COMMERCIAL METALS CO
Form 10-K/A
January 05, 2009

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K/A
(Amendment No. 1)

(Mark One)

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

For the fiscal year ended August 31, 2008

or

o **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 No.)*
6565 MacArthur Blvd, Irving, TX	**75039**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code:
(214) 689-4300

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	New York Stock Exchange
Rights to Purchase Series A Preferred Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 under the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the Act. Yes o No þ

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained herein, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or amendment to this Form 10-K o

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 þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

(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 Act). Yes o No þ

The aggregate market value of the common stock on October 28, 2008, held by non-affiliates of the registrant, based on the closing price of $10.03 per share on October 28, 2008 on the New York Stock Exchange, was approximately $1,113,447,000. (For purposes of determination of this amount, only directors, executive officers, and 10% or greater stockholders have been deemed affiliates.)

The number of shares outstanding of common stock as of October 28, 2008, was 113,799,128.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the following document are incorporated by reference into the listed Part of Form 10-K:

Registrant s definitive proxy statement for the annual meeting of stockholders to be held January 22, 2009 Part III

TABLE OF CONTENTS

Table of Contents

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (the Amended Filing) amends Note 8. Income Taxes of Item 8 of the Annual Report on Form 10-K filed by Commercial Metals Company on October 30, 2008 (the Original Filing), by deleting the information in the table regarding share information for options and SARs at August 31, 2008. The information being deleted was inadvertently placed in Note 8, but it is correctly shown in Note 9. Capital Stock of the Original Filing. Except as described above, this Amended Filing does not amend any other Item of our Original Filing, does not reflect events occurring after the filing of the Original Filing, and does not modify or update in any way the disclosures contained in the Original Filing, which speak as of the date of the Original Filing. Accordingly, this Amended Filing should be read in conjunction with the Original Filing and our other SEC filings subsequent to the filing of the Original Filing.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for externalpurposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements; providing reasonable assurance that receipts and expenditures of company assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation,management concluded that the Company s internal control over financial reporting was effective as of August 31, 2008. Deloitte & Touche LLP has audited the effectiveness of the Company s internal control over financial reporting; their report is included on page 41 of this Form 10-K.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Commercial Metals Company
Irving, Texas

We have audited the internal control over financial reporting of Commercial Metals Company and subsidiaries (the Company) as of August 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis.

Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of August 31, 2008, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended August 31, 2008 of the Company and our report dated October 30, 2008 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP

Dallas, Texas
October 30, 2008

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Commercial Metals Company
Irving, Texas

We have audited the accompanying consolidated balance sheets of Commercial Metals Company and subsidiaries (the Company) as of August 31, 2008 and 2007, and the related consolidated statements of earnings, stockholders equity, and cash flows for each of the three years in the period ended August 31, 2008. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Commercial Metals Company and subsidiaries at August 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of August 31, 2008, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated October 30, 2008 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Dallas, Texas
October 30, 2008

Commercial Metals Company and Subsidiaries
CONSOLIDATED STATEMENTS OF EARNINGS

	Year ended August 31,		
(in thousands, except share data)	2008	2007	2006
Net sales	$10,427,378	$8,329,016	$7,212,152
Costs and expenses:			
Cost of goods sold	9,325,724	7,167,989	6,138,134
Selling, general and administrative expenses	707,786	583,810	480,282
Interest expense	58,263	36,334	29,232
	10,091,773	7,788,133	6,647,648
Earnings from continuing operations before income taxes and minority interests	335,605	540,883	564,504
Income taxes	103,886	172,769	191,217
Earnings from continuing operations before minority interests	231,719	368,114	373,287
Minority interests	538	9,587	10,209
Net earnings from continuing operations	231,181	358,527	363,078
Earnings (loss) from discontinued operations before taxes	1,706	(4,827)	(10,011)
Income taxes (benefit)	921	(1,731)	(3,280)
Net earnings (loss) from discontinued operations	785	(3,096)	(6,731)
Net earnings	$ 231,966	$ 355,431	$ 356,347
Basic earnings (loss) per share:			
Earnings from continuing operations	$ 2.01	$ 3.04	$ 3.08
Loss from discontinued operations	0.01	(0.03)	(0.06)
Net earnings	$ 2.02	$ 3.01	$ 3.02
Diluted earnings (loss) per share:			
Earnings from continuing operations	$ 1.96	$ 2.95	$ 2.94
Loss from discontinued operations	0.01	(0.03)	(0.05)
Net earnings	$ 1.97	$ 2.92	$ 2.89

See notes to consolidated financial statements.

Table of Contents

Commercial Metals Company and Subsidiaries
CONSOLIDATED BALANCE SHEETS

(in thousands)	August 31, 2008	2007
Assets		
Current assets:		
Cash and cash equivalents	$ 219,026	$ 419,275
Accounts receivable (less allowance for collection losses of $17,652 and $16,495)	1,369,453	1,082,713
Inventories	1,400,332	874,104
Other	228,632	82,760
Total current assets	3,217,443	2,458,852
Property, plant and equipment:		
Land	84,539	54,387
Buildings and improvements	462,186	321,967
Equipment	1,292,832	1,095,672
Construction in process	256,156	118,298
	2,095,713	1,590,324
Less accumulated depreciation and amortization	(941,391)	(822,971)
	1,154,322	767,353
Goodwill	84,837	37,843
Other assets	289,769	208,615
	$4,746,371	$3,472,663

(in thousands, except share data)	August 31, 2008	2007
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable-trade	$ 838,777	$ 484,650
Accounts payable-documentary letters of credit	192,492	153,431
Accrued expenses and other payables	563,424	425,410
Income taxes payable and deferred income taxes	156	4,372
Notes payable	31,305	
Current maturities of long-term debt	106,327	4,726
Total current liabilities	1,732,481	1,072,589
Deferred income taxes	50,160	31,977
Other long-term liabilities	124,171	109,813
Long-term debt	1,197,533	706,817

Total liabilities	3,104,345	1,921,196
Minority interests	3,643	2,900
Commitments and contingencies		
Stockholders equity		
Capital stock:		
Preferred stock		
Common stock, par value $0.01 per share; authorized 200,000,000 shares; issued 129,060,664 shares; outstanding 113,777,152 and 118,566,381 shares	1,290	1,290
Additional paid-in capital	371,913	356,983
Accumulated other comprehensive income	112,781	64,452
Retained earnings	1,471,542	1,296,631
	1,957,526	1,719,356
Less treasury stock 15,283,512 and 10,494,283 shares at cost	(319,143)	(170,789)
Total stockholders equity	1,638,383	1,548,567
	$4,746,371	$3,472,663

See notes to consolidated financial statements.

Commercial Metals Company and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended August 31,		
(in thousands)	2008	2007	2006
Cash flows from (used by) operating activities:			
Net earnings	$ 231,966	$ 355,431	$ 356,347
Adjustments to reconcile net earnings to cash flows from (used by) operating activities:			
Depreciation and amortization	135,069	107,305	85,378
Minority interests	538	9,587	10,209
Asset impairment charges	1,004	3,400	
Provision for losses (recoveries) on receivables	4,478	(370)	2,676
Share-based compensation	18,996	12,499	9,526
Net (gain) loss on sale of assets	749	474	(2,518)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(287,052)	(39,695)	(297,924)
Accounts receivable sold	45,348	115,672	
Inventories	(414,556)	(10,381)	(36,196)
Other assets	(177,510)	(89,332)	(48,498)
Accounts payable, accrued expenses, other payables and income taxes	395,987	(22,179)	171,045
Deferred income taxes	(4,379)	(10,603)	(34,459)
Other long-term liabilities	5,906	29,482	17,797
Net cash flows from (used by) operating activities	(43,456)	461,290	233,383
Cash flows used by investing activities:			
Capital expenditures	(355,041)	(206,262)	(131,235)
Purchase of interests in CMC Zawiercie and subsidiaries	(169)	(62,104)	(1,165)
Proceeds from the sale of property, plant and equipment and other	1,791	1,470	11,290
Acquisitions of other businesses, net of cash acquired	(228,422)	(164,017)	(44,391)
Net cash flows used by investing activities	(581,841)	(430,913)	(165,501)
Cash flows from (used by) financing activities:			
Increase in documentary letters of credit	39,061	11,718	727
Payments on trade financing arrangements			(1,667)
Short-term borrowings, net change	(1,427)	(62,088)	60,000
Proceeds from issuance of long-term debt	596,669	400,504	14,495
Repayments on long-term debt	(6,053)	(72,282)	(28,800)
Stock issued under incentive and purchase plans	8,910	10,849	23,659
Tax benefits from stock plans	10,982	16,894	21,240
Treasury stock acquired	(172,312)	(59,169)	(78,662)
Cash dividends	(52,061)	(39,254)	(20,212)

Net cash flows from (used by) financing activities	423,769	207,172	(9,220)
Effect of exchange rate changes on cash and cash equivalents	1,279	1,007	2,653
Increase (decrease) in cash and cash equivalents	(200,249)	238,556	61,315
Cash and cash equivalents at beginning of year	419,275	180,719	119,404
Cash and cash equivalents at end of year	$ 219,026	$ 419,275	$ 180,719

See notes to consolidated financial statements.

Table of Contents

Commercial Metals Company and Subsidiaries
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

usands, except share data)	Common Stock Number of Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Unearned Stock Compensation	Retained Earnings	Treasury Stock Number of Shares	Treasury Stock Amount	To
e, September 1, 2005	64,530,332	$ 322,652	$ 14,813	$ 24,594	$ (5,901)	$ 644,319	(6,399,609)	$ (100,916)	$ 89
ehensive income (loss):									
nings						356,347			35
omprehensive income									
n currency translation									
nent, net of taxes ($1,506)				13,404					1
zed loss on derivatives,									
axes ($2,412)				(4,759)					
ehensive income									36
vidends						(20,212)			(2
in par value of common									
		(322,007)	322,007						
y stock acquired							(3,469,240)	(78,662)	(7
e of stock under incentive									
rchase plans			(11,756)				2,688,617	35,415	2
e of restricted stock			(2,429)				280,150	2,429	
based compensation			3,764		5,901		(9,100)	(139)	
nefits from stock plans			21,240						2
r-one stock split	64,530,332	645	(645)				(4,270,322)		
e, August 31, 2006	129,060,664	$ 1,290	$ 346,994	$ 33,239	$	$ 980,454	(11,179,504)	$ (141,873)	$ 1,22
ehensive income (loss):									
nings						355,431			35
omprehensive income									
n currency translation									
nent, net of taxes ($2,038)				24,892					2
zed gain on derivatives,									
axes ($3,570)				7,074					
d benefit obligation, net of									
$140)				(753)					
ehensive income									38
vidends						(39,254)			(3
y stock acquired							(2,116,975)	(59,169)	(5

e of stock under incentive									
rchase plans			(16,593)				2,603,880	27,442	1
e of restricted stock			(2,876)				206,482	2,876	
based compensation			12,564				(8,166)	(65)	1
nefits from stock plans			16,894						1
e, August 31, 2007	129,060,664	$ 1,290	$ 356,983	$ 64,452	$	$ 1,296,631	(10,494,283)	$ (170,789)	$ 1,54
adjustment						(4,994)			
ehensive income (loss):									
nings						231,966			23
omprehensive income									
currency translation									
nent, net of taxes ($5,179)				57,245					5
zed loss on derivatives,									
axes ($1,743)				(7,866)					
d benefit obligation, net of									
366)				(1,050)					
ehensive income									28
vidends						(52,061)			(5
y stock acquired							(6,212,238)	(172,312)	(17
e of stock under incentive									
rchase plans			(11,921)				1,277,417	20,831	
e of restricted stock			(3,315)				163,770	3,315	
based compensation			19,184				(18,178)	(188)	1
nefits from stock plans			10,982						1
e, August 31, 2008	129,060,664	$ 1,290	$ 371,913	$ 112,781	$	$ 1,471,542	(15,283,512)	$ (319,143)	$ 1,63

See notes to consolidated financial statements.

Commercial Metals Company and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations The Company recycles, manufactures, and markets steel and metal products and related materials. Its domestic recycling facilities, mills, fabrication facilities, and markets are primarily located in the Sunbelt from the mid-Atlantic area through the West. Additionally, the Company operates steel minimills in Poland and Croatia, fabrication shops in Poland and Germany and processing facilities in Australia. Through its global marketing offices, the Company markets and distributes steel and nonferrous metal products and other industrial products worldwide. See Note 14, Business Segments.

Consolidation The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances are eliminated.

Investments in 20% to 50% owned affiliates are accounted for on the equity method. All investments under 20% are accounted for under the cost method.

On March 2, 2007, the Company purchased all of the minority shares of CMC Zawiercie (CMCZ) owned by the Polish government, representing 26.4% of the total CMCZ shares. During 2008, the Company acquired substantially all of the remaining outstanding minority shares of CMCZ and now owns 100% of CMCZ. The accounts of CMCZ are consolidated in the financial statements for 2008, 2007 and 2006. See Note 2, Acquisitions.

Revenue Recognition Sales are recognized when title passes to the customer either when goods are shipped or when they are received based upon the terms of the sale, there is persuasive evidence of an agreement, the price is fixed or determinable and collectibility is reasonably assured. When the Company estimates that a contract with a customer will result in a loss, the entire loss is accrued as soon as it is probable and estimable. The Company accounts for large fabrication projects in accordance with Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts.*

Cash and Cash Equivalents The Company considers temporary investments that are short term (with original maturities of three months or less) and highly liquid to be cash equivalents.

Inventories Inventories are stated at the lower of cost or market. Inventory cost for most domestic inventories is determined by the last-in, first-out (LIFO) method; cost of international and remaining inventories is determined by the first-in, first-out (FIFO) method.

Elements of cost in finished goods inventory in addition to the cost of material include depreciation, amortization, utilities, consumable production supplies, maintenance, production, wages and transportation costs. Additionally, the costs of departments that support production including materials management and quality control, are allocated to inventory.

Property, Plant and Equipment Property, plant and equipment are recorded at cost and are depreciated on a straight-line basis over the estimated useful lives of the assets. Provision for amortization of leasehold improvements are made at annual rates based upon the lesser of the estimated useful lives of the assets or terms of the leases. At August 31, 2008, the useful lives used for depreciation and amortization were as follows:

Buildings	7 to 40 years
Land improvements	3 to 25 years
Leasehold improvements	3 to 15 years
Equipment	2 to 25 years

The Company evaluates the carrying value of property, plant and equipment whenever a change in circumstances indicates that the carrying value may not be recoverable from the undiscounted future cash flows from operations. If an impairment exists, the net book values are reduced to fair values as warranted. Major maintenance is expensed as incurred.

Table of Contents

Intangible Assets The following intangible assets subject to amortization are included within other assets on the consolidated balance sheets as of August 31:

	2008			2007		
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Customer base	$55,271	$ 5,036	$50,235	$12,235	$ 2,932	$ 9,303
Non-competition agreements	12,371	4,343	8,028	7,717	2,952	4,765
Favorable land leases	7,325	388	6,937	5,277	242	5,035
Brand name	5,467	229	5,238	3,863	3,715	148
Production backlog	2,815	1,023	1,792	3,285	1,919	1,366
Other	553	134	419	553	49	504
Total	$83,802	$11,153	$72,649	$32,930	$11,809	$21,121

Excluding goodwill, there are no other significant intangible assets with indefinite lives. Goodwill represents the difference between the purchase price of acquired businesses and the fair value of their net assets. The Company has elected to test annually for goodwill impairment in the fourth quarter of the fiscal year or if a triggering event occurs. Amortization expense for intangible assets for the years ended August 31, 2008, 2007, and 2006 was $8.3 million, $7.1 million and $2.9 million, respectively. At August 31, 2008, the weighted average remaining useful lives of these intangible assets, excluding the favorable land leases in Poland, was six years. The weighted average lives of the favorable land leases were 81 years. Estimated amounts of amortization expense for the next five years are as follows:

Year	(in thousands)
2009	$13,725
2010	11,585
2011	10,981
2012	9,420
2013	7,580

Environmental Costs The Company accrues liabilities for environmental investigation and remediation costs when it is both probable and the amount can be reasonably estimated. Environmental costs are based upon estimates regarding the sites for which the Company will be responsible, the scope and cost of work to be performed at each site, the portion of costs that will be shared with other parties and the timing of remediation. Where timing and amounts cannot be reasonably determined, a range is estimated and the lower end of the range is recognized.

Stock-Based Compensation The Company recognizes share-based compensation in accordance with SFAS No. 123 (R), *Share-Based Payments* (SFAS 123 (R)), which requires compensation cost relating to share-based transactions be recognized at fair value in financial statements. The Black-Scholes pricing model was used to calculate total compensation cost which is amortized on a straight-line basis over the vesting period of issued awards.

The Company recognized share-based compensation expense of $19.0 million ($0.11 per diluted share), $12.5 million ($0.07 per diluted share) and $9.5 million ($0.05 per diluted share) as a component of selling, general and administrative expenses for the twelve months ended August 31, 2008, 2007 and 2006, respectively. At August 31, 2008, the Company had $19.2 million of total unrecognized pre-tax compensation cost related to non-vested share-based compensation arrangements. This cost is expected to be recognized over the next 34 months.

The following weighted average assumptions were required for grants in the years ended August 31:

	2008	2007	2006
Risk-free interest rate	2.93%	4.98%	4.79%
Expected life	4.38years	4.58years	4.57years
Expected volatility	0.433	0.341	0.328
Expected dividend yield	1.1%	1.1%	1.1%

The weighted average per share fair value of the awards granted in 2008, 2007 and 2006 was $12.58, $11.28, and $7.78, respectively.

See Note 9, Capital Stock, for share information on options and SARs at August 31, 2008.

Accounts Payable Documentary Letters of Credit In order to facilitate certain trade transactions, the Company utilizes documentary letters of credit to provide assurance of payment to its suppliers. These letters of credit may be for prompt payment or for payment at a future date conditional upon the bank finding the documentation presented to be in strict compliance with all terms and conditions of the letter of credit. The banks issue these letters of credit under informal, uncommitted lines of credit which are in addition to the Company s contractually committed revolving credit agreement. In some cases, if the Company s suppliers choose to discount the future dated obligation, the Company may pay the discount cost.

Income Taxes The Company and its U.S. subsidiaries file a consolidated federal income tax return, and federal income taxes are allocated to subsidiaries based upon their respective taxable income or loss. Deferred income taxes are provided for temporary differences between financial and tax reporting. The principal differences are described in Note 8, Income Taxes. Benefits from tax credits are reflected currently in earnings. The Company provides for taxes on unremitted earnings of foreign subsidiaries, except for CMCZ, CMC Sisak (CMCS) and its operations in Australia, which it considers to be permanently invested.

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), on September 1, 2007. In accordance with FIN 48, the Company records income tax positions based on a more likely than not threshold that the tax positions will be sustained on examination by the taxing authorities having full knowledge of all relevant information.

Foreign Currencies The functional currency of most of the Company s European marketing and distribution operations is the euro. The functional currencies of the Company s Australian, United Kingdom, CMCZ, CMCS, and certain Chinese, Singaporean and Mexican operations are the local currencies. The remaining international subsidiaries functional currency is the United States dollar. Translation adjustments are reported as a component of accumulated other comprehensive income (loss). Transaction gains (losses) from transactions denominated in currencies other than the functional currencies were $4.4 million, $(0.9) million and $(0.8) million for the years ended August 31, 2008, 2007 and 2006, respectively.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make significant estimates regarding assets and liabilities and associated revenues and expenses. Management believes these estimates to be reasonable; however, actual results may vary.

Derivatives The Company records derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses from the changes in the values of the derivatives are recorded in the statement of earnings, or are deferred if they are designated and are highly effective in achieving offsetting changes in fair values or cash flows of the hedged items during the term of the hedge.

Comprehensive Income (Loss) The Company reports comprehensive income (loss) in its consolidated statement of stockholders equity. Comprehensive income (loss) consists of net earnings plus gains and losses affecting stockholders equity that, under generally accepted accounting principles, are excluded from net earnings, such as gains and losses related to certain derivative instruments, defined benefit plan obligations and translation effect of foreign currency assets and liabilities net of tax. Accumulated other comprehensive income (loss), net of taxes, is comprised of the following:

(in thousands)	2008	2007
Foreign currency translation adjustment	$ 120,667	$ 63,422
Unrealized gain (loss) on derivatives	(6,083)	1,783
Defined benefit obligations	(1,803)	$ (753)
Total	$ 112,781	$ 64,452

Recent Accounting Pronouncements In September 2006, the FASB has issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosure about fair value measurements. The Company is required to adopt the provisions of this statement in the first quarter of fiscal 2009. Management is reviewing the potential effects of this statement; however, it does not expect the adoption of SFAS 157 to have a material impact on the Company s consolidated financial statements.

In February 2007, the FASB has issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities* (SFAS 159), which permits entities to choose to measure certain financial assets and liabilities at fair value. The Company is required to adopt the provisions of this statement in the first quarter of fiscal 2009. Management is reviewing the potential effects of this statement; however, it does not expect the adoption of SFAS 159 to have a material impact on the Company s consolidated financial statements.

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

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

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

In June 2008, the FASB issued FSP No. Emerging Issues Task Force (EITF) 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities* (FSP 03-6-1). FSP 03-6-1 clarifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are to be included in the computation of earnings per share under the two-class method described in SFAS No. 128, *Earnings Per Share*. FSP 03-6-1 is effective for the Company s fiscal year 2010. The Company is still in the process of evaluating the impact, if any, this FSP 03-6-1 will have on the Company s consolidated financial statements.

NOTE 2. ACQUISITIONS

2008

During the year ended August 31, 2008, the Company acquired the following businesses:

On September 19, 2007, the Company acquired all of the outstanding shares of Valjaonica Cijevi Sisak (VCS) from the Croatian Privatization Fund and Croatian government. VCS s name has been changed to CMC Sisak d.o.o. (CMCS). CMCS is an electric arc furnace based steel pipe manufacturer located in Sisak, Croatia with annual capacity estimated of 336,000 short tons.

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

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

On April 29, 2008, the Company acquired the operating assets of Rebar Services and Supply Company of Fort Worth, Texas. The acquired assets will operate under the new name of CMC Rebar, as part of CMC Americas Fabrication and Distribution Segment.

On June 5, 2008, the Company s subsidiary, CMC Poland, completed the acquisition of substantially all the outstanding shares of PHP NIKE S.A. (PHP Nike). PHP Nike is a producer of welded steel meshes, cold rolled wire rod and cold rolled rebar in Poland with annual production capacity of 100,000 short tons.

On July 1, 2008, the Company completed the acquisition of substantially all of the operating assets of ABC Coating Companies and affiliates (ABC Coating). ABC Coating is involved in rebar fabrication and epoxy coated reinforcing bar servicing the Southwest, Midwest and Southeast U.S. with an annual capacity of 150,000 short tons. ABC Coating will be included as part of CMC Americas Fabrication and Distribution segment.

On August 29, 2008, the Company completed the acquisition of substantially all of the operating assets of Reinforcing Post-Tensioning Services, Inc. and affiliates (RPS). RPS is a fabricator and installer of concrete reinforcing steel, post-tensioning cable and related products for commercial and public construction projects with an annual capacity of approximately 150,000 tons. RPS will be included as part of CMC Americas Fabrication and Distribution segment.

These acquisitions are expected to strengthen the Company s marketing position in the respective regions and product lines. The total purchase price of $231.5 million ($228.4 million in cash and $3.1 million in notes payable) for the acquisitions in 2008 was allocated to the acquired assets and assumed liabilities based on estimates of their respective fair values. The Company also has committed to spend not less than $38 million over five years in capital expenditures for CMCS and increase working capital by approximately $39 million. The following is a summary of the allocation of the total purchase price as of the date of the respective acquisitions, subject to change following management s final evaluation of the fair value assumptions:

(in thousands)	Total
Accounts receivable	$ 20,415
Inventories	78,087
Other current assets	7,589
Property, plant and equipment	112,077
Goodwill	53,405
Intangible assets	49,047
Other assets	10,294
Liabilities	(99,377)
Net assets acquired	$231,537

The intangible assets acquired include customer base, trade name and non-compete agreements which will be amortized between four and eight years and backlog, which will be amortized over 12 months.

The pro forma effect of the acquisitions on consolidated net earnings would not have been materially different than reported.

2007

During the year ended August 31, 2007, the Company acquired the following businesses:

On August 24, 2007, the Company completed the acquisition of substantially all of the operating assets of Mayfield Salvage, Inc., a scrap recycling business located in Alexander City, Alabama.

On August 15, 2007, the Company completed the acquisition of substantially all the operating assets of Conesco, Inc., with facilities in Salt Lake City, Utah and Boise, Idaho. Conesco, Inc. is a supplier of concrete equipment, forms and accessories.

On April 17, 2007, the Company completed the acquisition of substantially all the operating assets of the related companies consisting of Nicholas J. Bouras, Inc., United Steel Deck, Inc., The New Columbia Joist Company, and ABA Trucking Corporation. The acquisition establishes CMC as a manufacturer of steel deck.

On January 4, 2007, the Company completed the acquisition of the operating assets and inventory of Bruhler Stahlhandel GmbH steel fabrication business in Rosslau/Saxony-Anhalt in eastern Germany. The acquisition was made by CMC s subsidiary Commercial Metals Deutschland GmbH.

Table of Contents

These acquisitions are expected to strengthen the Company s marketing position in the respective regions and product lines. The total purchase price of $165.0 million ($164.0 million in cash and $1.0 million in notes payable) for the acquisitions in 2007 was allocated to the acquired assets and assumed liabilities based on estimates of their respective fair values. The following is a summary of the allocation of the total purchase price as of the date of the respective acquisitions:

(in thousands)	Total
Inventories	$ 88,315
Other current assets	10
Property, plant and equipment	64,943
Goodwill	1,959
Intangible assets	10,991
Other assets	1,556
Liabilities	(2,812)
Net assets acquired	$164,962

The intangible assets acquired include customer base, trade name and non-compete agreements which will be amortized over five years and a backlog, which will be amortized over nine months.

The pro forma effect of the acquisitions on consolidated net earnings would not have been materially different than reported.

On March 2, 2007, the Company purchased all of the shares of CMCZ owned by the Polish Ministry of State Treasury for approximately $60 million. The shares acquired represent 26.4% of the total CMCZ shares outstanding. The Company intends to redeem the shares and with this purchase and subsequent redemption, CMC holds approximately 99.8% of the outstanding shares of CMCZ.

2006

During the year ended August 31, 2006, the Company acquired the following businesses:

On August 8, 2006, the Company acquired substantially all of the operating assets of Concrete Formtek Services, Inc. (CFS), located in Riverside, California. CFS specializes in the rental of forming and shoring equipment to the California construction market.

On July 17, 2006, the Company acquired substantially all of the operating assets of Cherokee Supply, with facilities in Tulsa, Oklahoma and Little Rock, Arkansas. Cherokee Supply specializes in highway and commercial construction-related products supply.

On June 7, 2006, the Company purchased substantially all of the operating assets of Yonack Iron & Metal Co. and related companies, which operate scrap and metal processing facilities in Dallas and Forney, Texas; Stroud, Oklahoma and Lonoke, Arkansas and a plastic scrap recycling facility in Grand Prairie, Texas.

On March 6, 2006, the Company acquired 100% of the shares of Southmet Pty Ltd, a plate and long products processor, in Adelaide, Australia.

On March 1, 2006, the Company acquired substantially all of the operating assets of Brost Forming Supply, Inc., with facilities in Tucson and Phoenix, Arizona. Brost Forming Supply, Inc. specializes in concrete framework, tilt-up and concrete-related products.

On November 14, 2005, the Company acquired substantially all of the operating assets of Hall-Hodges Company, a reinforcing steel fabricator in Norfolk, Virginia.

These acquisitions are expected to strengthen the Company s marketing position in the respective regions and product lines. The total purchase price of $46.0 million ($44.4 million in cash and $1.6 million in notes payable) for these acquisitions was allocated to the acquired assets and assumed liabilities based on estimates of their respective fair values. The following is a summary of the allocation of the total purchase price as of the date of the respective acquisitions:

(in thousands)	Total
Accounts receivable	$ 4,255
Inventories	13,895
Other current assets	125
Property, plant and equipment	24,297
Intangible assets	4,857
Goodwill	5,149
Other assets	36
Liabilities	(6,643)
Net assets acquired	$45,971

The intangible assets acquired include customer base, trade name and non-compete agreements, which will be amortized over five years and a backlog, which will be amortized over 12 months.

The pro forma effect of these acquisitions on consolidated net earnings would not have materially changed reported net earnings.

NOTE 3. SALES OF ACCOUNTS RECEIVABLE

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

The Company accounts for its transfers of receivables to CMCRV together with CMCRV s sales of undivided interests in these receivables to the financial institutions as sales in accordance with SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. At the time an undivided interest in the pool of receivables is sold, the amount is removed from the consolidated balance sheet and the proceeds from the sale are reflected as cash provided by operating activities.

At August 31, 2008 and 2007, uncollected accounts receivable of $420 million and $378 million, respectively, had been sold to CMCRV. The Company s undivided interest in these receivables (representing the Company s retained interest) was 100% because the Company had not sold any receivables to the financial institutional buyers that were uncollected at August 31, 2008 and 2007. The sale of receivables to institutional buyers provides the Company with added financial flexibility, if needed, to fund the Company s ongoing operations. The average monthly amounts of undivided interests owned by the financial institutional buyers were $8.3 million, $6.2 million and $0.8 million for the years ended August 31, 2008, 2007 and 2006, respectively. The carrying amount of the Company s retained interest in the receivables approximated fair value due to the short-term nature of the collection period. The retained interest reflects 100% of any allowance for collection losses on the entire receivables pool. No other material assumptions are made in determining the fair value of the retained interest. This retained interest is subordinate to, and provides credit enhancement for, the financial institution buyers ownership interest in CMCRV s receivables, and is available to the financial institution buyers to pay any fees or expenses due to them and to absorb all credit losses incurred on any of the receivables. The Company is responsible for servicing the entire pool of receivables, however, no servicing asset or liability is recorded as these receivables are collected in the normal course of business and the collection of receivables related to any sales to third party institutional buyers are normally short term in nature. This U.S. securitization program contains certain cross-default provisions whereby a termination event could occur if the Company defaulted under one of its credit arrangements.

Table of Contents

In addition to the securitization program described above, the Company s international subsidiaries in Australia, Europe, Poland and a domestic subsidiary periodically sell accounts receivable without recourse. These arrangements constitute true sales and, once the accounts are sold, they are no longer available to satisfy the Company s creditors in the event of bankruptcy. Uncollected accounts receivable sold under these international arrangements and removed from the consolidated balance sheets were $222.9 million and $151.7 million at August 31, 2008 and 2007, respectively. The average monthly amounts of international accounts receivable sold were $206.8 million, $99.0 million and $61.8 million for the years ended August 31, 2008, 2007 and 2006, respectively. The Company s Australian subsidiary entered into an agreement with a financial institution to periodically sell certain trade accounts receivable up to a maximum of AUD 97 million ($83 million). This Australian program contains covenants in which our subsidiary must meet certain coverage and tangible net worth levels, as defined. At August 31, 2008, our Australian subsidiary was in compliance with these covenants.

Discounts (losses) on domestic and international sales of accounts receivable were $11.1 million, $5.6 million and $3.2 million for the years ended August 31, 2008, 2007 and 2006, respectively. These losses primarily represented the costs of funds and were included in selling, general and administrative expenses.

NOTE 4. INVENTORIES

Before deduction of LIFO method inventory reserves of $562.3 million and $240.5 million at August 31, 2008 and 2007, respectively, inventories valued under the FIFO method, approximated market value.

At August 31, 2008 and 2007, 45% and 55%, respectively, of total inventories were valued at LIFO. The remainder of inventories, valued at FIFO, consisted mainly of material dedicated to CMCZ and certain marketing and distribution businesses.

The majority of the Company s inventories are in the form of finished goods, with minimal work in process. Approximately $104.5 million and $66.4 million were in raw materials at August 31, 2008 and 2007, respectively.

During 2008 and 2007, inventory quantities in certain LIFO pools were reduced. This reduction resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of current purchases. The effect for 2008 decreased cost of goods sold by approximately $8.4 million and increased net earnings by approximately $5.4 million or $0.05 per share. The effect for 2007 decreased cost of goods sold by approximately $12.9 million and increased net earnings by approximately $8.4 million or $0.07 per share.

NOTE 5. DISCONTINUED OPERATIONS AND IMPAIRMENTS

On August 30, 2007, the Company s Board approved a plan to sell a division (the Division) which is involved with the buying, selling and distribution of nonferrous metals, namely copper, aluminum and stainless steel semifinished products. The Company expected the sale to be completed in 2008, however, circumstances changed during the year and the Division was not sold. The Company expects the majority of product lines of this Division to be sold and the remaining product lines to be absorbed by other divisions of the Company in 2009. As a result, the Division will continue to be presented as a discontinued operation in the consolidated statements of earnings.

The Company performed an impairment test of the Division at August 31, 2008 and determined the estimated fair value of the Division exceeded its carrying value. Accordingly, an impairment charge was not warranted at August 31, 2008.

The Division is in the International Fabrication and Distribution segment. Various financial information for the Division is as follows:

(in thousands)	2008	2007	2006
At August 31,			
Current assets	$ 83,048	$ 93,385	$101,951
Noncurrent assets	2,650	1,795	4,873
Current liabilities	31,258	34,889	49,435
Noncurrent liabilities	580	874	935
Fiscal Year			

Revenue	337,178	422,136	343,772
Earnings (loss) before taxes	1,706	(4,827)	(10,011)

Table of Contents

Asset impairment charges relating to other long-lived assets were not material for 2008 and 2006. The Company recorded asset impairment charges of $3.4 million during 2007.

NOTE 6. CREDIT ARRANGEMENTS

The Company s commercial paper program permits maximum borrowings of up to $400 million. The program s capacity is reduced by outstanding standby letters of credit which totaled $27.6 million as of August 31, 2008. It is the Company s policy to maintain contractual bank credit lines equal to 100% of the amount of the commercial paper program. The $400 million unsecured revolving credit agreement matures on May 23, 2010, and has a minimum interest coverage ratio requirement of two and one-half times and a maximum debt capitalization requirement of 60%. The agreement provides for interest based on LIBOR, Eurodollar or Bank of America s prime rate. The facility fee is 12.5 basis points per annum and no compensating balances are required. The Company was in compliance with these requirements at August 31, 2008. At August 31, 2008 and 2007, no borrowings were outstanding under the commercial paper program or the related revolving credit agreements.

The Company has numerous informal credit facilities available from domestic and international banks. No commitment fees or compensating balances are required under these credit facilities. These credit facilities are used in general to support import Letters of Credit (including accounts payable settled under bankers acceptances as described in Note 1. Summary of Significant Accounting Polices), foreign exchange and short term advances which are priced on a cost of funds basis.

Long-term debt was as follows, as of August 31:

(in thousands)	2008	2007
6.75% notes due February 2009	$ 100,000	$100,000
5.625% notes due November 2013	200,000	200,000
6.50% notes due July 2017	400,000	400,000
7.35% notes due August 2018	500,000	
CMCZ term note due May 2013	77,037	
CMCP term note due August 2013	17,608	
Other, including equipment notes	9,215	11,543
	1,303,860	711,543
Less current maturities	106,327	4,726
	$1,197,533	$706,817

In July 2007, the Company issued $400 million in senior unsecured notes due in July 2017. These notes have a coupon rate of 6.50% per annum. In anticipation of the offering, the Company entered into hedge transactions which reduced the Company s effective interest rate cost on these notes to 6.45% per annum. At August 31, 2008 the Company was in compliance with all debt requirements for these notes. Interest on these notes is payable semiannually.

In August 2008, the Company issued $500 million in senior unsecured notes due in August 2018. These notes have a coupon rate of 7.35% per annum. In anticipation of the offering, the Company entered into hedge transactions which reduced the Company s effective interest rate cost on these notes to 7.29% per annum. The Company intends to use the net proceeds from the offering to repay its 6.75% notes due February 2009, to repay commercial paper including amounts incurred to fund the purchase price of recently completed acquisitions, to fund the purchase price of future acquisitions and for general corporate purposes. At August 31, 2008 the Company was in compliance with all debt requirements for these notes. Interest on these notes is payable semiannually.

CMCZ has a revolving credit facility with maximum borrowings of PLN 100 million ($44.0 million) bearing interest at the Warsaw Interbank Offered Rate (WIBOR) plus 0.5% and collateralized by CMCZ s accounts receivable. This facility was extended to June 3, 2009. At August 31, 2008, no amounts were outstanding under this facility. The revolving credit facility contains certain financial covenants for CMCZ. CMCZ was in compliance with these covenants at August 31, 2008. There are no guarantees by the Company or any of its subsidiaries for any of CMCZ s debt.

On May 20, 2008, CMCZ signed a five year term note of PLN 400 million ($176.1 million) with a group of four banks. At August 31, 2008, the notes had an outstanding balance of PLN 175 million ($77.0 million). The term note is used to finance operating expenses of CMCZ and the development of a rolling mill. The note has scheduled principal and interest payments in 15 equal quarterly installments beginning in November 2009. Interest is accrued at WIBOR plus 0.79%. The weighted average rate at August 31, 2008 was 7.1%. The term note contains certain financial covenants for CMCZ. CMCZ was in compliance with these covenants at August 31, 2008. There are no guarantees by the Company or any of its subsidiaries for any of CMCZ s debt.

CMC Poland (CMCP), a wholly-owned subsidiary of the Company, owns and operates equipment at the CMCZ mill site. In connection with the equipment purchase, CMCP issued equipment notes under a term agreement dated September 2005 with PLN 13.9 million ($6.1 million) outstanding at August 31, 2008. Installment payments under these notes are due through 2010. Interest rates are variable based on the Poland Monetary Policy Council s rediscount rate, plus an applicable margin. The weighted average rate at August 31, 2008 was 6.4%. The notes are secured by the shredder equipment.

In August 2008, CMCP signed a five year term note of PLN 80 million ($35.2 million) with two banks. At August 31, 2008, the notes had an outstanding balance of PLN 40 million ($17.6 million). The note has scheduled principal and interest payments in 17 equal quarterly installments beginning in August 2009. The interest rate is variable based on the WIBOR, plus an applicable margin. The weighted average rate at August 31, 2008 was 7.5%. The term note is used to finance operating expenses and acquisitions. The term note contains certain financial covenants for CMCP. CMCP was in compliance with these covenants at August 31, 2008. The term note is guaranteed by Commercial Metals International (CMI).

In September 2007, CMCS issued current notes to banks with maximum borrowings of HRK 140 million ($28.7 million) due on September 5, 2008. At August 31, 2008, the notes had an outstanding balance of HRK 137.7 million ($28.2 million). The interest rate at August 31, 2008 was 6.02%. These notes were extended to December 5, 2008. The notes are not collateralized and do not contain any financial covenants. The notes are guaranteed by CMI.

The scheduled maturities of the Company s long-term debt are as follows:

(in thousands)	
2009	$ 106,327
2010	28,457
2011	24,788
2012	24,694
2013 and thereafter	1,119,594
Total	$ 1,303,860

Interest of $6.9 million, $3.2 million, and $2.3 million was capitalized in the cost of property, plant and equipment constructed in 2008, 2007 and 2006, respectively. Interest of $63.3 million, $37.2 million, and $29.9 million were paid in 2008, 2007 and 2006, respectively.

NOTE 7. FINANCIAL INSTRUMENTS, MARKET AND CREDIT RISK

Due to near-term maturities, allowances for collection losses, investment grade ratings and security provided, the following financial instruments carrying amounts are considered equivalent to fair value:

Cash and cash equivalents

Accounts receivable/payable

Trade financing arrangements

Notes payable CMCZ and CMCP

6.75% notes due February 2009

The Company s long-term debt is predominantly publicly held. Fair value was determined by indicated market values:

(in thousands)	August 31, 2008	2007
Long-Term Debt:		
Carrying amount	$1,197,533	$706,817
Estimated fair value	1,177,442	725,738

The Company maintains both corporate and divisional credit departments. Credit limits are set for customers. Credit insurance is used for some of the Company s divisions. Letters of credit issued or confirmed by financial institutions are obtained to further ensure prompt payment in accordance with terms of sale; generally, collateral is not required. The Company s accounts receivable were secured by credit insurance and/or letters of credit in the amount of $824 million and $516 million at August 31, 2008 and 2007, respectively.

In the normal course of its marketing activities, the Company transacts business with substantially all sectors of the metal industry. Customers are internationally dispersed, cover the spectrum of manufacturing and distribution, deal with various types and grades of metal and have a variety of end markets in which they sell. The Company s historical experience in collection of accounts receivable falls within the recorded allowances. Due to these factors, no additional credit risk, beyond amounts provided for collection losses, is believed inherent in the Company s accounts receivable.

The Company s worldwide operations and product lines expose it to risks from fluctuations in foreign currency exchange rates, natural gas and metals commodity prices. The objective of the Company s risk management program is to mitigate these risks using futures or forward contracts (derivative instruments). The Company enters into metal commodity forward contracts to mitigate the risk of unanticipated declines in gross margin due to the volatility of the commodities prices, enters into natural gas forward contracts to mitigate the risk of unanticipated increase of operating cost due to the volatility of natural gas prices and enters into foreign currency forward contracts which match the expected settlements for purchases and sales denominated in foreign currencies. Also, when its sales commitments to customers include a fixed price freight component, the Company occasionally enters into freight forward contracts to minimize the effect of the volatility of ocean freight rates. The Company designates only those contracts which closely match the terms of the underlying transaction as hedges for accounting purposes. These hedges resulted in substantially no ineffectiveness in the statements of earnings, and there were no components excluded from the assessment of hedge effectiveness for the years ended August 31, 2008, 2007 and 2006.

Certain of the foreign currency and commodity, and all of the natural gas and freight contracts were not designated as hedges for accounting purposes, although management believes they are essential economic hedges. All of the instruments are highly liquid and none are entered into for trading purposes.

The following table shows the impact on the consolidated statements of earnings of the changes in fair value of these economic hedges included in determining net earnings (in thousands) for the years ended August 31. Settlements are recorded within the same line item as the related unrealized gains (losses).

Earnings (expense)	2008	2007	2006
Net sales (foreign currency instruments)	$1,411	$ 273	$ (30)
Cost of goods sold (commodity instruments)	4,112	(1,062)	2,261

The Company s derivative instruments were recorded as follows on the consolidated balance sheets (in thousands) at August 31:

	2008	2007
Derivative assets (other current assets)	$28,379	$7,484

Derivative liabilities (accrued expenses and other payables)	28,447	4,878

Table of Contents

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

	2008	2007	2006
Change in market value (net of taxes)	$ (5,777)	$ 8,964	$ (4,689)
(Gain) reclassified into net earnings, net	(2,089)	(1,890)	(70)
Other comprehensive income (loss)-unrealized gain (loss) on derivatives	$ (7,866)	$ 7,074	$ (4,759)

During the twelve months following August 31, 2008, $0.1 million in gains related to commodity hedges and capital expenditures are anticipated to be reclassified into net earnings as the related transactions mature and the assets are placed into service, respectively. Also, an additional $0.5 million in gains will be reclassified as interest income related to interest rate locks.

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

NOTE 8. INCOME TAXES

The provisions for income taxes include the following:

	Year ended August 31,		
(in thousands)	2008	2007	2006
Current:			
United States	$ 66,923	$137,566	$178,259
Foreign	44,267	32,244	22,875
State and local	17,332	13,583	18,960
Current taxes	128,522	183,393	220,094
Deferred	(23,715)	(12,355)	(32,157)
Total taxes on income	$104,807	$171,038	$187,937
Taxes (benefit) on discontinued operations	921	(1,731)	(3,280)
Taxes for continuing operations	$103,886	$172,769	$191,217

Taxes of $155.4 million, $185.3 million and $204.6 million were paid in 2008, 2007 and 2006, respectively.

Deferred taxes arise from temporary differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements. The sources and deferred tax liabilities (assets) associated with these differences are:

	August 31,	
(in thousands)	2008	2007
Deferred tax assets:		
Deferred compensation	$ 51,454	$ 44,723
Net operating losses (less allowances of $6,117 and $2,977)	15,453	3,046
Reserves and other accrued expenses	27,546	9,139
Impaired assets	2,111	2,741
Inventory	5,934	

Allowance for doubtful accounts	5,752	5,501
Other	3,914	3,585
Deferred tax assets	$112,164	$ 68,735
Deferred tax liabilities:		
Deferred revenue	$ 2,434	$ 2,954
Tax on difference between tax and book depreciation	53,413	42,827
Unremitted earnings of non-U.S. subsidiaries	31,174	28,565
Inventory		8,742
Other	8,533	3,628
Deferred tax liabilities	$ 95,554	$ 86,716
Net deferred tax asset (liability)	$ 16,610	$(17,981)

Amounts recognized in the consolidated balance sheets consist of:

(in thousands)	August 31, 2008	2007
Deferred tax asset current	$32,170	$ 6,353
Deferred tax asset long-term	34,709	12,014
Deferred liability current	109	4,371
Deferred tax liability long-term	50,160	31,977
Net deferred tax asset (liability)	$16,610	$(17,981)

The Company uses substantially the same depreciable lives for tax and book purposes. Changes in deferred taxes relating to depreciation are mainly attributable to differences in the basis of underlying assets recorded under the purchase method of accounting. The Company provides United States taxes on unremitted foreign earnings except for its operations in Poland, Croatia, and Australia, which it considers to be permanently invested. The amount of these permanently invested earnings at August 31, 2008 was $382 million. In the event that the Company repatriated these earnings, incremental U.S. taxes may be incurred. The Company has determined that it is not practicable to determine the amount of these incremental U.S. taxes. Net operating losses consist of $5.4 million of state net operating losses that expire during the tax years ending from 2010 to 2028 and foreign net operating losses of $16.2 million that expire during the tax years from 2009 to 2014. These assets will be reduced as tax expense is recognized in future periods.

Reconciliations of the United States statutory rates to the effective rates are as follows:

	Year ended August 31, 2008	2007	2006
Statutory rate	35.0%	35.0%	35.0%
State and local taxes	2.5	1.6	2.5
Manufacturing deduction	(1.0)	(0.6)	(0.7)
Extraterritorial income deduction		(0.2)	(0.4)
Foreign rate differential	(5.7)	(4.1)	(1.5)
Tax repatriation charge (benefit)			(0.7)
Other	0.3	0.2	(0.3)
Effective tax rate	31.1%	31.9%	33.9%

As a result of the implementation of FIN 48, the Company recognized an asset of $0.8 million and an increase to reserves of $5.8 million related to uncertain tax positions, including $1.6 million in interest and penalties, which were accounted for as a net reduction to the September 1, 2007 balance of retained earnings of $5 million. A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

	(in thousands)
Balance September 1, 2007	$4,994
Additions based on tax positions related to current year	523
Reductions for tax positions of prior years	(568)
Reductions due to settlements with taxing authorities	(652)
Reductions due to statute of limitations lapse	(74)

Balance August 31, 2008	$4,223

As of August 31, 2008, no additional tax positions had been identified. The current Company policy classifies any interest recognized on an underpayment of income taxes as interest expense and classifies any statutory penalties recognized on a tax position taken as selling, general and administrative expense and the balances at the end of a reporting period are recorded as part of the current or non-current reserve for uncertain income tax positions. If these tax positions were recognized, the impact on the effective tax rate would not be significant. The

Company does not expect the total amounts of unrecognized benefits to significantly increase or decrease within the next 12 months. During the current year, a decrease in the amount of $0.6 million of interest and penalties was recognized in the statement of earnings. As of August 31, 2008, the Company has accrued $0.6 million for the potential payment of interest and penalties.

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, the Company 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 2005 and forward
U.S. States 2004 and forward
Foreign 2001 and forward

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

NOTE 9. CAPITAL STOCK

On January 26, 2006, the shareholders of the Company approved an increase in the authorized shares of common stock from 100,000,000 to 200,000,000 shares. The shareholders also voted to change the par value of the Company s common stock from $5.00 to $0.01 per share. As a result, $322 million was transferred from common stock to additional paid-in capital.

On April 24, 2006, the Company declared a two-for-one stock split in the form of a 100% stock dividend on the Company s common stock payable May 22, 2006 to shareholders of record on May 8, 2006. The stock dividend resulted in the issuance of 64,530,332 additional shares of common stock and a transfer of $0.6 million from additional paid-in capital at the record date. All per share and weighted average share amounts in the accompanying consolidated financial statements have been restated to reflect the stock split.

During 2008 and 2007, the Company purchased 6,212,238 and 2,116,975 common shares for treasury, respectively. The Company s board of directors authorized the purchase of an additional 5,000,000 shares on November 5, 2007 and 10,000,000 shares on October 21, 2008 and the Company had remaining authorization to purchase 10,012,547 of its common stock.

Stock Purchase Plan Almost all U.S. resident employees with one year of service at the beginning of each calendar year may participate in the Company s employee stock purchase plan. Each eligible employee may purchase up to 400 shares annually. The Board of Directors establishes the purchase discount from the market price. The discount was 25% for each of the three years ended August 31, 2008, 2007 and 2006. Yearly activity of the stock purchase plan was as follows:

	2008	2007	2006
Shares subscribed	489,510	497,520	761,620
Price per share	$ 23.48	$ 21.86	$ 13.44
Shares purchased	441,770	704,220	1,316,720
Price per share	$ 21.69	$ 12.72	$ 7.97
Shares available	698,254		

The Company recorded compensation expense for this plan of $3.4 million, $3.2 million and $3.2 million in 2008, 2007 and 2006, respectively.

Stock Incentive Plans The 1996 Long-Term Incentive Plan (1996 Plan) was approved by shareholders in January 1997. Under the 1996 Plan, stock options, Stock Appreciation Rights (SARs), and restricted stock may be awarded to employees. The option price for both the stock options and the SARs is the fair market value of the Company s stock at the date of grant. The outstanding option awards under the 1996 Plan vest 50% after one year and 50% after two years from date of grant and will expire seven years after grant. The Company s Board of Directors voted to terminate the 1996 Plan effective August 31, 2006, except for awards then outstanding. As a result of this action, no additional shares are available for grants under this plan.

Table of Contents

The 2006 Long-Term Equity Incentive Plan (2006 Plan) was approved by shareholders on January 25, 2007. The 2006 Plan, which replaced the Company s terminated 1996 Plan, provides that 5,000,000 shares are reserved for future awards. During 2008, the Company issued 127,770 shares of restricted stock to employees and issued 1,062,670 SARs at a weighted average price of $35.37 per share (the exercise price equaled the closing price per share on the NYSE on the date of grant). These SARs and the restricted stock vest over a three-year period in increments of one-third.

In January 2000, stockholders approved the 1999 Non-Employee Director Stock Option Plan (1999 Plan) and authorized 800,000 shares to be made available for option grants to non-employee directors. The price of these options is the fair market value of the Company s stock at the date of the grant. The options granted vest 50% after one year and 50% after two years from the grant date. Under the 1999 Plan, any outside director could elect to receive all or part of fees otherwise payable in the form of a stock option. Options granted in lieu of fees are immediately vested. All options expire seven years from the date of grant. The 1999 Plan was amended with stockholder approval in January 2005 and 2007 in order to provide annual grants of either non-qualified options, restricted stock or restricted stock units to non-employee directors. This annual award can either be in the form of a nonqualified stock option grant for 14,000 shares or a restricted stock or unit award of 4,000 shares. On January 24, 2008, the Company issued an aggregate of 36,000 shares of restricted common stock to nine non-employee directors. Restricted stock awards vest over a two-year period. Prior to vesting, restricted stock award recipients receive an amount equivalent to any dividend declared on the Company s common stock.

Combined information for shares subject to options and SARs for the plans were as follows:

	Number	Weighted Average Exercise Price	Price Range Per Share
September 1, 2005			
Outstanding	10,748,258	$ 5.82	$ 2.74-13.58
Exercisable	7,959,758	4.54	2.74-13.58
Granted	639,030	24.53	21.81-24.71
Exercised	(3,834,740)	4.50	2.74 - 7.78
Forfeited	(67,200)	9.51	3.41-12.31
August 31, 2006			
Outstanding	7,485,348	$ 8.06	$ 2.75-24.71
Exercisable	6,178,200	5.90	2.75-13.58
Granted	1,403,520	34.28	31.75-34.28
Exercised	(2,380,238)	5.28	2.75-24.57
Forfeited	(27,722)	13.44	2.94-24.57
August 31, 2007			
Outstanding	6,480,908	$14.74	$ 2.94-34.28
Exercisable	4,333,089	7.65	2.94-24.71
Granted	1,062,670	35.37	32.82-35.38
Exercised	(1,247,477)	7.24	2.94-34.28
Forfeited	(74,695)	29.97	12.31-35.38
August 31, 2008			
Outstanding	6,221,406	$19.60	$ 3.64-35.38
Exercisable	4,057,115	11.96	3.64-34.28
Available for grant*	2,896,360		

* Includes shares available for options, SARs and restricted stock grants.

Table of Contents

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

	Outstanding				Exercisable		
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value
$ 3.64 - 3.78	679,092	1.4	$ 3.64		679,092	$ 3.64	
4.29 - 5.36	421,603	0.4	4.34		421,603	4.34	
7.53 - 7.78	1,428,192	2.5	7.77		1,428,192	7.77	
12.31 - 13.58	716,396	3.8	12.34		716,396	12.34	
21.81 - 24.71	562,096	4.7	24.52		361,359	24.52	
31.75 - 35.38	2,414,027	6.2	34.76		450,473	34.28	
$ 3.64 35.38	6,221,406	4.0	$19.60	$61,088,107	4,057,115	$11.96	$60,785,949

Information for restricted stock awards as of August 31, 2008 and 2007, and changes during each of the two years then ended:

	Shares	Weighted Average Grant - Date Fair Value
September 1, 2006	636,967	$ 17.86
Granted	206,482	32.93
Vested	(280,859)	16.72
Forfeited	(8,166)	18.27
August 31, 2007	554,424	$ 24.04
September 1, 2007	554,424	$ 24.04
Granted	163,770	32.90
Vested	(327,030)	20.42
Forfeited	(18,178)	24.30
August 31, 2008	372,986	$ 31.09

Preferred Stock Preferred stock has a par value of $1.00 a share, with 2,000,000 shares authorized. It may be issued in series, and the shares of each series shall have such rights and preferences as fixed by the Board of Directors when authorizing the issuance of that particular series. There are no shares of preferred stock outstanding.

Stockholder Rights Plan On July 28, 1999, the Company s Board of Directors adopted a stockholder rights plan pursuant to which stockholders were granted preferred stock rights (Rights) to purchase one one-thousandth of a share of the Company s Series A Preferred Stock for each share of common stock held. In connection with the adoption of such plan, the Company designated and reserved 100,000 shares of preferred stock as Series A Preferred Stock and declared a dividend of one Right on each outstanding share of the Company s common stock. Rights were distributed to stockholders of record as of August 9, 1999. The Rights Agreement provides that the number of Rights associated with each share of common stock shall be adjusted in the event of a stock split. After giving effect to subsequent stock splits, each share of common stock now carries with it one-eighth of a Right.

The Rights are represented by and traded with the Company s common stock. The Rights do not become exercisable or trade separately from the common stock unless at least one of the following conditions are met: a public announcement that a person has acquired 15% or more of the common stock of the Company or a tender or exchange offer is made for 15% or more of the common stock of the Company. Should either of these conditions be met and the Rights become exercisable, each Right will entitle the holder (other than the acquiring person or group) to buy one one-thousandth of a share of the Series A Preferred Stock at an exercise price of $150.00. Each fractional share of the Series A Preferred Stock will essentially be the economic equivalent of one share of common stock. Under certain circumstances, each Right would entitle its holder to purchase the Company s stock or shares of the acquirer s stock at a 50% discount. The Company s Board of Directors may choose to redeem the Rights (before they become exercisable) at $0.001 per Right. The Rights expire July 28, 2009.

NOTE 10. EMPLOYEES RETIREMENT PLANS

Substantially all employees in the U.S. are covered by a defined contribution profit sharing and savings plan. This tax qualified plan is maintained and contributions made in accordance with ERISA. The Company also provides certain eligible executives benefits pursuant to a nonqualified benefit restoration plan (BRP Plan) equal to amounts that would have been available under the tax qualified ERISA plans, save for limitations of ERISA, tax laws and regulations. Company expenses, which are discretionary, for these plans were $55.1 million, $70.8 million and $62.5 million for 2008, 2007 and 2006, respectively. These costs were recorded in selling, general and administrative expenses.

The deferred compensation liability under the BRP Plan was $93.0 million and $82.2 million at August 31, 2008 and 2007, respectively, and recorded in other long-term liabilities. Though under no obligation to fund the plan, the Company has segregated assets in a trust with a current value at August 31, 2008 and 2007 of $74 million and $77 million, respectively, recorded in other long-term assets. The net holding gain (loss) on these segregated assets was $(6.5) million and $8.2 million for the years ended August 31, 2008 and 2007, respectively.

A certain number of employees outside of the U.S. participate in defined contribution plans maintained in accordance with local regulations. Company expenses for these international plans were $4.3 million, $3.8 million and $2.8 million for the years ended August 31, 2008, 2007 and 2006, respectively.

The Company provides post retirement defined benefits to employees at certain divisions. In September 2006, the FASB issued statement No. 158, *Employers Accounting for Defined Benefit Pensions and Other Postretirement Plans (an amendment of FASB Statements No. 87, 88, 106, and 132R* (SFAS 158), which requires the Company to recognize the unfunded status of defined benefit plans as a liability with a corresponding reduction to accumulated other comprehensive income, net of taxes. On August 31, 2007, the Company adopted the provisions of SFAS 158 and recognized the $0.9 million unfunded status of defined benefit plans as a liability with a corresponding reduction of $0.8 million to accumulated other comprehensive income, net of taxes. During 2008, the Company recorded an additional liability of $1.5 million and a corresponding reduction to accumulated other comprehensive income, net of taxes of $1.1 million related to the unfunded status of the Company s defined benefit plans.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Minimum lease commitments payable by the Company and its consolidated subsidiaries for noncancelable operating leases in effect at August 31, 2008, are as follows:

(in thousands)	Equipment	Real Estate
2009	$15,587	$ 17,975
2010	13,554	15,807
2011	11,235	14,096
2012	8,521	10,913
2013 and thereafter	7,373	52,826
	$56,270	$111,617

Total rental expense was $63.7 million, $36.1 million and $24.9 million in 2008, 2007 and 2006, respectively.

Legal and Environmental Matters

In the ordinary course of conducting its business, the Company becomes involved in litigation, administrative proceedings and governmental investigations, including environmental matters.

On September 18, 2008, subsequent to the end of the Company s 2008 fiscal year, the Company was served with a class action antitrust lawsuit alleging violations of Section 1 of the Sherman Act, brought by Standard Iron Works of Scranton, Pennsylvania, against nine steel manufacturing companies, including Commercial Metals Company. The lawsuit, filed in the United States District Court for the Northern District of Illinois, alleges that the defendants conspired to fix, raise, maintain and stabilize the price at which steel products were sold in the United States by artificially restricting the supply of such steel products. The lawsuit, which purports to be brought on behalf of a class consisting of all purchasers of steel products directly from the defendants between January 1, 2005 and the present, seeks treble damages and costs, including reasonable attorney fees and pre- and post-judgment interest. Since the filing of this lawsuit, additional plaintiffs have filed class action lawsuits naming the same defendants and containing allegations substantially identical to those of the Standard Iron Works complaint. The Company believes that the lawsuits are entirely without merit and plans to aggressively defend the actions.

The Company has received notices from the U.S. Environmental Protection Agency (EPA) or equivalent state agency that it is considered a potentially responsible party (PRP) at thirteen 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 theses 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 August 31, 2008 and 2007, the Company had $2.2 million and $2.1 million accrued for cleanup and remediation costs in connection with eight of the thirteen CERCLA sites. The estimation process is based on currently available information, which is in many cases preliminary and incomplete. As a result, the Company is unable to reasonably estimate an amount relating to cleanup and remediation costs for five CERCLA sites. Total environmental liabilities, including CERCLA sites, were $14.7 million and $6.5 million, of which $6.8 million and $5.0 million were classified as other long-term liabilities, at August 31, 2008 and 2007. 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 provision has been made in the financial statements for the potential impact of these issues, and that the outcomes will not significantly impact the results of operations or the financial position of the Company, although they may have a material impact on earnings for a particular quarter.

Guarantees The Company has entered into guarantee agreements with certain banks in connection with credit facilities granted by the banks to various suppliers of the Company. The fair value of the guarantees are negligible. All of the guarantees listed in the table below reflect the Company s exposure as of August 31, 2008.

Origination Date	Guarantee With	Maximum Credit Facility	Maximum Company Exposure
May 2006	Bank	$15 million	$1.6 million
February 2007	Bank	80 million	5.3 million

NOTE 12. EARNINGS PER SHARE

In calculating earnings per share, there were no adjustments to net earnings to arrive at earnings for any years presented. The reconciliation of the denominators of the earnings per share calculations are as follows at August 31:

	2008	2007	2006
Shares outstanding for basic earnings per share	115,048,512	118,014,149	117,989,877
Effect of dilutive securities:			
Stock-based incentive/purchase plans	2,637,241	3,667,581	5,469,192
Shares outstanding for diluted earnings per share	117,685,753	121,681,730	123,459,069

All of the Company s outstanding stock options and restricted stock were dilutive at August 31, 2008, 2007 and 2006 based on the average share price of $32.55, $32.16 and $23.65, respectively. SARs with total share commitments of 2,414,027 and 637,673 were antidilutive at August 31, 2008 and 2006. All of the Company s SARs were dilutive at August 31, 2007. All stock options and SARs expire by 2015.

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

NOTE 13. ACCRUED EXPENSES AND OTHER PAYABLES

(in thousands)	August 31, 2008	2007

Salaries, bonuses and commissions	$198,000	$164,953
Other	87,664	56,958
Advance billings on contracts	60,918	46,365
Employees retirement plans	51,750	61,389
Freight	50,630	28,415
Contract losses	41,206	5,143
Derivative liability	28,447	4,934
Insurance	13,683	21,333
Interest	10,869	7,598
Environmental	7,894	1,482
Litigation accruals	6,828	6,666
Taxes other than income taxes	5,535	20,174
	$563,424	$425,410

NOTE 14. BUSINESS SEGMENTS

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

The Company structures the business into the following five segments: Americas Recycling, Americas Mills, Americas Fabrication and Distribution, International Mills and International Fabrication and Distribution.

The Americas Recycling segment consists of the scrap metal processing and sales operations primarily in Texas, Florida and the southern United States including the scrap processing facilities which directly support the Company s domestic steel mills. The Americas Mills segment includes the Company s domestic steel minimills and the copper tube minimill. The copper tube minimill is aggregated with the Company s steel minimills because it has similar economic characteristics. The Americas Fabrication and Distribution segment consists of the Company s rebar and joist and deck fabrication operations, fence post manufacturing plants, construction-related and other products facilities. Additionally, the Americas Fabrication and Distribution consists of the CMC Dallas Trading division which markets and distributes steel semi-finished long and flat products into the Americas from a diverse base of international and domestic sources. The International Mills segment includes the minimills in Poland and Croatia and subsidiaries in Poland which have been presented as a separate segment because the economic characteristics of their markets and the regulatory environment in which they operate are different from that of the Company s domestic minimills. International Fabrication and Distribution includes international operations for the sales, distribution and processing of both ferrous and nonferrous metals and other industrial products in addition to rebar fabrication operations in Europe. The domestic and international distribution operations consist only of physical transactions and not positions taken for speculation. Corporate contains expenses of the Company s corporate headquarters, expenses related to its deployment of SAP, and interest expense relating to its long-term public debt and commercial paper program.

The financial information presented for the International Fabrication and Distribution segment includes its copper, aluminum, and stainless steel import operating division. This division has been classified as a discontinued operation in the consolidated financial statements. Net sales of this division have been removed in the eliminations/discontinued operations column in the table below to reconcile net sales by segment to net sales in the consolidated financial statements. See Note 5 for more detailed information.

The Company uses adjusted operating profit to measure segment performance. Intersegment sales are generally priced at prevailing market prices. Certain corporate administrative expenses are allocated to segments based upon the nature of the expense. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

Table of Contents

The following is a summary of certain financial information by reportable segment (in thousands):

	Americas			International				
	Recycling	Mills	Fabrication and Distribution	Mills	Fabrication and Distribution	Corporate	Eliminations/ Discontinued Operations	Consolidated
2008								
Net sales-unaffiliated customers	$1,820,607	$1,387,290	$2,859,816	$ 970,923	$3,727,775	$ (1,855)	$ (337,178)	$10,427,378
Intersegment sales	369,112	578,980	14,778	184,748	53,141		(1,200,759)	
Net sales	2,189,719	1,966,270	2,874,594	1,155,671	3,780,916	(1,855)	(1,537,937)	10,427,378
Adjusted operating profit (loss)	145,751	207,756	(67,471)	96,838	124,338	(99,481)	133	407,864
Interest expense*	(5,426)	(10,329)	25,029	9,406	13,563	27,245		59,488
Capital expenditures	52,299	78,319	45,545	106,356	10,715	61,807		355,041
Depreciation and amortization	19,129	35,340	39,906	28,207	3,962	8,525		135,069
Goodwill	7,467		68,398	1,176	7,796			84,837
Total assets	435,008	630,612	1,447,767	634,027	1,167,020	431,937		4,746,371
2007								
Net sales-unaffiliated customers	$1,550,014	$1,144,869	$2,580,880	$ 737,066	$2,727,502	$ 10,821	$ (422,136)	$ 8,329,016
Intersegment sales	250,633	394,794	5,896	40,142	35,040		(726,505)	
Net sales	1,800,647	1,539,663	2,586,776	777,208	2,762,542	10,821	(1,148,641)	8,329,016
Adjusted operating profit (loss)	113,037	259,368	100,032	112,379	73,709	(71,971)	(7,627)	578,927
Interest expense*	(6,021)	(15,685)	27,413	1,140	14,418	15,992		37,257
Capital expenditures	26,023	79,027	33,433	30,325	5,844	31,610		206,262
Depreciation and amortization	16,425	32,332	29,089	25,390	2,659	1,410		107,305
Goodwill	7,467		28,484		1,892			37,843
Total assets	337,869	533,794	1,053,594	332,084	698,232	517,090		3,472,663
2006								
Net sales-unaffiliated customers	$1,259,264	$1,143,509	$2,325,043	$ 552,154	$2,271,329	$ 4,625	$ (343,772)	$ 7,212,152

Intersegment sales	243,500	414,711	2,754	19,096	43,199	19,684	(742,944)	
Net sales	1,502,764	1,558,220	2,327,797	571,250	2,314,528	24,309	(1,086,716)	7,212,152
Adjusted operating profit (loss)	124,879	267,746	110,076	53,093	55,377	(30,985)	7,068	587,254
Interest expense*	(3,364)	(7,262)	17,661	1,658	11,006	9,870		29,569
Capital expenditures	17,062	44,110	27,273	32,670	9,345	775		131,235
Depreciation and amortization	11,127	31,750	15,384	24,113	2,126	878		85,378
Goodwill	6,975		27,006		1,768			35,749
Total assets	325,780	471,604	963,105	313,678	614,536	210,165		2,898,868

* Includes intercompany interest expense (income) in the segments.

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

(in thousands)	Year ended August 31, 2008	2007	2006
Net earnings	$231,966	$355,431	$356,347
Minority interests	538	9,587	10,209
Income taxes	104,807	171,038	187,937
Interest expense	59,488	37,257	29,569
Discounts on sales of accounts receivable	11,065	5,614	3,192
Adjusted operating profit	$407,864	$578,927	$587,254
Adjusted operating profit (loss) from discontinued operations	2,949	(3,474)	(8,279)
Adjusted operating profit from continuing operations	$404,915	$582,401	$595,533

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

(in thousands)	Year ended August 31, 2008	2007	2006
Major product information:			
Steel products	$ 6,594,553	$5,274,686	$4,570,171
Industrial materials	1,247,907	773,859	808,590
Nonferrous scrap	1,006,602	1,106,669	891,468
Ferrous scrap	861,106	448,999	382,921
Construction materials	327,732	265,654	184,912
Nonferrous products	273,790	376,563	334,628
Other	115,688	82,586	39,462
Net sales*	$10,427,378	$8,329,016	$7,212,152
Geographic area:			
United States	$ 5,833,116	$4,932,097	$4,485,816
Europe	2,399,859	1,720,771	1,221,371
Asia	955,800	918,483	801,393
Australia/New Zealand	636,763	472,583	446,481
Other	601,840	285,082	257,091
Net sales*	$10,427,378	$8,329,016	$7,212,152

* Excludes a division classified as discontinued operations. See Note 5.

The following represents long-lived assets by geographic area:

	Year ended August 31,		
(in thousands)	2008	2007	2006
United States	$1,132,775	$ 825,393	$586,068
Europe	356,667	158,852	139,270
Australia/New Zealand	19,164	15,296	12,068
Other	20,322	14,270	16,670
Total long-lived assets	$1,528,928	$1,013,811	$754,076

NOTE 15. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for fiscal 2008, 2007 and 2006 are as follows (in thousands except per share data):

	Three Months Ended 2008			
	Nov. 30	Feb. 29	May 31	Aug. 31
Net sales*	$2,116,004	$2,254,168	$2,910,730	$3,146,476
Gross profit*	260,624	237,771	293,498	309,761
Net earnings	69,164	39,775	59,484	63,543
Basic EPS	0.59	0.35	0.52	0.56
Diluted EPS	0.57	0.34	0.51	0.55

	Three Months Ended 2007			
	Nov. 30	Feb. 28	May 31	Aug. 31
Net sales*	$1,892,719	$1,908,314	$2,244,041	$2,283,942
Gross profit*	287,537	252,077	313,210	308,203
Net earnings	85,350	65,921	99,441	104,719
Basic EPS	0.73	0.56	0.84	0.88
Diluted EPS	0.71	0.54	0.82	0.86

	Three Months Ended 2006			
	Nov. 30	Feb. 28	May 31	Aug. 31
Net sales*	$1,568,934	$1,559,749	$1,933,234	$2,150,235
Gross profit*	218,898	247,724	264,871	342,525
Net earnings	69,624	80,103	77,960	128,660
Basic EPS	0.60	0.68	0.65	1.08
Diluted EPS	0.57	0.65	0.62	1.04

* Excludes the operations of a division classified as discontinued operations. See Note 5.

NOTE 16. RELATED PARTY TRANSACTIONS

One of the Company s international subsidiaries has an agreement with a key supplier of which the Company owns an 11% interest. Net sales to this related party were $397 million, $312 million and $247 million for the years ended August 31, 2008, 2007 and 2006, respectively. The total amounts of purchases from this supplier were $421 million, $382 million and $286 million for the years ended August 31, 2008, 2007 and 2006, respectively. Accounts receivable from the affiliated company were $47 million and $12 million at August 31, 2008 and 2007, respectively. Accounts payable to the affiliated company were $35 million and $0.2 million at August 31, 2008 and 2007, respectively.

PART IV

ITEM 15. EXHIBITS

(a) The following documents are filed as a part of this report:

EXHIBIT NO.	DESCRIPTION
23	Consent of Independent Registered Public Accounting Firm to incorporation by reference of report dated October 30, 2008, accompanying the consolidated financial statements of Commercial Metals Company and subsidiaries for the year ended August 31, 2008, into previously filed Registration Statements No. 033-61073, No. 033-61075, No. 333-27967 and No. 333-42648 on Form S-8 and Registration Statements No. 33-60809, No. 333-61379 and 333-144500 on Form S-3 (filed herewith).
31(a)	Certification of Murray R. McClean, President and Chief Executive Officer of Commercial Metals Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31(b)	Certification of William B. Larson, Vice President and Chief Financial Officer of Commercial Metals Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32(a)	Certification of Murray R. McClean, President and Chief Executive Officer of Commercial Metals Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32(b)	Certification of William B. Larson, Vice President and Chief Financial Officer of Commercial Metals Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMMERCIAL METALS COMPANY

By: /s/ William B. Larson
William B. Larson,
Senior Vice President and
Chief Financial Officer

Date: January 5, 2009