

COMMERCIAL METALS CO
Form 10-Q
March 28, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended February 28, 2017

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 (I.R.S. Employer
Incorporation or Organization) Identification Number)
6565 N. MacArthur Blvd.
Irving, Texas 75039
(Address of Principal Executive Offices) (Zip Code)
(214) 689-4300
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 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 in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of common stock as of March 23, 2017 was 115,778,772.

COMMERCIAL METALS COMPANY AND SUBSIDIARIES
TABLE OF CONTENTS

<u>PART I — FINANCIAL INFORMATION</u>	<u>3</u>
<u>Item 1. Financial Statements (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Earnings - Three and six months ended February 28, 2017 and February 29, 2016</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income - Three and six months ended February 28, 2017 and February 29, 2016</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets - February 28, 2017 and August 31, 2016</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows - Six months ended February 28, 2017 and February 29, 2016</u>	<u>6</u>
<u>Condensed Consolidated Statements of Stockholders' Equity - Six months ended February 28, 2017 and February 29, 2016</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>40</u>
<u>Item 4. Controls and Procedures</u>	<u>40</u>
 <u>PART II — OTHER INFORMATION</u>	 <u>41</u>
<u>Item 1. Legal Proceedings</u>	<u>41</u>
<u>Item 1A. Risk Factors</u>	<u>41</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>41</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>41</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>41</u>
<u>Item 5. Other Information</u>	<u>41</u>
<u>Item 6. Exhibits</u>	<u>42</u>
<u>Signature</u>	<u>43</u>
<u>Index to Exhibits</u>	<u>44</u>

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

COMMERCIAL METALS COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

(in thousands, except share data)	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Net sales	\$1,149,621	\$1,019,697	\$2,224,684	\$2,174,556
Costs and expenses:				
Cost of goods sold	990,431	884,876	1,933,502	1,882,118
Selling, general and administrative expenses	107,119	93,918	215,986	195,826
Interest expense	12,442	16,625	25,740	34,929
Loss on debt extinguishment	—	11,365	—	11,365
	1,109,992	1,006,784	2,175,228	2,124,238
Earnings from continuing operations before income taxes	39,629	12,913	49,456	50,318
Income taxes	9,990	2,064	12,643	13,836
Earnings from continuing operations	29,639	10,849	36,813	36,482
Earnings (loss) from discontinued operations before income taxes (benefit)	726	(446)	(191)	(1,018)
Income taxes (benefit)	33	(99)	15	(101)
Earnings (loss) from discontinued operations	693	(347)	(206)	(917)
Net earnings	30,332	10,502	36,607	35,565
Less net earnings attributable to noncontrolling interests	—	—	—	—
Net earnings attributable to CMC	\$30,332	\$10,502	\$36,607	\$35,565
Basic earnings (loss) per share attributable to CMC:				
Earnings from continuing operations	\$0.25	\$0.09	\$0.32	\$0.32
Earnings (loss) from discontinued operations	0.01	—	—	(0.01)
Net earnings	\$0.26	\$0.09	\$0.32	\$0.31
Diluted earnings (loss) per share attributable to CMC:				
Earnings from continuing operations	\$0.25	\$0.09	\$0.31	\$0.31
Earnings (loss) from discontinued operations	0.01	—	—	(0.01)
Net earnings	\$0.26	\$0.09	\$0.31	\$0.30
Cash dividends per share	\$0.12	\$0.12	\$0.24	\$0.24
Average basic shares outstanding	115,736,369	115,429,550	115,415,662	115,725,896
Average diluted shares outstanding	117,120,208	116,507,591	117,007,958	117,002,822
See notes to unaudited condensed consolidated financial statements.				

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

(in thousands)	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Net earnings attributable to CMC	\$30,332	\$ 10,502	\$36,607	\$ 35,565
Other comprehensive income (loss), net of income taxes:				
Foreign currency translation adjustment	9,551	4,211	(11,980)	(17,784)
Net unrealized gain (loss) on derivatives:				
Unrealized holding gain, net of income taxes of \$106, \$221, \$116 and \$74	310	494	442	485
Reclassification for gain included in net earnings, net of income taxes of \$(64), \$(28), \$(111) and \$(77)	(330)	(56)	(520)	(174)
Net unrealized gain (loss) on derivatives, net of income taxes of \$42, \$193, \$5 and \$(3)	(20)	438	(78)	311
Defined benefit obligation:				
Amortization of prior services, net of income taxes of \$(2), \$0, \$(4) and \$(1)	(9)	(2)	(18)	(3)
Defined benefit obligation, net of income taxes of \$(2), \$0, \$(4) and \$(1)	(9)	(2)	(18)	(3)
Other comprehensive income (loss)	9,522	4,647	(12,076)	(17,476)
Comprehensive income	\$39,854	\$ 15,149	\$24,531	\$ 18,089
See notes to unaudited condensed consolidated financial statements.				

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

(in thousands, except share data)	February 28, 2017	August 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$395,546	\$517,544
Accounts receivable (less allowance for doubtful accounts of \$5,283 and \$6,427)	774,286	765,784
Inventories, net	720,786	652,754
Other current assets	96,422	112,043
Total current assets	1,987,040	2,048,125
Property, plant and equipment:		
Land	76,556	70,291
Buildings and improvements	489,384	487,305
Equipment	1,654,942	1,655,909
Construction in process	186,759	111,156
	2,407,641	2,324,661
Less accumulated depreciation and amortization	(1,467,297)	(1,429,612)
	940,344	895,049
Goodwill	66,530	66,373
Other noncurrent assets	137,919	121,322
Total assets	\$3,131,833	\$3,130,869
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable-trade	\$307,488	\$243,532
Accounts payable-documentary letters of credit	—	5
Accrued expenses and other payables	220,433	264,112
Current maturities of long-term debt	312,200	313,469
Total current liabilities	840,121	821,118
Deferred income taxes	55,625	63,021
Other long-term liabilities	121,930	121,351
Long-term debt	752,137	757,948
Total liabilities	1,769,813	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 115,778,772 and 114,635,596 shares, respectively	1,290	1,290
Additional paid-in capital	336,018	358,745
Accumulated other comprehensive loss	(124,990)	(112,914)
Retained earnings	1,381,869	1,372,988
Less treasury stock, 13,281,892 and 14,425,068 shares at cost	(232,339)	(252,837)
Stockholders' equity attributable to CMC	1,361,848	1,367,272
Stockholders' equity attributable to noncontrolling interests	172	159
Total stockholders' equity	1,362,020	1,367,431
Total liabilities and stockholders' equity	\$3,131,833	\$3,130,869
See notes to unaudited condensed consolidated financial statements.		

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

(in thousands)	Six Months Ended	
	February 28, 2017	February 29, 2016
Cash flows from (used by) operating activities:		
Net earnings	\$36,607	\$ 35,565
Adjustments to reconcile net earnings to cash flows from (used by) operating activities:		
Depreciation and amortization	60,789	63,541
Stock-based compensation	16,156	13,106
Deferred income taxes	(9,380)	(4,614)
Amortization of interest rate swaps termination gain	(3,798)	(3,798)
Provision for losses on receivables, net	1,381	2,740
Write-down of inventories	1,205	7,949
Asset impairment	553	—
Net gain on sales of assets and other	(195)	(2,767)
Loss on debt extinguishment	—	11,365
Tax benefit from stock plans	—	(55)
Changes in operating assets and liabilities:		
Accounts receivable	2,162	190,622
Proceeds (payments) on sales of accounts receivable programs, net	(5,102)	11,504
Inventories	(68,456)	111,544
Accounts payable, accrued expenses and other payables	9,374	(115,002)
Changes in other operating assets and liabilities	(29,313)	11,110
Net cash flows from operating activities	11,983	332,810
Cash flows from (used by) investing activities:		
Capital expenditures	(90,808)	(62,437)
Acquisitions, net of cash acquired	(25,366)	—
Decrease (increase) in restricted cash	21,033	(49,145)
Proceeds from the sale of property, plant and equipment and other	700	3,060
Proceeds from the sale of subsidiaries	524	—
Net cash flows used by investing activities	(93,917)	(108,522)
Cash flows from (used by) financing activities:		
Cash dividends	(27,726)	(27,839)
Repayments on long-term debt	(6,148)	(205,816)
Stock issued under incentive and purchase plans, net of forfeitures	(5,408)	(5,671)
Contribution from noncontrolling interests	13	29
Increase (decrease) in documentary letters of credit, net	(5)	(25,815)
Short-term borrowings, net change	—	(20,090)
Treasury stock acquired	—	(30,595)
Debt extinguishment costs	—	(11,013)
Tax benefit from stock plans	—	55
Decrease in restricted cash	—	1
Net cash flows used by financing activities	(39,274)	(326,754)
Effect of exchange rate changes on cash	(790)	(1,179)
Increase (decrease) in cash and cash equivalents	(121,998)	(103,645)
Cash and cash equivalents at beginning of year	517,544	485,323
Cash and cash equivalents at end of period	\$395,546	\$ 381,678

Supplemental information:

Noncash activities:

Liabilities related to additions of property, plant and equipment	\$35,184	\$ 2,706
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See notes to unaudited condensed consolidated financial statements.

6

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

(in thousands, except share data)	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income		Treasury Stock		Non-controlling Interests	
	Number of Shares	Amount		Retained Earnings	Loss	Number of Shares	Amount	controlling	Total
Balance, September 1, 2015	129,060,664	\$ 1,290	\$ 365,863	\$(113,535)	\$ 1,373,568	(13,425,326)	\$(245,961)	\$ 149	\$ 1,381,374
Net earnings					35,565				35,565
Other comprehensive loss				(17,476)					(17,476)
Cash dividends (\$0.24 per share)					(27,839)				(27,839)
Treasury stock acquired						(2,255,069)	(30,595)		(30,595)
Issuance of stock under incentive and purchase plans, net of forfeitures			(27,640)			1,155,466	21,969		(5,671)
Stock-based compensation			10,321						10,321
Tax benefit from stock plans			55						55
Contribution of noncontrolling interest			19					10	29
Reclassification of share-based liability awards			3,035						3,035
Balance, February 29, 2016	129,060,664	\$ 1,290	\$ 351,653	\$(131,011)	\$ 1,381,294	(14,524,929)	\$(254,587)	\$ 159	\$ 1,348,798

(in thousands, except share data)	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income		Treasury Stock		Non-controlling Interests	
	Number of Shares	Amount		Retained Earnings	Loss	Number of Shares	Amount	controlling	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					36,607				36,607
Other comprehensive loss				(12,076)					