

COMMERCIAL METALS CO

Form 10-Q

July 10, 2008

**Table of Contents**

**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, 2008  
Commission File Number 1-4304  
COMMERCIAL METALS COMPANY**

(Exact Name of registrant as specified in its charter)

Delaware

75-0725338

(State or other Jurisdiction of  
incorporation of organization)

(I.R.S. Employer  
Identification Number)

6565 N. MacArthur Blvd.  
Irving, Texas 75039

(Address of principal executive offices)  
(Zip Code)  
(214) 689-4300

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

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

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes  No

As of July 7, 2008, there were 114,519,162 shares of the Company's common stock issued and outstanding excluding 14,541,502 shares held in the Company's treasury.

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

|   | <b>PAGE NO.</b> |
|---|-----------------|
| <b><u>PART I FINANCIAL INFORMATION</u></b>  |                 |
| <b><u>Item 1. Financial Statements</u></b>  |                 |
| <u>Condensed Consolidated Balance Sheets (Unaudited) May 31, 2008 and August 31, 2007</u>                                 | 2 - 3           |
| <u>Condensed Consolidated Statements of Earnings (Unaudited) Three months and nine months ended May 31, 2008 and 2007</u> | 4               |
| <u>Condensed Consolidated Statements of Cash Flows (Unaudited) Nine months ended May 31, 2008 and 2007</u>                | 5               |
| <u>Condensed Consolidated Statement of Stockholders Equity (Unaudited) Nine months ended May 31, 2008</u>                 | 6               |
| <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>   | 7 16            |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                      | 17 25           |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>   | 26              |
| <u>Item 4. Controls and Procedures</u>  | 26              |
| <b><u>PART II OTHER INFORMATION</u></b>   |                 |
| <u>Items 1 - 6</u>  | 27 28           |
| <u>Signatures</u>   | 29              |
| <u>Index to Exhibits</u>  | 30              |
| Certification Pursuant to Section 302   |                 |
| Certification Pursuant to Section 302   |                 |
| Certification Pursuant to Section 906   |                 |
| Certification Pursuant to Section 906   |                 |

**Table of Contents****PART 1. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

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

| <b>(in thousands)</b>   | <b>May 31,<br/>2008</b> | <b>August 31,<br/>2007</b> |
|---|-------------------------|----------------------------|
| Current assets:   |                         |                            |
| Cash and cash equivalents   | \$ 68,578               | \$ 419,275                 |
| Accounts receivable (less allowance for collection losses of \$19,713 and \$16,495) | 1,389,380               | 1,082,713                  |
| Inventories   | 1,189,381               | 874,104                    |
| Other   | 167,278                 | 82,760                     |
| Total current assets  | 2,814,617               | 2,458,852                  |
| Property, plant and equipment:  |                         |                            |
| Land  | 72,982                  | 54,387                     |
| Buildings and improvements  | 415,513                 | 321,967                    |
| Equipment   | 1,234,330               | 1,095,672                  |
| Construction in process   | 210,549                 | 118,298                    |
|   | 1,933,374               | 1,590,324                  |
| Less accumulated depreciation and amortization                                      | (924,748)               | (822,971)                  |
|   | 1,008,626               | 767,353                    |
| Goodwill  | 41,718                  | 37,843                     |
| Other assets  | 253,715                 | 208,615                    |
|   | \$ 4,118,676            | \$ 3,472,663               |

See notes to unaudited condensed consolidated financial statements.

**Table of Contents**

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

| <b>(in thousands, except share data)</b>  | <b>May 31,<br/>2008</b> | <b>August 31,<br/>2007</b> |
|---|-------------------------|----------------------------|
| Current liabilities:  |                         |                            |
| Commercial paper  | \$ 33,000               | \$                         |
| Notes payable   | 32,233                  |                            |
| Accounts payable-trade  | 739,254                 | 484,650                    |
| Accounts payable-documentary letters of credit  | 212,056                 | 153,431                    |
| Accrued expenses and other payables   | 538,168                 | 425,410                    |
| Deferred income taxes   | 4,541                   | 4,372                      |
| Current maturities of long-term debt  | 104,855                 | 4,726                      |
| <br>  |                         |                            |
| Total current liabilities   | 1,664,107               | 1,072,589                  |
| Deferred income taxes   | 37,448                  | 31,977                     |
| Other long-term liabilities   | 128,745                 | 109,813                    |
| Long-term debt  | 641,872                 | 706,817                    |
| <br>  |                         |                            |
| Total liabilities   | 2,472,172               | 1,921,196                  |
| Minority interests  | 3,839                   | 2,900                      |
| Commitments and contingencies   |                         |                            |
| Stockholders' equity:   |                         |                            |
| Capital stock:  |                         |                            |
| Preferred stock   |                         |                            |
| Common stock, par value \$0.01 per share: authorized 200,000,000 shares;<br>issued 129,060,664 shares; outstanding 114,392,205 and 118,566,381 shares | 1,290                   | 1,290                      |
| Additional paid-in capital  | 369,011                 | 356,983                    |
| Accumulated other comprehensive income  | 150,928                 | 64,452                     |
| Retained earnings   | 1,421,738               | 1,296,631                  |
|   | 1,942,967               | 1,719,356                  |
| Less treasury stock:  |                         |                            |
| 14,668,459 and 10,494,283 shares at cost  | (300,302)               | (170,789)                  |
| <br>  |                         |                            |
| Total stockholders' equity  | 1,642,665               | 1,548,567                  |
|   | \$ 4,118,676            | \$ 3,472,663               |

See notes to unaudited condensed consolidated financial statements.

**Table of Contents**

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

| <b>(in thousands, except share data)</b>                                       | <b>Three Months Ended</b> |                         | <b>Nine Months Ended</b> |                         |
|--|---------------------------|-------------------------|--------------------------|-------------------------|
|  | <b>May 31,<br/>2008</b>   | <b>May 31,<br/>2007</b> | <b>May 31,<br/>2008</b>  | <b>May 31,<br/>2007</b> |
| Net sales  | \$ 2,910,730              | \$ 2,244,041            | \$ 7,280,902             | \$ 6,045,074            |
| Costs and expenses:  |                           |                         |                          |                         |
| Cost of goods sold   | 2,617,232                 | 1,930,831               | 6,489,009                | 5,192,250               |
| Selling, general and administrative expenses                                   | 190,882                   | 158,635                 | 498,292                  | 427,424                 |
| Interest expense   | 15,827                    | 9,399                   | 42,285                   | 26,003                  |
|  | 2,823,941                 | 2,098,865               | 7,029,586                | 5,645,677               |
| Earnings from continuing operations before income taxes and minority interests | 86,789                    | 145,176                 | 251,316                  | 399,397                 |
| Income taxes   | 27,980                    | 45,433                  | 84,260                   | 135,498                 |
| Earnings from continuing operations before minority interests                  | 58,809                    | 99,743                  | 167,056                  | 263,899                 |
| Minority interests   | (277)                     | (387)                   | (540)                    | (9,663)                 |
| Net earnings from continuing operations  | 58,532                    | 99,356                  | 166,516                  | 254,236                 |
| Earnings (loss) from discontinued operations before taxes                      | 1,501                     | 166                     | 3,722                    | (5,953)                 |
| Income taxes (benefit)   | 549                       | 81                      | 1,815                    | (2,429)                 |
| Net earnings (loss) from discontinued operations                               | 952                       | 85                      | 1,907                    | (3,524)                 |
| Net earnings   | \$ 59,484                 | \$ 99,441               | \$ 168,423               | \$ 250,712              |
| Basic earnings per share   |                           |                         |                          |                         |
| Earnings from continuing operations  | \$ 0.51                   | \$ 0.84                 | \$ 1.44                  | \$ 2.16                 |
| Earnings (loss) from discontinued operations                                   | 0.01                      | 0.00                    | 0.02                     | (0.03)                  |
| Net earnings   | \$ 0.52                   | \$ 0.84                 | \$ 1.46                  | \$ 2.13                 |
| Diluted earnings per share   |                           |                         |                          |                         |
| Earnings from continuing operations  | \$ 0.50                   | \$ 0.82                 | \$ 1.41                  | \$ 2.09                 |
| Earnings (loss) from discontinued operations                                   | 0.01                      | 0.00                    | 0.02                     | (0.03)                  |
| Net earnings   | \$ 0.51                   | \$ 0.82                 | \$ 1.43                  | \$ 2.06                 |
| Cash dividends per share   | \$ 0.12                   | \$ 0.09                 | \$ 0.33                  | \$ 0.24                 |
| Average basic shares outstanding   | 113,607,049               | 118,623,424             | 115,438,369              | 117,773,618             |

Edgar Filing: COMMERCIAL METALS CO - Form 10-Q

|                                    |   |             |             |             |
|------------------------------------|---|-------------|-------------|-------------|
| Average diluted shares outstanding | 116,090,369   | 121,956,284 | 118,163,737 | 121,600,343 |
|                                    | See notes to unaudited condensed consolidated financial statements. |             |             |             |
|                                    | 4   |             |             |             |

---

**Table of Contents**

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

| <b>(in thousands)</b>  | <b>Nine Months Ended</b> |                         |
|--|--------------------------|-------------------------|
|  | <b>May 31,<br/>2008</b>  | <b>May 31,<br/>2007</b> |
| Cash Flows From (Used By) Operating Activities:                                    |                          |                         |
| Net earnings   | \$ 168,423               | \$ 250,712              |
| Adjustments to reconcile net earnings to cash from (used by) operating activities: |                          |                         |
| Depreciation and amortization  | 96,594                   | 75,859                  |
| Minority interests   | 540                      | 9,663                   |
| Provision for losses on receivables  | 4,246                    | 639                     |
| Share-based compensation   | 14,802                   | 7,381                   |
| Net loss on sale of assets and other   | 372                      | 169                     |
| Asset impairment   | 530                      | 1,390                   |
| Changes in operating assets and liabilities, net of effect of acquisitions:        |                          |                         |
| Accounts receivable  | (308,168)                | (59,683)                |
| Accounts receivable sold   | 47,746                   | 61,711                  |
| Inventories  | (238,663)                | (149,093)               |
| Other assets   | (109,523)                | (81,977)                |
| Accounts payable, accrued expenses, other payables and income taxes                | 272,022                  | (17,859)                |
| Deferred income taxes  | (13,161)                 | (5,179)                 |
| Other long-term liabilities  | 10,671                   | 28,629                  |
| <b>Net Cash Flows From (Used By) Operating Activities</b>                          | <b>(53,569)</b>          | <b>122,362</b>          |
| Cash Flows From (Used By) Investing Activities:                                    |                          |                         |
| Purchases of property, plant and equipment   | (227,241)                | (121,774)               |
| Purchase of minority interests in CMC Zawiercie                                    | (169)                    | (60,049)                |
| Sales of property, plant and equipment   | 1,460                    | 1,264                   |
| Acquisitions, net of cash acquired   | (30,646)                 | (157,994)               |
| <b>Net Cash Flows Used By Investing Activities</b>                                 | <b>(256,596)</b>         | <b>(338,553)</b>        |
| Cash Flows From (Used By) Financing Activities:                                    |                          |                         |
| Increase in documentary letters of credit  | 58,625                   | 14,716                  |
| Short-term borrowings, net change  | 34,563                   | 132,787                 |
| Proceeds from issuance of long term debt   | 35,138                   |                         |
| Payments on long-term debt   | (1,704)                  | (19,025)                |
| Stock issued under incentive and purchase plans                                    | 12,569                   | 13,801                  |
| Treasury stock acquired  | (151,530)                | (17,744)                |
| Dividends paid   | (38,322)                 | (28,481)                |
| Tax benefits from stock plans  | 6,674                    | 11,657                  |
| <b>Net Cash Flows From (Used By) Financing Activities</b>                          | <b>(43,987)</b>          | <b>107,711</b>          |
| Effect of Exchange Rate Changes on Cash  | 3,455                    | 886                     |
| <b>Increase (Decrease) in Cash and Cash Equivalents</b>                            | <b>(350,697)</b>         | <b>(107,594)</b>        |
| Cash and Cash Equivalents at Beginning of Year                                     | 419,275                  | 180,719                 |



|  |           |           |
|--|-----------|-----------|
| Cash and Cash Equivalents at End of Period | \$ 68,578 | \$ 73,125 |
|--|-----------|-----------|

See notes to unaudited condensed consolidated financial statements.

5

---

Table of Contents

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

| (in thousands, except share data)                                | Common Stock     |          | Accumulated                |                            | Retained Earnings | Treasury Stock   |             | Total        |
|--|------------------|----------|----------------------------|----------------------------|-------------------|------------------|-------------|--------------|
|  | Number of Shares | Amount   | Additional Paid-In Capital | Other Comprehensive Income |                   | Number of Shares | Amount      |              |
| Balance, September 1, 2007                                       | 129,060,664      | \$ 1,290 | \$ 356,983                 | \$ 64,452                  | \$ 1,296,631      | (10,494,283)     | \$(170,789) | \$ 1,548,567 |
| FIN 48 adjustment (Note H)                                       |                  |          |                            |                            | (4,994)           |                  |             | (4,994)      |
| Comprehensive income:  |                  |          |                            |                            |                   |                  |             |              |
| Net earnings for nine months ended May 31, 2008                  |                  |          |                            |                            | 168,423           |                  |             | 168,423      |
| Other comprehensive income (loss):                               |                  |          |                            |                            |                   |                  |             |              |
| Foreign currency translation adjustment, net of taxes of \$2,415 |                  |          |                            | 95,704                     |                   |                  |             | 95,704       |
| Unrealized loss on derivatives, net of taxes of \$2,472          |                  |          |                            | (9,228)                    |                   |                  |             | (9,228)      |
| Comprehensive income   |                  |          |                            |                            |                   |                  |             | 254,899      |
| Cash dividends   |                  |          |                            |                            | (38,322)          |                  |             | (38,322)     |
| Treasury stock acquired  |                  |          |                            |                            |                   | (5,412,238)      | (151,530)   | (151,530)    |
| Stock issued under incentive and purchase plans                  |                  |          | (6,603)                    |                            |                   | 1,104,935        | 19,172      | 12,569       |
| Restricted stock   |                  |          | (2,996)                    |                            |                   | 148,250          | 2,996       |              |
| Amortization of share-based compensation                         |                  |          | 14,953                     |                            |                   | (15,123)         | (151)       | 14,802       |
| Tax benefits from stock plans                                    |                  |          | 6,674                      |                            |                   |                  |             | 6,674        |
| Balance, May 31, 2008  | 129,060,664      | \$ 1,290 | \$ 369,011                 | \$ 150,928                 | \$ 1,421,738      | (14,668,459)     | \$(300,302) | \$ 1,642,666 |

See notes to unaudited condensed consolidated financial statements.

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) on a basis consistent with that used in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) for the year ended August 31, 2007, and include all normal recurring adjustments necessary to present fairly the condensed consolidated balance sheets and statements of earnings, cash flows and stockholders' equity for the periods indicated. These Notes should be read in conjunction with such Form 10-K. The results of operations for the three and nine month periods are not necessarily indicative of the results to be expected for a full year.

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

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

The Company recognized share-based compensation expense of \$5.7 million and \$2.0 million (\$0.03 and \$0.01 per diluted share, respectively) for the three months ended May 31, 2008 and 2007, respectively, and \$14.8 million and \$7.4 million (\$0.08 and \$0.04 per diluted share, respectively) for the nine months ended May 31, 2008 and 2007, respectively, as a component of selling, general and administrative expenses. The Black-Scholes pricing model was used to calculate total compensation cost which is amortized on a straight-line basis over the vesting period. At May 31, 2008, the Company had \$22.8 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements. This cost is expected to be recognized over the next 35 months. See Note 1, Summary of Significant Accounting Policies, to the Company's consolidated financial statements for the year ended August 31, 2007 on Form 10-K for a description of the Company's assumptions used to calculate share-based compensation.

Combined information for shares subject to options and SARs for the nine months ended May 31, 2008 was as follows:

|                 | Number    | Weighted<br>Average<br>Exercise<br>Price | Price<br>Range<br>Per Share |
|-----------------|-----------|--|-----------------------------|
| August 31, 2007 |           |  |                             |
| Outstanding     | 6,480,908 | \$ 14.74                                 | \$ 2.94 - 34.28             |
| Exercisable     | 4,333,089 | 7.65                                     | 2.94 - 24.71                |
| Granted         | 1,059,160 | 35.38                                    | 35.38                       |
| Exercised       | (856,584) | 6.36                                     | 2.94 - 24.57                |
| Forfeited       | (65,844)  | 29.53                                    | 12.31 - 35.38               |
| May 31, 2008    |           |  |                             |
| Outstanding     | 6,617,640 | 18.99                                    | 3.64 - 35.38                |
| Exercisable     | 3,674,423 | 8.88                                     | 3.64 - 34.28                |

Share information for options and SARs at May 31, 2008:

| Range of<br>Exercise<br>Price | Outstanding           |  | Exercisable                              |                       |  |
|-------------------------------|-----------------------|--|--|-----------------------|--|
|                               | Number<br>Outstanding | Weighted Avg.<br>Remaining<br>Contractual<br>Life (Yrs.) | Weighted<br>Average<br>Exercise<br>Price | Number<br>Exercisable | Weighted<br>Average<br>Exercise<br>Price |

Edgar Filing: COMMERCIAL METALS CO - Form 10-Q

|         |           |     |         |           |         |
|---------|-----------|-----|---------|-----------|---------|
| \$ 3.64 | 749,492   | 1.7 | \$ 3.64 | 749,492   | \$ 3.64 |
| 3.78    |           |     |         |           |         |
| 4.29    | 503,203   | 0.7 | 4.33    | 503,203   | 4.33    |
| 5.36    |           |     |         |           |         |
| 7.53    | 1,518,892 | 2.7 | 7.77    | 1,518,892 | 7.77    |
| 7.78    |           |     |         |           |         |
| 12.31   | 830,932   | 4.0 | 12.34   | 512,790   | 12.35   |
| 13.58   |           |     |         |           |         |
| 21.81   | 593,951   | 5.0 | 24.52   | 388,446   | 24.55   |
| 24.71   |           |     |         |           |         |
| 31.75   | 2,421,170 | 6.5 | 34.76   | 1,600     | 34.28   |
| 35.38   |           |     |         |           |         |
| \$ 3.64 | 6,617,640 | 4.2 | \$18.99 | 3,674,423 | \$ 8.88 |
| 35.38   |           |     |         |           |         |

**Table of Contents**

Of the Company's previously granted restricted stock awards, 113,479 and 112,833 shares vested during the nine months ended May 31, 2008 and 2007, respectively.

**Intangible Assets**

The total gross carrying amounts of the Company's intangible assets that were subject to amortization were \$42.7 million and \$32.9 million at May 31, 2008 and August 31, 2007, respectively. Aggregate amortization expense was \$1.6 million for both the three months ended May 31, 2008 and 2007. Aggregate amortization expense for each of the nine months ended May 31, 2008 and 2007 was \$5.2 million and \$3.2 million, respectively.

**Recent Accounting Pronouncements**

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

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

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 requires enhanced disclosures about a company's derivative instruments and hedging activities. The Company is required to adopt the provisions of this statement in the second quarter of fiscal 2009. The adoption is not expected to have a material impact on the Company's consolidated financial statements.

**NOTE C ACQUISITIONS**

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

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

On December 31, 2007, the Company acquired a 70% interest in a newly incorporated business, CMC Albedo Metals which acquired an existing metals recycling business in Singapore. On April 16, 2008, the Company acquired the remaining 30% interest in CMC Albedo Metals.

On April 29, 2008, the Company acquired the operating assets of Rebar Services and Supply Company of Fort Worth, Texas. The acquired assets will operate under the new name of CMC Rebar, as part of CMC Americas Fabrication and Distribution Segment. This operation will allow us to expand our presence in the North Texas market.

The purchase price of these acquisitions was approximately \$32.9 million (\$31 million in cash and \$1.9 million in installments payable). The Company also has committed to spend not less than \$38 million over five years in capital expenditures for CMC Sisak and increase working capital by approximately \$39 million.

**Table of Contents**

The following is a summary of the allocation of the purchase price as of the date of the respective acquisitions, subject to change following management's final determination of fair value:

(in thousands)

|                               |           |
|-------------------------------|-----------|
| Accounts receivable           | \$ 5,329  |
| Inventories                   | 18,651    |
| Other current assets          | 7,286     |
| Property, plant and equipment | 53,160    |
| Goodwill                      | 8,582     |
| Intangible assets             | 3,541     |
| Other assets                  | 12,929    |
| Liabilities                   | (76,554)  |
| Net assets acquired           | \$ 32,924 |

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

**NOTE D SALES OF ACCOUNTS RECEIVABLE**

The Company has an accounts receivable securitization program which it utilizes as a cost-effective, short-term financing alternative. Under this program, the Company and several of its subsidiaries periodically sell certain eligible trade accounts receivable to the Company's wholly-owned consolidated special purpose subsidiary (CMCRV). CMCRV is structured to be a bankruptcy-remote entity and was formed for the sole purpose of buying and selling receivables generated by the Company. The Company, irrevocably and without recourse, transfers all applicable trade accounts receivable to CMCRV. CMCRV, in turn, sells an undivided percentage ownership interest in the pool of receivables to affiliates of two third party financial institutions. On April 30, 2008, the agreement with the financial institution affiliates was extended to April 24, 2009. CMCRV may sell undivided interests of up to \$200 million, depending on the Company's level of financing needs.

At May 31, 2008 and August 31, 2007, accounts receivable of \$392 million and \$378 million, respectively, had been sold to CMCRV. The Company's undivided interest in these receivables (representing the Company's retained interest) was 100%, because the Company had not sold any receivables to the financial institution buyers, at May 31, 2008 and August 31, 2007, respectively. Additionally, the Company did not sell any receivables to the financial institution buyers during the nine months ended May 31, 2008 and 2007, respectively. The sale of receivables provides the Company with added financial flexibility to fund the Company's ongoing operations. The Company is responsible for servicing the entire pool of receivables, however, no servicing asset or liability is recorded as these receivables are collected in the normal course of business and the collection of receivables related to sales to third party institutional buyers are normally short term in nature.

In addition to the securitization program described above, the Company's subsidiaries in Australia, Europe, Poland and a domestic subsidiary periodically sell accounts receivable. These arrangements also constitute true sales and, once the accounts are sold, they are no longer available to satisfy the Company's creditors in the event of bankruptcy.

Uncollected accounts receivable that had been sold under all these arrangements and removed from the condensed consolidated balance sheets were \$225.3 million and \$151.7 million at May 31, 2008 and August 31, 2007, respectively. The average monthly amounts of these outstanding accounts receivable sold were \$197.1 million and \$81.9 million for the nine months ended May 31, 2008 and 2007, respectively. The Company's Australian subsidiary entered into an agreement with a financial institution to periodically sell certain trade accounts receivable up to a maximum of 97 million AUD (\$93 million). The Australian program contains covenants in which our Australian subsidiary must meet certain coverage and tangible net worth levels. At May 31, 2008, our Australian subsidiary was in compliance with these covenants.

Discounts (losses) on domestic and international sales of accounts receivable were \$2.8 million and \$1.5 million for the three months ended May 31, 2008 and 2007, respectively. For the nine months ended May 31, 2008 and 2007, these discounts were \$8.3 million and \$3.8 million, respectively. These losses primarily represented the costs of funds and were included in selling, general and administrative expenses.

**NOTE E INVENTORIES**

Before deduction of last-in, first-out (LIFO) inventory valuation reserves of \$422.4 million and \$240.5 million at May 31, 2008 and August 31, 2007, respectively, inventories valued under the first-in, first-out method approximated replacement cost. The majority of the

**Table of Contents**

Company's inventories are in finished goods, with minimal work in process. Approximately \$92.9 million and \$66.4 million were in raw materials at May 31, 2008 and August 31, 2007, respectively.

**NOTE F DISCONTINUED OPERATIONS**

During the fourth quarter of 2007, the Company's Board approved the plan to offer to sell a division (Division) which is involved with the buying, selling and distribution of nonferrous metals, namely copper, aluminum and stainless steel semifinished products. The Company anticipates the sale will occur in fiscal 2008. The Division is presented as a discontinued operation in the condensed consolidated statements of earnings. During the three and nine months ended May 31, 2008, the Division recorded LIFO income of \$0.4 million and \$6.3 million, respectively, as compared to LIFO expense of \$2.0 million and \$8.2 million, respectively, for the three and nine months ended May 31, 2007. The Division is in the International Fabrication and Distribution segment. Various financial information for the Division is as follows:

| (in thousands)         | May 31,<br>2008 | August 31,<br>2007 |
|------------------------|-----------------|--------------------|
| Current assets         | \$72,919        | \$93,385           |
| Noncurrent assets      | 2,285           | 1,795              |
| Current liabilities    | 14,542          | 34,889             |
| Noncurrent liabilities | 586             | 874                |

| (in thousands)               | Three Months Ended |                | Nine Months Ended |                |
|------------------------------|--------------------|----------------|-------------------|----------------|
|                              | May 31<br>2008     | May 31<br>2007 | May 31<br>2008    | May 31<br>2007 |
| Revenue                      | \$85,716           | \$101,662      | \$255,863         | \$302,948      |
| Earnings (loss) before taxes | 1,501              | 166            | 3,722             | (5,953)        |

**NOTE G CREDIT ARRANGEMENTS**

Borrowings outstanding under the Company's commercial paper program were \$33 million at May 31, 2008 and none at August 31, 2007. No borrowings were outstanding under the related revolving credit agreement at May 31, 2008 and August 31, 2007. The Company was in compliance with all covenants at May 31, 2008.

The Company has numerous informal credit facilities available from domestic and international banks. These credit facilities are available to support documentary letters of credit (including those with extended terms), foreign exchange transactions and, in certain instances, short-term working capital loans and are priced at bankers' acceptance rates or on a cost of funds basis. Amounts outstanding on these facilities relate to accounts payable settled under documentary letters of credit.

Long-term debt was as follows:

| (in thousands)                   | May 31,<br>2008 | August 31,<br>2007 |
|----------------------------------|-----------------|--------------------|
| 6.75% notes due February 2009    | \$100,000       | \$100,000          |
| 5.625% notes due November 2013   | 200,000         | 200,000            |
| 6.50% notes due July 2017        | 400,000         | 400,000            |
| CMCZ term notes due May 2013     | 34,554          |                    |
| Other, including equipment notes | 12,173          | 11,543             |
|                                  | 746,727         | 711,543            |
| Less current maturities          | 104,855         | 4,726              |



\$641,872                      \$706,817

As of May 31, 2008, the Company was in compliance with all debt requirements for these notes. Interest on these notes is payable semiannually.

CMC Zawiercie (CMCZ) has a revolving credit facility with maximum borrowings of 100 million PLN (\$46.1 million) bearing interest at the Warsaw Interbank Offered Rate (WIBOR) plus 0.5% and collateralized by CMCZ's accounts receivable. This facility was extended to June 3, 2009. At May 31, 2008, no amounts were outstanding under this facility. The revolving credit facility contains

**Table of Contents**

certain financial covenants for CMCZ. CMCZ was in compliance with these covenants at May 31, 2008. There are no guarantees by the Company or any of its subsidiaries for any of CMCZ's debt.

On May 20, 2008, CMCZ signed a five year term note facility agreement of 400 million PLN (\$184.3 million) with a group of four banks. At May 31, 2008, the notes had an outstanding balance of 75 million PLN (\$34.6 million). 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 beginning in November 2009. Interest is accrued at the Warsaw Interbank Offered Rate (WIBOR) plus 0.79%. The weighted average rate as of May 31, 2008 was 6.99%. The term note contains certain financial covenants for CMCZ. There are no guarantees by the Company or any of its subsidiaries for any of CMCZ's debt.

CMC Poland, a wholly-owned subsidiary of the Company, owns and operates equipment at the CMCZ mill site. In connection with the equipment purchase, CMC Poland issued equipment notes under a term agreement dated September 2005 with 13.9 million PLN (\$6.4 million) outstanding at May 31, 2008. Installment payments under these notes are due through 2010. Interest rates are variable based on the Poland Monetary Policy Council's rediscount rate, plus any applicable margin. The weighted average rate as of May 31, 2008 was 6.2%. The notes are secured by the shredder equipment.

In September, 2007, CMC Sisak issued current notes to banks with maximum borrowings of 140 million HRK (\$30.0 million) due on September 5, 2008. As of May 31, 2008, the notes had an outstanding balance of 136.4 million HRK (\$29.3 million). The interest is based on the weighted average value of the reported annual yield in respect to the uniform price for 91 day treasury bills issued by the Ministry of Finance of the Republic of Croatia, currently at 5.59%. The notes are not collateralized and do not contain any financial covenants. The notes are guaranteed by Commercial Metals International.

Interest of \$40.6 million and \$27.2 million was paid in the nine months ended May 31, 2008 and 2007, respectively. The Company capitalized interest of \$4.4 million and \$0.5 million for the nine months ended May 31, 2008 and 2007, respectively.

**NOTE H INCOME TAXES**

The Company paid \$104.0 million and \$145.0 million in income taxes during the nine months ended May 31, 2008 and 2007, respectively.

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

|   | <b>Three Months Ended</b> |                | <b>Nine Months Ended</b> |                |
|---|---------------------------|----------------|--------------------------|----------------|
|   | <b>May 31,</b>            | <b>May 31,</b> | <b>May 31,</b>           | <b>May 31,</b> |
|   | <b>2008</b>               | <b>2007</b>    | <b>2008</b>              | <b>2007</b>    |
| Statutory rate                          | 35.0%                     | 35.0%          | 35.0%                    | 35.0%          |
| State and local taxes                   | 1.2                       | 1.8            | 1.9                      | 1.8            |
| Extraterritorial Income Exclusion (ETI) |                           | (0.1)          |                          | (0.1)          |
| Foreign rate differential               | (3.1)                     | (4.4)          | (2.4)                    | (3.8)          |
| Domestic production activity deduction  | (0.7)                     | (0.5)          | (0.9)                    | (0.5)          |
| Other                                   | (0.1)                     | (0.5)          | 0.2                      | 1.4            |
| Effective rate                          | 32.3%                     | 31.3%          | 33.8%                    | 33.8%          |

On September 1, 2007, the Company adopted FIN 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement 109, for accounting for uncertainty in income taxes recognized in our financial statements. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As a result of the adoption of FIN 48, the Company recognized an asset of \$0.8 million and an increase to reserves of \$5.8 million related to uncertain tax positions, including \$1.6 million in interest and penalties, which were accounted for as a net reduction of \$5.0 million to the September 1, 2007 balance of retained earnings. The current Company policy classifies any interest recognized on an

underpayment of income taxes as interest expense and classifies any statutory penalties recognized on a tax position taken as selling, general and administrative expense. If these uncertain tax positions were recognized, the impact on the effective tax rate would not be significant. The Company does not expect the total amounts of unrecognized benefits to significantly increase or decrease within the next 12 months.

**Table of Contents**

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

U.S Federal 2005 and forward

U.S. States 2003 and forward

Foreign 2001 and forward

The Internal Revenue Service (IRS) is examining our federal tax returns for fiscal years 2005 and 2006. We believe our recorded tax liabilities as of May 31, 2008 are sufficient, and we do not anticipate any additional adjustments to be made by the IRS upon the completion of their examination.

**NOTE I STOCKHOLDERS EQUITY AND EARNINGS PER SHARE**

In calculating earnings per share, there were no adjustments to net earnings to arrive at earnings for the three or nine months ended May 31, 2008 or 2007. The reconciliation of the denominators of the earnings per share calculations is as follows:

|  | <b>Three Months Ended</b> |                         | <b>Nine Months Ended</b> |                         |
|--|---------------------------|-------------------------|--------------------------|-------------------------|
|  | <b>May 31,<br/>2008</b>   | <b>May 31,<br/>2007</b> | <b>May 31,<br/>2008</b>  | <b>May 31,<br/>2007</b> |
| Average shares outstanding for basic earnings per share            | 113,607,049               | 118,623,424             | 115,438,369              | 117,773,618             |
| Effect of dilutive securities-stock based incentive/purchase plans | 2,483,320                 | 3,332,860               | 2,725,368                | 3,826,725               |
| Average shares outstanding for diluted earnings per share          | 116,090,369               | 121,956,284             | 118,163,737              | 121,600,343             |

Stock Appreciation Rights (SARs) with total share commitments of 2,419,780 were antidilutive at May 31, 2008 based on the average share price for the quarter of \$32.04. The Company's remaining outstanding stock options, restricted stock and SARs with total share commitments of 4,771,932 were dilutive at May 31, 2008. All of the Company's outstanding stock options, restricted stock and SARs with total share commitments of 6,130,725 at May 31, 2007 were dilutive based on the average share price for the quarter of \$31.90. All stock options and SARs expire by 2015.

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

On November 5, 2007, the Company's board of directors authorized the purchase of an additional 5,000,000 shares of the Company's common stock. During the nine months ended May 31, 2008, the Company purchased 5,412,238 shares of the Company's common stock, at an average purchase price of \$28.00 per share, and had authorization to purchase 812,547 shares at May 31, 2008.

**NOTE J DERIVATIVES AND RISK MANAGEMENT**

The Company's worldwide operations and product lines expose it to risks from fluctuations in foreign currency exchange rates and metals commodity prices. The objective of the Company's risk management program is to mitigate these risks using futures or forward contracts (derivative instruments). The Company enters into metal commodity forward contracts to mitigate the risk of unanticipated changes in gross margin due to the volatility of the commodities prices, and enters into foreign currency forward contracts, which match the expected settlements for purchases and sales denominated in foreign currencies. Also, when its sales commitments to customers include a fixed price freight component, the Company occasionally enters into freight forward contracts to minimize the effect of the volatility of ocean freight rates. Forward contracts on natural gas may also be entered into to reduce the price volatility of gas used in production. The Company designates only those contracts which closely match the terms of the underlying transaction as hedges for accounting purposes. These hedges resulted in an immaterial amount of ineffectiveness in the statements of earnings and there were no components excluded from the assessment of hedge effectiveness for the

three or nine months ended May 31, 2008 and 2007. Certain of the foreign currency and commodity contracts were not designated as hedges for accounting purposes, although management believes they are essential economic hedges.

**Table of Contents**

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

| (in thousands)                             | Three Months Ended |                 | Nine Months Ended  |                 |
|--|--------------------|-----------------|--------------------|-----------------|
|  | May 31,<br>2008    | May 31,<br>2007 | May 31,<br>2008    | May 31,<br>2007 |
|  | Earnings (Expense) |                 | Earnings (Expense) |                 |
| Net sales (foreign currency instruments)   | \$ (759)           | \$ 177          | \$(1,186)          | \$ 46           |
| Cost of goods sold (commodity instruments) | 10,760             | 2,997           | 5,057              | (727)           |

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

| (in thousands) | May 31,<br>2008 | August 31,<br>2007 |
|----------------|-----------------|--------------------|
|----------------|-----------------|--------------------|

|  |          |         |
|--|----------|---------|
| Derivative assets (other current assets) | \$16,429 | \$7,484 |
| Derivative liabilities (other payables)  | 19,588   | 4,878   |

The following table summarizes activities in other comprehensive income (losses) related to derivatives classified as cash flow hedges held by the Company during the nine months ended May 31, 2008 (in thousands):

|   |           |
|---|-----------|
| Change in market value (net of taxes)                     | \$(8,521) |
| Gain reclassified into net earnings, net                  | (707)     |
| Other comprehensive loss — unrealized loss on derivatives | \$(9,228) |

During the twelve months following May 31, 2008, \$1.2 million in losses related to commodity hedges and capital expenditures are anticipated to be reclassified into net earnings as the related transactions mature and the assets are placed into service, respectively. Also, an additional \$0.2 million in gains will be reclassified as interest expense related to an interest rate lock.

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

**NOTE K CONTINGENCIES**

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

**Guarantees** The Company has entered into guarantee agreements with certain banks in connection with credit facilities granted by the banks to various suppliers of the Company. The fair value of the guarantees are negligible. All of the guarantees listed in the table below reflect the Company's exposure as of May 31, 2008 and are required to be completed within 2 years.

| Origination<br>Date | Guarantee<br>With | Maximum<br>Credit<br>Facility | Maximum<br>Company<br>Exposure |
|---------------------|-------------------|-------------------------------|--------------------------------|
| May 2006            | Bank              | \$15 million                  | \$0.4 million                  |
| February 2007       | Bank              | 80 million                    | 6.7 million                    |



**Table of Contents****NOTE L BUSINESS SEGMENTS**

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

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

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

**Three Months Ended May 31, 2008**

| (in thousands)                   | Americas   |            | International                    |            |                                  | Corporate | Eliminations/<br>Discontinued<br>Operations | Consolidated |
|----------------------------------|------------|------------|----------------------------------|------------|----------------------------------|-----------|---|--------------|
|                                  | Recycling  | Mills      | Fabrication<br>&<br>Distribution | Mills      | Fabrication<br>&<br>Distribution |           |   |              |
| Net sales unaffiliated customers | \$ 507,881 | \$ 387,197 | \$ 749,007                       | \$ 269,664 | \$ 1,078,072                     | \$ 4,625  | \$ (85,716)                                 | \$ 2,910,730 |
| Intersegment sales               | 120,736    | 132,355    | 2,862                            | 71,810     | 12,325                           |           | (340,088)                                   |              |
| Net sales                        | 628,617    | 519,552    | 751,869                          | 341,474    | 1,090,397                        | 4,625     | (425,804)                                   | 2,910,730    |
| Adjusted operating profit (loss) | 50,371     | 34,044     | (22,291)                         | 30,656     | 40,342                           | (30,792)  | 4,684                                       | 107,014      |

**Three Months Ended May 31, 2007**

| (in thousands)                   | Americas   |            | International                    |            |                                  | Corporate | Eliminations/<br>Discontinued<br>Operations | Consolidated |
|----------------------------------|------------|------------|----------------------------------|------------|----------------------------------|-----------|---|--------------|
|                                  | Recycling  | Mills      | Fabrication<br>&<br>Distribution | Mills      | Fabrication<br>&<br>Distribution |           |   |              |
| Net sales unaffiliated customers | \$ 437,292 | \$ 327,583 | \$ 649,412                       | \$ 219,782 | \$ 707,119                       | \$ 4,515  | \$ (101,662)                                | \$ 2,244,041 |
| Intersegment sales               | 83,391     | 106,583    | 1,059                            | 9,381      | 7,658                            |           | (208,072)                                   |              |
| Net sales                        | 520,683    | 434,166    | 650,471                          | 229,163    | 714,777                          | 4,515     | (309,734)                                   | 2,244,041    |
| Adjusted operating profit (loss) | 30,896     | 66,968     | 23,338                           | 38,791     | 21,744                           | (25,689)  | 384   | 156,432      |



## Nine Months Ended May 31, 2008

| (in thousands)                   | Americas    |            |                                  |           |                                  |           |              | International |  | Eliminations/<br>Discontinued<br>Operations Consolidated |
|----------------------------------|-------------|------------|----------------------------------|-----------|----------------------------------|-----------|--------------|---------------|--|--|
|                                  | Recycling   | Mills      | Fabrication<br>&<br>Distribution | Mills     | Fabrication<br>&<br>Distribution | Corporate |              |               |  |  |
| Net sales unaffiliated customers | \$1,277,251 | \$ 994,772 | \$2,021,253                      | \$669,921 | \$2,569,027                      | \$ 4,541  | \$ (255,863) | \$7,280,902   |  |  |
| Intersegment sales               | 254,761     | 395,380    | 8,806                            | 85,617    | 31,295                           |           | (775,859)    |               |  |  |
| Net sales                        | 1,532,012   | 1,390,152  | 2,030,059                        | 755,538   | 2,600,322                        | 4,541     | (1,031,722)  | 7,280,902     |  |  |
| Adjusted operating profit (loss) | 92,882      | 158,520    | 507                              | 39,730    | 88,609                           | (76,433)  | 1,821        | 305,636       |  |  |
| Goodwill May 31, 2008            | 7,467       |            | 29,830                           |           | 4,421                            |           |              | 41,718        |  |  |
| Total Assets May 31, 2008        | 416,995     | 605,456    | 1,188,925                        | 617,775   | 1,040,205                        | 249,320   |              | 4,118,676     |  |  |

## Nine Months Ended May 31, 2007

| (in thousands)                   | Americas    |            |                                  |           |                                  |           |              | International |  | Eliminations/<br>Discontinued<br>Operations Consolidated |
|----------------------------------|-------------|------------|----------------------------------|-----------|----------------------------------|-----------|--------------|---------------|--|--|
|                                  | Recycling   | Mills      | Fabrication<br>&<br>Distribution | Mills     | Fabrication<br>&<br>Distribution | Corporate |              |               |  |  |
| Net sales unaffiliated customers | \$1,117,469 | \$ 834,746 | \$1,862,545                      | \$563,457 | \$1,958,469                      | \$ 11,336 | \$ (302,948) | \$6,045,074   |  |  |
| Intersegment sales               | 213,267     | 297,058    | 2,625                            | 23,076    | 29,236                           |           | (565,262)    |               |  |  |
| Net sales                        | 1,330,736   | 1,131,804  | 1,865,170                        | 586,533   | 1,987,705                        | 11,336    | (868,210)    | 6,045,074     |  |  |
| Adjusted operating profit (loss) | 79,279      | 195,366    | 63,893                           | 90,663    | 49,416                           | (51,115)  | (3,545)      | 423,957       |  |  |
| Goodwill May 31, 2007            | 7,267       |            | 28,309                           |           | 1,909                            |           |              | 37,485        |  |  |
| Total Assets May 31, 2007        | 342,024     | 555,811    | 1,124,892                        | 313,955   | 779,086                          | 148,432   |              | 3,264,200     |  |  |

**Table of Contents**

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

| (in thousands)  | Three Months Ended |                 | Nine Months Ended |                 |
|---|--------------------|-----------------|-------------------|-----------------|
|   | May 31,<br>2008    | May 31,<br>2007 | May 31,<br>2008   | May 31,<br>2007 |
| Net earnings  | \$ 59,484          | \$ 99,441       | \$ 168,423        | \$ 250,712      |
| Minority interests  | 277                | 387             | 540               | 9,663           |
| Income taxes  | 28,529             | 45,514          | 86,075            | 133,069         |
| Interest expense  | 15,909             | 9,631           | 42,278            | 26,711          |
| Discounts on sales of accounts receivable                     | 2,815              | 1,459           | 8,320             | 3,802           |
| Adjusted operating profit                                     | \$ 107,014         | \$ 156,432      | \$ 305,636        | \$ 423,957      |
| Adjusted operating profit (loss) from discontinued operations | 1,786              | 522             | 4,615             | (4,982)         |
| Adjusted operating profit from continuing operations          | \$ 105,228         | \$ 155,910      | \$ 301,021        | \$ 428,939      |

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

| (in thousands)             | Three Months Ended |                 | Nine Months Ended |                 |
|----------------------------|--------------------|-----------------|-------------------|-----------------|
|                            | May 31,<br>2008    | May 31,<br>2007 | May 31,<br>2008   | May 31,<br>2007 |
| Major product information: |                    |                 |                   |                 |
| Steel products             | \$ 1,780,301       | \$ 1,415,485    | \$ 4,542,625      | \$ 3,834,497    |
| Industrial materials       | 409,239            | 183,890         | 904,186           | 562,945         |
| Nonferrous scrap           | 286,856            | 306,206         | 728,637           | 803,280         |
| Ferrous scrap              | 239,140            | 135,553         | 573,643           | 326,547         |
| Nonferrous products        | 71,190             | 112,624         | 218,678           | 267,848         |
| Construction materials     | 85,758             | 70,677          | 232,930           | 193,838         |
| Other                      | 38,246             | 19,606          | 80,203            | 56,119          |
| Net sales*                 | \$ 2,910,730       | \$ 2,244,041    | \$ 7,280,902      | \$ 6,045,074    |

| (in thousands)        | Three Months Ended |                 | Nine Months Ended |                 |
|-----------------------|--------------------|-----------------|-------------------|-----------------|
|                       | May 31,<br>2008    | May 31,<br>2007 | May 31,<br>2008   | May 31,<br>2007 |
| Geographic area:      |                    |                 |                   |                 |
| United States         | \$ 1,594,965       | \$ 1,341,572    | \$ 4,144,725      | \$ 3,549,305    |
| Europe                | 682,390            | 480,423         | 1,658,419         | 1,283,241       |
| Asia                  | 297,199            | 233,267         | 686,772           | 664,067         |
| Australia/New Zealand | 161,175            | 130,473         | 434,074           | 351,078         |
| Other                 | 175,001            | 58,306          | 356,912           | 197,383         |
| Net sales*            | \$ 2,910,730       | \$ 2,244,041    | \$ 7,280,902      | \$ 6,045,074    |

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

**NOTE M RELATED PARTY TRANSACTIONS**

One of the Company's international subsidiaries has an agreement for steel purchases with a key supplier of which the Company owns an 11% interest. Net sales to this related party were \$278.7 million and \$222.5 million for the nine months ended May 31, 2008 and 2007, respectively. The total amounts of purchases from this supplier were \$300.2 million and \$273.1 million for the nine months ended May 31, 2008 and 2007, respectively. Accounts receivable from the affiliated company were \$51.5 million and \$50.2 million at May 31, 2008 and 2007 respectively. Accounts payable to the affiliated company were \$46.8 million and \$31.4 million at May 31, 2008 and 2007, respectively.

**Table of Contents**

**NOTE N SUBSEQUENT EVENTS**

On June 5, 2008, the Company's subsidiary, CMC Poland, completed the acquisition of substantially all the outstanding shares of PHP NIKE S.A. ( PHP Nike ). PHP Nike is a leading producer of welded steel meshes, cold rolled wire rod and cold rolled rebar in Poland with annual production capacity of 90,000 metric tons. On July 1, 2008, the Company completed the acquisition of substantially all of the operating assets of ABC Coating Companies and affiliates ( ABC Coating ). ABC Coating is involved in rebar fabrication and epoxy coated reinforcing bar servicing the Southwest, Midwest and Southeast U.S. with an annual capacity of 150,000 short tons. The total purchase price of these acquisitions was approximately \$112 million.

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

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

**CRITICAL ACCOUNTING POLICIES**

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

**CONSOLIDATED RESULTS OF OPERATIONS**

| (in millions) | Three Months Ended |                 |             | Nine Months Ended |                 |             |
|---------------|--------------------|-----------------|-------------|-------------------|-----------------|-------------|
|               | May 31,<br>2008    | May 31,<br>2007 | %<br>Change | May 31,<br>2008   | May 31,<br>2007 | %<br>Change |
| Net sales*    | \$2,910.7          | \$2,244.0       | 29.7%       | \$7,280.9         | \$6,045.1       | 20.4%       |
| Net earnings  | 59.5               | 99.4            | (40.1)%     | 168.4             | 250.7           | (32.8)%     |
| EBITDA        | 136.6              | 181.4           | (24.7)%     | 393.4             | 486.4           | (19.1)%     |

\* Excludes a division classified as discontinued operations.

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

| (in millions)                              | Three Months Ended |                 |             | Nine Months Ended |                 |             |
|--|--------------------|-----------------|-------------|-------------------|-----------------|-------------|
|  | May 31,<br>2008    | May 31,<br>2007 | %<br>Change | May 31,<br>2008   | May 31,<br>2007 | %<br>Change |
| Net earnings                               | \$ 59.5            | \$ 99.4         | (40.1)%     | \$ 168.4          | \$ 250.7        | (32.8)%     |
| Interest expense                           | 15.9               | 9.6             | 65.6%       | 42.3              | 26.7            | 58.4%       |
| Income taxes                               | 28.5               | 45.5            | (37.4)%     | 86.1              | 133.1           | (35.3)%     |
| Depreciation and amortization              | 32.7               | 26.9            | 21.6%       | 96.6              | 75.9            | 27.3%       |
| EBITDA                                     | \$ 136.6           | \$ 181.4        | (24.7)%     | \$ 393.4          | \$ 486.4        | (19.1)%     |
| EBITDA (loss) from discontinued operations | 1.9                | 0.6             | 216.7%      | 4.8               | (4.8)           | 200.0%      |
|  | \$ 134.7           | \$ 180.8        | (25.5)%     | \$ 388.6          | \$ 491.2        | (20.9)%     |

EBITDA from continuing  
operations

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

**Overview** Caused mainly by record LIFO expense, reported net earnings and EBITDA decreased by 40% to \$59.5 million and 25% to \$136.6 million, respectively, for the three months ended May 31, 2008 as compared to the same period last year. For the nine months ended May 31, 2008, net earnings decreased by 33% to \$168.4 million and EBITDA decreased by 19% to \$393.4 million as compared to the same period last year.

**Table of Contents**

The following financial events were significant during our third quarter of 2008:

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

We recorded record pre-tax LIFO expense of \$127.2 million (\$0.71 per diluted share) as compared with expense of \$31.0 million (\$0.16 per diluted share) in last year's third quarter.

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

Net sales of the Americas Recycling segment increased 21% and adjusted operating income increased 63% including LIFO expense of \$15.2 million recorded during the third quarter of 2008 as compared to expense of \$10.3 million during the third quarter of 2007. This segment's results were driven by higher scrap prices, primarily ferrous scrap.

Net sales of the Americas Mills segment increased 20% but adjusted operating income decreased 49% primarily caused by LIFO expense of \$55.3 million during the third quarter of 2008 as compared to expense of \$15.8 million during the third quarter of 2007.

Our Americas Fabrication and Distribution segment's results were impacted by escalating steel prices and a margin compression due to fixed price contracts which resulted in an adjusted operating loss of \$22.3 million including LIFO expense of \$57.0 million and job loss reserves of \$18 million.

Our International Mills segment reported adjusted operating income of \$30.7 million in the third quarter of 2008 as compared to \$38.8 million in prior year. Our Polish mill experienced improved pricing beginning in the second quarter and continuing through the third quarter. Our mill in Croatia continued to be saddled with start-up costs.

Our International Fabrication and Distribution segment set an all-time record for adjusted operating profit of \$40.3 million, an 86% increase from the prior quarter, driven by strong pricing internationally.

Expense of \$18.2 million and capital expenditures of \$8.7 million were recorded during the third quarter of 2008 as compared to expense of \$13.7 million and capital expenditures of \$3.8 million recorded during the third quarter of 2007 related to the global implementation of SAP.

Treasury shares purchased by the Company during fiscal 2008 increased diluted earnings per share \$0.02 for the third quarter of 2008.

**SEGMENT OPERATING DATA**

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

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

| (in thousands)     | Three Months Ended |                 |             | Nine Months Ended |                 |             |
|--------------------|--------------------|-----------------|-------------|-------------------|-----------------|-------------|
|                    | May 31,<br>2008    | May 31,<br>2007 | %<br>Change | May 31,<br>2008   | May 31,<br>2007 | %<br>Change |
| NET SALES:         |                    |                 |             |                   |                 |             |
| Americas Recycling | \$ 628,617         | \$ 520,683      | 20.7%       | \$1,532,012       | \$1,330,736     | 15.1%       |
| Americas Mills     | 519,552            | 434,166         | 19.7%       | 1,390,152         | 1,131,804       | 22.8%       |

Edgar Filing: COMMERCIAL METALS CO - Form 10-Q

|  |             |             |         |             |             |         |
|--|-------------|-------------|---------|-------------|-------------|---------|
| Americas Fabrication and Distribution      | 751,869     | 650,471     | 15.6%   | 2,030,059   | 1,865,170   | 8.8%    |
| International Mills*                       | 341,474     | 229,163     | 49.0%   | 755,538     | 586,533     | 28.8%   |
| International Fabrication and Distribution | 1,090,397   | 714,777     | 52.6%   | 2,600,322   | 1,987,705   | 30.8%   |
| Corporate and Eliminations                 | (335,463)   | (203,557)   | (64.8)% | (771,318)   | (553,926)   | (39.2)% |
| Discontinued Operations                    | (85,716)    | (101,662)   | 15.7%   | (255,863)   | (302,948)   | 15.5%   |
|  | \$2,910,730 | \$2,244,041 | 29.7%   | \$7,280,902 | \$6,045,074 | 20.4%   |



**Table of Contents**

| (in thousands)                             | Three Months Ended |                 |             | Nine Months Ended |                 |             |
|--|--------------------|-----------------|-------------|-------------------|-----------------|-------------|
|  | May 31,<br>2008    | May 31,<br>2007 | %<br>Change | May 31,<br>2008   | May 31,<br>2007 | %<br>Change |
| ADJUSTED OPERATING PROFIT (LOSS):          |                    |                 |             |                   |                 |             |
| Americas Recycling                         | \$ 50,371          | \$ 30,896       | 63.0%       | \$ 92,882         | \$ 79,279       | 17.2%       |
| Americas Mills                             | 34,044             | 66,968          | (49.2)%     | 158,520           | 195,366         | (18.9)%     |
| Americas Fabrication and Distribution      | (22,291)           | 23,338          | (195.5)%    | 507               | 63,893          | (99.2)%     |
| International Mills*                       | 30,656             | 38,791          | (21.0)%     | 39,730            | 90,663          | (56.2)%     |
| International Fabrication and Distribution | 40,342             | 21,744          | 85.5%       | 88,609            | 49,416          | 79.3%       |
| Corporate and Eliminations                 | (26,108)           | (25,305)        | (3.2)%      | (74,612)          | (54,660)        | (36.5)%     |
| Discontinued Operations                    | 1,786              | 522             | 242.1%      | 4,615             | (4,982)         | 192.6%      |

\* Dollars include impact of minority interests.

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

| (in thousands)   | Three Months Ended |                 | Nine Months Ended |                 |
|--|--------------------|-----------------|-------------------|-----------------|
|  | May 31,<br>2008    | May 31,<br>2007 | May 31,<br>2008   | May 31,<br>2007 |
| Americas Recycling   | \$ (15,187)        | \$ (10,276)     | \$ (21,988)       | \$ (9,699)      |
| Americas Mills   | (55,327)           | (15,805)        | (69,657)          | (27,459)        |
| Americas Fabrication and Distribution                          | (57,023)           | (2,911)         | (96,490)          | (14,603)        |
| International Fabrication and Distribution*                    | 385                | (1,963)         | 6,291             | (8,240)         |
| Consolidated increase (decrease) to adjusted profit before tax | \$(127,152)        | \$(30,955)      | \$(181,844)       | \$(60,001)      |

\* LIFO income (expense) includes a division

classified as  
discontinued  
operations.

**Americas Recycling** Adjusted operating profit for the third quarter of 2008 was an all-time record, strong enough to overcome LIFO expense of \$15.2 million compared to \$10.3 million of expense in last year's third quarter. This quarter was driven by increased ferrous scrap prices including a \$123 per short ton spike in April. Spurred by these increases, our ferrous scrap operations accounted for three-fourths of the segment's profitability. The average ferrous scrap sales price increased 57% and shipments increased 3% as compared to last year's third quarter. Although lower than ferrous scrap, the average sales price of nonferrous scrap increased 6% but shipments decreased 12% due to continued weak residential markets and lower manufacturing output. We exported 35% of our nonferrous scrap during the quarter.

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

|                                    | <b>Three Months Ended</b> |                         | <b>Increase</b> |          | <b>Nine Months Ended</b> |                         | <b>Increase</b> |          |
|------------------------------------|---------------------------|-------------------------|-----------------|----------|--------------------------|-------------------------|-----------------|----------|
|                                    | <b>May 31,<br/>2008</b>   | <b>May 31,<br/>2007</b> | <b>Amount</b>   | <b>%</b> | <b>May 31,<br/>2008</b>  | <b>May 31,<br/>2007</b> | <b>Amount</b>   | <b>%</b> |
| Ferrous scrap sales price          | \$ 398                    | \$ 254                  | \$144           | 57%      | \$ 310                   | \$ 221                  | \$ 89           | 40%      |
| Nonferrous scrap sales price       | \$3,270                   | \$3,090                 | \$180           | 6%       | \$2,989                  | \$2,906                 | \$ 83           | 3%       |
| Ferrous scrap tons shipped         | 811                       | 791                     | 20              | 3%       | 2,271                    | 2,140                   | 131             | 6%       |
| Nonferrous scrap tons shipped      | 78                        | 89                      | (11)            | (12)%    | 226                      | 258                     | (32)            | (12)%    |
| Total volume processed and shipped | 900                       | 887                     | 13              | 1%       | 2,520                    | 2,418                   | 102             | 4%       |

**Table of Contents**

**Americas Mills** We include our four domestic steel and our copper tube minimills in our Americas Mills segment. For the three and nine months ended May 31, 2008, net sales increased 20% and 23%, respectively and adjusted operating profit decreased 49% and 19%, respectively, resulting from a significant increase in LIFO expense due to spiking ferrous scrap prices. For the three and nine months ended May 31, 2008, this segment recorded LIFO expense of \$55.3 million and \$69.7 million, respectively, as compared to expense of \$15.8 million and \$27.5 million, respectively, in the prior year.

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

|   | <b>Three Months Ended</b> |                     | <b>Increase (Decrease)</b> |          | <b>Nine Months Ended</b> |                     | <b>Increase (Decrease)</b> |          |
|---|---------------------------|---------------------|----------------------------|----------|--------------------------|---------------------|----------------------------|----------|
|   | <b>May 31, 2008</b>       | <b>May 31, 2007</b> | <b>Amount</b>              | <b>%</b> | <b>May 31, 2008</b>      | <b>May 31, 2007</b> | <b>Amount</b>              | <b>%</b> |
| Average mill selling price (finished goods) | \$749                     | \$601               | \$148                      | 25%      | \$677                    | \$577               | \$100                      | 17%      |
| Average mill selling price (total sales)    | 718                       | 575                 | 143                        | 25%      | 643                      | 558                 | 85                         | 15%      |
| Average ferrous scrap production cost       | 399                       | 267                 | 132                        | 49%      | 316                      | 231                 | 85                         | 37%      |
| Average metal margin                        | 319                       | 308                 | 11                         | 4%       | 327                      | 327                 |                            |          |
| Average ferrous scrap purchase price        | 382                       | 239                 | 143                        | 60%      | 301                      | 209                 | 92                         | 44%      |

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

|              | <b>Three Months Ended</b> |                     | <b>Increase (Decrease)</b> |          | <b>Nine Months Ended</b> |                     | <b>Increase (Decrease)</b> |          |
|--------------|---------------------------|---------------------|----------------------------|----------|--------------------------|---------------------|----------------------------|----------|
|              | <b>May 31, 2008</b>       | <b>May 31, 2007</b> | <b>Amount</b>              | <b>%</b> | <b>May 31, 2008</b>      | <b>May 31, 2007</b> | <b>Amount</b>              | <b>%</b> |
| Tons melted  | 634                       | 596                 | 38                         | 6%       | 1,778                    | 1,659               | 119                        | 7%       |
| Tons rolled  | 564                       | 534                 | 30                         | 6%       | 1,555                    | 1,580               | (25)                       | (2)%     |
| Tons shipped | 673                       | 613                 | 60                         | 10%      | 1,897                    | 1,702               | 195                        | 11%      |

Our domestic steel mills adjusted operating profit decreased 48% due to LIFO expense of \$44.5 million this quarter as compared to \$11.1 million in last year's third quarter. Metal margins were 4% higher as weighted average sales prices barely stayed ahead of rapidly increasing ferrous scrap prices. The price of ferrous scrap consumed rose 49% compared to last year. The increase in ferrous scrap prices drove the average selling price up \$143 per ton while the average selling price for finished goods was up \$148 per ton. Margins were negatively impacted by a 92% increase in alloys and a 33% increase in energy costs during the third quarter of 2008 as compared to 2007. Combined, these two costs accounted for an increase of approximately \$15.7 million. Sales volumes increased 10% to 673 thousand tons, an all-time record, while tonnage rolled increased 6% to 564 thousand tons. We have invested \$47 million of the expected \$165 million total cost of our micro mill project in Arizona.

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

|  | <b>Increase</b> | <b>Nine Months Ended</b> | <b>Increase</b> |
|--|-----------------|--------------------------|-----------------|
|--|-----------------|--------------------------|-----------------|

|                                      | <b>Three Months Ended</b> |                     |                   |          |                     |                     |                   |          |
|--------------------------------------|---------------------------|---------------------|-------------------|----------|---------------------|---------------------|-------------------|----------|
|                                      | <b>May 31, 2008</b>       | <b>May 31, 2007</b> | <b>(Decrease)</b> |          | <b>May 31, 2008</b> | <b>May 31, 2007</b> | <b>(Decrease)</b> |          |
|                                      |                           |                     | <b>Amount</b>     | <b>%</b> |                     |                     | <b>Amount</b>     | <b>%</b> |
| Pounds shipped (in millions)         | 13.3                      | 16.7                | (3.4)             | (20)%    | 39.5                | 38.6                | 0.90              | 2%       |
| Pounds produced (in millions)        | 12.7                      | 14.9                | (2.2)             | (15)%    | 37.1                | 35.4                | 1.70              | 5%       |
| Average copper selling price         | \$4.71                    | \$3.89              | \$0.82            | 21%      | \$4.28              | \$3.85              | \$0.43            | 11%      |
| Average copper scrap production cost | \$2.97                    | \$2.81              | \$0.16            | 6%       | \$3.08              | \$2.96              | \$0.12            | 4%       |
| Average copper metal margin          | \$1.74                    | \$1.08              | \$0.66            | 61%      | \$1.20              | \$0.89              | \$0.31            | 35%      |
| Average copper scrap purchase price  | \$3.59                    | \$3.02              | \$0.57            | 19%      | \$3.33              | \$2.99              | \$0.34            | 11%      |

20

**Table of Contents**

Our copper tube minimill experienced continued strength from commercial markets while residential markets remained weak. Adjusted operating profit for the three and nine months ended May 31, 2008 decreased 77% to \$700 thousand and 2% to \$8.4 million, respectively. The decrease in adjusted operating income for the quarter was due to a \$6.1 million increase in LIFO expense quarter over quarter. Pounds shipped decreased 20% to 13.3 million including sales of steel pipe, a new product line. The average copper selling price increased 82 cents to \$4.71 per pound and the metal margin increased 66 cents to \$1.74 per pound overcoming copper scrap price increases of 57 cents to \$3.59 per pound.

**Americas Fabrication and Distribution** During the third quarter of 2008, this segment reported adjusted operating loss of \$22.3 million as compared to adjusted operating income of \$23.3 million in the prior year which resulted from rapidly increasing prices which caused massive LIFO charges and margin compression on fixed price contracts. LIFO expense was \$57.0 million for the third quarter of 2008 as compared to \$2.9 million in the prior year's third quarter. We also recorded job loss reserves of \$18 million during the quarter on our fixed price contracts. The composite average selling price increased 7%, however, the overall job mix represented by the backlog at the beginning of the quarter did not have sufficient time to rollover to higher prices to match the increase in steel finished goods. These negative results were offset by an \$8.6 million litigation settlement we received during the third quarter of 2008 related to costs incurred on a large structural fabrication job in an operating unit we sold several years ago. Driven by pipe, tubular goods and merchant products, our domestic operation had excellent sales volumes and profits during the third quarter of 2008.

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

|                        | <b>Three Months Ended</b> |                | <b>Increase</b>   |          | <b>Nine Months Ended</b> |                | <b>Increase</b>   |          |
|------------------------|---------------------------|----------------|-------------------|----------|--------------------------|----------------|-------------------|----------|
|                        | <b>May 31,</b>            | <b>May 31,</b> | <b>(Decrease)</b> | <b>%</b> | <b>May 31,</b>           | <b>May 31,</b> | <b>(Decrease)</b> | <b>%</b> |
|                        | <b>2008</b>               | <b>2007</b>    | <b>Amount</b>     | <b>%</b> | <b>2008</b>              | <b>2007</b>    | <b>Amount</b>     | <b>%</b> |
| Average selling price* |                           |                |                   |          |                          |                |                   |          |
| Rebar                  | \$ 919                    | \$ 834         | \$ 85             | 10%      | \$ 881                   | \$ 815         | \$ 66             | 8%       |
| Joist                  | 1,307                     | 1,199          | 108               | 9%       | 1,304                    | 1,166          | 138               | 12%      |
| Structural             | 2,843                     | 2,348          | 495               | 21%      | 2,589                    | 2,389          | 200               | 8%       |
| Post                   | 807                       | 716            | 91                | 13%      | 766                      | 713            | 53                | 7%       |
| Deck                   | 1,295                     | N/A**          | N/A               | N/A      | 1,274                    | N/A**          | N/A               | N/A      |

\* Excluding stock and buyout sales.

\*\* Average sales price not presented as deck operation represents less than one quarter of activity.

|  | <b>Three Months Ended</b> |                | <b>Increase (Decrease)</b> | <b>Nine Months Ended</b> |                | <b>Increase (Decrease)</b> |
|--|---------------------------|----------------|----------------------------|--------------------------|----------------|----------------------------|
|  | <b>May 31,</b>            | <b>May 31,</b> |                            | <b>May 31,</b>           | <b>May 31,</b> |                            |

|                             | 2008 | 2007 | Amount | %     | 2008 | 2007 | Amount | %      |
|-----------------------------|------|------|--------|-------|------|------|--------|--------|
| Tons shipped (in thousands) |      |      |        |       |      |      |        |        |
| Rebar                       | 278  | 244  | 34     | 14%   | 766  | 775  | (9)    | (1)%   |
| Joist                       | 59   | 83   | (24)   | (29)% | 187  | 235  | (48)   | (20)%  |
| Structural                  | 23   | 22   | 1      | 5%    | 60   | 62   | (2)    | (3)%   |
| Post                        | 32   | 34   | (2)    | (6)%  | 77   | 81   | (4)    | (5)%   |
| Deck                        | 60   | 12   | 48     | 400%  | 166  | 12   | 154    | 1,283% |

**International Mills** Net sales for the three months ended May 31, 2008 increased 49% which were impacted by favorable foreign exchange rates and resulted in an increase in net sales of approximately 16%. Adjusted operating profit for the three months ended May 31, 2008 decreased 21% mainly due to continued start-up costs at our mill in Croatia (CMC Sisak) which was acquired in the first quarter of 2008. During the third quarter of 2008, adjusted operating profit at our mill in Poland decreased 6% from last year's all-time record quarter. The second quarter's increasingly favorable pricing environment carried through this quarter due to strong markets in the Middle East, North Africa, Russia, and Germany which buoyed prices and discouraged imports into Poland. Average mill selling price increased 3% and the average ferrous scrap production cost increased 8% resulting in a decrease in the average metal margin of 5% to 669 PLN.

CMC Sisak reported an adjusted operating loss of \$5.6 million during the third quarter of 2008 due to start-up costs and regaining customer acceptance. We rolled 22 thousand tons and sold 19 thousand tons during the quarter which increased over the second quarter of 2008.

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

**Table of Contents**

|  | <b>Three Months Ended</b> |                         | <b>Increase</b> |          | <b>Nine Months Ended</b> |                         | <b>Increase</b> |          |
|--|---------------------------|-------------------------|-----------------|----------|--------------------------|-------------------------|-----------------|----------|
|  | <b>May 31,<br/>2008</b>   | <b>May 31,<br/>2007</b> | <b>Amount</b>   | <b>%</b> | <b>May 31,<br/>2008</b>  | <b>May 31,<br/>2007</b> | <b>Amount</b>   | <b>%</b> |
| Tons melted (thousands)                  | 428                       | 392                     | 36              | 9%       | 1,107                    | 1,128                   | (21)            | (2)%     |
| Tons rolled (thousands)                  | 284                       | 302                     | (18)            | (6)%     | 834                      | 890                     | (56)            | (6)%     |
| Tons shipped (thousands)                 | 339                       | 376                     | (37)            | (10)%    | 1,010                    | 1,057                   | (47)            | (4)%     |
| Average mill selling price (total sales) | 1,708 PLN                 | 1,663 PLN               | 45 PLN          | 3%       | 1,533 PLN                | 1,562 PLN               | (29) PLN        | (2)%     |
| Average ferrous scrap production cost    | 1,039 PLN                 | 960 PLN                 | 79 PLN          | 8%       | 908 PLN                  | 871 PLN                 | 37 PLN          | 4%       |
| Average metal margin                     | 669 PLN                   | 703 PLN                 | (34) PLN        | (5)%     | 625 PLN                  | 691 PLN                 | (66) PLN        | (10)%    |
| Average ferrous scrap purchase price     | 878 PLN                   | 848 PLN                 | 30 PLN          | 4%       | 812 PLN                  | 776 PLN                 | 36 PLN          | 5%       |
| Average mill selling price (total sales) | \$ 771                    | \$ 582                  | \$ 189          | 32%      | \$ 644                   | \$ 530                  | \$ 114          | 22%      |
| Average ferrous scrap production cost    | \$ 467                    | \$ 336                  | \$ 131          | 39%      | \$ 374                   | \$ 294                  | \$ 80           | 27%      |
| Average metal margin                     | \$ 304                    | \$ 246                  | \$ 58           | 24%      | \$ 270                   | \$ 236                  | \$ 34           | 14%      |
| Average ferrous scrap purchase price     | \$ 395                    | \$ 297                  | \$ 98           | 33%      | \$ 334                   | \$ 262                  | \$ 72           | 27%      |

**International Fabrication and Distribution** Net sales for the three months ended May 31, 2008 increased 53% which were impacted by favorable foreign exchange rates and resulted in an increase in net sales of approximately 5%. Adjusted operating income increased 86% to \$40.3 million, this segment's all-time record for any quarter, driven by strong pricing in the Middle East, North Africa, and Central Europe, and with the German economy growing at its fastest rate in a decade. Our Australian operations performed well as the domestic economy remains strong and commodity prices remain high. Our raw materials division set another quarterly record for sales and operating profit. With China reducing export tonnages, prices in Southeast Asia have risen and profits in inter-Asian trade remain positive.

**Corporate and Eliminations** Corporate expenses for the three and nine months ended May 31, 2008 increased \$0.8 million and \$20.0 million, respectively, primarily due to costs incurred for our investment in the global installment of SAP. The incremental cost for SAP for the three and nine months ended May 31, 2008 was \$4.5 million and \$18.8 million. The increase in total assets is primarily due to the capitalization of \$68 million of software

development costs since the SAP project's inception.

**Discontinued Operations** The change in our division classified as a discontinued operation primarily resulted from LIFO income of \$0.4 million recorded during the third quarter of 2008 as compared to expense of \$1.9 million during the third quarter of 2007. For the nine months ended May 31, 2008, the division recorded LIFO income of \$6.3 million compared to expense of \$8.2 million for the comparable period in the prior year.

**CONSOLIDATED DATA**

On a consolidated basis, for the quarter ended May 31, 2008, the LIFO method of inventory valuation decreased our earnings on a pre-tax basis by \$127.2 million or 71 cents per diluted share as compared to a decrease of \$30.9 million or 16 cents per diluted share for the same period last year. For the nine months ended May 31, 2008 and 2007, LIFO decreased our net earnings on a pre-tax basis by \$181.8 million or \$1.00 per diluted share and \$60.0 million or 32 cents per diluted share, respectively.

Our overall selling, general and administrative (SG&A) expenses increased by \$32.2 million and \$70.9 million for the three and nine months ended May 31, 2008, respectively, because of salary and other compensation related costs due to growth and expenses related to the implementation of SAP.

During the three and nine months ended May 31, 2008, our interest expense increased by \$6.4 million and \$16.3 million, respectively, as compared to 2007, primarily due to higher average debt balances outstanding from our \$400 million debt issuance in July 2007.

Our overall effective tax rate for the three and nine months ended May 31, 2008 was 32.3% and 33.8%, respectively as compared to 31.3% and 33.8% for the same periods in 2007.

**CONTINGENCIES**



**Table of Contents**

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

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

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

**OUTLOOK**

Consistent with our third quarter of fiscal 2008, four of our five segments should have a strong fourth quarter. Our fifth segment, Americas Fabrication and Distribution, is likely to suffer further margin compression due to increasing steel prices. Global demand for scrap, raw materials and steel products should remain at robust levels. China's significant cutback on steel exports in 2008 has impacted supply and global steel prices. There may be further reductions in Chinese steel exports following the earthquake and, in particular, if China imposes additional export taxes on commercial steel products. Global infrastructure and construction should remain extremely strong in regions such as the Middle East and North Africa. As a result, steel prices, in particular rebar, are likely to remain at record levels. Steel inventory levels in most international markets are low which should further support rising steel prices. Nonresidential construction in the U.S. should remain steady. U.S. ferrous scrap prices, in particular obsolete grades, may increase due to the growing price differential with prime grades as well as higher international scrap prices. Regardless of ferrous scrap price increases, rebar prices in the U.S. are likely to trend higher due to both the significant reduction in rebar imports as well as much higher international rebar prices. U.S. mills are likely to continue to export steel products while international steel prices remain significantly higher. Our global mixture of businesses should benefit from the strength in international markets impacting raw materials, scrap and steel products.

**LIQUIDITY AND CAPITAL RESOURCES**

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

Our sources, facilities and availability of liquidity and capital resources as of May 31, 2008 (dollars in thousands):

| <b>Source</b>                                      | <b>Total<br/>Facility</b> | <b>Availability</b> |
|--|---------------------------|---------------------|
| Commercial paper program*                          | \$ 400,000                | \$339,425           |
| Domestic accounts receivable securitization        | 200,000                   | 200,000             |
| International accounts receivable sales facilities | 364,195                   | 138,875             |
| Bank credit facilities – uncommitted               | 1,123,333                 | 375,282             |
| Notes due from 2008 to 2017                        | 734,554                   | **                  |
|  |                           | As                  |
| Trade financing arrangements                       | **                        | required            |
| CMCZ revolving credit facility                     | 46,072                    | 46,072              |
| CMC Sisak notes                                    | 30,043                    | 768                 |
| CMCZ & CMC Poland equipment notes                  | 10,627                    |                     |

\*

The commercial paper program is supported by our \$400 million unsecured revolving credit agreement. The availability under the revolving credit agreement is reduced by \$27.6 million of stand-by letters of credit issued as of May 31, 2008.

\*\* With our investment grade credit ratings and current industry conditions we believe we have access to cost-effective public markets for potential refinancing or the issuance of additional long-term debt.

**Table of Contents**

Certain of our financing agreements, both domestically and at CMCZ, include various covenants, of which we were in compliance at May 31, 2008. There are no guarantees by the Company or any of its subsidiaries for any of CMCZ's debt. The CMC Sisak notes are guaranteed by Commercial Metals International.

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

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

During the first nine months of 2008, we used \$54 million of net cash flows from operating activities as compared to generating \$122 million in the first nine months of 2007. This change is primarily the result of a decrease in net earnings adjusted for non-cash items of \$60 million and an increase in cash used for working capital of \$116 million.

The increase in cash used for working capital mainly relates to the following:

Increased accounts receivable increased sales as compared to the same period last year.

Increased inventories increased inventory on hand and higher inventory costs.

Increased accounts payable and accrued expenses timing of payments and increased expenses as compared to the same period last year.

We invested \$227 million in property, plant and equipment during the first nine months of 2008. We expect our current approved total capital spending for fiscal year 2008 to be significantly below our budgeted amount of \$494 million as certain projects have been delayed. We continuously assess our capital spending and reevaluate our requirements based upon current and expected results.

During the nine months ended May 31, 2008, we purchased 5.4 million shares of our common stock as part of our stock repurchase program at an average price of \$28.00 per share for a total of \$152 million. Our contractual obligations for the next twelve months of \$1.8 billion are typically expenditures with normal revenue processing activities. We believe our cash flows from operating activities and debt facilities are adequate to fund our ongoing operations and planned capital expenditures.

**CONTRACTUAL OBLIGATIONS**

The following table represents our contractual obligations as of May 31, 2008:

| (in thousands)                     | Total       | Payments Due By Period* |           |           | More than<br>5 Years |
|------------------------------------|-------------|-------------------------|-----------|-----------|----------------------|
|                                    |             | Less than<br>1 Year     | 1-3 Years | 3-5 Years |                      |
| Contractual Obligations:           |             |                         |           |           |                      |
| Long-term debt(1)                  | \$ 746,727  | \$ 104,855              | \$ 41,819 | \$ 16     | \$600,037            |
| Commercial paper                   | 33,000      | 33,000                  |           |           |                      |
| Notes payable                      | 32,233      | 32,233                  |           |           |                      |
| Interest(2)                        | 308,228     | 44,923                  | 76,384    | 74,508    | 112,413              |
| Operating leases(3)                | 142,086     | 36,986                  | 55,846    | 27,978    | 21,276               |
| Purchase obligations(4)            | 1,941,403   | 1,597,392               | 302,663   | 24,026    | 17,322               |
| Total contractual cash obligations | \$3,203,677 | \$1,849,389             | \$476,712 | \$126,528 | \$751,048            |

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

(1) Total amounts are included in the May 31, 2008 condensed consolidated balance sheet. See Note G, Credit Arrangements, to the condensed consolidated financial statements.

(2) Interest payments related to our short-term debt are not included in the table as they do not represent a significant obligation as of May 31, 2008.

**Table of Contents**

(3) Includes minimum lease payment obligations for non-cancelable equipment and real-estate leases in effect as of May 31, 2008.

(4) About 72% of these purchase obligations are for inventory items to be sold in the ordinary course of business. Purchase obligations include all enforceable, legally binding agreements to purchase goods or services that specify all significant terms, regardless of the duration of the agreement. Agreements with variable terms are excluded because we are unable to estimate the minimum amounts.

**Other Commercial Commitments** We maintain stand-by letters of credit to provide support for certain transactions that our insurance providers and suppliers request. At May 31, 2008, we had committed \$30.1 million under these arrangements. All of the commitments expire within one year.

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

**FORWARD-LOOKING STATEMENTS**

This Form 10-Q contains forward-looking statements regarding the outlook for our financial results including net earnings, product pricing and demand, currency valuation, production rates, inventory levels, new capital investments,

software implementation costs, and general market conditions. These forward-looking statements generally can be identified by phrases such as we expect, anticipate believe, ought, should, likely, appear, , project, for similar words or phrases of similar impact. There is inherent risk and uncertainty in any forward-looking statements. Variances will occur and some could be materially different from our current opinion. Developments that could impact our expectations include the following:

interest rate changes,

construction activity,

metals pricing over which we exert little influence,

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

court decisions,

industry consolidation or changes in production capacity or utilization,

global factors including political and military uncertainties,

credit availability,

currency fluctuations,

energy prices,

cost of construction,

successful implementation of new technology,

successful integration of acquisitions,

decisions by governments impacting the level of steel imports, and

pace of overall economic activity, particularly China.

**Table of Contents**

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

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

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

**ITEM 4. CONTROLS AND PROCEDURES**

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

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

**Table of Contents**

## PART II OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

Not Applicable.

## ITEM 1A. RISK FACTORS

Not Applicable.

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

## Issuer Purchases of Equity Securities

|                          | Total<br>Number<br>of<br>Shares<br>Purchased | Average<br>Price Paid<br>Per Share | Total<br>Number<br>of<br>Shares<br>Purchased<br>As Part<br>of<br>Publicly<br>Announced<br>Plans or<br>Programs | Maximum<br>Number of<br>Shares that<br>May Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs |
|--------------------------|--|------------------------------------|--|---|
| As of February 29, 2008  |  |                                    |  | 812,547(1)  |
| March 1 - March 31, 2008 | 0  | 0                                  | 0  | 812,547   |
| April 1 - April 30, 2008 | 0  | 0                                  | 0  | 812,547   |
| May 1 - May 31, 2008     | 912(2)                                       | \$33.89                            | 0  | 812,547   |
| As of May 31, 2008       | 912(2)                                       | \$33.89                            | 0  | 812,547(1)  |

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

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

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable



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

Not Applicable

ITEM 5. OTHER INFORMATION

Not Applicable

**Table of Contents**

ITEM 6. EXHIBITS

Exhibits required by Item 601 of Regulation S-K.

- 10.1 Facility Agreement among CMC Zawiercie S.A., ABN AMRO Bank (Polska) S.A., HSBC Bank plc, ING Bank Slaski S.A., and BRE Bank S.A. dated May 20, 2008.
- 31.1 Certification of Murray R. McClean, President and Chief Executive Officer of Commercial Metals Company, pursuant to Section 302 to the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.2 Certification of William B. Larson, Senior Vice President and Chief Financial Officer of Commercial Metals Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.1 Certification of Murray R. McClean, President and Chief Executive Officer of Commercial Metals Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.2 Certification of William B. Larson, Senior Vice President and Chief Financial Officer of Commercial Metals Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

**Table of Contents**

SIGNATURES

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

COMMERCIAL METALS COMPANY

July 10, 2008

/s/ William B. Larson  
William B. Larson  
Senior Vice President & Chief Financial  
Officer

July 10, 2008

/s/ Leon K. Rusch  
Leon K. Rusch  
Controller  
29

---

**Table of Contents**

INDEX TO EXHIBITS

- 10.1 Facility Agreement among CMC Zawiercie S.A., ABN AMRO Bank (Polska) S.A., HSBC Bank plc, ING Bank Slaski S.A., and BRE Bank S.A. dated May 20, 2008.
- 31.1 Certification of Murray R. McClean, President and Chief Executive Officer of Commercial Metals Company, pursuant to Section 302 to the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.2 Certification of William B. Larson, Senior Vice President and Chief Financial Officer of Commercial Metals Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.1 Certification of Murray R. McClean, President and Chief Executive Officer of Commercial Metals Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.2 Certification of William B. Larson, Senior Vice President and Chief Financial Officer of Commercial Metals Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).