PROGRESSIVE CORP/OH/
Form 4
May 03, 2016

FORM 4

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

OMB APPROVAL	
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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
BASCH JEFFREY W

(Last) (First) (Middle)

6300 WILSON MILLS ROAD

(Street)

MAYFIELD VILLAGE, OH 44143

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
PROGRESSIVE CORP/OH/ [PGR]

3. Date of Earliest Transaction (Month/Day/Year)
05/01/2016

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Vice Pres & Chief Acct Officer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common	05/01/2016		M		1,815	A	$ 0 (1)	77,226.413	D	
Common	05/01/2016		F		597	D	$ 32.91	76,629.413	D	
Common								3,576.32	I	401(k) Plan

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Pr Deriv Secu (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Restricted Stock Unit	(2)	05/01/2016		M			1,815	(3)	(4)	Common	1,815	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BASCH JEFFREY W 6300 WILSON MILLS ROAD MAYFIELD VILLAGE, OH 44143			Vice Pres & Chief Acct Officer	

Signatures

/s/ David M. Coffey, By Power of Attorney	05/03/2016
**Signature of Reporting Person	Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- **(1)** Represents Common Shares issued upon the vesting of restricted stock unit awards as a result of the reporting person having satisfied the eligibility requirements for a qualified retirement as defined in the applicable plan or award agreement. This Form 4 reports the disposition of such restricted stock units in exchange for an equal number of Common Shares.
- **(2)** Each Restricted Stock Unit represents a contingent right to receive one Common Share of the Company's stock.
- **(3)** Vested as of May 1, 2016.
- **(4)** Expiration Date is the same as the Date Exercisable.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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1,729,674

$
1,956,744

(12
)%

$
3,518,900

$
3,943,564

(11
)%
Earnings from continuing operations

4,607

27,829

(83
)%

54,074

152,874

(65
)%
Adjusted EBITDA

60,054

95,294

(37
)%

186,225

150,827

23
%

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* Excludes divisions classified as discontinued operations.

In the table above, we have included a financial statement measure that was not derived in accordance with United States generally accepted accounting principles ("GAAP"). We use adjusted EBITDA (earnings before interest expense, income taxes, depreciation, amortization, impairment charges and net earnings attributable to noncontrolling interests) as a non-GAAP financial measure. In calculating adjusted EBITDA, we exclude our largest recurring non-cash charge, depreciation and amortization, as well as impairment charges. Adjusted EBITDA provides a core operational performance measurement that compares results without the need to adjust for federal, state and local taxes which have considerable variation between domestic jurisdictions. Tax regulations in international operations add additional complexity. Also, we exclude interest cost in our calculation of adjusted EBITDA. The results are, therefore, without consideration of financing alternatives of capital employed. We use adjusted EBITDA as one guideline to assess our unleveraged performance return on our investments. Adjusted EBITDA is also the target benchmark for our annual and long-term cash incentive performance plans for management and part of a debt compliance test for our revolving credit agreement. Adjusted EBITDA may be inconsistent with similar measures presented by other companies. Reconciliations of net earnings from continuing operations to adjusted EBITDA are provided below:

	Three Months Ended		Increase (Decrease)	Six Months Ended		Increase (Decrease)
(in thousands)	February 28, 2013	February 29, 2012	%	February 28, 2013	February 29, 2012	%
Earnings from continuing operations	$4,607	$27,829	(83)%	$54,074	$152,874	(65)%
Less net earnings (loss) attributable to noncontrolling interests	—	—	—%	2	2	—%
Interest expense	16,490	16,043	3%	33,514	32,340	4%
Income taxes (benefit) from continuing operations	4,717	15,015	(69)%	27,232	(80,312)	(134)%
Depreciation, amortization and impairment charges	34,286	34,122	—%	71,065	68,601	4%
Adjusted EBITDA from continuing operations	60,100	93,009	(35)%	185,883	173,501	7%
Adjusted EBITDA from discontinued operations	(46)	2,285	(102)%	342	(22,674)	(102)%
Adjusted EBITDA	$60,054	$95,294	(37)%	$186,225	$150,827	23%

Our adjusted EBITDA does not include interest expense, income taxes, depreciation, amortization and impairment charges. Because we have borrowed money in order to finance our operations, interest expense is a necessary element of our costs and our ability to generate revenues. Because we use capital assets, depreciation and amortization are also necessary elements of our costs. Impairment charges, when necessary, accelerate the write-off of fixed assets that otherwise would have been accomplished by periodic depreciation charges. Additionally, the payment of income taxes is a necessary element of our operations. Therefore, any measures that exclude these elements have material limitations. To compensate for these limitations, we believe that it is appropriate to consider both net earnings (loss) determined in accordance with GAAP, as well as adjusted EBITDA, to evaluate our performance. Further, we separately analyze any significant fluctuations in interest expense, depreciation, amortization, impairment charges and income taxes.

The following are the significant factors that impacted our financial performance during the second quarter of 2013 compared with the same period during fiscal 2012:

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Explanation of Responses:

- Our sales for the second quarter of 2013 were down across most of our segments, with the International Marketing and Distribution segment having the most significant sales decline when compared to the second quarter of 2012.

- Our International Marketing and Distribution segment's net sales declined $73.4 million or 10% and adjusted operating profit decreased $22.7 million during the second quarter of 2013 as compared to the prior year's second quarter. The decline in this segment's results is primarily due to declining volumes and margins as market conditions in Europe continued to erode.

- Our International Mill segment's net sales decreased 17% and adjusted operating profit decreased $10.7 million to an adjusted operating loss of $4.2 million during the second quarter of 2013 as compared to the prior year's second quarter. The decline in adjusted operating profit is primarily due to a 16% or 54 thousand ton decrease in volumes.

- Partially offsetting these declines, our Americas Fabrication segment's net sales increased 5% and adjusted operating loss narrowed by $6.2 million during the second quarter of fiscal year 2013 as compared to the prior year's second quarter. The results were primarily due to stable input pricing, improved backlog margins and higher shipments.

SEGMENT OPERATING DATA

Unless otherwise indicated, all dollar amounts below are calculated before income taxes. Financial results for our reportable segments are consistent with the basis and manner in which we internally disaggregate financial information for the purpose of making operating decisions. See Note 16, Business Segments, to the unaudited consolidated financial statements included in this report.

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

(in thousands)	Three Months Ended		Six Months Ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Net sales:				
Americas Recycling	$351,374	$419,644	$703,335	834,449
Americas Mills	476,594	525,885	973,043	1,051,381
Americas Fabrication	317,966	301,593	674,558	621,361
International Mill	179,765	217,090	401,832	513,271
International Marketing and Distribution	649,936	723,355	1,258,524	1,433,426
Corporate	3,661	5,291	6,460	5,351
Eliminations	(249,622)	(236,114)	(498,852)	(515,675)
	$1,729,674	$1,956,744	$3,518,900	3,943,564
Adjusted operating profit (loss):				
Americas Recycling	$2,243	$6,389	$6,737	27,205
Americas Mills	48,769	54,401	101,291	112,332
Americas Fabrication	(3,812)	(9,969)	6,380	(17,349)
International Mill	(4,153)	6,592	(3,277)	16,414
International Marketing and Distribution	3,948	26,554	44,109	22,453
Corporate	(19,194)	(20,936)	(36,564)	(44,204)
Eliminations	(1,084)	(2,346)	(1,744)	(8,491)
Adjusted operating profit from Continuing Operations	26,717	60,685	116,932	108,360
Discontinued Operations	(46)	2,387	342	(24,165)
Adjusted operating profit	$26,671	$63,072	$117,274	84,195

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LIFO Impact on Adjusted Operating Profit (Loss) LIFO is an inventory costing method that assumes the most recent inventory purchases or goods manufactured are sold first. Therefore, current sales prices are offset against current inventory costs. In periods of rising prices, the LIFO inventory costing method has the effect of eliminating inflationary profits from operations. In periods of declining prices, this method has the effect of eliminating deflationary losses from operations. In either case the goal is to reflect economic profit of current market conditions. The table below reflects LIFO income or (expense) which represents decreases or (increases) in the LIFO inventory reserve.

The International Mill segment exclusively uses the FIFO inventory valuation method and thus is not included in this table:

(in thousands)	Three Months Ended February 28, 2013	Three Months Ended February 29, 2012	Six Months Ended February 28, 2013	Six Months Ended February 29, 2012
Americas Recycling	$(957)	$(4,625)	$1,393	$5,942
Americas Mills	(3,503)	(3,130)	1,557	(547)
Americas Fabrication	491	3,368	7,723	13,028
International Marketing and Distribution	4,292	2,414	13,045	3,523
Consolidated pre-tax LIFO (expense) income	$323	$(1,973)	$23,718	$21,946

BUSINESS SEGMENT RESULTS

Americas Recycling Adjusted operating profit decreased during the second quarter of 2013 as compared to the prior year's second quarter as ferrous selling prices declined 7% to $336 per ton when compared to the second quarter of fiscal 2012. Additionally, ferrous and nonferrous margins were lower in this year's second quarter when compared to the prior year's second quarter. LIFO expense decreased by $3.6 million to $1.0 million in the second quarter of fiscal 2013, from $4.6 million in the second quarter of fiscal 2012. We exported 8% and 6% of our ferrous scrap tonnage during the second quarter of 2013 and 2012, respectively, and 25% and 35% of our nonferrous scrap tonnage during the second quarter of 2013 and 2012, respectively.

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

	Three Months Ended		Increase (Decrease)		Six Months Ended		Increase (Decrease)	
	February 28, 2013	February 29, 2012	Amount	%	February 28, 2013	February 29, 2012	Amount	%
Average ferrous selling price	$336	$363	$(27)	(7)%	$329	$357	$(28)	(8)%
Average nonferrous selling price	$2,815	$2,873	$(58)	(2)%	$2,807	$2,886	$(79)	(3)%
Ferrous tons shipped	515	550	(35)	(6)%	1,018	1,088	(70)	(6)%
Nonferrous tons shipped	59	62	(3)	(5)%	118	122	(4)	(3)%

Americas Mills We include our five domestic steel mills, the scrap locations which directly support the steel mills, and our copper tube minimill in our Americas Mills segment.

Within the segment, adjusted operating profit for our five domestic steel mills was $47.7 million for the second quarter of 2013 as compared to adjusted operating profit of $51.9 million for the second quarter of 2012. Compared to the prior year's second quarter, shipping volumes declined for our merchant and billet products. However, our rebar shipments continued to strengthen when compared to the prior year's second quarter. In addition, we experienced lower margins on our merchant products during the second quarter of 2013 due to import pressure, although our rebar

margins improved as compared to the prior year's second quarter. The utilization of our mills remained consistent at 82% in the second quarters of both 2012 and 2013. Shipments included 62 thousand tons of billets in the second quarter of 2013 as compared to shipments of 88 thousand tons of billets in the second quarter of 2012.

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The table below reflects our domestic steel mills' operating statistics (in thousands) and average prices per short ton:

	Three Months Ended		Increase (Decrease)		Six Months Ended		Increase (Decrease)	
	February 28, 2013	February 29, 2012	Amount	%	February 28, 2013	February 29, 2012	Amount	%
Tons melted	626	607	19	3 %	1,198	1,274	(76)	(6)%
Tons rolled	543	542	1	— %	1,137	1,091	46	4 %
Tons shipped	602	644	(42)	(7)%	1,268	1,285	(17)	(1)%
Average mill selling price (finished goods)	$696	$750	$(54)	(7)%	$691	$743	$(52)	(7)%
Average mill selling price (total sales)	682	726	(44)	(6)%	675	716	(41)	(6)%
Average cost of ferrous scrap consumed	350	392	(42)	(11)%	345	389	(44)	(11)%
Average metal margin	332	334	(2)	(1)%	330	327	3	1 %
Average ferrous scrap purchase price	307	353	(46)	(13)%	300	348	(48)	(14)%

Our copper tube minimill recorded an adjusted operating profit of $1.1 million during the second quarter of 2013 as compared to an adjusted operating profit of $2.5 million during the second quarter of 2012. The results were negatively impacted by LIFO expense of $0.1 million in the second quarter of 2013 as compared to LIFO income of $3.7 million in the second quarter of 2012.

The table below reflects our copper tube minimill's operating statistics:

	Three Months Ended		Increase (Decrease)		Six Months Ended		Increase (Decrease)	
(pounds in millions)	February 28, 2013	February 29, 2012	Amount	%	February 28, 2013	February 29, 2012	Amount	%
Pounds shipped	10.3	9.4	0.9	10 %	20.1	18.7	1.4	7 %
Pounds produced	8.5	9.3	(0.8)	(9)%	16.8	17.1	(0.3)	(2)%

Americas Fabrication This segment recorded an adjusted operating loss of $3.8 million for this year's second quarter, marking a significant improvement over the prior year's second quarter adjusted operating loss of $10.0 million. The segment benefited from improvements in both shipping volumes and transactional pricing. Results were negatively impacted by a decrease in LIFO income of $2.9 million in the second quarter of 2013, from LIFO income of $3.4 million in the second quarter of 2012. The composite average fabrication selling price was $950 per ton during the second quarter of 2013, up from $914 per ton during the second quarter of 2012.

The tables below show our average fabrication selling prices per short ton and total fabrication plant shipments:

	Three Months Ended		Increase (Decrease)		Six Months Ended		Increase (Decrease)	
Average selling price (excluding stock and buyout sales)	February 28, 2013	February 29, 2012	Amount	%	February 28, 2013	February 29, 2012	Amount	%
Rebar	$897	$870	$27	3 %	$898	$851	$47	6 %
Structural	2,819	2,428	391	16 %	2,442	2,328	114	5 %
Post	938	940	(2)	— %	921	946	(25)	(3)%

	Three Months Ended		Increase (Decrease)		Six Months Ended		Increase (Decrease)	

Tons shipped (in thousands)	February 28, 2013	February 29, 2012	Amount	%	February 28, 2013	February 29, 2012	Amount	%
Rebar	204	192	12	6 %	429	405	24	6 %
Structural	12	15	(3)	(20)%	27	28	(1)	(4)%
Post	25	25	—	— %	45	44	1	2 %

International Mill During the second quarter of 2013, this segment had an adjusted operating loss of $4.2 million, compared with an adjusted operating profit of $6.6 million in the prior year's second quarter. Volumes declined 16%, or 54 thousand tons,

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primarily related to our merchant and wire rod products. International Mill selling prices also declined $8 per ton to $605 per ton during the second quarter of 2013. The results reflected the ongoing challenges in the Eurozone. Our mill ran at 58% utilization in the second quarter of 2013 as compared to 83% utilization for the second quarter of 2012. Shipments in the second quarter of 2013 included 39 thousand tons of billets, compared to 26 thousand tons of billets, in the second quarter of the prior year.

The table below reflects our International Mill's operating statistics (in thousands) and average prices per short ton:

	Three Months Ended		Increase (Decrease)		Six Months Ended		Increase (Decrease)	
	February 28, 2013	February 29, 2012	Amount	%	February 28, 2013	February 29, 2012	Amount	%
Tons melted	266	401	(135)	(34)%	659	834	(175)	(21)%
Tons rolled	241	356	(115)	(32)%	581	709	(128)	(18)%
Tons shipped	277	331	(54)	(16)%	622	790	(168)	(21)%
Average mill selling price (total sales)	$605	$613	$(8)	(1)%	$604	$607	$(3)	—%
Average ferrous scrap production cost	379	401	(22)	(5)%	380	389	(9)	(2)%
Average metal margin	226	212	14	7%	224	218	6	3%
Average ferrous scrap purchase price	303	328	(25)	(8)%	307	319	(12)	(4)%

International Marketing and Distribution During the second quarter of 2013, this segment reported a decrease in sales of 10% and reported an adjusted operating profit of $3.9 million, compared to an adjusted operating profit of $26.6 million in the second quarter of 2012. The results were primarily affected by decreased revenues and margins in our raw materials business and our Australian operations. Overall, this segment continued to lack momentum in terms of volumes and margins as uncertainty continued to exist in most major global markets.

Corporate Our corporate expenses for the three months ended February 28, 2013 were $19.2 million, compared to $20.9 million for the three months ended February 29, 2012. The reduction in corporate expenses is a result of our continued cost containment initiatives when compared to the prior year's second quarter.

Interest Expense Our interest expense increased by $0.4 million to $16.5 million during the second quarter of 2013 as compared to the second quarter of 2012 primarily from reduced gain on interest rate swap transactions. During the third quarter of 2012, the Company terminated its interest rate swap transactions and received cash proceeds of approximately $53 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.

Income Taxes Our effective income tax rate from continuing operations for the three and six months ended February 28, 2013 was 50.6% and 33.5%, respectively, compared with 35.0% and (110.7)% for the three and six months ended February 29, 2012, respectively. The increase in the effective tax rate to 50.6% for the three months ended February 28, 2013 compared to 35% for the three months ended February 29, 2012 is due to a change in the mix and amount of pre-tax income in the jurisdictions in which the Company operates. Our effective tax rates can be impacted by state and local taxes as well as by earnings or losses from foreign jurisdictions. State and local taxes are generally consistent while the composition of domestic and foreign earnings can create larger fluctuations in the rate. Additionally, our rate for the six months ended February 29, 2012 was impacted by a tax benefit of $102.1 million related to ordinary worthless stock and bad debt deductions associated with the Company's former Croatian subsidiary.

DISCONTINUED OPERATIONS DATA

Adjusted operating profit from discontinued operations was not material in the second quarter of 2013, compared to an adjusted operating profit of $2.4 million in the second quarter of 2012. During the first quarter of fiscal 2012, we announced our decision to exit the steel pipe manufacturing operations in Croatia ("CMCS") by closure of the facility and sale of the assets. We determined that the decision to exit this business met the definition of a discontinued operation. CMCS shipped its remaining production orders during the second quarter of 2012, and the results of CMCS primarily relate to the liquidation of inventory. Discontinued operations, primarily consisting of CMCS, reported an adjusted operating loss of $24.2 million, including $18.0 million of severance expense, in the six months ended February 29, 2012. We sold a majority of CMCS' assets

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during fiscal 2012. The remaining assets were sold during the first quarter of fiscal 2013 for $3.9 million with no impact on the consolidated statement of operations.

OUTLOOK

Our third quarter historically yields better results as the construction season begins to ramp up. The American Institute of Architects reported an Architecture Billings Index (ABI) of 54.9 in February 2013, the highest level in over five and a half years. We believe that the ABI level will eventually translate into increased demand for our domestic operations, and pricing should move in unison with any scrap price changes. Our International Mill segment anticipates a modest improvement in results over the second quarter of 2013 due to seasonal volume improvements. Although German manufacturing is showing signs of life, we do not anticipate any appreciable improvements in the Eurozone over the near term. We believe that continued weakness in most global markets in which we participate will continue to negatively burden our International Marketing and Distribution segment.

LIQUIDITY AND CAPITAL RESOURCES

See Note 8 - Credit Arrangements, to the unaudited consolidated financial statements included in this report for additional information.

We believe we have adequate access to several sources of contractually committed borrowings and other available credit facilities.

While we believe the lending institutions participating in our credit arrangements are financially capable, it is important to note that the banking and capital markets periodically experience volatility that may limit our ability to raise capital. Additionally, changes to our credit rating by any rating agency may negatively impact our ability to raise capital and our financing costs.

The table below reflects our sources, facilities and availability of liquidity as of February 28, 2013:

(in thousands)	Total Facility	Availability
Cash and cash equivalents	$170,097	$ N/A
Revolving credit facility	300,000	270,720
Domestic receivable sales facility	200,000	185,000
International accounts receivable sales facilities	185,674	132,854
Bank credit facilities — uncommitted	109,114	61,711
Notes due from 2013 to 2018	1,100,000	*
Equipment notes	13,376	*

* We believe we have access to additional financing and refinancing, if needed.

CMC Poland Sp. z o.o. ("CMCP") (formerly CMC Zawiercie S.A. or CMCZ) has uncommitted credit facilities of PLN 245 million ($77.1 million) with several banks with expiration dates ranging from March 31, 2013 to November 30, 2013. The Company intends to renew the uncommitted credit facilities upon expiration. At February 28, 2013, we had PLN 150.6 million ($47.4 million) outstanding under these facilities.

We have $200 million of 5.625% notes due November 2013, $400 million of 6.50% notes due July 2017 and $500 million of 7.35% notes due August 2018. All of these notes require interest only payments until maturity. We expect cash from operations to be sufficient to meet all interest and principal payments due within the next twelve months, and we believe we will be able to obtain additional financing or to refinance these notes when they mature. The Company is considering various alternatives as it relates to the maturity of its $200 million notes due November, 2013.

Certain of our financing agreements include various financial covenants. Our $300 million revolving credit facility required us to maintain a minimum interest coverage ratio (adjusted EBITDA to interest expense, as each is defined in the facility) of not less than 3.00 to 1.00 for the twelve month cumulative period ended November 30, 2012 and for each fiscal quarter on a rolling twelve month cumulative period thereafter. At February 28, 2013, our interest coverage ratio was 5.64 to 1.00. The credit facility also requires us to maintain a debt to capitalization ratio that does not exceed 0.60 to 1.00. At February 28, 2013, our debt to capitalization ratio was 0.50 to 1.00. The credit facility provides for interest based on the LIBOR, the Eurodollar rate or

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Bank of America's prime rate. The program's capacity, with a sublimit of $50 million for letters of credit, is reduced by outstanding stand-by letters of credit that totaled $29.3 million at February 28, 2013.

Our foreign operations generated approximately 27% of our revenue during the second quarter of 2013, and as a result, our foreign operations had cash and cash equivalents of approximately $90.4 million at February 28, 2013. Historically, our domestic operations have generated the majority of our cash, which has been used to fund the cash needs of our domestic operations as well as our foreign operations. Additionally, our domestic operations have access to the $300 million revolving credit facility and the $200 million sale of accounts receivable program described below. It is the Company's intention to indefinitely reinvest all undistributed earnings of non-US subsidiaries. While not expected, if a repatriation occurs in the future, we would be required to provide for taxes on repatriated earnings from our non-U.S. subsidiaries.

We regularly maintain a substantial amount of accounts receivable. We actively monitor our accounts receivable and, based on current market conditions and customers' financial condition, we record allowances as soon as we believe accounts are uncollectible. Continued pressure on the liquidity of our customers could result in additional reserves as we make our assessments in the future. We use credit insurance both in the U.S. and internationally to mitigate the risk of customer insolvency. We estimate that the amount of credit insured receivables (and those covered by export letters of credit) was approximately 57% of total receivables at February 28, 2013.

For added flexibility, we may sell certain accounts receivable both in the U.S. and internationally. See Note 2, Sales of Accounts Receivable, to the unaudited consolidated financial statements contained in this report. Our domestic sale of accounts receivable program contains certain cross-default provisions whereby a termination event could occur if we default under certain of our credit arrangements. Additionally, our sales of accounts receivable program contains covenants that are consistent with the covenants contained in our revolving credit agreement.

Cash Flows Our cash flows from operating activities result primarily from sales of steel and related products, and to a lesser extent, sales of nonferrous metal products and other raw materials used in steel manufacturing. We have a diverse and generally stable customer base. From time to time, we use futures or forward contracts to mitigate the risks from fluctuations in foreign currency exchange rates, commodity prices and natural gas prices. See Note 9, Derivatives and Risk Management, to the unaudited consolidated financial statements contained in this report.

During the first six months of 2013, we used $76.7 million of net cash flows provided by operating activities as compared to $39.1 million of net cash flow provided by operating activities during the first six months of 2012. Significant fluctuations in working capital were as follows:

- Accounts receivable - Excluding the impacts of our accounts receivable sales program discussed below, accounts receivable decreased during the first six months of 2013 from lower sales in the second quarter of 2013 as compared to the fourth quarter of 2012. Days' sales outstanding was 51 days and 44 days as of February 28, 2013 and February 29, 2012, respectively.

- Accounts receivable sold (repurchased) - We reduced the use of our accounts receivable sales program during the first six months of fiscal 2013 as compared to receivable sales during the first six months of 2012.

- Inventory - Inventory increased during the first six months of fiscal 2013 as our sales declined at a faster pace than our purchases and production as compared to the first six months of 2012. Days' sales in inventory was 51 days and 44 days as of February 28, 2013 and February 29, 2012, respectively.

- Accounts payable/accrued expenses - The decline in cash used for accounts payable and accrued expenses is primarily a reflection of our business cycle. Reflecting the overall economic environment, our operating levels declined during the first six months of fiscal 2012 compared to the end of fiscal 2011 at a greater rate than during the first six months

of fiscal 2013 compared to the end of fiscal 2012.

During the first six months of 2013, $6.0 million was used by investing activities as compared to a usage of $14.9 million during the first six months of 2012. For the six months ended February 28, 2013, we invested $41.8 million in capital expenditures offset by $29 million of cash proceeds as a result of the November 2012 sale of our Trinecke investment and $6.9 million in proceeds from sales of other long-lived assets.

We have revised our capital expenditures program for fiscal 2013 down to a range of $130 to $140 million. We regularly assess our capital spending and reevaluate our requirements based on current and expected results.

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During the first six months of 2013, $11.4 million was used by financing activities as compared to utilizing $28.0 million during the first six months of 2012. For the first half of fiscal 2013, we had net short-term borrowings of $21.8 million offset by a reduction of $5.3 million in our usage of documentary letters of credit. Our cash dividends remained consistent at approximately $28.0 million for the first half of both 2013 and 2012.

Our contractual obligations for the next twelve months of approximately $1 billion are expenditures incurred in connection with normal revenue producing activities. We believe our cash flows from operating activities and credit facilities are adequate to fund our ongoing operations and planned capital expenditures.

CONTRACTUAL OBLIGATIONS

The following table represents our contractual obligations as of February 28, 2013:

	Payments Due By Period*				
Contractual Obligations (in thousands)	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt(1)	$1,113,376	$204,072	$5,925	$402,715	$500,664
Notes payable	47,403	47,403	—	—	—
Interest(2)	342,490	74,369	126,140	115,935	26,046
Operating leases(3)	148,985	35,942	51,340	30,130	31,573
Purchase obligations(4)	1,149,399	795,752	180,805	104,470	68,372
Total contractual cash obligations	$2,801,653	$1,157,538	$364,210	$653,250	$626,655

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

(1) Total amounts are included in the February 28, 2013 consolidated balance sheet. See Note 8, Credit Arrangements, to the unaudited consolidated financial statements included in this report.

(2) Interest payments related to our short-term debt are not included in the table as they do not represent a significant obligation as of February 28, 2013.

(3) Includes minimum lease payment obligations for non-cancelable equipment and real-estate leases in effect as of February 28, 2013.

(4) Approximately 78% of these purchase obligations are for inventory items to be sold in the ordinary course of business. Purchase obligations include all enforceable, legally binding agreements to purchase goods or services that specify all significant terms, regardless of the duration of the agreement. Agreements with variable terms are excluded because we are unable to estimate the minimum amounts. Another significant obligation relates to capital expenditures.

Other Commercial Commitments

We maintain stand-by letters of credit to provide support for certain transactions that our insurance providers and suppliers request. At February 28, 2013, we had committed $29.3 million under these arrangements.

OFF-BALANCE SHEET ARRANGEMENTS

We did not enter into any new material off-balance sheet arrangements during the first six months of fiscal 2013.

CONTINGENCIES

See Note 15 - Commitments and Contingencies, to the unaudited consolidated financial statements included in this report.

In the ordinary course of conducting our business, we become involved in litigation, administrative proceedings and government investigations, including environmental matters. We may incur settlements, fines, penalties or judgments because of some of these matters. While we are unable to estimate the ultimate dollar amount of exposure or loss in

connection with these matters, we make accruals as warranted. Inherent uncertainties exist in these estimates primarily due to evolving remediation technology, changing regulations, possible third-party contributions and the uncertainties involved in litigation. We believe that we have adequately provided in our consolidated financial statements for the potential impact of these contingencies. We also believe that the outcomes will not materially affect the results of operations, our financial position or our cash flows.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act, Section 21E of the Exchange Act, and the Private Securities Litigation Reform Act of 1995, with respect to our financial condition, results of operations, cash flows and business, and our expectations or beliefs concerning future events. These forward-looking statements can generally be identified by phrases such as we or our management "expects," "anticipates," "believes," "estimates," "intends," "plans to," "ought," "could," "will," "should," "likely," "appears," "projects," "forecasts," "outlook" or other similar words or phrases. There are inherent risks and uncertainties in any forward-looking statements. Although the Company believes that its expectations are reasonable, it can give no assurance that these expectations will prove to have been correct, and actual results may vary materially. Except as required by law, the Company undertakes no obligation to update, amend or clarify any forward-looking statements to reflect events, new information or otherwise. Developments that could impact our expectations include the following:

- absence of global economic recovery or possible recession relapse;
- solvency of financial institutions and their ability or willingness to lend;
- success or failure of governmental efforts to stimulate the economy including restoring credit availability and confidence in a recovery;
- continued sovereign debt problems in the Euro-zone;
- customer non-compliance with contracts;
- financial covenants and restrictions on business contained in agreements governing our debt;
- construction activity or lack thereof;
- decisions by governments affecting the level of steel imports, including tariffs and duties;
- litigation claims and settlements;
- difficulties or delays in the execution of construction contracts resulting in cost overruns or contract disputes;
- metals pricing over which we exert little influence;
- increased capacity and product availability from competing steel minimills and other steel suppliers including import quantities and pricing;
- execution of cost reduction strategies;
- ability to retain key executives;
- court decisions and regulatory rulings;
- industry consolidation or changes in production capacity or utilization;
- global factors including political and military uncertainties;

- currency fluctuations;
- interest rate changes;
- availability and pricing of raw materials, including scrap metal, energy, insurance and supply prices;
- passage of new, or interpretation of existing, environmental laws and regulations;

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- the pace of overall economic activity, particularly in China;
- business disruptions, costs and future events related to any tender offers and proxy contests initiated by an activist shareholder;
- ability to make necessary capital expenditures;
- unexpected equipment failures;
- competition from other materials;
- losses or limited potential gains due to hedging transactions;
- risk of injury or death; and
- increased costs related to health care legislation.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to the information set forth in Item 7A. Quantitative and Qualitative Disclosures about Market Risk included in the Company's Annual Report on Form 10-K for the year ended August 31, 2012.

ITEM 4. CONTROLS AND PROCEDURES

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

We have an ongoing initiative to implement a new enterprise information system (the "Recy system") in our recycling businesses. We are implementing the Recy system in stages throughout fiscal 2013 and 2014. Management believes the necessary procedures are in place to maintain effective internal control over financial reporting as the implementation continues.

Other than this item, no other changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during our fiscal quarter ended February 28, 2013 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

During the quarter ended February 28, 2013, there were no material developments with respect to any legal proceedings previously disclosed in Item 3 of Part I of the Company's Annual Report on Form 10-K for the year ended August 31, 2012.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed in Item 1A Part I of the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2012.

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

Not Applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.
ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.
ITEM 5. OTHER INFORMATION

As previously reported on the Current Report on Form 8-K filed on March 13, 2013, James B. Alleman, Senior Vice President of Human Resources and Organizational Development, elected to leave the Company effective March 31, 2013.
In connection with his departure, the Company and Mr. Alleman entered into a Separation Agreement (the “Agreement”) on March 28, 2013. Except as set forth in the Agreement, the Agreement supersedes the Terms and Conditions of Stock Award, Employment and Separation, dated June 1, 2010, between Mr. Alleman and the Company. The Agreement prohibits Mr. Alleman from directly or indirectly competing with the Company for a period ending April 30, 2015 and from directly or indirectly hiring or soliciting employees of the Company for a period ending September 30, 2014. In addition, Mr. Alleman has agreed to certain ongoing confidentiality and cooperation obligations contained in the Agreement. In consideration for Mr. Alleman's release and waiver of claims and commitment to the non-competition obligations referenced in the Agreement, the Company agreed to pay Mr. Alleman: (i) a lump sum payment in the gross amount of $750,000, which is equivalent to two years annual base salary; (ii) subject to the Company meeting its fiscal year 2013 bonus metrics, a prorated annual performance bonus as formulaically determined and prorated through April 30, 2013; (iii) continuation of existing health benefits and other perquisites through April 30, 2013; (iv) Company fully-subsidized COBRA coverage continuing through October 30, 2014; (v) payment of all vested benefits in the Company Profit Sharing/401(k) Plan and Benefits Restoration Plan on the dates permitted or designated under each such plan; (vi) accelerated pro rata vesting of certain equity awards, according to the provisions of the applicable award agreement; and (vii) per the terms of the respective award agreements, the extension of the exercise date of 9,775 of the 27,236 stock appreciation rights granted to Mr. Alleman on November 23, 2011 to the earlier of April 30, 2015 and the expiration date of each award.
The foregoing summary of the Agreement is qualified in its entirety by reference to the Agreement itself, a copy of which is filed as Exhibit 10.1 to this report and is hereby incorporated herein by reference.

ITEM 6. EXHIBITS

Exhibits required by Item 601 of Regulation S-K:

3.1(a)	Restated Certificate of Incorporation (filed as Exhibit 3(i) to Commercial Metals' Form 10-K for the fiscal year ended August 31, 2009 and incorporated herein by reference).
3.1(b)	Certificate of Amendment of Restated Certificate of Incorporation dated February 1, 1994 (filed as Exhibit 3(i)(a) to Commercial Metals' Form 10-K for the fiscal year ended August 31, 2009 and incorporated herein by reference).
3.1(c)	Certificate of Amendment of Restated Certificate of Incorporation dated February 17, 1995 (filed as Exhibit 3(i)(b) to Commercial Metals' Form 10-K for the fiscal year ended August 31, 2009 and incorporated herein by reference).
3.1(d)	Certificate of Amendment of Restated Certificate of Incorporation dated January 26, 2006 (filed as Exhibit 3(i) to Commercial Metals' Form 10-Q for the quarter ended February 28, 2006 and incorporated herein by reference).
3.1(e)	Certificate of Designation, Preferences and Rights of Series A Preferred Stock (filed as Exhibit 2 to Commercial Metals' Form 8-A filed August 3, 1999 and incorporated herein by reference).
3.1(f)	Certificate of Designation of Series B Junior Participating Preferred Stock of Commercial Metals Company (filed as Exhibit 99.2 to Commercial Metals' Form 8-A filed August 1, 2011 and incorporated herein by reference).
3.1(g)	Certificate of Elimination of Series B Junior Participating Preferred Stock dated December 7, 2012 (filed as Exhibit 3.1 to Commercial Metals' Form 8-K filed December 7, 2012 and incorporated herein by reference).
3.2	Second Amended and Restated Bylaws (filed as Exhibit 3.1 to Commercial Metals' Form 8-K filed October 25, 2010 and incorporated herein by reference).
4.1	First Amendment to Rights Agreement, dated as of December 6, 2012, between Commercial Metals Company and Broadridge Corporate Issuer Solutions, Inc., as rights agent (filed as Exhibit 4.1 to Commercial Metals' Form 8-K filed December 7, 2012 and incorporated herein by reference).
10.1	Separation Agreement, dated March 28, 2013, by and between James Alleman and Commercial Metals Company (filed herewith).
31.1	Certification of Joseph Alvarado, President and Chief Executive Officer of Commercial Metals Company, pursuant to Section 302 to the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Barbara R. Smith, Senior Vice President and Chief Financial Officer of Commercial Metals Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Joseph Alvarado, President and Chief Executive Officer of Commercial Metals Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.2	Certification of Barbara R. Smith, Senior Vice President and Chief Financial Officer of Commercial Metals Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

	(filed herewith).
101*	The following financial information from Commercial Metals Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Operations (Unaudited), (ii) the Consolidated Balance Sheets (Unaudited), (iii) the Consolidated Statements of Cash Flows (Unaudited), (iv) the Consolidated Statements of Stockholders' Equity (Unaudited) and (v) the Notes to Consolidated Financial Statements (submitted electronically herewith).

* In accordance with Rule 406T of Regulation S-T, the XBRL information in Exhibit 101 to this quarterly report on Form 10-Q shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

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SIGNATURE

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

	COMMERCIAL METALS COMPANY
April 1, 2013	/s/ Barbara R. Smith Barbara R. Smith Senior Vice President and Chief Financial Officer (Duly authorized officer and principal financial officer of the registrant)

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INDEX TO EXHIBITS

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