

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

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

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

FORM 10-K/A
(AMENDMENT NO. 1)

(MARK
ONE)

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

FOR THE FISCAL YEAR ENDED AUGUST 31, 2002

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NO. 1-4304

COMMERCIAL METALS COMPANY
(Exact name of registrant as specified in its Charter)

DELAWARE
(State or other jurisdiction
of incorporation or organization)

75-0725338
(I.R.S. Employer
Identification No.)

6565 MACARTHUR BLVD., IRVING, TEXAS
(Address of principal executive offices)

75039
(Zip Code)

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

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

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
Common Stock, \$5 par value	New York Stock Exchange
Rights to Purchase Series A Preferred Stock	New York Stock Exchange

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

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

NONE

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS.

YES X NO

INDICATE BY CHECK MARK IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO ITEM 405 OF REGULATION S-K IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED, TO THE BEST OF REGISTRANT'S KNOWLEDGE, IN DEFINITIVE PROXY OR INFORMATION STATEMENTS INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-K OR ANY AMENDMENT TO THIS FORM 10-K. [X]

THE AGGREGATE MARKET VALUE OF THE COMMON STOCK ON NOVEMBER 15, 2002, HELD BY NON-AFFILIATES OF THE REGISTRANT BASED ON THE CLOSING PRICE OF \$16.05 PER SHARE ON NOVEMBER 15, 2002, ON THE NEW YORK STOCK EXCHANGE WAS APPROXIMATELY \$426,312,958. (FOR PURPOSES OF DETERMINATION OF THIS AMOUNT, ONLY DIRECTORS, EXECUTIVE OFFICERS AND 10% OR GREATER STOCKHOLDERS HAVE BEEN DEEMED AFFILIATES.)

THE NUMBER OF SHARES OUTSTANDING OF COMMON STOCK AS OF NOVEMBER 15, 2002 WAS 28,420,735.

DOCUMENTS INCORPORATED BY REFERENCE:

PORTIONS OF THE FOLLOWING DOCUMENT ARE INCORPORATED BY REFERENCE INTO THE LISTED PART OF FORM 10-K:

REGISTRANT'S DEFINITIVE PROXY STATEMENT FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD JANUARY 23, 2003 -- PART III.

This Amendment No. 1 to Commercial Metals Company's annual report on Form 10-K for the year ended August 31, 2002 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 2, 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.

ITEM 6. SELECTED FINANCIAL DATA

The table below sets forth a summary of our selected consolidated financial information for the periods indicated. The per share amounts have been adjusted to reflect a two-for-one stock split in the form of a stock dividend on our common stock effective June 28, 2002. Net earnings, diluted earnings per share, total assets and stockholders' equity have been restated as described in Note 14 to the consolidated financial statements.

	2002	FOR THE YEARS ENDED AUGUST 31,			1998
		2001	2000	1999	
	-----	-----	-----	-----	-----
	(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)				
Net Sales	\$2,446,777	\$2,441,216	\$2,661,420	\$2,251,442	\$2,367,569

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

Net Earnings	40,525	23,772	44,590	46,974	42,714
Diluted Earnings Per Share	1.43	0.90	1.56	1.61	1.41
Total Assets	1,230,076	1,081,946	1,170,092	1,079,074	1,002,617
Stockholders' Equity	501,306	433,094	418,805	418,312	381,389
Long-term Debt	255,969	251,638	261,884	265,590	173,789
Cash Dividends Per Share	0.275	0.26	0.26	0.26	0.26

1

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

We manufacture, recycle, market and distribute steel and metal products through a network of over 130 locations in the United States and internationally.

Manufacturing Operations

We conduct our manufacturing operations through the following:

- o 4 steel mills, commonly referred to as "minimills," that produce reinforcing bar, angles, flats, small beams, rounds, fence-post sections and other shapes
- o 29 steel plants that bend, cut and fabricate steel, primarily reinforcing bar and angles
- o 1 plant that produces copper tubing
- o 27 warehouses that sell or rent supplies for the installation of concrete
- o 6 plants that produce special sections for floors and ceiling support
- o 4 plants that produce steel fence posts
- o 1 plant that treats steel with heat to strengthen and provide flexibility
- o 1 plant that rebuilds railcars
- o 1 railroad salvage company

Recycling Operations

We conduct our recycling operations through 44 metal processing plants located in the states of Texas, South Carolina, Florida, North Carolina, Oklahoma, Kansas, Missouri, Tennessee, Louisiana and Georgia.

Marketing and Distribution Operations

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

We market and distribute steel, copper and aluminum coil, sheet and tubing, ores, metal concentrates, industrial minerals, ferro alloys and chemicals through our network of 16 marketing and distribution offices, 4 processing facilities and joint ventures around the world. Our customers use these products in a variety of industries.

You should read this management's discussion and analysis in connection with your review of our consolidated audited financial statements and the accompanying footnotes.

Critical Accounting Policies and Estimates

The following are important accounting policies, estimates and assumptions that you should understand as you review our financial statements. We apply these accounting policies and make these estimates and assumptions to prepare financial statements under generally accepted accounting principles. Our use of these accounting policies, estimates and assumptions affects our results of operations and our reported amounts of assets and liabilities. Where we have used estimates or assumptions, actual results could differ significantly from our estimates.

REVENUE RECOGNITION Generally, we recognize sales when title passes. For a few of our steel fabrication operations, we recognize net sales and profits from certain long-term fixed price contracts by the percentage-of-completion method. In determining the amount of net sales to recognize, we estimate the total costs and profits expected to be recorded for the contract term, and the recoverability of costs related to change orders. These estimates could change, resulting in changes in our earnings.

CONTINGENCIES We make accruals as needed for litigation, administrative proceedings, government investigations, including environmental matters, and contract disputes. We base our environmental liabilities on estimates regarding the number of sites for which we will be responsible, the scope and cost of work to be performed at each site, the portion

2

of costs that we expect we will share with other parties and the timing of the remediation. Where timing of expenditures can be reliably estimated, we discount amounts to reflect our cost of capital over time. We record these and other contingent liabilities when they are probable and when we can reasonably estimate the amount of loss. Where timing and amounts cannot be precisely estimated, we estimate a range, and we recognize the low end of the range without undiscounting. Also, see footnote 10, Commitments and Contingencies, in the consolidated financial statements for the year ended August 31, 2002.

INVENTORY COST We determine inventory cost for most domestic inventories by the last-in, first-out method, or LIFO. At the end of each quarter, we estimate both inventory quantities and costs that we expect at the end of the fiscal year for these LIFO calculations, and we record an amount on a pro-rata basis. These estimates could vary substantially from the actual year-end results, causing an adjustment to cost of goods sold. See footnote 15, Quarterly Financial Data, to the consolidated financial statements. We record all inventories at the lower of their cost or market value.

PROPERTY, PLANT AND EQUIPMENT Our manufacturing and recycling businesses are capital intensive. We evaluate the value of these assets and other long-lived

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

assets whenever a change in circumstances indicates that their carrying value may not be recoverable. Some of the estimated values for assets that we currently use in our operations utilize judgments and assumptions of future undiscounted cash flows that the assets will produce. If these assets were for sale, our estimates of their values could be significantly different because of market conditions, specific transaction terms and a buyer's different viewpoint of future cash flows. Also, we depreciate property, plant and equipment on a straight-line basis over the estimated useful lives of the assets. Depreciable lives are based on our estimate of the assets' economically useful lives. To the extent that an asset's actual life differs from our estimate, there could be an impact on depreciation expense or a gain/loss on the disposal of the asset in a later period. We expense major maintenance costs as incurred.

OTHER ACCOUNTING POLICIES For additional information on our accounting policies, see footnote 1, Summary of Significant Accounting Policies, to the consolidated financial statements.

NEW ACCOUNTING PRONOUNCEMENTS See footnote 1, Summary of Significant Accounting Policies, to the consolidated financial statements.

Consolidated Results of Operations

As discussed in Note 14, Restatement, we have restated the financial statements and the financial information included in our management's discussion and analysis.

(in millions except share data)	Year ended August 31,		
	2002	2001	2000
Net sales	\$ 2,447	\$ 2,441	\$ 2,661
Net earnings	40.5	23.8	44.6
International sales	776	755	879
As % of total	32%	31%	33%
LIFO effect on net earnings			
expense (income)	1.0	(1.1)	3.4
Per diluted share*	0.04	(0.04)	0.12
LIFO reserve	8.1	6.5	8.2
% of inventory on LIFO	72%	70%	71%

* Adjusted for stock split

Our management uses a non-GAAP measure, adjusted operating profit, to compare and evaluate the financial performance of our segments. See Note 13, Business Segments, to the consolidated financial statements. We define adjusted operating profit, as referred to in our Management's Discussion and Analysis, as 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. In the following tables, we are providing a reconciliation of adjusted operating profit (loss) to net earnings (loss), the nearest comparable GAAP measure (in millions).

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

SEGMENT	MANUFACTURING	RECYCLING	MARKETING AND DISTRIBUTION	CORPORATE ELIMINATIONS
YEAR ENDED AUGUST 31, 2002:				
Net earnings (loss)	\$ 45.0	\$ 3.7	\$ 8.1	\$ (1.5)
Income taxes	25.7	1.2	3.8	(.9)
Interest expense	.3	--	2.0	2.0
Discounts on sales of accounts receivable	.4	.2	.3	
Adjusted operating profit (loss)	\$ 71.4	\$ 5.1	\$ 14.2	\$ (1.5)
YEAR ENDED AUGUST 31, 2001:				
Net earnings (loss)	\$ 34.8	\$ (1.5)	\$ 3.6	\$ (1.5)
Income taxes	21.1	(.9)	2.1	(.9)
Interest expense	.4	--	1.8	2.0
Discounts on sales of accounts receivable	.4	.1	.3	
Adjusted operating profit (loss)	\$ 56.7	\$ (2.3)	\$ 7.8	\$ (1.5)
YEAR ENDED AUGUST 31, 2000:				
Net earnings (loss)	\$ 44.8	\$ 3.8	\$ 11.5	\$ (1.5)
Income taxes	27.1	2.0	5.5	(.9)
Interest expense	.2	--	2.2	2.0
Adjusted operating profit (loss)	\$ 72.1	\$ 5.8	\$ 19.2	\$ (1.5)

Our results in fiscal 2002 reflect the impact of significant external factors. Our fiscal year began on September 1, 2001, only 10 days before the September 11 terrorist attacks, which dramatically affected United States commercial activity. Capital markets also suffered during our fiscal 2002 period due to the collapse of the technology market bubble and corporate financial and accounting scandals. Following signs of an economic recovery during the first

calendar quarter of 2002, the growth of the U.S. economy instead slowed during the second and third calendar quarters. Economic activity also lost momentum in most global markets, perhaps except for non-Japan Asia.

Our 2002 results reflect notable weakness in business investment. We saw big declines in key markets such as nonresidential construction spending for factories, offices and other commercial buildings. Public works outlays for institutional buildings, highways and bridges remained strong, but did not offset reduced expenditures in the private sector. Residential construction activity fell, although it remains at a historically high level. Hotel/motel building also fell. Consequently, we experienced lower margins in our manufacturing segment, especially during our fiscal fourth quarter.

The weakening of the U.S. dollar during the latter part of our fiscal year helped our results, although the impact was not as strong as we expected. We believe that one reason is that world production and supply of many steel products and nonferrous metals remained excessive.

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

During fiscal 2002, the U.S. government implemented tariffs on imported steel products that compete with most of the products manufactured by our minimills. However, because production by our U.S. competitors remained constant, we have not seen a significant increase in prices. Conditions in our important end use markets generally showed little improvement and in some instances deteriorated.

The following financial events were significant this year:

1. 2002 earnings were much higher than 2001, even excluding the \$5.4 million after-tax litigation accrual recorded last year in the manufacturing segment.
2. At year end 2002, we had no short-term financing needs and had, in fact, significant cash and cash equivalents.
3. Steel minimill earnings were higher in 2002 due to increased production and shipments in spite of lower selling prices and higher scrap costs.
4. During the current year, our steel group received a nonrecurring graphite electrode litigation settlement of \$1.6 million after-tax.
5. Our steel group realized a \$3.4 million after-tax gain from the sale of the assets of SMI-Owen Steel Company in 2002.
6. We discovered a theft and accounting fraud and accounting errors at two rebar fabrication operations totalling \$3.0 million after-tax. See Note 14, Restatement, to the consolidated financial statements.
7. Copper tube adjusted operating profits decreased in spite of record production and shipments because of lower selling prices and margins.
8. Our recycling segment returned to profitability during 2002 mostly due to the recently improved ferrous scrap market.
9. Our marketing and distribution group's adjusted operating profit was higher than last year, but some markets remained weak. Our acquisition of the Coil Steels Group in September 2001 significantly contributed to adjusted operating profits.
10. Financing costs decreased due to lower requirements, reduced interest rates and the beneficial effect of an interest rate swap.
11. A lower effective income tax rate, due primarily to the favorable completion of IRS audits, added \$1.0 million to net earnings in 2002.

Segments

Unless otherwise indicated, all dollars below are pre-tax. Financial results for our reportable segments are consistent with the basis and manner in which we internally disaggregate financial information for making operating decisions. We have three reportable segments: manufacturing, recycling, and marketing and distribution. The following table shows net sales and adjusted operating profit (loss) by business segment (in millions).

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

	Year ended August 31,		
	2002	2001	2000
Net sales:			
Manufacturing	\$ 1,333	\$ 1,321	\$ 1,357
Recycling	378	394	463
Marketing and distribution	777	771	903
Adjusted operating profit (loss):			
Manufacturing	71.4	56.7	72.1
Recycling	5.1	(2.3)	5.8
Marketing and distribution	14.2	7.8	19.2

2002 COMPARED TO 2001

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 in 2002 increased \$14.7 million (26%) as compared to 2001 on marginally more (\$12 million) net sales. We achieved this increase in adjusted operating profit for two primary reasons in 2002: (i) the nonrecurrence of the prior year litigation accrual in the amount of \$8.3 million, and (ii) the current year gain on the sale of the steel group's heavy structural fabrication operation, SMI-Owen, in the amount of \$5.2 million. Excluding those items, our manufacturing segment's adjusted operating profit was slightly higher than last year.

Increased production and shipments at our steel group's minimills more than offset lower selling prices, increased scrap purchase costs and lower copper tube earnings. Also, we spent less in 2002 on utilities, and we recorded lower depreciation and amortization expense. However, fiscal 2002 was not a good year in the steel group's downstream steel fabrication and related businesses due to lower adjusted operating profits in rebar fabrication and structural steel fabrication, excluding SMI-Owen.

The table below reflects steel and scrap prices per ton:

	August 31,	
(dollars per ton)	2002	2001
Average mill selling price-total sales	\$ 269	\$ 284
Average mill selling price-finished goods only	275	290
Average fabrication selling price	608	646
Average ferrous scrap purchase price	80	74

MINIMILLS During 2002, adjusted operating profit for our four steel minimills rose 27% compared with 2001, despite lower selling prices. SMI South Carolina had a \$2.8 million adjusted operating profit in 2002 compared to a \$1.6 million loss in 2001. SMI Alabama turned around as well with a \$2.5 million adjusted

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

operating profit in 2002 compared to a \$2.2 million adjusted operating loss in 2001. Adjusted operating profits at SMI Arkansas were up 4% in the current year period. These improvements more than offset a 7% decline in adjusted operating profits at SMI Texas as compared to 2001. A major reason for the minimills' improved profitability was a 14% increase in shipments because of continued public projects infrastructure construction. Shipments were 2,171,000 tons in 2002 compared to 1,903,000 in 2001. Mill production also increased over last year. Tons rolled were up 19% to 2,026,000 in 2002. Tons melted were up 17% to 2,100,000 in 2002. Even though demand was strong, the average total mill selling

5

price at \$269 per ton was \$15 (5%) below last year. Also, in 2002, we sold more semi-finished billets, a product with a lower selling price than our average. Average scrap purchase costs were \$6 per ton (8%) higher than in 2001, resulting in smaller margins. Utility expenses declined by \$2.4 million as compared to 2001. Decreases in natural gas costs more than offset higher electricity costs. Also, depreciation and amortization expenses decreased by \$5.2 million in 2002, primarily because SMI-South Carolina fully depreciated its mill rolls and guides as well as certain melt shop equipment. The mills also received \$2.5 million from a nonrecurring graphite electrode litigation settlement in 2002.

The U.S. government's new tariffs cover most of the steel minimills' products and range from 15-30% the first year, declining over the next two years. An import licensing and monitoring system and an anti-surge mechanism will further strengthen these remedies. Also, the U.S. administration plans to continue discussions with other steel producing nations to remove excess global capacity and eliminate subsidies.

FABRICATION AND OTHER BUSINESSES Adjusted operating profit in the steel group's fabrication and other businesses increased by \$12.1 million (57%) in 2002 as compared to 2001. Excluding the 2002 gain on the sale of SMI-Owen (\$5.2 million) and the 2001 litigation accrual (\$8.3 million), adjusted operating profits in 2002 decreased by \$1.3 million (4%) as compared to 2001.

Near the end of fiscal 2002, we discovered two significant, but unrelated events, requiring retroactive writedowns at two rebar fabrication operations. The total amount of the adjustments required to correct the August 31, 2002 balance sheets of these two facilities was \$4.6 million. These adjustments affect four fiscal years from 1999 to 2002. In August 2002, we uncovered a theft and an accounting fraud which occurred over four years at a rebar fabrication plant in South Carolina. The total adjustment required to revert the accounting records to their proper balances was \$2.7 million. In September 2002, we discovered accounting errors related to losses on rebar fabrication and placement jobs at one facility in California, some of which date back to its acquisition in fiscal 2000. The resulting charge was \$1.9 million. The South Carolina incident resulted in a \$900 thousand expense in fiscal 2002. The remaining \$3.7 million for both instances was attributed \$885 thousand to fiscal 2001, \$2.6 million to fiscal 2000, and \$227 thousand to 1999, resulting in prior period adjustments to these previously reported financial statements. We took immediate action to strengthen compliance with our internal control policies in the areas of segregation of duties, personnel, and management review and oversight. Controllers at both locations were replaced as well as the general manager of the rebar fabrication plant in South Carolina. The steel group has increased the level of detail, the frequency of submission, and the amount of review of its operating locations' reporting. The Company has renewed emphasis on periodic and timely internal balance sheet audits at all operating locations and completed audits of all its operating locations in fiscal 2003. No major areas of noncompliance were noted. Senior management and area managers of all the Company's locations attended internal meetings led by the CEO and CFO

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

regarding management's responsibility for internal control, dealing with noncompliance issues and the Company's commitment to only the highest ethical standards of conduct.

Fabrication plant shipments totaled 984,000 tons, down fractionally from 986,000 tons shipped in 2001. The average fabrication selling price in 2002 decreased \$38 per ton (6%) as compared to 2001. Rebar fabrication markets were softer in 2002 as a result of intense competition, and several plants reported losses. During the fourth quarter 2002, we acquired the real estate, equipment, inventory and work in process of Varmicon, Inc. in Harlingen, Texas. We now operate this rebar fabrication facility under the name of SMI-Valley Steel. The steel joist operations, which includes cellular and castellated beams, were breakeven in 2002, an improvement over the adjusted operating loss in 2001. Both prices and shipments decreased, but lower operating costs and shop efficiencies helped significantly. Also, in 2001 these operations incurred \$8.9 million in start-up costs. Structural steel fabrication adjusted operating profits, excluding SMI-Owen and the prior year litigation accrual, were down in 2002 compared to 2001. However, our concrete-related products operations were more profitable in 2002. We continued to expand this business through the acquisition in the fourth quarter of Dowel Assembly Manufacturing Company, or DAMCO, in Jackson, Mississippi. DAMCO manufactures dowel baskets and has an epoxy coating business.

In 2002, the steel group started Spray Forming International, a stainless steel cladding operation located in South Carolina. Spray Forming International will use a patented process to produce stainless clad billets.

COPPER TUBE Our copper tube division's adjusted operating profit decreased 59% with 7% less net sales as compared to 2001. Copper tube shipments increased 3% from 2001 to a record 59.3 million pounds, and production increased 5% from 2001 to a record 56.2 million pounds. However, average sales prices dropped 10% in 2002 to \$1.24 per pound as compared to \$1.38 per pound in 2001. The biggest factor was lower apartment and hotel/motel construction. Consequently, demand for plumbing and refrigeration tube was not as strong. The 2002 product mix included increased quantities of HVAC products and line sets. In the marketplace, we continued to adapt to the consolidation among our buyers. The difference between sales price and copper scrap purchase cost (commonly referred to as "the metal spread"), declined 8% in 2002 compared to 2001. Lower raw material purchase costs did not fully compensate for the decline in selling prices.

6

RECYCLING Our recycling segment reported an adjusted operating profit of \$5.1 million in 2002 compared with an adjusted operating loss of \$2.3 million in 2001. Net sales in 2002 were 4% lower at \$378 million as compared to 2001. However, gross margins were 11% above last year, primarily because we shipped 8% more total tons. Demand for ferrous scrap improved both in the U.S. and internationally. The segment processed and shipped 1,494,000 tons of ferrous scrap in 2002, 10% more than in 2001. Ferrous sales prices were on average \$81 per ton, an increase of \$6 from 2001. Nonferrous shipments were flat at 238,000 tons. The average 2002 nonferrous scrap sales price of \$947 per ton was 9% lower than in 2001. Increased productivity, higher asset turnover and reduced costs contributed to the improved 2002 results. The total volume of scrap processed, including the steel group's processing plants, was 2,568,000 tons, an increase of 11% from the 2,308,000 tons processed in 2001.

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

In June 2002, we acquired most of the transportation assets of Sampson Steel Corporation in Beaumont, Texas. These assets will be combined with our existing scrap processing facility in Beaumont. Earlier in the year we closed our Midland, Texas facility, resulting in a writedown of \$455,000 on certain equipment.

MARKETING AND DISTRIBUTION Net sales in 2002 for our marketing and distribution segment increased 1% to \$777 million as compared to 2001. Adjusted operating profit in 2002 increased 82% to \$14.2 million as compared to 2001, mostly due to better results from our Australian operations. International steel prices and volumes for steel and nonferrous semifinished products improved during the second half of 2002, primarily in the distribution and processing businesses. However, depressed economies, oversupply in most markets and intense competition from domestic suppliers in the respective markets caused compressed margins for numerous steel products, nonferrous metal products and industrial raw materials and products. The U.S. dollar weakened against major currencies, a beneficial development.

In September 2001, we completed our acquisition of Coil Steels Group, an Australian service center in which we already owned a 22% share. This acquisition provided \$2.2 million of additional adjusted operating profits and \$69.0 million in net sales during 2002. Sales and profits for the Company's pre-existing business in Australia also improved significantly. However, this increase in net sales was more than offset by decreased sales in our U.S. operations due to fewer imports into the United States.

Adjusted operating profits for the U.S. divisions improved significantly due to Cometals which returned to more historical levels, and Dallas Trading which benefited from the U.S. tariff legislation. Lower margins at Commonwealth on semi-finished products almost offset these improvements. Our European operations' net sales decreased slightly in 2002 as compared to 2001, but adjusted operating profits improved significantly. The segment's recent strategy of growing its downstream marketing and distribution business offset the continuing very difficult trading conditions.

OTHER Selling, general and administration as well as employee's retirement plans expenses were higher in 2002 as compared to 2001, mostly due to the acquisition of Coil Steels Group and discretionary items, such as bonuses and profit sharing. This increase was consistent with the improvement in our operating profitability. Interest expense decreased by \$8.9 million (32%) from 2001 largely due to lower interest rates and much lower average short-term borrowings. Also, during 2002 we entered into two interest rate swaps (see footnote 4, Credit Arrangements, to the consolidated financial statements) which resulted in interest expense savings. During 2002, we favorably resolved all issues for our federal income tax returns through 1999. Due to the lack of any material adjustments, we have reevaluated the tax accruals and, consequently, reduced the net tax expense by \$1.0 million during 2002.

Near-Term Outlook

We expect that fiscal 2003 will be weaker than 2002. The global economy slowed in 2002 amid considerable uncertainty, and economic growth in the United States remains slow and uneven. Our specific markets reflect the soft demand and remain very competitive. The outlook for our markets generally is weaker, in some cases significantly so. The manufacturing sector continues to grow slowly. We do not expect private, nonresidential construction to improve before mid-calendar year 2003, but we expect public construction to hold steady.

Residential building slowed in 2002, but housing sales and starts remain at a historically high level because of the lowest mortgage rates in three decades. Economic growth outside the United States also slowed, especially in Europe. On the other hand, most analysts don't expect the global economy to fall into a

double-dip recession.

7

The fiscal 2003 quarterly results are likely to be erratic and the first half of fiscal 2003 could be relatively weak. In addition to market conditions, we face a number of other challenges including increased insurance costs and higher energy costs. By segment, we anticipate a decrease in operating profit for manufacturing, little change in recycling and an increase in marketing and distribution. We expect fiscal 2003 diluted earnings per share to decrease because diluted average shares will rise further. Our balance sheet should remain strong.

During 2002, we had capital spending of \$47 million plus \$7 million for the acquisition of the remaining shares of Coil Steels Group, compared to capital spending of \$53 million in fiscal 2001. We have focused on reducing short-term financing needs during the past two fiscal years. We plan to increase capital expenditures to \$88 million for fiscal 2003. Fiscal 2003 capital expenditures will include expansion in downstream rebar fabrication and concrete-related products operations in the steel group and the acquisition of the flat-rolled assets of Horans, a small service center in Australia. We have no major projects planned at the steel mills for fiscal 2003, only smaller enhancements and maintenance expenditures. All segments will continue to focus on improving or disposing of under performing operations, especially if they no longer fit our strategic direction.

Long-Term Outlook

We are well-positioned to exploit long-term opportunities. Our challenge is to continue growing in a manner which increases our earnings per share and return on capital and generates free cash flows over time. Further consolidation is a virtual certainty in the industries in which we participate, and we plan to participate in a prudent way. The reasons for further consolidation include an inadequate return on capital for most companies, numerous bankruptcies, a high degree of fragmentation, the need to eliminate non-competitive capacity and more effective marketing.

The outlook section contains forward-looking statements regarding the outlook for our financial results including net earnings, product pricing and demand, production rates, energy expense, insurance expense, interest rates, inventory levels, acquisitions and general market conditions. These forward-looking statements can generally be identified by phrases such as we or our management "expects," "anticipates," "believes," "plans to," "ought," "could," "should," "likely," "appears," "projects," "forecasts," or other similar words or phrases. 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

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

- o metals pricing over which we exert little influence
- o increased capacity and product availability from competing 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
- o currency fluctuations
- o energy and insurance prices
- o decisions by governments impacting the level of steel imports and the pace of overall economic activity.

8

2001 COMPARED TO 2000

Segments

MANUFACTURING Our manufacturing net sales for 2001 for the manufacturing segment decreased by 3% compared to 2000. Despite an increase in both mill and fabrication shipments, net sales decreased due to lower selling prices. Adjusted operating profit as restated decreased \$15.4 million (21%) in 2001 as compared to 2000. The adverse charge for litigation of \$8.3 million caused more than half of the decrease. Also, 2001 copper tube adjusted operating profits dropped from their record levels in 2000. Steel group adjusted operating profits, excluding the litigation accrual, decreased slightly as well. We recorded pre-tax LIFO income of \$1.7 million in 2001 compared to LIFO expense of \$5.2 million in 2000, primarily in the manufacturing segment.

(dollars per ton)	August 31,	
	2001	2000
Average mill selling price-total sales	\$ 284	\$ 306
Average mill selling price-finished goods only	290	314
Average fab selling price	646	647
Average ferrous scrap purchase price	74	91

MINIMILLS Our steel minimills recovered in the second half of 2001 despite very weak markets throughout the year. The four steel mills' adjusted operating profit decreased 27% as compared to 2000. An adjusted operating loss at the Alabama mill and lower adjusted operating profits in Texas and Arkansas contributed significantly to the decrease. The lower adjusted operating profits were partially offset by significantly lower losses at South Carolina. Tons melted and rolled decreased 3% to 1.8 and 1.7 million tons, respectively. Shipments rose by 3% to 1.9 million tons. The average mill selling price decreased \$22 (7%) in 2001 as compared to 2000. The average selling price for

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

finished goods decreased \$24 per ton (8%) in 2001 as compared to 2000. The average scrap purchase cost for the mills decreased \$17 per ton (19%) in 2001, which offset the decreases in selling prices. However, utility costs rose \$9.8 million (13%) as compared to 2000. Import levels and more aggressive competition caused sales prices to drop.

Excluding prior year graphite electrode settlements, adjusted operating profit in 2001 at SMI-Texas decreased 16% and at SMI-Arkansas decreased 24% as compared to 2000. SMI-Alabama reported an adjusted operating loss in 2001 as compared to an adjusted operating profit in 2000. The price drops especially hurt SMI-Alabama. Record shipments at the SMI-South Carolina mill caused adjusted operating losses to decrease by \$8.1 million in 2001 to \$1.6 million. This mill was profitable in the second half of 2001. Selling prices continued to be significantly lower, and utility and scrap purchase costs were down as well.

FABRICATION AND OTHER BUSINESSES In 2001, our downstream steel fabrication businesses had another solid year. We have restated 2001 adjusted operating results by \$885 thousand for the accounting fraud at the South Carolina rebar facility. Also, we reduced fiscal 2000 adjusted operating profits by \$677 thousand and \$1.9 million, respectively, for the accounting fraud at the South Carolina rebar facility and the accounting errors at the California rebar manufacturing and placement operation. We discovered both events near the end of fiscal 2002. Excluding a net pre-tax gain of \$5.5 million from the sale of land and improvements in fiscal 2000, net sales remained the same in 2001 as compared to 2000. Adjusted operating profits increased 30% as compared to 2000, excluding the 2001 litigation accrual of \$8.3 million for an adverse court ruling and the 2000 \$5.5 million gain on the sale. Fabricated steel shipments of 986,000 tons increased 3% as compared to 2000; however, this included new capacity. Although prices were mixed, the annual average fab selling price remained unchanged. Steel joist and cellular beam manufacturing operations incurred \$8.9 million in startup costs for four projects. A major turnaround in large structural steel jobs fabricated by SMI-Owen more than offset these costs.

COPPER TUBE Our copper tube division's adjusted operating profit decreased 29% in 2001 as compared to 2000. Shipments decreased less than 1% in 2001 to 57.3 million pounds, and metal spreads declined 13% in 2001 as compared to 2000. Our copper tube selling prices decreased 8 cents (6%) per pound to \$1.38 in 2001 as compared to \$1.46 in 2000. Production at the plant decreased consistently with shipments. Although the housing sector of the U.S. economy remained relatively strong, demand for plumbing and refrigeration tube was softer than in the prior year. In the second half of 2001, we added line sets to our product mix, although shipments of this new product were not yet significant.

9

CAPITAL IMPROVEMENTS Our capital improvements decreased significantly to \$53 million as compared to \$70 million in 2000, primarily in the manufacturing segment. The \$70 million included the expansion at the copper tube mill and the installation of a ladle metallurgical station at SMI-South Carolina. In fiscal 2001, we substantially completed the copper tube mill expansion.

RECYCLING Our recycling segment incurred an adjusted operating loss of \$2.3 million in 2001 as compared to a \$5.8 million adjusted operating profit in 2000. Tons processed and shipped decreased 4% as compared to 2000; however, net sales decreased 15% as compared to 2000. Due to high scrap imports, weak domestic steel mills and the strong U.S. dollar, ferrous prices fell \$21 per ton (22%) as compared to \$75 per ton in 2000, and shipments fell 5%. A sharp drop in terminal market values resulted in lower nonferrous margins. The average nonferrous scrap price was 5% lower on volumes which were 2% higher as compared to 2000.

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

Increased productivity, high asset turnover and reduced expenses mitigated the effects of weak markets.

The total volume of scrap processed and shipped in 2001, including our steel group operations, decreased slightly to 2.3 million tons from 2.4 million tons in fiscal 2000.

MARKETING AND DISTRIBUTION Our marketing and distribution segment's net sales decreased in 2001 by 15% to \$771 million, and adjusted operating profits were 59% lower as compared to 2000. Depressed global economies, oversupply in most markets and intense competition from domestic suppliers in the respective markets contributed significantly to the decline. Also, the strong U.S. dollar continued to hamper the segment's results in various parts of the world. Margins were compressed for most steel products, nonferrous metal products and industrial raw materials and products. Our strategy in recent years to enhance regional businesses helped in the difficult market and currency conditions.

Most importantly, we achieved profitability even as we continued a major commitment to develop quality people in sales and administration to provide for long-term growth. We continued to diversify and build business by adding product and geographic areas. We expanded regional trade as well, and continued to increase our operations in the processing of the materials and products we buy and sell.

2002 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 the issuance of commercial paper, sales of accounts receivable and borrowing under our bank credit facilities. From time to time, we have issued long-term public debt. 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, which is up from \$135 million in 2001, in the second highest category. To support our commercial paper program, we have unsecured revolving credit agreements with a group of eight 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 from the sale of certain accounts receivable in an amount not to exceed \$130 million. We may continually sell accounts receivable on an ongoing basis to replace those receivables that we have collected from our customers. Our long-term public debt, which was \$255 million at August 31, 2002, is investment

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

grade rated by Standard & Poor's Corporation (BBB), Fitch (BBB) and by Moody's Investors Services (Baa1). 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 and international banks. These credit facilities are priced at bankers' acceptance rates or on a cost of funds basis.

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 possibly 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. Such 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 credit 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 agreement as of and for the year ended, August 31, 2002.

Our unsecured 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, maintain our ability to repay maturing long-term debt when due at its earliest maturity in 2005 and pay dividends to our stockholders.

Our management continues 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 such as the sale of common stock.

CASH FLOWS Our cash flows from operating activities primarily result from sales of steel and related products and, to a lesser extent, from 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 footnote 5, Financial Instruments, Market and Credit Risk, in the consolidated financial statements).

The volume and price of the 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 activity. The weather can influence the volume of

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

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 volumes and prices. These 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.

11

Net cash flows from operating activities decreased to \$96.6 million in 2002 as compared to \$192.7 million in 2001, primarily as a result of decreased funding from sales of accounts receivable. Net working capital in 2002 increased to \$379 million from \$274 million in 2001, primarily due to increased cash and cash equivalents and higher receivables. Increases in accounts payable more than offset the increase in inventories. The ratio of current assets to current liabilities was 1.9 at August 31, 2002, increased from 1.8 at August 31, 2001. Excluding Coil Steels Group, CSG, and SMI-Owen, which were facilities acquired and sold in 2002, accounts receivable at August 31, 2002 were \$48.7 million more than at August 31, 2001. The increase resulted because we did not request as much funding from the accounts receivable that we sold to financial institutions. Excluding CSG and SMI-Owen, inventories and accounts payable, accrued expenses, other payables and income taxes at August 31, 2002 increased by \$37.2 million and \$66.9 million, respectively, as compared to 2001. Inventories in the steel group, excluding SMI-Owen, increased \$22.3 million. The majority of the increase occurred at the minimills because of higher scrap purchase costs and higher inventory quantities. Steel fabrication and post inventories increased as well. Inventories in marketing and distribution, excluding CSG, increased \$15.1 million in 2002 mostly due to shipments in transit and customer delays. Accounts payable in marketing and distribution, excluding CSG, increased by \$65.5 million in 2002 due to higher inventory purchases and extended terms with vendors. Accounts payable in the steel group at the minimills increased \$9.9 million in 2002. Also, during 2002, we received \$15.0 million from a litigation settlement (see footnote 10, Commitments and Contingencies, to the consolidated financial statements). Increased profits resulted in an increase of \$5.7 million in income taxes payable. During 2002, we received \$5.2 million for the contract balance and settlement of disputed change orders on an old large structural steel fabrication contract at SMI-Owen. Higher net earnings in 2002 as compared to 2001 partially offset the increased working capital. Depreciation and amortization expense decreased \$5.7 million in 2002 primarily because SMI South Carolina fully depreciated its mill rolls and guides as well as certain melt shop equipment. We realized a \$4.1 million increase in the tax benefits from stock issued under option and purchase plans during 2002. Our cash flows increased by \$2.4 million in 2002 as a result of deferred income taxes, due largely to additional depreciation which was granted under new tax legislation.

We invested \$47.2 million in property, plant and equipment in 2002, which was \$5.8 million less than in 2001. In addition, in 2002, we acquired the remaining shares of CSG for \$6.8 million, net of cash. We received \$19.7 million during 2002 for the sale of the assets of SMI-Owen. We expect capital spending for fiscal 2003 to be \$88 million, including both new construction and acquisitions to expand our downstream businesses.

We needed much less short-term financing during 2002 than during 2001, primarily due to better management of working capital, higher earnings, the litigation

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

settlement, the sale of SMI-Owen and cash from stock issued under incentive and purchase plans. These events enabled us to repay all of our short-term borrowings. In 2002, we also made our final payment on the 8.49% long-term notes.

In May 2002, our Board of Directors declared a two-for-one stock split in the form of a stock dividend on our common stock payable June 28, 2002 to our shareholders of record on June 7, 2002 (see footnote 7, Capital Stock, to the consolidated financial statements). On June 28, 2002, we issued 16,132,583 additional shares of common stock. At August 31, 2002, 28,518,453 shares of common stock were issued and outstanding, and 3,746,713 were held in our treasury. Also, we issued 2,361,265 additional shares of common stock during 2002 because more employees exercised stock options, and we issued more shares than last year under our employee stock purchase plan because of the significant increase in our average market price per share. We issued all shares from treasury shares. As a result of this activity, our cash flows increased by \$30.2 million in 2002 as compared to \$4.4 million from such activity in 2001.

We paid dividends of \$7.5 million during 2002, slightly more than the \$6.8 million we paid during 2001. On May 20, 2002, our directors declared a quarterly cash dividend of eight cents per share on common stock. We paid this quarterly cash dividend on July 19 to stockholders of record at July 5, 2002. This new cash dividend rate on the after-split shares represents a 23% increase in our cash dividend. This was the 151st consecutive quarterly cash dividend we have paid.

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

12

Contractual Obligations

The following table represents our contractual obligations as of August 31, 2002 (dollars in thousands):

	Payments Due Within*				
	Total	1 Year	2-3 Years	4-5 Years	After 5 Years
Contractual Obligations:					
Long-term debt(1)	\$ 256,600	\$ 631	\$ 105,859	\$ 50,033	\$ 100,077
Operating leases(2)	23,986	9,347	8,996	3,953	1,690
Unconditional purchase obligations(3)	53,698	17,388	12,345	7,102	16,863
	=====	=====	=====	=====	=====
Total contractual cash obligations	\$ 334,284	\$ 27,366	\$ 127,200	\$ 61,088	\$ 118,630

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

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

- (1) Total amounts are included in the August 31, 2002 consolidated balance sheet. See footnote 4, Credit Arrangements, to the consolidated financial statements.
- (2) Includes minimum lease payment obligations for noncancelable equipment and real-estate leases in effect as of August 31, 2002. See footnote 10, Commitments and Contingencies, to the consolidated financial statements.
- (3) About 35% of these purchase obligations are for inventory items to be sold in the ordinary course of business; most of the remainder are for freight and supplies associated with normal revenue-producing activities.

At August 31, 2002, we received \$2,141,000 of net funding from the sales of accounts receivable. If we terminated the accounts receivable program on August 31, 2002, we would have to pay the first \$2.1 million of collections from these accounts to third party financial institutions. We complied with the terms of this program as of, and for the year ended August 31, 2002.

Other Commercial Commitments

We maintain stand-by letters of credit to provide support for certain transactions that our customers or suppliers request. At August 31, 2002, we had committed \$20.9 million under these arrangements. A cash deposit included in current other assets on the consolidated balance sheet collateralized \$6 million of these commitments. All 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 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 August 31, 2002, the surety had issued bonds in the total amount (without reduction for work performed to that date) of \$2,193,000 which are subject to our guaranty obligation under the indemnity agreement.

Contingencies

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

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

CONSTRUCTION CONTRACT DISPUTES See footnote 10, Commitments and Contingencies, to the consolidated financial statements.

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

Our original business and one of our core businesses for over eight decades is metals recycling. In the present era of conservation of natural resources and ecological concerns, we are committed to sound ecological and business conduct. Certain governmental regulations regarding environmental concerns, however well intentioned, are contrary to the goal of greater recycling. Such regulations expose us and the industry to potentially significant risks.

We believe that recycled materials are commodities that are diverted by recyclers, such as us, from the solid waste streams because of their inherent value. Commodities are materials that are purchased and sold in public and private markets and commodities exchanges every day around the world. They are identified, purchased, sorted, processed and sold in accordance with carefully established industry specifications.

Environmental agencies at various federal and state levels classify certain recycled materials as hazardous substances and subject recyclers to material remediation costs, fines and penalties. Taken to extremes, such actions could cripple the recycling industry and undermine any national goal of material conservation. Enforcement, interpretation, and litigation involving these regulations are not well developed.

The U.S. Environmental Protection Agency, or EPA, or an equivalent state agency notified us that we are considered a potentially responsible party, or PRP, at fourteen sites, none owned by us. We may be obligated under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, or CERCLA, or a similar state statute to conduct remedial investigation, feasibility studies, remediation and/or removal of alleged releases of hazardous substances or to reimburse the EPA for such activities. We are involved in litigation or administrative proceedings with regard to several of these sites in which we are contesting, or at the appropriate time we may contest, our liability at the sites. In addition, we have received information requests with regard to other sites which may be under consideration by the EPA as potential CERCLA sites.

In fiscal 2002, we incurred environmental expense of \$12.1 million. This expense included the cost of environmental personnel at various divisions, permit and license fees, accruals and payments for studies, tests, assessments, remediation, consultant fees, baghouse dust removal and various other expenses. Approximately \$507 thousand of our capital expenditures for 2002 related to costs directly associated with environmental compliance. At August 31, 2002, \$5.0 million was accrued for environmental liabilities of which \$1.5 million is classified as other long-term liabilities.

Dividends

We have paid quarterly cash dividends in each of the past 39 consecutive years. We paid dividends in 2002 at the rate of 0.065 cents per share each quarter for the first three quarters, and 0.08 cents per share for the fourth quarter.

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

14

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

Commercial Metals Company and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except share data)	Year ended August 31,		
	2002	2001*	2000*
Net sales	\$2,446,777	\$ 2,441,216	\$ 2,661,42
Costs and expenses:			
Cost of goods sold	2,129,378	2,143,900	2,333,93
Selling, general and administrative expenses	220,868	212,424	211,40
Employees' retirement plans	14,685	10,611	18,10
Interest expense	18,708	27,608	27,31
Litigation accrual	--	8,258	-
	2,383,639	2,402,801	2,590,76
Earnings before income taxes	63,138	38,415	70,66
Income taxes	22,613	14,643	26,07
Net earnings	\$ 40,525	\$ 23,772	\$ 44,59
Basic earnings per share	\$ 1.48	\$ 0.91	\$ 1.5
Diluted earnings per share	\$ 1.43	\$ 0.90	\$ 1.5

* As restated, see Note 14.

See notes to consolidated financial statements.

15

Commercial Metals Company and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	August 31,	
	2002*	2001*

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 124,397	\$ 56,021
Accounts receivable (less allowance for collection losses of \$8,877 and \$7,958)	350,885	297,611
Inventories	268,040	223,859
Other	50,930	45,522
	-----	-----
Total current assets	794,252	623,013
Property, plant and equipment:		
Land	29,099	29,315
Buildings	119,592	109,549
Equipment	727,650	704,469
Leasehold improvements	34,637	33,213
Construction in process	10,801	20,350
	-----	-----
	921,779	896,896
Less accumulated depreciation and amortization	(543,624)	(501,045)
	-----	-----
	378,155	395,851
Other assets	57,669	63,082
	-----	-----
	\$ 1,230,076	\$ 1,081,946
	=====	=====

* As restated, see Note 14.

See notes to consolidated financial statements.

16

	August

(in thousands, except share data)	2002*

LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Short-term borrowings	\$ --
Accounts payable	275,232
Accrued expenses and other payables	133,608
Income taxes payable	5,676
Current maturities of long-term debt	631

Total current liabilities	415,147

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

Deferred income taxes	32,813
Other long-term liabilities	24,841
Long-term debt	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 and 16,132,583 shares;	
outstanding 28,518,453 and 13,078,594 shares	161,326
Additional paid-in capital	170
Accumulated other comprehensive loss	(1,458)
Retained earnings	392,004

	552,042
Less treasury stock 3,746,713 and 3,053,989 shares at cost	(50,736)

	501,306

	\$ 1,230,076
	=====

* As restated, see Note 14.

See notes to consolidated financial statements.

17

Commercial Metals Company and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	2002*	August 3 2001*
	-----	-----
Cash Flows From (Used By) Operating Activities:		
Net Earnings	\$ 40,525	\$ 23,
Adjustments to earnings not requiring cash:		
Depreciation and amortization	61,579	67,
Provision for losses on receivables	3,985	4,
Deferred income taxes	2,408	(
Tax benefits from stock plans	4,467	
Gain on sale of SMI-Owen	(5,234)	
Other	(307)	(
Changes in Operating Assets and Liabilities, net of effect of Coil Steels Group Acquisition and Sale of SMI-Owen:		

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

Decrease (increase) in accounts receivable	(48,690)	(8,
Funding from accounts receivable sold	--	58,
Decrease (increase) in inventories	(37,206)	46,
Decrease (increase) in other assets	912	5,
Increase (decrease) in accounts payable, accrued expenses, other payables and income taxes	66,927	(2,
Increase (decrease) in other long-term liabilities	7,231	(2,
	-----	-----
Net Cash Flows From Operating Activities	96,597	192,
Cash Flows From (Used By) Investing Activities:		
Purchases of property, plant and equipment	(47,223)	(53,
Acquisition of Coil Steels Group, net of cash received	(6,834)	
Sale of Assets of SMI-Owen	19,705	
Sales of property, plant and equipment	3,496	2,
Other investments	--	
	-----	-----
Net Cash Used By Investing Activities	(30,856)	(50,
Cash Flows From (Used by) Financing Activities:		
Short-term borrowings-net change	(9,981)	(88,
Payments on long-term debt	(10,101)	(8,
Stock issued under incentive and purchase plans	30,238	4,
Treasury stock acquired	--	(6,
Dividends paid	(7,521)	(6,
	-----	-----
Net Cash From (Used by) Financing Activities	2,635	(106,
	-----	-----
Increase (Decrease) in Cash and Cash Equivalents	68,376	35,
Cash and Cash Equivalents at Beginning of Year	56,021	20,
	-----	-----
Cash and Cash Equivalents at End of Year	\$ 124,397	\$ 56,
	=====	=====

* As restated, see Note 14.

See notes to consolidated financial statements.

18

Commercial Metals Company and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share data)	Common Stock		Additional Paid-In Capital
	Number of Shares	Amount	
	-----	-----	-----
Balance, September 1, 1999,			

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

as previously reported	16,132,583	\$ 80,663	\$ 14,131
Prior period adjustments (see footnote 14)	-----	-----	-----
Balance, September 1, 1999, as restated	16,132,583	80,663	14,131
Comprehensive income:			
Net earnings*			
Other comprehensive			
loss-			
Foreign currency			
translation adjustment,			
net of taxes of \$440			
Comprehensive income			
Cash dividends			
Treasury stock acquired			
Stock issued under incentive and purchase plans			100
Balance, August 31, 2000	16,132,583	80,663	14,231
Comprehensive income:			
Net earnings*			
Other comprehensive			
loss-			
Unrealized loss on			
derivatives, net of			
taxes of \$7			
Foreign currency			
translation adjustment,			
net of taxes of \$192			
Comprehensive income			
Cash dividends			
Treasury stock acquired			
Stock issued under incentive and purchase plans			(301)
Balance, August 31, 2001	16,132,583	80,663	13,930
Comprehensive income:			
Net earnings			
Other comprehensive			
income (loss)-			
Foreign currency			
translation adjustment,			
net of taxes of \$276			
Unrealized loss on			
derivatives, net of			
taxes of \$(5)			

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

Comprehensive income			
Cash dividends			
2-for-1 stock split	16,132,583	80,663	(17,354)
Stock issued under incentive and purchase plans			(873)
Tax benefits from stock plans			4,467
	-----	-----	-----
Balance, August 31, 2002	32,265,166	\$ 161,326	\$ 170
	=====	=====	=====

(in thousands, except share data)	Retained Earnings	Treasury Stock	
		Number of Shares	Amo
	-----	-----	-----
Balance, September 1, 1999, as previously reported	\$ 368,177	(1,726,323)	\$ (
Prior period adjustments (see footnote 14)	(146)	-----	-----
Balance, September 1, 1999, as restated	368,031	(1,726,323)	(
Comprehensive income:			
Net earnings*	44,590		
Other comprehensive loss-			
Foreign currency translation adjustment, net of taxes of \$440			
Comprehensive income			
Cash dividends	(7,304)		
Treasury stock acquired		(1,465,100)	(
Stock issued under incentive and purchase plans		231,515	
	-----	-----	-----
Balance, August 31, 2000	405,317	(2,959,908)	(
	-----	-----	-----
Comprehensive income:			
Net earnings*	23,772		
Other comprehensive loss-			
Unrealized loss on derivatives, net of taxes of \$7			
Foreign currency translation adjustment, net of taxes of \$192			
Comprehensive income			
Cash dividends	(6,780)		

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

Treasury stock acquired		(271,500)	
Stock issued under incentive and purchase plans		177,419	
	-----	-----	-----
Balance, August 31, 2001	422,309	(3,053,989)	(
	-----	-----	-----
Comprehensive income:			
Net earnings	40,525		
Other comprehensive income (loss)-			
Foreign currency translation adjustment, net of taxes of \$276			
Unrealized loss on derivatives, net of taxes of \$(5)			
Comprehensive income			
Cash dividends	(7,521)		
2-for-1 stock split	(63,309)	(3,053,989)	
Stock issued under incentive and purchase plans		2,361,265	
Tax benefits from stock plans			
	-----	-----	-----
Balance, August 31, 2002	\$ 392,004	(3,746,713)	\$ (
	=====	=====	=====

* As restated-see footnote 14.

See notes to consolidated financial statements.

19

Commercial Metals Company and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 Summary of Significant Accounting Policies

NATURE OF OPERATIONS The Company manufactures, recycles and markets steel and metal products and related materials. Its manufacturing and recycling facilities and primary markets are located in the Sunbelt from the mid-Atlantic area through the West. Through its global marketing offices, the Company markets and distributes steel and nonferrous metal products and other industrial products worldwide. As more fully discussed in note 13, the manufacturing segment is the most dominant in terms of capital assets and operating profit.

CONSOLIDATION The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances are eliminated in consolidation. Investments in 20% to 50% owned affiliates are accounted for on the equity method. All investments under 20% are accounted for under the cost method, unless the Company has the ability to exercise significant influence over the investee.

REVENUE RECOGNITION Generally, sales are recognized when title passes to the

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

customer. Some of the revenues related to the steel fabrication operations are recognized on the percentage of completion method. Due to uncertainties inherent in the estimation process, it is at least reasonably possible that completion costs for certain projects will be further revised in the near-term.

CASH AND CASH EQUIVALENTS The Company considers temporary investments that are short-term (generally with original maturities of three months or less) and highly liquid to be cash equivalents.

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

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

PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment is recorded at cost and is depreciated on a straight-line basis over the estimated useful lives of the assets. Provision for amortization of leasehold improvements is made at annual rates based upon the estimated useful lives of the assets or terms of the leases, whichever is shorter. At August 31, 2002, the useful lives used for depreciation and amortization were as follows:

Buildings	7 to 40 years
Equipment	3 to 15 years
Leasehold improvements	3 to 10 years

We evaluate the carrying value of property, plant and equipment whenever a change in circumstances indicates that the carrying value may not be recoverable from the undiscounted future cash flows from operations. If we determine that impairment exists, we reduce the net book values as warranted. Major maintenance is expensed as incurred.

START-UP COSTS Start-up costs associated with the acquisition and expansion of manufacturing and recycling facilities are expensed as incurred.

ENVIRONMENTAL COSTS The Company accrues liabilities for environmental investigation and remediation costs based upon estimates regarding the number of sites for which the Company will be responsible, the scope and cost of work to be performed at each site, the portion of costs that will be shared with other parties and the timing of remediation. Where amounts and timing can be reliably estimated, amounts are discounted. Where timing and amounts cannot be reasonably determined, a range is estimated and the lower end of the range is recognized on an undiscounted basis.

INCOME TAXES The Company and its U.S. subsidiaries file a consolidated federal income tax return, and federal income taxes are allocated to subsidiaries based upon their respective taxable income or loss. Deferred income taxes are provided for temporary differences between financial and tax reporting. The principal differences are described in footnote 6, Income Taxes. Benefits from tax credits are reflected currently in earnings. The Company provides for taxes on unremitted earnings of foreign subsidiaries.

FOREIGN CURRENCY The functional currency of the Company's international subsidiaries in Australia, the United Kingdom, and Germany is the local currency. The remaining international subsidiaries' functional currency is the United States dollar. Translation adjustments are reported as a component of accumulated other comprehensive loss.

Effective September 1, 2002, most of the Company's subsidiaries in Europe changed their functional currency to the Euro. The Company does not anticipate that this change will have a material impact on its financial condition or results of operation.

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

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

RECLASSIFICATIONS Certain reclassifications have been made in the 2001 and 2000 financial statements to conform to the classifications used in the current year.

RECENTLY ISSUED ACCOUNTING STANDARDS Statement of Financial Accounting Standards (SFAS) No.142, Goodwill and Other Intangible Assets, must be adopted by the Company in the first quarter of its fiscal year 2003, and will be applied to all goodwill and other intangible assets recognized on the balance sheet, regardless of when those assets were initially recognized. Goodwill will no longer be amortized, but must be tested for impairment as of the beginning of the fiscal year of adoption and annually thereafter. Goodwill was \$6.8 million at August 31, 2002. Management does not believe that the implementation of SFAS 142 will result in an impairment charge.

In August 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations, effective for the Company in fiscal 2003. This standard requires entities to record the fair value of a liability for an asset retirement obligation when it is incurred by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful lives of the assets.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, that refines criteria for assets classified as held for sale, further refines rules regarding impairment of long-lived assets and changes the reporting of discontinued operations. SFAS No. 144 is effective for the Company's fiscal 2003.

SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, was issued in June 2002. It is effective for all such activities initiated after December 31, 2002. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized at fair value only when incurred.

Management believes that the adoption of SFAS Nos.143, 144 and 146 will have no significant impact on the results of operations or financial position of the

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

Company.

NOTE 2 Sales of Accounts Receivable

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 August 31, 2002 and 2001, uncollected accounts receivable of \$146 million and \$138 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 August 31, 2002 and 2001, \$0 and \$40 million, 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 \$793 thousand and \$976 thousand for the years ended August 31, 2003 and 2002, respectively. These losses, representing primarily the costs of funds, were included in selling, general and administrative expenses. At August 31, 2002, the carrying amount of the Company's retained interest (representing the Company's interest in the receivable pool) was \$146 million (100%) in the revolving pool of receivables of \$146 million. The carrying amount of the Company's retained interest was \$98 million in the revolving pool of receivables of \$138 million at August 31, 2001. 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 \$2.1 million and \$18.5 million at August 31, 2002 and 2001, respectively.

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

NOTE 3 Inventories

Before deduction of LIFO reserves of \$8,074,000 and \$6,476,000 at August 31, 2002 and 2001, respectively, inventories valued under the first-in, first-out method approximated replacement cost.

At August 31, 2002 and 2001, 72% and 70%, respectively, of total inventories were valued at LIFO. The remainder of inventories, valued at FIFO, consisted mainly of material dedicated to the marketing and distribution business.

The majority of the Company's inventories are in the form of finished goods, with minimal work in process. Approximately \$15.3 million and \$10.8 million were in raw materials at August 31, 2002 and 2001, respectively.

NOTE 4 Credit Arrangements

In August 2002, the Company increased its commercial paper program to permit maximum borrowings of up to \$174.5 million, an increase from the prior year \$135 million level. It is the Company's policy to maintain contractual bank credit lines equal to 100% of the amount of all commercial paper outstanding.

On August 8, 2002, the Company arranged an unsecured revolving credit agreement with a group of eight banks consisting of a 364-day, \$129.5 million facility. This facility is in addition to the previously existing \$45 million facility that matures August 14, 2004. These agreements provide for borrowing in United States dollars indexed to LIBOR. Facility and other fees of 0.150% and 0.125% per annum are payable on the 364-day and multi-year credit lines, respectively. No compensating balances are required.

The Company has numerous informal credit facilities available from domestic and international banks. These credit facilities are priced at bankers' acceptance rates or on a cost of funds basis. No compensating balances or commitment fees are required under these credit facilities.

Long-term debt and amounts due within one year as of August 31, are as follows:

(in thousands)	2002	2001
-----	-----	-----
7.20% notes due July 2005	\$104,775	\$100,000
6.75% notes due February 2009	100,000	100,000
6.80% notes due August 2007	50,000	50,000
8.49% notes due December 2001	--	7,142
Other	1,825	4,784
	-----	-----
	256,600	261,926
Less current maturities	631	10,288
	-----	-----
	\$255,969	\$251,638
	=====	=====

Interest on these notes is payable semiannually.

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

On April 9, 2002, the Company entered into two interest rate swaps to convert a portion of its fixed interest rate long-term debt commitment to a floating interest commitment. These arrangements adjust the Company's fixed to floating interest rate exposure as well as reduce overall financing costs. The swaps effectively convert interest on the \$100 million debt due July 2005 from a fixed rate of 7.20% to a six month LIBOR (determined in arrears) plus 2.02%. The floating rate was 3.88% at July 15, 2002, the most recent reset date. The total fair value of both swaps was \$4,775,000 at August 31, 2002 and is 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.

Certain of the note agreements include various covenants. The most restrictive of these requires maintenance of an interest coverage ratio of greater than three times and a debt/capitalization ratio of 55% (as defined).

The aggregate amounts of all long-term debt maturities for the five years following August 31, 2002 are (in thousands): 2003-\$631; 2004-\$563; 2005-\$105,296; 2006-\$17; 2007-\$50,016 and thereafter-\$100,077.

22

Interest expense is comprised of the following:

(in thousands)	Year ended August 31,		
	2002	2001	2000
Long-term debt	\$ 16,499	\$ 17,532	\$ 18,419
Commercial paper	145	7,076	4,816
Notes payable	2,064	3,000	4,084
	\$ 18,708	\$ 27,608	\$ 27,319
	=====	=====	=====

Interest of \$447,000, \$1,111,000, and \$808,000 was capitalized in the cost of property, plant and equipment constructed in 2002, 2001, and 2000, respectively. Interest of \$18,879,000, \$28,704,000, and \$27,536,000 was paid in 2002, 2001, and 2000, respectively.

NOTE 5 Financial Instruments, Market and Credit Risk

Generally accepted accounting principles require disclosure of an estimate of the fair value of the Company's financial instruments as of year end. These estimated fair values disregard management intentions concerning these instruments and do not represent liquidation proceeds or settlement amounts currently available to the Company. Differences between historical presentation and estimated fair values can occur for many reasons including taxes, commissions, prepayment penalties, make-whole provisions and other restrictions as well as the inherent limitations in any estimation technique.

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

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

- o Cash and cash equivalents
- o Accounts receivable/payable
- o Short-term borrowings

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

(in thousands)	2002	2001
-----	-----	-----
Long-Term Debt:		
Carrying amount	\$ 256,600	\$ 261,926
Estimated fair value	259,656	252,531
	=====	=====

The Company maintains both corporate and divisional credit departments. Limits are set for customers and countries. Credit insurance is used for some of the Company's divisions. Letters of credit issued or confirmed by sound financial institutions are obtained to further ensure prompt payment in accordance with terms of sale; generally, collateral is not required.

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

The Company's worldwide operations and product lines expose it to risks from fluctuations in foreign currency exchange rates 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 as hedges for accounting purposes only those contracts which closely match the terms of the underlying transaction. These hedges resulted in substantially no ineffectiveness in the statements of earnings for the years ended August 31, 2002 and 2001. 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

\$208 thousand decrease and a \$452 thousand increase in cost of goods sold for

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

the years ended August 31, 2002 and 2001, respectively. All of the instruments are highly liquid and none are entered into for trading purposes or speculation.

See footnote 4, Credit Arrangements, regarding the Company's interest rate hedges.

NOTE 6 Income Taxes

The provisions for income taxes include the following:

(in thousands)	Year ended August 31,		
	2002	2001	2000
Current:			
United States	\$ 15,173	\$ 13,498	\$ 14,731
Foreign	1,670	80	573
State and local	644	1,863	2,637
	17,487	15,441	17,941
Deferred	5,126	(798)	8,129
	\$ 22,613	\$ 14,643	\$ 26,070
	=====	=====	=====

During 2002, the Company favorably resolved all issues for its federal income tax returns through 1999. Management has reevaluated the tax accruals resulting in a net decrease of approximately \$1,000,000.

Taxes of \$11,016,000, \$8,691,000 and \$26,363,000 were paid in 2002, 2001 and 2000, respectively.

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

(in thousands)	August 31,	
	2002	2001
Tax on difference between tax and book depreciation	\$ 38,457	\$ 33,873
U.S. taxes provided on foreign income and foreign taxes	11,857	11,586
Net operating losses (less allowances of \$780 and \$2,035)	(561)	(1,090)
Alternative minimum tax credit	(1,713)	(1,713)
Other accruals	(9,183)	(6,330)
Other	(6,044)	(5,921)
	\$ 32,813	\$ 30,405
	=====	=====

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

Current deferred tax assets of \$12.3 and \$11.0 million at August 31, 2002 and 2001, respectively, were included in other assets on the consolidated balance sheets. These deferred taxes were largely due to different book and tax treatments of various allowances and accruals. No valuation allowances were required at August 31, 2002 or 2001 for the current deferred tax assets.

The Company uses substantially the same depreciable lives for tax and book purposes. Changes in deferred taxes relating to depreciation are mainly attributable to differences in the basis of underlying assets recorded under the purchase method of accounting. As noted above, the Company provides United States taxes on unremitted foreign earnings. Net operating losses consist of \$120 million of state net operating losses that expire during the tax years ending from 2006 to 2022. These assets will be reduced as tax expense is recognized in future periods. The \$1.7 million alternative minimum tax credit is available indefinitely. The FSC Repeal and Extraterritorial Income Exclusion Act of 2000 replaced the Foreign Sales Corporation (FSC) tax benefits with the "extraterritorial income" exemption (ETI) for fiscal year 2002 and the years thereafter. The ETI exclusion maintains the same level of tax benefit for current FSC users.

24

The Company's effective tax rates were 35.8% for 2002, 38.1% for 2001 and 36.9% for 2000. Reconciliations of the United States statutory rates to the effective rates are as follows:

	Year ended August 31,		
	2002	2001	2000
	-----	-----	-----
Statutory rate	35.0%	35.0%	35.0%
State and local taxes	1.0	3.1	2.3
ETI	(1.2)	(1.1)	(0.6)
Other	1.0	1.1	0.2
	-----	-----	-----
Effective tax rate	35.8%	38.1%	36.9%
	=====	=====	=====

NOTE 7 Capital Stock

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. This stock split was effective June 28, 2002 to shareholders of record on June 7, 2002. On June 28, 2002, the Company issued 16,132,583 additional shares of common stock and transferred \$17,354,000 from paid-in capital and \$63,309,000 from retained earnings to common stock. All applicable share and per share amounts in the accompanying consolidated financial statements have been restated to reflect

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

this stock split. Following the stock split, the Company also instituted a quarterly cash dividend of eight cents per share on the increased number of shares.

STOCK PURCHASE PLAN Almost all employees may participate in the Company's employee stock purchase plan. The Directors have authorized the annual purchase of up to 200 shares per employee at a discount of 25% from the stock's market price. Yearly activity of the stock purchase plan was as follows:

	2002	2001	2000
	-----	-----	-----
Shares subscribed	282,780	347,640	330,000
Price per share	\$ 12.48	\$ 9.48	\$ 11.74
Shares purchased	257,860	74,480	273,980
Price per share	\$ 9.48	\$ 11.74	\$ 9.75
Shares available	366,446		

The Company recorded compensation expense for this plan of \$815,000, \$291,000 and \$890,000 in 2002, 2001 and 2000, respectively.

STOCK OPTION PLANS The 1986 Stock Incentive Plan (1986 Plan) ended November 23, 1996, except for awards outstanding. Under the 1986 Plan, stock options were awarded to full-time salaried employees. The option price was the fair market value of the Company's stock at the date of grant, and the options are exercisable two years from date of grant. The outstanding awards under this Plan are 100% vested and expire through 2006.

The 1996 Long-Term Incentive Plan (1996 Plan) was approved in December 1996. Under the 1996 Plan, stock options, stock appreciation rights, and restricted stock may be awarded to employees. The option price for both the stock options and the stock rights will not be less than the fair market value of the Company's stock at the date of grant. The outstanding awards under the 1996 Plan vest 50% after one year and 50% after two years from date of grant and will expire seven years after grant. The terms of the 1996 Plan resulted in additional authorized shares of 52,126 in 2000, 67,270 in 2001, and 1,073,782 in 2002. In addition, the Company's shareholders authorized an additional 1,000,000 shares during 2002.

In January 2000, the Company's stockholders approved the 1999 Non-Employee Director Stock Option Plan and authorized 400,000 shares to be made available for grant. Under this Plan, each outside director of the Company will receive annually an option to purchase 3,000 shares of the Company's stock. In addition, any outside director may elect to receive all or part of fees otherwise payable in the form of a stock option. The price of these options is the fair market value of the Company's stock at the date of the grant. The options granted automatically vest 50% after one year and 50% after two years from the grant date. Options granted in lieu of fees are immediately vested. All options expire seven years from the date of grant.

Combined share information for the three plans is as follows:

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

	Number	Weighted Average Exercise Price	Price Range Per Share
	-----	-----	-----
September 1, 1999			
Outstanding	3,821,522	\$ 12.98	\$ 6.31-14.91
Exercisable	3,424,636	12.78	6.31-14.91
Granted	773,800	15.45	15.44-15.97
Exercised	(201,732)	11.49	6.31-14.91
Forfeited	(42,730)	14.85	12.25-15.44
Increase authorized	452,126		
	-----	-----	-----
August 31, 2000			
Outstanding	4,350,860	\$ 13.47	\$ 6.31-15.97
Exercisable	3,559,810	13.06	6.31-15.44
Granted	803,672	11.71	10.95-13.23
Exercised	(320,422)	10.70	6.31-15.44
Forfeited	(99,932)	13.82	10.99-15.97
Increase authorized	67,270		
	-----	-----	-----
August 31, 2001			
Outstanding	4,734,178	\$ 13.36	\$ 9.21-15.97
Exercisable	3,608,052	13.47	9.21-15.97
Granted	805,380	17.28	17.17-21.42
Exercised	(2,212,903)	13.13	9.21-15.97
Forfeited	(80,920)	14.00	11.76-17.17
Increase authorized	2,073,782		
	-----	-----	-----
August 31, 2002			
Outstanding	3,245,735	\$ 14.46	\$10.10-21.42
Exercisable	2,111,744	13.94	10.10-18.05
Authorized			
Shares remaining	1,938,738		
	-----	-----	-----

Share information for options at August 31, 2002:

Outstanding				
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (Yrs)	Weighted Average Exercise Price	Ex
-----	-----	-----	-----	-----
\$ 10.10-12.25	828,579	4.4	\$ 11.72	
13.13-14.91	1,197,768	2.6	14.13	1
15.44-21.42	1,219,388	5.6	16.65	
-----	-----	-----	-----	-----
\$ 10.10-21.42	3,245,735	4.2	\$ 14.46	2

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

The Company has maintained its historical method for accounting for stock options, which recognizes no compensation expense for fixed options granted at current market values. Generally accepted accounting principles require disclosure of an estimate of the weighted-average grant date fair value of options granted during the year and pro forma disclosures of the effect on earnings if compensation expense had been recorded.

The Black-Scholes option pricing model used requires the following assumptions as of August 31:

	2002 -----	2001 -----	2000 -----
Risk-free interest rate	4.42%	4.84%	6.34%
Expected life	5.44 years	4.60 years	4.06 years
Expected volatility	.250	.232	.248
Expected dividend yield	1.7%	1.7%	1.9%

26

Management believes that the results have limited relevance as characteristics of the Company's options such as nontransferability, forfeiture provisions and long lives are inconsistent with the option model's basic purpose of valuing traded options. For purposes of pro forma earnings disclosures, the assumed compensation expense is amortized over the option's vesting period. The pro forma information includes options granted in preceding years.

	2002 -----	2001 -----	2000 -----
Net earnings (in thousands)			
As reported	\$ 40,525	\$ 23,772	\$ 44,590
Pro forma	38,888	22,577	43,097
Diluted earnings per share			
As reported	\$ 1.43	\$ 0.90	\$ 1.56
Pro forma	1.37	0.86	1.51

The weighted-average fair value of options granted in 2002, 2001 and 2000 was \$4.52, \$2.77 and \$3.89, respectively.

PREFERRED STOCK Preferred stock has a par value of \$1.00 a share, with 2,000,000 shares authorized. It may be issued in series, and the shares of each series shall have such rights and preferences as fixed by the Board of Directors when

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

authorizing the issuance of that particular series. There are no shares of preferred stock outstanding.

STOCKHOLDER RIGHTS PLAN On July 28, 1999, the Company's Board of Directors adopted a stockholder rights plan pursuant to which stockholders were granted preferred stock rights (Rights) to purchase one one-thousandth of a share of the Company's Series A Preferred Stock for each share of common stock held. In connection with the adoption of such plan, the Company designated and reserved 100,000 shares of preferred stock as Series A Preferred Stock and declared a dividend of one Right on each outstanding share of the Company's common stock. Rights were distributed to stockholders of record as of August 9, 1999.

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

NOTE 8 Employees' Retirement Plans

Substantially all employees of the Company and its subsidiaries are covered by defined contribution profit sharing and savings plans. Company contributions, which are discretionary, to all plans were \$14,685,000, \$10,611,000, and \$18,108,000, for 2002, 2001 and 2000, respectively.

NOTE 9 Postretirement Benefits Other Than Pensions/Postemployment Benefits

The Company has no significant postretirement obligations. The Company's historical costs for postemployment benefits have not been significant and are not expected to be in the future.

27

NOTE 10 Commitments and Contingencies

Minimum lease commitments payable by the Company and its consolidated subsidiaries for noncancelable operating leases in effect at August 31, 2002, are as follows for the fiscal periods specified:

(in thousands)	Equipment	Real Estate
-----	-----	-----

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

2003	\$ 6,169	\$ 3,178
2004	3,499	1,723
2005	2,529	1,245
2006	1,749	823
2007 and thereafter	2,088	983
	-----	-----
	\$ 16,034	\$ 7,952
	=====	=====

Total rental expense was \$11,774,000, \$11,483,000 and \$10,664,000 in 2002, 2001 and 2000, respectively.

CONSTRUCTION CONTRACT DISPUTES During 2001, the Company increased its litigation accrual (included in accrued expenses and other payables) by \$8.3 million due to an adverse judgment from a trial. At August 31, 2002 and 2001, \$9.8 million and \$9.4 million, respectively, were accrued (including interest). The Company has appealed the judgment.

In another matter, a subsidiary of the Company entered into a fixed price contract with the design/builder general contractor (D/B) to furnish, erect and install structural steel, hollow core pre-cast concrete planks, fireproofing, and certain concrete slabs along with related design and engineering work for the construction of a large hotel and casino complex. In connection with the contract, the D/B secured insurance under a subcontractor/vendor default protection policy which named the Company as an insured in lieu of performance and payment bonds. A large subcontractor to the Company defaulted, and the Company incurred unanticipated costs to complete the work. The Company made a claim against the insurance company for all losses, costs, and expenses incurred or arising from the default. A portion of the claim, \$6.6 million, was recorded as a claim receivable in other assets at August 31, 2001. During May 2002, the Company and the insurance company settled litigation filed by the Company following the insurer's refusal to pay the claim. The Company recovered \$15 million from the insurance company, which included recovery of the \$6.6 million claim receivable, receipt of an additional amount (\$7.4 million), the release of the balance of \$1 million of previously escrowed funds for payment of certain claims by subcontractors to the Company and, subject to certain contingencies, reimbursement of an additional amount (up to \$3 million). The \$7.4 million in excess of the claim receivable and escrow amount released was recorded as deferred insurance proceeds (in other long-term liabilities at August 31, 2002) pending final resolution of the Company's disputes with the D/B. The Company has also filed a lawsuit against the insurance broker for insurance benefits not received due to the broker's acts, errors and omissions.

Disputes between the Company and the D/B have been submitted to binding arbitration. Depending upon future rulings in the arbitration, a portion of the Company's recovery from the insurance company may be credited toward the Company's claim against the D/B. The Company has filed a claim for approximately \$27 million against the D/B. The claims seeks recovery of unpaid contract receivables, amounts for delay claims and change orders all of which have not been paid by the D/B. At August 31, 2002 and 2001, the Company maintained contract receivables of \$7.2 million from the D/B. Such amounts are included within other assets on the accompanying balance sheets. The D/B has not disputed certain amounts owed under the contract, but contends that other deductive items, disputed by the Company, reduce the contract balance by approximately \$6.3 million which together with other D/B claims (discussed below) exceed the unpaid contract balance. The Company disputes the deductive items in the D/B's claim and intends to vigorously pursue recovery of the contract balance in addition to all amounts not recovered under insurance program coverage as a result of misrepresentations or omissions of the D/B.

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

The owner of the Project and the D/B have filed joint claims in the arbitration proceeding against the Company, primarily for alleged delay damages, totaling approximately \$144 million which includes alleged delay damages in construction of a retail area adjacent to the Project. Management believes the claims are generally unsubstantiated, and the Company has valid legal defenses against such claims and intends to vigorously defend these claims. Man-

28

agement is unable to determine a range of potential loss related to such claims, and therefore no losses have been accrued; however, it believes the ultimate resolution will not have a material effect on the Company's consolidated financial statements. Due to the uncertainties inherent in the estimating process, it is at least reasonably possible that a change in the Company's estimate of its collection of amounts receivable and possible liability could occur in the near term.

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.

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.

The Company has received notices from the U.S. Environmental Protection Agency (EPA) or equivalent state agency that it is considered a potentially responsible party (PRP) at fourteen sites, none owned by the Company, and may be obligated under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) or similar state statute to conduct remedial investigations, feasibility studies, remediation and/or removal of alleged releases of hazardous substances or to reimburse the EPA for such activities. The Company is involved in litigation or administrative proceedings with regard to several of these sites in which the Company is contesting, or at the appropriate time may contest, its liability at the sites. In addition, the Company has received information requests with regard to other sites which may be under consideration by the EPA as potential CERCLA sites.

Some of these environmental matters or other proceedings may result in fines, penalties or judgments being assessed against the Company. While the Company is unable to estimate precisely the ultimate dollar amount of exposure to loss in connection with the above-referenced matters, it makes accruals as warranted. Due to evolving remediation technology, changing regulations, possible third-party contributions, the inherent shortcomings of the estimation process and other factors, amounts accrued could vary significantly from amounts paid. Accordingly, it is not possible to estimate a meaningful range of possible exposure. It is the opinion of the Company's management that the outcome of these proceedings, individually or in the aggregate, will not have a material adverse effect on the results of operations or the financial position of the

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

Company.

NOTE 11 Earnings Per Share

In calculating earnings per share, there were no adjustments to net earnings to arrive at income for any years presented. The stock options granted June 7, 2002, with total outstanding share commitments of 10,000 at year end, are antidilutive.

	August 31,		
	2002	2001	2000
Shares outstanding for basic earnings per share	27,377,083	26,059,122	28,036,052
Effect of dilutive securities:			
Stock options/ purchase plans	898,208	261,866	464,118
Shares outstanding for diluted earnings per share	28,275,291	26,320,988	28,500,170

29

NOTE 12 Accrued Expenses and Other Payables

	August 31,	
(in thousands)	2002	2001
Salaries, wages and commissions	\$ 31,544	\$ 30,844
Litigation accruals	16,416	16,048
Employees' retirement plans	15,086	11,749
Insurance	12,987	10,401
Taxes other than income taxes	9,470	10,359
Advance billings on contracts	7,855	15,621
Freight	5,980	4,467
Environmental	3,437	2,675
Accrual for contract losses	2,506	3,278
Interest	1,901	2,491
Contributions	1,788	935

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

Other	24,638	24,979
	-----	-----
	\$133,608	\$133,847
	=====	=====

NOTE 13 Business Segments

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

The Company has three reportable segments consisting of manufacturing, recycling, and marketing and distribution. Manufacturing consists of the CMC steel group's minimills, steel and joist fabrication operations, fence post manufacturing plants, heat treating, railcar rebuilding and concrete-related products, as well as Howell Metal Company's copper tube manufacturing facility. The manufacturing segment's business operates primarily in the southern and western United States. Recycling consists of the Secondary Metals Processing Division's scrap processing and sales operations primarily in Texas, Florida and the southern United States. Marketing and distribution includes both domestic and international operations for the sales and distribution of both ferrous and nonferrous metals and other industrial products. The segment's activities consist only of physical transactions and not speculation.

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

30

The following presents information regarding the Company's domestic operations and operations outside of the United States:

(in thousands)	External Net Sales for the Year ended August 31,		
	2002	2001	2000
-----	-----	-----	-----
United States	\$1,670,497	\$1,685,981	\$1,782,189
Non United States	776,280	755,235	879,231
	-----	-----	-----
Total	\$2,446,777	\$2,441,216	\$2,661,420
	=====	=====	=====

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

(in thousands)	Long-Lived Assets as of August 31,		
	2002	2001	2000
United States	\$421,332	\$449,121	\$457,204
Non United States	14,492	9,812	10,483
Total	\$435,824	\$458,933	\$467,687

Summarized data for the Company's international operations located outside of the United States (principally in Europe, Australia and the Far East) are as follows:

(in thousands)	Year ended August 31,		
	2002	2001	2000
Net sales-unaffiliated customers	\$378,745	\$266,609	\$343,805
Total assets	124,870	83,743	68,556

The following is a summary of certain financial information by reportable segment:

31

NOTE 13 Business Segments (Continued):

2002 (dollars in thousands)	Manufacturing	Recycling	Marketing and Distribution	Corporate
Net sales-unaffiliated customers	\$1,329,159	\$ 354,387	\$ 762,584	\$ 647
Intersegment sales	3,587	23,667	14,428	--
Net sales	1,332,746	378,054	777,012	647

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

Adjusted operating profit (loss)	71,447	5,098	14,196	(8,102)
Interest expense	3,949	1,011	1,050	13,145
Capital expenditures	39,046	4,723	9,323	965
Depreciation and amortization	49,538	9,650	1,609	782
Total assets	720,450	98,847	262,111	148,668

2001 (dollars in thousands)

Net sales-unaffiliated customers	\$1,315,700	\$ 371,298	\$ 752,723	\$ 1,495
Intersegment sales	5,375	22,539	18,433	--
Net sales	1,321,075	393,837	771,156	1,495
Adjusted operating profit (loss)	56,700	(2,324)	7,833	4,790
Interest expense	10,585	2,165	1,332	14,637
Capital expenditures	45,979	5,587	1,208	248
Depreciation and amortization	54,402	11,005	1,124	741
Total assets	739,625	93,268	188,405	60,648

2000 (dollars in thousands)

Net sales-unaffiliated customers	\$1,348,994	\$ 432,115	\$ 881,238	\$ (927)
Intersegment sales	7,732	30,496	22,055	--
Net sales	1,356,726	462,611	903,293	(927)
Adjusted operating profit (loss)	72,135	5,841	19,244	759
Interest expense	11,007	2,811	1,741	12,568
Capital expenditures	61,538	6,220	1,260	609
Depreciation and amortization	52,688	12,152	1,061	682
Total assets	769,536	115,532	242,568	42,456

In the following table we are providing a reconciliation of our non-GAAP measure, adjusted operating profit (loss), to net earnings (loss), the most comparable GAAP measure (in thousands):

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

SEGMENT	MANUFACTURING	RECYCLING	DISTRIBUTION	ELIMINATED
YEAR ENDED AUGUST 31, 2002:				
Net earnings (loss)	\$45,026	\$ 3,741	\$ 8,085	\$ (16,000)
Income taxes	25,739	1,187	3,769	(8,000)
Interest expense	291	4	2,039	16,000
Discounts on sales of accounts receivable	391	166	303	
Adjusted operating profit (loss)	\$71,447	\$ 5,098	\$14,196	\$ (8,000)
YEAR ENDED AUGUST 31, 2001:				
Net earnings (loss)	\$34,826	\$(1,579)	\$ 3,612	\$(13,000)
Income taxes	21,150	(903)	2,139	(7,000)
Interest expense	357	12	1,798	25,000
Discounts on sales of accounts receivable	367	146	284	
Adjusted operating profit (loss)	\$56,700	\$(2,324)	\$ 7,833	\$ 4,000
YEAR ENDED AUGUST 31, 2000:				
Net earnings (loss)	\$44,794	\$ 3,836	\$11,548	\$(15,000)
Income taxes	27,135	1,971	5,469	(8,000)
Interest expense	206	34	2,227	24,000
Adjusted operating profit (loss)	\$72,135	\$ 5,841	\$19,244	\$ 1,000

32

NOTE 14 Restatement

In August 2002, the Company uncovered a theft and accounting fraud which had occurred over four years at a rebar fabrication facility in South Carolina. The total adjustment required to restate the accounting records to their proper balances was \$2.7 million pre-tax. In a second, unrelated incident, the Company discovered accounting errors related to losses on rebar fabrication and placement jobs at one facility in California, some of which dated from the acquisition of the facility in May 2000. The resulting charge was \$1.9 million pre-tax. The South Carolina incident resulted in a \$900 thousand pre-tax expense in fiscal 2002. The remaining \$3.7 million pre-tax for both instances was attributed \$885 thousand in 2001, \$2.6 million in 2000 and \$227 thousand in 1999. All reported periods have been restated. The effects of the restatement were as follows:

	2001	2000
(\$ in thousands, except per share)	As Previously Reported	As Previously Reported
	As Restated	

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

At August 31:			
Cash	\$ 33,289	\$ 32,921	\$ 20,067
Accounts receivable	204,032	202,095	354,045
Inventories	236,679	223,859	277,455
Total assets	1,084,800	1,081,671	1,172,862
Accounts payable	201,292	201,114	194,538
Other payables and accrued expenses	133,464	133,895	142,680
Income taxes payable	1,105	--	678
Retained earnings	424,688	422,309	407,128
Total stockholders' equity	435,473	433,094	420,616

For the year ended August 31:

Selling, general and administrative expenses	\$ 211,539	\$ 212,424	\$ 208,808
Earnings before income taxes	39,300	38,415	73,255
Net earnings	24,340	23,772	46,255
Basic EPS	0.93	0.91	1.65
Diluted EPS	0.92	0.90	1.62

In addition to the above, beginning retained earnings as of September 1, 1999 was reduced by \$146 thousand.

In October 2003, the Company determined that the amounts previously reported in 2002 and 2001 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 August 31, 2002 and 2001 have been increased by \$91 million and \$23 million, respectively, from the amounts previously reported as cash (as shown in the table above), and the previously reported temporary investments line has been removed. As a result of consolidating CMCR, accounts receivable as of August 31, 2002 and 2001 have been increased by \$143 million and \$95.5 million, respectively, from the amounts previously reported (as shown in the table above), and the previously reported notes receivable from affiliates line has been removed. In conjunction with these balance sheet changes, cash flows used by investing activities in the accompanying statements of cash flows for the years ended August 31, 2002 and 2001 have been changed from (\$99) million and (\$73) million, respectively, to (\$31) million and (\$50) million. In addition, the disclosures in Note 2, 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.

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

Summarized quarterly financial data for fiscal 2002, 2001 and 2000 are as follows (in thousands except per share data):

	Three Months Ended 2002				
	As Previously Reported Nov. 30	As Restated Nov. 30	Feb. 28	May 31	Au
Net sales	\$564,880	\$564,880	\$566,419	\$642,908	\$67
Gross profit	78,095	78,095	74,872	92,116	7
Net earnings	8,832	8,482	6,572	16,433	
Basic EPS	0.34	0.32	0.24	0.59	
Diluted EPS	0.33	0.32	0.24	0.56	

	Three Months Ended 2001					
	As Previously Reported Nov. 30	As Restated Nov. 30	As Previously Reported Feb. 28	As Restated Feb. 28	As Previously Reported May 31	Res Ma
Net sales	\$ 594,540	\$ 594,540	\$578,330	\$578,330	\$622,090	\$62
Gross profit	70,844	70,844	58,253	58,253	82,893	8
Net earnings (loss)	(2,233)	(2,421)	1,662	1,590	10,721	1
Basic EPS (loss)	(0.09)	(0.09)	0.06	0.06	0.41	
Diluted EPS (loss)	(0.09)	(0.09)	0.06	0.06	0.41	

	Three Months Ended 2000					
	As Previously Reported Nov. 30	As Restated Nov. 30	As Previously Reported Feb. 28	As Restated Feb. 28	As Previously Reported May 31	Res Ma
Net sales	\$ 612,427	\$ 612,427	\$ 637,624	\$ 637,624	\$ 701,209	\$ 7
Gross profit	77,434	77,434	79,132	79,132	87,076	
Net earnings	10,233	9,972	10,358	10,317	12,961	
Basic EPS	0.36	0.35	0.36	0.36	0.46	
Diluted EPS	0.35	0.34	0.35	0.35	0.46	

The quantities and costs used in calculating cost of goods sold on a quarterly basis include estimates of the annual LIFO effect. The actual effect cannot be known until the year end physical inventory is completed and quantity and price indices are developed. The quarterly cost of goods sold above includes such estimates. The final determination of inventory quantities and prices resulted in \$1.1 million after-tax expense in the fourth quarter 2002. Fourth quarter 2001 net earnings were not significantly impacted. Fourth quarter 2000 net

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

earnings decreased \$1.2 million after the final determination of quantities and prices was made.

In recording accruals for workers' compensation expense, management relies on prior years' experience and information from third party administrators in making estimates. Results at the end of fiscal year 2002, 2001 and 2000 indicated a decline in the number of claims resulting in a \$1.0 million, \$2.1 million and \$2.6 million reduction, respectively, in the accrual during the fourth quarters.

Following a revised Court ruling, the Company reduced its litigation accrual by \$2.5 million during the fourth quarter 2001 (see note 10).

34

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Commercial Metals Company
Dallas, Texas

We have audited the consolidated balance sheets of Commercial Metals Company and subsidiaries at August 31, 2002 and 2001, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended August 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Commercial Metals Company and subsidiaries at August 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14, the accompanying 2002, 2001 and 2000 financial statements have been restated.

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

/s/ DELOITTE & TOUCHE LLP

Dallas, Texas

November 22, 2002

(October 29, 2003 as to the effects of the restatement discussed in the last paragraph of Note 14)

35

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

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

1. All financial statements are included at Item 8 above.
2. Commercial Metals Company and Subsidiaries Consolidated Financial Statement Schedule

Independent Auditors' Report as to Schedule Valuation and qualifying accounts (Schedule VIII)

All other schedules have been omitted because they are not applicable, are not required, or the required information is shown in the financial statements or notes thereto.

3. The following is a list of the Exhibits required to be filed by Item 601 of Regulation S-K:

- (3) (i) - Restated Certificate of Incorporation (Filed herewith).
- (3) (i) a - Certificate of Amendment of Restated Certificate of Incorporation dated February 1, 1994 (Filed herewith).
- (3) (i) b - Certificate of Amendment of Restated Certificate of Incorporation dated February 17, 1995 (Filed herewith).
- (3) (i) c - 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) (ii) - By-Laws (Filed herewith).
- (4) (i) a - Indenture between Commercial Metals and Chase Manhattan Bank dated as of July 31, 1995 (Filed as Exhibit 4.1 to Commercial Metals' Registration Statement No. 33-60809 on July 18, 1995 and incorporated herein by reference).

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

- (4) (i) b - Rights Agreement dated July 28, 1999 by and between Commercial Metals and ChaseMellon Shareholder Services, LLC, as Rights Agent (Filed as Exhibit 1 to Commercial Metals' Form 8-A filed August 3, 1999 and incorporated herein by reference).

- 4 (i) c - Form of Note for Commercial Metals' 7.20% Senior Notes due 2005 (filed herewith).
- 4 (i) d - Form of Note for Commercial Metals' 6.80% Senior Notes due 2007 (filed herewith).
- 4 (i) e - Officers' Certificate, dated August 4, 1997, pursuant to the Indenture dated as of July 31, 1995, relating to the 6.80% Senior Notes due 2007 (filed herewith).
- 4 (i) f - Form of Note for Commercial Metals' 6.75% Senior Notes due 2009 (filed herewith).
- 4 (i) g - Officers' Certificate, dated February 23, 1999, pursuant to the Indenture dated as of July 31, 1995, relating to the 6.75% Senior Notes due 2009 (filed herewith).

- (10) (i) a - Purchase and Sale Agreement dated June 20, 2001, between various entities listed on Schedule 1 as Originators and CMC Receivables, Inc. (Filed as Exhibit (10) (a) to Commercial Metals' Form 10-Q for the period ended May 31, 2001, and incorporated herein by reference).
- (10) (i) b - Receivables Purchase Agreement dated June 20, 2001, among CMC Receivables, Inc., as Seller, Three Rivers Funding Corporation, as Buyer, and Commercial Metals Company as Servicer (Filed as Exhibit (10) (b) to Commercial Metals' Form 10-Q for the period ended May 31, 2001, and incorporated herein by reference).
- (10) (i) c - \$45,000,000 3 Year Revolving Credit Agreement dated as of August 15, 2001 (Filed as Exhibit (10) (i) c to Commercial Metals' Form 10-K for the fiscal year ended August 31, 2001, and incorporated hereby by reference).
- (10) (i) d - \$129,500,000 Amended and Restated 364-Day Revolving Credit Agreement dated as of August 8, 2002 (Filed as Exhibit 10 (i) (d) to Commercial Metals' Form 10-K for the fiscal year ended August 31, 2002, and incorporated herein by reference).

- (10) (iii) a* - Employment Agreement of Murray R. McClean as amended

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

- through October 2, 2000 (Filed as Exhibit (10)(iii) to Commercial Metals' Form 10-K for the fiscal year ended August 31, 2000, and Incorporated herein by reference).
- (10)(iii)b* - Amendment to Employment Agreement of Murray R. McClean dated March 28, 2001, (Filed as Exhibit (10)(iii)b to Commercial Metals' Form 10-K for the fiscal year ended August 31, 2001, and incorporated herein by reference).
- (10)(iii)c* - Key Employee Long-Term Performance Plan description (Filed as Exhibit (10)(iii)c to Commercial Metals' Form 10-K for the fiscal year ended August 31, 2001, and incorporated hereby by reference).
- (10)(iii)d* - Key Employee Annual Incentive Plan description (Filed as Exhibit (10)(iii)d to Commercial Metals' Form 10-K for the fiscal year ended August 31, 2001, and incorporated hereby by reference).
- (10)(iii)e* - Employment and Consulting Agreement of Marvin Selig dated as of June 7, 2002 (Filed as Exhibit 10(iii)e to Commercial Metals' Form 10-K for the fiscal year ended August 31, 2002, and incorporated herein by reference).
- (10)(iii)f* 1999 Non-Employee Director Stock Option Plan (filed herewith).
- (12) Statement re computation of earnings to fixed charges (filed herewith).
- (21) Subsidiaries of Registrant (Filed as Exhibit 21 to Commercial Metals' Form 10-K for the fiscal year ended August 31, 2002 and incorporated herein by reference).
- (23) Independent Auditors' consent to incorporation by reference of report dated November 22, 2002 (October 29, 2003, as to the effects of the restatement discussed in the last paragraph of Note 14), accompanying the consolidated financial statements of Commercial Metals Company and subsidiaries for the year ended August 31, 2002, into previously filed Registration Statements No. 033-61073, No. 033-61075, No. 333-27967 and No. 333-42648 on Form S-8 and Registration Statements No. 33-60809 and No. 333-61379 on Form S-3 (filed herewith).
- (31)a - 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).

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

- (31)b - Certification of William B. Larson, Vice President and Chief Financial Officer of Commercial Metals Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- (32)a - Certification of 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)b - Certification of William B. Larson, Vice President and Chief Financial Officer of Commercial Metals Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

* denotes management contract or compensatory plan.

A Form 8-K was filed on June 13, 2002, under Item 5, announcing Marvin Selig's retirement effective August 31, 2002 and his resignation from our board of directors. We also announced Clyde Selig's election as a director to fill the vacancy created by Marvin Selig's resignation and Clyde Selig's appointment as President and Chief Executive Officer of the CMC Steel Group.

38

SIGNATURES

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

COMMERCIAL METALS COMPANY

/s/ WILLIAM B. LARSON

William B. Larson,
Vice President and
Chief Financial Officer

Date: October 31, 2003

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders of
Commercial Metals Company
Dallas, Texas

We have audited the consolidated financial statements of Commercial Metals Company and subsidiaries as of August 31, 2002 and 2001, and for each of the three years in the period ended August 31, 2002, and have issued our report thereon dated November 22, 2002 (October 29, 2003 as to the effects of the restatement discussed in the last paragraph of Note 14). Such financial statements and report are included in Item 8 herein. Our audits also included the consolidated financial statement schedule of Commercial Metals Company listed in Item 15. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 14, the financial statements have been restated.

/s/ DELOITTE & TOUCHE LLP

Dallas, Texas
November 22, 2002
(October 29, 2003 as to the effects of the restatement discussed in the last paragraph of Note 14)

SCHEDULE VIII

COMMERCIAL METALS COMPANY AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

YEARS ENDED AUGUST 31, 2002, 2001 AND 2000

(In thousands)

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

Allowance for collection
losses deducted from
accounts receivable:

Year	Balance, beginning of year	Charged to profit and loss or income	Charged to other accounts (A)	Deductions from reserves (B)	Balance end of year
----	-----	-----	-----	-----	-----
2000	7,714	948	567	1,361	7,868
2001	7,868	4,371	264	4,545	7,958
2002	7,958	3,985	591	3,657	8,877

(A) Recoveries of accounts written off and acquired allowance.

(B) Write-off of uncollectible accounts.

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION
-----	-----
(3) (i) -	Restated Certificate of Incorporation (Filed herewith).
(3) (i) a -	Certificate of Amendment of Restated Certificate of Incorporation dated February 1, 1994 (Filed herewith).
(3) (i) b -	Certificate of Amendment of Restated Certificate of Incorporation dated February 17, 1995 (Filed herewith).
(3) (i) c -	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) (ii) -	By-Laws (Filed herewith).
(4) (i) a -	Indenture between Commercial Metals and Chase Manhattan Bank dated as of July 31, 1995 (Filed as Exhibit 4.1 to Commercial Metals' Registration Statement No. 33-60809 on July 18, 1995 and incorporated herein by reference).

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

- (4) (i) b - Rights Agreement dated July 28, 1999 by and between Commercial Metals and ChaseMellon Shareholder Services, LLC, as Rights Agent (Filed as Exhibit 1 to Commercial Metals' Form 8-A filed August 3, 1999 and incorporated herein by reference).

- 4 (i) c - Form of Note for Commercial Metals' 7.20% Senior Notes due 2005 (filed herewith).
- 4 (i) d - Form of Note for Commercial Metals' 6.80% Senior Notes due 2007 (filed herewith).
- 4 (i) e - Officers' Certificate, dated August 4, 1997, pursuant to the Indenture dated as of July 31, 1995, relating to the 6.80% Senior Notes due 2007 (filed herewith).
- 4 (i) f - Form of Note for Commercial Metals' 6.75% Senior Notes due 2009 (filed herewith).
- 4 (i) g - Officers' Certificate, dated February 23, 1999, pursuant to the Indenture dated as of July 31, 1995, relating to the 6.75% Senior Notes due 2009 (filed herewith).

- (10) (i) a - Purchase and Sale Agreement dated June 20, 2001, between various entities listed on Schedule 1 as Originators and CMC Receivables, Inc. (Filed as Exhibit (10) (a) to Commercial Metals' Form 10-Q for the period ended May 31, 2001, and incorporated herein by reference).
- (10) (i) b - Receivables Purchase Agreement dated June 20, 2001, among CMC Receivables, Inc., as Seller, Three Rivers Funding Corporation, as Buyer, and Commercial Metals Company as Servicer (Filed as Exhibit (10) (b) to Commercial Metals' Form 10-Q for the period ended May 31, 2001, and incorporated herein by reference).
- (10) (i) c - \$45,000,000 3 Year Revolving Credit Agreement dated as of August 15, 2001 (Filed as Exhibit (10) (i) c to Commercial Metals' Form 10-K for the fiscal year ended August 31, 2001, and incorporated hereby by reference).
- (10) (i) d - \$129,500,000 Amended and Restated 364-Day Revolving Credit Agreement dated as of August 8, 2002 (Filed as Exhibit 10 (i) (d) to Commercial Metals' Form 10-K for the fiscal year ended August 31, 2002, and incorporated herein by reference).

- (10) (iii) a* - Employment Agreement of Murray R. McClean as amended through October 2, 2000 (Filed as Exhibit (10) (iii) to Commercial Metals' Form 10-K for the fiscal year ended August 31, 2000, and Incorporated herein by

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

- reference).
- (10) (iii) b* - Amendment to Employment Agreement of Murray R. McClean dated March 28, 2001, (Filed as Exhibit (10) (iii) b to Commercial Metals' Form 10-K for the fiscal year ended August 31, 2001, and incorporated herein by reference).
 - (10) (iii) c* - Key Employee Long-Term Performance Plan description (Filed as Exhibit (10) (iii) c to Commercial Metals' Form 10-K for the fiscal year ended August 31, 2001, and incorporated hereby by reference).
 - (10) (iii) d* - Key Employee Annual Incentive Plan description (Filed as Exhibit (10) (iii) d to Commercial Metals' Form 10-K for the fiscal year ended August 31, 2001, and incorporated hereby by reference).
 - (10) (iii) e* - Employment and Consulting Agreement of Marvin Selig dated as of June 7, 2002 (Filed as Exhibit 10(iii)e to Commercial Metals' Form 10-K for the fiscal year ended August 31, 2002, and incorporated herein by reference).
 - (10) (iii) f* - 1999 Non-Employee Director Stock Option Plan (filed herewith).
 - (12) - Statement re computation of earnings to fixed charges (filed herewith).
 - (21) - Subsidiaries of Registrant (Filed as Exhibit 21 to Commercial Metals' Form 10-K for the fiscal year ended August 31, 2002 and incorporated herein by reference).
 - (23) - Independent Auditors' consent to incorporation by reference of report dated November 22, 2002 (October 29, 2003, as to the effects of the restatement discussed in the last paragraph of Note 14), accompanying the consolidated financial statements of Commercial Metals Company and subsidiaries for the year ended August 31, 2002, into previously filed Registration Statements No. 033-61073, No. 033-61075, No. 333-27967 and No. 333-42648 on Form S-8 and Registration Statements No. 33-60809 and No. 333-61379 on Form S-3 (filed herewith).
 - (31) a - 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) b - Certification of William B. Larson, Vice President and Chief Financial Officer of Commercial Metals Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

Edgar Filing: COMMERCIAL METALS CO - Form 10-K/A

- (32)a - 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)b - Certification of William B. Larson, Vice President and Chief Financial Officer of Commercial Metals Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

* denotes management contract or compensatory plan.