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COMMERCIAL METALS CO
Form 10-Q/A
October 31, 2003

FORM 10-Q/A
(Amendment No. 1)
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

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

For Quarter ended May 31, 2003
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 of 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)

Former name, former address and former fiscal year,
If changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes	No
X	
---	---

As of June 30, 2003 there were 27,950,196 shares of the Company's common stock issued and outstanding excluding 4,314,970 shares held in the Company's treasury.

EXPLANATORY NOTE

This Amendment No. 1 to Commercial Metals Company's quarterly report on Form

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10-Q for the quarter ended May 31, 2003 is being filed to include certain reclassifications for improved disclosures on the Consolidated Balance Sheets and the Consolidated Statements of Cash Flows. We have also revised the language in Note C, Sales of Accounts Receivable, expanded disclosures related to accounting policies and made various other modifications, corrections and clarifications, including the reconciliation of non-GAAP financial measures that is now required by Regulation G.

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ITEM 1 - FINANCIAL STATEMENTS

COMMERCIAL METALS COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

ASSETS

(In thousands except share data)

	May 31, 2003*	August 31, 2002
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents	\$56,097	\$124,397
Accounts receivable (less allowance for collection losses of \$8,657 and \$8,877)	369,719	350,885
Inventories	295,098	268,040
Other	55,569	50,930
	-----	-----
TOTAL CURRENT ASSETS	776,483	794,252
PROPERTY, PLANT AND EQUIPMENT:		
Land	33,030	29,099
Buildings	124,584	119,592
Equipment	743,330	727,650
Leasehold improvements	37,673	34,637
Construction in process	15,886	10,801
	-----	-----
	954,503	921,779
Less accumulated depreciation and amortization	(582,490)	(543,624)
	-----	-----
	372,013	378,155
OTHER ASSETS	61,394	57,669
	-----	-----
	\$1,209,890	\$1,230,076
	=====	=====

* As restated, see Note L.

See notes to condensed consolidated financial statements.

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COMMERCIAL METALS COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY (In thousands except share data)

	May 31, 2003*	August 31, 2002
	-----	-----
CURRENT LIABILITIES:		
Short-term borrowings	\$ --	\$ --
Accounts payable	270,892	275,232
Accrued expenses and other payables	114,415	133,608
Income taxes payable	5,262	5,676
Current maturities of long-term debt	567	631
	-----	-----
TOTAL CURRENT LIABILITIES	391,136	415,147
DEFERRED INCOME TAXES	34,995	32,813
OTHER LONG-TERM LIABILITIES	29,027	24,841
LONG-TERM DEBT	257,633	255,969
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Capital stock:		
Preferred stock	--	--
Common stock, par value \$5.00 per share:		
Authorized 40,000,000 shares; issued		
32,265,166 shares;		
outstanding 27,868,176 and 28,518,453		
shares	161,326	161,326
Additional paid-in capital	760	170
Accumulated other comprehensive income (loss)	2,887	(1,458)
Retained earnings	393,362	392,004
	-----	-----
558,335	552,042	
Less treasury stock,		
4,396,990 and 3,746,713 shares at cost	(61,236)	(50,736)
	-----	-----
497,099	501,306	
	-----	-----
\$ 1,209,890	\$ 1,230,076	
	=====	=====

* As restated, see Note L.

See notes to condensed consolidated financial statements.

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COMMERCIAL METALS COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands except share data)

(Unaudited)

	Three months ended May 31,		Nine months May 31,
	2003	2002	2003
NET SALES	\$ 774,148	\$ 651,600	\$ 2,071,135
COSTS AND EXPENSES:			
Cost of goods sold	699,732	559,484	1,867,747
Selling, general and administrative expenses	61,442	58,133	168,485
Employees' retirement plans	3,123	4,509	9,008
Interest expense	4,878	4,575	12,766
	769,175	626,701	2,058,006
EARNINGS BEFORE INCOME TAXES	4,973	24,899	13,129
INCOME TAXES	1,951	8,466	4,969
NET EARNINGS	\$ 3,022	\$ 16,433	\$ 8,160
Basic earnings per share	\$ 0.11	\$ 0.59	\$ 0.29
Diluted earnings per share	\$ 0.11	\$ 0.56	\$ 0.28
Cash dividends per share	\$ 0.08	\$ 0.065	\$ 0.24
Average basic shares outstanding	28,047,456	27,983,434	28,284,752
Average diluted shares outstanding	28,147,577	29,131,438	28,645,492

See notes to condensed consolidated financial statements.

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COMMERCIAL METALS COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

Nine months ended
May 31,

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	2003*	2002
	-----	-----
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES:		
Net earnings	\$ 8,160	\$ 31,160
Adjustments to earnings not requiring cash:		
Depreciation and amortization	45,856	46,856
Provision for losses on receivables	3,375	2,375
Deferred income taxes	2,182	(3,182)
Tax benefits from stock plans	112	4,112
Gain on sale of SMI Owen	--	(5,000)
Other	789	
Changes in operating assets and liabilities, net of effect of Coil Steels Group and Symons acquisitions and sale of SMI Owen:		
Decrease (increase) in accounts receivable	(48,691)	(72,691)
Funding from accounts receivable sold	44,973	
Decrease (increase) in inventories	(26,760)	(36,760)
Decrease (increase) in other assets	(19,707)	31,707
Increase (decrease) in accounts payable, accrued expenses, other payables and income taxes	(24,025)	36,025
Increase in other long-term liabilities	4,186	9,186
	-----	-----
Net Cash Flows From (Used By) Operating Activities	(9,550)	44,550
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(35,936)	(28,936)
Acquisition of Symons' Denver, CO business	(5,628)	
Acquisition of Coil Steels Group, net of cash received	--	(6,000)
Sale of assets of SMI Owen	--	19,000
Sales of property, plant and equipment	136	
	-----	-----
Net Cash Used By Investing Activities	(41,428)	(14,428)
CASH FLOWS FROM (USED BY) FINANCING ACTIVITIES:		
Short-term borrowings - net change	--	(9,000)
Payments on long-term debt	(498)	(9,498)
Stock issued under incentive and purchase plans	4,588	29,588
Treasury stock acquired	(14,610)	
Dividends paid	(6,802)	(5,802)
	-----	-----
Net Cash From (Used by) Financing Activities	(17,322)	4,000
	-----	-----
Decrease in Cash and Cash Equivalents	(68,300)	34,300
Cash and Cash Equivalents at Beginning of Year	124,397	56,397
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 56,097	\$ 90,097
	=====	=====

* As restated, see Note L.

See notes to condensed consolidated financial statements.

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(In thousands except share data)
(Unaudited)

	Common Stock		Add'l Paid-in Capital	Accu O Compr Incom
	Number of Shares	Amount		
Balance September 1, 2002:	32,265,166	\$ 161,326	\$ 170	\$
Comprehensive income:				
Net earnings for nine months ended May 31, 2003				
Other comprehensive income:				
Foreign currency translation adjustment, net of taxes of \$2,340				
Comprehensive income				
Cash dividends				
Stock issued under incentive and purchase plans			478	
Tax benefits from stock plans			112	
Treasury stock acquired				
Balance May 31, 2003	32,265,166	\$ 161,326	\$ 760	\$

	Treasury Stock		
	Number of Shares	Amount	Total
Balance September 1, 2002:	(3,746,713)	\$ (50,736)	\$ 501,306
Comprehensive income:			
Net earnings for nine months ended May 31, 2003			8,160
Other comprehensive income:			
Foreign currency translation adjustment, net of taxes of \$2,340			4,345
Comprehensive income			12,505
Cash dividends			(6,802)
Stock issued under incentive and purchase plans	301,133	4,110	4,588
Tax benefits from stock plans			112
Treasury stock acquired	951,410)	(14,610)	(14,610)

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Balance May 31, 2003	(4,396,990)	\$ (61,236)	\$ 497,099
	=====	=====	=====

See notes to condensed consolidated financial statements.

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COMMERCIAL METALS COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE A - QUARTERLY FINANCIAL DATA

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of May 31, 2003 and August 31, 2002 and the results of operations for the three and nine months ended May 31, 2003 and 2002 and cash flows for the nine months ended May 31, 2003 and 2002. The results of operations for the nine month periods are not necessarily indicative of the results to be expected for a full year. These interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended August 31, 2002 included in its Form 10-K/A filed with the Securities and Exchange Commission.

NOTE B - ACCOUNTING POLICIES

Effective September 1, 2002, goodwill was no longer amortized. Goodwill was \$6.8 million at May 31, 2003 and at August 31, 2002. The comparison to the prior year period was as follows (in thousands):

	Three months ended May 31,		Nine months ended May 31,	
	2003	2002	2003	2002
	-----	-----	-----	-----
Reported net earnings	\$ 3,022	\$16,433	\$ 8,160	\$31,487
Add: goodwill amortization	--	184	--	521
	-----	-----	-----	-----
Adjusted net earnings	\$ 3,022	\$16,617	\$ 8,160	\$32,008
	=====	=====	=====	=====

The goodwill amortization was \$0.01 per basic and diluted share for the three months ended May 31, 2002, and \$0.02 per basic and diluted share for the nine months ended May 31, 2002.

In November 2002, the Financial Accounting Standards Board (FASB) issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees on Indebtedness of Others which applies to all guarantees issued or modified after December 31, 2002. The Company has not entered into or modified any significant guarantees since

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December 31, 2002, and therefore no liability was recorded at May 31, 2003. The Company's existing guarantees at December 31, 2002 had been given at the request of a customer and its surety bond issuer. The Company has agreed to indemnify the surety against all costs that the surety may incur should the customer fail to perform its obligations under construction contracts covered by payment and performance bonds issued by the surety. As of May 31, 2003, the surety had issued bonds in the total amount (without reduction for the work performed to date) of \$11.9 million, which are subject to the Company's guarantee obligation under the indemnity agreement. The fair value of these guarantees was not significant.

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COMMERCIAL METALS COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

STOCK-BASED COMPENSATION

The Company accounts for stock options granted to employees and directors using the intrinsic value based method of accounting. Under this method, the Company does not recognize compensation expense for the stock options because the exercise price is equal to the market price of the underlying stock on the date of the grant. If the Company had used the fair value based method of accounting, net earnings and earnings per share would have been reduced to the pro-forma amounts listed in the table below. The Black-Scholes option pricing model was used to calculate the pro forma stock-based compensation costs. For purposes of the pro forma disclosures, the assumed compensation expense is amortized over the option's vesting periods. The pro forma information is consistent with assumptions used in the year end calculations.

(in thousands, except per share amounts)

	Three months ended May 31,		Nine months ended May 31,	
	2003	2002	2003	2002
Net earnings-as reported	\$ 3,022	\$ 16,433	\$ 8,160	\$ 31,487
Pro forma stock-based compensation cost	588	603	1,265	1,038
Net earnings-pro forma	\$ 2,434	\$ 15,830	\$ 6,895	\$ 30,449
Net earnings per share-as reported:				
Basic	\$.11	\$ 0.59	\$.29	\$ 1.17
Diluted	\$.11	\$ 0.56	\$.28	\$ 1.13
Net earnings per share-pro forma:				
Basic	\$.09	\$ 0.57	\$.24	\$ 1.13
Diluted	\$.09	\$ 0.54	\$.24	\$ 1.09

NOTE C - SALES OF ACCOUNTS RECEIVABLE

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The Company has an accounts receivable securitization program (Securitization Program) which it utilizes as a cost-effective, short-term financing alternative. Under the Securitization Program, the Company and several of its subsidiaries (the Originators) periodically sell accounts receivable to the Company's wholly-owned consolidated special purpose subsidiary (CMCR). CMCR is structured to be a bankruptcy-remote entity. CMCR, in turn, sells an undivided percentage ownership interest (Participation Interest) in the pool of receivables to an affiliate of a third party financial institution (Buyer). CMCR may sell undivided interests of up to \$130 million, depending on the Company's level of financing needs.

This Program is designed to enable receivables sold by the Company to CMCR to constitute true sales under US Bankruptcy Laws, and the Company has received an opinion from counsel relating to the "true sale" nature of the program. As a result, these receivables are available to satisfy CMCR's own obligations to its third party creditors. The Company accounts for the Securitization Program in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The transfers meet all of the criteria for a sale under SFAS No. 140. At the time a Participation Interest in the pool of receivables is sold, the amount sold is removed from the consolidated balance sheet and the proceeds from the sale are reflected as cash provided by operating activities.

At May 31, 2003 and August 31, 2002, uncollected accounts receivable of \$156 million and \$146 million, respectively, had been sold to CMCR, and the Company's undivided interest in these receivables was subordinate to any interest owned by the Buyer. At May 31, 2003 and August 31, 2002, \$20 million and \$0, respectively of Participation Interests in CMCR's accounts receivable pool were owned by the Buyer and therefore reflected as a reduction in accounts receivable on the Company's consolidated balance sheets.

Discounts (losses) on the sales of accounts receivable to the Buyer under this Securitization Program were \$199 thousand and \$510 thousand for the three and nine months ended May 31, 2003, respectively. These discounts were \$69 thousand and \$699 thousand for the three and nine months ended May 31, 2003, respectively. These losses, representing primarily the costs of funds, were included in selling, general and administrative expenses. The carrying amount of the Company's retained interest (representing the Company's interest in the receivable pool) was \$136 million in the revolving pool of receivables of \$156 million at May 31, 2003. At August 31, 2002, the carrying amount of the Company's retained interest was \$146 million (100%) in the revolving pool of receivables of \$146 million. The carrying amount of the Company's retained interest in the receivables approximated fair value due to the short-term nature of the collection period. The retained interest is determined reflecting 100% of any allowance for collection losses on the entire receivables pool. No other material assumptions are made in determining the fair value of the retained interest. The Company is responsible for servicing the entire pool of receivables.

In addition to the Securitization Program described above, the Company's international subsidiaries periodically sell accounts receivable. These arrangements also constitute true sales and, once the accounts are sold, they are no longer available to satisfy the Company's creditors in the event of bankruptcy. Uncollected accounts receivable that had been sold under these arrangements and removed from the consolidated balance sheets were \$27.1 million at May 31, 2003 and \$2.1 million at August 31, 2002.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE D - INVENTORIES

Before deduction of last in first out (LIFO) inventory valuation reserves of \$16.1 million and \$8.1 million at May 31, 2003 and August 31, 2002, respectively, inventories valued under the first-in, first-out method approximated replacement cost. The majority of the Company's inventories are in finished goods, with minimal work in process. Approximately \$16.3 million and \$16.5 million were in raw materials at May 31, 2003 and August 31, 2002, respectively.

NOTE E - LONG TERM DEBT

Long-term debt (in thousands) was as follows:

	May 31, 2003	August 31, 2002
	-----	-----
7.20% notes due 2005	\$106,873	\$104,775
6.80% notes due 2007	50,000	50,000
6.75% notes due 2009	100,000	100,000
Other	1,327	1,825
	-----	-----
	258,200	256,600
Less current maturities	567	631
	-----	-----
	\$257,633	\$255,969
	=====	=====

On April 9, 2002 the Company entered into two interest rate swaps to convert a portion of the Company's long term debt from a fixed interest rate to a floating interest rate. The impact of these swaps is to adjust the amount of fixed rate and floating rate debt and to reduce overall financing costs. The swaps effectively convert the interest rate on the \$100 million debt due July 2005 from the fixed rate of 7.20% to six month LIBOR (determined in arrears) plus a spread of 2.02%. The interest rate is set on January 15th and July 15th, and for the quarter ended May 31, 2003, was estimated to be an annualized rate of 3.19%. The total fair value of both swaps, including accrued interest, was \$8.4 million and \$5.2 million at May 31, 2003 and August 31, 2002, respectively. The swaps are recorded in other long-term assets, with a corresponding increase in the 7.20% long-term notes, representing the change in fair value of the hedged debt. These hedges were highly effective for the three and nine months ended May 31, 2003.

NOTE F - EARNINGS PER SHARE

On May 20, 2002, the Company's Board of Directors declared a two-for-one stock split in the form of a 100% stock dividend on its common stock.

In calculating earnings per share, there were no adjustments to net earnings to arrive at income for the three or nine months ended May 31, 2003 or 2002. The reconciliation of the denominators of earnings per share calculations

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are as follows:

	Three months ended May 31,		
	2003	2002	
Shares outstanding for basic earnings per share	28,047,456	27,983,434	28,2
Effect of dilutive securities-stock options/purchase plans	100,121	1,148,004	3
Shares outstanding for diluted earnings per share	28,147,577	29,131,438	28,6

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COMMERCIAL METALS COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Stock options with total share commitments of 1,206,335 at May 31, 2003 were anti-dilutive based on the average share price for the quarter of \$15.34. All stock options expire by 2010.

At May 31, 2003, the Company had authorization to purchase 1,116,152 of its common shares.

All stock options at May 31, 2002 were dilutive based on the average share price of \$21.145 for the quarter.

NOTE G- DERIVATIVES AND RISK MANAGEMENT

The Company's worldwide operations and product lines expose it to risks from fluctuations in foreign currency exchange rates and metals commodity prices. The objective of the Company's risk management program is to mitigate these risks using futures or forward contracts (derivative instruments). The Company enters into metal commodity forward contracts to mitigate the risk of unanticipated declines in gross margin due to the volatility of the commodities' prices, and enters into foreign currency forward contracts which match the expected settlements for purchases and sales denominated in foreign currencies. The Company designates only those contracts as hedges for accounting purposes which closely match the terms of the underlying transaction. These hedges resulted in substantially no ineffectiveness in the statements of earnings for the three or nine months ended May 31, 2003 and 2002. Certain of the foreign currency and all of the commodity contracts were not designated as hedges for accounting purposes, although management believes they are essential economic hedges. The changes in fair value of these instruments resulted in a \$106 thousand increase and a \$199 thousand decrease in cost of goods sold for the three months ended May 31, 2003 and 2002, respectively. Also, cost of goods sold decreased by \$391 thousand and \$546 thousand for the nine months ended May 31, 2003 and 2002, respectively, due to changes in the fair value of these instruments. All of the instruments are highly liquid, and none are entered into for trading purposes or speculation.

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See Note E, Long-Term Debt, regarding the Company's interest rate risk management strategy.

NOTE H - CONTINGENCIES

CONSTRUCTION CONTRACT DISPUTES

See Note 10, Commitments and Contingencies, to the consolidated financial statements for the year ended August 31, 2002.

At August 31, 2002, \$9.6 million was accrued (including interest) for an adverse trial judgment. The judgment was upheld on appeal in February 2003, and paid and released during the three months ended May 31, 2003.

Subsequent to May 31, 2003, the Company's subsidiary, SMI-Owen Steel Company, Inc., (SMI-Owen) settled, contingent upon approval by the Bankruptcy Court which has jurisdiction over one of the parties, all disputes between SMI-Owen, the general contractor and the owner of a large hotel and casino complex. SMI-Owen will pay \$1.25 million of the \$3.5 million settlement payment with \$2.25 million to be paid by an insurance company. The resolution of this dispute will resolve all material claims asserted against SMI-Owen arising from the project. The settlement agreement provides that SMI-Owen reserves all rights with regard to pending litigation against an insurance broker for insurance benefits not received by SMI-Owen due to the broker's acts, errors, omissions and other conduct related to the insurance program for the project. The Company had adequate amounts accrued at May 31, 2003.

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COMMERCIAL METALS COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

ENVIRONMENTAL AND OTHER MATTERS

In the ordinary course of conducting its business, the Company becomes involved in litigation, administrative proceedings and governmental investigations, including environmental matters. Management believes that adequate provision has been made in the financial statements for the potential impact of these issues, and that the outcomes will not significantly impact the results of operations or the financial position of the Company, although they may have a material impact on earnings for a particular quarter.

A subsidiary of the Company has been notified that a customer, now in bankruptcy proceedings, alleges the subsidiary received payments from the customer within 90 days of bankruptcy filing which are voidable and should be returned to the bankruptcy estate. The payments were for materials and services sold by the subsidiary to the customer. The Company believes it has valid legal defenses against such claim and intends to vigorously defend this claim. The Company had accrued \$1 million as of May 31, 2003 relating to this matter.

The Company is involved in various other claims and lawsuits incidental to its business. In the opinion of management, these claims and suits in the aggregate will not have a material adverse effect on the results of operations or the financial position of the Company.

NOTE I - RECLASSIFICATIONS

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Certain reclassifications have been made in the 2002 financial statements to conform to the classifications used in the current year.

NOTE J - ACQUISITIONS

On May 5, 2003, the Company acquired substantially all of the operating assets of the Denver, Colorado location of Symons Corporation for \$5.6 million cash. This acquisition expands the Company's concrete form and construction-related product sales in the western part of the United States. The purchase price allocation has been prepared on a preliminary basis, and reasonable changes may be made following valuation by business appraisers of the intangible assets. Following is a summary of the estimated fair values of the assets acquired as of the date of the acquisition (in thousands):

Rental equipment	\$4,400
Identifiable intangible assets	1,000
Inventory	173
Equipment	55

	\$5,628
	=====

Rental equipment and intangible assets are included in long-term other assets on the May 31, 2003 condensed consolidated balance sheets. The results of operations subsequent to May 5, 2003 are included in the condensed consolidated statement of earnings.

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COMMERCIAL METALS COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE K - BUSINESS SEGMENTS

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

	Three months ended May 31, 2003			
	Manufacturing	Recycling	Marketing & Distribution	Corp El
	-----	-----	-----	-----
Net sales - unaffiliated customers	\$ 353,547	\$ 113,525	\$ 307,025	\$
Inter-segments sales	847	10,224	4,046	(15,
	-----	-----	-----	-----
	354,394	123,749	311,071	(15,
Adjusted operating profit (loss)	2,314	5,067	5,840	(3,

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	Three months ended May 31, 2002			
	Manufacturing	Recycling	Marketing & Distribution	Corp El
Net sales - unaffiliated customers	\$355,898	\$ 95,182	\$ 200,285	\$
Inter-segments sales	974	7,061	2,382	(10,
	356,872	102,243	202,667	(10,
Adjusted operating profit (loss)	26,139	2,169	3,254	(2,

	Nine months ended May 31, 2003			
	Manufacturing	Recycling	Marketing & Distribution	Corp El
Net sales - unaffiliated customers	\$955,816	\$297,184	\$ 817,728	\$
Inter-segments sales	2,407	23,389	14,512	(40,
	958,223	320,573	832,240	(39,
Adjusted operating profit (loss)	7,206	10,521	15,953	(7,
Total assets - May 31, 2003	714,117	98,068	310,492	87,

	Nine months ended May 31, 2002			
	Manufacturing	Recycling	Marketing & Distribution	Corp El
Net sales - unaffiliated customers	\$1,016,314	\$251,589	\$ 529,816	\$
Inter-segments sales	2,594	16,203	10,425	(29,
	1,018,908	267,792	540,241	(28,
Adjusted operating profit (loss)	62,189	1,145	7,740	(6,
Total assets - May 31, 2002	717,680	100,488	253,885	114,

The following table provides a reconciliation of the non-GAAP measure, adjusted operating profit (loss), to net earnings (loss), the most comparable GAAP measure (in thousands):

Marketing and Corpo

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Segment	Manufacturing	Recycling	Distribution	Elimi
Three months ended May 31, 2003:				
Net earnings (loss)	\$ 1,378	\$ 3,222	\$ 3,498	\$ (5
Income taxes	837	1,813	947	(1
Financing costs	99	32	1,395	3
Adjusted operating profit (loss)	\$ 2,314	\$ 5,067	\$ 5,840	\$ (3
Three months ended May 31, 2002:				
Net earnings (loss)	\$16,219	\$ 1,379	\$ 1,663	\$ (2
Income taxes	9,773	757	909	(2
Financing costs	147	33	682	3
Adjusted operating profit (loss)	\$26,139	\$ 2,169	\$ 3,254	\$ (2

Segment	Manufacturing	Recycling	Marketing and Distribution	Corpo Elimi
Nine months ended May 31, 2003:				
Net earnings (loss)	\$ 4,383	\$ 6,689	\$10,629	\$ (13
Income taxes	2,575	3,762	2,991	(4
Financing costs	248	70	2,333	10
Adjusted operating profit (loss)	\$ 7,206	\$10,521	\$15,953	\$ (7
Nine months ended May 31, 2002:				
Net earnings (loss)	\$38,418	\$ 646	\$ 3,856	\$ (11
Income taxes	23,196	355	2,102	(7
Financing costs	575	144	1,782	12
Adjusted operating profit (loss)	\$62,189	\$ 1,145	\$ 7,740	\$ (6

NOTE L - RESTATEMENT

In October of 2003, the Company determined that the amounts previously reported at May 31, 2003 and August 31, 2002 as temporary investments should have been classified as "cash equivalents" and combined with the amounts reported as cash on its consolidated balance sheets. Also, the Company has determined that it should have consolidated its interests in CMCR, the primary effect of which is to combine the amounts previously reported as notes receivables from affiliate with accounts receivable on the consolidated balance sheets. As a result, cash and cash equivalents shown in the accompanying consolidated balance sheets as of May 31, 2003 and August 31, 2002 have been increased by \$25 million and \$91 million, respectively, from the amounts previously reported as cash, and the previously reported temporary investments line has been removed. As a result of consolidating CMCR, accounts receivable as of May 31, 2003 and August 31, 2002 have been increased by \$133 million and \$143 million, respectively, from the amounts previously reported, and the previously reported notes receivable from affiliates line has been removed. In conjunction with these balance sheet changes, net cash from (used by) investing activities in the accompanying

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statements of cash flows for the nine months ended May 31, 2003 and 2002 have been changed from \$25 million and (\$54) million, respectively, to (\$41) million and (\$15) million. In addition, the disclosures in Note C, Sales of Accounts Receivable, have been revised. Other changes were also made to the consolidated balance sheets and statements of cash flows and accompanying notes as a result of the consolidation of CMCR, none of which are material to the financial statements.

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ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CONSOLIDATED RESULTS OF OPERATIONS (in millions)

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2003	2002	2003	2002
Net sales	\$ 774	\$ 652	\$ 2,071	\$ 1,798
Net earnings	3.0	16.4	8.2	31.5
EBITDA	25.4	44.7	71.8	110.3
Ending LIFO reserve	16.1	6.3		

We have included a financial statement measure in the table above that was not derived in accordance with generally accepted accounting principles (GAAP). Earnings before interest expense, income taxes, depreciation and amortization (EBITDA) is a non-GAAP financial performance measure. In calculating EBITDA, we exclude our largest recurring non-cash charge, depreciation and amortization. We use EBITDA as one guideline to assess our ability to pay our current debt obligations as they mature and a tool to calculate possible future levels of leverage capacity. Reconciliations to the most comparable GAAP measure, net earnings, are provided below (in millions):

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2003	2002	2003	2002
Net earnings	\$ 3.0	\$ 16.4	\$ 8.2	\$ 31.5
Income taxes	2.0	8.5	5.0	17.7
Interest expense	4.9	4.6	12.8	14.6
Depreciation and amortization	15.5	15.2	45.8	46.5

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EBITDA	\$ 25.4	\$ 44.7	\$ 71.8	\$ 110.3
	=====	=====	=====	=====

Our management uses a non-GAAP measure, adjusted operating profit, to compare and evaluate the financial performance of our segments. Adjusted operating profit, as presented below, is the sum of our earnings before income taxes, and financing costs. Adjusted operating profit provides a core operational earnings measurement that compares segments without the need to adjust for federal, but more specifically 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 operating profit. The results are therefore without consideration of financing alternatives of capital employed. See Note K, Business Segments, to the condensed consolidated financial statements.

The following table provides a reconciliation of the non-GAAP measure, adjusted operating profit (loss), to net earnings (loss), the most comparable GAAP measure (in thousands):

Segment	Manufacturing	Recycling	Marketing and Distribution	Corporate Eliminations
Three months ended May 31, 2003:				
Net earnings (loss)	\$ 1,378	\$ 3,222	\$ 3,498	\$ (5,196)
Income taxes	837	1,813	947	(1,197)
Financing costs	99	32	1,395	381
Adjusted operating profit (loss)	\$ 2,314	\$ 5,067	\$ 5,840	\$ (3,612)
Three months ended May 31, 2002:				
Net earnings (loss)	\$16,219	\$ 1,379	\$ 1,663	\$ (2,196)
Income taxes	9,773	757	909	(2,196)
Financing costs	147	33	682	381
Adjusted operating profit (loss)	\$26,139	\$ 2,169	\$ 3,254	\$ (2,011)

Segment	Manufacturing	Recycling	Marketing and Distribution	Corporate Eliminations
Nine months ended May 31, 2003:				
Net earnings (loss)	\$ 4,383	\$ 6,689	\$10,629	\$ (13,841)
Income taxes	2,575	3,762	2,991	(4,197)
Financing costs	248	70	2,333	1,072
Adjusted operating profit (loss)	\$ 7,206	\$10,521	\$15,953	\$ (7,006)
Nine months ended May 31, 2002:				
Net earnings (loss)	\$38,418	\$ 646	\$ 3,856	\$ (11,196)
Income taxes	23,196	355	2,102	(7,197)
Financing costs	575	144	1,782	1,276

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	----- \$62,189 =====	----- \$ 1,145 =====	----- \$ 7,740 =====	----- \$ (6 =====
Adjusted operating profit (loss)				

The following events had a significant financial impact during the third quarter ended May 31, 2003 as compared to 2002:

- We recorded a \$3.4 million (after-tax) LIFO expense (\$0.12 per diluted share) compared to minimal LIFO expense in the prior year period.
- Our steel and the copper tube minimills' earnings decreased due primarily to higher scrap, utility and other input costs which were not offset by increased selling prices.
- Margins were lower at the steel group's fabrication operations due to lower selling prices, in spite of higher shipments.
- In the prior year third quarter, we recorded a \$3.4 million (after-tax) gain from the sale of the assets of SMI Owen Steel Company.

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- Adjusted operating profits in our recycling segment more than doubled from last year's third quarter due mostly to the steel (ferrous) scrap markets.
- Marketing and distribution's adjusted operating profit was significantly higher than last year's third quarter, with most of the improvement in international markets.
- We reduced bonuses, contributions and employee's retirement plan expenses in line with lower earnings.
- We maintained excess cash and had no short-term debt at May 31, 2003.

CONSOLIDATED DATA -

The LIFO method of inventory valuation decreased net earnings by \$3.4 million and \$5.2 million for the three and nine months ended May 31, 2003, respectively. LIFO reduced diluted earnings per share by 12 cents and 18 cents for the three and nine months ended May 31, 2003, respectively. For the three and nine months ended May 31, 2002, LIFO increased net earnings by \$137 thousand and \$101 thousand, respectively, (no effect per diluted share).

SEGMENT OPERATING DATA -

Unless otherwise indicated, all dollars below are before income taxes.

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The following table shows net sales and adjusted operating profit (loss) by business segment (in thousands):

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	Three months ended May 31,		Nine months ended May 31,	
	2003	2002	2003	2002
NET SALES:				
Manufacturing	\$ 354,394	\$ 356,872	\$ 958,223	\$ 1,018,908
Recycling	123,749	102,243	320,573	267,792
Marketing and Distribution	311,071	202,667	832,240	540,241
Corporate and Eliminations	(15,066)	(10,182)	(39,901)	(28,856)
	-----	-----	-----	-----
	\$ 774,148	\$ 651,600	\$ 2,071,135	\$ 1,798,085
	=====	=====	=====	=====
OPERATING PROFIT (LOSS):				
Manufacturing	\$ 2,314	\$ 26,139	\$ 7,206	\$ 62,189
Recycling	5,067	2,169	10,521	1,145
Marketing and Distribution	5,840	3,254	15,953	7,740
Corporate and Eliminations	(3,171)	(2,019)	(7,275)	(6,571)
	-----	-----	-----	-----
	\$ 10,050	\$ 29,543	\$ 26,405	\$ 64,503
	=====	=====	=====	=====

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MANUFACTURING -

We include our steel group and our copper tube division in our manufacturing segment. Adjusted operating profit is equal to earnings before income taxes for our four steel minimills, our copper tube mill and the steel group's fabrication operations. Our manufacturing adjusted operating profit for the three months ended May 31, 2003 decreased \$23.8 million as compared to 2002. Excluding the gain of \$5.2 million from the sale of SMI Owen in 2002, adjusted operating profit decreased 89%. Without the 2002 gain, net sales increased \$2.7 million (1%). Scrap purchase prices were driven sharply higher by offshore demand and the weakening value of the U.S. dollar. Our steel minimills implemented higher selling prices late in the second quarter 2003, and again in the third quarter. These price increases became partially effective in our third quarter. Therefore, the price increases did not fully offset higher scrap and utility costs. Gross margins were significantly lower as a result of these conditions. Our copper tube mill's gross margins were also lower due to increased copper scrap purchase prices and lower selling prices for its products. Our steel group's downstream fabrication operations (excluding the gain on the sale of SMI Owen in 2002) were less profitable in 2003 due to much lower selling prices which more than offset the impact of higher 2003 shipments.

Our manufacturing segment's adjusted operating profit for the nine months ended May 31, 2003 decreased \$55.0 million as compared to 2002. The sale of SMI Owen and a litigation settlement at the mills in 2002 accounted for \$10.6 million of the decrease. Overall shipments for the nine months ended May 31, 2003 were higher as compared to 2002. However, gross margins were lower primarily because scrap and utility costs were not offset by price increases.

The table below reflects steel and scrap prices per ton:

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	Three months ended May 31,		Nine months ended May 31,	
	2003	2002	2003	2002
Average mill selling price (total sales)	\$280	\$267	\$274	\$270
Average mill selling price (finished goods)	289	273	283	275
Average fabrication selling price	520	598	536	619
Average ferrous scrap purchase price	106	84	96	76

Adjusted operating profit for our four steel minimills decreased 91% for the three months ended May 31, 2003 as compared to 2002. The effect of valuing inventories under the LIFO method accounted for 35% of the decrease in adjusted operating profit for the three months ended May 31, 2003 as compared to 2002. Also, adjusted operating profit in 2003 decreased because higher selling prices and more shipments were not enough to offset higher input costs, including scrap and utilities. Our adjusted operating profit at SMI Texas decreased 30% to \$5.1 million for the three months ended May 31, 2003 as compared to an adjusted operating profit of \$7.3 million in 2002. SMI South Carolina lost \$2.0 million for the three months ended May 31, 2003 as compared to a \$1.6 million adjusted operating profit in 2002. Adjusted operating profit at our SMI Alabama mill for the three months ended May 31, 2003 decreased 51% to \$949 thousand as compared to \$1.9 million in 2002. SMI Arkansas reported a \$3.0 million adjusted operating loss in 2003 as compared to a \$1.1 million adjusted operating profit in 2002. The adjusted operating loss was entirely attributable to LIFO expense caused by anticipated higher year end inventories of rerolling rail at SMI Arkansas. The mills shipped 634,000 tons in 2003 compared to 612,000 tons in 2002, an increase of 4%, due to higher billet sales. The mills rolled 544,000 tons, down 2% as compared to 2002. Tons melted increased 1% to 572,000. The average total mill selling price at \$280 per ton was \$13 (5%) above last year. Our mill selling price for finished goods increased \$16 per ton (6%). Average scrap purchase costs were \$22 per ton (26%) higher than last year. Utility expenses increased by \$3.5 million for the three months ended May 31, 2003 as compared to 2002, mostly due to higher natural gas costs.

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Adjusted operating profit for our four steel minimills decreased 78% for the nine months ended May 31, 2003 as compared to 2002. The effect of valuing inventories under the LIFO method accounted for 21% of the decrease in adjusted operating profit for the nine months ended May 31, 2003 as compared to 2002. The average total mill selling price at \$274 per ton was \$4 (1%) above last year. But average scrap purchase costs were \$20 per ton (26%) higher than last year. Also, utility expenses increased by \$6.6 million for the nine months ended May 31, 2003 as compared to 2002, mostly due to higher natural gas costs. The mills shipped 1,676,000 tons year to date in 2003 as compared to 1,589,000 tons in 2002, an increase of 5%. Also, during the nine months ended May 31, 2002 we received \$2.5 million from a graphite electrode litigation settlement.

The steel group's fabrication and other businesses reported a combined adjusted operating profit of \$3.6 million for the three months ended May 31, 2003 as compared to an adjusted operating profit of \$14.1 million in 2002. We recorded a \$5.2 million gain from the sale of SMI Owen Steel Company in March 2002. Excluding this gain, adjusted operating profits decreased by \$5.3 million (60%) for the three months ended May 31, 2003 as compared to 2002. Our fabrication plants shipped 286,000 tons in 2003, 15% more than 2002's third quarter shipments of 248,000 tons. Our fabricated rebar shipments increased 51,000 tons

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(37%) as compared to 2002. Lower structural, joist and post plant shipments partially offset this increase. The average fabrication selling price for the three months ended May 31, 2003 decreased \$78 per ton (13%). Our rebar fabrication, construction-related products, post and heat treating plants were profitable during the third quarter 2003. Our joist and structural steel fabrication operations recorded adjusted operating losses during the three months ended May 31, 2003 primarily due to lower selling prices. During the three months ended May 31, 2003, the joist plants reduced their inventory book values by \$720,000 to their estimated current market value. Also, during the three months ended May 31, 2003, we wrote-down \$393 thousand of inventory at one of our other fabrication facilities and we recognized a \$365 thousand gain on the trade-in of rental forms in construction-related products. On May 5, 2003, we acquired substantially all of the operating assets of the Denver, Colorado location of Symons Corporation, a concrete formwork supplier servicing construction needs throughout the Rocky Mountain States. The purchase price for this operation was \$5.6 million. See Note J, Acquisitions, to the condensed consolidated financial statements.

The steel group's fabrication and other businesses reported a combined adjusted operating profit of \$3.0 million for the nine months ended May 31, 2003 as compared to an adjusted operating profit of \$30.6 million in 2002. The gain on the sale of SMI Owen in 2002 accounted for \$5.2 million of the decrease. Also, prior to its sale, SMI Owen had an adjusted operating profit of \$2.9 million for the nine months ended May 31, 2002. Fabrication plant shipments for the nine months ended May 31, 2003 were about the same as last year. However, the average fabrication selling price decreased \$83 per ton (13%). Also, during the nine months ended May 31, 2003, the joist and other fabrication plants wrote down their inventories by \$1.9 million as compared to \$627 thousand in 2002. During the nine months ended May 31, 2003, we recorded a \$1 million accrual related to the bankruptcy of a customer.

Our copper tube division reported an adjusted operating loss of \$563 thousand for the three months ended May 31, 2003 as compared to an adjusted operating profit of \$1.3 million in 2002. Net sales were 13% lower for the 2003 third quarter as compared to 2002. During the three months ended May 31, 2003, the division reported \$777 thousand expense under the LIFO inventory valuation method as compared to \$512 thousand expense in 2002. Copper tube shipments decreased 6% to 16.0 million pounds during the 2003 third quarter as compared to 2002. Also, average net selling prices decreased by 9 cents per pound (7%) to \$1.15 in 2003 as compared to \$1.24 in 2002. Production was constant at 14.8 million pounds. The average copper scrap price increased 2 cents per pound (3%) during the three months ended May 31, 2003 as compared to 2002. Although single family residential construction held up relatively well, other market sectors were weaker, which put pressure on selling prices. Also, poor weather caused us to delay some shipments during the three months ended May 31, 2003.

Our copper tube division reported an adjusted operating profit of \$68 thousand for the nine months ended May 31, 2003 as compared to an adjusted operating profit of \$4.6 million in 2002. Copper tube shipments increased slightly. However, average net selling prices decreased by 9 cents per pound (7%) to \$1.14 in 2003 as compared to \$1.23 in 2002. The average copper scrap price increased by 4 cents per pound (6%) during the nine months ended May 31, 2003 as compared to 2002.

RECYCLING -

Our recycling segment reported an adjusted operating profit of \$5.1 million for

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the three months ended May 31, 2003 as compared to an adjusted operating profit of \$2.2 million in 2002. Net sales for the three months ended May 31, 2003 were 21% higher at \$124 million. Gross margins were 31% higher than 2002. The segment recorded \$445 thousand LIFO expense during the three months, ended May 31, 2003 as compared to \$71 thousand LIFO income in 2002. The segment processed and shipped 452,000 tons of ferrous scrap during the three months ended May 31, 2003, 17% more than 2002. Ferrous sales prices were on average \$110 per ton, or 28% higher than 2002. Greater demand from overseas markets contributed to this increase, as well as the weaker U.S. dollar. Ferrous scrap prices peaked early during the three months ended May 31, 2003, having advanced over \$30 per ton from January 1, 2003. At May 31, 2003, prices were somewhat less than their peak, as overseas demand slackened, and warmer weather and the higher prices caused a significant increase in supply.

Nonferrous markets improved moderately during the three months ended May 31, 2003. The average nonferrous scrap sales price of \$1,047 per ton was 5% higher than in 2002, although shipments were 2% lower at 59,000 tons. The total volume of scrap processed, including the steel group's processing plants, was 768,000 tons, an increase of 15% from the 667,000 tons processed in 2002.

Our recycling segment reported an adjusted operating profit of \$10.5 million for the nine months ended May 31, 2003 as compared to an adjusted operating profit of \$1.1 million in 2002. Year to date gross margins were 28% higher than in 2002, due to increased selling prices for both ferrous and nonferrous scrap. The total volume of scrap processed and shipped, including the steel group's processing plants, was 2,079,000 tons, an increase of 13% from the 1,834,000 tons processed in 2002.

MARKETING AND DISTRIBUTION -

Net sales in the three months ended May 31, 2003 for our marketing and distribution segment increased to \$311 million, a 53% increase from 2002. Most of the increase related to sales outside of the United States. Adjusted operating profit for the three months ended May 31, 2003 was \$5.8 million, up 79% from 2002, due mostly to better results from our international operations. Our marketing and distribution and service center operations in Australia continued to be very profitable even excluding a \$450 thousand favorable duty ruling in May 2003. Our joint venture facility in Belgium, Europickling, had record output for the three months ended May 31, 2003. Central Europe continued to be a source of profitability for us. After rising for several quarters, international steel prices weakened, mainly because of lower prices in China. However, our volumes increased, except for imports into the United States. Our U.S. divisions were slightly less profitable for the three months ended May 31, 2003 as compared to 2002 due to the economy, the weaker U.S. dollar and import duties. Gross margins, volumes and selling prices on our sales of nonferrous semi-finished goods and industrial materials were mixed. During the three months ended May 31, 2003, our Cometals division recorded a \$450 thousand expense due to an antidumping action by U.S. Customs.

Adjusted operating profit for the nine months ended May 31, 2003 for our marketing and distribution segment increased to \$16.0 million as compared to \$7.7 million in 2002 due mostly to better results from our international operations. Adjusted operating profits were better for Europe and Australia. Sales into Asia, including China were strong, especially during the first and second quarters of our fiscal 2003. Our U.S. divisions were also more profitable for the nine months ended May 31, 2003 as compared to 2002.

OTHER -

Employee's retirement plan expenses were lower for the three months ended May 31, 2003 as compared to 2002. Overall selling, general and administrative expenses were 6% higher during the three months ended May 31, 2003 as compared

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to 2002. Discretionary items, such as bonuses, contributions and profit sharing were much lower commensurate with less profitability. Additional selling, general and

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administrative expenses resulting from operations acquired since May 31, 2002 offset these decreases in discretionary expenses.

Employee's retirement plan expenses were lower for the nine months ended May 31, 2003 as compared to 2002. Overall selling, general and administrative expenses were slightly lower for the nine months ended May 31, 2003 as compared to 2002. Discretionary items, such as bonuses, contributions and profit sharing were lower commensurate with less profitability. Interest expense for the nine months ended May 31, 2003 was lower as compared to 2002 due primarily to two interest rate swaps which resulted in lower effective interest rates.

CONTINGENCIES -

See Note H, Contingencies, to the condensed consolidated financial statements.

In the ordinary course of conducting our business, we become involved in litigation, administrative proceedings, governmental investigations including environmental matters, and contract disputes. We may incur settlements, fines, penalties or judgments because of some of these matters. While we are unable to estimate precisely the ultimate dollar amount of exposure to loss in connection with these matters, we make accruals as we deem necessary. The amounts we accrue could vary substantially from amounts we pay due to several factors including the following: evolving remediation technology, changing regulations, possible third-party contributions, the inherent shortcomings of the estimation process, and the uncertainties involved in litigation. Accordingly, we cannot always estimate a meaningful range of possible exposure. We believe that we have adequately provided in our financial statements for the estimable potential impact of these contingencies. We also believe that the outcomes will not significantly affect the long-term results of operations or our financial position. However, they may have a material impact on earnings for a particular period.

We are subject to federal, state and local pollution control laws and regulations in all locations we have operating facilities. We anticipate that compliance with these laws and regulations will involve continuing capital expenditures and operating costs.

OUTLOOK -

We expect the fourth quarter of our fiscal year ending August 31, 2003 to be more profitable than the third quarter, although we do not expect it to be as strong as last year's fourth quarter, primarily because of anticipated LIFO expenses. Excluding LIFO, we are expecting to achieve net earnings of \$6 million to \$9 million for the quarter ending August 31, 2003. We expect a number of our markets to continue to improve in the fourth quarter and anticipate that profits will be higher than the third quarter in our manufacturing segment because of higher material margins and increased production, shipments and prices.

During our third quarter fiscal 2003, we continued to implement two price increases for most of our steel mill products. These price increases totaled \$35 per ton and were partly effective in our third quarter and should become fully effective during our fourth quarter fiscal 2003. These increases should help restore gross margins at our steel minimills. Our fabrication businesses should

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be more profitable due to better markets and higher shipments. We are also anticipating better profits at our copper tube mill during the last quarter of fiscal 2003 when housing and commercial jobs get back on schedule following weather-related delays. Strong demand for steel and nonferrous scrap combined with the weaker U.S. dollar will enable our recycling segment to continue to be profitable, although ferrous prices will be below our third quarter. We believe that our marketing and distribution markets will have continued good results, but not as favorable as in our third quarter because of lower demand in China and elsewhere.

Our 2004 fiscal year should be much more profitable due to an expected overall improvement in the U.S. economy. We should experience stronger demand for construction-related products and services. We are also expecting that various end-use markets around the world will improve, especially manufacturing

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activity. We think that emerging markets will show a disproportionate increase in the consumption of steel and nonferrous metals, and we are well-positioned to take advantage of these markets.

In June 2003, our subsidiary, Commercial Metals (International) AG was selected as the preferred bidder to continue with exclusive negotiations to buy 71.1% of the outstanding shares of Huta Zawiercie, S.A. in Zawiercie, Poland. Huta Zawiercie operates a steel minimill similar to those operated by our steel group. Its annual capacity is about 1 million tons consisting of mainly rebar and wire rod products. We expect that if a transaction occurs, we will pay cash for the shares. The transaction is subject to the satisfactory completion of due diligence reviews, negotiation of a definitive sales and purchase agreement and possibly regulatory approvals. There can be no assurance that this possible transaction will be consummated or that the terms or results of any transaction will be advantageous to us. Also, we can provide no assurance with respect to the timing, value or final determination to proceed.

This outlook and the liquidity and capital resources section contain forward-looking statements regarding the outlook for our financial results including net earnings, product pricing and demand, production and shipping rates, interest rates, cost of raw materials, inventory costing, results of litigation, construction activity, and general market conditions. These forward-looking statements can generally be identified by phrases such as we "expect", "anticipate", "believe", "presume", "think", "plan to", "should", "likely", "appear", "projects", or other similar words or phrases of similar impact. There is inherent risk and uncertainty in any forward-looking statements. Variances will occur and some could be materially different from our current opinion. Developments that could impact our expectations include the following:

- o interest rate changes
- o construction activity
- o litigation claims and settlements
- o difficulties or delays in the execution of construction contracts resulting in cost overruns or contract disputes
- o metals pricing over which we exert little influence
- o increased capacity and product availability from competing

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- steel minimills and other steel suppliers including import quantities and pricing
- o court decisions
- o industry consolidation or changes in production capacity or utilization
- o global factors including credit availability and political uncertainties
- o currency fluctuations
- o energy and insurance prices
- o decisions by governments impacting the level of steel imports and pace of overall economic activity
- o inability to consummate acquisitions on favorable terms or to successfully operate acquired businesses

LIQUIDITY AND CAPITAL RESOURCES -

We discuss liquidity and capital resources on a consolidated basis. Our discussion includes the sources and uses of our three operating segments and centralized corporate functions. We have a centralized treasury function and use inter-company loans to efficiently manage the short-term cash needs of our operating divisions. We invest any excess funds centrally.

We rely upon cash flows from operating activities, and to the extent necessary, external short-term financing sources. Our short-term financing sources include commercial paper, sales of certain accounts receivable and borrowing under our bank credit facilities. From time to time, we have issued long-term public and private debt placements. Our investment grade credit ratings and general business conditions affect our access to external financing on a cost-effective basis. Depending on the price of our common stock, we may realize significant cash flows from the exercise of stock options.

Moody's Investors Service (P-2), Standard & Poor's Corporation (A-2) and Fitch (F-2) rate our \$174.5 million commercial paper program in the second highest category. To support our commercial paper program, we have unsecured contractually committed revolving credit agreements with a group of eight

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banks. Our \$129.5 million facility expires in August 2003, and our \$45 million facility expires in August 2004. We plan to continue our commercial paper program and the revolving credit agreements in comparable amounts to support the commercial paper program.

For added flexibility, we may secure financing through securitized sales of certain accounts receivable in an amount not to exceed \$130 million and direct sales of accounts receivable. We may continually sell accounts receivable on an ongoing basis to replace those receivables that have been collected from our customers. Our long-term public debt was \$257 million at May 31, 2003 and is investment grade rated by Standard & Poors' Corporation (BBB), Fitch (BBB) and by Moody's Investors Services (Baal). We have access to the public markets for potential refinancing or the issuance of additional long-term debt. Also, we have numerous informal, uncommitted credit facilities available from domestic

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and international banks. These credit facilities are priced at current market rates.

Credit ratings affect our ability to obtain short- and long-term financing and the cost of such financing. If the rating agencies were to reduce our credit ratings, we would pay higher financing costs and probably would have less availability of the informal, uncommitted facilities. In determining our credit ratings, the rating agencies consider a number of both quantitative and qualitative factors. These factors include earnings, fixed charges such as interest, cash flows, total debt outstanding, off balance sheet obligations and other commitments, total capitalization and various ratios calculated from these factors. The rating agencies also consider predictability of cash flows, business strategy, industry condition and contingencies. We are committed to maintaining our investment grade ratings.

Certain of our financing agreements include various covenants. The most restrictive of these covenants requires us to maintain an interest coverage ratio of greater than three times and a debt to capitalization ratio of 55%, as defined in the financing agreement. A few of the agreements provide that if we default on the terms of another financing agreement, it is considered a default under these agreements. We have complied with the requirements, including the covenants of our financing agreements as of and for the three months ended May 31, 2003.

Our revolving credit agreements and accounts receivable securitization agreement include ratings triggers. The trigger in the revolving credit agreements is solely a means to reset pricing for facility fees and, if a borrowing occurs, on loans. Within the accounts receivable securitization agreement, the ratings trigger is contained in a "termination event", but the trigger is set at catastrophic levels. The trigger requires a combination of ratings actions on behalf of two independent rating agencies and is set at levels seven ratings categories below our current rating.

Our manufacturing and recycling businesses are capital intensive. Our capital requirements include construction, purchases of equipment and maintenance capital at existing facilities. We plan to invest in new operations. We also plan to invest in working capital to support the growth of our businesses and pay dividends to our stockholders.

We continue to assess alternative means of raising capital, including potential dispositions of under-performing or non-strategic assets. Any potential future major acquisitions could require additional financing from external sources including the issuance of common or preferred stock.

Cash Flows

Our cash flows from operating activities primarily result from sales of steel and related products, and to a lesser extent, sales of nonferrous metal products. We have a diverse and generally stable customer base. We use futures or forward contracts as needed to mitigate the risks from fluctuations in foreign currency exchange rates and metals commodity prices. See Note G, Derivatives and Risk Management, to the condensed consolidated financial statements.

The volume and pricing of orders from our U.S. customers in the manufacturing and construction sectors affect our cash flows from operating activities. Our international marketing and distribution operations also significantly affect our cash flows from operating activities. The weather can influence the volume of

products we ship in any given period. Also, the general economy, the strength of the U.S. dollar, governmental action, and various other factors beyond our control influence our volume and prices. Periodic fluctuations in our prices and volumes can result in variations in cash flows from operations. Despite these fluctuations, we have historically relied on operating activities as a steady source of cash.

We used \$9.6 million of net cash flows in our operating activities for the nine months ended May 31, 2003 as compared with \$45.0 million of net cash flows provided from our operating activities for the nine months ended May 31, 2002. Our cash flows from operating activities were lower due to lower net earnings. We used the cash from our operating activities for our working capital needs during the nine months ended May 31, 2003. Net working capital, which is the difference between our current assets of \$776 million and our current liabilities of \$391 million, increased to \$385 million at May 31, 2003. Working capital at August 31, 2002 (current assets of \$794 million less current liabilities of \$415 million) was \$379 million. Accounts receivable were higher in all segments, but primarily in our international marketing and distribution operations. Also, inventories in marketing and distribution increased mostly due to higher sales orders from outside of the United States. During the nine months ended May 31, 2003, we paid more bonuses and other discretionary expenses, which had been accrued at August 31, 2002, than we did during the nine months ended May 31, 2002. Also, we paid \$9.6 million during the nine months ended May 31, 2003 relating to an adverse trial judgment (see Note H, Contingencies, to the condensed consolidated financial statements). As a result, our accrued expenses decreased during the nine months ended May 31, 2003.

We invested \$35.9 million in property, plant and equipment during the nine months ended May 31, 2003, \$7.8 million (28%) more than the nine months ended May 31, 2002. The increase was primarily due to further investment in our rebar fabrication operations and additional equipment at our steel and copper tube minimills. In addition, we acquired the operating assets of the Denver, Colorado location of Symons Corporation in May, 2003, for \$5.6 million. In 2002, we acquired the remaining shares of the Coil Steels Group (CSG) for \$6.8 million. We expect our capital spending for fiscal 2003 to be less than our \$87 million budget, including both new construction and acquisitions to expand our downstream businesses in the United States. We assess our capital spending each quarter and reevaluate our requirements based upon current and expected results. We believe that our capital spending may be about \$57 million for fiscal 2003.

During the nine months ended May 31, 2003, we sold \$45 million of accounts receivable to help meet our working capital requirements, purchase property, plant and equipment and acquire our common stock for the treasury. We had no short-term borrowings at May 31, 2003 or 2002. We have no significant amounts due on our long-term debt until July 2005. The sales of accounts receivable to financial institutions included \$27.1 million in our international subsidiaries. See Note C, Sales of Accounts Receivable, to the condensed consolidated financial statements.

At May 31, 2003, 27,868,176 common shares were issued and outstanding, with 4,396,990 held in our treasury. We paid dividends of \$6.8 million during the nine months ended May 31, 2003, compared to the \$5.2 million paid during 2002. During the nine months ended May 31, 2003, we purchased 951,410 shares of our common stock at an average price of \$15.36 per share. These shares were held in our treasury.

We believe that we have sufficient liquidity for fiscal 2003 and the foreseeable future.

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CONTRACTUAL OBLIGATIONS

The following table represents our contractual obligations as of May 31, 2003 (dollars in thousands):

	Total	Payments Due Within *			
		1 Year	2-3 Years	4-5 Years	After 5 Years
Contractual Obligations:					
Long-term Debt (1)	\$258,200	\$ 567	\$107,509	\$50,048	\$100,087
Operating Leases (2)	37,150	8,627	12,606	7,742	8,175
Unconditional Purchase Obligations (3)	80,294	36,787	19,691	6,822	16,995
Total Contractual Cash Obligations	\$375,644	\$45,981	\$139,806	\$64,612	\$125,057

* Cash obligations herein are not discounted.

- (1) Total amounts are included in the May 31, 2003 condensed consolidated balance sheet. See Note E, Long-Term Debt, to the condensed consolidated financial statements.
- (2) Includes minimum lease payment obligations for noncancelable equipment and real-estate leases in effect as of May 31, 2003.
- (3) About 55% of these purchase obligations are for inventory items to be sold in the ordinary course of business; most of the remainder are for supplies associated with normal revenue-producing activities.

At May 31, 2003, we received \$45.0 million of net funding from the sales of accounts receivable. See Note C, Sales of Accounts Receivable, to the condensed consolidated financial statements. If we had terminated the accounts receivable programs on May 31, 2003 we would have to pay the first \$39.9 million of collections from accounts sold to third party financial institutions. We have complied with the terms of these programs as of, and for the nine months ended May 31, 2003.

Other Commercial Commitments

We maintain stand-by letters of credit to provide support for our own commitments to perform in certain instances when our customers and suppliers request. Cash deposits of \$10.2 million included in other current assets on the condensed consolidated balance sheet collateralized a portion of our outstanding letters of credit. All of the commitments expire within one year.

At the request of a customer and its surety bond issuer, we have agreed to indemnify the surety against all costs the surety may incur should our customer

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fail to perform its obligations under construction contracts covered by payment and performance bonds issued by the surety. We are the customer's primary supplier of steel, and steel is a substantial portion of our customer's cost to perform the contracts. We believe we have adequate controls to monitor the customer's performance under the contracts including payment for the steel we supply. As of May 31, 2003, the surety had issued bonds in the total amount (without reduction for the work performed to date) of \$11.9 million which are subject to our guaranty obligation under the indemnity agreement. See Note B, Accounting Policies, to the condensed consolidated financial statements.

ACCOUNTING POLICIES-

See Note B, Accounting Policies, to the condensed consolidated financial statements.

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PART II OTHER INFORMATION.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A. Exhibits furnished pursuant to Item 601 of Regulation S-K.

- 31.1 Certification of Stanley A. Rabin, Chairman of the Board, President and Chief Executive Officer of Commercial Metals Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.2 Certification of William B. Larson, Vice President and Chief Financial Officer of Commercial Metals Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.1 Certification of Stanley A. Rabin, Chairman of the Board, 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 William B. Larson, Vice President and Chief Financial Officer of Commercial Metals Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

SIGNATURES

Pursuant to the requirements of 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

/s/ William B. Larson

William B. Larson

October 31, 2003

Vice President
& Chief Financial Officer