) | |
| U.S. provision to return adjustment | 254 | 1,849 | 488 | 1,849 |
| Sale of foreign investment | | | 1,280 | |
| Other | 2,170 | (185) | (115) | 1,722 |
| Total tax expense (benefit) from continuing operations | \$ 14,493 | \$ 3,952 | \$ 8,688 | \$ (36,101) |
| Effective tax rate from continuing operations | 28.1% | (58.2)% | (54,300.0)% | 17.1% |

The Company's effective tax rate from discontinued operations for the three and nine months ended May 31, 2011 was 38.8% and for the three and nine months ended May 31, 2010 was 43.1% and 38.6%, respectively.

The reserve for unrecognized tax benefits relating to the accounting for uncertainty in income taxes was \$20.4 million, exclusive of interest and penalties, as of May 31, 2011 and August 31, 2010.

The Company policy classifies interest recognized on an underpayment of income taxes and any statutory penalties recognized on a tax position as tax expense and the balances at the end of a reporting period are recorded as part of the current or non-current reserve for uncertain income tax positions. For the three and nine months ended May 31, 2011, before any tax benefits, the Company recorded immaterial amounts of accrued interest and penalties on unrecognized tax benefits.

During the next twelve months, it is reasonably possible that the statute of limitations may lapse pertaining to positions taken by the Company in prior year tax returns or that income tax audits in various taxing jurisdictions could be finalized. As a result, the total amount of unrecognized tax benefits may decrease, which would reduce the provision for taxes on earnings by an immaterial amount.

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

U.S. Federal 2006 and forward

U.S. States 2006 and forward

Foreign 2004 and forward

The federal tax returns for fiscal years 2006 to 2008 are under examination by the Internal Revenue Service. However, we believe our recorded tax liabilities as of May 31, 2011 sufficiently reflect the anticipated outcome of these examinations.

Table of Contents**NOTE 12 SHARE-BASED COMPENSATION**

The Company recognized share-based compensation expense of \$3.2 million for the three months ended May 31, 2011 and \$9.2 million and \$5.6 million for the nine months ended May 31, 2011 and 2010, respectively, as a component of selling, general and administrative expenses. The Company recognized no share-based compensation expense during the third quarter of 2010 due to a forfeiture adjustment of \$2.3 million which offset expense for the quarter. At May 31, 2011, the Company had \$23.8 million of total unrecognized pre-tax compensation cost related to non-vested share-based compensation arrangements, of which, \$16.4 million related to share-based awards granted during the second quarter of 2011. This cost is expected to be recognized over the next 36 months.

Combined information for shares subject to options and stock appreciation rights (SARs) for the nine months ended May 31, 2011 were as follows:

| | Number | Weighted Average Exercise Price | Price Range Per Share |
|-------------------|---------------|--|--------------------------------------|
| September 1, 2010 | | | |
| Outstanding | 3,922,016 | \$ 23.67 | \$ 7.53 - 35.38 |
| Exercisable | 3,503,681 | 23.38 | 7.53 - 35.38 |
| Granted | 112,000 | 16.83 | 16.83 |
| Exercised | (854,023) | 8.03 | 7.53 - 13.58 |
| Forfeited | (93,564) | 31.96 | 12.31 - 35.38 |
| May 31, 2011 | | | |
| Outstanding | 3,086,429 | \$ 27.50 | \$ 11.00 - 35.38 |
| Exercisable | 2,917,429 | 28.17 | 11.00 - 35.38 |

Share information for options and SARs at May 31, 2011:

| Range of Exercise Price | Outstanding | | Exercisable | | |
|--|-------------------------------|---|--|-------------------------------|--|
| | Number Outstanding | Weighted Average Remaining Contractual Life (Yrs.) | Weighted Average Exercise Price | Number Outstanding | Weighted Average Exercise Price |
| \$ 11.00 - 14.05 | 714,215 | 2.4 | \$ 12.40 | 658,215 | \$ 12.26 |
| 16.83 - 24.71 | 544,208 | 2.7 | 22.93 | 432,208 | 24.51 |
| 31.75 - 35.38 | 1,828,006 | 3.0 | 34.76 | 1,827,006 | 34.76 |
| \$ 11.00 - 35.38 | 3,086,429 | 2.8 | \$ 27.50 | 2,917,429 | \$ 28.17 |

Of the Company's previously granted restricted stock awards, 27,727 and 50,154 shares vested during the nine months ended May 31, 2011 and May 31, 2010, respectively.

During the second quarter of 2011, the Compensation Committee (the Committee) of the Board of Directors approved a grant to employees of approximately 670,000 restricted stock units. These awards vest over a three-year period in increments of one-third per year. The Committee also approved a grant of performance stock units. The performance awards will vest upon the achievement of certain target levels of the performance goals and objectives of the Company over the performance period of approximately three years. The actual number of performance awards granted will be based on the level of achievement. Upon achievement of any of the performance goals, the awards will be paid out 50% in shares of common stock of the Company and 50% in cash. The Company has accounted for the cash component of the performance award as a liability award and the value is adjusted to fair market value each

period. All equity awards are valued at the fair market value at the date of grant. Prior to vesting, the restricted stock unit and the performance stock unit recipients do not receive an amount equivalent to any dividend declared on the Company's common stock.

Table of Contents**NOTE 13 STOCKHOLDERS EQUITY AND EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO CMC**

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

| | Three Months Ended May 31, | | Nine Months Ended May 31, | |
|--|-------------------------------|-------------|------------------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Shares outstanding for basic earnings (loss) per share | 115,403,374 | 114,067,149 | 114,819,792 | 113,279,301 |
| Effect of dilutive shares: | | | | |
| Stock-based incentive/purchase plans | 957,381 | | | |
| Shares outstanding for diluted earnings (loss) per share | 116,360,755 | 114,067,149 | 114,819,792 | 113,279,301 |

For the three months ended May 31, 2011, SARs with total share commitments of 2.4 million were antidilutive because the exercise price was above the average market price for the quarter and therefore excluded from the calculation of diluted earnings per share. For the nine months ended May 31, 2011 and the three and nine months ended May 31, 2010, no stock options, restricted stock or SARs were included in the calculation of dilutive shares because the Company reported a loss from continuing operations. All stock options and SARs expire by 2018. The Company's restricted stock is included in the number of shares of common stock issued and outstanding, but omitted from the basic earnings (loss) per share calculation until the shares vest.

The Company purchased no shares during the first nine months of 2011 and had remaining authorization to purchase 8,259,647 shares of its common stock at May 31, 2011.

NOTE 14 COMMITMENTS AND CONTINGENCIES

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

NOTE 15 BUSINESS SEGMENTS

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

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

The Company structures the business into the following five segments: Americas Recycling, Americas Mills, Americas Fabrication, International Mills and International Marketing and Distribution. The Americas Recycling segment consists of the scrap metal processing and sales operations primarily in Texas, Florida and the southern United States. The Americas Mills segment includes the Company's domestic steel mills, including the scrap processing facilities which directly support these mills, and the copper tube minimill. The copper tube minimill is aggregated with the Company's steel mills because it has similar economic characteristics. The Americas Fabrication segment consists of the Company's rebar fabrication operations, fence post manufacturing plants, construction-related and other products facilities. The International Mills segment includes the minimills in Poland and Croatia, recycling

operations in Poland and fabrication operations in Europe, which have been presented as a separate segment because the economic characteristics of their markets and the regulatory environment in which they operate are different from that of the Company's domestic mills and rebar fabrication operations. International Marketing and Distribution includes international operations for the sales, distribution and processing of steel products, ferrous and nonferrous metals and other industrial products. Additionally, the

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

The financial information presented for the Americas Fabrication segment excludes its joist and deck fabrication operations. This operation has been classified as discontinued operations in the consolidated statements of operations. See Note 7, Discontinued Operations and Dispositions, for more detailed information.

The Company uses adjusted operating profit (loss) to measure segment performance. Intersegment sales are generally priced at prevailing market prices. Certain corporate administrative expenses are allocated to segments based upon the nature of the expense. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The following is a summary of certain financial information from continuing operations by reportable segment:

Three Months Ended May 31, 2011

| (in thousands) | International Marketing and Distribution | | | | | | Corporate Eliminations | Consolidated |
|----------------------------------|---|-----------------------|--------------------|--------------|--------------|---------------------|------------------------|--------------|
| | Recycling | Americas Mills | Fabrication | Mills | Mills | Distribution | | |
| Net sales-unaffiliated customers | \$443,898 | \$341,972 | \$323,997 | \$332,019 | \$633,706 | \$ 972 | \$ | \$2,076,564 |
| Intersegment sales | 35,878 | 204,043 | 4,453 | 12,145 | 12,721 | | (269,240) | |
| Net sales | 479,776 | 546,015 | 328,450 | 344,164 | 646,427 | 972 | (269,240) | 2,076,564 |
| Adjusted operating profit (loss) | 13,194 | 71,050 | (14,737) | 15,456 | 16,978 | (28,503) | (2,089) | 71,349 |

Three Months Ended May 31, 2010

| (in thousands) | International Marketing and Distribution | | | | | | Corporate Eliminations | Consolidated |
|----------------------------------|---|-----------------------|--------------------|--------------|--------------|---------------------|------------------------|--------------|
| | Recycling | Americas Mills | Fabrication | Mills | Mills | Distribution | | |
| Net sales-unaffiliated customers | \$369,089 | \$248,417 | \$322,797 | \$190,898 | \$635,520 | \$ (1,567) | \$ | \$1,765,154 |
| Intersegment sales | 28,982 | 183,781 | 3,292 | 24,792 | 5,573 | 327 | (246,747) | |
| Net sales | 398,071 | 432,198 | 326,089 | 215,690 | 641,093 | (1,240) | (246,747) | 1,765,154 |
| Adjusted operating profit (loss) | 14,240 | 14,544 | (24,452) | (10,885) | 30,941 | (11,390) | (482) | 12,516 |

Nine Months Ended May 31, 2011

| (in thousands) | International Marketing and Distribution | | | | | | Corporate Eliminations | Consolidated |
|------------------------|---|-----------------------|--------------------|--------------|--------------|---------------------|------------------------|--------------|
| | Recycling | Americas Mills | Fabrication | Mills | Mills | Distribution | | |
| Net sales-unaffiliated | \$1,203,046 | \$ 926,213 | \$856,350 | \$767,676 | \$1,884,886 | \$ 12,639 | \$ | \$5,650,810 |

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| | | | | | | | | |
|----------------------------------|-----------|-----------|----------|---------|-----------|-----------|-----------|-----------|
| customers | | | | | | | | |
| Intersegment sales | 103,087 | 533,120 | 11,823 | 30,639 | 30,122 | | (708,791) | |
| Net sales | 1,306,133 | 1,459,333 | 868,173 | 798,315 | 1,915,008 | 12,639 | (708,791) | 5,650,810 |
| Adjusted operating profit (loss) | 32,251 | 116,138 | (86,311) | 412 | 53,588 | (55,574) | (2,018) | 58,486 |
| Goodwill | 7,267 | 295 | 57,144 | 3,238 | 4,659 | | | 72,603 |
| Total assets | 304,693 | 649,190 | 619,116 | 873,937 | 795,324 | 1,165,569 | (652,771) | 3,755,058 |

Nine Months Ended May 31, 2010

International

Marketing and

| (in thousands) | Recycling | Americas Mills | Fabrication | Mills | International Marketing and Distribution | Corporate | Eliminations | Consolidated |
|----------------------------------|-----------|----------------|-------------|-----------|--|-----------|--------------|--------------|
| Net sales-unaffiliated customers | \$873,250 | \$ 621,869 | \$813,782 | \$450,142 | \$1,726,496 | \$ 4,316 | \$ | \$4,489,855 |
| Intersegment sales | 80,958 | 451,687 | 7,068 | 82,078 | 16,894 | 327 | (639,012) | |
| Net sales | 954,208 | 1,073,556 | 820,850 | 532,220 | 1,743,390 | 4,643 | (639,012) | 4,489,855 |
| Adjusted operating profit (loss) | 6,196 | (3,335) | (90,685) | (84,373) | 62,158 | (50,554) | 10,479 | (150,114) |
| Goodwill | 6,961 | 601 | 57,144 | 2,460 | 3,887 | | | 71,053 |
| Total assets | 260,147 | 624,587 | 708,625 | 675,290 | 670,163 | 967,570 | (341,882) | 3,564,500 |

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

| (in thousands) | Three Months Ended May 31, | | Nine Months Ended May 31, | |
|---|---------------------------------------|-------------|--------------------------------------|--------------|
| | 2011 | 2010 | 2011 | 2010 |
| Earnings (loss) from continuing operations | \$ 37,095 | \$ (10,741) | \$ (8,704) | \$ (174,671) |
| Income taxes (benefit) | 14,493 | 3,952 | 8,688 | (36,101) |
| Interest expense | 18,254 | 18,184 | 54,857 | 57,871 |
| Discounts on sales of accounts receivable | 1,507 | 1,121 | 3,645 | 2,787 |
| Adjusted operating profit (loss) from continuing operations | \$ 71,349 | \$ 12,516 | \$ 58,486 | \$ (150,114) |
| Adjusted operating profit (loss) from discontinued operations | (1,429) | 4,002 | (779) | (62,506) |
| Adjusted operating profit (loss) | \$ 69,920 | \$ 16,518 | \$ 57,707 | \$ (212,620) |

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

| (in thousands) | Three Months Ended May 31, | | Nine Months Ended May 31, | |
|----------------------------|---------------------------------------|--------------|--------------------------------------|--------------|
| | 2011 | 2010 | 2011 | 2010 |
| Major product information: | | | | |
| Steel products | \$ 1,150,654 | \$ 998,538 | \$ 3,169,240 | \$ 2,614,756 |
| Industrial materials | 319,724 | 244,941 | 811,632 | 599,626 |
| Non-ferrous scrap | 251,229 | 195,563 | 725,700 | 506,435 |
| Ferrous scrap | 215,610 | 190,514 | 556,997 | 407,266 |
| Construction materials | 58,475 | 64,546 | 160,938 | 166,863 |
| Non-ferrous products | 54,396 | 52,817 | 145,376 | 132,557 |
| Other | 26,476 | 18,235 | 80,927 | 62,352 |
| Net sales | \$ 2,076,564 | \$ 1,765,154 | \$ 5,650,810 | \$ 4,489,855 |
| Geographic area: | | | | |
| United States | \$ 1,158,841 | \$ 936,410 | \$ 3,119,925 | \$ 2,284,434 |
| Europe | 406,061 | 371,839 | 1,185,644 | 905,467 |
| Asia | 304,388 | 268,189 | 781,383 | 746,013 |
| Australia/New Zealand | 124,953 | 133,261 | 387,870 | 395,402 |
| Other | 82,321 | 55,455 | 175,988 | 158,539 |
| Net sales | \$ 2,076,564 | \$ 1,765,154 | \$ 5,650,810 | \$ 4,489,855 |

NOTE 16 RELATED PARTY TRANSACTIONS

One of the Company's international subsidiaries had a marketing and distribution agreement with a key supplier of which the Company owns an 11% interest. This marketing and distribution agreement expired on December 31, 2010. The Company owned a 50% interest in two joint ventures related to this agreement. During the second quarter of

2011, the Company sold the interest in one joint venture for approximately \$1.7 million resulting in a minimal gain. On June 1, 2011, the Company sold the interest in the remaining joint venture for approximately \$6.6 million resulting in a minimal gain. The following presents related party transactions:

| (in thousands) | Nine Months Ended | |
|-----------------------|--------------------------|-------------|
| | May 31, | |
| | 2011 | 2010 |
| Sales | \$133,860 | \$202,475 |
| Purchases | 149,415 | 251,434 |

| (in thousands) | May 31, | August 31, |
|-----------------------|----------------|-------------------|
| | 2011 | 2010 |
| Accounts receivable | \$112 | \$10,611 |
| Accounts payable | 104 | 22,603 |

NOTE 17 SUBSEQUENT EVENTS

On June 3, 2011, the Company completed the purchase of G.A.M. Steel Pty. Ltd., based in Melbourne, Australia (G.A.M.) for approximately \$48 million, subject to final purchase price adjustment. G.A.M. is a leading distributor and processor of steel long products and plate, servicing the structural fabrication, rural and manufacturing segments in the state of Victoria. The acquisition of G.A.M. will complement the Company's existing national long products distribution investments in Australia.

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

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

CRITICAL ACCOUNTING POLICIES

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

CONSOLIDATED RESULTS OF OPERATIONS

| (in millions) | Three Months Ended May 31, | | Increase % | Nine Months Ended May 31, | | Increase (Decrease) % |
|--|-------------------------------|-----------|---------------|------------------------------|-----------|-----------------------------|
| | 2011 | 2010 | | 2011 | 2010 | |
| Net sales* | \$2,076.6 | \$1,765.2 | 18% | \$5,650.8 | \$4,489.9 | 26% |
| Earnings (loss) from continuing operations | 37.1 | (10.7) | 447% | (8.7) | (174.7) | (95%) |
| Adjusted EBITDA | 107.5 | 55.3 | 94% | 174.7 | (54.7) | 419% |

* Excludes divisions classified as discontinued operations.

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

| (in millions) | Three Months Ended May 31, | | Increase (Decrease) % | Nine Months Ended May 31, | | Increase (Decrease) % |
|--|----------------------------------|-----------|-----------------------------|---------------------------------|------------|-----------------------------|
| | 2011 | 2010 | | 2011 | 2010 | |
| Earnings (loss) from continuing operations | \$ 37.1 | \$ (10.7) | 447% | \$ (8.7) | \$ (174.7) | (95%) |
| Less net earnings attributable to noncontrolling interests | (0.1) | (0.4) | (75%) | (0.2) | (0.3) | (33%) |
| Interest expense | 18.3 | 18.2 | 1% | 54.9 | 57.9 | (5%) |
| Income taxes (benefit) | 14.5 | 4.0 | 263% | 8.7 | (36.1) | 124% |
| Depreciation, amortization and impairment charges | 39.2 | 40.2 | (2%) | 120.8 | 125.5 | (4%) |
| Adjusted EBITDA from continuing operations | \$ 109.0 | \$ 51.3 | 112% | \$ 175.5 | \$ (27.7) | 734% |
| | (1.5) | 4.0 | (138%) | (0.8) | (27.0) | (97%) |

Adjusted EBITDA from discontinued operations

| | | | | | | |
|-----------------|----------|---------|-----|----------|-----------|------|
| Adjusted EBITDA | \$ 107.5 | \$ 55.3 | 94% | \$ 174.7 | \$ (54.7) | 419% |
|-----------------|----------|---------|-----|----------|-----------|------|

Our adjusted EBITDA does not include interest expense, income taxes, depreciation, amortization and impairment charges. Because we have borrowed money in order to finance our operations, interest expense is a necessary element of our costs and our ability to generate revenues. Because we use capital assets, depreciation and amortization are also necessary elements of our costs. Impairment charges, when necessary, accelerate the write-off of fixed assets that would otherwise have been accomplished by periodic depreciation charges. 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 (loss) determined under GAAP, as well as adjusted EBITDA, to evaluate our performance. Also, we separately analyze any significant fluctuations in interest expense, depreciation, amortization, impairment charges and income taxes.

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

Net sales of the Americas Recycling segment increased 21% driven by higher sales prices, and adjusted operating profit was comparable to the prior year's third quarter.

Net sales of the Americas Mills segment increased 26% and adjusted operating profit increased \$56.5 million from the prior year's third quarter primarily from increased demand supported by higher finished goods pricing and better margins.

Our Americas Fabrication segment continues to experience unfavorable market conditions due to weak market demand for fabricated steel. However, this segment did show improvement over the third quarter of 2010 as our adjusted operating loss decreased \$9.7 million from improved margins as prices stabilized.

Our International Mills segment showed a 60% increase in net sales and a \$26.3 million increase in adjusted operating results compared to the third quarter of 2010 primarily from continued strong results from our Polish mill and decreased losses from our mill in Croatia.

Our International Marketing and Distribution segment remained profitable for the eighth straight quarter and recorded an adjusted operating profit of \$17.0 million in the third quarter of 2011.

We recorded consolidated pre-tax LIFO expense of \$6.0 million for the third quarter of 2011 compared to pre-tax LIFO expense of \$34.4 million for the third quarter of 2010.

SEGMENT OPERATING DATA

Unless otherwise indicated, all dollar amounts below are calculated before income taxes. Financial results for our reportable segments are consistent with the basis and manner in which we internally disaggregate financial information for making operating decisions. See Note 15, Business Segments, to the consolidated financial statements. We use adjusted operating profit (loss) to compare and evaluate the financial performance of our segments. Adjusted operating profit (loss) is the sum of our profit (loss) before income taxes and financing costs. The following tables show net sales and adjusted operating profit (loss) by business segment:

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------------|-------------------|--------------|
| | May 31, | | May 31, | |
| | 2011 | 2010 | 2011 | 2010 |
| Net sales: | | | | |
| Americas Recycling | \$ 479,776 | \$ 398,071 | \$ 1,306,133 | \$ 954,208 |
| Americas Mills | 546,015 | 432,198 | 1,459,333 | 1,073,556 |
| Americas Fabrication | 328,450 | 326,089 | 868,173 | 820,850 |
| International Mills | 344,164 | 215,690 | 798,315 | 532,220 |
| International Marketing and Distribution | 646,427 | 641,093 | 1,915,008 | 1,743,390 |
| Corporate | 972 | (1,240) | 12,639 | 4,643 |
| Eliminations | (269,240) | (246,747) | (708,791) | (639,012) |
| | \$ 2,076,564 | \$ 1,765,154 | \$ 5,650,810 | \$ 4,489,855 |
| Adjusted operating profit (loss): | | | | |
| Americas Recycling | \$ 13,194 | \$ 14,240 | \$ 32,251 | \$ 6,196 |
| Americas Mills | 71,050 | 14,544 | 116,138 | (3,335) |
| Americas Fabrication | (14,737) | (24,452) | (86,311) | (90,685) |
| International Mills | 15,456 | (10,885) | 412 | (84,373) |
| International Marketing and Distribution | 16,978 | 30,941 | 53,588 | 62,158 |
| Corporate | (28,503) | (11,390) | (55,574) | (50,554) |
| Eliminations | (2,089) | (482) | (2,018) | 10,479 |
| Discontinued Operations | (1,429) | 4,002 | (779) | (62,506) |

LIFO Impact on Adjusted Operating Profit (Loss) LIFO is an inventory costing method that assumes the most recent inventory purchases or goods manufactured are sold first. This results in current sales prices offset against current inventory costs. In periods of rising prices it has the effect of eliminating inflationary profits from operations. In periods of declining prices it has the effect of eliminating deflationary losses from operations. In either case the goal is to reflect economic profit. The table below reflects LIFO

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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 May 31, | | Nine Months Ended May 31, | |
|--|-------------------------------|-------------|------------------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Americas Recycling | \$ (2,630) | \$ (4,587) | \$ (11,744) | \$ (11,291) |
| Americas Mills | 3,928 | (24,027) | (47,867) | (40,915) |
| Americas Fabrication | (3,436) | (22,168) | (4,920) | (16,521) |
| International Marketing and Distribution | (3,892) | 7,913 | (3,315) | 33,816 |
| Discontinued Operations | 44 | 8,464 | 491 | 10,326 |
| Consolidated pre-tax LIFO expense | \$ (5,986) | \$ (34,405) | \$ (67,355) | \$ (24,585) |

Americas Recycling During the third quarter of 2011, this segment reported an increase in net sales of 21% driven primarily from higher average selling prices. Adjusted operating profit was \$13.2 million during the third quarter of 2011 as compared to \$14.2 million in the same period in the prior year. The decrease in adjusted operating profit was due to higher operating costs offset by an increase in margins and a decrease in LIFO expense of \$2.0 million as compared to the third quarter of 2010. Ferrous scrap pricing was stable during the quarter but higher than last year's quarter on consistent domestic mill demand. Ferrous volumes were slightly lower than the prior year's quarter as flooding in the Midwest constrained flow. Nonferrous margins increased on both price and volume improvements. Export demand fell due to instability in the Middle East, and we exported 6% of our ferrous scrap tonnage and 36% of our nonferrous scrap tonnage during the quarter.

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

| | Three Months Ended May 31, | | Increase(Decrease) | | Nine Months Ended May 31, | | Increase | |
|--------------------------------|-------------------------------|---------|--------------------|------|------------------------------|---------|----------|-----|
| | 2011 | 2010 | Amount | % | 2011 | 2010 | Amount | % |
| Average ferrous sales price | \$ 354 | \$ 304 | \$ 50 | 16% | \$ 331 | \$ 262 | \$ 69 | 26% |
| Average nonferrous sales price | \$3,413 | \$2,891 | \$522 | 18% | \$3,252 | \$2,636 | \$616 | 23% |
| Ferrous tons shipped | 557 | 562 | (5) | (1%) | 1,561 | 1,411 | 150 | 11% |
| Nonferrous tons shipped | 67 | 61 | 6 | 10% | 194 | 173 | 21 | 12% |

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

Within the segment, adjusted operating profit for our five domestic steel mills was \$67.6 million for the third quarter of 2011 compared to an adjusted operating profit of \$12.8 million from the prior year's third quarter. The improvement in adjusted operating profit was driven by margin expansion as selling prices outpaced scrap price increases.

Additionally, the results were positively impacted by LIFO income of \$6.1 million recorded during the third quarter of 2011 as compared to LIFO expense of \$21.7 million recorded in the prior year's third quarter. Shipment volumes were the highest of any quarter in the last three fiscal years, driven by seasonal demand and continued strength in certain regional markets. Our mills ran at 73% of capacity in the third quarter of 2011, consistent with utilization levels in the third quarter of 2010. Higher electrical and alloy rates resulted in an overall increase of \$3.5 million in electrode, alloys and energy costs for the third quarter in 2011 as compared to the same period in the prior year. Shipments

included 116 thousand tons of billets in the third quarter of 2011 as compared to 69 thousand tons of billets in the third quarter of the prior year.

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

| | Three Months Ended | | Increase | | Nine Months Ended | | Increase | |
|--|---------------------------|-------------|-----------------|----------|--------------------------|-------------|-----------------|----------|
| | 2011 | 2010 | Amount | % | 2011 | 2010 | Amount | % |
| Average mill selling price (finished goods)* | \$736 | \$622 | \$114 | 18% | \$685 | \$581 | \$104 | 18% |
| Average mill selling price (total sales)* | 705 | 608 | 97 | 16% | 658 | 550 | 108 | 20% |
| Average cost of ferrous scrap consumed | 385 | 328 | 57 | 17% | 357 | 293 | 64 | 22% |
| Average FIFO metal margin | 320 | 280 | 40 | 14% | 301 | 257 | 44 | 17% |
| Average ferrous scrap purchase price | 342 | 302 | 40 | 13% | 321 | 258 | 63 | 24% |

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

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

| | Three Months Ended | | | | Nine Months Ended | | | |
|--------------|--------------------|------|--------------------|------|-------------------|-------|----------|-----|
| | May 31, | | Increase(Decrease) | | May 31, | | Increase | |
| | 2011 | 2010 | Amount | % | 2011 | 2010 | Amount | % |
| Tons melted | 617 | 579 | 38 | 7% | 1,804 | 1,544 | 260 | 17% |
| Tons rolled | 511 | 523 | (12) | (2%) | 1,531 | 1,277 | 254 | 20% |
| Tons shipped | 637 | 588 | 49 | 8% | 1,815 | 1,607 | 208 | 13% |

Our copper tube minimill's adjusted operating profit for the third quarter of 2011 increased \$1.8 million to \$3.5 million compared to the third quarter of 2010 primarily due to margin expansion as the average selling price exceeded the increase in scrap prices. LIFO expense of \$2.2 million recorded in the third quarter of 2011 was consistent with the prior year's third quarter.

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

| (pounds in millions) | Three Months Ended | | | | Nine Months Ended | | | |
|----------------------|--------------------|------|----------|-------|-------------------|------|----------|------|
| | May 31, | | Decrease | | May 31, | | Decrease | |
| | 2011 | 2010 | Amount | % | 2011 | 2010 | Amount | % |
| Pounds shipped | 11.1 | 12.0 | (0.9) | (8%) | 31.4 | 31.6 | (0.2) | (1%) |
| Pounds produced | 10.2 | 11.4 | (1.2) | (11%) | 28.4 | 30.4 | (2.0) | (7%) |

Americas Fabrication During the third quarter of 2011, this segment's operating results showed an improvement of \$9.7 million over the prior year's third quarter and recorded an adjusted operating loss of \$14.7 million. Margins recovered modestly during the third quarter of 2011 as mill prices to the downstream fabricating units stabilized, allowing for the release of prior contract loss accruals. Backlogs continued to grow both in tonnage and pricing. The overall market remains weak for fabricated steel with credit availability, state and federal funding capacity and unemployment trends affecting the launch of new projects. Results were positively impacted by a decrease in LIFO expense of \$18.8 million in the third quarter of 2011 as compared to 2010. The composite average fabrication selling price was \$839 per ton, 9% higher than last year's third quarter price.

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

| Average selling price* | Three Months Ended | | | | Nine Months Ended | | | |
|------------------------|--------------------|--------|----------|-----|-------------------|--------|----------|----|
| | May 31, | | Increase | | May 31, | | Increase | |
| | 2011 | 2010 | Amount | % | 2011 | 2010 | Amount | % |
| Rebar | \$ 798 | \$ 716 | \$82 | 11% | \$ 752 | \$ 715 | \$37 | 5% |
| Structural | 1,926 | 1,884 | 42 | 2% | 1,894 | 1,859 | 35 | 2% |
| Post | 944 | 870 | 74 | 9% | 918 | 870 | 48 | 6% |

* Excludes stock and buyout sales.

| Tons shipped (in thousands) | Three Months Ended | | | | Nine Months Ended | | | |
|-----------------------------|--------------------|------|----------|-------|-------------------|------|----------|-----|
| | May 31, | | Decrease | | May 31, | | Increase | |
| | 2011 | 2010 | Amount | % | 2011 | 2010 | Amount | % |
| Rebar | 217 | 230 | (13) | (6%) | 607 | 591 | 16 | 3% |
| Structural | 16 | 16 | | | 43 | 39 | 4 | 10% |
| Post | 31 | 35 | (4) | (11%) | 77 | 77 | | |

International Mills CMC Zawiercie (CMCZ) had an adjusted operating profit of \$22.6 million in the third quarter of 2011 as compared to an adjusted operating profit of \$1.1 million in the third quarter of last year. The improvement in

adjusted operating profit over the prior year's third quarter was driven by higher prices and volumes and the achievement of pre-recession metal margins from stronger than anticipated growth in the Polish economy. Prices were also positively impacted from a better product mix from our new rolling mills. Shipments included 70 thousand tons of billets in the third quarter of 2011 as compared to 69 thousand tons of billets in the third quarter of the prior year. The table below reflects CMCZ's operating statistics (in thousands) and average prices per short ton:

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| | Three Months Ended | | | | Nine Months Ended | | | |
|--|--------------------|-----------|----------|-----|-------------------|-----------|----------|-----|
| | May 31, | | Increase | | May 31, | | Increase | |
| | 2011 | 2010 | Amount | % | 2011 | 2010 | Amount | % |
| Tons melted | 431 | 394 | 37 | 9% | 1,151 | 1,086 | 65 | 6% |
| Tons rolled | 356 | 295 | 61 | 21% | 948 | 797 | 151 | 19% |
| Tons shipped | 425 | 363 | 62 | 17% | 1,095 | 1,000 | 95 | 10% |
| Average mill selling price (total sales) | 1,913 PLN | 1,477 PLN | 436 PLN | 30% | 1,786 PLN | 1,304 PLN | 482 PLN | 37% |
| Average ferrous scrap production cost | 1,157 PLN | 996 PLN | 161 PLN | 16% | 1,097 PLN | 860 PLN | 237 PLN | 28% |
| Average metal margin | 756 PLN | 481 PLN | 275 PLN | 57% | 689 PLN | 444 PLN | 245 PLN | 55% |
| Average ferrous scrap purchase price | 949 PLN | 861 PLN | 88 PLN | 10% | 908 PLN | 716 PLN | 192 PLN | 27% |
| Average mill selling price (total sales) | \$ 687 | \$ 493 | \$ 194 | 39% | \$ 623 | \$ 448 | \$ 175 | 39% |
| Average ferrous scrap production cost | \$ 416 | \$ 332 | \$ 84 | 25% | \$ 381 | \$ 297 | \$ 84 | 28% |
| Average metal margin | \$ 271 | \$ 161 | \$ 110 | 68% | \$ 242 | \$ 151 | \$ 91 | 60% |
| Average ferrous scrap purchase price | \$ 341 | \$ 285 | \$ 56 | 20% | \$ 315 | \$ 250 | \$ 65 | 26% |

PLN Polish zlotys

CMC Sisak (CMCS) reported an adjusted operating loss of \$7.2 million for the third quarter of 2011 as compared to an adjusted operating loss of \$12.0 million in the third quarter of 2010. The improvement in operating results over the prior year's third quarter was driven by higher prices and shipments. Additionally, our technical teams continue to make progress in process improvements and cost reductions, but the market for line pipe remains challenging. CMCS melted 36 thousand tons, rolled 18 thousand tons and sold 27 thousand tons during the third quarter as compared to 18 thousand tons melted, 14 thousand tons rolled and 16 thousand tons sold during the prior year's third quarter. Our fabrication operations in Poland and Germany recorded an adjusted operating profit of \$0.8 million during the third quarter of 2011 compared to an adjusted operating loss of \$1.7 million in the third quarter of 2010. These results are included in the overall results of CMCZ discussed above.

International Marketing and Distribution This segment reported its eighth consecutive profitable quarter and net sales remained consistent with the prior year's third quarter. Adjusted operating profit declined \$14.0 million to \$17.0 million in the third quarter of 2011. The decline in adjusted operating profit was impacted by an increase in LIFO expense of \$11.8 million in the third quarter of 2011 as compared to the third quarter of 2010. The raw materials marketing operations led this segment in profitability. During the quarter, the domestic steel import business continued its turnaround with another strong performance. The Australian operations were marginally profitable given the weakened state of the economy and recent weather devastations in Australia.

Corporate Our corporate expenses increased \$17.1 million and \$5.0 million for the three and nine months ended May 31, 2011 compared to the same periods from the prior year primarily due to higher information technology costs,

legal costs and employee incentive plans.

Consolidated Data The LIFO method of inventory valuation decreased our net earnings from continuing operations by approximately \$4 million for the third quarter of 2011 and increased our net loss by approximately \$28 million for the third quarter of 2010. The LIFO method of inventory valuation increased our net loss from continuing operations by approximately \$44 million and \$23 million for the nine months ended May 31, 2011 and 2010, respectively. Our overall selling, general and administrative (SG&A) expenses increased by \$37.1 million for the three months ended May 31, 2011 as compared to the same period last year primarily due to higher information technology costs and employee incentive plans. SG&A expenses for the nine months ended May 31, 2011 were consistent with the same period in the prior year.

Our interest expense remained consistent for the three months ended May 31, 2011 as compared to the same period from the prior year but decreased \$3.0 million for the nine months ended May 31, 2011 as compared to the same period from the prior year. The decrease primarily relates to the favorable impact of interest rate swap transactions of \$8.6 million for the nine months ended May 31, 2011, offset by less capitalized interest as a result of completed capital projects during 2010.

Our effective tax rate from continuing operations for the three months ended May 31, 2011 and 2010 was 28.1% and (58.2%), respectively. Our effective tax rate varies from our statutory rate primarily related to losses in Croatia not being tax benefitted as we might not be able to utilize these losses in the allowed carryforward period. Additionally, the effective tax rate for the nine months ended May 31, 2011 is significantly impacted by the effect of permanent differences having a greater impact at near break-even pre-tax results.

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Discontinued Operations Our joist and deck division classified as a discontinued operation reported an adjusted operating loss of \$1.4 million for the third quarter of 2011 as compared to an adjusted operating profit of \$4.0 million in the third quarter of 2010. The results for the third quarter of 2011 include carrying costs of the remaining owned properties. As of the second quarter of 2011, all locations had either been sold or ceased operations. The results for the third quarter of 2010 include LIFO income of \$8.5 million offset by closing costs of the facilities.

OUTLOOK

Our fourth quarter is normally a seasonally slower period, and we expect a similar trend in the fourth quarter of 2011. We expect the fourth quarter of 2011 to be profitable, but due to seasonality it will not be as strong as the third quarter of 2011. We remain focused on improving our operational efficiency.

LIQUIDITY AND CAPITAL RESOURCES

See Note 8 Credit Arrangements, to the consolidated financial statements.

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

The table below reflects our sources, facilities and availability of liquidity and capital resources as of May 31, 2011 (dollars in thousands):

| | Total Facility | Availability |
|--|-----------------------|---------------------|
| Cash and cash equivalents | \$ 243,562 | \$ N/A |
| Commercial paper program* | 400,000 | 400,000 |
| Domestic accounts receivable sales facility | 100,000 | 100,000 |
| International accounts receivable sales facilities | 226,602 | 72,776 |
| Bank credit facilities uncommitted | 881,493 | 487,290 |
| Notes due from 2013 to 2018 | 1,100,000 | ** |
| CMCZ term note | 58,226 | |
| CMCS term facility | 21,574 | |
| Trade financing arrangements | ** | As required |
| Equipment notes | 6,593 | ** |

* The commercial paper program is supported by our \$400 million unsecured revolving credit agreement. The availability under the revolving credit agreement is reduced by commercial paper outstanding. The availability under the revolving credit agreement may be limited by the debt to capitalization ratio covenant. As of May 31, 2011, there was no amount outstanding under the commercial paper program.

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

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

Our 5.625% \$200 million notes due November 2013, 6.50% \$400 million notes due July 2017 and our 7.35% \$500 million notes due August 2018 require interest only payments until maturity. Our CMCZ note requires quarterly interest and principal payments and our CMCS facility requires quarterly interest and principal payments beginning in July 2011. We expect cash from operations to be sufficient to meet all interest and principal payments due within the next twelve months, and we believe we will be able to get additional financing or refinance these notes when they mature.

Certain of our financing agreements include various financial covenants. The revolving credit facility required us to maintain a minimum interest coverage ratio (adjusted EBITDA to interest expense) of not less than 2.50 to 1.00 for the twelve month cumulative

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period ended May 31, 2011 and for each fiscal quarter on a rolling twelve month cumulative period thereafter. At May 31, 2011, our interest coverage ratio was 3.37 to 1.00. The debt to capitalization ratio covenant under the agreement requires us to maintain a ratio not greater than 0.60 to 1.00. At May 31, 2011, our debt to capitalization ratio was 0.50 to 1.00. The revolving credit facility is used as an alternative source of liquidity. Our public debt does not contain these covenants.

The CMCZ term note contains certain financial covenants. The agreement requires a debt to equity ratio of not greater than 0.80 to 1.00, a tangible net worth to exceed PLN 600 million and a debt to EBITDA ratio not greater than 3.50 to 1.00. At May 31, 2011, CMCZ was in compliance with these covenants with a debt to equity ratio at 0.71 to 1.00, tangible net worth of PLN 718 million and a debt to EBITDA ratio at 2.43 to 1.00. Additionally, the agreement requires an interest coverage ratio of not less than 1.20 to 1.00. At May 31, 2011, CMCZ was not in compliance with this covenant which resulted in a guarantee by the Company continuing to be effective. As a result of the guarantee, the financial covenant requirements became void; however, all other terms of the loan remain in effect, including the payment schedule. The guarantee will cease to be effective when CMCZ is in compliance with this financial covenant for two consecutive quarters.

We regularly maintain a substantial amount of accounts receivable. We actively monitor our accounts receivable and record allowances as soon as we believe accounts are uncollectible based on current market conditions and customers financial condition. Continued pressure on the liquidity of our customers could result in additional reserves as we make our assessments in the future. We use credit insurance both in the U.S. and internationally to mitigate the risk of customer insolvency. We estimate the amount of credit insured receivables (and those covered by export letters of credit) was approximately 66% of total receivables at May 31, 2011.

For added flexibility, we may sell certain accounts receivable both in the U.S. and internationally. See Note 3, Sales of Accounts Receivable, to the consolidated financial statements. Our domestic sale of receivables program contains certain cross-default provisions whereby a termination event could occur should we default under another credit arrangement, and contains covenants that conform to the same requirements contained in our revolving credit agreement. Compliance with these covenants is discussed above.

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

During the nine months ended May 31, 2011, we used \$44.1 million of net cash flows from operating activities as compared to generating \$17.5 million in the first nine months of 2010. We generated less cash in fiscal 2011 than the same period in 2010 from fluctuations in working capital offset by a reduction in net loss. Significant fluctuations in working capital were as follows:

Accounts receivable accounts receivable increased for the first nine months of 2011 as sales and prices continued to improve as compared to the same period in the prior year;

Inventory more cash was used in the first nine months of 2011 as improved demand resulted in increased volume and higher prices in our inventory balance as compared to the same period in 2010;

Accounts payable less cash was generated in the first nine months of 2011 as current liabilities have been relatively consistent during 2011 as compared to the first nine months of 2010. Balances were significantly reduced at the end of 2009 due to low volume from the global recession resulting in large increases in accounts payable during 2010.

During the nine months ended May 31, 2011, we generated \$1.7 million of net cash flows from investing activities as compared to using \$133.9 million during the same period in the prior year. We invested \$51.5 million in property, plant and equipment during 2011, a decrease of \$57.9 million over 2010. Additionally, we had proceeds from the sale of property, plant and equipment and other assets of \$52.3 million, an increase of \$47.0 million over 2010, primarily related to the sale of certain assets of our joist business and forms from our heavy forms rental business.

We expect our total capital budget for fiscal 2011 to be approximately \$115 million. We continually assess our capital spending and reevaluate our requirements based on current and expected results.

During the nine months ended May 31, 2011, we used \$117.9 million of net cash flows from financing activities as compared to generating \$3.7 million during the nine months ended May 31, 2010. The increase in cash used was primarily due to decreased net

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borrowings on short-term debt of \$69.6 million and decreased documentary letters of credit of \$21.9 million in the first nine months of 2011. Our cash dividends have remained consistent at approximately \$41 million for both periods. Our contractual obligations for the next twelve months of approximately \$965 million are typically expenditures with normal revenue producing activities. We believe our cash flows from operating activities and debt facilities are adequate to fund our ongoing operations and planned capital expenditures.

CONTRACTUAL OBLIGATIONS

The following table represents our contractual obligations as of May 31, 2011 (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) | \$ 1,203,728 | \$ 38,246 | \$ 43,999 | \$ 210,074 | \$ 911,409 |
| Notes payable | 8,372 | 8,372 | | | |
| Interest(2) | 336,078 | 57,415 | 105,213 | 92,294 | 81,156 |
| Operating leases(3) | 147,800 | 40,514 | 57,533 | 34,044 | 15,709 |
| Purchase obligations(4) | 965,178 | 820,066 | 86,186 | 55,084 | 3,842 |
| Total contractual cash obligations | \$ 2,661,156 | \$ 964,613 | \$ 292,931 | \$ 391,496 | \$ 1,012,116 |

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

- (1) Total amounts are included in the May 31, 2011 consolidated balance sheet. See Note 8, Credit Arrangements, to the consolidated financial statements.
- (2) Interest payments related to our short-term debt are not included in the table as they do not represent a significant obligation as of May 31, 2011. Also, amounts include the effect of our interest rate swaps based on the LIBOR forward rate at May 31, 2011.
- (3) Includes minimum lease payment obligations for non-cancelable equipment and real estate leases in effect as of May 31, 2011.
- (4) Approximately 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. Another significant obligation relates to capital expenditures.

Other Commercial Commitments We maintain stand-by letters of credit to provide support for certain transactions that our insurance providers and suppliers request. At May 31, 2011, we had committed \$30.9 million under these arrangements, of which \$30.2 million is cash collateralized. All of the commitments expire within one year.

CONTINGENCIES

See Note 14 Commitments and Contingencies, to the consolidated financial statements.

In the ordinary course of conducting our business, we become involved in litigation, administrative proceedings and government investigations, including environmental matters. We may incur settlements, fines, penalties or judgments because of some of these matters. While we are unable to estimate the ultimate dollar amount of exposure or loss in connection with these matters, we make accruals as warranted. Inherent uncertainties exist in these estimates primarily due to evolving remediation technology, changing regulations, possible third-party contributions and the uncertainties involved in litigation. We believe that we have adequately provided in our consolidated financial statements for the

potential impact of these contingencies. We also believe that the outcomes will not significantly affect the long-term results of operations, our financial position or our cash flows.

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.

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FORWARD-LOOKING STATEMENTS

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

- absence of global economic recovery or possible recession relapse;
- solvency of financial institutions and their ability or willingness to lend;
- success or failure of governmental efforts to stimulate the economy, including restoring credit availability and confidence in a recovery;
- continued debt problems within the eurozone and other foreign zones;
- customer non-compliance with contracts;
- construction activity, including residential, commercial and industrial;
- decisions by governments affecting the level of steel imports, including tariffs and duties;
- litigation claims and settlements;
- difficulties or delays in the execution of construction contracts resulting in cost overruns or contract disputes;
- metals pricing over which we exert little influence;
- increased capacity and product availability from competing steel minimills and other steel suppliers, including import quantities and pricing;
- execution of cost minimization strategies;
- ability to retain key executives;
- court decisions and regulatory rulings;
- industry consolidation or changes in production capacity or utilization;
- global factors, including political and military uncertainties and acts of nature;
- currency fluctuations;
- interest rate changes;
- availability and pricing of raw materials, including scrap metal and energy;
- insurance and supply prices;

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passage of new, or interpretation of existing, environmental laws and regulations;
severe weather, especially in Poland; and
the pace of overall economic activity, particularly in China.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required hereunder for the Company is not materially different from the information set forth in Item 7a. Quantitative and Qualitative Disclosures about Market Risk included in the Company's Annual Report on Form 10-K for the year ended August 31, 2010, filed with the SEC and is, therefore, not presented herein. Additionally, see Note 9 Derivatives and Risk Management, to the consolidated financial statements.

ITEM 4. CONTROLS AND PROCEDURES

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

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

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

Not Applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

ITEM 4. (RESERVED)

ITEM 5. OTHER INFORMATION

Not Applicable.

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ITEM 6. EXHIBITS

Exhibits required by Item 601 of Regulation S-K:

- 10.1 Fourth Amendment, dated April 7, 2011, to Employment Agreement by and between Murray R. McClean and Commercial Metals Company (filed as Exhibit 10.1 to Commercial Metals Company's Form 8-K filed April 11, 2011 and incorporated herein by reference).
 - 10.2 First Amendment, dated April 8, 2011, to Employment Agreement by and between Joseph Alvarado and Commercial Metals Company (filed as Exhibit 10.2 to Commercial Metals Company's Form 8-K filed April 11, 2011 and incorporated herein by reference).
 - 10.3 Employment Agreement, dated May 3, 2011, by and between Barbara R. Smith and Commercial Metals Company (filed herewith).
 - 10.4 Retirement and Transition Agreement, dated May 6, 2011, by and between William B. Larson and Commercial Metals Company (filed herewith).
 - 10.5 Amended and Restated Employment Agreement, dated May 23, 2011, by and between Murray R. McClean and Commercial Metals Company (filed herewith).
 - 10.6 Second Amendment, dated May 26, 2011, to Employment Agreement by and between Joseph Alvarado and Commercial Metals Company (filed herewith).
 - 31.1 Certification of Murray R. McClean, Chairman of the Board 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 Barbara R. Smith, Senior Vice President and Chief Financial Officer of Commercial Metals Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
 - 32.1 Certification of Murray R. McClean, Chairman of the Board 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 Barbara R. Smith, Senior Vice President and Chief Financial Officer of Commercial Metals Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
 - 101* Financial statements from the quarterly report on Form 10-Q of Commercial Metals Company for the quarter ended May 31, 2011, filed on July 8, 2011, formatted in XBRL: (i) the Consolidated Balance Sheets (Unaudited), (ii) the Consolidated Statements of Operations (Unaudited), (iii) the Consolidated Statements of Cash Flows (Unaudited), (iv) the Consolidated Statements of Stockholders' Equity (Unaudited) and (v) the Notes to Consolidated Financial Statements tagged as blocks of text (submitted electronically herewith).
- * In accordance with Rule 406T of Regulation S-T, the XBRL information in Exhibit 101 to this quarterly report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

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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

July 8, 2011

/s/ Barbara R. Smith
Barbara R. Smith
Senior Vice President & Chief Financial
Officer

July 8, 2011

/s/ Leon K. Rusch
Leon K. Rusch
Vice President & Controller

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INDEX TO EXHIBITS

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reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.