COMMERCIAL METALS CO
Form 10-Q
June 29, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended May 31, 2015
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-4304

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

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

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

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

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

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

The number of shares outstanding of common stock as of June 25, 2015 was 115,602,102.

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

	Three Months Ended May 31,		Nine Months Ended May 31,	
(in thousands, except share data)	2015	2014	2015	2014
Net sales	$1,506,002	$1,738,593	$4,577,109	$4,953,129
Costs and expenses:				
Cost of goods sold	1,270,044	1,560,174	3,933,516	4,455,481
Selling, general and administrative expenses	110,347	121,402	333,332	336,334
Interest expense	20,519	18,849	58,828	57,234
	1,400,910	1,700,425	4,325,676	4,849,049
Earnings from continuing operations before income taxes	105,092	38,168	251,433	104,080
Income taxes	37,964	13,700	84,252	32,657
Earnings from continuing operations	67,128	24,468	167,181	71,423
Earnings (loss) from discontinued operations before income taxes (benefit)	(10,871)	(1,042)	(20,241)	17,969
Income taxes (benefit)	(424)	(137)	(445)	8,766
Earnings (loss) from discontinued operations	(10,447)	(905)	(19,796)	9,203
Net earnings	56,681	23,563	147,385	80,626
Less net earnings attributable to noncontrolling interests	—	—	—	1
Net earnings attributable to CMC	$56,681	$23,563	$147,385	$80,625
Basic earnings (loss) per share attributable to CMC:				
Earnings from continuing operations	$0.58	$0.21	$1.43	$0.61
Earnings (loss) from discontinued operations	(0.09)	(0.01)	(0.17)	0.08
Net earnings	$0.49	$0.20	$1.26	$0.69
Diluted earnings (loss) per share attributable to CMC:				
Earnings from continuing operations	$0.58	$0.21	$1.42	$0.60
Earnings (loss) from discontinued operations	(0.09)	(0.01)	(0.17)	0.08
Net earnings	$0.49	$0.20	$1.25	$0.68
Cash dividends per share	$0.12	$0.12	$0.36	$0.36
Average basic shares outstanding	115,742,534	117,705,133	116,807,469	117,400,198
Average diluted shares outstanding	116,759,215	118,769,675	117,871,228	118,521,816

See notes to unaudited consolidated financial statements.

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

	Three Months Ended May 31,		Nine Months Ended May 31,	
(in thousands)	2015	2014	2015	2014
Net earnings	$56,681	$23,563	$147,385	$80,626
Other comprehensive income (loss), net of income taxes:				
Foreign currency translation adjustment and other	(4,588)	655	(75,851)	28,840
Net unrealized gain (loss) on derivatives:				
Unrealized holding gain (loss), net of income taxes of $(55), $110, $(1,178) and $(434)	54	390	(2,371)	(1,653)
Reclassification for loss (gain) included in net earnings, net of income taxes of $469, $(50), $886 and $258	804	(103)	1,570	1,259
Net unrealized gain (loss) on derivatives, net of income taxes of $414, $60, $(292) and $(176)	858	287	(801)	(394)
Defined benefit obligation:				
Net gain, net of income taxes of $0, $0, $4 and $296	—	—	8	550
Amortization of prior services, net of income taxes of $(1), $(1), $(2) and $(2)	(3)	(2)	(9)	(6)
Defined benefit obligation, net of income taxes of $(1), $(1), $2 and $294	(3)	(2)	(1)	544
Other comprehensive income (loss)	(3,733)	940	(76,653)	28,990
Comprehensive income	$52,948	$24,503	$70,732	$109,616

See notes to unaudited consolidated financial statements.

COMMERCIAL METALS COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except share data)	May 31, 2015	August 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$381,006	$434,925
Accounts receivable (less allowance for doubtful accounts of $7,498 and $5,908)	987,146	1,028,425
Inventories, net	944,611	935,411
Current deferred tax assets	32,656	49,455
Other current assets	98,525	105,575
Assets of businesses held for sale	69,682	—
Total current assets	2,513,626	2,553,791
Property, plant and equipment:		
Land	75,106	79,295
Buildings and improvements	488,551	494,842
Equipment	1,678,828	1,728,425
Construction in process	34,612	30,591
	2,277,097	2,333,153
Less accumulated depreciation and amortization	(1,405,070)	(1,408,055)
	872,027	925,098
Goodwill	73,762	74,319
Other noncurrent assets	120,311	135,312
Total assets	$3,579,726	$3,688,520
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable-trade	$294,226	$423,807
Accounts payable-documentary letters of credit	166,717	125,053
Accrued expenses and other payables	277,071	322,000
Notes payable	4,796	12,288
Current maturities of long-term debt	9,753	8,005
Liabilities of businesses held for sale	28,863	—
Total current liabilities	781,426	891,153
Deferred income taxes	60,338	55,600
Other long-term liabilities	105,303	112,134
Long-term debt	1,279,369	1,281,042
Total liabilities	2,226,436	2,339,929
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $0.01 per share; authorized 200,000,000 shares; issued 129,060,664 shares; outstanding 115,601,037 and 117,829,262 shares	1,290	1,290
Additional paid-in capital	363,458	359,338
Accumulated other comprehensive loss	(96,162)	(19,509)
Retained earnings	1,331,167	1,225,855
Less treasury stock, 13,459,627 and 11,231,402 shares at cost	(246,612)	(218,494)
Stockholders' equity attributable to CMC	1,353,141	1,348,480
Stockholders' equity attributable to noncontrolling interests	149	111
Total stockholders' equity	1,353,290	1,348,591
Total liabilities and stockholders' equity	$3,579,726	$3,688,520

See notes to unaudited consolidated financial statements.

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

	Nine Months Ended May 31,	
(in thousands)	2015	2014
Cash flows from (used by) operating activities:		
Net earnings	$147,385	$80,626
Adjustments to reconcile net earnings to cash flows from (used by) operating activities:		
Depreciation and amortization	99,829	101,130
Provision for losses on receivables, net	2,525	(1,705)
Stock-based compensation	18,288	16,054
Amortization of interest rate swaps termination gain	(5,698)	(5,698)
Deferred income taxes	26,396	28,560
Tax benefits from stock plans	(122)	(625)
Net gain on sale of a subsidiary and other	(1,737)	(28,032)
Write-down of inventory	11,697	—
Asset impairment	3,390	1,227
Changes in operating assets and liabilities:		
Accounts receivable	90,412	(59,479)
Accounts receivable sold, net	(98,033)	124,415
Inventories	(111,675)	(176,766)
Other assets	11,055	(18,486)
Accounts payable, accrued expenses and other payables	(129,322)	38,328
Other long-term liabilities	(5,601)	(5,244)
Net cash flows from (used by) operating activities	58,789	94,305
Cash flows from (used by) investing activities:		
Capital expenditures	(75,976)	(67,718)
Proceeds from the sale of property, plant and equipment and other	10,143	6,773
Proceeds from the sale of a subsidiary	2,354	52,276
Net cash flows from (used by) investing activities	(63,479)	(8,669)
Cash flows from (used by) financing activities:		
Documentary letters of credit, net change	51,722	2,985
Short-term borrowings, net change	(7,492)	(1,333)
Repayments on long-term debt	(8,038)	(4,826)
Stock issued under incentive and purchase plans, net of forfeitures	(1,389)	(860)
Treasury stock acquired	(41,806)	—
Cash dividends	(42,073)	(42,290)
Tax benefits from stock plans	122	625
Decrease in restricted cash	3,630	18,037
Contribution from (purchase of) noncontrolling interests	38	(37)
Payments for debt issuance costs	—	(430)
Net cash flows from (used by) financing activities	(45,286)	(28,129)
Effect of exchange rate changes on cash	(3,943)	933
Increase (decrease) in cash and cash equivalents	(53,919)	58,440
Cash and cash equivalents at beginning of year	434,925	378,770
Cash and cash equivalents at end of period	$381,006	$437,210

Supplemental information:

Noncash activities:		
Capital lease additions and changes in accounts payable related to purchases of property, plant and equipment	$11,882	$9,143

See notes to unaudited consolidated financial statements.

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

	Common Stock		Additional	Accumulated Other		Treasury Stock		Non-	
(in thousands, except share data)	Number of Shares	Amount	Paid-In Capital	Comprehensive Income (Loss)	Retained Earnings	Number of Shares	Amount	controlling Interests	Total
Balance, September 1, 2013	129,060,664	$1,290	$363,772	$(27,176)	$1,166,732	(12,049,674)	$(234,619)	$156	$1,270,155
Net earnings					80,625			1	80,626
Other comprehensive income				28,990					28,990
Cash dividends ($0.36 per share)					(42,290)				(42,290)
Issuance of stock under incentive and purchase plans, net of forfeitures			(15,505)			745,917	14,645		(860)
Stock-based compensation			13,437						13,437
Tax benefits from stock plans			625						625
Contribution of noncontrolling interest			31					(68)	(37)
Balance, May 31, 2014	129,060,664	$1,290	$362,360	$1,814	$1,205,067	(11,303,757)	$(219,974)	$89	$1,350,646

	Common Stock		Additional	Accumulated Other		Treasury Stock		Non-	
(in thousands, except share data)	Number of Shares	Amount	Paid-In Capital	Comprehensive Income (Loss)	Retained Earnings	Number of Shares	Amount	controlling Interests	Total
Balance, September 1, 2014	129,060,664	$1,290	$359,338	$(19,509)	$1,225,855	(11,231,402)	$(218,494)	$111	$1,348,591
Net earnings					147,385				147,385
Other comprehensive loss				(76,653)					(76,653)
Cash dividends ($0.36 per share)					(42,073)				(42,073)
Treasury stock acquired						(2,902,218)	(41,806)		(41,806)
Issuance of stock under incentive and purchase plans, net of forfeitures			(15,077)			673,993	13,688		(1,389)

Stock-based compensation			15,127						15,127
Tax benefits from stock plans			122						122
Contribution of noncontrolling interest								38	38
Reclassification of share-based liability awards			3,948						3,948
Balance, May 31, 2015	129,060,664	$1,290	$363,458	$(96,162)	$1,331,167	(13,459,627)	$(246,612)	$149	$1,353,290

See notes to unaudited consolidated financial statements.

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

Accounting Principles
The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") on a basis consistent with that used in the Annual Report on Form 10-K for the fiscal year ended August 31, 2014 filed by Commercial Metals Company ("CMC", and together with its consolidated subsidiaries, the "Company") with the Securities and Exchange Commission ("SEC") and include all normal recurring adjustments necessary to present fairly the consolidated balance sheets and the consolidated statements of earnings, comprehensive income, cash flows and stockholders' equity for the periods indicated. These notes should be read in conjunction with the audited consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended August 31, 2014. The results of operations for the three and nine month periods are not necessarily indicative of the results to be expected for the full year.

Recent Accounting Pronouncements
In the first quarter of fiscal 2015, the Company adopted guidance issued by the Financial Accounting Standards Board ("FASB") requiring an entity to net an unrecognized tax benefit with a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The adoption of this guidance did not have an impact on the Company's consolidated financial statements.

In the first quarter of fiscal 2015, the Company adopted guidance issued by the FASB requiring an entity to release any related cumulative translation adjustment into net income when it either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. In addition, the guidance resolves the diversity in practice for the treatment of business combinations achieved in stages involving a foreign entity. The adoption of this guidance did not have an impact on the Company's consolidated financial statements.

In the first quarter of fiscal 2015, the Company adopted guidance issued by the FASB requiring an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The guidance also requires entities to disclose the nature and amount of the obligation as well as other information about the obligation. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In April 2015, the FASB issued guidance clarifying the circumstances under which an entity would account for fees paid in a cloud computing arrangement as a license of internal-use software. This guidance is effective for interim and annual reporting periods beginning after December 15, 2015. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued guidance requiring an entity to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This guidance is effective for interim and annual reporting periods beginning after December 15, 2015. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In February 2015, the FASB issued guidance modifying the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities. This guidance also eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that are involved with variable interest entities, particularly those that have fee arrangements and related party relationships. This guidance is effective for fiscal years, and interim reporting periods therein, beginning after December 15, 2015 with early adoption permitted. Entities may elect to apply this guidance either on a retrospective or a modified retrospective basis. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In January 2015, the FASB issued guidance eliminating the concept of extraordinary items. Under this guidance an entity will no longer be allowed to separately disclose extraordinary items, net of tax, in the income statement after income from continuing operations if an event or transaction is unusual in nature and occurs infrequently. This guidance is effective for fiscal years, and interim reporting periods therein, beginning after December 15, 2015 with early adoption permitted. Upon adoption, an entity may elect prospective or retrospective application. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In August 2014, the FASB issued guidance requiring management to evaluate whether there are conditions and events that raise substantial doubt about the entity's ability to continue as a going concern and to provide disclosures in certain circumstances. The new guidance was issued to reduce diversity in the timing and content of footnote disclosures. This guidance is effective for fiscal years, and interim reporting periods therein, beginning after December 15, 2016. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In August 2014, the FASB issued guidance providing a measurement alternative to the existing fair value measurement guidance for reporting entities that consolidate a collateralized financing entity in which (1) the financial assets and financial liabilities are measured at fair value except for those incidental financial assets and financial liabilities with their carrying values that approximate fair values and (2) the changes in the fair values of those financial assets and financial liabilities are reflected in earnings. When the measurement alternative is elected, the financial assets and liabilities of a collateralized financing entity will be measured using the more observable of the fair value of the financial assets and the fair value of the financial liabilities. This guidance is effective for public business entities for annual periods, and for interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted as of the beginning of an annual period. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In June 2014, the FASB issued guidance requiring entities to account for a performance target as a performance condition if the target affects vesting and could be achieved after the requisite service period. The new guidance did not introduce additional disclosure requirements and was issued to resolve diversity in practice. This guidance is effective for fiscal years, and interim reporting periods therein, beginning after December 15, 2015. The Company currently accounts for such performance targets in a manner consistent with the new guidance and does not expect this guidance to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued guidance requiring entities to recognize revenue from contracts with customers by applying a five-step model in accordance with the core principle to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, this guidance specifies the accounting for some costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognition. This guidance is currently effective for fiscal years, and interim reporting periods therein, beginning after December 15, 2016. Entities have the option to adopt this guidance either retrospectively or through a modified retrospective transition method. This new standard will supersede existing revenue guidance and affect the Company's revenue recognition process and the presentations or disclosures of the Company's consolidated financial statements and footnotes. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements.

In April 2014, the FASB issued guidance changing the requirements for reporting discontinued operations if the disposal of a component of an entity, or a group of components of an entity, represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. The guidance requires expanded disclosures for discontinued operations and also requires entities to disclose the pre-tax profit or loss of an individually significant component of an entity that does not qualify for discontinued operations reporting. The new guidance is effective prospectively for fiscal years, and interim periods within those years, beginning on or after December 15, 2014. The guidance will affect the Company's current practice of assessing discontinued operations and the presentation and

disclosure in the Company's consolidated financial statements.

NOTE 2. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended May 31, 2015			
(in thousands)	Foreign Currency Translation	Unrealized Gain (Loss) on Derivatives	Defined Benefit Obligation	Total Accumulated Other Comprehensive Income (Loss)
Balance, February 28, 2015	$(91,154)	$1,355	$(2,630)	$(92,429)
Other comprehensive income (loss) before reclassifications	(4,588)	54	—	(4,534)
Amounts reclassified from AOCI	—	804	(3)	801
Net other comprehensive income (loss)	(4,588)	858	(3)	(3,733)
Balance, May 31, 2015	$(95,742)	$2,213	$(2,633)	$(96,162)

	Nine Months Ended May 31, 2015			
(in thousands)	Foreign Currency Translation	Unrealized Gain (Loss) on Derivatives	Defined Benefit Obligation	Total Accumulated Other Comprehensive Income (Loss)
Balance at August 31, 2014	$(19,891)	$3,014	$(2,632)	$(19,509)
Other comprehensive income (loss) before reclassifications	(75,851)	(2,371)	8	(78,214)
Amounts reclassified from AOCI	—	1,570	(9)	1,561
Net other comprehensive loss	(75,851)	(801)	(1)	(76,653)
Balance, May 31, 2015	$(95,742)	$2,213	$(2,633)	$(96,162)

	Three Months Ended May 31, 2014			
(in thousands)	Foreign Currency Translation	Unrealized Gain (Loss) on Derivatives	Defined Benefit Obligation	Total Accumulated Other Comprehensive Income (Loss)
Balance, February 28, 2014	$708	$2,913	$(2,747)	$874
Other comprehensive income before reclassifications	655	390	—	1,045
Amounts reclassified from AOCI	—	(103)	(2)	(105)
Net other comprehensive income (loss)	655	287	(2)	940
Balance, May 31, 2014	$1,363	$3,200	$(2,749)	$1,814

	Nine Months Ended May 31, 2014			
(in thousands)	Foreign Currency Translation	Unrealized Gain (Loss) on Derivatives	Defined Benefit Obligation	Total Accumulated Other Comprehensive Income (Loss)
Balance at August 31, 2013	$(27,477)	$3,594	$(3,293)	$(27,176)
Other comprehensive income (loss) before reclassifications	28,840	(1,653)	550	27,737

Amounts reclassified from AOCI	—	1,259	(6)	1,253
Net other comprehensive income (loss)	28,840	(394)	544	28,990
Balance, May 31, 2014	$1,363	$3,200	$(2,749)	$1,814

The significant items reclassified out of accumulated other comprehensive income (loss) and the corresponding line items in the consolidated statements of earnings to which the items were reclassified were as follows:

Components of AOCI (in thousands)	Location	Three Months Ended May 31, 2015	Three Months Ended May 31, 2014	Nine Months Ended May 31, 2015	Nine Months Ended May 31, 2014
Unrealized gain (loss) on derivatives:					
Commodity	Cost of goods sold	$(269)	$67	$(429)	$(169)
Foreign exchange	Net sales	(111)	20	(37)	(213)
Foreign exchange	Cost of goods sold	(1,044)	(60)	(2,447)	(1,574)
Foreign exchange	SG&A expenses	17	(8)	57	39
Interest rate	Interest expense	134	134	400	400
		(1,273)	153	(2,456)	(1,517)
Income tax effect	Income taxes benefit (expense)	469	(50)	886	258
Net of income taxes		$(804)	$103	$(1,570)	$(1,259)
Defined benefit obligation:					
Amortization of prior services	SG&A expenses	$4	$3	$11	$8
Income tax effect	Income taxes expense	(1)	(1)	(2)	(2)
Net of income taxes		$3	$2	$9	$6

Amounts in parentheses reduce earnings.

NOTE 3. SALES OF ACCOUNTS RECEIVABLE

The Company has a $200.0 million U.S. sale of accounts receivable program which expires on August 15, 2017. Under the program, CMC contributes, and several of its subsidiaries sell without recourse, certain eligible trade accounts receivable to CMC Receivables, Inc. ("CMCRV"), a wholly owned subsidiary of CMC. CMCRV is structured to be a bankruptcy-remote entity and was formed for the sole purpose of buying and selling trade accounts receivable generated by the Company. CMCRV sells the trade accounts receivable in their entirety to three financial institutions. With the consent of both CMCRV and the program's administrative agent, the amount advanced by the financial institutions can be increased to a maximum of $300.0 million for all trade accounts receivable sold. The remaining portion of the purchase price of the trade accounts receivable takes the form of subordinated notes from the respective financial institutions. These notes will be satisfied from the ultimate collection of the trade accounts receivable after payment of certain fees and other costs. The Company accounts for sales of the trade accounts receivable as true sales, and the trade accounts receivable balances that are sold are removed from the consolidated balance sheets. The cash advances received are reflected as cash provided by operating activities on the Company's consolidated statements of cash flows. Additionally, the U.S. sale of accounts receivable program contains certain cross-default provisions whereby a termination event could occur if the Company defaulted under certain of its credit arrangements. The covenants contained in the receivables purchase agreement are consistent with the credit facility described in Note 7, Credit Arrangements.

At May 31, 2015 and August 31, 2014, under its U.S. sale of accounts receivable program, the Company had sold $343.8 million and $389.6 million of trade accounts receivable, respectively, to the financial institutions. At May 31, 2015 and August 31, 2014, the Company had $15.0 million and $55.0 million in advance payments outstanding on the sale of its trade accounts receivable, respectively.

In addition to the U.S. sale of accounts receivable program described above, the Company's international subsidiaries in Europe and Australia sell trade accounts receivable to financial institutions without recourse. These arrangements constitute true sales, and once the trade accounts receivable are sold, they are no longer available to the Company's creditors in the event of bankruptcy. The European program allows the Company's European subsidiaries to obtain an

advance of up to 90% of eligible trade accounts receivable sold under the terms of the arrangement. In October 2014, the Company entered into a first amendment to its Australian program which extended the maturity date to October 2016. Under the Australian program, trade accounts receivable balances are sold to a special purpose vehicle, which in turn sells 100% of the eligible trade accounts receivable of Commercial Metals Pty. Ltd., CMC Steel Distribution Pty. Ltd. and G.A.M. Steel Pty. Ltd. to the financial institution. The financial institution will fund up to A$75.0 million for all trade accounts receivable sold, and the remaining portion of the purchase price of the trade accounts receivable is in the form of a subordinated note from the financial institution. This note will be satisfied from the ultimate collection of the trade accounts receivable after payment of certain fees and other costs. The Company accounts for sales of the trade accounts

receivable as true sales, and the trade accounts receivable balances that are sold are removed from the consolidated balance sheets. The cash advances received are reflected as cash provided by operating activities on the Company's consolidated statements of cash flows.

At May 31, 2015 and August 31, 2014, under its European and Australian programs, the Company had sold $116.8 million and $147.3 million of trade accounts receivable, respectively, to third-party financial institutions and received advance payments of $35.2 million and $90.5 million, respectively.

During the nine months ended May 31, 2015 and 2014, cash proceeds from the U.S. and international sale of accounts receivable programs were $441.6 million and $494.1 million, respectively, and cash payments to the owners of accounts receivable were $539.6 million and $369.7 million, respectively. For a nominal servicing fee, the Company is responsible for servicing the trade accounts receivable for the U.S. and Australian programs. Discounts on U.S. and international sales of trade accounts receivable were $0.4 million and $1.2 million for the three and nine months ended May 31, 2015, respectively, and $1.1 million and $2.6 million for the three and nine months ended May 31, 2014, respectively, and are included in selling, general and administrative expenses in the Company's consolidated statements of earnings.

The deferred purchase price on the Company's U.S. and European and the Commercial Metals Pty. Ltd. sale of accounts receivable programs are included in accounts receivable on the Company's consolidated balance sheets. The deferred purchase price on the CMC Steel Distribution Pty. Ltd. and the G.A.M. Steel Pty. Ltd. sale of accounts receivable programs are included in assets of businesses held for sale on the Company's consolidated balance sheets.

The following tables summarize the activity of the deferred purchase price receivables for the U.S. and international sale of accounts receivable programs:

	Three Months Ended May 31, 2015			
(in thousands)	Total	U.S.	Australia*	Europe
Beginning balance	$386,447	$327,009	$21,680	$37,758
Transfers of accounts receivable	892,387	724,309	79,173	88,905
Collections	(871,953)	(727,077)	(75,210)	(69,666)
Ending balance	$406,881	$324,241	$25,643	$56,997

	Nine Months Ended May 31, 2015			
(in thousands)	Total	U.S.	Australia*	Europe
Beginning balance	$385,169	$329,797	$34,071	$21,301
Transfers of accounts receivable	2,908,695	2,426,691	233,237	248,767
Collections	(2,886,983)	(2,432,247)	(241,665)	(213,071)
Ending balance	$406,881	$324,241	$25,643	$56,997

* Includes the sales of accounts receivable activities related to businesses held for sale (transfers of accounts receivable of $46.2 million and $148.3 million, and collections of $47.5 million and $164.0 million for the three and nine months ended May 31, 2015, respectively).

	Three Months Ended May 31, 2014			
(in thousands)	Total	U.S.	Australia	Europe
Beginning balance	$313,117	$273,714	$29,635	$9,768
Transfers of accounts receivable	1,039,136	808,886	120,350	109,900
Collections	(989,887)	(803,592)	(111,791)	(74,504)
Ending balance	$362,366	$279,008	$38,194	$45,164

	Nine Months Ended May 31, 2014			
(in thousands)	Total	U.S.	Australia	Europe
Beginning balance	$453,252	$358,822	$64,996	$29,434
Transfers of accounts receivable	3,115,437	2,423,990	374,170	317,277
Collections	(3,134,011)	(2,503,804)	(328,660)	(301,547)
Program termination	(72,312)	—	(72,312)	—
Ending balance	$362,366	$279,008	$38,194	$45,164

NOTE 4. INVENTORIES, NET

Inventories are stated at the lower of cost or market. Inventory cost for most U.S. inventories is determined by the last-in, first-out ("LIFO") method. At May 31, 2015 and August 31, 2014, 57% and 44%, respectively, of the Company's total net inventories were valued at LIFO. LIFO inventory reserves were $83.0 million and $198.8 million at May 31, 2015 and August 31, 2014, respectively.

Effective September 1, 2014, the Company changed its method of determining its interim LIFO inventory reserve from the complete quarterly LIFO valuation method to the expected annual LIFO valuation method. Under the expected annual LIFO valuation method, interim LIFO expense or income is based on management's current estimates of inventory costs and quantities at year end, and that annual estimate is incurred ratably over the remainder of the fiscal year. Key assumptions related to estimates of inventory costs used in management’s estimate changed in the three months ended May 31, 2015 resulting in a change in the annual LIFO estimate for the fiscal year ended August 31, 2015. Accordingly, the Company recorded pre-tax LIFO income of $37.1 million and $115.8 million for the three and nine months ended May 31, 2015, respectively.

Inventory cost for the International Mill segment is determined by the weighted average cost method. Inventory cost for the remaining international and U.S. inventories is determined by the first-in, first-out ("FIFO") method.

For the three and nine months ended May 31, 2015, the Company recorded inventory write-downs related to its continuing operations of $9.5 million and $9.8 million, respectively, which are included in cost of goods sold on the Company's consolidated statements of earnings. The Company had no material write-downs of inventory for the three and nine months ended May 31, 2014.

The majority of the Company's inventories are in the form of finished goods with minimal work in process. At May 31, 2015 and August 31, 2014, $63.6 million and $84.3 million, before LIFO reserves, respectively, of the Company's inventories were in the form of raw materials.

NOTE 5. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	Americas			International		
(in thousands)	Recycling	Mills	Fabrication	Mill	Marketing and Distribution	Consolidated
Balance at August 31, 2014	$7,267	$4,970	$57,144	$2,776	$2,162	$74,319
Foreign currency translation	—	—	—	(398)	(159)	(557)
Balance at May 31, 2015	$7,267	$4,970	$57,144	$2,378	$2,003	$73,762

The total gross carrying amounts of the Company's intangible assets that are subject to amortization were $48.1 million and $53.8 million at May 31, 2015 and August 31, 2014, respectively, and are included in other noncurrent assets on the Company's consolidated balance sheets. Excluding goodwill, there are no other significant intangible assets with indefinite lives. Intangible amortization expense from continuing operations was $1.6 million and $5.2 million for the three and nine months ended May 31, 2015 and 2014, respectively.

NOTE 6. BUSINESSES HELD FOR SALE, DISCONTINUED OPERATIONS AND DISPOSITIONS

Businesses Held for Sale

The Company did not have any assets and liabilities of businesses held for sale at August 31, 2014. The components of assets and liabilities of businesses held for sale on the Company's consolidated balance sheet were as follows:

(in thousands)	May 31, 2015
Assets:	
Accounts receivable	$15,075
Inventories, net	46,199
Other current assets	442
Property, plant and equipment, net of accumulated depreciation and amortization	6,313
Other noncurrent assets	1,653
Assets of businesses held for sale	$69,682
Liabilities:	
Accounts payable-trade	$15,918
Accounts payable-documentary letters of credit	6,622
Accrued expenses and other payables	6,323
Liabilities of businesses held for sale	$28,863

Discontinued Operations

In September 2014, the Company made the decision to exit and sell its steel distribution business in Australia. Despite focused efforts and substantial progress to stabilize and improve the results of the Australian distribution business, the Company determined that achieving acceptable financial returns would take additional time and investment. The Company determined that the decision to exit this business met the definition of a discontinued operation. As a result, this business has been presented as a discontinued operation for all periods presented. The expenses associated with exiting this business were not material for the three and nine months ended May 31, 2015. The Australian steel distribution business was previously an operating segment included in the International Marketing and Distribution reporting segment.

During the fourth quarter of fiscal 2013, the Company decided to sell all of the capital stock of its wholly owned copper tube manufacturing operation, Howell Metal Company ("Howell"). The Company determined that the decision to sell this business met the definition of a discontinued operation. As a result, the Company included Howell in discontinued operations for all periods presented. Howell was previously an operating segment included in the Americas Mills reporting segment.

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Financial information for discontinued operations was as follows:

	Three Months Ended May 31,		Nine Months Ended May 31,	
(in thousands)	2015	2014	2015	2014
Net sales	$43,307	$66,068	$143,644	$200,932
Earnings (loss) from discontinued operations before income taxes	(10,871)	(1,042)	(20,241)	17,969

Dispositions

During the first quarter of fiscal 2014, the Company sold all of the outstanding capital stock of Howell for $58.5 million, $3.2 million of which was held in escrow as of both May 31, 2015 and August 31, 2014. During the second quarter of fiscal 2014, the Company made a $3.0 million working capital adjustment, which was included in the Company's estimated pre-tax gain of $23.8 million.

NOTE 7. CREDIT ARRANGEMENTS

On June 26, 2014, the Company entered into a fourth amended and restated credit agreement (the "Credit Agreement") with a revolving credit facility of $350.0 million and a maturity date of June 26, 2019 (the "credit facility"). The maximum availability under the credit facility can be increased to $500.0 million. The Company's obligation under its credit facility is secured by its U.S. inventory. The credit facility's capacity includes $50.0 million for the issuance of stand-by letters of credit and was reduced by outstanding stand-by letters of credit which totaled $23.4 million and $28.1 million at May 31, 2015 and August 31, 2014, respectively.

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

At May 31, 2015, the Company's interest coverage ratio was 6.26 to 1.00, and the Company's debt to capitalization ratio was 0.48 to 1.00. The Company had no amount drawn under the credit facility at May 31, 2015 and August 31, 2014.

In May 2013, the Company issued $330.0 million of 4.875% Senior Notes due May 15, 2023 (the "2023 Notes"). Interest on the 2023 Notes is payable semi-annually on May 15 and November 15 of each year, beginning on November 15, 2013. The Company may, at any time, redeem the 2023 Notes at a redemption price equal to 100 percent of the principal amount, plus a "make-whole" premium described in the indenture pursuant to which the 2023 Notes were issued. Additionally, if a change of control triggering event occurs, as defined by the terms of the indenture governing the 2023 Notes, holders of the 2023 Notes may require the Company to repurchase the 2023 Notes at a purchase price equal to 101 percent of the principal amount, plus accrued and unpaid interest, if any, to the date of purchase. The Company is generally not limited under the indenture governing the 2023 Notes in its ability to incur additional indebtedness provided the Company is in compliance with certain restrictive covenants, including restrictions on liens, sale and leaseback transactions, mergers, consolidations and transfers of substantially all of the Company's assets.

In August 2008, the Company issued $500.0 million of 7.35% senior unsecured notes due in August 2018 (the "2018 Notes"). In anticipation of the offering, the Company entered into hedge transactions which reduced the Company's

effective interest rate on these notes to 6.40% per annum. Interest on these notes is payable semiannually.

In July 2007, the Company issued $400.0 million of 6.50% senior unsecured notes due in July 2017 (the "2017 Notes"). In anticipation of the offering, the Company entered into hedge transactions which reduced the Company's effective interest rate on these notes to 5.74% per annum. Interest on these notes is payable semiannually.

At May 31, 2015, the Company was in compliance with all covenants contained in its debt agreements.

During fiscal 2012, the Company terminated its existing interest rate swap transactions and received cash proceeds of approximately $52.7 million, net of customary finance charges. The resulting gain was deferred and is being amortized as a reduction to interest expense over the remaining term of the respective debt tranches. At May 31, 2015 and August 31, 2014, the unamortized amounts were $21.1 million and $26.8 million, respectively. Amortization of the deferred gain for each of the three and nine months ended May 31, 2015 and 2014 was $1.9 million and $5.7 million, respectively.

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

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

(in thousands)	Weighted Average Interest Rate as of May 31, 2015	May 31, 2015	August 31, 2014
$400 million notes at 6.50% due July 2017	5.74%	$406,317	$408,546
$500 million notes at 7.35% due August 2018	6.40%	514,837	518,305
$330 million notes at 4.875% due May 2023	4.875%	330,000	330,000
Other, including equipment notes		37,968	32,196
		1,289,122	1,289,047
Less current maturities		9,753	8,005
		$1,279,369	$1,281,042

Interest on these notes is payable semiannually.

CMC Poland Sp.z.o.o. ("CMCP") has uncommitted credit facilities of $57.5 million with several banks with expiration dates ranging from November 2015 to March 2016. During the nine months ended May 31, 2015, CMCP had total borrowings of $49.6 million and total repayments of $49.6 million under these credit facilities. At May 31, 2015, no material amounts were outstanding under these credit facilities.

The Company had no material amounts of interest capitalized in the cost of property, plant and equipment during the three and nine months ended May 31, 2015 and 2014, respectively. Cash paid for interest during the three and nine months ended May 31, 2015 was $10.6 million and $53.5 million, respectively, and $9.6 million and $51.9 million during the three and nine months ended May 31, 2014, respectively.

NOTE 8. DERIVATIVES AND RISK MANAGEMENT

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

At May 31, 2015, the notional values of the Company's foreign currency contract commitments and its commodity contract commitments were $399.8 million and $46.5 million, respectively. At May 31, 2014, the notional values of the Company's foreign currency contract commitments and its commodity contract commitments were $457.7 million and $41.5 million, respectively.

The following table provides information regarding the Company's commodity contract commitments as of May 31, 2015:

Commodity	Long/Short	Total	
Aluminum	Long	3,746	MT
Aluminum	Short	325	MT
Copper	Long	826	MT
Copper	Short	5,364	MT
Zinc	Long	29	MT
Natural Gas	Long	180,000	MMBTUs

MT = Metric Ton
MMBTU = One million British thermal units

The Company designates only those contracts which closely match the terms of the underlying transaction as hedges for accounting purposes. These hedges resulted in substantially no ineffectiveness in the Company's consolidated statements of earnings, and there were no components excluded from the assessment of hedge effectiveness for the three and nine months ended May 31, 2015 and 2014. Certain foreign currency and commodity contracts were not designated as hedges for accounting purposes, although management believes they are essential economic hedges.

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

		Three Months Ended May 31,		Nine Months Ended May 31,	
Derivatives Not Designated as Hedging Instruments (in thousands)	Location	2015	2014	2015	2014
Commodity	Cost of goods sold	$(354)	$1,346	$4,947	$1,985
Foreign exchange	Net sales	—	(351)	3,005	(736)
Foreign exchange	Cost of goods sold	562	(326)	4,913	(697)
Foreign exchange	SG&A expenses	2,405	1,183	22,479	(5,632)
Gain (loss) before income taxes		$2,613	$1,852	$35,344	$(5,080)

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

Derivatives Designated as Fair Value Hedging Instruments (in thousands)	Location	Three Months Ended May 31, 2015	Three Months Ended May 31, 2014	Nine Months Ended May 31, 2015	Nine Months Ended May 31, 2014
Foreign exchange	Net sales	$207	$(55)	$566	$(28)
Foreign exchange	Cost of goods sold	(283)	(1,053)	642	(2,133)
Gain (loss) before income taxes		$(76)	$(1,108)	$1,208	$(2,161)

Hedged Items Designated as Fair Value Hedging Instruments (in thousands)	Location	Three Months Ended May 31, 2015	Three Months Ended May 31, 2014	Nine Months Ended May 31, 2015	Nine Months Ended May 31, 2014
Foreign exchange	Net sales	$(207)	$62	$(565)	$25

Foreign exchange	Cost of goods sold	283	1,053	(642)	2,133
Gain (loss) before income taxes		$76	$1,115	$(1,207)	$2,158

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Effective Portion of Derivatives Designated as Cash Flow Hedging Instruments Recognized in Accumulated Other Comprehensive Income (Loss) (in thousands)	Three Months Ended May 31,		Nine Months Ended May 31,	
	2015	2014	2015	2014
Commodity	$(76)	$65	$(492)	$(48)
Foreign exchange	130	325	(1,879)	(1,605)
Gain (loss), net of income taxes	$54	$390	$(2,371)	$(1,653)

Effective Portion of Derivatives Designated as Cash Flow Hedging Instruments Reclassified from Accumulated Other Comprehensive Income (Loss) (in thousands)	Location	Three Months Ended May 31,		Nine Months Ended May 31,	
		2015	2014	2015	2014
Commodity	Cost of goods sold	$(174)	$43	$(278)	$(110)
Foreign exchange	Net sales	(114)	20	(38)	(213)
Foreign exchange	Cost of goods sold	(617)	(57)	(1,560)	(1,231)
Foreign exchange	SG&A expenses	14	10	46	35
Interest rate	Interest expense	87	87	260	260
Gain (loss), net of income taxes		(804)	$103	$(1,570)	$(1,259)

The Company enters into derivative agreements that include provisions to allow the set-off of certain amounts. Derivative instruments are presented on a gross basis on the Company's consolidated balance sheets. The asset and liability balances in the tables below reflect the gross amounts of derivative instruments at May 31, 2015 and August 31, 2014. The fair value of the Company's derivative instruments on the consolidated balance sheets was as follows:

Derivative Assets (in thousands)	May 31, 2015	August 31, 2014
Commodity — designated for hedge accounting	$16	$42
Commodity — not designated for hedge accounting	942	869
Foreign exchange — designated for hedge accounting	1,414	136
Foreign exchange — not designated for hedge accounting	3,240	1,853
Derivative assets (other current assets)*	$5,612	$2,900

Derivative Liabilities (in thousands)	May 31, 2015	August 31, 2014
Commodity — designated for hedge accounting	$242	$6
Commodity — not designated for hedge accounting	603	162
Foreign exchange — designated for hedge accounting	951	325
Foreign exchange — not designated for hedge accounting	1,178	1,010
Derivative liabilities (accrued expenses and other payables)*	$2,974	$1,503

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

As of May 31, 2015, most of the Company's derivative instruments designated to hedge exposure to the variability in future cash flows of the forecasted transactions will mature within twelve months.

All of the instruments are highly liquid and were not entered into for trading purposes.

NOTE 9. FAIR VALUE

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

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

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

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

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

		Fair Value Measurements at Reporting Date Using		
(in thousands)	May 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market investments (1)	$200,394	$200,394	$—	$—
Commodity derivative assets (2)	958	942	16	—
Foreign exchange derivative assets (2)	4,654	—	4,654	—
Liabilities:				
Commodity derivative liabilities (2)	845	603	242	—
Foreign exchange derivative liabilities (2)	2,129	—	2,129	—

		Fair Value Measurements at Reporting Date Using		
(in thousands)	August 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market investments (1)	$200,487	$200,487	$—	$—
Commodity derivative assets (2)	911	911	—	—
Foreign exchange derivative assets (2)	1,989	—	1,989	—
Liabilities:				
Commodity derivative liabilities (2)	168	162	6	—
Foreign exchange derivative liabilities (2)	1,335	—	1,335	—

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

(2) Derivative assets and liabilities classified as Level 1 are commodity futures contracts valued based on quoted market prices in the London Metal Exchange or Commodity Exchange, Inc. Amounts in Level 2 are based on broker

quotes in the over-the-counter market. Further discussion regarding the Company's use of derivative instruments and the classification of the assets and liabilities is included in Note 8, Derivatives and Risk Management.

There were no material non-recurring fair value measurements during the three and nine months ended May 31, 2015 and 2014, respectively.

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

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

		May 31, 2015		August 31, 2014	
(in thousands)	Fair Value Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
$400 million notes at 6.50% due July 2017 (1)	Level 2	$406,317	$427,000	$408,546	$438,200
$500 million notes at 7.35% due August 2018 (1)	Level 2	514,837	535,000	518,305	567,560
$330 million notes at 4.875% due May 2023 (1)	Level 2	330,000	318,302	330,000	325,050

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(1) The fair values of the 2017 Notes, 2018 Notes and 2023 Notes are estimated based on readily available market prices of these notes at May 31, 2015 and August 31, 2014, or similar notes with the same maturities, rating and interest rates.

NOTE 10. INCOME TAX

The Company's effective income tax rate from continuing operations for the three and nine months ended May 31, 2015 was 36.1% and 33.5%, respectively, compared with 35.9% and 31.4% for the three and nine months ended May 31, 2014, respectively. For the three months ended May 31, 2015, the tax rate is higher than the statutory income tax rate of 35% due to losses in certain foreign jurisdictions where the deferred tax assets created by such losses are subject to a full valuation allowance, thus providing no tax benefit for such losses. For the nine months ended May 31, 2015, the tax rate was lower than the statutory income tax rate of 35% because the Company had income from operations in countries which have lower tax rates than the United States. In addition, the Company benefited under Section 199 of the Internal Revenue Code related to domestic production activity income during the three and nine months ended May 31, 2015. The Company's effective income tax rate from discontinued operations for the three and nine months ended May 31, 2015 was 3.9% and 2.2%, respectively, compared with 13.1% and 48.8% for the three and nine months ended May 31, 2014, respectively. The Company's effective income tax rate from discontinued operations for the three and nine months ended May 31, 2015 reflected the fact that earnings from discontinued operations before income taxes included a loss in Australia, a jurisdiction in which all tax losses created a deferred tax asset that was subject to a full valuation allowance, and thus no tax benefit. The Company's effective income tax rate from discontinued operations for the nine months ended May 31, 2014 reflected a $23.8 million pre-tax gain on the sale of Howell, resulting in the appropriate amount of U.S. federal and state income tax expense.

The Company made net payments of $46.7 million and $12.9 million for income taxes during the nine months ended May 31, 2015 and 2014, respectively.

As of both May 31, 2015 and August 31, 2014, the reserve for unrecognized income tax benefits related to the accounting for uncertainty in income taxes was $27.3 million, exclusive of interest and penalties.

The Company's policy classifies interest recognized on an underpayment of income taxes and any statutory penalties recognized on a tax position as income tax expense, and the balances at the end of a reporting period are recorded as part of the current or noncurrent reserve for uncertain income tax positions. For the three and nine months ended May 31, 2015, before any income tax benefits, the Company recorded immaterial amounts of accrued interest and penalties on unrecognized income tax benefits.

During the twelve months ending May 31, 2016, it is reasonably possible that the statute of limitations pertaining to positions taken by the Company in prior year income tax returns may lapse or that income tax audits in various taxing jurisdictions could be finalized. As a result, the total amount of unrecognized income tax benefits may decrease by

approximately $16.9 million, which would reduce the provision for income taxes by $2.7 million.

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

U.S. Federal — 2009 and forward
U.S. States — 2009 and forward
Foreign — 2007 and forward

The Company is currently under examination by the Internal Revenue Service and state revenue authorities from 2009 to 2011. Management believes the Company's recorded tax liabilities as of May 31, 2015 sufficiently reflect the anticipated outcome of these examinations.

NOTE 11. STOCK-BASED COMPENSATION PLANS

The Company's stock-based compensation plans are described, and informational disclosures provided, in Note 15, Stock-Based Compensation Plans, to the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2014. During the nine months ended May 31, 2015 and 2014, restricted stock units and performance stock units totaling 1.1 million and 1.2 million, respectively, were granted at a weighted-average fair value of $15.92 and $16.90, respectively.

During the nine months ended May 31, 2015 and 2014, the Company granted 392,517 and 390,562 equivalent shares, respectively, of performance stock units and restricted stock units accounted for as liability awards. The fair value of these liability awards is remeasured each reporting period and is recognized ratably over the service period. As of May 31, 2015, the Company had 913,712 equivalent shares in liability awards outstanding. The Company expects 868,025 equivalent shares to vest.

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

Stock-based compensation expense for the three and nine months ended May 31, 2015 of $6.5 million and $18.3 million, respectively, and $5.3 million and $16.1 million for the three and nine months ended May 31, 2014, respectively, was included in selling, general and administrative expenses on the Company's consolidated statements of earnings.

NOTE 12. STOCKHOLDERS’ EQUITY AND EARNINGS PER SHARE ATTRIBUTABLE TO CMC

The calculations of basic and diluted earnings per share from continuing operations for the three and nine months ended May 31, 2015 and 2014 were as follows:

	Three Months Ended May 31,		Nine Months Ended May 31,	
(in thousands, except share data)	2015	2014	2015	2014
Earnings from continuing operations attributable to CMC	$67,128	$24,468	$167,181	$71,422
Basic earnings per share:				
Shares outstanding for basic earnings per share	115,742,534	117,705,133	116,807,469	117,400,198
Basic earnings per share attributable to CMC:	$0.58	$0.21	$1.43	$0.61
Diluted earnings per share:				
Shares outstanding for basic earnings per share	115,742,534	117,705,133	116,807,469	117,400,198

Effect of dilutive securities:				
Stock-based incentive/purchase plans	1,016,681	1,064,542	1,063,759	1,121,618
Shares outstanding for diluted earnings per share	116,759,215			