COMMERCIAL METALS CO
Form 10-Q
January 09, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended November 30, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-4304

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

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

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

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

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

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

The number of shares outstanding of common stock as of January 5, 2017 was 115,566,107.

COMMERCIAL METALS COMPANY AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
COMMERCIAL METALS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

	Three Months Ended November 30,	
(in thousands, except share data)	2016	2015
Net sales	$1,075,063	$1,154,859
Costs and expenses:		
Cost of goods sold	943,071	997,242
Selling, general and administrative expenses	108,867	101,908
Interest expense	13,298	18,304
	1,065,236	1,117,454
Earnings from continuing operations before income taxes	9,827	37,405
Income taxes	2,653	11,772
Earnings from continuing operations	7,174	25,633
Loss from discontinued operations before income tax benefit	(917)	(572)
Income tax benefit	(18)	(2)
Loss from discontinued operations	(899)	(570)
Net earnings	6,275	25,063
Less net earnings attributable to noncontrolling interests	—	—
Net earnings attributable to CMC	$6,275	$25,063
Basic earnings (loss) per share attributable to CMC:		
Earnings from continuing operations	$0.06	$0.22
Loss from discontinued operations	(0.01)	—
Net earnings	$0.05	$0.22
Diluted earnings (loss) per share attributable to CMC:		
Earnings from continuing operations	$0.06	$0.22
Loss from discontinued operations	(0.01)	(0.01)
Net earnings	$0.05	$0.21
Cash dividends per share	$0.12	$0.12
Average basic shares outstanding	115,097,467	116,022,241
Average diluted shares outstanding	116,604,789	117,339,445

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended November 30,	
(in thousands)	2016	2015
Net earnings attributable to CMC	$6,275	$25,063
Other comprehensive income (loss), net of income taxes:		
Foreign currency translation adjustment	(21,531)	(21,995)
Net unrealized gain (loss) on derivatives:		
Unrealized holding gain (loss), net of income taxes of $10 and $(147)	132	(9)
Reclassification for gain included in net earnings, net of income taxes of $(47) and $(49)	(190)	(118)
Net unrealized loss on derivatives, net of income taxes of $(37) and $(196)	(58)	(127)
Defined benefit obligation:		
Amortization of prior services, net of income taxes of $(2) and $(1)	(9)	(1)
Defined benefit obligation, net of income taxes of $(2) and $(1)	(9)	(1)
Other comprehensive loss	(21,598)	(22,123)
Comprehensive income (loss)	$(15,323)	$2,940

See notes to unaudited condensed consolidated financial statements.

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

(in thousands, except share data)	November 30, 2016	August 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 465,167	$ 517,544
Accounts receivable (less allowance for doubtful accounts of $5,652 and $6,427)	716,640	765,784
Inventories, net	633,764	652,754
Other current assets	97,099	112,043
Total current assets	1,912,670	2,048,125
Property, plant and equipment:		
Land	70,408	70,291
Buildings and improvements	481,293	487,305
Equipment	1,638,751	1,655,909
Construction in process	140,077	111,156
	2,330,529	2,324,661
Less accumulated depreciation and amortization	(1,437,329)	(1,429,612)
	893,200	895,049
Goodwill	66,114	66,373
Other noncurrent assets	130,596	121,322
Total assets	$ 3,002,580	$ 3,130,869
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable-trade	$ 224,395	$ 243,532
Accounts payable-documentary letters of credit	317	5
Accrued expenses and other payables	202,847	264,112
Current maturities of long-term debt	312,892	313,469
Total current liabilities	740,451	821,118
Deferred income taxes	50,183	63,021
Other long-term liabilities	126,693	121,351
Long-term debt	755,161	757,948
Total liabilities	1,672,488	1,763,438
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Common stock, par value $0.01 per share; authorized 200,000,000 shares; issued 129,060,664 shares; outstanding 115,549,560 and 114,635,596 shares, respectively	1,290	1,290
Additional paid-in capital	334,039	358,745
Accumulated other comprehensive loss	(134,512)	(112,914)
Retained earnings	1,365,401	1,372,988
Less treasury stock, 13,511,104 and 14,425,068 shares at cost	(236,285)	(252,837)
Stockholders' equity attributable to CMC	1,329,933	1,367,272
Stockholders' equity attributable to noncontrolling interests	159	159
Total stockholders' equity	1,330,092	1,367,431
Total liabilities and stockholders' equity	$ 3,002,580	$ 3,130,869

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended November 30,					
(in thousands)	2016			2015		
Cash flows from (used by) operating activities:						
Net earnings	$	6,275		$	25,063	
Adjustments to reconcile net earnings to cash flows from (used by) operating activities:						
Depreciation and amortization	30,290			31,991		
Deferred income taxes	(12,418		)	(14,058		)
Stock-based compensation	8,245			6,266		
Amortization of interest rate swaps termination gain	(1,899		)	(1,899		)
Provision for losses on receivables, net	1,528			2,071		
Write-down of inventories	508			2,657		
Asset impairment	462			—		
Tax benefit from stock plans	(334		)	(25		)
Net (gain) loss on sales of assets and other	41			(2,830		)
Changes in operating assets and liabilities:						
Accounts receivable	30,085			166,661		
Advance payments on sale of accounts receivable program, net	8,269			10,678		
Inventories	10,678			78,700		
Accounts payable, accrued expenses and other payables	(70,390		)	(76,449		)
Changes in other operating assets and liabilities	(12,294		)	(9,253		)
Net cash flows from (used by) operating activities	(954		)	219,573		

Cash flows from (used by) investing activities:		
Capital expenditures	(42,965)	(11,169)
Decrease in restricted cash	16,609	—
Proceeds from the sale of subsidiaries	524	—
Proceeds from the sale of property, plant and equipment and other	179	2,813
Net cash flows used by investing activities	(25,653)	(8,356)
Cash flows from (used by) financing activities:		
Cash dividends	(13,862)	(13,978)
Stock issued under incentive and purchase plans, net of forfeitures	(7,661)	(7,628)
Repayments on long-term debt	(3,161)	(2,909)
Tax benefit from stock plans	334	25
Increase (decrease) in documentary letters of credit, net	320	(9,752)
Short-term borrowings, net change	—	(20,090)
Treasury stock acquired	—	(4,555)
Decrease in restricted cash	—	1
Net cash flows used by financing activities	(24,030)	(58,886)
Effect of exchange rate changes on cash	(1,740)	(466)
Increase (decrease) in cash and cash equivalents	(52,377)	151,865
Cash and cash equivalents at beginning of year	517,544	485,323
Cash and cash equivalents at end of period	$ 465,167	$ 637,188

Supplemental information:				
Noncash activities:				
Liabilities related to additions of property, plant and equipment	$	20,202	$	7,562

See notes to unaudited condensed consolidated financial statements.

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

	Common Stock		Additional	Accumulated Other		Treasury Stock		Non-	
(in thousands, except share data)	Number of Shares	Amount	Paid-In Capital	Comprehensive Loss	Retained Earnings	Number of Shares	Amount	controlling Interests	Total
Balance, September 1, 2015	129,060,664	$1,290	$365,863	$(113,535)	$1,373,568	(13,425,326)	$(245,961)	$149	$1,381,374
Net earnings					25,063				25,063
Other comprehensive loss				(22,123)					(22,123)
Cash dividends ($0.12 per share)					(13,978)				(13,978)
Treasury stock acquired						(316,086)	(4,555)		(4,555)
Issuance of stock under incentive and purchase plans, net of forfeitures			(25,193)			912,939	17,565		(7,628)
Stock-based compensation			4,965						4,965
Tax benefit from stock plans			25						25
Reclassification of share-based liability awards			3,035						3,035
Balance, November 30, 2015	129,060,664	$1,290	$348,695	$(135,658)	$1,384,653	(12,828,473)	$(232,951)	$149	$1,366,178

	Common Stock		Additional	Accumulated Other		Treasury Stock		Non-	
(in thousands, except share data)	Number of Shares	Amount	Paid-In Capital	Comprehensive Loss	Retained Earnings	Number of Shares	Amount	controlling Interests	Total
Balance, September 1, 2016	129,060,664	$1,290	$358,745	$(112,914)	$1,372,988	(14,425,068)	$(252,837)	$159	$1,367,431
Net earnings					6,275				6,275
Other comprehensive loss				(21,598)					(21,598)
Cash dividends ($0.12 per share)					(13,862)				(13,862)
Issuance of stock under incentive and purchase plans, net of forfeitures			(24,213)			913,964	16,552		(7,661)
			3,285						3,285

Stock-based compensation									
Tax benefit from stock plans			334						334
Reclassification of share-based liability awards			1,231						1,231
Reclassification of share-based equity awards			(5,343)						(5,343)
Balance, November 30, 2016	129,060,664	$1,290	$334,039	$(134,512)	$1,365,401	(13,511,104)	$(236,285)	$159	$1,330,092

See notes to unaudited condensed consolidated financial statements.

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

Accounting Principles
The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") on a basis consistent with that used in the Annual Report on Form 10-K for the fiscal year ended August 31, 2016 filed by Commercial Metals Company ("CMC," and together with its consolidated subsidiaries, the "Company") with the Securities and Exchange Commission ("SEC") and include all normal recurring adjustments necessary to present fairly the condensed consolidated balance sheets and the condensed consolidated statements of earnings, comprehensive income (loss), cash flows and stockholders' equity for the periods indicated. These notes should be read in conjunction with the audited consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended August 31, 2016. The results of operations for the three month period are not necessarily indicative of the results to be expected for the full year.

Recently Adopted Accounting Pronouncements

In the first quarter of fiscal 2017, the Company adopted Accounting Standards Update ("ASU") 2015-16, Business Combinations (Topic 805), issued by the Financial Accounting Standards Board (the "FASB") requiring the acquirer in a business combination to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The guidance was adopted on a prospective basis and did not have an impact on the Company's consolidated financial statements.

In the first quarter of fiscal 2017, the Company adopted ASU 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40), issued by the FASB requiring an entity to account for fees paid in a cloud computing arrangement as a license of internal-use software. The guidance was adopted on a prospective basis and did not have an impact on the Company's consolidated financial statements.

In the first quarter of fiscal 2017, the Company adopted ASU 2015-02, Consolidation (Topic 810), issued by the FASB modifying the evaluation of whether limited partnerships and similar legal entities are voting interest entities ("VIEs"). The guidance was adopted on a retrospective basis and did not have an impact on the Company's consolidated financial statements.

In the first quarter of fiscal 2017, the Company adopted ASU 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20), issued by the FASB eliminating the concept of extraordinary items. Under this guidance, an entity is no longer allowed to separately disclose extraordinary items, net of tax, in the income statement after income from continuing operations. The guidance was adopted on a prospective basis and did not have an impact on the Company's consolidated financial statements.

In the first quarter of fiscal 2017, the Company adopted ASU 2014-13, Consolidation (Topic 810), issued by the FASB providing a measurement alternative to the existing fair value measurement guidance. When the measurement alternative is elected, the financial assets and liabilities are measured using the more observable of the fair value of the financial assets and the fair value of the financial liabilities. The guidance was adopted on a retrospective basis and did not have an impact on the Company's consolidated financial statements.

In the first quarter of fiscal 2017, the Company adopted ASU 2014-12, Compensation - Stock Compensation (Topic 718), issued by the FASB requiring entities to account for a performance target as a performance condition if the target affects vesting and could be achieved after the requisite service period. The guidance was followed by the

Company prior to its adoption and therefore had no impact on the Company's consolidated financial statements upon adoption.

Recently Issued Accounting Pronouncements

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230), requiring that the statement of cash flows explain the change in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This guidance is effective for fiscal years, and interim reporting periods therein, beginning after December 15, 2017 with early adoption permitted. The provisions of this guidance are to be applied using a retrospective approach which requires application of the guidance for all periods presented. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718), simplifying several aspects of accounting for share-based payment transactions, including recognizing excess tax benefits and deficiencies as income tax expense or benefit in the statement of earnings, classifying excess tax benefits and expenses as an operating activity within the statement of cash flows, and an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur. The provisions of this guidance related to excess tax benefits and deficiencies are to be applied on a prospective basis. If elected, the provisions of this guidance related to forfeitures are to be applied using a modified retrospective approach. This guidance is effective for fiscal years, and interim periods therein, beginning after December 15, 2016, with early adoption permitted. The Company intends to early adopt this guidance during fiscal year 2017 and is currently evaluating the impact this guidance will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), requiring a lessee to recognize a right-of-use asset and a lease liability on its balance sheet for all leases with terms of twelve months or greater. This guidance is effective for fiscal years, and interim reporting periods therein, beginning after December 15, 2018 with early adoption permitted. The provisions of this guidance are to be applied using a modified retrospective approach, with elective reliefs, which requires application of the guidance for all periods presented. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), and has modified the standard thereafter. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the standard includes expanded disclosure requirements. This guidance is effective for fiscal years, and interim reporting periods therein, beginning after December 15, 2017 and will be effective for the Company beginning September 1, 2018, at which point the Company plans to adopt the standard. The standard permits the use of either the retrospective or cumulative effect transition method. The Company continues to evaluate the available adoption methods and the potential impact this standard will have on the consolidated financial statements.

NOTE 2. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended November 30, 2016			
(in thousands)	Foreign Currency Translation	Unrealized Gain (Loss) on Derivatives	Defined Benefit Obligation	Total AOCI
Balance, August 31, 2016	$(112,255)	$ 2,186	$ (2,845)	$(112,914)
Other comprehensive income (loss) before reclassifications	(21,531)	132	—	(21,399)
Amounts reclassified from AOCI	—	(190)	(9)	(199)
Net other comprehensive loss	(21,531)	(58)	(9)	(21,598)
Balance, November 30, 2016	$(133,786)	$ 2,128	$ (2,854)	$(134,512)

	Three Months Ended November 30, 2015			
(in thousands)	Foreign Currency Translation	Unrealized Gain (Loss) on Derivatives	Defined Benefit Obligation	Total AOCI
Balance, August 31, 2015	$(113,081)	$ 2,305	$ (2,759)	$(113,535)
Other comprehensive loss before reclassifications	(21,995)	(9)	—	(22,004)

Amounts reclassified from AOCI	—	(118)	(1)	(119)
Net other comprehensive loss	(21,995)	(127)	(1)	(22,123)
Balance, November 30, 2015	$(135,076)	$ 2,178	$ (2,760)	$(135,658)

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

		Three Months Ended November 30,	
Components of AOCI (in thousands)	Location	2016	2015
Unrealized gain (loss) on derivatives:			
Commodity	Cost of goods sold	$(92)	$(51)
Foreign exchange	Net sales	(85)	57
Foreign exchange	Cost of goods sold	128	(8)
Foreign exchange	SG&A expenses	152	35
Interest rate	Interest expense	134	134
		237	167
Income tax effect	Income taxes	(47)	(49)
Net of income taxes		$190	$118
Defined benefit obligation:			
Amortization of prior services	SG&A expenses	$11	$2
Income tax effect	Income taxes	(2)	(1)
Net of income taxes		$9	$1

Amounts in parentheses reduce earnings.

NOTE 3. SALES OF ACCOUNTS RECEIVABLE

During the fourth quarter of fiscal 2016, the Company entered into a fifth amended $200.0 million U.S. sale of trade accounts receivable program which expires on August 15, 2019. Under the program, Commercial Metals Company contributes, and several of its subsidiaries sell without recourse, certain eligible trade accounts receivable to CMC Receivables, Inc. ("CMCRV"), a wholly owned subsidiary of CMC. CMCRV is structured to be a bankruptcy-remote entity formed for the sole purpose of buying and selling trade accounts receivable generated by the Company. CMCRV sells the trade accounts receivable in their entirety to two financial institutions. Under the amended U.S. sale of trade accounts receivable program, with the consent of both CMCRV and the program's administrative agent, the amount advanced by the financial institutions can be increased to a maximum of $300.0 million for all trade accounts receivable sold. The remaining portion of the purchase price of the trade accounts receivable takes the form of subordinated notes from the respective financial institutions. These notes will be satisfied from the ultimate collection of the trade accounts receivable after payment of certain fees and other costs. The Company accounts for sales of the trade accounts receivable as true sales, and the trade accounts receivable balances that are sold are removed from the consolidated balance sheets. The cash advances received are reflected as cash provided by operating activities on the Company's consolidated statements of cash flows. Additionally, the U.S. sale of trade accounts receivable program contains certain cross-default provisions whereby a termination event could occur if the Company defaulted under certain of its credit arrangements. The covenants contained in the receivables purchase agreement are consistent with the Credit Agreement described in Note 7, Credit Arrangements.

At November 30, 2016 and August 31, 2016, under its U.S. sale of trade accounts receivable program, the Company had sold $219.4 million and $215.9 million of trade accounts receivable, respectively, to the financial institutions. At November 30, 2016 and August 31, 2016, the Company had no advance payments outstanding on the sale of its trade accounts receivable.

In addition to the U.S. sale of trade accounts receivable program described above, the Company's international subsidiaries in Poland and Australia have sold trade accounts receivable to financial institutions without recourse. These arrangements constitute true sales, and once the trade accounts receivable are sold, they are no longer available to the Company's creditors in the event of bankruptcy and are removed from the consolidated balance sheets. The Polish program has a facility limit of 220.0 million Polish zloty ($52.3 million as of November 30, 2016) and allows the Company's Polish subsidiaries to obtain an advance of up to 90% of eligible trade accounts receivable sold under the terms of the arrangement. In October 2016, the Company's existing Australian program expired and the Company did not enter into a new program. Under the Polish and Australian programs, the cash advances received were reflected as cash provided by operating activities on the Company's consolidated statements of cash flows.

At November 30, 2016, under its Polish program, the Company had sold $45.8 million of trade accounts receivable to third-party financial institutions. At August 31, 2016, under its Polish and Australian programs, the Company had sold $85.7 million of trade accounts receivable to third-party financial institutions. At November 30, 2016, no advance payments had been received, and at August 31, 2016, $8.3 million in advance payments had been received.

During the three months ended November 30, 2016 and 2015, cash proceeds from the U.S. and international sale of trade accounts receivable programs were $170.5 million and $134.6 million, respectively, and cash payments to the owners of trade accounts receivable were $178.7 million and $123.9 million, respectively. For a nominal servicing fee, the Company is responsible for servicing the trade accounts receivable for the U.S. and Australian programs. Discounts on U.S. and international sales of trade accounts receivable were $0.2 million and $0.4 million for the three months ended November 30, 2016 and 2015, respectively, and are included in selling, general and administrative expenses in the Company's condensed consolidated statements of earnings.

As of November 30, 2016 and August 31, 2016, the deferred purchase price on the Company's U.S. and international sale of trade accounts receivable programs is included in accounts receivable on the Company's condensed consolidated balance sheets. The following tables summarize the activity of the deferred purchase price receivables for the U.S. and international sale of trade accounts receivable programs.

	Three Months Ended November 30, 2016			
(in thousands)	Total	U.S.	Australia*	Poland
Beginning balance	$289,748	$212,762	$26,662	$50,324
Transfers of accounts receivable	556,964	470,145	16,914	69,905
Collections	(551,274)	(467,190)	(9,659)	(74,425)
Program termination	(33,917)	—	(33,917)	—
Ending balance	$261,521	$215,717	$—	$45,804

* Includes the sales of trade accounts receivable activities related to discontinued operations and businesses sold. For the three months ended November 30, 2016, there were no transfers of trade accounts receivable, collections of $3.7 million and program termination of $1.6 million.

	Three Months Ended November 30, 2015			
(in thousands)	Total	U.S.	Australia**	Poland
Beginning balance	$339,547	$269,778	$ 18,038	$51,731
Transfers of accounts receivable	588,419	486,523	46,074	55,822
Collections	(699,104)	(560,171)	(48,826)	(90,107)
Ending balance	$228,862	$196,130	$ 15,286	$17,446

** Includes the sales of trade accounts receivable activities related to discontinued operations and businesses held for sale. For the three months ended November 30, 2015, transfers of trade accounts receivable were $12.3 million and collections were $24.9 million.

NOTE 4. INVENTORIES, NET

As of November 30, 2016 and August 31, 2016, inventories were stated at the lower of cost or net realizable value. The Company determines inventory cost for its Americas Recycling, Americas Mills, Americas Fabrication and International Mill segments using the weighted average cost method. The Company determines inventory cost for its International Marketing and Distribution segment using the specific identification method. At November 30, 2016, 59% of the Company's total net inventories were valued using the weighted average cost method and 41% of the Company's total net inventories were valued using the specification identification method.

The majority of the Company's inventories are in the form of semi-finished and finished goods. The Company's business model, with the exception of the International Marketing and Distribution segment, is such that products are sold to external customers in various stages, from semi-finished billets through fabricated steel, leading these categories to be combined. Inventories in the International Marketing and Distribution segment are sold as finished goods. As such, work in process inventories were not material at November 30, 2016 and August 31, 2016. At November 30, 2016 and August 31, 2016, $75.9 million and $77.9 million, respectively, of the Company's inventories were in the form of raw materials.

Inventory write-downs were $0.5 million and $2.7 million during the three months ended November 30, 2016 and 2015, respectively.

NOTE 5. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	Americas			International		
(in thousands)	Recycling	Mills	Fabrication	Mill	Marketing and Distribution	Consolidated
Goodwill, gross						
Balance at August 31, 2016	$9,751	$4,970	$57,637	$2,432	$1,982	$76,772
Foreign currency translation	—	—	—	(172)	(98)	(270)
Balance at November 30, 2016	$9,751	$4,970	$57,637	$2,260	$1,884	$76,502
Accumulated impairment losses						
Balance at August 31, 2016	$(9,751)	$—	$(493)	$(155)	$—	$(10,399)
Foreign currency translation	—	—	—	11	—	11
Balance at November 30, 2016	$(9,751)	$—	$(493)	$(144)	$—	$(10,388)
Goodwill, net						
Balance at August 31, 2016	$—	$4,970	$57,144	$2,277	$1,982	$66,373
Foreign currency translation	—	—	—	(161)	(98)	(259)
Balance at November 30, 2016	$—	$4,970	$57,144	$2,116	$1,884	$66,114

The total gross carrying amounts of the Company's intangible assets that are subject to amortization were $17.6 million and $18.6 million at November 30, 2016 and August 31, 2016, respectively, and are included in other noncurrent assets on the Company's condensed consolidated balance sheets. Intangible amortization expense from continuing operations was $0.3 million and $1.1 million for the three months ended November 30, 2016 and 2015, respectively. Excluding goodwill, there are no significant intangible assets with indefinite lives.

NOTE 6. DISCONTINUED OPERATIONS

During the first quarter of fiscal 2015, the Company decided to exit and sell its steel distribution business in Australia and determined that the decision to exit this business met the definition of a discontinued operation. As a result, this business has been presented as a discontinued operation for all periods presented. The Australian steel distribution business was previously included in the International Marketing and Distribution reporting segment.

Financial information for discontinued operations was as follows:

	Three Months Ended November 30,	
(in thousands)	2016	2015
Net sales	$(23)	$11,554
Loss from discontinued operations before income taxes	(917)	(572)

NOTE 7. CREDIT ARRANGEMENTS

During the fourth quarter of fiscal 2014, the Company entered into a fourth amended and restated credit agreement (the "Credit Agreement") for a revolving credit facility of $350.0 million with a maturity date of June 26, 2019. The maximum availability under the Credit Agreement can be increased to $500.0 million with bank approval. The

Company's obligation under its Credit Agreement is collateralized by its U.S. inventory. The Credit Agreement's capacity includes $50.0 million for the issuance of stand-by letters of credit and was reduced by outstanding stand-by letters of credit which totaled $3.0 million at both November 30, 2016 and August 31, 2016. The Company had no amounts drawn under the Credit Agreement at November 30, 2016 and August 31, 2016.

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

At November 30, 2016, the Company's interest coverage ratio was 4.84 to 1.00, and the Company's debt to capitalization ratio was 0.44 to 1.00.

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

In August 2008, the Company issued $500.0 million of 7.35% senior unsecured notes due in August 2018 (the "2018 Notes"). During the third quarter of fiscal 2010, the Company entered into hedging transactions which reduced the Company's effective interest rate on these notes to 6.40% per annum. Interest on these notes is payable semiannually. In February 2016, the Company accepted for purchase approximately $100.2 million of the outstanding principal amount of its 2018 Notes through a cash tender offer.

In July 2007, the Company issued $400.0 million of 6.50% senior unsecured notes due in July 2017 (the "2017 Notes"). During the third quarter of fiscal 2011, the Company entered into hedging transactions which reduced the Company's effective interest rate on these notes to 5.74% per annum. Interest on these notes is payable semiannually. In February 2016, the Company accepted for purchase $100.0 million of the outstanding principal amount of its 2017 Notes though a cash tender offer.

During fiscal 2012, the Company terminated its existing interest rate swap transactions and received cash proceeds of approximately $52.7 million, net of customary finance charges. The resulting gain was deferred and is being amortized as a reduction to interest expense over the remaining term of the respective debt tranches. At November 30, 2016 and August 31, 2016, the unamortized amounts were $9.8 million and $11.6 million, respectively. Amortization of the deferred gain for each of the three months ended November 30, 2016 and 2015 was $1.9 million.

At November 30, 2016, the Company was in compliance with all covenants contained in its debt agreements.

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

(in thousands)	Weighted Average Interest Rate as of November 30, 2016	November 30, 2016	August 31, 2016
2023 Notes	4.875%	$ 330,000	$ 330,000
2018 Notes	6.40%	407,718	408,874
2017 Notes	5.74%	301,858	302,601
Other, including equipment notes		32,437	34,166
Total debt		1,072,013	1,075,641
Less debt issuance costs		3,960	4,224
Total amounts outstanding		1,068,053	1,071,417
Less current maturities		312,892	313,469
Long-term debt		$ 755,161	$ 757,948

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

At both November 30, 2016 and August 31, 2016, CMC Poland Sp. z.o.o. ("CMCP") had uncommitted credit facilities with several banks of PLN 175 million ($41.6 million) and PLN 175 million ($44.8 million), respectively. The uncommitted credit facilities as of November 30, 2016 have expiration dates ranging from March 2017 to November 2017, which CMCP intends to renew upon expiration. At November 30, 2016 and August 31, 2016, no amounts were outstanding under these facilities. During the three months ended November 30, 2016 and 2015, CMCP had no borrowings and no repayments under its uncommitted credit facilities.

The Company capitalized $1.6 million and $0.5 million of interest in the cost of property, plant and equipment during the three months ended November 30, 2016 and 2015, respectively. Cash paid for interest during the three months ended November 30, 2016 and 2015 was $8.4 million and $9.0 million, respectively.

NOTE 8. NEW MARKETS TAX CREDIT TRANSACTIONS

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

Commonwealth loaned $35.3 million to the Investment Fund at an interest rate of approximately 1.08% per year and with a maturity date of December 24, 2045 (the "Commonwealth Loan"). The Investment Fund also received capital contributions from USBCDC in the aggregate amount of $17.7 million (the "USBCDC Equity"). The Investment Fund used $51.5 million of the proceeds received from the Commonwealth Loan and the USBCDC Equity to make qualified equity investments ("QEIs") into certain CDEs, which, in turn, used $50.7 million of the QEIs to make loans to CMC Steel Oklahoma, LLC, a wholly owned subsidiary of CMC, with terms similar to the Commonwealth Loan and as partial financing for the construction, development and equipping of a new steel micro-mill in Durant, Oklahoma. The proceeds of the loans from the CDEs were recorded as restricted cash and included in other current assets in the accompanying condensed consolidated balance sheet. During the three months ended November 30, 2016, the Company spent $16.5 million for qualified construction, development, and equipping activities for the micro-mill. The balance remaining in restricted cash was $5.2 million and $21.7 million at November 30, 2016 and August 31, 2016, respectively.

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

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

NOTE 9. DERIVATIVES AND RISK MANAGEMENT

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

At November 30, 2016, the notional values of the Company's foreign currency contract commitments and its commodity contract commitments were $265.8 million and $31.2 million, respectively. At November 30, 2015, the notional values of the Company's foreign currency contract commitments and its commodity contract commitments were $306.3 million and $33.5 million, respectively.

The following table provides information regarding the Company's commodity contract commitments as of November 30, 2016:

Commodity	Long/Short	Total	
Aluminum	Long	1,822	MT
Copper	Long	237	MT
Copper	Short	5,160	MT
Zinc	Long	22	MT

MT = Metric Ton

The Company designates only those contracts which closely match the terms of the underlying transaction as hedges for accounting purposes. These hedges resulted in substantially no ineffectiveness in the Company's condensed consolidated statements of earnings, and there were no components excluded from the assessment of hedge effectiveness for the three months ended November 30, 2016 and 2015. Certain foreign currency and commodity contracts were not designated as hedges for accounting purposes, although management believes they are essential economic hedges.

The following tables summarize activities related to the Company's derivative instruments and hedged items recognized in the condensed consolidated statements of earnings:

		Three Months Ended November 30,	
Derivatives Not Designated as Hedging Instruments (in thousands)	Location	2016	2015
Commodity	Cost of goods sold	$(4,629)	$2,172
Foreign exchange	Cost of goods sold	(8)	50
Foreign exchange	SG&A expenses	4,049	5,219
Gain (loss) before income taxes		$(588)	$7,441

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

Derivatives Designated as Fair Value Hedging Instruments (in thousands)		Three Months Ended November 30,	
	Location	2016	2015
Foreign exchange	Net sales	$(22)	$144
Foreign exchange	Cost of goods sold	1,086	(994)
Gain (loss) before income taxes		$1,064	$(850)

Hedged Items Designated as Fair Value Hedging Instruments (in thousands)		Three Months Ended November 30,	
	Location	2016	2015
Foreign exchange	Net sales	$22	$(145)
Foreign exchange	Cost of goods sold	(1,086)	994

Gain (loss) before income taxes	$(1,064)	$849

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Effective Portion of Derivatives Designated as Cash Flow Hedging Instruments Recognized in Accumulated Other Comprehensive Income (Loss) (in thousands)	Three Months Ended November 30, 2016	2015
Commodity	$99	$(477)
Foreign exchange	33	468
Gain (loss), net of income taxes	$132	$(9)

Effective Portion of Derivatives Designated as Cash Flow Hedging Instruments Reclassified from Accumulated Other Comprehensive Income (Loss) (in thousands)	Location	Three Months Ended November 30, 2016	2015
Commodity	Cost of goods sold	$(92)	$(51)
Foreign exchange	Net sales	(85)	57
Foreign exchange	Cost of goods sold	128	(8)
Foreign exchange	SG&A expenses	152	35
Interest rate	Interest expense	134	134
Gain before income taxes		237	167
Income taxes	Income taxes	(47)	(49)
Gain, net of income taxes		$190	$118

The Company enters into derivative agreements that include provisions to allow the set-off of certain amounts. Derivative instruments are presented on a gross basis on the Company's condensed consolidated balance sheets. The asset and liability balances in the tables below reflect the gross amounts of derivative instruments at November 30, 2016 and August 31, 2016. The fair value of the Company's derivative instruments on the condensed consolidated balance sheets was as follows:

Derivative Assets (in thousands)	November 30, 2016	August 31, 2016
Commodity — designated for hedge accounting	$ 89	$ 4
Commodity — not designated for hedge accounting	108	584
Foreign exchange — designated for hedge accounting	1,595	1,398
Foreign exchange — not designated for hedge accounting	3,055	750
Derivative assets (other current assets)*	$ 4,847	$ 2,736

Derivative Liabilities (in thousands)	November 30, 2016	August 31, 2016
Commodity — designated for hedge accounting	$ —	$ 5
Commodity — not designated for hedge accounting	3,211	117
Foreign exchange — designated for hedge accounting	360	902
Foreign exchange — not designated for hedge accounting	1,498	1,161
Derivative liabilities (accrued expenses and other payables)*	$ 5,069	$ 2,185

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

As of November 30, 2016, substantially all of the Company's derivative instruments designated to hedge exposure to the variability in future cash flows of the forecasted transactions will mature within twelve months. All of the instruments are highly liquid and were not entered into for trading purposes.

NOTE 10. FAIR VALUE

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

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

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

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

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

		Fair Value Measurements at Reporting Date Using		
(in thousands)	November 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market investments [1]	$ 385,371	$ 385,371	$ —	$ —
Commodity derivative assets [2]	197	108	89	—
Foreign exchange derivative assets [2]	4,650	—	4,650	—
Liabilities:				
Commodity derivative liabilities [2]	3,211	3,211	—	—
Foreign exchange derivative liabilities [2]	1,858	—	1,858	—

		Fair Value Measurements at Reporting Date Using		
(in thousands)	August 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market investments [1]	$ 278,759	$ 278,759	$ —	$ —
Commodity derivative assets [2]	588	584	4	—
Foreign exchange derivative assets [2]	2,148	—	2,148	—
Liabilities:				
Commodity derivative liabilities [2]	122	117	5	—
Foreign exchange derivative liabilities [2]	2,063	—	2,063	—

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

options.

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

There were no material non-recurring fair value remeasurements during the three months ended November 30, 2016 and 2015, respectively.

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

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

(in thousands)	Fair Value Hierarchy	November 30, 2016 Carrying Value	November 30, 2016 Fair Value	August 31, 2016 Carrying Value	August 31, 2016 Fair Value
2023 Notes [1]	Level 2	$330,000	$334,643	$330,000	$332,010
2018 Notes [1]	Level 2	407,718	428,805	408,874	432,303
2017 Notes [1]	Level 2	301,858	303,093	302,601	311,250

(1) The fair value of the notes is determined based on indicated market values.

NOTE 11. INCOME TAX

The Company's effective income tax rate from continuing operations for the three months ended November 30, 2016 and 2015 was 27.0% and 31.5%, respectively. The effective tax rate is determined by computing the estimated annual effective tax rate, adjusted for discrete items, if any, which are taken into account in the appropriate period. Several factors determine the Company's effective tax rate, including the mix and amount of global earnings, the impact of loss companies for which no tax benefit is available due to valuation allowances, audit related adjustments, and the impact of permanent tax adjustments.

For the three months ended November 30, 2016, the tax rate was lower than the statutory income tax rate of 35%. Items that benefited the effective tax rate include:

i. the proportion of our global income from operations in jurisdictions with lower statutory tax rates than the U.S., including Poland, which has a statutory income tax rate of 19%,
ii. benefit under Section 199 of the Internal Revenue Code related to domestic production activity income, and
iii. a non-taxable gain on assets related to our non-qualified Benefits Restoration Plan (“BRP”).

For the three months ended November 30, 2015, the tax rate was lower than the statutory income tax rate of 35%. Items that benefited the effective tax rate include:

i. the proportion of our global income from operations in jurisdictions with lower statutory tax rates than the U.S., including Poland, which has a statutory income tax rate of 19%, and
ii. benefit under Section 199 of the Internal Revenue Code related to domestic production activity income.

In both the three months ended November 30, 2016 and 2015, the effective tax rate was negatively impacted by losses from operations in certain jurisdictions in which the Company maintains a valuation allowance, thus providing no benefit for such losses.

The Company’s effective income tax rate from discontinued operations for the three months ended November 30, 2016 and 2015 was 2.0% and 0.4%, respectively. The increase in the Company's effective income tax rate from discontinued operations for the three months ended November 30, 2016 and 2015 reflected the fact that earnings from discontinued operations before income taxes included a loss in Australia, a jurisdiction in which all tax losses created a deferred tax asset that was subject to a full valuation allowance, and thus no tax benefit was recorded. The tax benefit related to discontinued operations was the result of nominal pre-tax losses from discontinued operations which are subject to U.S. tax.

The Company made net payments of $1.8 million and $4.7 million for income taxes during the three months ended November 30, 2016 and 2015, respectively.

As of November 30, 2016 and August 31, 2016, the reserve for unrecognized income tax benefits related to the accounting for uncertainty in income taxes was $9.5 million, exclusive of interest and penalties.

The Company's policy classifies interest recognized on an underpayment of income taxes and any statutory penalties recognized on a tax position as income tax expense, and the balances at the end of a reporting period are recorded as part of the current or noncurrent reserve for uncertain income tax positions. For the three months ended November 30, 2016, before any income tax benefits, the Company recorded immaterial amounts of accrued interest and penalties on unrecognized income tax benefits.

During the twelve months ending November 30, 2017, it is reasonably possible that the statute of limitations pertaining to positions taken by the Company in prior year income tax returns may lapse or that income tax audits in various taxing jurisdictions could be finalized. As a result, the total amount of unrecognized income tax benefits may decrease by approximately $1.3 million, which would reduce the provision for income taxes by $1.3 million.

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

U.S. Federal — 2012 and forward, with the exception of the R&D credit issue discussed below
U.S. States — 2009 and forward
Foreign — 2009 and forward

During the fiscal year ended August 31, 2016, the Company completed an IRS exam for the years 2009 through 2011 and received confirmation from the United States Congress Joint Committee on Taxation that all matters were settled with the exception of R&D credits, which are still under review. In addition, the Company is under examination by certain state revenue authorities for the years 2009 through 2015. Management believes the Company's recorded income tax liabilities as of November 30, 2016 sufficiently reflect the anticipated outcome of these examinations.

NOTE 12. STOCK-BASED COMPENSATION PLANS

The Company's stock-based compensation plans are described, and informational disclosures provided, in Note 16, Stock-Based Compensation Plans, to the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2016. During the three months ended November 30, 2016 and 2015, restricted stock units and performance stock units accounted for under the equity method totaling 0.9 million and 1.5 million, respectively, were granted at a weighted-average fair value of $15.77 and $16.02, respectively.

Additionally, during the three months ended November 30, 2016 and 2015, the Company granted 872,739 and 430,376 equivalent shares, respectively, of performance stock units and restricted stock units accounted for under the liability method. During the three months ended November 30, 2016, certain restricted stock units and performance stock units that were previously accounted for under the equity method were modified to allow optionality related to the net share settlement feature, which resulted in these awards now being accounted for under the liability method. The fair value of liability awards is remeasured each reporting period and is recognized ratably over the service period. The Company incurred expenses of $3.9 million as a result of the modification and increased stock value at November 30, 2016 compared to no material adjustments for the three months ended November 30, 2015. As of November 30, 2016, the Company had 2,115,788 equivalent shares accounted for under the liability method outstanding. The Company expects 2,016,444 equivalent shares to vest.

In general, the restricted stock units granted during fiscal 2017, 2016, and 2015 vest ratably over a period of three years. However, certain restricted stock units granted during fiscal 2017 and 2015 cliff vest after a period of three years. Additionally, certain restricted stock units granted during fiscal 2015 vest after a specified service period during which one-third of each such award vests on the second anniversary of the grant date, and the remaining two-thirds of each such award vests on the third anniversary of the grant date. For certain restricted stock units granted during fiscal 2014, 25% vests on the second anniversary of the grant date; 25% vests on the third anniversary of the grant date and the remaining 50% vests on the fourth anniversary of the grant date. Subject to the achievement of performance targets established by the Compensation Committee of CMC's Board of Directors, the performance stock units granted during fiscal 2017, 2016, and 2015 will vest after a period of three years.

Total stock-based compensation expense, including fair value remeasurements, for the three months ended November 30, 2016 and 2015 of $8.2 million and $6.3 million, respectively, was included in selling, general and administrative expenses on the Company's condensed consolidated statements of earnings.

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

The calculations of basic and diluted earnings per share from continuing operations for the three months ended November 30, 2016 and 2015 were as follows:

	Three Months Ended November 30,	
(in thousands, except share data)	2016	2015
Earnings from continuing operations attributable to CMC	$7,174	$ 25,633
Basic earnings per share:		
Shares outstanding for basic earnings per share	115,097,467	116,022,241
Basic earnings per share attributable to CMC	$0.06	$ 0.22
Diluted earnings per share:		
Shares outstanding for basic earnings per share	115,097,467	116,022,241
Effect of dilutive securities:		
Stock-based incentive/purchase plans	1,507,322	2,317,204
Shares outstanding for diluted earnings per share	116,604,789	118,339,445
Diluted earnings per share attributable to CMC	$0.06	$ 0.22
Anti-dilutive shares not included above	130,989	818,546

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

During the first quarter of fiscal 2015, CMC's Board of Directors authorized a share repurchase program under which the Company may repurchase up to $100.0 million of shares of CMC common stock. The Company did not purchase any shares of CMC common stock during the three months ended November 30, 2016. During the three months ended November 30, 2015, the Company purchased 316,086 shares of CMC common stock at an average purchase price of $14.41 per share. The Company had remaining authorization to purchase $27.6 million of common stock at November 30, 2016.

NOTE 14. COMMITMENTS AND CONTINGENCIES

In the ordinary course of conducting its business, the Company becomes involved in litigation, administrative proceedings and governmental investigations, including environmental matters. See Note 19, Commitments and Contingencies, to the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2016.

The Company has received notices from the U.S. Environmental Protection Agency ("EPA") or state agencies with similar responsibility that it is considered a potentially responsible party ("PRP") at several sites, none owned by the Company, and may be obligated under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 ("CERCLA") or similar state statute to conduct remedial investigations, feasibility studies, remediation and/or removal of alleged releases of hazardous substances or to reimburse the EPA for such activities. The Company is involved in litigation or administrative proceedings with regard to several of these sites in which the Company is contesting, or at the appropriate time may contest, its liability at the sites. In addition, the Company has received information requests with regard to other sites which may be under consideration by the EPA as potential CERCLA sites. Some of these environmental matters or other proceedings may result in fines, penalties or judgments being assessed against the Company. At both November 30, 2016 and August 31, 2016, the Company had accrued $0.7

million for cleanup and remediation costs in connection with CERCLA sites. The estimation process is based on currently available information, which is in many cases preliminary and incomplete. Total environmental liabilities, including with respect to CERCLA sites, were $3.2 million and $3.3 million as of November 30, 2016 and August 31, 2016, respectively, of which $2.1 million was classified as other long-term liabilities as of both November 30, 2016 and August 31, 2016. These amounts have not been discounted to their present values. Due to evolving remediation technology, changing regulations, possible third-party contributions, the inherent shortcomings of the estimation process and other factors, amounts accrued could vary significantly from amounts paid. Historically, the amounts the Company has ultimately paid for such remediation activities have not been material.

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

NOTE 15. BUSINESS SEGMENTS

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

The Company structures its business into the following five reporting segments: Americas Recycling, Americas Mills, Americas Fabrication, International Mill and International Marketing and Distribution. See Note 1, Nature of Operations, of the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2016, for more information about the reporting segments, including the types of products and services from which each reporting segment derives its net sales. Corporate contains net earnings on BRP assets and short-term investments as well as expenses of the Company's corporate headquarters and interest expense related to its long-term debt.

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

The Company uses adjusted operating profit (loss) from continuing operations to compare and evaluate the financial performance of its segments. Adjusted operating profit (loss) is the sum of the Company's earnings from continuing operations before income taxes, interest expense and discounts on sales of accounts receivable. Intersegment sales are generally priced at prevailing market prices. Certain corporate administrative expenses are allocated to the segments based upon the nature of the expense. The accounting policies of the segments are the same as those described in Note 2, Summary of Significant Accounting Policies, of the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2016.

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

	Three Months Ended November 30, 2016							
	Americas			International				
(in thousands)	Recycling	Mills	Fabrication	Mill	Marketing and Distribution	Corporate	Eliminations	Continuing Operations
Net sales-unaffiliated customers	$154,362	$203,331	$335,277	$134,190	$246,153	$1,750	$ —	$1,075,063
Intersegment sales	22,346	143,834	3,123	211	2,007	—	(171,521)	—
Net sales	176,708	347,165	338,400	134,401	248,160	1,750	(171,521)	1,075,063
Adjusted operating profit (loss) from continuing operations	(5,098)	36,949	6,711	9,973	(966)	(24,013)	(204)	23,352
Total assets as of November 30, 2016*	194,056	791,063	629,925	360,428	560,109	950,717	(484,859)	3,001,439

	Three Months Ended November 30, 2015							
	Americas			International				
(in thousands)	Recycling	Mills	Fabrication	Mill	Marketing and Distribution	Corporate	Eliminations	Continuing Operations
Net sales-unaffiliated customers	$154,836	$217,641	$379,481	$120,448	$280,062	$2,391	$ —	$1,154,859
Intersegment sales	24,371	166,891	2,833	—	2,975	—	(197,070)	—
Net sales	179,207	384,532	382,314	120,448	283,037	2,391	(197,070)	1,154,859
Adjusted operating profit (loss)	(6,548)	59,064	21,345	2,771	(2,169)	(18,072)	(330)	56,061
Total assets as of August 31, 2016*	188,873	798,481	659,165	372,492	564,068	1,034,053	(493,050)	3,124,082

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* Excludes total assets from discontinued operations of $1.2 million at November 30, 2016 and $6.8 million at August 31, 2016.

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

	Three Months Ended November 30,	
(in thousands)	2016	2015
Earnings from continuing operations	$7,174	$25,633
Income taxes	2,653	11,772
Interest expense	13,298	18,304
Discounts on sales of accounts receivable	227	352
Adjusted operating profit from continuing operations	$23,352	$56,061

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

In the following discussion, references to "we," "us," "our" or the "Company" mean Commercial Metals Company and its consolidated subsidiaries, unless the context otherwise requires. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto, which are included in this Quarterly Report on Form 10-Q, and our audited consolidated financial statements and the notes thereto, which are included in our Annual Report on Form 10-K for the fiscal year ended August 31, 2016. This discussion contains or incorporates by reference "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not historical facts, but rather are based on expectations, estimates, assumptions and projections about our industry, business and future financial results, based on information available at the time this Quarterly Report on Form 10-Q is filed with the Securities and Exchange Commission ("SEC") or, with respect to any document incorporated by reference, available at the time that such document was prepared. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those identified in the section entitled "Forward-Looking Statements" in Item 2 of this Quarterly Report on Form 10-Q and in the section entitled "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the fiscal year ended August 31, 2016. We do not undertake any obligation to update, amend or clarify any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, new information or circumstances or otherwise, except as required by law.

CRITICAL ACCOUNTING POLICIES

There have been no material changes to our critical accounting policies as set forth in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, included in our Annual Report on Form 10-K for the fiscal year ended August 31, 2016.

CONSOLIDATED RESULTS OF OPERATIONS

The following discussion of our results of operations is based on our continuing operations and excludes any results of our discontinued operations. In the table below, we have included financial measures that were not derived in accordance with accounting principles generally accepted in the United States ("GAAP").

	Three Months Ended November 30,	
(in thousands, except per share data)	2016	2015
Net sales*	$1,075,063	$1,154,859
Earnings from continuing operations	7,174	25,633
Adjusted operating profit from continuing operations+	23,352	56,061
Adjusted EBITDA from continuing operations+	53,799	87,700
Diluted net earnings per share attributable to CMC	0.05	0.21

* Excludes divisions classified as discontinued operations.
+ Non-GAAP financial measure.

Adjusted Operating Profit from Continuing Operations

Adjusted operating profit from continuing operations is the sum of our earnings from continuing operations before income taxes, interest expense and discounts on sales of accounts receivable. Adjusted operating profit from continuing operations should not be considered as an alternative to earnings from continuing operations or net earnings, as determined by GAAP. Management uses adjusted operating profit from continuing operations to evaluate the financial performance of CMC. For added flexibility, we may sell certain trade accounts receivable both in the U.S. and internationally. We consider sales of accounts receivable as an alternative source of liquidity to finance our operations, and we believe that removing these costs provides a clearer perspective of CMC's operating performance. Adjusted operating profit from continuing operations may be inconsistent with similar measures presented by other companies.

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

	Three Months Ended November 30,	
(in thousands)	2016	2015
Earnings from continuing operations	$7,174	$25,633
Income taxes	2,653	11,772
Interest expense	13,298	18,304
Discounts on sales of accounts receivable	227	352
Adjusted operating profit from continuing operations	$23,352	$56,061

Adjusted EBITDA from Continuing Operations

Adjusted EBITDA from continuing operations is the sum of earnings from continuing operations before net earnings attributable to noncontrolling interests, interest expense and income taxes. It also excludes CMC's largest recurring non-cash charge, depreciation and amortization, as well as long-lived asset impairment charges, which are also non-cash. Adjusted EBITDA from continuing operations should not be considered as an alternative to earnings from continuing operations or net earnings, or as a better measure of liquidity than net cash flows from operating activities, as determined by GAAP. However, we believe that adjusted EBITDA from continuing operations provides relevant and useful information, which is often used by analysts, creditors and other interested parties in our industry. Additionally, adjusted EBITDA from continuing operations is the target benchmark for our annual and long-term cash incentive performance plans for management. Adjusted EBITDA from continuing operations may be inconsistent with similar measures presented by other companies.

There were no net earnings attributable to noncontrolling interests during the three months ended November 30, 2016 and November 30, 2015.

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

	Three Months Ended November 30,	
(in thousands)	2016	2015
Earnings from continuing operations	$7,174	$25,633
Interest expense	13,298	18,304
Income taxes	2,653	11,772
Depreciation and amortization	30,286	31,991
Impairment charges	388	—
Adjusted EBITDA from continuing operations	$53,799	$87,700

Summary

Net sales for the three months ended November 30, 2016 decreased $79.8 million, or 7%, compared to the corresponding period in fiscal 2016 primarily due to decreases in the average selling prices and volumes for our Americas Mills, Americas Fabrication and International Marketing and Distribution segments. Average selling prices and volumes for our Americas Mills and Americas Fabrication segments were adversely impacted by declining U.S. steel and commodity pricing and continued import pressures in the U.S. during the three months ended November 30, 2016 compared to the corresponding period in fiscal 2016. Average selling prices and volumes for our International Marketing and Distribution segment decreased primarily due a decline in volumes of a high value product within the portfolio of our raw materials trading business headquartered in the U.S and our decision to exit the United Kingdom steel trading business in the fourth quarter of fiscal 2016. In contrast, our International Mill segment recorded an increase in net sales due to a 14% increase in shipments, primarily driven by strong demand in the construction sector for rebar and merchant products as well as lower rebar imports due to the threat of potential anti-subsidy filings against Belarus.

Earnings from continuing operations for the three months ended November 30, 2016 decreased $18.5 million, or 72%, compared to the corresponding period in fiscal 2016. Adjusted operating profit from continuing operations for the three months ended November 30, 2016 decreased $32.7 million, or 58%, compared to the corresponding period in fiscal 2016, primarily driven by our Americas Mills and Americas Fabrication segments. In addition to the decline in average selling prices and volumes discussed above, average metal margins for our Americas Mills and Americas Fabrication segments decreased 17% and 13%, respectively, compared to the three months ended November 30, 2015. In contrast, our International Mill segment recorded an increase in adjusted operating profit due to the increase in shipments discussed above, partially offset by a 3% decline in average metal margin.

Selling, General and Administrative Expenses

Selling, general and administrative expenses from continuing operations for the three months ended November 30, 2016 increased $7.0 million, compared to the corresponding period in fiscal 2016. The increase was primarily due to a $4.2 million increase in expense related to mark-to-market adjustments associated with our outstanding equity awards accounted for as liability awards as a result of our increased stock value at November 30, 2016. Additionally, severance expenses increased $2.5 million, gains on the disposal of assets decreased $2.4 million, and we recognized a $1.6 million net unfavorable impact from foreign currency transactions and foreign exchange derivative activities, in each case compared to the first three months of fiscal 2016.

Interest Expense

Interest expense for the three months ended November 30, 2016 decreased $5.0 million compared to the three months ended November 30, 2015. The decrease in interest expense was primarily due to the repayment of long-term notes in the second quarter of fiscal 2016, which reduced interest expense by $3.5 million for the three months ended November 30, 2016, compared to the corresponding period in the prior fiscal year. See Note 7, Credit Arrangements, of this Quarterly Report on Form 10-Q for additional information regarding the repayment of long-term notes. Also decreasing interest expense is the construction of the steel micro-mill in Durant, Oklahoma, which increased capitalized interest by an additional $1.2 million for the three months ended November 30, 2016, compared to the three months ended November 30, 2015.

Income Taxes

Our effective income tax rate from continuing operations for the three months ended November 30, 2016 was 27.0%, compared with 31.5% for the three months ended November 30, 2015. The decrease in our effective income tax rate from continuing operations for the three months ended November 30, 2016 was largely attributable to an increase in the proportion of global income from operations earned in jurisdictions with lower statutory tax rates than the U.S., including Poland, which has a statutory income tax rate of 19%. Our effective income tax rates can also be impacted by state and local taxes as well as by earnings or losses from foreign jurisdictions. State and local taxes are generally consistent while the composition of domestic and foreign earnings can create larger fluctuations in our effective tax rate.

We intend to indefinitely reinvest all undistributed earnings of our non-U.S. subsidiaries. While not expected, if a repatriation occurs in the future, we would be required to provide for income taxes on repatriated earnings from our non-U.S. subsidiaries. Determination of the unrecognized deferred income tax liability related to the undistributed earnings of our non-U.S. subsidiaries is a complex, hypothetical calculation and is therefore impracticable to present in this Quarterly Report on Form 10-Q.

SEGMENT OPERATING DATA

Unless otherwise indicated, all dollar amounts below are from continuing operations and calculated before income taxes. Financial results for our reportable segments are consistent with the basis and manner in which we internally disaggregate financial information for the purpose of making operating decisions. See Note 15, Business Segments, to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Americas Recycling

	Three Months Ended November 30,	
(in thousands)	2016	2015
Net sales	$176,708	$179,207
Adjusted operating loss	(5,098)	(6,548)
Average selling price (per short ton)		
Average ferrous selling price	$186	$173
Average nonferrous selling price	1,816	1,781
Short tons shipped (in thousands)		
Ferrous tons shipped	405	389
Nonferrous tons shipped	49	52
Total tons shipped	454	441

Net sales for the three months ended November 30, 2016 decreased $2.5 million, or 1%, compared to the corresponding period in fiscal 2016 primarily due to insurance settlement revenue of $2.5 million recorded during the three months ended November 30, 2015. Net sales were positively impacted by a $13 per short ton increase in average ferrous selling prices and a 4% increase in ferrous tons shipped. Average nonferrous selling prices increased $35 per short ton while nonferrous tons shipped decreased 6%. Nonferrous shipments decreased as lower prices during the fourth quarter of fiscal 2016 as compared to the fourth quarter of fiscal 2015 slowed material flow during the first quarter of fiscal 2017 as compared to the first quarter of fiscal 2016.

Adjusted operating loss decreased $1.5 million for the three months ended November 30, 2016 compared to the corresponding period in fiscal 2016. During the first quarter of fiscal 2017, the increase in average nonferrous selling prices discussed above coupled with a decrease in average nonferrous material costs resulted in a 38% improvement in average nonferrous metal margin compared to the first quarter of fiscal 2016. Additionally, during the first quarter of fiscal 2017, labor and employee benefit expenses decreased 11% per short ton compared to the same period in fiscal 2016.

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Americas Mills

	Three Months Ended November 30,	
(in thousands)	2016	2015
Net sales	$347,165	$384,532
Adjusted operating profit	36,949	59,064
Average price (per short ton)		
Finished goods selling price		