

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

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

FORM 10-Q/A

(Amendment No. 1)  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

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

For Quarter ended November 30, 2002  
Commission File Number 1-4304

COMMERCIAL METALS COMPANY

-----  
(Exact Name of registrant as specified in its charter)

Delaware

75-0725338

-----  
(State or other Jurisdiction of  
incorporation of organization)

-----  
(I.R.S. Employer  
Identification Number)

6565 MacArthur Blvd.  
Irving, Texas 75039

-----  
(Address of principal executive offices)  
(Zip Code)

(214) 689-4300

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

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

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

Yes                      No

X

-----                      -----

As of January 3, 2003 there were 28,328,357 shares of the Company's common stock issued and outstanding excluding 3,936,809 shares held in the Company's treasury.

EXPLANATORY NOTE

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This Amendment No. 1 to Commercial Metals Company's quarterly report on Form 10-Q for the quarter ended November 30, 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 C, Sales of Accounts Receivable, expanded disclosures related to accounting policies and made various other modifications, corrections and clarifications, including the reconciliation of non-GAAP financial measures that is now required by Regulation G.

1

### ITEM 1 - FINANCIAL STATEMENTS

#### COMMERCIAL METALS COMPANY AND SUBSIDIARIES

#### CONSOLIDATED CONDENSED BALANCE SHEETS (unaudited)

#### ASSETS

(In thousands except share data)

	November 30, 2002*	August 31, 2002
	-----	-----
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 59,780	\$ 124,397
Accounts receivable (less allowance for collection losses of \$8,753 and \$8,877)	349,846	350,885
Inventories	293,577	268,040
Other	54,935	50,930
	-----	-----
<b>TOTAL CURRENT ASSETS</b>	<b>758,138</b>	<b>794,252</b>
 <b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Land	31,668	29,099
Buildings	119,661	119,592
Equipment	731,546	727,650
Leasehold improvements	34,807	34,637
Construction in process	13,573	10,801
	-----	-----
	931,255	921,779
Less accumulated depreciation and amortization	(558,445)	(543,624)
	-----	-----
	372,810	378,155
 <b>OTHER ASSETS</b>		
	55,697	57,669
	-----	-----
	<b>\$ 1,186,645</b>	<b>\$ 1,230,076</b>
	=====	=====

\*As restated, see Note J.

See notes to consolidated condensed financial statements.

## COMMERCIAL METALS COMPANY AND SUBSIDIARIES

## CONSOLIDATED CONDENSED BALANCE SHEETS (unaudited)

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

	November 30, 2002*	August 31, 2002
	-----	-----
CURRENT LIABILITIES:		
Short-term borrowings	\$ --	\$ --
Accounts payable	265,628	275,232
Accrued expenses and other payables	99,315	133,608
Income taxes payable	4,925	5,676
Current maturities of long-term debt	621	631
	-----	-----
TOTAL CURRENT LIABILITIES	370,489	415,147
DEFERRED INCOME TAXES	32,914	32,813
OTHER LONG-TERM LIABILITIES	27,069	24,841
LONG-TERM DEBT	256,189	255,969
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Capital stock:		
Preferred stock	--	--
Common stock, par value \$5.00 per share:		
Authorized 40,000,000 shares; issued		
32,265,166 shares;		
outstanding 28,420,735 and 28,518,453		
shares	161,326	161,326
Additional paid-in capital	170	170
Accumulated other comprehensive loss	(1,122)	(1,458)
Retained earnings	391,928	392,004
	-----	-----
	552,302	552,042
Less treasury stock,		
3,844,431 and 3,746,713 shares at cost	(52,318)	(50,736)
	-----	-----
	499,984	501,306
	-----	-----
	\$ 1,186,645	\$ 1,230,076
	=====	=====

\*As restated, See Note J.

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See notes to consolidated condensed financial statements.

3

COMMERCIAL METALS COMPANY AND SUBSIDIARIES  
 CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS  
 (In thousands except share data)  
 (Unaudited)

	Three months ended November 30,	
	2002	2001*
NET SALES	\$ 629,059	\$ 564,880
COSTS AND EXPENSES:		
Cost of goods sold	567,999	486,785
Selling, general and administrative expenses	50,271	55,627
Employees' retirement plans	2,955	3,807
Interest expense	4,335	4,961
	-----	-----
	625,560	551,180
	-----	-----
EARNINGS BEFORE INCOME TAXES	3,499	13,700
INCOME TAXES	1,294	5,218
	-----	-----
NET EARNINGS	\$ 2,205	\$ 8,482
	=====	=====
Basic earnings per share	\$ 0.08	\$ 0.32
Diluted earnings per share	\$ 0.08	\$ 0.32
Cash dividends per share	\$ 0.08	\$ 0.065
Average basic shares outstanding	28,486,578	26,207,026
Average diluted shares outstanding	28,963,733	26,648,662

\* As restated, See Note J.

See notes to consolidated condensed financial statements.

COMMERCIAL METALS COMPANY AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
(In thousands)  
(Unaudited)

	Three months November ----- 2002* -----
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES:	
Net earnings	\$ 2,205
Adjustments to earnings not requiring cash:	
Depreciation and amortization	15,226
Provision for losses on receivables	369
Net loss (gain) on sale of property	211
Deferred income taxes	101
Tax benefits from stock plans	5
Changes in operating assets and liabilities, net of effect of Coil Steels Group acquisition:	
Decrease (increase) in accounts receivable	(12,291)
Funding from accounts receivable sold	12,961
Decrease (increase) in inventories	(25,537)
Decrease (increase) in other assets	(1,905)
Increase (decrease) in accounts payable, accrued expenses, other payables and income taxes	(44,648)
Increase in other long-term liabilities	2,228
	-----
Net Cash Flows From (Used By) Operating Activities	(51,075)
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES:	
Purchases of property, plant and equipment	(9,658)
Acquisition of Coil Steels Group, net of cash received	--
Sales of property, plant and equipment	--
	-----
Net Cash Used By Investing Activities	(9,658)
CASH FLOWS FROM (USED BY) FINANCING ACTIVITIES:	
Short-term borrowings - net change	--
Payments on long-term debt	(16)
Stock issued under incentive and purchase plans	26
Treasury stock acquired	(1,613)
Dividends paid	(2,281)
	-----
Net Cash Used by Financing Activities	(3,884)
	-----
Decrease in Cash and Cash Equivalents	(64,617)

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Cash and Cash Equivalents at Beginning of Year	124,397
	-----
Cash and Cash Equivalents at End of Period	\$ 59,780
	=====

\* As restated, see Note J.

See notes to consolidated condensed financial statements.

5

COMMERCIAL METALS COMPANY AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY  
(in thousands except share data)  
(Unaudited)

	Common Stock		Add'l Paid-in Capital	Acco Comp
	Number of Shares	Amount		
	-----	-----	-----	-----
Balance September 1, 2002:	32,265,166	\$ 161,326	\$ 170	\$
Comprehensive income:				
Net earnings for three months ended November 30, 2002				
Other comprehensive income:				
Foreign currency translation adjustment, net of taxes of \$181				
Comprehensive income				
Cash dividends				
Stock issued under incentive and purchase plans				(5)
Tax benefits from stock plans				5
Treasury stock acquired				
	-----	-----	-----	-----
Balance November 30, 2002	32,265,166	\$ 161,326	\$ 170	\$
	=====	=====	=====	=====

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	Treasury Stock		
	Number of Shares	Amount	Total
Balance September 1, 2002:	(3,746,713)	\$ (50,736)	\$ 501,306
Comprehensive income:			
Net earnings for three months ended November 30, 2002			2,205
Other comprehensive income:			
Foreign currency translation adjustment, net of taxes of \$181			336
Comprehensive income			2,541
Cash dividends			(2,281)
Stock issued under incentive and purchase plans	2,282	31	26
Tax benefits from stock plans			5
Treasury stock acquired	(100,000)	(1,613)	(1,613)
Balance November 30, 2002	(3,844,431)	\$ (52,318)	\$ 499,984

See notes to consolidated condensed financial statements.

6

COMMERCIAL METALS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

NOTE A - QUARTERLY FINANCIAL DATA

In the opinion of management, the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting of only normal recurring accruals, except for the restatement referred to in Note J, Restatement of Prior Period) necessary to present fairly the financial position as of November 30 and August 31, 2002 and the results of operations and cash flows for the three months ended November 30, 2002 and 2001. The results of operations for the three month periods are not necessarily indicative of the

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results to be expected for a full year. These interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended August 31, 2002 included in its Form 10-K/A filed with the Securities and Exchange Commission.

### NOTE B - ACCOUNTING POLICIES

Effective September 1, 2002, functional currency for the majority of the Company's subsidiaries in Europe changed to the Euro from the U.S. dollar. This change had no significant impact on the Company's financial condition at November 30, 2002 or its results of operations for the quarter then ended.

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets effective September 1, 2002. This Statement was applied to all goodwill and other intangible assets recognized on the balance sheet, regardless of when those assets were initially recorded. Effective September 1, 2002, goodwill was no longer amortized. Goodwill was \$ 6.8 million at November 30 and August 31, 2002. The impact of the implementation of SFAS 142 and comparison to the prior year period was as follows (in thousands):

	Three months ended November 30,	
	2002	2001
Reported net earnings	\$ 2,505	\$ 8,482
Add: goodwill amortization	--	256
	-----	-----
Adjusted net earnings	\$ 2,505	\$ 8,738
	=====	=====

The goodwill amortization was \$0.01 per basic and diluted share for the three months ended November 30, 2001.

Effective September 1, 2002, the Company adopted SFAS No. 143, Accounting for Asset Retirement Obligations, which 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. The Company has asset retirement obligations relating to landfills, which were no longer in use at September 1, 2002. The Company had previously recorded environmental liabilities relating to the capping, closure and monitoring costs required for these landfills. Therefore, the transition to SFAS 143 did not have a significant impact on the Company's net earnings and related per share amounts. At November 30 and August 31, 2002, respectively, the Company had recorded \$1.8 million and \$1.7 million relating to the landfill obligations.

In September 2002, the Company adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The adoption of SFAS No. 144 did not significantly affect the Company's financial position or results of operations.



COMMERCIAL METALS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees on Indebtedness of Others. This Interpretation clarifies disclosures to be made by a guarantor in its financial statements and requires the guarantor to recognize at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The Company must apply the Interpretation to all guarantees issued or modified after December 31, 2002. The Company has not entered into or modified any significant guarantees since December 31, 2002.

NOTE C - 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 (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 November 30, 2002 and August 31, 2002, uncollected accounts received of \$145 million and \$146 million, respectively, had been sold to CMCR, and the Company's undivided interest in these receivables was subordinate to any interest owned by the Buyer. At November 30, 2002 and August 31, 2002, no Participant Interests in CMCR's accounts receivable pool were owned by the Buyer and therefore none were reflected as a reduction in accounts receivable on the Company's consolidated balance sheets.

Discounts (losses) on the sales of accounts receivables to the Buyer under this Securitization Program were \$123 thousand and \$347 thousand for three months ended November 30, 2002 and 2001 respectively. These losses, representing primarily the costs of funds, were included in selling, general and administrative expenses. The carrying amount of the Company's retained interest (representing the Company's interest in the receivable pool) was \$145 million (100%) in the revolving pool of receivables of \$145 million at November 30, 2002. At August 31, 2002, the carrying amount of the Company's retained interest was \$146 million (100%) in the revolving pool of receivables of \$146 million. The carrying amount of the Company's retained interest in the receivables

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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 \$15.1 million at November 30, 2002 and \$2.1 million at August 31, 2002.

### NOTE D - LONG TERM DEBT

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

	November 30, 2002	August 31, 2002
	-----	-----
7.20% notes due 2005	\$ 105,000	\$ 104,775
6.80% notes due 2007	50,000	50,000
6.75% notes due 2009	100,000	100,000
Other	1,810	1,825
	-----	-----
	256,810	256,600
Less current maturities	621	631
	-----	-----
	\$ 256,189	\$ 255,969
	=====	=====

On April 9, 2002, the Company entered into two interest rate swaps to convert a portion of the Company's long term debt from a fixed interest rate to a floating interest rate. The impact of these swaps is to adjust the amount of fixed rate and floating rate debt and to reduce overall financing costs. The swaps effectively convert the interest rate on the \$100 million debt due July 2005 from the fixed rate of 7.20% to six month LIBOR (determined in arrears) plus a spread of 2.02%. The Company locked the rate at 3.61% for the next reset date of January 15, 2003. The total fair value of both swaps was \$5,000,000 and \$4,775,000 at November 30 and August 31, 2002, respectively 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.

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### NOTE E - EARNINGS PER SHARE

On May 20, 2002, the Company's Board of Directors declared a two-for-one stock split in the form of a 100% stock dividend on its common stock. All 2001 per share and weighted average share amounts in the accompanying consolidated condensed financial statements have been restated to reflect this stock split.

In calculating earnings per share, there were no adjustments to net earnings to arrive at income for the three months ended November 30, 2002 or 2001. The reconciliation of the denominators of earnings per share calculations are as follows:

	Three months ended November 30,	
	2002	2001
Shares outstanding for basic earnings per share	28,486,578	26,207,026
Effect of dilutive securities-stock options/purchase plans	477,155	441,636
	28,963,733	26,648,662

Some of the stock options granted in February 2002 and all of those granted in June 2002 were anti-dilutive at November 30, 2002 based on the average share price for the quarter of \$17.48. All stock options expire by 2009.

### NOTE F - DERIVATIVES AND RISK MANAGEMENT

The Company's worldwide operations and product lines expose it to risks from fluctuations in foreign currency exchange rates and metals commodity prices. The objective of the Company's risk management program is to mitigate these risks using futures or forward contracts (derivative instruments). The Company enters into metal commodity forward contracts to mitigate the risk of unanticipated declines in gross margin due to the volatility of the commodities' prices, and enters into foreign currency forward contracts which match the expected settlements for purchases and sales denominated in foreign currencies. The Company designates only those contracts as hedges for accounting purposes which closely match the terms of the underlying transaction. These hedges resulted in substantially no ineffectiveness in the statements of earnings for quarters ended November 30, 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 \$339 thousand decrease and a \$129 thousand increase in cost of goods sold for the quarters ended November 30, 2002 and 2001, respectively. All of the instruments are highly liquid, and none are entered into for trading purposes or speculation.

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

### NOTE G - CONTINGENCIES

There were no material developments relating to the Company's construction disputes or other contingencies since August 31, 2002. See Note 10, Commitments and Contingencies, to the consolidated financial statements for the year ended August 31, 2002.

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NOTE H - RECLASSIFICATIONS

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

9

COMMERCIAL METALS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

NOTE I - BUSINESS SEGMENTS

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

	Three months ended November 30, 2002			
	Manufacturing	Recycling	Marketing & Distribution	Corp. & Elim.
Net sales - unaffiliated customers	\$ 288,410	\$ 89,707	\$ 250,736	\$
Inter-segments sales	800	6,649	5,627	(13,000)
	289,210	96,356	256,363	(12,000)
Adjusted operating profit (loss)	3,744	1,404	4,772	(1,000)
Total assets - November 30, 2002	707,307	95,342	293,264	90,000

	Three months ended November 30, 2001			
	Manufacturing	Recycling	Marketing & Distribution	Corp. & Elim.
Net sales - unaffiliated customers	\$ 330,504	\$ 77,881	\$ 156,405	\$
Inter-segments sales	804	4,750	2,788	(8,000)
	331,308	82,631	159,193	(8,000)
Adjusted operating profit (loss)	20,200	(1,222)	2,280	(2,000)



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Basic EPS	0.34	0.32
Diluted EPS	0.33	0.32

In October 2003, the Company determined that the amounts previously reported at August 31 and November 30, 2002 as temporary investments should have been classified as "cash equivalents" and combined with the amounts reported as cash on its consolidated balance sheets. Also, the Company has determined that it should have consolidated its interests in CMCR, the primary effect of which is to combine the amounts previously reported as notes receivables from affiliate with accounts receivable on the consolidated balance sheets. As a result, cash and cash equivalents shown in the accompanying consolidated balance sheets as of November 30 and August 31, 2002 have been increased by \$34 million and \$91 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 November 30 and August 31, 2002 have been increased by \$142 million and \$143 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, net cash used by investing activities in the accompanying statements of cash flows for the three months ended November 30, 2002 and 2001 have been changed from (\$47) million and (\$399) thousand, respectively, to (\$9.7) million and (\$15.4) million. In addition, the disclosures in Note C, Sales of Accounts Receivable, have been revised. Other changes were also made to the consolidated balance sheets and statements of cash flows and accompanying notes as a result of the consolidation of CMCR, none of which are material to the financial statements.

10

ITEM 2.

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

CONSOLIDATED RESULTS OF OPERATIONS

(in millions)

As discussed in Note J, Restatement, to the consolidated condensed financial statements, we have restated our financial statements for the three months ended November 30, 2001. Our management's discussion and analysis includes the effect of the restatement.

	Three Months Ended November 30,	
	2002	2001
Net sales	\$ 629	\$ 565
Net earnings	2.2	8.5
EBITDA	23.0	34.5
Ending LIFO reserve	7.9	5.9

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

	Three Months Ended November 30,	
	2002	2001
Net earnings	\$ 2.2	\$ 8.5
Income taxes	1.3	5.2
Interest expenses	4.3	5.0
Depreciation and amortization	15.2	15.8
EBITDA	\$ 23.0	\$ 34.5

Our management uses a non-GAAP measure, adjusted operating profit, to compare and evaluate the financial performance of our segments. See Note I, Business Segments, to the consolidated condensed financial statements. Adjusted operating profit is the sum of our earnings before income taxes, and financing costs. Adjusted operating profit provides a core operational earnings measurement that compares segments without the need to adjust for federal, but more specifically state and local taxed 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 table we are providing a reconciliation of the non-GAAP measure, adjusted operating profit (loss), to net earnings (loss), the most comparable GAAP measure (in thousands):

SEGMENT	MANUFACTURING	RECYCLING	MARKETING AND DISTRIBUTION	CORPORATE ELIMINATIONS
<b>THREE MONTHS ENDED NOVEMBER 30, 2002:</b>				
Net earnings (loss)	\$ 2,283	\$ 900	\$ 2,827	\$ (3,800)
Income taxes	1,387	485	1,543	(2,120)
Interest expense	33	1	363	3,930
Discounts on sales of accounts receivable	41	18	39	200
Adjusted operating profit(loss)	\$ 3,744	\$ 1,404	\$ 4,772	\$ (1,960)
 <b>THREE MONTHS ENDED NOVEMBER 30, 2001</b>				
Net earnings(loss)	\$12,414	\$ (836)	\$ 1,070	\$ (4,160)

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Income taxes	7,520	(459)	583	(2,42)
Interest expense	87	1	491	4,38
Discounts on sales of accounts receivable	179	72	136	(4
	-----	-----	-----	-----
Adjusted operating profit(loss)	\$20,200	\$ (1,222)	\$ 2,280	\$ (2,25
	=====	=====	=====	=====

The following financial events were significant during the first quarter ended November 30, 2002:

- Key markets in the manufacturing segment deteriorated further for most products.
- Steel group earnings decreased due to lower selling prices, both for the minimills and fabrication operations, and higher scrap costs.
- The copper tube division reported lower gross margins due to lower selling prices and higher copper scrap purchase costs.
- The recycling segment continued to be profitable with improvements in both ferrous and nonferrous scrap markets over last year.
- Marketing and distribution's adjusted operating profit was more than double last year's first quarter, with most of the improvement in international markets.
- We reduced our bonuses, contributions and employee's retirement plan expenses in line with our lower earnings.
- Our financial position remained strong, with excess cash and no short-term debt at November 30, 2002.

11

CONSOLIDATED DATA -

The LIFO method of inventory valuation increased net earnings by \$143 thousand and \$437 thousand (1 cent and 2 cents per diluted share) for the three months ended November 30, 2002 and 2001, respectively. We have restated the prior year's per share numbers to reflect the stock split referred to in Note E, Earnings per Share, to the consolidated condensed financial statements.

SEGMENT OPERATING DATA -  
(in thousands)

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

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

Three months ended  
November 30,  
-----



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	2002 -----	2001 -----
NET SALES:		
Manufacturing	\$ 289,210	\$ 331,308
Recycling	96,356	82,631
Marketing and Distribution	256,363	159,193
Corporate and Eliminations	(12,870)	(8,252)
	-----	-----
	\$ 629,059	\$ 564,880
	=====	=====
ADJUSTED OPERATING PROFIT (LOSS):		
Manufacturing	\$ 3,744	\$ 20,200
Recycling	1,404	(1,222)
Marketing and Distribution	4,772	2,280
Corporate and Eliminations	(1,963)	(2,251)
	-----	-----
	\$ 7,957	\$ 19,007
	=====	=====

MANUFACTURING -

We include our steel group and our copper tube division in our manufacturing segment. Adjusted operating profit is equal to earnings before income taxes for our four steel minimills, our copper tube mill and the steel group's fabrication operations. Our manufacturing adjusted operating profit for the three months ended November 30, 2002 decreased \$16.5 million (81%) as compared to 2001 on \$42.1 million (13%) less net sales. Our steel group's minimills and our copper tube mill reported lower adjusted operating profits because lower selling prices combined with higher scrap purchase costs resulted in compressed gross margins. Our steel group's downstream fabrication operations were less profitable due to much lower selling prices and shipments. Lower private non-residential construction and the slower industrial economy in the United States contributed to lower selling prices in our manufacturing segment, as domestic supply plus imports exceeded demand. On the other hand, tariffs levied by other countries on their steel scrap exports caused the U.S. scrap market to tighten, and purchase prices for scrap increased. These conditions resulted in a significant reduction in gross margins.

12

The table below reflects steel and scrap prices per ton:

	Three months ended November 30,	
	----- 2002 -----	----- 2001 -----
Average mill selling price (total sales)	\$ 272	\$ 277

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Average mill selling price (finished goods)	281	282
Average fabrication selling price	558	634
Average ferrous scrap purchase price	89	73

Adjusted operating profit for our four steel minimills decreased 77% for the three months ended November 30, 2002 compared to 2001, due to falling selling prices and higher scrap costs. Profits at all four mills were significantly lower, although total shipments were up. The largest declines in profitability were at SMI Texas and SMI South Carolina. Adjusted operating profits at SMI Texas decreased \$3.0 million (51%) for the three months ended November 30, 2002 as compared to 2001. SMI South Carolina lost \$2.3 million for the three months ended November 30, 2002 as compared to a \$1.2 million adjusted operating profit in 2001. The mills shipped 505,000 tons in the current quarter compared to 476,000 last year, an increase of 6%. Mill production decreased slightly with tons rolled down 1% to 480,000. Tons melted decreased 2% to 514,000. The average total mill selling price at \$272 per ton was \$5 (2%) below last year primarily because we shipped more semi-finished billets, a product with a lower selling price than our average. Our mill selling price for finished goods decreased \$1 per ton. Average scrap purchase costs were \$16 per ton higher than last year, resulting in lower gross margins. Utility expenses increased by \$1.1 million as compared to last year; both natural gas and electricity costs were higher.

Adjusted operating profit in the steel group's fabrication and other businesses decreased by \$8.0 million (85%) for the three months ended November 20, 2002 as compared to 2001. Excluding SMI-Owen (which was sold in March 2002), adjusted operating profits decreased by \$3.9 million. Near the end of fiscal 2002, we uncovered an accounting fraud and a theft, which occurred over four years at our rebar fabrication plant in South Carolina. The total adjustment required to restate the accounting records to their proper balances was \$2.7 million, including a \$900 thousand expense in fiscal 2002. Earnings before income taxes for the three months ended November 30, 2001 have been restated by \$545,000. See Note J, Restatement to the consolidated condensed 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. Both the controller and the general manager were replaced at 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 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 217,000 tons, 15% less than last year's first quarter shipments of 255,000 tons. Excluding SMI Owen, shipments decreased by 29,000 tons (12%). The average fabrication selling price for the three months ended November 30, 2002 decreased \$76 per ton (12%). Rebar fabrication, concrete related products, joist and structural steel fabrication markets were all weaker, with several plants reporting adjusted operating losses. Only our steel fence post plants together with our heat treating plant generated the same profitability during the three months ended November 30, 2002 as compared to 2001. In general, our continued cost reduction efforts and initiatives to improve productivity were not enough to offset the drop in gross margins. In spite of the current poor market conditions, our strategy remains to continue both internal growth and acquisitions to expand our downstream businesses.

Our Copper tube division's adjusted operating profit decreased \$1.9 million

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(87%) with 7% less net sales. Copper tube shipments increased 3% to 15.6 million pounds. Production increased 13% to 15.3 million pounds. However, the average selling price dropped 12 cents per pound (10%) to \$1.10 for the three months ended November 30, 2002 as compared to \$1.22 for the three months ended November 30, 2001. The average copper scrap price increased 3 cents per pound (5%) during the three months ended November 30, 2002 as compared to 2001. Although sales and construction of new homes held up relatively well, more imported tubing and an over-supply of water and refrigeration tubing put pressure on selling prices. The division continued to expand its sales of line sets.

13

### RECYCLING -

Our recycling segment reported an adjusted operating profit of \$1.4 million for the three months ended November 30, 2002 as compared with an adjusted operating loss of \$1.2 million in 2001. Net sales for the three months ended November 30, 2002 were 17% higher at \$96 million. Gross margins were 23% higher than the same period last year. The segment processed and shipped 390,000 tons of ferrous scrap during the three months ended November 30, 2002, 13% more than 2001. Ferrous sales prices were on average \$89 per ton, or 25% higher than 2001. Nonferrous shipments were flat at 56,000 tons. The average nonferrous scrap sales price of \$963 per ton for the three months ended November 30, 2002 was 9% higher than in 2001. The total volume of scrap processed, including the steel group's processing plants, was 669,000 tons, an increase of 15% from the 584,000 tons processed in 2001.

### MARKETING AND DISTRIBUTION -

Net sales in the three months ended November 30, 2002 for our marketing and distribution segment increased 61% as compared to 2001 to \$256 million. Adjusted operating profit for the three months ended November 30, 2002 was \$4.8 million, more than double from 2001, mostly due to better results from our international operations. Sales to and within Asia, especially China, were up significantly. Also, the economy in Australia was still strong. In September 2001, we completed our acquisition of Coil Steels Group, in which we already owned a 22% share. In September 2002, we acquired the sheet and coil business of Horans in Australia, which we merged into our Coil Steels Group's Sydney operation. The increased profitability in marketing and distribution was largely due to our strategy in recent years to build up our regional business around the world and to increase our downstream presence. Our U.S. divisions were also more profitable for the three months ended November 30, 2002 as compared to 2001.

### OTHER -

Selling, general and administrative as well as employee's retirement plan expenses were lower for the three months ended November 30, 2002 as compared to 2001, mostly due to discretionary items, such as bonuses, contributions and profit sharing. Interest expense was lower due to two interest rate swaps, (see Note D, Long Term Debt, to the consolidated condensed financial statements) which resulted in interest expense savings.

### CONTINGENCIES -

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

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

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

14

### OUTLOOK -

We expect our second quarter to be weak for the following reasons:

- o our second quarter is seasonally our weakest
- o conditions in our markets continue to be very challenging
- o we will be taking some downtime at the minimills to manage inventories.

Although we believe that commercial construction will remain soft, we expect the second half of our fiscal year ending August 31, 2003 to be more profitable due to increased production and shipments and some price increases in most of our businesses. We anticipate that public construction will hold steady despite tighter budgets at the state and local level, because it typically increases in the spring. We are expecting institutional building activities to continue as well. We are presuming that import levels will be lower in our more favorable prognosis for steel volume and pricing in the second half of our fiscal 2003. We think that imports will decrease because of the very low domestic prices for our products. We also plan to make further cost reductions during the remainder of 2003, which should increase our profits. We believe that the ferrous scrap market will improve because of more demand for scrap overseas and less domestic supply. As a result, we are expecting ferrous scrap prices to improve. Also, we think that nonferrous prices will increase. The recycling segment should continue to improve its profitability under these conditions. We believe that our marketing and distribution markets will have mixed results.

We believe that our 2004 fiscal year will be much more profitable, and that we will experience stronger demand for construction-related products and services. We are also expecting that various end-use markets around the world will improve, especially manufacturing activity. We think that emerging markets will show a disproportionate increase in the consumption of steel and nonferrous

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metals.

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

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

### 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 and private placements. Our investment grade credit ratings and general business conditions affect our access to external financing on a

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cost-effective basis. Depending on the price of our common stock, we may realize significant cash flows from the exercise of stock options.

Moody's Investors Service (P-2), Standard & Poor's Corporation (A-2) and Fitch (F-2) rate our \$174.5 million commercial paper program in the second highest category. To support our commercial paper program, we have unsecured contractually committed revolving credit agreements with a group of eight banks. Our \$129.5 million facility expires in August 2003, and our \$45 million facility expires in August 2004. We plan to continue our commercial paper program and the revolving credit agreements in comparable amounts to support the commercial paper program.

For added flexibility, we may secure financing through sales 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 have been collected from our customers. Our long-term public debt was \$255 million at November 30, 2002 and is investment grade rated by Standard & Poors' Corporation (BBB), Fitch (BBB) and by Moody's Investors Services (Baal). We have access to the public markets for potential refinancing or the issuance of additional long-term debt. Also, we have numerous informal, uncommitted credit facilities available from domestic and international banks. These credit facilities are priced at bankers' acceptance rates 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 probably would have less availability of the informal, uncommitted facilities. In determining our credit ratings, the rating agencies consider a number of both quantitative and qualitative factors. These factors include earnings, fixed charges such as interest, cash flows, total debt outstanding, off balance sheet obligations and other commitments, total capitalization and various ratios calculated from these factors. The rating agencies also consider predictability of cash flows, business strategy, industry condition and contingencies. We are committed to maintaining our investment grade ratings.

Certain of our financing agreements include various covenants. The most restrictive of these covenants requires us to maintain an interest coverage ratio of greater than three times and a debt to capitalization ratio of 55%, as defined in the financing agreement. A few of the agreements provide that if we default on the terms of another financing agreement, it is considered a default under these agreements. We have complied with the requirements, including the covenants of our financing agreements as of and for the three months ended November 30, 2002.

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

Our manufacturing and recycling businesses are capital intensive. Our capital requirements include construction, purchases of equipment and maintenance capital at existing facilities. We plan to invest in new operations. We also plan to invest in working capital to support the growth of our businesses, maintain our ability to repay maturing long-term debt when due at its earliest maturity in 2005 and pay dividends to our stockholders.

We continue to assess alternative means of raising capital, including potential dispositions of under-performing or non-strategic assets. Any potential future

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major acquisitions could require additional financing from external sources such as the issuance of common stock.

16

### Cash Flows

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

The volume and pricing of orders from our U.S. customers in the manufacturing and construction sectors affect our cash flows from operating activities. Our international marketing and distribution operations also significantly affect our cash flows from operating activities. The weather can influence the volume of products we ship in any given period. Also, the general economy, the strength of the U.S. dollar, governmental action, and various other factors beyond our control influence our volume and prices. Periodic fluctuations in our prices and volumes can result in variations in cash flows from operations. Despite these fluctuations, we have historically relied on operating activities as a steady source of cash.

We used \$51.1 million of net cash flows in our operating activities for the three months ended November 30, 2002 as compared with the \$4.6 million of net cash flows provided from our operating activities for the three months ended November 30, 2001 due partially to lower net earnings. Our provision for losses on receivables was also lower. During the three months ended November 30, 2002, we paid more expenses, which had been accrued at the fiscal year ended August 31, 2002, than we did for 2001. These payments were higher because bonuses and other discretionary items were more for fiscal 2002 than 2001 based on our higher profits. Net working capital increased only slightly to \$388 million at November 30, 2002 from \$379 million at August 31, 2002 because we used funds from cash equivalents to pay the accrued expenses as warranted. The current ratio was 2.0 at November 30, 2002, up from 1.9 at August 31, 2002.

We invested \$9.7 million in property, plant and equipment during the three months ended November 30, 2002, which was comparable to 2001. In 2001, we acquired the remaining shares of the Coil Steels Group (CSG) for \$6.8 million. We expect our capital spending for fiscal 2003 to be \$87 million, including both new construction and acquisitions to expand our downstream businesses. We assess our capital spending each quarter and reevaluate our requirements based upon current and expected results.

Our short-term financing needs were still minimal during the three months ended November 30, 2002. We used cash and cash equivalents to meet our working capital requirements during this period. We had no short-term borrowings at November 30, 2002 or 2001. We have no significant amounts due on our long-term debt until July 2005.

At November 30, 2002, 28,420,735 common shares were issued and outstanding, with 3,844,431 held in our treasury. We paid dividends of \$2.3 million during the three months ended November 30, 2002, slightly more than the \$1.7 million paid during 2001. During the three months ended November 30, 2002, we purchased 100,000 shares of our common stock at an average price of \$16.13 per share.

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These shares were held in our treasury.

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

17

### CONTRACTUAL OBLIGATIONS

The following table represents our contractual obligations as of November 30, 2002 below (dollars in thousands):

	Total	Payments Due Within *		
		1 Year	2-3 Years	4-5 Years
Contractual Obligations:				
Long-term Debt (1)	\$ 256,810	\$ 621	\$ 106,080	\$ 50,033
Operating Leases (2)	56,158	7,345	13,311	10,262
Unconditional Purchase Obligations (3)	87,340	31,639	31,724	6,983
Total Contractual Cash Obligations	\$ 400,308	\$ 39,605	\$ 151,115	\$ 67,278

\* Cash obligations herein are not discounted.

- (1) Total amounts are included in the November 30, 2002 consolidated balance sheet. See Note D, Long-Term Debt, to the consolidated condensed financial statements.
- (2) Includes minimum lease payment obligations for noncancelable equipment and real-estate leases in effect as of November 30, 2002.
- (3) About 57% of these purchase obligations are for inventory items to be sold in the ordinary course of business; most of the remainder are for supplies associated with normal revenue-producing activities.

At November 30, 2002, we received \$15,102,000 of net funding from the sales of accounts receivable. See Note C, Sales of Accounts Receivable, to the consolidated condensed financial statements. If we terminated the accounts receivable program on November 30, 2002, we would have to pay the first \$15,102,000 of collections from these accounts to third party financial institutions. We have complied with the terms of this program as of, and for the three months ended November 30, 2002.

### Other Commercial Commitments

We maintain stand-by letters of credit to provide support for certain



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transactions that our customers and suppliers request. At November 30, 2002, we had committed \$19.5 million under these arrangements. A cash deposit of \$10.2 million included in current other assets on the consolidated condensed balance sheet collateralized a portion of these commitments. All of the commitments expire within one year.

At the request of a customer and its surety bond issuer, we have agreed to indemnify the surety against all costs the surety may incur should our customer 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 November 30, 2002, the surety had issued bonds in the total amount (without reduction for the work performed to date) of \$12.2 million which are subject to our guaranty obligation under the indemnity agreement.

### ACCOUNTING POLICIES-

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

18

## PART II OTHER INFORMATION

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- A. Exhibits required by Item 601 of Regulation S-K.
- 31.1 Certification of Stanley A. Rabin, Chairman of the Board, President and Chief Executive Officer of Commercial Metals Company, pursuant to Section 302 to the Sarbanes-Oxley Act of 2002 (filed herewith).
  - 31.2 Certification of William B. Larson, Vice President and Chief Financial Officer of Commercial Metals Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
  - 32.1 Certification of Stanley A. Rabin, Chairman of the Board, President and Chief Executive Officer of Commercial Metals Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
  - 32.2 Certification of William B. Larson, Vice President and Chief Financial Officer of Commercial Metals Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

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- B. The Registrant filed a report on Form 8-K on November 26, 2002, to report the timely submission to the Securities and Exchange Commission of sworn statements of Registrant's Principal Executive Officer and Principal Financial Officer required pursuant to the Commission's June 27, 2002, order.

19

SIGNATURES

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

COMMERCIAL METALS COMPANY

/s/ WILLIAM B. LARSON

October 31, 2003

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William B. Larson  
Vice President  
& Chief Financial Officer

20

EXHIBIT INDEX

EXHIBIT NUMBER -----	DESCRIPTION -----
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herewith).

32.2

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